



Australian Government  
AusAID

# Annual program performance report for Vanuatu 2007–08

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## Abbreviations

AIDS	Acquired Immune Deficiency Syndrome
AusAID	Australian Agency for International Development
EU	European Union
GFG program	Governance for Growth Program
HIES	Household Income and Expenditure Survey
HIV	human immunodeficiency virus
IMF	International Monetary Fund
MDGs	Millennium Development Goals
M&E	monitoring and evaluation
PFM	public financial management
TVET	technical and vocational education and training
UNICEF	United Nations Children's Fund
VPF	Vanuatu Police Force

# Summary

## OVERVIEW

In 2007 Vanuatu's economic growth was 6.5 per cent, continuing the strong record of growth since 2003. This growth has contributed to an expansion in government revenue and expenditure, and political stability since 2004 has allowed Vanuatu to initiate important reforms, including the development of a sector-wide approach in education and the liberalisation of the telecommunications sector. However, the quality of public spending remains poor, and access to services is very limited outside the main centres. As a result, Vanuatu is likely to achieve few of the Millennium Development Goals. Total Australian aid to Vanuatu in 2007–08 is estimated at \$44 million, equivalent to 27 per cent of the Government of Vanuatu's 2008 budget. Of this, the bilateral aid program was an estimated \$32 million, 40 per cent more than in 2006–07.

## MAJOR RESULTS

In 2007–08 the Vanuatu aid program maintained excellent relationships in most sectors and deepened policy dialogue in some areas. The program expanded partnerships with key civil society players including the chiefs, churches and the media. Overall, the results of Australia's aid to Vanuatu are mixed (Table 1). However, the program has strong foundations for results in the future, especially if Vanuatu continues to experience economic growth and exercise stable government beyond the 2008 national elections.

TABLE 1 RATINGS OF THE VANUATU PROGRAM IN ACHIEVING THE STRATEGY'S OBJECTIVES

Objective	Rating	Review against previous rating
1: Improved financial management and accountability through continued public sector reform	■ (green)	Unchanged
2(a): More effective legal institutions	■ (amber)	Unchanged
2(b): Improved police services	■ (green)	Improved
3: Stronger links between central, line and provincial systems	■ (green)	Improved
4(a): Improved service delivery to populations in greatest hardship, including rural communities and informal settlements in urban areas—education	■ (green)	Improved
4(b): Improved service delivery to populations in greatest hardship, including rural communities and informal settlements in urban areas—health	■ (amber)	Unchanged
5: Stronger partnerships between non-state actors and government in service delivery in rural communities and informal settlements in urban areas	■ (green)	Improved
6: Economic growth—raised productive capacity of ni-Vanuatu, particularly women and young people	■ (green)	Improved

Note: ■ denotes the objective is on track to be fully achieved within the timeframe. ■ denotes the objective will be partly achieved within the timeframe.

Australia assisted Vanuatu to achieve an important result—the negotiated end to monopoly arrangements in telecommunications and the introduction of competition. The telecommunications market in Vanuatu is now open to competition. A license was issued to a new telecommunication provider Digicell. The new provider is already providing coverage to 75 per cent of Vanuatu’s population and the prices of mobile telephones and sim cards have dropped significantly. .

These reforms also include the establishment of a universal access fund, which will be financed mainly from revenue. Good progress has been achieved on other economic reforms in aviation, power and commodities marketing, and work has begun on transport infrastructure. These reforms illustrate the Vanuatu Government’s and AusAID’s increased recognition of infrastructure as a driver for growth and poverty reduction.

In health, Australian support has initiated an important cervical cancer program. Nurses have been trained to screen for cervical cancer and the pilot phase saw seven young women referred to Australia for life-saving treatment. Birth mortality at Vila Central Hospital has dropped from 56 in 1000 to 52 in 1000 over the past two years, due to the work of Australia-funded medical personnel and their ni-Vanuatu counterparts.

Several important new initiatives commenced in 2007–08: the Land Reform Initiative, *Vois Blong Yumi* (support for Radio Vanuatu and Vanuatu Broadcasting and Television Corporation), phase 2 of the Governance for Growth (GFG) Program, and the Vanuatu Churches Partnership. The work in media and with civil society represents an expansion in support for building demand for better governance, especially important ahead of the elections in Vanuatu in 2008.

Good progress has been made towards the Paris Declaration aim of harmonisation and cooperation. There has been a substantial increase in funding directed through Vanuatu government systems—19 per cent of the bilateral program in 2007–08. The GFG program is directing funds through government for utilities regulation, public financial management and universal access provisions in telecommunications. The program also facilitated the negotiation of two major funding agreements in health (Pacific Malaria Initiative) and education (preparation for a sector-wide approach). The management of the successful Village Health Workers Project was transferred from AusAID to the Ministry of Health.

## MAJOR CHALLENGES

Institutional capacity remains generally weak in the Government of Vanuatu, although there are some pockets of strong capacity (for example, in the Department of Finance). Improvements in health and education outcomes continue to be slow, reflecting the complex combination of constraints: the limited reach of government systems, poor rural infrastructure, limited telecommunications coverage, and a fragmented policy framework. There is a lack of government leadership in the law and justice sector and

the anticipated benefits from the establishment of the Ministry of Justice and Social Welfare have yet to be realised. As a result, achievements in legal and policing assistance are being realised slowly. Urbanisation continues apace in Vanuatu, creating new challenges for the government in service delivery and law and order. There is evidence of increasing disputes over land—the product of the ongoing property boom, continuing difficulties with land administration, and weaknesses in the legal framework.

Donor harmonisation requires substantial AusAID effort and resources, and remains difficult, especially with non-resident and less-flexible donors. Australia's broad and growing program of assistance increases AusAID's capacity to respond, but also creates challenges for its management capacity and runs the risk of creating perceptions of 'crowding out' other donors, or even the Vanuatu Government.

The upcoming Partnership for Development presents an opportunity to engage with the Government of Vanuatu to continue the ongoing close relationship and constructive policy dialogue developed with politicians and officials in Vanuatu. We anticipate the scale of the aid program to Vanuatu will continue to increase over the coming years through the Pacific Partnership for Development. AusAID will be looking to agree high-level policy priorities with the Government of Vanuatu. These policy priorities should be based on the new Government of Vanuatu's development objectives in order to facilitate progress towards the MDGs. Consistent with the *Port Moresby Declaration* Australia will provide additional assistance on a premise of mutual respect and mutual responsibility for agreed development outcomes.

## Country performance

Vanuatu's macroeconomic performance has maintained strong economic growth since 2003. Growth in real gross domestic product was 6.8 per cent in 2005, 7.2 per cent in 2006 and 6.5 per cent in 2007. In this period Vanuatu had the highest per capita economic growth in the Pacific. Growth has been driven by a boom in the services sector through increased tourism, construction and land sales, as well as strong demand for commodities such as kava and copra. Macroeconomic stability has contributed to an improved climate for investment, evidenced in increasing capital inflows, business registrations and tourist numbers. However, there are growing inflationary pressures from a rising public-sector wage bill and increasing fuel costs.

National elections scheduled for September 2008 are beginning to test Vanuatu's hard-won reputation for fiscal discipline. Since coming to power in December 2004 the Lini Government has provided relatively stable leadership and this stability has provided the space and opportunity for some in government to pursue reform. However, political instability has proven to be a serious impediment to reform in the past.

The high rates of economic growth have contributed to an expansion in government revenue and expenditure. However, the quality of government spending remains poor, with salaries continuing to account for more than 90 per cent of operational budgets in key service delivery agencies. Their high proportion of spending on salaries greatly restricts their capacity to implement reform and make much-needed investments, exacerbated by ongoing capacity constraints in the public sector. There are challenges for the government in educating and training sufficient numbers of personnel to execute the functions of the state in a sustainable fashion. As a result, service delivery remains poor and the reach of government beyond the main population centres is extremely limited.

Vanuatu's progress towards the Millennium Development Goals (MDGs) is mixed, although difficult to gauge because of significant gaps in data and the lack of baselines. There were, however, some major improvements in data collection and analysis in 2007. Vanuatu's first Household Income and Expenditure Survey (HIES)<sup>1</sup> provided important poverty data. It found a poverty gap ratio<sup>2</sup> of 5.6 (3.8 in rural areas and a high 10.4 in Port Vila, indicating relatively severe poverty in the capital and the importance of subsistence production in rural areas<sup>3</sup>). The incidence of urban poverty might be impacted by rising food prices, given the reported heavy reliance on rice as a staple food

<sup>1</sup> Vanuatu National Statistics Office, *The Vanuatu poverty report card 2006: summary of key results from the HIES*, 2008.

<sup>2</sup> Poverty gap ratio is the mean distance separating the population from the poverty line (with the non-poor being given a distance of zero), expressed as a percentage of the poverty line. This measure reflects the depth of poverty as well as its incidence. A measure of 5.6 signifies that the population is up to 5.6 per cent below the poverty line.

<sup>3</sup> Vanuatu National Statistics Office, Asian Development Bank & United Nations Development Programme, *Analysis of the 2006 HIES: report*, April 2008.



for urban communities. The HIES also indicates that the poorest 20 per cent of the population shares only 7 per cent of national consumption.<sup>4</sup>

Education, gender and health MDGs remain a challenge for Vanuatu. Preliminary UNICEF data<sup>5</sup> suggest that 70 per cent of school-age children attend school, only 59 per cent of children who enrol complete six years of schooling, and almost one in four (23 per cent) children aged 6–13 years do not attend school.<sup>6</sup> Gender parity in primary education is relatively good (0.97), but other indicators suggest progress towards gender equality is slow. Adult literacy rates remain low (38 per cent in 2007). Vanuatu is likely to achieve improved maternal health, but the picture on child mortality is not clear. There is insufficient data on HIV and slow progress on reducing the incidence of tuberculosis and malaria. The HIES confirms that access to, and uptake of, basic services, utilities and infrastructure in Vanuatu is generally poor. For example, only 54 per cent of households in Vanuatu have access to improved water supplies (44 per cent in rural areas) and only 64 per cent use adequate sanitation facilities (56 per cent in rural areas).

There continues to be steady movement from rural to urban areas in Vanuatu, with estimated population growth in Port Vila double the estimated national rate. Much of this growth is in informal peri-urban settlements around Port Vila and Luganville, where access to health and education services is limited, shelter is insecure, and water and sanitation services largely absent. The HIES found that almost a third (32.8 per cent) of the population in Port Vila had expenditure levels below Vanuatu's basic needs poverty line. Land disputes are increasing as a result of the continuing boom in property sales and development, and difficulties in land administration.

Recent incidents of violent crime and rising burglary rates demonstrate the risks to stability associated with its growing population, especially of underemployed young people. As reported in 2007, the Vanuatu Police Force (VPF) continues to face challenges in responding to such instability. Urban drift and changing patterns of consumption are contributing to new challenges for traditional structures of community and governance.

Total Australian aid to Vanuatu in 2007–08 is estimated at \$44 million, equivalent to 27 per cent of the Government of Vanuatu's 2008 budget. Of this, the bilateral aid program was an estimated \$32 million, 40 per cent above the 2006–07 level. Australia is by far the largest donor to Vanuatu, followed by the Millennium Challenge Corporation, New Zealand, the European Union, China and France. Like Australia, most major donors are increasing their support, partly in acknowledgement of the positive environment for reform in recent years. The scale of Australia's aid program in Vanuatu means it is necessarily broad, as too narrow a focus could be distorting.

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<sup>4</sup> Purchasing power parity (PPP) exchange rates do not yet exist for Pacific nations; therefore an assessment of the proportion of the population living on less than US\$1 a day is impossible.

<sup>5</sup> Preliminary data of Multiple Indicator Cluster Survey: Vanuatu 2007, UNICEF and others, 2008.

<sup>6</sup> Ministry of Education, Youth Development and Training, *Digest of education statistics 2007*; and Household Income and Expenditure Survey 2006.

## What are the results of the Vanuatu aid program?

In 2007–08 Australia's aid program to Vanuatu maintained excellent relationships in most sectors and deepening policy dialogue in many areas. AusAID has expanding partnerships with key civil society players, including in new areas (chiefs, churches). Overall, results are mixed. However, the program has strong foundations for results in the future, especially if Vanuatu continues to experience strong economic growth and maintains stable government beyond the national elections.

Early in 2008 a joint mid-term review of the Vanuatu–Australia Joint Development Cooperation Strategy 2005–2010 was completed. The strategy sets out the framework for the aid program and is the basis for performance reporting. The strategy review examined the relevance and effectiveness of Australia's aid program to Vanuatu. It concluded that the program is broadly relevant to Vanuatu's development needs and priorities, that AusAID has implemented the strategy responsively and increasingly in alignment with Vanuatu's policies and processes, and that it has been effective in some sectors. The review highlighted serious concerns with the uneven distribution of the benefits of economic growth, poor access to often low-quality services, and continuing weaknesses in government capacity.

### OBJECTIVE 1:

IMPROVED FINANCIAL MANAGEMENT AND ACCOUNTABILITY THROUGH CONTINUED PUBLIC SECTOR REFORM

#### RATING



The objective is on track to be fully achieved within the timeframe.

#### ASSESSMENT OF RESULTS AND PERFORMANCE

Sound public financial management is fundamental to sustainable development and a strategically vital area for the Government of Vanuatu and AusAID. This is especially so, given moves to greater use of government systems to enhance sustainability and aid effectiveness.

Following the positive report in the 2007 program performance update, the focus of the program's work towards this objective shifted in 2007 to address two complementary priorities: improving the quality of spending in service delivery, and working to protect the gains previously reported. The Governance for Growth Program is the cornerstone of Australian assistance towards this objective, and is now the single biggest initiative in the bilateral program (\$34 million over the four years to 2011). AusAID's PFM Coordinator reports that the quality of public financial management in Vanuatu is under

challenge in the lead-up to the 2008 elections. Therefore both priorities are expected to remain important for the program in 2008 and beyond.

The areas of public financial management rated highly in the 2006 assessment of public expenditure and financial accountability remain strong (for example, credibility of the budget, comprehensiveness of budget information, and orderliness of budget preparation). However, there is evidence of pressure on standards of governance around public financial management in the lead-up to the national elections, especially around expenditure controls and fiscally responsible budgeting. There is pressure at senior levels in government to increase expenditure beyond budgeted limits (the 2007 and 2008 budgets were both in deficit despite a commitment to balanced budgets); supplementary appropriations may have exceeded legal limits; and there has been some diversion of appropriated funding to political priorities. Inflation is testing the Reserve Bank of Vanuatu's upper limit of 4 per cent, as a result of increasing government spending in an already growing economy. In 2007 the International Monetary Fund<sup>7</sup> identified risks associated with Vanuatu using debt to fund recurrent expenditure, the establishment of the Agriculture Development Bank and the continuing lack of control over personnel emolument expenditure. As a result, Vanuatu's strong international reputation for sound public financial management is at risk.

Progress is still being made in key areas. The Government of Vanuatu developed and implemented the Budget Management Information System in 2007, with Australian support through the GFG program. This has significantly improved the overall quality of financial reporting and led to the well-controlled preparation of the 2008 Budget. The system ensured that the appropriations submitted to the Council of Ministers were consistent with the central information system. Australia is also assisting the government with major restructuring of the budget, integrating the development and recurrent budgets. This will provide a complete picture of the total resources available to the Government of Vanuatu—donor and government—thereby supporting sector planning and improved donor coordination.

Strengthening public financial management will have an impact across all sectors of government in Vanuatu. The downside of Vanuatu's strong central controls is that service delivery is constrained by very limited access to funds for day-to-day operations. In response, Australia's assistance is increasingly integrated. For example, the GFG program facilitated the negotiation of funding agreements in health and education between Australia and Vanuatu (and New Zealand in education) so that funding will be managed through Vanuatu government systems—a significant step towards Paris Declaration ambitions. Overall, the aid program is taking a common approach to encouraging more effective implementation of the policies of the Government of Vanuatu through more realistically costed sector plans. An important development was the government decision in early 2008 to establish finance bureaus in the provinces with

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<sup>7</sup> Statement at the conclusion of an IMF Staff Mission to Vanuatu, Press Release No.08/29, 22 February 2008.

Australia's support, providing Department of Finance officials in provincial centres (discussed further later).

Another assessment of public expenditure and financial accountability is due to be completed in mid-2009. It will provide the opportunity for an internationally recognised reassessment of Vanuatu's performance in public financial management, and will inform the ongoing development of that management subprogram of the GFG program.

Progress towards greater accountability has been more difficult. Parliamentary oversight remains weak (the Public Accounts Committee has not met since 2003) and a recent assessment by the European Union confirms that the Auditor General is ineffective. At the time of writing the annual program performance update in early 2007, hopes were high for increasing government monitoring and reporting against its Priorities & Action Agenda, including through the publication of an annual development report. One year on, little progress has been made and plans for the annual development report have largely been suspended. There is little demand from within government or from civil society for reporting on the results of government expenditure; AusAID work in the GFG program and in building demand for better governance aims to strengthen demand for such accountability. There is demand within government for assistance to strengthen audit, with the European Union as the lead donor in this area. Australian assistance in health and education will address internal audit capacity gaps in those sectors.

The recent Global Integrity Dialogue Workshop in Vanuatu examined key governance and anticorruption challenges. The resulting indicators for anticorruption are relatively strong in some areas (asset disclosure and elections). Similarly, the World Bank Institute governance indicators put Vanuatu slightly above the 60th percentile for control of corruption, although with a slight decrease in 2006. Efforts towards this objective are advancing the anticorruption agenda; however, Australia's contribution to Vanuatu's international ratings is limited.

The Vanuatu program is no longer providing significant levels of assistance to the Public Service Commission in support of centralised public service reform. In 2007 Australian contributions were limited to funding a leadership and management program for senior officials and no further assistance was sought. AusAID may look to new opportunities to strengthen public sector administration through the Australian Government's new \$107 million initiative 'Investing in Pacific Public Sector Capacity'.

Australia's dialogue with the Government of Vanuatu and other donors regarding public financial management is active and robust. This was confirmed by the mid-term review of the country strategy. Relationships with key senior officials and ministers are strong and have allowed Australia to support several key reform decisions. However, key interlocutors are under pressure from political imperatives in this election year, so results are likely to be mixed. Australia is actively monitoring the risks facing public financial management in Vanuatu and is consolidating responses with other donors active in financial management—the European Union, New Zealand and the Asian Development Bank. The good working relationship between the key donors continued in 2007–08, and

Australia assisted Vanuatu meet the conditions for general budget support from the European Union.

Progress towards meeting this objective is rated 'green' because the program is performing well while operating in a challenging context.

#### ESTIMATED EXPENDITURE

Approximately 8 per cent (\$2.21 million) of the bilateral program was spent directly on this objective in 2007–08, although work in other sectors, such as education, is also focusing attention on improving financial management and accountability in key areas of government.

#### OBJECTIVE 2(A):

##### MORE EFFECTIVE LEGAL INSTITUTIONS

#### RATING



The objective will be partly achieved within the timeframe.

#### ASSESSMENT OF RESULTS AND PERFORMANCE

Australian assistance through the Legal Sector Strengthening Project (\$12 million over the period 2006–10) continued to support the functioning of the three government legal offices. A new minister and new attorney-general were appointed in 2007, raising hopes that progress in the legal sector would accelerate. These hopes remain largely unrealised. The establishment of the Ministry of Justice and Social Welfare remained stalled in 2007, with few staff appointed, an acting director-general and continuing debate about the role of the ministry. Compounding the difficulties for the legal sector in 2007 was the arson attack on the courthouse, which destroyed the building and the majority of court records.

Supporting change in the legal sector is very challenging, with elements inside the Government of Vanuatu working to undermine the credibility of Australian advisers on sensitive issues, especially as the national elections approach. However, the project and Australian engagement more broadly continue to receive strong support from senior government ministers, including the Prime Minister and Deputy Prime Minister.

Some positive results were achieved, despite the difficult context. Following the courthouse fire the project assisted with reconstructing court records and supporting temporary court accommodation and equipment. As a result, court services were maintained. There was a notable increase in the number of summons successfully served by the State Prosecutor's Department (477 in September–December 2007, compared with 180 in all of 2006), resulting in 236 completed cases. This was largely as a consequence of Australia providing a new vehicle to the State Law Office. Both the Public Solicitor's Office and the Public Prosecutor's Office improved their performance

in 2007, in terms of increases in the numbers of cases handled. However, this is in large part due to the decision to allow advisers to perform partially in-line roles.

Expatriate lawyers in the State Law Office continued to play a central role in advising the government on major issues, including ending Vanuatu's telecommunications monopoly. There has been a reduction in public criticism of the office by client departments and in the media, although there are signs that the pre-election period may see a resurgence in public criticism. These improvements are the result of a new case management system and adviser inputs, including those of a second, junior adviser.

However, as reported in 2007, there are few signs of sustainable capacity building. The Government remains largely disengaged from any capacity-building agenda. While there has been a reduction in the turnover in senior government lawyers, it is still difficult to retain lawyers in competition with the private sector. Advisers have raised concerns about the quality of graduates in law from the University of the South Pacific (USP), reporting that they require substantially more support and training than equivalent graduates elsewhere. It is noted that Australia and NZ are working with USP to strengthen performance and attention to quality of the courses offered at USP.

Significant progress in the legal sector will continue to be difficult. No other donors are active in the sector. Both the World Bank Institute and Global Integrity indicators of 'rule of law' report little improvement. Sustained senior staff vacancies in the legal offices, unsuccessful recruitment rounds, deficient office structures and prolonged unexplained absenteeism by senior staff are limiting the impact of Australian assistance. The substantive Director-General of the Ministry of Justice and Social Welfare was appointed in mid-May 2008, reviving hopes that government leadership of the sector will be reinvigorated. Australian engagement with senior levels of government in the sector has been substantially constrained by delays in mobilising a new posted officer to AusAID Vanuatu to take the lead. However, the long-overdue review of the Legal Sector Strengthening Project, planned for mid-2008, will inform a reorientation of assistance in the legal sector. This may include a more explicit commitment to supplement capacity, in recognition of sustained weaknesses in the legal offices.

Progress towards this objective is rated 'amber' in the light of the very challenging context.

#### ESTIMATED EXPENDITURE

Approximately 8.4 per cent (\$2.4 million) of the bilateral program was spent on this objective in 2007–08.

**OBJECTIVE 2(B):**  
**IMPROVED POLICE SERVICES**

**RATING**

■ The objective is on track to be fully achieved within the timeframe.<sup>8</sup>

**ASSESSMENT OF RESULTS AND PERFORMANCE**

Australian assistance to the Vanuatu Police Force (VPF) continued in 2007–08 through the VPF Capacity Building Project, implemented by the Australian Federal Police (\$28 million over the period 2006–11). Since the 2007 program performance update, the project has achieved a higher level of integration with VPF systems, with all planning, monitoring and reporting undertaken jointly, led by the VPF. There is a greater degree of flexibility in the project as a result, enabling it to respond to emerging issues. However, the operating environment remains extremely difficult and the achievements towards the program objectives depend partly on legislative changes. A National Crime Prevention Summit was held in May 2008 in response to the tide of community concern.

The VPF needs to continue to develop stronger leadership, the Police Services Commission is ineffective (creating ongoing human resource difficulties), land issues are contributing to delays in the commissioning of new police infrastructure, and necessary legislative amendments are delayed. There has been a spate of prison break-outs, the largest involving more than 40 prisoners. As a result, the government decided to temporarily transfer responsibility for corrections management back to the VPF. This is diverting the focus of the VPF, and the project. There is a need for greater donor harmonisation in the sector. Australia is encouraging New Zealand to maintain its assistance to correction services, despite these structural changes, and in mid-May New Zealand announced an increase in support.

Renewal of the VPF has continued, with Australia supporting new recruits and a program of redundancies. As a result, 30 police have retired and 59 new officers have been trained and mobilised, including 16 women (27 per cent of the force). The Force Training Wing continues to operate well, delivering recruit and refresher training, including in HIV/AIDS awareness. This is complemented by work placements in Australian police stations, and the training provided by the Pacific Regional Policing Initiative.

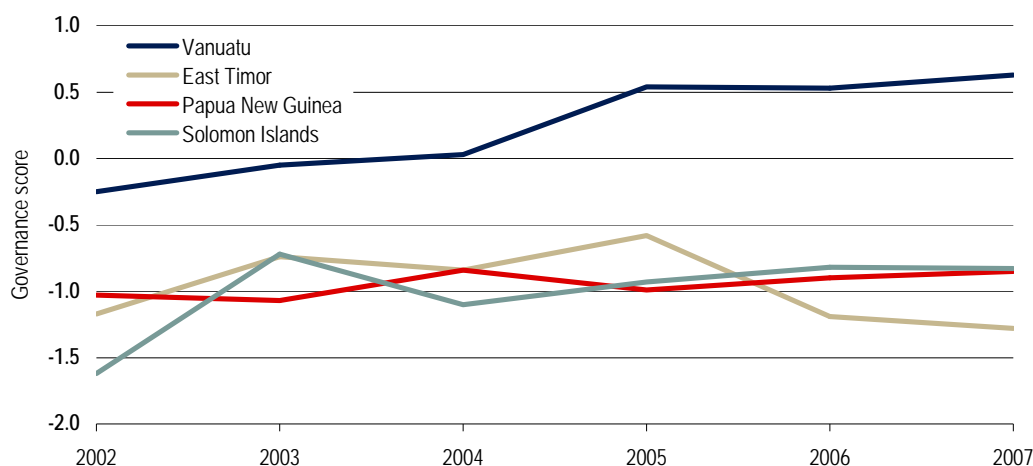
There is community concern about crime and security, although VPF data do not suggest a major spike in crime apart from increasing burglary rates. The 2008 Community Perceptions Survey (conducted by the Pacific Regional Policing Initiative directly after two widely reported murder cases<sup>9</sup>) generally reinforces the improvement in rule of law outcomes. The survey, while highlighting areas that require future attention and continuing improvement, demonstrates a higher perception of trust and confidence in the VPF.

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<sup>8</sup> This rating was prepared by the Australian Federal Police, the lead agency responsible for Australia's assistance to policing in Vanuatu.

<sup>9</sup> The VPF Capacity Building Project was not consulted on the design of the Community Perceptions Survey, and the survey was not designed to directly evaluate the impact of the project.

FIGURE 1 WORLD BANK INSTITUTE RULE OF LAW INDICATORS



Note: Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.

Data source: World Bank Institute, *Governance matters 2008: worldwide governance indicators 1996-2007*, viewed 7 August 2008, <[http://info.worldbank.org/governance/wgi/sc\\_chart.asp#](http://info.worldbank.org/governance/wgi/sc_chart.asp#)>.

The findings from the Community Perceptions Survey shows that the community believes that the VPF are better skilled (78 per cent perceive that some or most police have the necessary skills compared with 52 per cent in 2006), more willing to help (72 per cent willing or very willing to help compared with 40 per cent in 2006) and more likely to take action (77 per cent take or probably take action compared with 64 per cent in 2006). These are significant improvements. However, community perceptions remain poor in some areas, despite improvements. Compared with 56 per cent in 2006, 42 per cent of respondents in 2008 felt that police fail to attend crimes, and 42 per cent felt police took too long to attend to calls for assistance (compared with 61 per cent in 2006). The survey also reported a very significant increase in the proportion of respondents identifying burglary as the most prevalent offence (up by 33 per cent to 57 per cent). This is an indication of where the community would like to see police efforts focused, although it also probably reflects the recent high level of media reporting of burglary offences.

Complementing the community perceptions data are the World Bank Institute Rule of Law Indices, which highlight the substantially stronger situation in Vanuatu than in its neighbours (Figure 1).

The VPF is making incremental progress towards gender equality. Workforce renewal has led to an increase in women officers, albeit at junior levels. The Police Commissioner has set a goal of 25 per cent women in every new intake of recruits. However, the Community Perceptions Survey found that 67 per cent of people felt that very few police treat men and women equally, reflecting no improvement since 2006.

Domestic violence is a continuing concern in the community too. In the survey both men and women ranked it as the third most common offence (after stealing and drunkenness), although the percentage of respondents identifying domestic violence did decrease slightly. Data from the Vanuatu Women's Centre suggest that women continue to be reluctant to report domestic violence and sexual assault to police. In the six months to March 2008



only 9 per cent of cases handled by the Women's Centre reported their assaults to the police. These data suggest that new gender strategies need to be developed with VPF. Australia continues to provide funding to the Vanuatu Women's Centre (\$336 000 in 2007–08), enabling it to maintain its services as the only provider of support and referral services for victims of domestic violence and sexual assault in Vanuatu.

A sense of crisis in recent months has seen greater engagement in general policing by the paramilitary Vanuatu Mobile Force, generating positive press for the force when they recaptured prison escapees. Its disengagement from general policing duties has long been identified as a constraint to a more effective police service in Vanuatu. Australia has made little headway on this issue in policy dialogue. The role of the Vanuatu Mobile Force in recent events may offer an opportunity to bring it more into the mainstream of police services in Vanuatu. There are indications, however, that the force is not complying with police orders, raising concerns about observance of human rights in their policing operations.

There is no doubt that it will be difficult to make big gains in policing. The trial of a more operational focus in the VPF Capacity Building Project, supported by direct financing of operational costs, has assisted the VPF to respond to a rising tide of burglaries, several high-profile violent assaults, and recent large-scale prison escapes. In response to community concerns about police response times and the transport and infrastructure constraints facing the VPF, the project is providing support through the procurement of vehicles and the refurbishment and construction of police stations, barracks and police posts. The project also reallocated an adviser to general operations support, and supported taskforces to address crime hotspots. While data are patchy, it is strong enough for the northern command to indicate that response times did fall as a result, although there were fluctuations associated with erratic availability of funds for fuel.

Poor financial management is another fundamental constraint on VPF effectiveness, and has been for several years. The VPF is, in practical terms, bankrupt, and its budget preparation ineffective. However, the project is beginning to make early inroads in this area, with the appointment of a Finance Adviser for the first time. His work is complementing the ongoing efforts to restructure the VPF and improve overall management, but progress is slow and there is ongoing discussion about the most appropriate structure for the force. The project's shift to providing operational funding also runs the risk of creating financial dependency on the project.

Improvements in operational reporting are evident as the project-developed computer program for the monthly reporting system of the VPF continued to be implemented and strengthened. Data deficiencies continue to be identified (for example, national close personal protection operations) and future activities are to address gaps.

In 2008–09 the project will seek to develop stronger links with other donors in the law and justice sector (mainly New Zealand, France and China) and to coordinate more effectively with the Pacific Regional Policing Initiative and Australia's Defence Cooperation Program. It will also encourage greater links between the VPF and

traditional authorities in crime prevention and responses. The project will continue to advance operational reporting through a project-supported information system and ongoing responses to gaps in data. This year will also see the implementation of the recommendations of the 2007 Management Review, which should lead to a more streamlined approach to project management, led by the Australian Federal Police. As the largest donor supporting the law and justice sector, the coherency of Australia's dialogue with Vanuatu is important—and will be enhanced with the mobilisation of the additional posted officer to Port Vila in mid-2008.

Despite the many challenges facing police services in Vanuatu, progress towards this objective is rated 'green'.<sup>10</sup>


#### ESTIMATED EXPENDITURE

Approximately 14.4 per cent (\$4.13 million) of the bilateral program was spent on this objective in 2007–08.

#### OBJECTIVE 3:

##### STRONGER LINKS BETWEEN CENTRAL, LINE AND PROVINCIAL SYSTEMS

#### RATING

 The objective is on track to be fully achieved within the timeframe.

#### ASSESSMENT OF RESULTS AND PERFORMANCE

The disconnection between the various levels of government is a key constraint to effective service delivery in Vanuatu. It is also a barrier to sound budget preparation and policy processes, and to donor coordination. Even within provinces, poor coordination between agencies creates inefficiencies in service delivery in a resource-poor context (for example, agencies failing to cooperate to fund travel to remote islands). Numerous analyses, most recently during the design process of the GFG program, confirm the need to strengthen the links between the levels of government in order to achieve better results from government expenditure.

Progress towards strengthening links between the different levels of government in Vanuatu increased in 2007–08. Despite a longstanding culture of distrust between central and line agencies—not unique to Vanuatu—there was some improvement, especially in the education sector. The eagerness of key development partners (Australia, New Zealand and the European Union) to use the systems of the Government of Vanuatu and to provide financing through the budget is proving to be a powerful tool of encouragement. Australian programs in service delivery and public financial management are collaborating to facilitate more active links. The negotiation of funding agreements

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<sup>10</sup> This rating was prepared by the Australian Federal Police as the lead agency responsible for Australia's assistance to policing in Vanuatu.

for the Vanuatu Malaria Program and the education sector-wide approach (together worth approximately \$7 million) has provided the opportunity to bring these key sectoral agencies more closely in touch with the Department of Finance.

The preparation of the sector-wide approach in education is noticeably improving the links between central agencies and the Ministry of Education, particularly through the Department of Finance's input to preparing costed sector plans for the first time. Also in education, the Technical Vocational and Education Program supported the development and capacity building of Provincial Training Boards. This laid the foundation for phase 2 of the program, which will be centred in provinces and will strengthen provincial coordination arrangements as well as the links between provincial training and national agencies. The Vanuatu Secondary Schools Extension Project has also contributed to stronger links between the Department of Education, the provincial Education Offices, and the participating senior secondary schools.

In the health sector the Vanuatu Malaria Program is directing assistance to provincial health systems in efforts to improve the flow of finance and goods from Port Vila to the provinces and the flow of information and data back to the centre. Similarly, the Village Health Workers Project has led to a closer working relationship between provincial government and provincial health offices.

Work in the service delivery sectors is supported by complementary work through the GFG program. This program is assisting the Department of Finance to establish out-posted officers in the provinces as Provincial Finance Bureaux, with the first two expected to be in place by the end of 2008. The bureaux will provide a direct link between the Department of Finance and service delivery agencies, thereby improving the flow of money to essential services (for example, by reducing the time taken to obtain financial approvals). The GFG program will monitor the impact of the bureaux for improvements in service delivery.

Australia and Vanuatu have developed a more sophisticated dialogue about decentralisation and deconcentration of government to the provinces. As a result, government choices are better informed and made with more realistic expectations, such as with the Provincial Finance Bureaux initiative. Chronic weaknesses in information systems continue to be a constraint, however. These are being addressed in some sectors, but more needs to be done.

There have been noticeable improvements in policy dialogue on these issues; the next challenge is translating this into sustained improvements in service delivery. Progress towards this objective is sound and expected to continue in 2008–09, and is therefore rated 'green'.

#### ESTIMATED EXPENDITURE

Approximately 1.5 per cent (\$44 000) of the bilateral program was spent on this objective in 2007–08.

#### OBJECTIVE 4:

##### IMPROVED SERVICE DELIVERY TO POPULATIONS IN GREATEST HARDSHIP, INCLUDING RURAL COMMUNITIES AND INFORMAL SETTLEMENTS IN URBAN AREAS

Australia has continued to provide substantial support to service delivery, mainly in health and education. In both sectors Australian assistance greatly exceeds that of other donors, of whom there are many—both official and non-government organisations. The reform process is slow, however, requiring continued support and commitment over a long timeframe. The mid-term review of the country strategy also highlighted this conclusion. Notable progress has been made in the policy dialogue in education, but it is likely to be some years before major results can be seen at the community level. Targeting populations in greatest hardship has been difficult in the light of the program's focus on strengthening government-led service delivery. Data to support such targeting are very limited, and resource allocation by government is generally untargeted. Work in sector programs and through the GFG program will improve policy and budget preparation processes in the coming years, laying the way for better targeting of disadvantaged groups.

Continuing urban drift and the growing populations in Port Vila and Luganville are increasing pressure on urban services. Population growth in Port Vila is double the estimated national rate. Much of this growth is in informal peri-urban settlements around Port Vila and Luganville, where access to health and education is limited, shelter is insecure, and water and sanitation services are largely absent. The HIES found that, while poverty is not severe in Vanuatu, it is in Port Vila. There, almost one-third of the population (32.8 per cent) has expenditure levels below Vanuatu's basic needs poverty line. The Government of Vanuatu is struggling to develop a policy response to these issues. AusAID's analysis of urbanisation and service delivery, which was planned for mid-2008, will inform the governments of Vanuatu and Australia in developing a response.

#### OBJECTIVE 4(A):

##### EDUCATION

##### RATING



The objective is on track to be fully achieved within the timeframe.

##### ASSESSMENT OF RESULTS AND PERFORMANCE

In 2008, 24 per cent of the Vanuatu Government's expenditure will be in the education sector, but more than 95 per cent of this education expenditure will be on salaries. Education in Vanuatu is inherently expensive because of the many small communities scattered across 83 islands, compounded by the systemic inefficiencies of dual English and French systems. According to the Ministry of Education the proportion of children who start primary school at school age is 32 per cent, and preliminary UNICEF data suggest

that about 70 per cent of children of primary-school age attend school<sup>11</sup>, but only 59 per cent complete six years<sup>12</sup>. The quality of education continues to be low and the indicative national adult literacy rate is 38 per cent. Therefore, while Vanuatu is likely to achieve the MDG of universal primary education by 2015, the quality of that education is likely to be poor. There is good gender parity in school education in Vanuatu. A slightly higher proportion of girls complete year 13 than boys (15.2 per cent compared with 14.4 per cent), and the gross and net intake rates are similar for both girls and boys.

The Government of Vanuatu is undertaking fundamental reform in the education sector. The reform, which was developed over the past two years, will lead to the commencement of a sector-wide approach in 2009. During the development of this approach AusAID invested considerable effort in developing an open and trusting dialogue with the Ministry of Education and the participating donor partners (New Zealand, the European Union, France and the World Bank). As a result there has been substantial progress towards Paris Declaration aims. The government reports appreciable reductions in the transaction costs of dealing with multiple donors; contact is now centralised through the Education Partners Group (which AusAID currently leads). However, challenges remain in achieving a harmonised approach between donors, especially those not resident in Vanuatu or with little in-country decision-making authority.

The sector-wide approach will see a redirection of resources towards basic education by both the Vanuatu Government and donors. Vanuatu now has a detailed, costed, prioritised plan for the education sector. Achieving this marks a major milestone on the path towards an improved education system. Australia made a contribution of \$2.5 million through government systems in 2007–08 in support of the Vanuatu Education Sector Annual Plan. The priorities in the plan are to improve the quality of the curriculum, teacher training and teaching supplies, to strengthen the capacity of the Ministry of Education in planning, finance and data collection, to advance the National Human Resource Development Plan, and to negotiate industrial matters with teachers. The ultimate outcome of the annual plan will be a medium-term expenditure framework that will be the foundation for multi-year funding commitments by donors. This framework will be a key performance indicator for the education sector in 2008–09.

Australia continued its assistance to secondary schools and to technical and vocational education and training (TVET) in 2007. In that year, 144 additional students enrolled in senior secondary education, as a result of phase 2 of the Secondary Schools Extension Project (\$8.4 million over the period 2004–07), which completed construction works in 2007. There was an increase in the proportion of girls in senior secondary education—from 48.5 per cent to 50.5 per cent in 2008. Anecdotal evidence from principals also reports increasing girls' participation at the higher levels of schooling, and in 2008 two girls were awarded the only undergraduate scholarships to study in Australia. An independent evaluation of the project's impact will provide additional data for the next annual program performance report.

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<sup>11</sup> Preliminary data of Multiple Indicator Cluster Survey: Vanuatu 2007, UNICEF and others, 2008.

<sup>12</sup> Ministry of Education, Youth Development and Training, *Digest of education statistics 2007*.

Many elements of an effective TVET system are now in place in Vanuatu. This has been substantially supported by Australia, most recently through phase 1 of the TVET Strengthening Program (\$5.6 million for the period 2005–11). The program has built the capacity of formal and informal training providers in the provinces and facilitated stronger links between them and central training agencies. A net impact study of Rural Training Centre graduates found that the training they received helped address unemployment and the quality of life in rural areas. There are, however, continuing difficulties accessing TVET (83 per cent reported access problems in a Citizen Awareness Survey) and the links between TVET and improved economic outcomes for trainees are still weak. Phase 2 of the TVET program (\$8 million for the period 2008–11) will redirect its efforts towards these concerns, especially in the provinces.

The Australia Pacific Technical College opened the Vanuatu campus of its Tourism and Hospitality School in 2007, using facilities funded by the European Union at the Vanuatu Institute of Technology Tourism, Hospitality and Leisure School. The technical college complements the TVET Strengthening Program by providing more advanced qualifications at Australian-recognised standards. Demand for places in the college has been high, with approximately 300 applications for 40 places at the Vanuatu campus for the most recent intake. Most local students at the technical college are sponsored by their employers, indicating a strong level of support from the private sector. Scholarships are supporting 27 ni-Vanuatu students to study in other fields at other campuses of the Australia Pacific Technical College in the region.

Progress towards this objective is rated 'green'. Slow but steady progress is evident.

#### ESTIMATED EXPENDITURE

Approximately 16.4 per cent (\$4.7 million) of the bilateral program was spent on this objective in 2007–08.

#### OBJECTIVE 4(B): HEALTH

#### RATING



The objective will be partly achieved within the timeframe.

#### ASSESSMENT OF RESULTS AND PERFORMANCE

Australian assistance in health is equivalent to 17 per cent of the Government of Vanuatu's health budget in 2008, making Australia by far the largest donor to this sector. While Vanuatu has made some progress against the health MDGs, data continue to be a systemic weakness, undermining both monitoring and effective planning and resource allocation. UNICEF did, however, lead a major data collection exercise in 2007.<sup>13</sup> As a

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<sup>13</sup> Preliminary data of Multiple Indicator Cluster Survey: Vanuatu 2007, UNICEF and others, 2008.

result, for the first time Vanuatu has a reliable baseline for key indicators. Preliminary data suggest that Vanuatu may achieve universal access to reproductive health by 2015 (MDG 5). For example, approximately 80 per cent of ni-Vanuatu women in urban areas and 70 per cent in rural areas give birth assisted by skilled health personnel, and nationally 83 per cent of women have skilled antenatal care (MDG indicator 5.2).

There are continuing difficulties with human resources in the health sector, exacerbated by poor workforce planning. In January 2008 there were 83 vacant nursing positions (out of 457) and sector-wide 27 per cent of positions in health services were unfilled. The number of nurse graduates is insufficient to meet demand due to inadequate training facilities (currently being expanded with funding from Agence Francaise de Développement), as well as short-sighted sector planning. Plans to develop regional nurse-training programs through the Australia Pacific Technical College in Vanuatu have been shelved because of difficulties in reaching a regional agreement on nurse training. Australia continues to train doctors through Australian scholarships (at present more than 10 ni-Vanuatu students are completing medical studies in the region), but graduates are difficult to retain in the public sector, or even in Vanuatu.

Despite the challenges, Australian assistance contributed to some important results in 2007–08. Vanuatu is beginning to move towards major reform in the health sector. Encouraged by donors keen to support a more coherent sector and to work more through government systems, the Ministry of Health hopes to develop its own sector program. Australia is assisting the ministry by providing a Principal Health Adviser to the Director-General, who is supporting early reform efforts in the system. Australia is also supporting the ministry to pilot a new model of service provision in health, by transferring management of the Village Health Workers Project (\$1.5 million for the period 2008–11) to the Ministry of Health. As a result of project support, village health workers are now better trained, equipped and supported to provide basic health care to rural communities.

Important advances in fighting cervical cancer have been made in recent months. With Australian assistance, seven nurses have been trained to screen for cervical cancer and a pilot program saw 500 women screened. This opened the way for seven young women to receive lifesaving treatment in Australia (supported by private fundraising). Following this successful pilot program, the Cervical Cancer Screening Initiative (\$350 000 over five years) is being substantially expanded and will reach 75 per cent of women in Vanuatu, with a particular focus on reaching women in rural areas. The initiative will take a holistic approach to assessing women's health, including screening for sexually transmitted infection such as Hepatitis B, non-communicable diseases such as diabetes, and other health risks such as obesity and hypertension.

In 2007 Australia joined with other major donors to tackle malaria in the Pacific. The ambitious Pacific Malaria Initiative, which includes \$6 million in funding for Vanuatu, commenced in 2007 with the establishment of the Malaria Reference Group. The group

brings together leading international experts in vector-borne diseases to support Vanuatu's efforts to reduce malaria transmission, increase the rates of prompt diagnosis and appropriate treatment, strengthen the health system to enhance service delivery, and eradicate malaria where possible. This initiative shows early signs of success and is generating enthusiastic participation in Vanuatu. It also represents a model of donor harmonisation, bringing Australia, the World Health Organization and the Global Fund together in a single program.

Specialist medical practitioners continued to provide services not otherwise available in Vanuatu (\$1.17 million in 2007–08). The specialists were based at Vila Central Hospital, but also travelled to provincial hospitals. Specialists played an important role in providing clinical supervision and guidance to junior doctors, midwives and nurses, many of whom were trained with Australian scholarship support. These professional development opportunities contribute to enhancing the quality of hospital services as well as staff commitment to a career in the public health sector.

Australia contributed to improvements in maternal and child health in Vanuatu, through both tertiary and primary health services. As a result of the specialist medical personnel, birth mortality at Vila Central Hospital dropped from 56 in 1000 in 2005 to 52 in 2007. The Village Health Workers Project has built the capacity of village health workers, who are often the first point of call for health care in rural areas.

Community education and national policy development on HIV/AIDS are progressing well in Vanuatu. Australian assistance (both bilateral and regional) has supported the regionally acclaimed Wan Smolbag Theatre productions of *Love patrol* and *Love patrol 2*—television series that educate and entertain on HIV/AIDS issues. National leadership on HIV/AIDS is more effective than in many Pacific nations through the National Aids Council, although it is still relatively weak. AusAID cooperates with the council through the small grants scheme of the Pacific Regional HIV/AIDS Program. The 2007 UNICEF survey found that 40 per cent of people in Vanuatu know at least two ways to prevent HIV transmission, although many misconceptions about the disease remain widespread.

Progress towards this objective is rated 'amber'. While some progress has been made on individual initiatives, challenges remain in enhancing coordination and overall policy direction in the health sector.

#### ESTIMATED EXPENDITURE


Approximately 16.6 per cent (\$4.8 million) of the bilateral program was spent on this objective in 2007–08.



## OBJECTIVE 5:

### STRONGER PARTNERSHIPS BETWEEN NON-STATE ACTORS AND GOVERNMENT IN SERVICE DELIVERY

#### RATING

-  The objective is on track to be fully achieved within the timeframe.

#### ASSESSMENT OF RESULTS AND PERFORMANCE

Organisations outside government—non-state actors—play an important role in the providing many services in Vanuatu, including health services, education (schools), counselling, training and community education. In many cases these services are provided independently of government with little coherence within sectors, creating inefficiencies and reducing effectiveness. Australia increased its support for leading non-state actors in service provision in 2007–08.

- > The management of the Village Health Workers Project is being transferred to the Ministry of Health. From 2008 onwards the Vanuatu Government will contract Save the Children Australia directly to support village health workers. This is the first time the government has contracted a non-government organisation and it represents a small but notable advance in Ministry of Health leadership of health services in Vanuatu. It is hoped this will become a model for how the government can be a purchaser of services, as well as the direct service provider. It is an early step towards a sector-wide approach in health, and the Ministry of Health is considering similar approaches for elements of the Malaria Program.
- > Wan Smolbag Theatre continued to provide a range of services in 2007, including skills training to approximately 880 young people (56 per cent of them young women). Of these, 60 secured employment as a result of their training. In addition, Wan Smolbag provides a youth drop-in centre, sports facilities and clubs, community education through theatre in health and governance, and nutrition and reproductive health services. Australia provides core funding to Wan Smolbag (\$557 107 in 2007–08), with a particular focus on its youth program. In 2007 Australia and New Zealand agreed to provide this funding on a multi-year basis to support a single, agreed annual plan, with common monitoring and reporting. As part of this annual plan, Wan Smolbag is increasing its links with government, reflecting its growing significance as a non-government service provider and advocacy organisation.
- > The Vanuatu Women's Centre is the only organisation providing services to victims of domestic violence in Vanuatu. With Australian core funding (\$336 000 in 2007–08, ongoing since 1994), the centre provided counselling to 114 women, delivered community awareness services and supported 19 domestic violence orders with legal assistance. It undertook male advocate training with police officers, and plays a leading role in advocating for victims. However, links between the centre's services and those of government remain weak. It will be important to work more closely with health services, police and the legal sector to strengthen the framework for responding to

domestic violence. AusAID will explore this in 2008–09 when preparing expanded programming in this area.

- > Previously strong links between churches and the Government of Vanuatu have declined over time; however, churches play a significant role in providing education services in Vanuatu. In late 2007 Australia commenced the Churches Partnership Program, providing support for the Vanuatu Christian Council and member churches to partner more closely with their Australian counterparts to strengthen their capacity in advocacy and service delivery.

Supporting partnerships between community organisations and government in service delivery is one important approach among many to improve service delivery in Vanuatu. Therefore it should be mainstreamed through the aid program rather than be a stand-alone objective. Any updated articulation of the objectives of the aid program will reflect this change.

Progress towards achieving this objective is rated 'green'.

#### ESTIMATED EXPENDITURE

Approximately 1.4 per cent (\$400 000) of the bilateral program was spent on this objective in 2007–08, noting that much of the funding for initiatives discussed above also contributes to other objectives in service delivery and building demand for better governance.

#### OBJECTIVE 6:

ECONOMIC GROWTH—RAISED PRODUCTIVE CAPACITY OF NI-VANUATU, PARTICULARLY WOMEN AND YOUNG PEOPLE

#### RATING



The objective is on track to be fully achieved within the timeframe.

#### ASSESSMENT OF RESULTS AND PERFORMANCE

As noted previously, Vanuatu's economic growth has continued at high rates, and Australia's support for economic growth increased notably in 2007–08. The HIES does, however, highlight that not all people are benefiting equally from Vanuatu's economic growth. There is a substantial pocket of poverty in Port Vila, and several rural areas are excluded.

The GFG program has developed excellent relationships with key senior officials and members of Parliament, which have proven essential for the policy dialogue and reform successes that are a feature of AusAID's work in 2007–08. The mid-term review of the country strategy found that increasingly linking governance and growth was proving

effective and highlighted the strengths in dialogue between Australia and Vanuatu in this sector. A number of important results were achieved in the past year.

Vanuatu implemented important competition reform in February 2008 with the negotiated end to monopoly arrangements in telecommunications. A second mobile provider will commence service later in 2008 with a licence that requires it to provide 85 per cent coverage within a year of operation, and competition is likely to increase further. Already this is having significant positive impact, with the incumbent provider substantially reducing prices. New SIM cards are now less than 20 per cent of their price a year ago, call premiums for mobile users have been abolished and the network has been expanded. In March 2008 there were an estimated 28 000 mobile subscribers and 8000 fixed phone lines—almost a fourfold increase since 2006. This reform in telecommunications will contribute to significant progress towards MDG 8F: ‘in cooperation with private sector make available the benefits of technologies, especially info and communications’. It will also support more effective service delivery by linking central and provincial government, and village-level services such as schools and clinics. World Bank analysis suggests telecommunications competition could also contribute between 0.5 and 1 per cent additional annual growth in gross domestic product.

The Government of Vanuatu has acknowledged that Australian support through the GFG program was crucial to the successful outcome in telecommunications. Australia facilitated the negotiation process and is providing incentive funding of \$6.1 million to support this reform. It encouraged the Government of Vanuatu to establish a Universal Access Policy Fund, which will subsidise the provision of telecommunications to remote communities, schools and health clinics, with 4 per cent of future net revenue to be directed to the fund. The incentives funding will be used to fund the Interim Telecommunications Regulator and future activities of the Universal Access Policy Fund. Australia will also support a two-year impact study to investigate the social and economic impacts of expanded mobile access, examining the impact on women and men in urban, peri-urban and rural communities.

The current property boom has exposed the extent of legislative, regulatory, capacity and governance weaknesses in Vanuatu’s land system. However, Vanuatu is making headway with land reform, essential for Vanuatu’s continuing economic and social stability, as well as growth. There continue to be bumps along the way with the minister making a number of large-scale decisions outside the moratorium on new leases, and the moratorium itself dampening activity in the property sector. Nevertheless, the sector continues to be active, evidenced by the arrival of two additional expatriate real estate agencies in 2007. Australia is supporting (\$1 million in 2008) the implementation of several recommendations from the 2006 National Land Summit, which will strengthen the operating environment for the private sector, as well as for government and the community. In addition, over the remainder of 2008 AusAID will prepare a major new project in land reform for implementation from 2009.

With support through the Australian Bureau of Statistics, the National Statistics Office completed two major statistical collections in 2007: the Agriculture Census (also funded

by New Zealand and the European Union) and the HIES. These have generated a stronger base of data on which to make policy decisions, although disappointingly neither collection produced much in the way of gender-disaggregated data and associated insights into the different circumstances of men and women. The increasing capacity of the Statistics Office—demonstrated through its participation on a consultancy basis in a number of recent smaller sector-specific surveys—provides confidence that the 2009 Population Census will be successfully conducted, although overall capacity is still limited. It is anticipated that Australia will provide substantial assistance for the preparation and implementation of the census.

Policy decisions on a number of important issues will be better informed as a result of Australian support for analytical work in 2007–08.

- > The establishment of the Utilities Regulatory Authority, with support from Australia and the World Bank, created an institution responsible for regulating the power sector, with the aim of ensuring prices are fair and power is widely available. High prices and poor access to power are key development issues for Vanuatu.
- > A review of the copra industry—a crucial industry for the majority of rural ni-Vanuatu—and associated commodity marketing arrangements recommends the abolition of the Vanuatu Commodities Marketing Board and other reforms to the industry.
- > Analysis by the International Finance Corporation of Air Vanuatu's international and domestic business is intended to inform a decision by the Government of Vanuatu regarding the partial sale of the airline and the introduction of international management expertise.
- > Analysis of the Luganville Concession Agreement with current electricity supplier Unelco led to the government decision to go to open tender when the concession expires in 2010, potentially introducing competition in the power sector. This is likely to lead to reductions in power tariffs, currently among the highest in the world. It would also open the way to including water supply in the concession (currently managed by government), in line with arrangements in Port Vila and leading to a more effective service.

Apart from the work on the Vanuatu Commodities Marketing Board, there has been little progress towards initiating new support for the productive sectors (mainly agriculture). The agriculture sector continues to make an important contribution to Vanuatu's economy (16.9 per cent of gross domestic product in 2006—the most recent data). It is particularly crucial to rural livelihoods.

There is still some way to go to understand the gender dimensions of economic growth and private sector development in Vanuatu. Planned gender and growth analysis by the GFG program has not been done, and has been postponed until 2009. However, the Vanuatu aid program is participating in the AusAID partnership with the World Bank and its International Finance Corporation to undertake analysis for a report, *Doing business—women in the Pacific*. The report forms a critical analytical tool for AusAID's

Pacific Women and Private Sector Development Program, which will guide private sector development frameworks in AusAID country strategies and assist in developing programs of reform and support that assist women to benefit more equitably from improvements in the business-enabling environment.

The coming year will see continuing expansion of work towards this objective. The mid-term review of the country strategy also recommended greater attention be directed towards this objective. Phase 2 of the TVET Strengthening Program will target private sector development, focusing on small business development in the provinces and stronger links between training providers and the private sector. Australia is also developing an infrastructure initiative in response to a request from Vanuatu to assist with a substantial shortfall in the capacity of the Millennium Challenge Corporation to implement its portfolio of projects. Infrastructure has been long recognised as a constraint in Vanuatu—to economic activity, service delivery, and social and family contact. While design work is ongoing, the initiative is likely to reflect early analysis, which suggests that the most pressing need is for a long-term partnership and investment program to strengthen the management, rehabilitation and maintenance of transport infrastructure in Vanuatu.

Difficulties in the agriculture sector and the lack of progress in targeting women and young people are weakness in the results towards achieving this objective. However, progress towards this objective is rated 'green', reflecting the notable achievements made in recent months, the continuing positive environment for reform (despite some risks), and the range of initiatives coming on stream in 2008–09.

#### ESTIMATED EXPENDITURE

Approximately 10 per cent (\$2.8 million) of the bilateral program was spent on this objective in 2007–08.

# What is the quality of AusAID activities in Vanuatu?

## OVERVIEW

The Vanuatu program rated more than 80 per cent of the bilateral portfolio for quality at implementation in March 2008. In the period since the program performance update in 2007, AusAID's quality reporting system has developed markedly. The ratings of initiatives are therefore considered more robust this year, which means that year-to-year comparisons are primarily indicative.

Of the 15 initiatives rated for quality, all were satisfactory in their implementation progress and 93 per cent were satisfactory in their progress towards achieving objectives. There was improvement in monitoring and evaluation (M&E) in the aid program—markedly weak across the board in 2007. This is reflected in the increase in initiatives judged to be 'satisfactory' in M&E, up from 46 per cent in 2007 to 80 per cent in 2008. In some cases this was due to the development and implementation of new M&E frameworks (such as for the Legal Sector Strengthening Project); in others it was the preparation of a completion report or a major review that led to the higher rating.

Nevertheless, M&E remains relatively weak in many initiatives, especially in generating reliable findings on results, as opposed to outputs (69 per cent of initiatives require some work to improve M&E). The mid-term review of the country strategy also commented on weaknesses in M&E in some sectors. Partly in the light of this, AusAID engaged an Aid Performance Adviser in late 2007 to support performance, quality and M&E activities across the program. An analysis of gender in M&E across the program identified a series of improvements to M&E arrangements in a number of initiatives, so gender-specific reporting should be stronger next year. The development of M&E frameworks for Australian Development Scholarships and Australian Regional Development Scholarships, expected to be completed and operational by the end of 2008, will address a major area of deficiency.

The satisfactory rating for the sustainability of 80 per cent of initiatives generated some interesting discussion during the preparation of quality-at-implementation reports in 2008. In some cases the improvement in ratings from the previous assessment reflects the growing realisation that in many cases sustainability is less about financial sustainability and more about whether the results of a program will be sustained once implementation is completed. The ratings also reflect the increasing acceptance that it may not be possible for Vanuatu—a small island state with a population of 210 000—to meet all the human resource needs for a fully functioning state. Australian assistance will therefore be necessary for the long term, and consideration of sustainability in those circumstances must therefore be more complex and less focused on financial sustainability.

There is still more work to be done in institutionalising, as management tools, AusAID's strengthened processes for monitoring and reporting quality and performance. The experience of the Vanuatu program over the past year has been that, while reporting on quality at implementation and annual program performance had proved very useful, further progress is required in integrating these tools into year-round program management. There would also be value in formally rating gender dimensions in quality-at-implementation assessments.

## AUSTRALIAN SCHOLARSHIPS

Australia spent \$3.1 million (11 per cent of the bilateral program) on scholarships in Vanuatu in 2007–08. New scholarships awarded for 2008 included 40 Australian Regional Development Scholarships, 19 Australian Development Scholarships and 85 In-Country Scholarships. In addition, regional funding is supporting 27 scholarships for ni-Vanuatu students at the Australia Pacific Technical College. The impact of this large investment is difficult to measure beyond anecdotal impressions that a majority of senior civil servants are Australian scholarship graduates. No formal tracer study of these graduates has ever been conducted, and no M&E frameworks exist. These glaring omissions will be rectified in late 2008 with a major investigation into the pathways followed by graduates after their Australian-funded studies are complete, and with the implementation of M&E frameworks for both Australian Development Scholarships and Australian Regional Development Scholarships.

Harmonisation and donor coordination in scholarships progressed markedly in 2007–08. Selections for 2008 scholarships funded by Australia and New Zealand were made jointly by the Government of Vanuatu, AusAID and NZAID, resulting in a much more efficient and coherent outcome. The new M&E framework for Australian Regional Development Scholarships will also apply to New Zealand funded regional scholarships. Australia is increasingly working in partnership with Vanuatu's Training and Scholarships Coordination Unit and in 2008 plans to co-locate the AusAID Scholarships Manager in the unit in order to build capacity there. Other major scholarship providers, France and China, continue to operate independently, but a stronger Training and Scholarships Coordination Unit may be able to increase coordination in the future.

## BUILDING DEMAND FOR BETTER GOVERNANCE

The Australian aid program is increasingly directing support towards building demand for better governance in Vanuatu. This reflects a range of recent analyses, including the 2007 study *Drivers of change*, which highlighted the crucial role demand plays in strengthening governance and addressing corruption. It also represents an area of expansion in the aid program.

- > The Vois Blong Yumi ('Our Voice') Project commenced in 2007 and is a partnership between Radio Vanuatu and Radio Australia. It will improve the quality and extent of program content on national radio in Vanuatu, and will strengthen the Vanuatu

Broadcasting and Television Corporation. Early achievements are the reinstatement of morning news services and the development of an editorial policy (particularly important in an election year). Currently the Radio Vanuatu signal reaches only 15 per cent of the country. Therefore Australia (with Japan and New Zealand) is also supporting the urgent restoration of shortwave transmission throughout Vanuatu, a crucial requirement for effective democracy in the lead-up to the national elections.

- > Wan Smolbag Theatre core funding supports its advocacy role on behalf of youth and the residents of informal urban settlements in Port Vila and Luganville.
- > The Kastom Governance Partnership is strengthening national and community governance by supporting the Malvatumauri National Council of Chiefs and kastom leaders to manage change and participate in conflict resolution and prevention.
- > The Vanuatu Churches Partnership will strengthen the capacity of churches and the Vanuatu Christian Council to advocate to government on service delivery and governance issues.

Approximately 10 per cent (\$3 million) of the bilateral program was spent on building demand for better governance in 2007–08. An updated articulation of the aid program will include a new program outcome targeting this area of work, reflecting its growing importance in complementing Australia's support for public sector governance.

#### PARTNERSHIPS WITH NON-GOVERNMENT ORGANISATIONS AND NON-STATE ACTORS

Australia's partnerships with key non-government organisations in Vanuatu continued to mature in 2007–08, generating some key lessons. Firstly, core funding with multi-year commitments significantly enhances the capacity of organisations to implement more coherent programs and to take a greater advocacy role, as a result of their increased confidence and security of tenure. Secondly, supporting peak or umbrella organisations is crucial to building the capacity of civil society more broadly. Strong peak organisations—especially the chiefs' and women's groups—are particularly important in land reform and gender equality work. In the light of this, Australia will consider resuming support for the Vanuatu Association of NGOs and the Vanuatu National Council of Women.

#### FORMS OF AID

The Vanuatu program is expanding the range of implementation mechanisms it uses, and the recent mid-term review of the Vanuatu–Australia Joint Development Cooperation Strategy found that there is increasing coherence and interconnectedness in the aid program. Over coming years AusAID expects that these two developments will deliver better results, as programs and projects increasingly work together and complement each other's efforts. For example, land disputes are constraints across a range of sectors—police, private sector development, and service delivery. Therefore the support for Vanuatu's land reform initiatives will contribute to more effective aid in those other sectors, enhancing the effectiveness of the aid program overall. Similarly,



continued support for public financial management is facilitating the increased use of Vanuatu government systems in health, education and utilities regulation.

The aid program has made substantial progress in realigning initiatives more closely to Vanuatu's policies and processes, and in some cases is moving towards much greater implementation through government systems (up to 17 per cent of the bilateral aid program in 2007–08). Direct financing of programs through government is facilitating a closer and more productive dialogue between Australia and Vanuatu. A strong and trusting bilateral relationship has allowed both governments to take risks and experiment with new approaches not possible elsewhere, and many of these are showing signs of positive progress.

AusAID is finding that where donors collaborate (often led by Australia, such as in the education sector) to promote the use of government systems the incentive for collaboration is even greater. Australia committed substantial funds, mainly through the GFG program, on an agreed incentives basis in 2007–08. Funds totalling approximately \$9.4 million over four years<sup>14</sup> are available to support the implementation of reforms in telecommunications, commodity marketing (particularly copra) and the airline industry.

The experience of working more closely with other development partners has been mixed. Australia has successfully brokered increased involvement from the World Bank and the International Finance Corporation, and the formal coordination processes associated with the development of the education sector-wide approach are slowly paying dividends. Australia has harmonised its support in several sectors with New Zealand, but efforts to partner with the European Union in other sectors have where successful in tourism, training targeted support have been slow to show broader benefits. Australia is working closely with the European Union in providing development assistance to Vanuatu. The Australia Pacific Technical College (APTC) School of Tourism and Hospitality in Port Vila uses the training facilities that have been recently upgraded by the EU, and allows students to complete a higher level of training once they have completed training that is supported by the EU. AusAID is also in close consultation with the EU and NZAID to develop a coordinated program of support for the productive sectors (agriculture, fisheries, forestry and tourism) in Vanuatu. This will include a multi-donor joint appraisal mission in early 2009, and will enhance the Government of Vanuatu's capacity to manage and utilise development assistance effectively.

It is evident from our experience over the past year that effective donor coordination and harmonisation demands sustained endeavour and places new demands on Australian officials in Vanuatu.

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<sup>14</sup> \$6.1 million to support telecommunications reform, \$1.5 million for airline sector reform, and \$1.8 million for reform of commodity marketing arrangements.

In 2006–07 approximately 40 per cent of the Vanuatu aid program was spent on international technical assistance, and the proportion was similar in 2007–08.<sup>15</sup> While the program is increasing its use of other forms of aid, technical assistance will continue to be important, whether engaged by AusAID, through a contractor, or by the Government of Vanuatu. In recognition of this, the Vanuatu program has invested in making its technical assistance more effective. AusAID’s capacity-building program ‘Making a Difference’ commenced in Vanuatu in early 2008, providing an intensive package of supported capacity-building workshops for advisers and their counterparts. AusAID recently established a Program Strengthening Group to support implementers across a range of crosscutting areas of common weakness. The group will provide access to a consistent pool of specialists, familiar with the Vanuatu program and known to implementers, with expertise in public financial management, monitoring and evaluation, capacity building, gender, and cross-cultural communication.

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<sup>15</sup> Exact data are not available but estimates based on the structure of the aid program suggest the proportion is similar.