

**Governance for Growth, Vanuatu**

**Phase 3**

**Investment Design Document**

## **Abbreviations**

ADB	Asian Development Bank
AusAID	(Former) Australian Agency for International Development
BNP	Basic Needs Poverty
DFA	Direct Financing Agreement
DFAT	Department of Foreign Affairs and Trade
ERC	Expenditure Review Committee
FPA	Family Protection Act
IMF	International Monetary Fund
MELR	Monitoring, Evaluation, Learning and Research
MFEM	Ministry of Finance and Economic Management
M4C	Markets for Change
NIE	National Implementing Entity
PFM	Public Financial Management
PHAMA	Pacific Horticulture and Agriculture Market Access
TC	Tropical Cyclone
UNDP	United Nations Development Programme
VANWODS	Vanuatu Women in Development Scheme

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## **1. Executive summary**

This design document provides for the continuation of the essential elements of the Governance for Growth Program as it has existed since 2007. It remains strongly supported by the Government of Vanuatu and is a central plank in Australia's economic collaboration with Vanuatu, working on issues of mutual interest as well as contributing more broadly to economic opportunity in the country. It is fully in line with Australia's current aid priorities for Vanuatu. A further allocation of \$20 million is proposed for the years 2017/18 to 2020/21 (allowing for about the same level of expenditure as in recent years).

The experience of GfG to date has been reviewed by two independent studies. Both concluded that GfG had been successful both in operating on a flexible and opportunistic basis and in covering the main issues relevant to growth in Vanuatu in the past ten years. Both identified solid contribution to significant outcomes. To respond to the lessons learned, this design provides for retention of the elements identified as positive, including staffing by DFAT staff, co-location with the Prime Minister's Office and a mandate to work across a wide range of economic issues and public financial management reform. It also provides for

- A better structured governance, challenge and review system
- Greater focus on specific reforms rather than institutional capacity building
- Greater capacity to cover inclusive growth, especially economic empowerment for women
- A strengthened research capacity.

The design adjusts aspects of accountability and practice to take account of the fact that the program, originally designed for AusAID, is now managed by DFAT.

## 2. Introduction

The Governance for Growth (GfG) program in Vanuatu started in September 2007 and has now completed two funding periods. The program was established as an adviser, facilitator and broker of regulatory reform and improved public expenditure management, for the purposes of improving growth and service delivery. It was intended as a platform for effective policy dialogue between Australia and Vanuatu, and within Vanuatu, supporting the analytical and consultative processes that inform policy formulation, as well as providing resources for policy implementation. GfG has worked through a range of partnerships with Government and statutory agencies, and with one commercial bank, enabling it to support improvements in public financial management, trade policy, energy and telecommunications policy and regulation, utilities reform and access to financial services. It has disbursed its funds mainly through direct multi-year grants to partners, supplemented by the provision of directly contracted technical assistance and research.

This design retains the essential features of the program: co-location with the Prime Minister's Office, staff directly contracted by DFAT, a flexible budget and a wide mandate for supporting change across economic growth and public expenditure issues. It outlines the case for the continuing relevance of the GfG modality. It draws on reflection with key stakeholders and commissioned reviews of the experience of GfG to date to reset the program's objectives, and adjusts aspects of accountability and practice to take account of the fact that the program is now managed by DFAT. Finally, it puts in place structures and incentives aimed at improving GfG's value as a strategic resource, not just for the Government of Vanuatu, but also for other economic actors, by expanding its networks and reinforcing its capacity to generate ideas and evidence.

The design process began with the commissioning of two reviews: an assessment of GfG's approach and operations in the economic and political context of Vanuatu by the Overseas Development Institute<sup>1</sup>, and an economic review by independent consultants working with DFAT's Development Policy Division, in which they assessed GfG's relevance to the main economic issues facing Vanuatu over the past ten years.<sup>2</sup> The findings of these reviews were discussed at a workshop of GfG partners in Port Vila in December 2016. A design mission visited Vanuatu from 30 January to 8 February 2017 to undertake further consultations and to test ideas proposed in this design.

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<sup>1</sup> Overseas Development Institute: *"Governance for Growth in Vanuatu: review of a decade of thinking and working politically"* (forthcoming)

<sup>2</sup> Robert Warner, Jonathan Gouy, Anthony Samson: *"Vanuatu- Governance for Growth Program Review"*, February 2017.

### 3. Analysis and strategic context

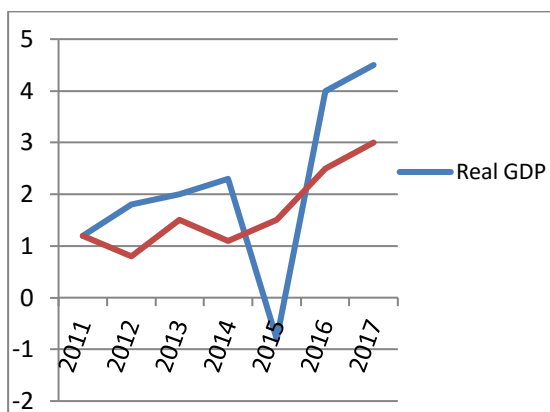
#### *Australian policy*

Australia has a direct interest in a stable and prosperous Vanuatu. Australia's development policy has increased the focus on supporting economic growth in order to sustainably reduce poverty and aid dependency. One of the four pillars of Australian support for Vanuatu set out in the Aid Investment Plan 2015-2019 is infrastructure and economic opportunity, including supporting the Government to provide the right conditions for business and investment, supporting Vanuatu's reform agenda and economic management, and partnering with the private sector to facilitate growth. Together with the infrastructure and Skills for Economic Growth programs, GfG has been an essential part of this strand of Australia's development policy in the country. As well as helping Vanuatu's institutions carry out their mandate for promoting growth and delivering services, GfG has provided a platform for dialogue between the two Governments on economic policy and for working on issues of mutual interest.

#### *Trends in growth*

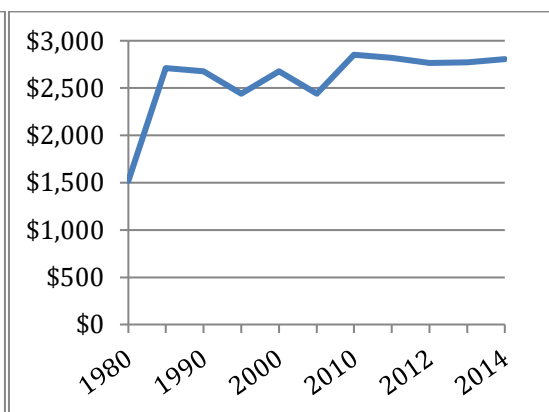
The International Monetary Fund recently updated its growth projections for Vanuatu to 4.0% in 2016 and 4.5% in 2017. At the same time, consumer prices have shown only modest increases in recent years (Figure 1), and are expected to stay around 3% unless commodity prices rise significantly.

**Figure 1: Real GDP and consumer prices (% change), 2011-2017**



Sources: IMF, ADB, Pacific Economic Monitor

**Figure 2: Gross national income per capita change, 1980-2014**



Source: UNDP, 2015: Human Development Report

Notwithstanding the near-term growth forecasts, growth per capita over the past two decades has been relatively flat, apart from a surge in the 1980-1985 period (Figure

2). The nation is locked into a pattern of low growth—growth that barely keeps pace with population increases—and limited gains in human welfare.

### *Drivers of growth*

The principal drivers of growth in the short term are expected to be recoveries in tourism and agriculture, other Tropical Cyclone (TC) Pam related spending, and further ramping-up of infrastructure projects. Downside risks stem mainly from the uncertainty in the rate of implementation of public infrastructure projects.

Maintaining growth rates at or above those forecast for 2016 and 2017 might be achieved with the right policies. Improvements are possible in areas such as savings and credit availability, well-prioritised investment, increased attention to service delivery in rural areas, and attention to the institutional and regulatory environment.

The record on the principal drivers to growth—innovation, increased productivity and the institutional and regulatory environment—has been mixed in recent years. There are few organisations promoting innovation across the country. Groupings of small-scale tourism operators are collaborating to package tourist experiences; and the National Bank of Vanuatu, with GfG support, has used technology to expand banking and credit in rural areas. But these are exceptions. Low rates of domestic saving are a constraint on domestic investment in Vanuatu. The multilateral development banks will be the major source of finance for infrastructure investment in coming years, mainly in transport, energy, and telecommunications. A significant business response—with associated revenue increases—to the opportunities offered by increased connectivity will be needed if the risks of increased foreign currency debt are to be offset. The institutional and regulatory environment, where much of GfG's work has been focused, is critical to investment and growth. The correlation between appropriate regulation that is administered through effective institutions, and economic development, is strong. But, with a widespread perception that Vanuatu is doing relatively well by regional standards, there is limited political impetus for reforms that will encourage increased risk taking or investment for productivity in the economy.

Vanuatu is extremely vulnerable to the impacts of climate change. Tourism and agriculture, from which most people derive their livelihood, and which offer the best chance of inclusive growth, are also the sectors most at risk from extreme weather events.

### *Economic growth and inclusiveness*

Although a number of factors typically affect disparities in economic opportunity, the two most obvious and well documented are the divide between urban and rural populations and that between men and women. These will be the starting point for a greater focus by GfG on inclusiveness in the next phase.

The 2015 UN Human Development Report classifies Vanuatu, ranked at 134 of 188 countries in the Human Development Index, as a medium human development country.<sup>3</sup> Three quarters of the population lives in rural areas and has limited engagement with the formal economy. In 2010, 12.7% of the population lived below

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<sup>3</sup> UNDP, Human Development Report 2015.

the basic needs poverty (BNP) line.<sup>4</sup> Although the proportion of the population below the poverty line is greater in urban than in rural areas (and the figure for Luganville is over twice the national average), nearly two thirds of all poor households are rural. And taking into account multiple deprivations of access to information, education, energy, transport and services, and vulnerability to natural disasters, multidimensional human poverty is higher and more severe in rural areas.

Tourism and infrastructure investment, seen as likely drivers of growth in the short term, will mainly benefit Port Vila and the island of Efate. Government policy is to bring a larger proportion of rural producers and tourism operators into cash-oriented activities to offset this bias. Increasing rural access to services and economic opportunities is already the focus of a number of development partners, including Australia through its service delivery programs and initiatives such as Skills for Economic Growth, which has helped to establish small businesses and promote the development of business skills among potential entrepreneurs, and the Pacific Horticulture and Agriculture Market Access (PHAMA) program that links primary producers to markets. UN Women's Markets for Change (M4C) addresses the gendered impacts of unequal power relations in the governance, management, accessibility, safety and economic opportunities of markets through supporting women's co-operatives, addressing market security and building women's financial and business literacy. GfG does not have the capacity to become a rural development program; but it should aim to build on its existing involvement in increased connectivity, access to credit, decentralisation of service delivery, taxation business regulation and cyclone recovery, as well as its research and policy capacity, to develop a more consistent approach, within an overall portfolio, to encouraging growth outside urban centres.

### *Women and the economy*

Roles played by women vary considerably in different parts of the country, making a simplistic characterisation of their economic status problematic. Women's labour force participation in Vanuatu is high at 61%, but they earn less and lag behind men in tertiary education and skills training. Many women are engaged in the informal and traditional economy, including production and processing of food and cash crops such as copra and making handicrafts. Income derived from such activities is vital for paying for basic household expenses. Women lack numeracy, literacy and financial skills, restricting their chances of entering the labour market, obtaining formal employment and establishing their own businesses. Educational attainment is a key determinant of employment outcomes. Although the gap is narrowing, girls are less likely than boys to be enrolled in primary, secondary and tertiary education.<sup>5</sup> Men in Vanuatu occupy more than 60% of the jobs in both the private and public sectors and predominate in positions of leadership, including political leadership.

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<sup>4</sup> Vanuatu National Statistics Office and UNDP: *Vanuatu Hardship and Poverty Report, 2012 (based on 2010 Household Income and Expenditure Survey)*

<sup>5</sup> Vanuatu National Statistics Office. (2011). National Population and Housing Census: Gender Monograph. Port Vila: Government of Vanuatu.



Women in Vanuatu lack full control over their ability to earn and spend money. Fewer than one in five women have savings in the bank and few women own major assets.<sup>6</sup> Norms around women's roles in society mean that economic activity may cause them to lose rather than gain social status if they have less time for traditional women's roles in the community.<sup>7</sup> Where they aim to be entrepreneurs, women lack access to capital, financial services and markets.

A 2011 study showed that approximately 72% of women in Vanuatu had experienced some form of physical and/or sexual violence in their lives, of whom 21% were left with permanent injuries. 68% were subjected to psychological violence by their intimate partners.<sup>8</sup>

There has been progress. The gender gap in literacy and education has narrowed and in some provinces girls have outperformed boys in school.<sup>9</sup> The proportion of women in waged employment has increased and some steps are being taken towards addressing the severe security issues faced by women and girls. The Family Protection Act (FPA) of 2008 provides legal protection for victims of violence, and there is focus in the donor community on addressing this issue. Some Government ministries have developed gender strategies and are integrating gender perspectives, though capacity and implementation are generally low.

The Government is committed to promoting gender equality through adherence to international and regional agreements. The National Gender Equality Policy prioritises four areas: reducing domestic and gender based violence, enhancing women's economic empowerment, promoting women's leadership and equal political participation and building a foundation for gender mainstreaming. An initiative to promote women's economic empowerment is in preparation. However, in practice there is no strong or overt political or cultural support for promoting gender equality and women's economic empowerment. Ministries have little awareness of the obligations placed on them by national policy and active 'gender champions' are few.

NGOs in Vanuatu are more active in service delivery than in voice and accountability with the result that there is little or no joined-up advocacy for women's empowerment. Only a few agencies have an active research and advocacy agenda; in relation to women, these focus on domestic violence.

The Australian aid program in Vanuatu has a strong focus on gender equality and measuring progress through sex disaggregated data. Its component elements have a network of contacts with individuals working on women's economic empowerment on which GfG can build in the forthcoming phase.

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<sup>6</sup> National Gender Policy, 2015-2019

<sup>7</sup> AusAID. *The Unfinished State: Drivers of Change in Vanuatu*. April 2007

<sup>8</sup> Vanuatu Women's Centre. (2011). *Vanuatu National Survey on Women's Lives and Family Relationships*. Port Vila: VWC.

<sup>9</sup> Vanuatu National Statistics Office. (2011). *National Population and Housing Census: Gender Monograph*. Port Vila: Government of Vanuatu.

## *Business in Vanuatu*

Vanuatu has one of the lowest rates of formal employment in the Pacific. In 2013, of the 24% of the population based in urban areas, 13% were engaged in formal sector activities in the private sector and 6% in the public sector. The remainder of the urban workforce was involved in other informal sector activities such as handicrafts, small scale transport and local retailing. The remainder of the population is rural and engaged mostly in a mix of subsistence and cash-based agriculture.

Vanuatu has made considerable progress over the last 10 years in improving the environment for growth, maintaining fiscal stability, containing input costs for business such as telecommunications and energy, liberalising air services, setting a stable and predictable VAT regime, systematising public procurement, and adopting a prioritised and coordinated trade strategy. Vanuatu ranks 83<sup>rd</sup> on the World Bank's Doing Business Index, higher than any other Pacific island country. GfG has been instrumental in encouraging these reforms. Recent analysis by the ADB suggests that some key areas of need for Government action in encouraging private sector growth are:

- **Infrastructure:** Implementation of the *Infrastructure Strategic Investment Plan (2015-2024)* is under way. New Zealand currently supports the building of local wharves and subsidises shipping services to a number of remote locations. The World Bank is supporting the urgently needed upgrading of the Port Vila international airport. However, there is no national investment policy and institutional capacity to plan and implement infrastructure investment and to provide for maintenance still needs developing.
- **Regulation:** Further streamlining of foreign investment procedures is required to halt a recent decline in foreign direct investment. There are opportunities to lighten the load of licensing and labour law regulation on business and to remove discretionary powers from Government.
- **State Owned Enterprises:** There is an unfinished reform agenda that includes the passing of the State Owned Enterprises bill to reform governance, identifying and funding community service obligations, and restructuring enterprises in the aviation sector that make the biggest losses.

Other policy areas with potential gains to the Vanuatu economy include: a national competition policy; enhancing the system for resolving disputes; implementation of new land laws; and better functioning of the financial sector to facilitate access to credit. Australian support for reconstruction following TC Pam has invested in agricultural and tourism sectors, while working to help business operators develop greater resilience to natural disasters. Nevertheless, many small and medium businesses do not have fallbacks in case of extreme weather events.

The private sector in Vanuatu is organised at national, sectoral and provincial levels. Individual large businesses have frequent access to political figures, but platforms for policy dialogue with Government vary. Consultations on policy are often regarded by the private sector as inadequate, and interaction with Government can cast business in the role of hostile pressure group rather than partner. Levels of expertise in constructive advocacy are low. Collaboration has been more promising within sector groups on specific operational practice and regulation. Industry working groups set up by PHAMA bring together producers and exporters with Government and have

provided a forum for constructive exchange. GfG has previously provided modest support for the Vanuatu Chamber of Commerce and Industry. Phase 3 should see exploration of other private sector groupings as a source of practical and collaborative approaches to reform.

#### *Public financial management (PFM)*

GfG support to the Ministry of Finance and Economic Management (MFEM) has enabled it to function well with decreasing technical assistance, but it has not yet made significant progress on the systemic failures in public financial management in line ministries, failures that affect their ability to deliver services and to control costs, notably their inability to control wage costs. More outreach from MFEM to line ministries and greater coordination between the Australian aid programs that work with individual line Ministries is required. Critically, there has been little spread of competent financial management from the central agencies to the line ministries.

The effectiveness of PFM is weakened by lack of clear sector policies and the poor links between policy, plans and budget; executive involvement in the establishment of ministerial ceilings provides them the opportunity to influence resource allocation. There is also a tendency in some line ministries to ignore MFEM control systems, which threatens the achievement of government policy and adversely affects service delivery. Budget reallocations within some ministries take funds away from service delivery efforts, with those ministries not focusing their expenditure on the achievement of agreed plans. The Government's ability to monitor the fiscal risk of sub-national entities is also weak, so decentralising service delivery responsibilities, as envisaged under the Decentralisation Act, increases potential fiscal risk. Finally, the lack of a medium-term perspective in budgeting and fiscal planning limits the extent to which estimated recurrent cost implications can be systematically included in future budget submissions.

A key determinant of the support that GfG might provide to MFEM in Phase 3 will be a review of government expenditure by the Expenditure Review Committee (ERC), approved in November 2016. The ERC will "explore opportunities for improved spending by looking at processes and procedures including options for outsourcing and better alignment of programs and policies." The Government has also established a Revenue Committee to explore opportunities for extra revenue by examining existing taxes, non-tax revenue and administration of the various legislation and regulations.

A PFM Road Map, covering the period 2017-2021 is currently at the draft stage in MFEM. The aim is to integrate and harmonise directions for improving PFM over the period.

The proposed activities of other development partners, particularly the ADB and the World Bank will place additional pressure on PFM, expenditure control, and implementation capacity in relation to investment programs. The combined programs of ADB and the World Bank are set to triple over the next three years, with a significant focus on infrastructure. Careful analysis of proposed loans and repayment schedules must accompany the ramping up of commitments by the multilaterals.

The Government of Vanuatu is aiming to achieve National Implementing Entity (NIE) status under the Green Climate Fund. Meeting the GCFs fiduciary standards may require significant improvements to PFM systems.

### *Decision making in the economy*

Vanuatu's national development plan (Vanuatu 2030) commits the country to encourage trade and investment, expand the rural economy and maintain a stable business environment. But there is no over-arching plan for reforming the economy; Vanuatu's history suggests that such plans do not sit well with the personalised and unpredictable way in which decisions are made and policy implemented. The struggle to acquire and retain sources of patronage incentivises short term policy perspectives and reduces focus on national as opposed to local or sectional wellbeing. Responsibility for conceiving and carrying through reform is fragmented within the bureaucracy, which operates mainly in stovepipe mode supplemented by personal relationships among key individuals. GfG has worked by supporting "good enough" change that has a chance of success, where individuals and small groups have promoted reforms that have enough political support to make them viable, while simultaneously developing capacities, institutions and values. In some cases it is possible to promote collective action across formal mandate boundaries (for example, the National Trade Policy Framework). The potentially volatile political context, changing external environment (both global economic climate and donor landscape), and stretched capacity in both the public service and other groupings in the economy, including private sector organisations, mean that:

- Blueprint approaches to promoting reform will have limited traction; approaches that adapt, absorb setbacks and have flexible timelines for achievement of results are more likely to be effective;
- Internal advocates of reform, along with development partners, should accept that some initiatives will fail and balance risk by trying a number of different things simultaneously.

### *GfG: the story so far*

Two reviews were commissioned to look at the experience of GfG in the first ten years of its existence. The objective of the first study was to consider if and how GfG had been able to support reforms in practice, specifically considering the extent to which the program had been able to work appropriately in the institutional environment. The review focused on the GfG team, its approach to supporting reforms, and the organisational structures and environment in which it works. It aimed to explore how GfG matched up to current concepts of aid management that have variously been labelled *doing development differently* and *thinking and working politically*. The second study aimed to consider how the reforms that had been supported by GfG matched analyses by the multilateral development banks and others of the priorities for growth in Vanuatu, whether GfG's approach had led to positive outcomes in the areas chosen for intervention, and how GfG had managed the links between the two halves of its mandate (growth policy and environment and public financial management reform).

Both studies concluded that GfG had been relevant and effective. It had not started off with prescriptive approaches to reform, but had over its lifetime addressed or partly addressed most of the issues that were regarded by observers as constraints to growth. It had spent time building essential relationships, had multiple sources for identifying problems, and had supported objectives that were locally defined and owned. It had been the only program in the Australian aid portfolio that had worked consistently with Vanuatu central agencies across a range of policy and implementation issues. The studies endorsed the value of important changes to which GfG had contributed. The reform of the telecommunications sector early in the life of GfG remains its most well-known and best documented intervention, but there have been substantial achievements in the areas of controlling the costs of business inputs, the environment for private sector activity, connectivity in the economy and improving public expenditure. Such achievements have continued, albeit at a slower pace, in times of political instability.

The reviews draw some lessons from the GfG experience for the next phase. These are that:

- The strong emphasis on long term relationships with key institutions carries the risk that GfG support develops into institutional strengthening, and that a dialogue on results is replaced by a dialogue on grant execution (particularly since DFAT requirements on grant management have become more onerous). This has happened to some extent, allowing rigidity to creep into what was intended as a highly flexible instrument.
- The demands of the structural relationship with Government and the burden of day-to-day administration have latterly impeded staff from developing a wider range of relationships, particularly with the private sector.
- The evidentiary and analytical basis to inform a targeted approach to inclusion and participation through GfG investments is underdeveloped. Outcomes in access to energy, telecommunication and government services have yielded substantial benefits to women and people in rural areas and women (the groups most generally considered as excluded from the benefits of growth), but if inclusion is an objective, GfG needs to pursue this more intentionally.
- The governance arrangements for GfG (the Management Committee and reporting lines within DFAT) have provided cover for GfG decisions but not strategic direction or challenge. The task of maintaining a balanced portfolio and using evidence of effectiveness to manage change has largely fallen to GfG staff.
- The intention that GfG should use its research budget to generate locally owned evidence and ideas, and to support advocates for reform, has not been fulfilled. Pressures on the GfG team and significant budget cuts to the overall Australian program in Vanuatu have combined to push this down the list of priorities.
- GfG has not made the most of its engagement with issues of public financial management to spread good management practice from MFEM into spending

agencies, the largest of which are being supported through Australian sectoral programs.

### *Opportunities for GfG*

GfG will continue to support changes in policy and practice where they command sufficient support and where change appears feasible. It does not have a predetermined agenda for engagement. However, as part of the review and design process, to test the continuing relevance of the GfG model, the pipeline of existing and potential reform ideas in Vanuatu was explored. At the time of design, initiatives are under way may offer possibilities for GfG support. The reviews of revenue and expenditure described above may require further support for tax policy, debt management, strengthened links between policy and expenditure, decentralisation and deconcentration and Vanuatu's initiatives to access climate change funding. There is interest in competition and investment policy. Sectoral initiatives may throw up possibilities for support in tourism development and marketing and agricultural market chains and trade, and in "climate smart" approaches to business planning in vulnerable sectors. The Department of Women's Affairs is developing an initiative on women's economic empowerment and a framework to implement the National Gender Policy particularly in four key areas/Ministries (finance, climate change, access to justice and public service).

There will be opportunities to provide analytical and implementation support to the Government as lending from the multilateral development banks increases over the next four years. Other development partners, including the EU and New Zealand, are already heavily involved in the development of tourism and agriculture, the most likely sectors for growth in the medium term, but GfG may be able to provide analytical or generic inputs, or a measure of coordination, across the sectors to complement this assistance.

This is not an agenda for GfG. It will need to remain focused on a manageable number of partnerships and to keep space in its portfolio for activities financed to date where the desired change has not yet been secured.

## **4. Investment description**

### *Goal and objectives*

The goal of GfG, which it shares with Australia's infrastructure and skills programs, is to build an environment for trade and economic opportunity<sup>10</sup>.

The objectives of the GfG partnership with the Vanuatu Government in this phase are:

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<sup>10</sup> Australia-Vanuatu Aid Partnership Arrangement 2016.

- **Government, acting with the private sector, conceives and implements change in policy and practice that encourages inclusive economic growth** — demonstrated by changes in regulations; incentives and partnerships that encourage productivity and make Vanuatu more attractive for investors; competitive business input prices; increased incidence of business in rural areas; increased economic opportunities for women; and more frequent and constructive cooperation between Government and the private sector.
- **Public expenditure delivers more effective services** — demonstrated by consistency of expenditure with policies and planning; efficient and accountable flow of public funds to front line services; reduction in uncontrolled and unplanned staffing costs; and ability of Vanuatu to access and implement climate funding.

Responsibility for delivery of these shared objectives falls to both GfG and the Vanuatu Government.

It is a strength of GfG that it supports locally generated solutions and works within the capacities of its partners. The approach has hitherto also recognised that change comes about through a combination of political, economic and social factors over which outsiders have no control. Both these considerations suggest that expectations of GfG's ability to broker change in the economy or in public expenditure in the current circumstances of Vanuatu should be realistic. The experience of previous phases has been that

- The range of transformational reforms available, such as the telecommunications reform, is very narrow;
- While there is no shortage of policy initiatives, reforms with robust coalitions and institutional capacity to deliver are scarce.
- There is a limited pool of people with whom to build relationships that might provide entry points for supporting change;
- GfG carries a high key person risk. Relationships are personal, and GfG is vulnerable to staff turnover

It will be important in the next phase for GfG to remain focussed on its objectives, to develop habits of reflection and acceptance of challenge, and to communicate what it is achieving. As in the first two phases, the program will:

- Encourage focus on medium and long term priorities for economic policy and management
- Provide timely and flexible support for reform initiatives as they arise
- Give preference to pragmatic changes in the existing formal and informal incentives to behaviour by economic actors (the "rules of the game") over creation of new laws or systems
- Support industry regulation that encourages competition and benefits consumers without disincentivising private sector investment
- Promote legislation, capacity and behaviour that provides a stable, rules based environment for business

- Act as a broker for other external support for economic reform and the business environment.

#### *Delivery approach*

The key elements of GfG as it has operated to date will be retained. It will be run by a program team headed by a DFAT employee at EL2 level with delegated authority for expenditure and supported by directly employed overseas-based program managers. It will remain located in the Prime Minister's Office. This remains the best delivery option because:

- It is strongly preferred by the Government of Vanuatu, which sees co-location as underlining its ownership of the program and which values the easy access to the program that co-location provides;
- GfG's distinctive identity, separate from the High Commission, enhances informal relationships;
- It allows operational flexibility and management of risk to be held at the same point, with the Director holding a position of trust within DFAT that underwrites their ability to make rapid decisions on sensitive issues;
- It enables staff to combine the role of advocate and technical adviser with the role of representing the Government of Australia in dialogue on economic policy in a way that is transparent to and appreciated by the Government of Vanuatu;
- As well as eliminating unnecessary duplication in the roles of program delivery and dialogue, program management costs have, over the lifetime of GfG, been less than 10% of expenditure, which is more cost effective than employing a management contractor, an arrangement that would still need supervision by DFAT staff.
- Between 75-80% of GfG's annual expenditure is on Technical Advisory services – contracted directly by GfG and through Direct Funding Arrangements with GoV. These targeted, specialised TA work with partners to achieve policy objectives and provide ongoing support through to implementation to realise full extent of achievement of objectives. Where TA is being used to build capacity, a bi-annual progress update on performance is conducted as part of GfG's ongoing M&E program, which is the avenue that tracks impact of the TA.

GfG activities will include, but not be limited to:

- Partnering with Government Departments, statutory agencies, and private sector and civil society organisations to address identified problems within their mandates. This will be done on the basis of joint issue identification and definition of expected outcomes with indicative timelines;
- Helping partners to identify issues on which they could work with other organisations, and support collaborative ways of working;
- Supporting partners to define issues where research, evidence or policy briefing is required, and commission suitable research products to meet partner requirements. GfG may also commission research, evidence or policy briefing products on its own account;



- Supporting forums at which ideas are discussed and experience shared on public policy or practice.

GfG will not in general:

- Provide core funding for an institution, or pay for staff positions other than those required for the specific objectives and time span of reform activities supported by GfG;
- Pay for overseas training or expenses of overseas travel;
- Pay for capital investment (except as a small proportion of a reform activity);
- Support direct lobbying of Government.

GfG will retain and build on the strategies that have been identified in the reviews as contributing to its effectiveness, strategies that are characteristic of analogous programs that seek to think and work politically. These are: building relationships of trust from which problem identification and potential solutions can arise; maintaining a broad set of activities and relationships (or “irons in the fire”) to increase the chances of identifying reform opportunities; supporting local leadership by allowing partners to lead on implementation of activities, and accepting local judgements about how far and fast to push reform; maintaining dialogue with partners over implementation to monitor the prospects for success and change direction if appropriate.

GfG will be equipped through this design with the means lacking in previous phases to conceive and maintain a research program.<sup>11</sup> Economic decision-making in Vanuatu, as in many economies, is often based on sketchy information. Senior public servants are often burdened with a number of policy initiatives whose implications they need to draw out for prioritisation and implementation, or are dealing with issues for which there may be a number of policy or implementation solutions. Timely and tailored research will not by itself promote evidence-based decisions, but it will help to promote reflection, and to reduce imbalances in knowledge, within Government and dialogue between Government and external stakeholders. GfG will seek to program some research funds to meet the requirements of partner agencies. It may also decide to commission research on issues which are not yet in the public eye or the policy sphere but which may be important for future economic management.

GfG will identify organisations and groups that need to be part of its networking efforts and ensure that they are regularly covered in time spent outside the office. It will seek opportunities to complement the work of other development partners, drawing on its comparative advantage of established relationships with central agencies, to channel funds through other development partners if appropriate, and to

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<sup>11</sup> “Research” is used in this design document as a shorthand for a variety of products including briefings on the implications of policy options; elucidations of constraints affecting business; perceptions surveys; surveys of the treatment of economic and public expenditure issues in Vanuatu compared to comparable countries; studies of women’s participation in aspects of the economy; climate change challenges facing business; reviews of past GfG interventions; and case studies of GfG policy support.

contribute to conditions in which those partners can provide funds to Vanuatu institutions with confidence.

The program will more closely link with the rest of the Australian aid program in Vanuatu. The clearest link is between GfG's mandate to support public financial management reforms and the interests of sector support programs (in infrastructure, education, health and policing) in better service delivery. GfG will participate in coordinated efforts to overcome key constraints and commit resources in all programs to deal with them in a consistent way; and it will establish a mechanism to bring together work in this space across the sector programs. This may take the form of recruitment of a Public Financial Management Adviser to be based in the GfG office and working both with MFEM and across the Australian aid program. GfG will also seek to build links with the enterprise creation elements of the Skills for Economic Growth Program, and with the Pacific Risk Resilience Program on mainstreaming risk management into economic decision-making.

### *Criteria for intervention*

GfG has a wide mandate across economic and public financial management issues. Its flexible funding and pragmatic reporting requirements make it an attractive source of finance and expertise for existing and potential partners. But the GfG experience has been that there can be large allocations to institutions simply by virtue of their importance to economic policy-making, and that outside a small group of individuals the mission of GfG as a catalyst of change is not well understood. As part of resetting the expectations for the next phase, GfG will adopt more specific criteria for intervention than in the first two phases, criteria which will be widely disseminated among potential users.

Although the GfG Director and the Management Committee will in practice retain a high level of discretion over what is funded, the criteria should act as a prioritisation tool.

Table 1: Criteria for GfG intervention

<p>The criteria in this table are intended to act as a checklist for decision-making. Because GfG's flexibility remains a key asset, not every activity funded by GfG will meet every criterion. Proposals that meet a number of criteria should, however, have a better chance of being funded than those that do not.</p> <p>The criteria are applicable alongside DFAT's normal investment criteria. All activities proposed for financing under GfG should be consistent with DFAT's policies, including that they should represent value for money and be gender-responsive.</p>	
Issue definition	Is the proposal couched in terms of a problem affecting growth or public financial management? Are the outcomes from the proposed actions clear and achievable, and is there a realistic timeframe? Is there sufficient evidence to back the link between the action

	and outcomes? Can credible indicators of success be identified and is there a clear to collect baseline data.
Significance	Does the intervention have the potential to transform the environment or costs for business, or the ability to deliver services? What is the scale of the change it might generate?
Partnerships	Does the proposal promote working together across Government, or between Government and the private sector and/or civil society?
Equity and Women's economic empowerment	Will the proposal have any impact on livelihoods of people outside the main urban centres? Will it help people escape poverty? Will the proposal have any impact on opportunities for women to earn incomes, develop businesses and participate in policy and regulatory decision making processes?
Sustainability	Is the proposed outcome capable of being sustained?

### *Gender*

GfG will apply gender considerations in its range of contacts, and search for entry points to support economic reforms that benefit women. A gendered approach will be most effective where

- There is a clearly identified regulatory barrier impeding women's participation in the economy that could be addressed through GfG's partners under its core mandate
- There is credible evidence that the proposed intervention will improve both women's economic participation and broader economic growth. This will involve seeking sex-disaggregated data and gender analyses, or commission such work directly where feasible. Such work will also inform M&E to allow iterative improvement by providing some degree of baseline reference and an indication of how the intervention could contribute to reducing inequality and empowering women.
- There is at least some degree of traction, interest or take-up on the part of decision makers. GfG staff will need adopt a front-footed approach, but also to use their judgement on where and when it is more or less fruitful and feasible to press for a gendered approach, and with whom.

GfG will apply standards to its portfolio management and networking against which it will measure itself in monitoring and evaluation and in the course of periodic reflection. Proposed standards are

- All GfG investments will *account* for gender. For all activities a level of gender analysis will be undertaken and men and women's needs and barriers vis-à-vis the issue or intervention identified and discussed, along with potential entry points for enhancing equality and women's empowerment. If it is decided that neither gender mainstreaming nor stand-alone responses are to be included, GfG will note the factors behind the decision in its overall portfolio assessment.
- At least half of GfG projects should integrate standard features of gender analysis and include gender-responsive design, implementation and monitoring/evaluation. Because GfG has considerable experience as a flexible, responsive programme, it should be possible to set such a target to use as a guide, reflecting annually on why it is or is not possible to meet.
- GfG investments should include at least one stand-alone, targeted intervention geared towards enhancing gender equality and women's empowerment. This may in the first instance be research, a limited pilot, or building upon the work of a partner such as the Vanuatu Women in Development Scheme (VANWODS) or the Skills for Economic Growth program.
- GfG staff will maintain links with contacts with the potential to throw light on gender aspects of current reform initiatives, or to allow proposals for gender responsive programming to arise. Possible candidates include the Department of Women's Affairs, the Skills for Economic Growth Program, VANWODS, UN Women, the Vanuatu Women's Centre, and the Vanuatu National Statistics office (already a GfG partner). The range and frequency of such contacts will be measured as part of tracking GfG's networks.

Specific gender related questions will be included at all three levels of the GfG monitoring and evaluation framework.

### *Resources*

The budget for Phase 3 is \$20 million over four years, roughly the level of annual expenditure of the last four years. For the first 18 months of the program GfG will also be managing Australia's inputs to cyclone recovery in tourism and agriculture (approximately \$4.67 million to be spent in the two financial years 2017-19).

The main resource categories for GfG are:

- GfG staff: one Director at EL2 level, one senior program manager, two program managers and one administrative assistant;
- Flexible fund for support of reform;
- Research, evidence and communications activities;
- Contracted support for research management, monitoring, learning, and reflection; for gender; and for management of Direct Financing Agreements with partners;
- Support from specialist areas in DFAT Canberra.

Contracted support is essential to ensure that GfG staff recruited for their expertise and/or understanding of the Vanuatu context are deployed on GfG's core tasks of relationship building, promotion of change and monitoring of results as described above. It is intended both to give them appropriate expertise to draw on to ensure that GfG resources are applied effectively, and to reduce to the extent possible the administrative burden of contract and grant management.

Contracted support will be sourced through DFAT's Aid Advisory Services or through local contracting in Vanuatu. A summary budget is provided in Table 2 below.

GfG's expenditure will adhere to the regulations as set out under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and all procurement is in line with the Commonwealth Procurement Rules (CPRs)

Table 2: Indicative budget

#### **GFG INDICATIVE BUDGET FOR 2017/2018 to 2020/2021**

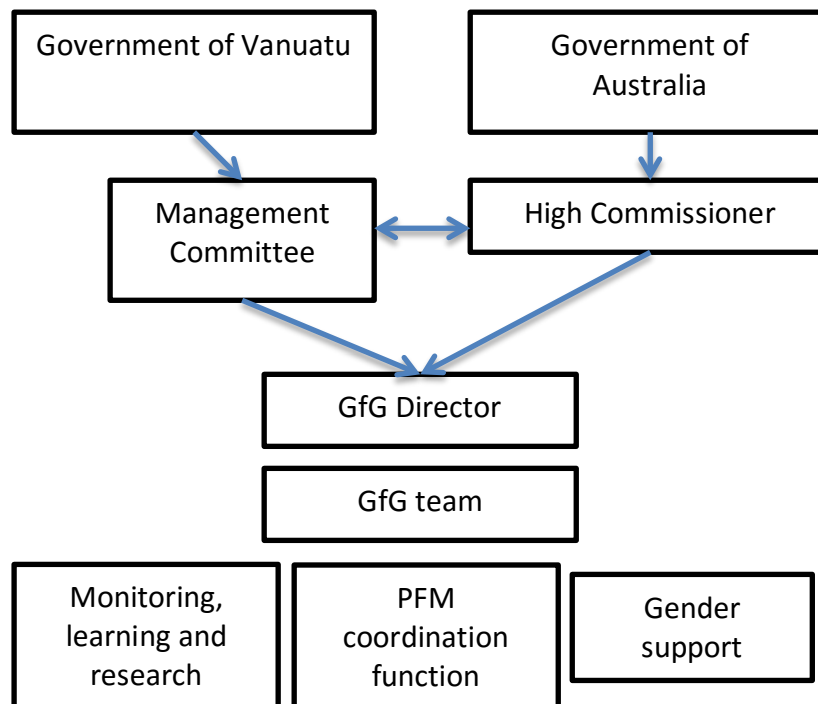
<b>Financial Year</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Operations and Management	850,000	850,000	850,000	850,000
Public Sector Capacity Support	1,200,000	800,000	800,000	800,000
Knowledge Analysis and Research	350,000	400,000	400,000	400,000
Support to Ministry of the Prime Minister	800,000	800,000	800,000	800,000
Support to Ministry of Finance and Economic Management	1,500,000	1,200,000	1,200,000	1,200,000
Support to Telecommunications	200,000	200,000	200,000	0
Support to Energy	0	300,000	300,000	300,000
Private Sector Engagement	100,000	100,000	150,000	150,000
Flexible Fund	0	350,000	300,000	300,000
<b>TOTAL</b>	<b>5,000,000</b>	<b>5,000,000</b>	<b>5,000,000</b>	<b>5,000,000</b>

## 5. Implementation arrangements

### *Management and governance*

The management and governance arrangements for GfG in the next phase are summarised in figure 3 below. The new elements are the reporting line for the GfG Director and more coherent professional support for the GfG team.

*Figure 3: Summary governance arrangements*



GfG will continue to be overseen by a Management Committee chaired by the Director of the Department of Strategy, Policy, Planning & Aid Coordination. Membership will be at a minimum the Director of the Department of Finance, the head of the aid coordination unit, the Director of the Department of Foreign Affairs and the Australian High Commissioner, with other Government of Vanuatu officials designated by the Chair (including other GfG partners). Terms of reference for the Management Committee are at Annex 7.

The GfG Director will report for line management purposes to the High Commissioner, while retaining a line of accountability to the Management Committee. He/she will also carry out a limited number of duties for the High Commission. To preserve the time required to manage GfG and to limit ambiguity in the position, the extent of these duties will be determined by agreement with the High Commissioner and the extent of the obligation reviewed annually.

GfG will contract the following sources of support as early as possible, using DFAT's Aid Advisory Service arrangements or local procurement:

- Monitoring, evaluation, learning and research (MELR): GfG will require a package of support for operating the monitoring and review arrangements described below, facilitating reflection, recruiting independent experts for periodic reviews, maintaining GfG's research and evidence pipeline, procuring and quality controlling research expertise and products as directed by GfG, and helping GfG to communicate the results of research. This could be provided through a single contractual arrangement or with several contracts with specialised advisors and firms that can be drawn down in a flexible manner. Further details are in annex 5.
- Gender: the move to operate a more intentional gender framework for GfG will require occasional access to gender expertise. This may be combined with the requirement above. Further details are in annex 6.
- Administrative and accounting support: GfG will continue the present practice of contracting local expertise to help partners to manage accounting and procurement for Direct Financing Agreements. This arrangement will be extended to providing regular administrative inputs in the GfG office related to procurement, managing contracts and reporting.

#### *GfG portfolio management*

GfG will continue to identify opportunities to support locally led change in economic policy and public financial management (this may include step changes in implementation as well as developing new thinking or new policies). To avoid some of the problems experienced in Phase 2 of tying up resources in long-term institutional support, GfG will work with its partners to develop proposals for activities with feasible and time bound outcomes that have a line of sight to one of the two objectives. Implementation will be by:

- Direct Financing Agreements (DFAs) with organisations that have the capacity to manage them and meet DFAT's requirements for managing fiduciary risk. These agreements allow for agencies to manage the grant as part of their overall resources and to run procurement, operation, disbursement and accounting using (usually) Government public financial management systems. They have been important means of underpinning the use of government systems, entrenching ownership and providing inputs in sensitive areas at one remove from the Government of Australia.
- Direct procurement by GfG when DFAs are not suitable for the organisation or for the requirements of the activity.

GfG may enter into multi-year agreements with partners if the objectives of the proposed activities justify multi-year approaches. However, it should be clear from the start that, on completion of GfG funding support, resources will be available from elsewhere or the proposed change will be self-sustaining.

GfG will be accountable to the Management Committee for the coverage of its portfolio and for its balance between high and low risk, long and short term engagement and inclusive and general growth.

Proposals for policy and evidence studies will normally arise from the requirements of partners. A dialogue about what needs to be known in order to make sensible policy decisions is a helpful entry point for GfG. A judgement will need to be made about the scope of any enquiry and how urgently a product is required; however, GfG will normally commission studies taking a few weeks rather than months. Each decision to commission a study will be accompanied by an agreed dissemination and utilisation plan. The MELR resource will be responsible for maintaining a log of proposals for research, contracting and quality controlling research inputs, and integrating assessments of the quality and use of research studies into the monitoring and evaluation plan.

### *Monitoring, evaluation and learning*

The design for GfG recognises that:

*“Economic growth and development outcomes are not just the consequence of technical economic policy settings. They are the result of economic, social, political and institutional forces that determine the availability of resources, their deployment, their transformation into public and private goods and services, and productivity improvements over time.”*

In this context GfG is designed to operate by identifying space for reform and supporting local actors to bring it about with flexible and responsive support, adapting to setbacks and changed opportunities as they arise. For monitoring and evaluation the implications are:

- That there are no set targets against which to monitor results
- Monitoring is more akin to research, ie seeking evidence of change and developing defensible conclusions
- Monitoring and evaluation should be shaped by the need to learn what is working and to transform the resulting assessment quickly into operational changes to ensure that the program is supporting the top priority (or most feasible) reform requirements at the time.

Because so much depends on the context and the efforts of others, GfG needs to be modest in its claims of contribution to change. Nevertheless, the program must be clear about what it intends to achieve and the areas where it will look for intermediate and longer term outcomes. The framework developed for Phase 2 will be rolled over to Phase 3 and expanded (further details are in Annex 3). It sets out result areas related to policy dialogue, performance and growth of organisations and changes to institutions (the ‘rules of the game’); defines the accountabilities of GfG at each level; and establishes a timetable for an annual cycle of monitoring, reflection and reporting.

Policy dialogue refers to the means by which GfG helps organisations in Vanuatu to explore, inform and implement changes in policy. It is the program’s core deliverable. For the purposes of this framework, it is assumed that GfG staff are directly accountable for:



- The quality of inputs – mainly technical assistance and grants but also their own interactions with the process of policy reform;
- The timeliness of inputs – it is an assumption underlying the GfG design that it works partly because it moves fast, picking up opportunities as they arise;
- The choice of portfolio under the direction of the Management Committee – ensuring that all investments remain relevant to the design objectives ;
- The range and effectiveness of relationships and promotion of networks and coalitions for change;
- Creative and full use of the research budget;
- Understanding of context and opportunities – having the knowledge to assist the Management Committee in making evidence based decisions on allocations.

Process change relates to:

- Progress against and continued feasibility of activity objectives;
- Growth of partnerships, collaboration and consultation;
- Management of risks to the achievement of agreed objectives (changes in staffing, skills, internal and external relationships and vulnerability to external pressure);
- Changes in capacity to conceive and implement change;
- Capacity to incorporate gender analysis into policy and practice;
- Quality and usefulness of GfG financed research.

Changes to institutions ('rules of the game') refers to changes in laws, regulations and operational systems and processes that are expected to lead to more robust, less volatile and generally positively-trending economic growth, along with equity in the flow of benefits from growth and public expenditure that supports national plans for service delivery. GfG is accountable for tracking change in its areas of support and demonstrating the logic of the link to growth and service delivery.

One lesson from Phase 2 is that the largely qualitative assessments made under the framework need to be supplemented by a consistent set of quantitative indicators of change. This will require additional input from M&E experts at the approval or inception of projects. Not all projects will be conducive to clear measurement against baselines. In some cases worthy reforms may not have easily quantified outcomes. In other cases the nature reform or limitation in departmental capacity may make quantified assessment against a baseline too costly or inefficient.

Nevertheless, the potential for quantified M&E for all projects should be considered. Where reasonable prospects exist, M&E will need additional resources, either through earmark in the project itself; the broader DFA or through GfG's own M&E capability (the MELR).

In other cases, the MELR will provided qualitative assessment of impact of GfG investments. GfG has responsibility for monitoring inputs and outputs of its

investments and ensuring development partner's meet their reporting requirements.

Given the breadth of activities associated with GfG's business model, M&E should be targeted and efficient, dedicated more resources to areas with higher potential for transformational change, or higher risk. Similarly, the MELR should have the capacity for targeted impact assessment to substantiate areas of success arising from GfG investments, as well as better understanding key areas of underperformance.

The MELR resource will support the GfG team in ensuring that the three level program framework (dialogue, process and institutional change) is maintained, understood and regularly reviewed; that lines of sight from proposed activities to program objectives are sound; that information is being regularly collected; and that it is available in a useable form to inform annual reporting. GfG will use monitoring information for six-monthly reflection to answer the questions:

- Are we identifying the right opportunities for intervention?
- Are all our current interventions potentially leading to end of program outcomes? Do they have the potential for contributing to systemic change?
- What are we learning about the factors for successful intervention?
- Is our portfolio balanced for risk, time to return and inclusivity?
- What are the effects of our activities on the potential for women to participate in the economy
- What do we need to drop?

Experience of other flexible programmatic interventions is that regular reflection that leads to portfolio refreshment (dropping non-performing activities) is essential for managing the risk of resource capture by less effective partners.

This activity will establish a feedback mechanism that will guide where GfG actively seeks to balance the portfolio and approach of its investment, both in terms of the day-to-day work of GfG officers and through formal structures such the Management Committee and DFAT aid quality reporting requirements.

### *Sustainability*

The sustainability strategy for GfG operates at programmatic and activity levels. At programmatic level, GfG is supporting internally generated momentum for change. Experience to date demonstrates that it has been successful in changing the way that systems and incentives function, not just the way they look. Working from within the agencies responsible for generating change, GfG has been able to back change that suits the situation, and has not been tied by concepts of best practice. The program is strongly owned by the Government of Vanuatu, whose representatives have been prepared to engage in robust dialogue about what works in the country.

At activity level, sustainability is built into criteria for activity selection. A realistic view will be taken of how long any intervention is likely to take to achieve sustainability in a weak capacity environment. There will be greater emphasis in Phase 3 on discrete

interventions on policy and practice rather than institutional strengthening. At the same time, it is recognised that some of the gains of earlier phases are still fragile and will need continued attention from GfG if they are to be sustained.

### *Risk*

GfG has been running for nearly 10 years, and the risks are well understood. There are three main groups of risk:

#### External to Vanuatu

- Further natural disasters may set growth back, as happened with Cyclone Pam;
- Global or regional economic conditions may affect the market for Vanuatu's exports or choke off investment even if Vanuatu does everything right.

GfG will promote resilience in private investment and Government budgeting; and encourage Vanuatu to benchmark its performance and investment climate against Pacific comparators.

#### External to GfG

- Government interest in reform may falter;
- Public service capacity may decline or be undermined by political interference;
- Economic players whose personal financial interest are counter to broader community benefit and long-term economic development may grow in influence.

GfG's method of operation is to spread risks by engaging on a number of fronts at once, and working with a range of economic actors to guard against a single institutional failure. Monitoring and reflection will be stepped up to promote switching of resources if avenues to policy reform are closed off.

#### Internal to GfG

- Inadequate resourcing or issues with institutional capacity may draw GfG into long term institutional strengthening;
- There may be complacency among Vanuatu institutions that GfG will act as a provider of last resort
- Resources may be tied up unproductively;
- GfG may be unable to extend the range of its relationships.

The new design includes clear objectives and investment criteria for GfG, a stronger role for the Management Committee in monitoring and in challenging strategic direction, and a greater emphasis on using monitoring for changes in practice and allocations.

GfG maintains a risk management register, which is reviewed triannually by the aid management team at post and desk.

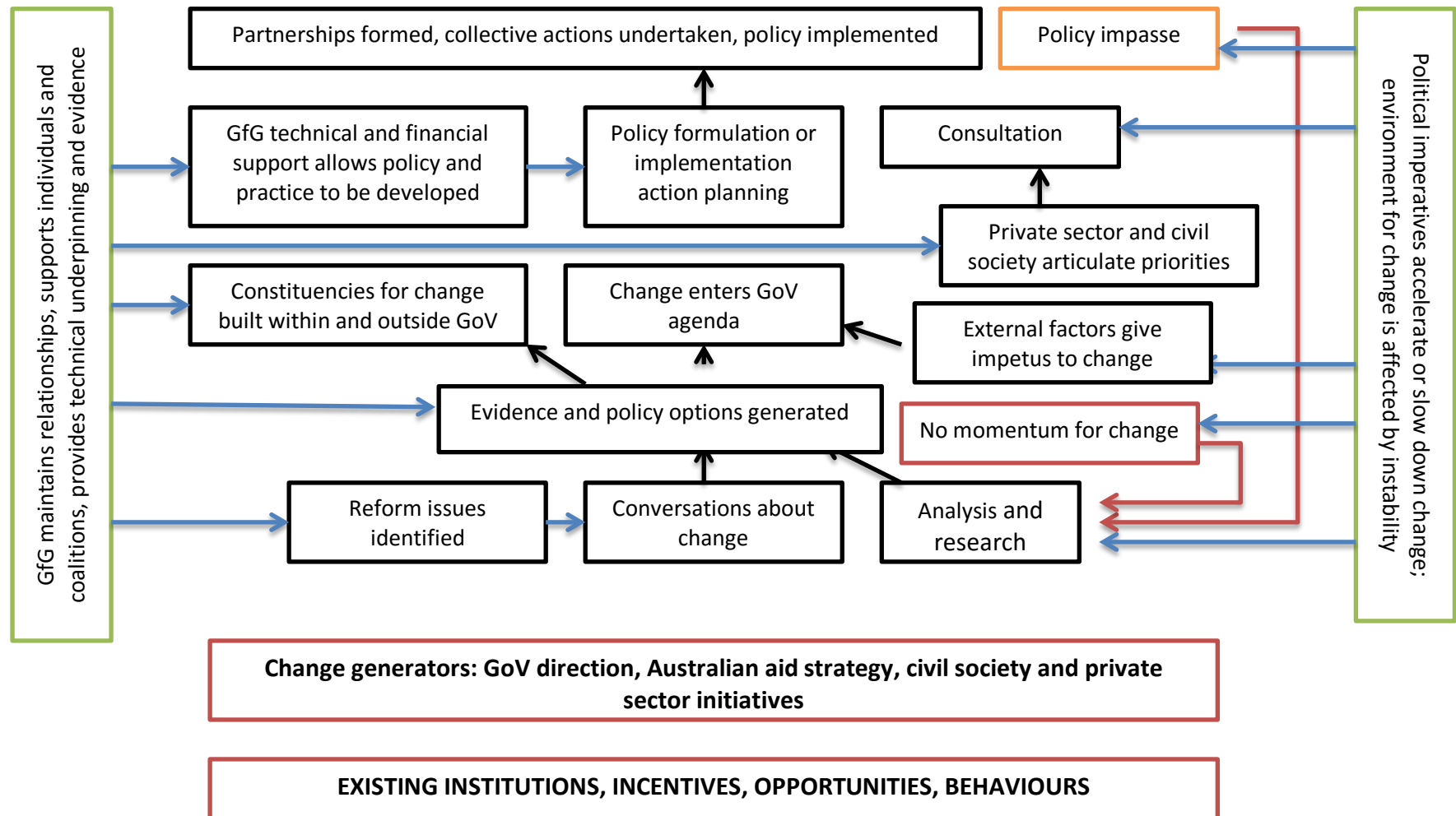
### *Safeguards*

The nature of GfG assistance, which has primarily been in the form of technical support to Government and statutory agencies, has not hitherto financed activities

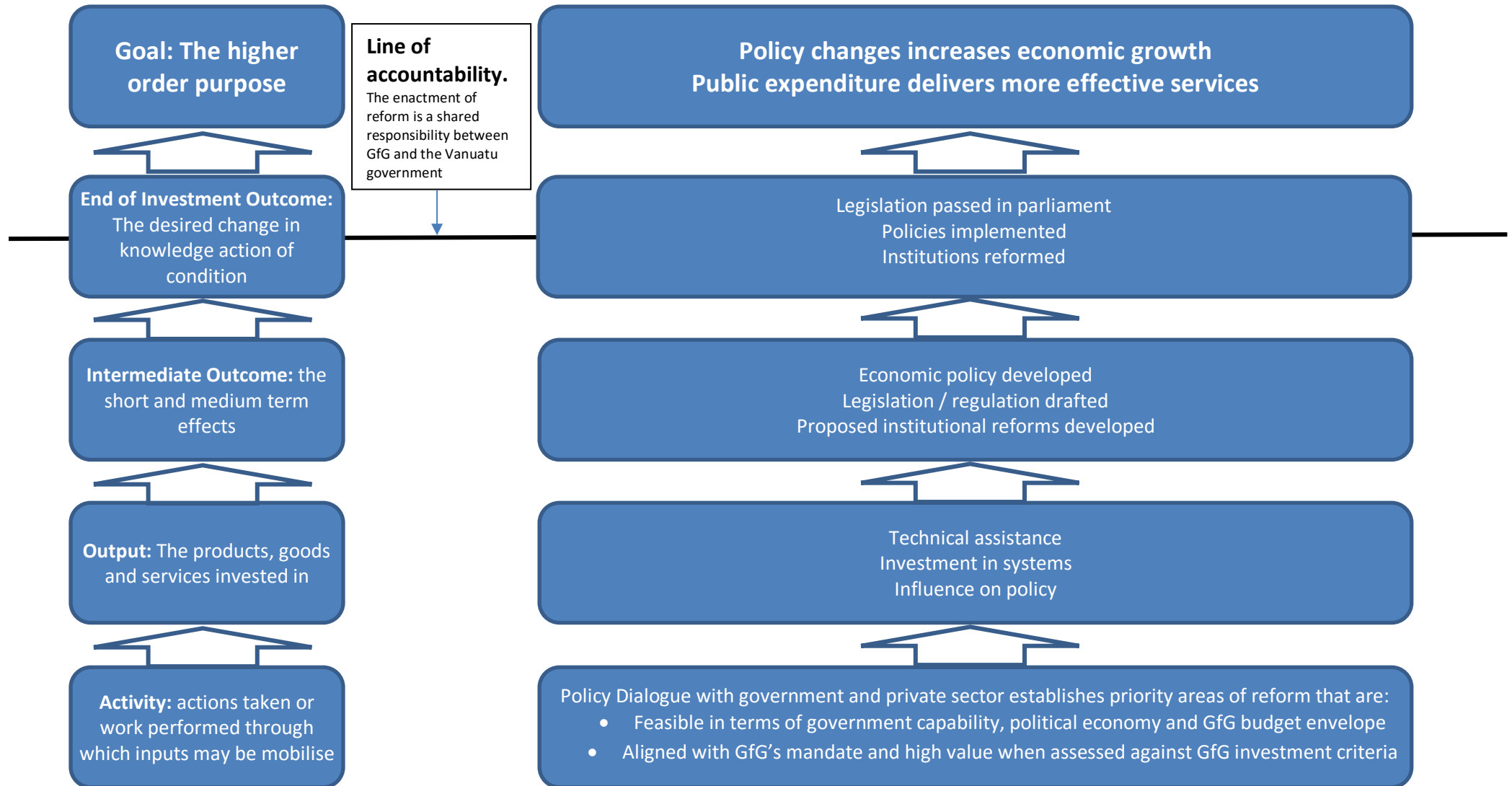
that give rise to concerns relating to child protection or environmental safeguards. If any arise, normal DFAT safeguard policies will be applied.

**Government, acting with the private sector implements change in policy and practice  
Public expenditure delivers more effective services**

**Annex 1: GfG Theory of Change**



## Annex 2 Program Logic



### **Annex 3: MONITORING, EVALUATION AND LEARNING**

GfG does not have planned interventions or targets from the outset, and relies in assessing its effectiveness on making sense retrospectively of the links between its inputs and observed change. It therefore needs:

- A simple framework for gathering timely data to be fed into a reflection and reporting process
- Provision for structured reflection that enables program staff to give relative qualitative values to activities within its portfolio
- Incentives for honesty in the reflection process provided by constructive external challenge

The primary users of GfG monitoring and evaluation information are GfG staff. It should be sufficient for them to be able to make and defend decisions based on documented evidence about the direction of the program and to be able to complete DFAT quality management and reporting processes on the basis of existing information. Secondary users of the information are the GfG Management Committee, which will use monitoring information to decide on changes to the portfolio and future directions, and DFAT senior management.

The monitoring framework and practice developed for Phase 2 of GfG will be adapted for Phase 3. Data will be gathered for reporting and reflection at three levels: the policy dialogue and outputs for which GfG is directly responsible; progress towards the specific changes that GfG agrees to support; and changes in policy, incentives, relationships and behaviour among stakeholders (the “rules of the game”) that taken together add up to the end of program outcomes. For each level, sources of existing information, or information that is routinely gathered by GfG, formally and informally, have been identified to prompt staff to gather the information or to recognise the information that comes to them as monitoring information. The framework is set out in the table below.

Agencies receiving GfG funding are not on the whole geared to providing analytical information about their own capacity or contribution to better policy formulation or implementation. Attempts to make reporting the basis of monitoring are unlikely to be successful. Nevertheless, in practice GfG staff are gathering evidence of change and drawing out the implications for the program while they undertake their day-to-day contacts. The monitoring and evaluation approach is therefore centred on recording (individually) and analysing (collectively) the results of these contacts to provide monitoring information, rather than setting up a parallel monitoring system. It also aims to achieve a balance between assessing the results of individual activities and assessing the effectiveness of the program as a whole (that is, the sum of individual activity outcomes, the quality of policy dialogue and research, and the value added by GfG to Australia’s overall economic policy dialogue with Vanuatu).

With a renewed commitment to gender-sensitive decision making and monitoring, the framework includes specific points at which the program will seek gender related data. All data will be sex-disaggregated where possible.

In addition to the three level framework developed during Phase 2, GfG will aim to collect a set of quantitative data that illustrate end of program outcomes. The choice of such indicators will depend on the focus areas for the next phase, and may change over time. The table below offers an indicative guide of the types of indicators that should be collected based on past GfG investments.

<b>Area of intervention</b>	<b>Possible indicators</b>
<i>Costs of inputs</i>	Average electricity bill for small, medium and large enterprises Average cost of 1Mb downloaded data
<i>Stable and rules based environment for business</i>	Numbers of businesses registered for VAT Clearance time for imports
<i>Improved public expenditure management</i>	Proportion of public expenditure disbursed through FSBs Proportion of public procurement going through Central Tenders Board
<i>Access to opportunity</i>	Proportion of population with bank accounts for men and women Access to internet Households connected to electricity

GfG will establish a definitive starting list and a baseline for each indicator in conjunction with the development of the new DFAs for major partners. This will be updated based on the emerging investment priorities reflected in annual planning exercises.

#### *Monitoring and reflection cycle*

The MELR resource will be contracted as soon as possible after the start of the new phase. It will provide a monitoring and evaluation adviser who will be responsible for supporting the implementation of the monitoring and reflection cycle described in this section.

GfG staff will

- establish systems for collecting data for the first level of the framework;
- review each grant or other activity at least once every six months (“process change” in the framework) and record their findings in the simple format



developed for Phase 2. This may be adapted in the course of implementation in consultation with the M&E adviser.

The data will be collated every six months in a single document whose format will be agreed with the MELR resource within one month of mobilisation.

Progress against the third level of the framework (changes in the “rules of the game”) will be assessed through the reflection process. Because change at this level is slower to come about, it should be sufficient to assess this level annually. GfG may commission case studies of change to strengthen the case for its contribution.

The monitoring and reflection cycle will be based on the calendar year, which corresponds to Vanuatu’s financial year. The cycle will be as follows:

January-June	GfG staff collect data on levels 1 and 2 of the framework through maintaining databases and contact with GfG partners.
February	Quantitative data set is populated.
February	DFAT quality reporting based on previous year’s assessments.
August	Data on levels 1 and 2 is collated in a single document and for interim assessment by the Management Committee and GfG. Management responses agreed upon in regard to issues raised. This exercise should inform updating of annual work plans for each partner by the end of the year.
July-December	GfG staff collect data on levels 1 and 2 of the framework through maintaining databases and contact with GfG partners.
January	Data on levels 1 and 2 is collated in a single document. A half day workshop for Management Committee will be held to the data and develops management responses. Workshop develops propositions about change at level 3 of the framework to which GfG has contributed. GfG sets management directions for calendar year for Management Committee approval. Annual plans for each partner are finalised.

GfG will make an assessment in mid-2019 on the appropriateness of an independent mid-term review, or discrete analysis of parts of the program, outlining the reasons for its choice. A final review should be undertaken in 2021. Provision has been made for both in the indicative budget.

## Monitoring and evaluation framework for GfG Phase 3

### RULES OF THE GAME

Level 3	
Key evaluation questions	Sources
<p>Are costs of major business inputs being kept down or stable?</p> <p>Is a predictable, transparent, rules based environment being created for business?</p> <p>Has foreign direct investment increased?</p> <p>To what extent are budget and expenditure decisions being based on stated policy and informed by analysis from the public service?</p> <p>Has there been any change in the rate of flow of funds to front line services and in the overall composition of public expenditure?</p> <p>What opportunities have been created for men and women, especially outside the main urban centres, to earn incomes or run businesses?</p> <p>How has the ability of women to participate in the economy changed?</p>	<p>Budget and expenditure documents</p> <p>Annual reports</p> <p>National Statistics Office and Reserve Bank</p> <p>Annual discussion with grant holders</p> <p>Annual GfG reflection</p> <p>Selective evaluations</p> <p>GfG research</p>

PROCESS CHANGE

Level 2	
Key evaluation questions	Sources
<p>What progress has there been towards the identified change that GfG is supporting? Is the objective still likely to be met?</p> <p>What changes have partners made in respect of willingness to co-operate with other agencies and organisations?</p> <p>What changes have there been to the quality of consultation on policy initiatives?</p> <p>How are partners managing risks to the achievement of agreed objectives (changes in staffing, skills, internal and external relationships and vulnerability to external pressure)?</p> <p>Have partners increased their capacity to conceive and deliver change that impacts on economic activity or public expenditure management?</p> <p>Have partners increased their capacity to incorporate gender analysis into policy and practice?</p> <p>Are policy and evidence products commissioned with GfG funds relevant and having an impact on development of policy and practice?</p>	<p>Semi-annual and informal discussions with grant holders</p> <p>Annual reports</p> <p>Annual GfG reflection</p> <p>Selective evaluations</p>

Level 1	
Key monitoring questions	Sources
<p>Are GfG funds being used to buy high quality inputs?</p> <p>Is GfG responding swiftly to requests?</p> <p>Do GfG interventions match initial criteria for funding and continue to match over time?</p> <p>Does GfG have a balanced portfolio (risk, time to produce results, inclusion, long term commitments vs flexibility, economic growth/public expenditure reform)?</p> <p>Does GfG have an active research pipeline with local ownership?</p> <p>Does GfG have the right quality and spread of relationships to fulfil its mandate?</p> <p>Is GfG's ability to integrate gender analysis into activity and spending decisions improving?</p> <p>How are GfG staff spending their time?</p>	<p>Annual reflection</p> <p>Quarterly discussions with TA users</p> <p>Six monthly scoring of grant portfolio against design criteria</p> <p>Annual categorisation of portfolio</p> <p>Annual review of research results and implications</p> <p>Six monthly mapping of effectiveness of relationships, and gaps</p>

## **Annex 5: Monitoring, Evaluation, Learning and Research (MELR) resource: Terms of Reference**

### *Background*

The Governance for Growth program is Australia's instrument for supporting the conditions for inclusive economic growth and improved public expenditure in Vanuatu. It has been in existence since 2007, and a third phase of funding for the program begins in July 2017. The program was established as an adviser, facilitator and broker of regulatory reform and improved public expenditure management, for the purposes of improving growth and service delivery. It was intended as a platform for effective policy dialogue between Australia and Vanuatu, and within Vanuatu, supporting the analytical and consultative processes that inform policy formulation, as well as providing resources for policy implementation. GfG has worked through a range of partnerships with Government and statutory agencies, and with one commercial bank, enabling it to support improvements in public financial management, trade policy, energy and telecommunications policy and regulation, utilities reform and access to financial services. It has disbursed its funds mainly through direct multi-year grants to partners, supplemented by the provision of directly contracted technical assistance and research.

As a flexible and responsive facility dealing mainly with stimulating and implementing ideas, GfG depends on its ability to acquire and process knowledge and to support Vanuatu institutions to do the same. It needs

- to understand its operating environment
- to be able to enter into dialogue on policy and implementation options
- to supply partners with the means to think through policy and implementation options
- to assess its own performance, and the performance of the activities it funds, against expectations
- to use performance information to make management decisions
- to use performance information to exercise its accountability to the Governments of Vanuatu and Australia

GfG wishes to contract suitable technical expertise (the MELR resource) to help it to manage its research and monitoring and evaluation functions. GfG has previously had provision for research, but reviews have identified difficulties with using it to inform policy. Research funds were used in the early years of the program mainly to establish the impact of its own interventions; and latterly expenditure and time pressures have reduced the scope for using them. A provision of \$ has been included in the budget for phase 3.

The MELR resource will likely take the form of consultancy or an agreement with a managing contractor to provide the range of expertise outlined in this terms of reference.

“Research” in this context is likely to include briefings on the implications of policy options; elucidations of constraints affecting particular classes of business; perceptions surveys (for example, of potential foreign investors); surveys of the treatment of economic and public expenditure issues in Vanuatu compared to comparable countries; studies of women’s participation in aspects of the economy; reviews of past GfG interventions; and case studies of GfG policy support. To keep them relevant to decision makers’ needs, the duration of studies and briefings should generally be a few weeks. Research may be commissioned by GfG partners under their agreements with GfG, or by GfG itself.

A monitoring and reporting system was developed during phase 2 and will be rolled over into phase 3. It relies primarily on organising the knowledge gained by GfG staff through their day-to-day contacts, supplemented by regular reflection on the effect the program is having on changes in policy, incentives, behaviour and opportunities. In phase 3 the process of accounting for effectiveness will require further strengthening to incorporate a degree of challenge, including by convening independent advices, or expertise from within DFAT.

The opportunity is being taken to combine support for research and monitoring and evaluation in recognition of the fact that the functions have potential overlaps, and that both contribute to learning and feedback into policy and funding decisions.

### *Scope of work*

The following principles will guide the operation of the MELR resource:

- Research and M&E will foster GfG’s culture of learning and adaptation, and promote open and honest debate about performance.
- All research and M&E products will be as simple and clear as possible and directly applicable to the requirements of the end user.
- All advisory activities will be undertaken in collaboration with GfG staff and aimed at building their capacity to manage M&E and research functions.
- All activities should demonstrate sound value for money.
- All activities should encourage the development of capacity in Vanuatu.

The MELR resource will:

### Research

- Maintain an annual pipeline of research proposals
- Establish contacts with GfG’s main partners as directed by GfG to establish their research requirements
- Establish GfG’s own requirements for research

- Advise GfG on shaping research proposals so as to achieve useable and value-for-money products
- Advise GfG and partners where appropriate on means for dissemination of findings
- Advise GfG on optimal use of the research budget
- Write, or help partners to write, terms of reference for each proposed piece of research
- Commission research from appropriate providers
- Manage research contracts, provide quality control of products and certify invoices for payment by GfG
- Maintain records of commitments against budget and expenditure forecasts as directed by GfG

#### Monitoring and evaluation

- Advise GfG staff on formats and techniques for data collection
- Advise GfG staff as required on the evaluability of objectives set for individual activities
- Assist GfG staff to collate monitoring information
- Facilitate reflection sessions for Management Committee, GfG staff and other High Commission staff and record results
- Assist GfG staff in preparing for bi-annual discussions through the reflection cycle
- Draw up list of quantitative indicators, assist GfG staff in data collection and review annually
- Maintain contact with gender adviser on the integration of gender analysis into M&E activities
- Recommend occasional evaluative exercises such as case studies
- Assist with preparation and contracting for mid-term and end-term reviews

The services are likely to require an inception visit followed by two visits a year of approximately two weeks covering both elements, with back-up from home base.

#### *Skills and experience required*

Entities invited to quote for these services will be asked to propose appropriate staffing and division of responsibilities between nominated staff according to individual skills. Between them the nominated staff should have the following skills and experience:

- Knowledge of the potential for research (as defined above) to support change in public policy and practice
- Experience of commissioning research related to GfG's mandate in Australasia and the Pacific and demonstrated contacts with research providers
- Ability to assist potential commissioning agencies to specify their requirements
- Familiarity with M&E techniques appropriate for problem driven iterative adaptation approaches

- Familiarity with gender analysis in program M&E
- Workshop facilitation skills
- Experience of managing research budgets
- Excellent written and spoken English

### Outputs

The MELR resource will provide the following written outputs:

- An agreed list of quantitative indicators with means of verification and responsibility for data collection, within one month of appointment
- An agreed format for bi-annual collation of monitoring data, within one month of appointment
- Workshop records
- Full terms of reference for commissioned research
- Quarterly reports on commitments and expenditure forecasts under the research budget
- Draft terms of reference for mid-term and end-term reviews



## **Annex 6: Terms of reference for gender adviser**

### *Background*

The Governance for Growth (GfG) program is Australia's instrument for supporting the conditions for inclusive economic growth and improved public expenditure in Vanuatu. In 2007, GfG was established as an adviser, facilitator and broker of regulatory reform and improved public expenditure management to improve growth and service delivery; a third phase of funding for the program begins in July 2017. It supports the analytical and consultative processes that inform policy formulation, as well as providing resources for policy implementation. GfG has worked through partnerships with Government and statutory agencies, and with one commercial bank, supporting improvements in public financial management, trade policy, energy and telecommunications policy and regulation, utilities reform and access to financial services. It has disbursed funds mainly through direct grants to partners, supplemented by directly contracted technical assistance and research.

GfG has worked as a flexible and responsive facility that stimulates and implements ideas while responding to Government-signalled priorities. Moving into its third phase, GfG will take a more purposeful approach towards addressing gender equality and women's empowerment in and through its work, in line with DFAT's Gender equality and women's empowerment strategy and other commitments made by the governments of Australia and Vanuatu. This will involve shifts in ways of working and approaches to partnership, which will need to be handled judiciously, with appropriate technical advice supported by meaningful social and gender analysis throughout the life cycle of this new phase of the program.

### *Country context*

Vanuatu is a patriarchal society, despite some variation in norms and sub-cultures. Women in Vanuatu are overwhelmingly responsible for unpaid domestic work and access important social standing through their traditional roles as caregivers and upholders of custom. Economic pressures mean that everyone, including women, is increasingly involved in income generation, including in rural areas where people increasingly work to monetise whatever is left over after meeting subsistence needs in order to meet various costs. However, the barriers women face in generating income, both in the smaller formal and larger informal economy, are higher than those faced by men. They lack access to time, higher education, social support for playing leadership and management roles, technology, information, credit, financial literacy, property registration, markets, professional networks, personal security and role models/mentors.

Although the Government of Vanuatu has made commitments related to gender equality at international, regional and national levels, implementation is weak. Information and analysis is needed to inform evidence-based planning and advocacy, but is scarce and patchy. The government of Vanuatu's focus to date has been on reducing violence against women and improving their education outcomes, rather

than situating women as potentially powerful economic actors in a growing Vanuatu. Sensitivities around discussion of gender equality mean that much official discourse proclaims a nearly gender-neutral commitment to non-discrimination rather than engaging with the nature, causes and repercussions for women of the many types of discrimination that do occur and what active steps should be taken to redress them and empower women.

The challenge for the next phase of the GfG will be to integrate gender in a low-capacity, potentially non-receptive context where previously the agenda has been largely determined by government partners. To do this will require generating analysis, identifying strategic entry points, fostering 'champions', building capacity (both within and outside of GfG), adopting new ways of working and exploring new partnerships.

GfG wishes to contract technical expertise to support the integration of gender into its third phase.

### *Scope of work*

The following principles will guide the operation of the gender technical support:

Advisory activities will be undertaken in collaboration with GfG staff, including but not limited to the GfG Gender Focal Point, aimed at building their capacity to spot 'entry points' for integrating gender into GfG's work, developing appropriate strategic responses and monitoring effectively

Gender mainstreaming will be a process, situated in GfG's culture of learning and adaptation

All gender analysis products will be as simple and clear as possible and directly applicable to the requirements of the end user

All activities will be undertaken with sensitivity to gaps in gender-related knowledge and different levels of commitment (including resistance) to addressing gender

The following are indicative tasks, though others may arise as the process of mainstreaming gender in the GfG unfolds:

- Review and comment on project proposals from the Vanuatu government to ensure opportunities for greater gender inclusiveness are not missed
- Review of GfG funded policy documents to ensure consideration of gender elements
- Establish relationships with GfG's main partners as directed by GfG to explore gender and women's empowerment in relation to their scope of work and priorities
- Identify, support and foster relationships with key 'gender champions'
- Gather and synthesise data, research and analysis on gender as it relates to possible GfG priorities
- Present clear advisory briefs to GfG staff and the Management Committee indicating key data gaps and potential strategic entry points for GfG support

- Establish GfG's requirements for research, on both stand alone and mainstreamed issues related to gender and social factors<sup>12</sup>
- Write, or help partners to write, terms of reference for proposed research
- Support GfG to assess its own performance on gender, and that of the activities it funds, against expectations
- Advise GfG staff on formats and techniques for gender-responsive data collection
- Assist GfG staff to collate monitoring information, including sex-disaggregated data and gender/social analysis
- Work with GfG staff and the MELR resource to establish gender-responsive indicators, assist GfG staff in data collection and review annually
- Maintain contact with the MELR adviser on the integration of gender analysis into M&E activities
- Assist with preparation for mid-term and end-term reviews

In the first year, services are likely to require an inception visit followed by two visits a year aligning with the monitoring and evaluation cycle. This level of input should be reviewed after Year 1 and amended as appropriate.

### *Outputs*

Gender integration in the GfG programme will be a process. Written outputs will include, but may not be limited to:

- Advisory briefs for GfG staff and the Management Committee
- Contributions to terms of reference for commissioned research (or full ToRs for stand-alone gender research)
- Bi-annual reports to support ongoing GfG M&E and reflection from a gender perspective
- Mission reports

### *Skills and experience required*

The successful candidate will have:

- A post-graduate qualification in economics
- Considerable experience of providing technical assistance on gender, particularly in challenging contexts and to government Ministries
- Demonstrated success in developing and fostering the integration of gender-responsive strategies across project components: planning, communications, M&E, partnership-building, implementation, research, consultation
- Knowledge of gender equality and women's empowerment issues and approaches in the context of economic growth and regulatory policy

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<sup>12</sup> Research is likely to include briefings on the implications of policy options; studies of women's participation in aspects of the economy; and case studies of GfG policy support. The duration of studies and briefings should generally be a few weeks. Research may be commissioned by GfG partners under their agreements with GfG, or by GfG itself.

- Skills in coalition and relationship-building around gender equality and women's empowerment
- Experience with capacity building on gender
- Experience with gender-responsive M&E and gender/social analysis, including identifying research requirements and opportunities
- Excellent communication skills, including active listening skills
- Excellent written and spoken English (knowledge of Bislama an asset)
- Experience working in the Pacific region and preferably in a small island state an advantage
- Knowledge of Vanuatu an advantage
- Ability to work effectively in a cross-cultural environment

## **Annex 7: Terms of reference for Management Committee**

The GFG Management Committee (GFGMC) will continue to comprise representatives from:

- Prime Minister's Office (PMO)
- Australian High Commission
- Ministry of Finance and Economic Management (MFEM)
- Ministry of Foreign Affairs and External Trade (MFAET)

In order to encourage diversity and to gather a wider range of views, the GFGMC may invite other Departments, civil society or the private sector to become members of the Committee or to attend specific meetings.

The GFGMC will be chaired by the representative from the PMO. It will meet quarterly unless an alternative time interval between meetings is agreed by the GFGMC.

The GFG program will act as the Secretariat to the GFGMC. It will circulate the agenda and papers to all members five working days in advance of a meeting, and will circulate draft minutes within five working days of the meeting.

The responsibilities of the GFGMC are:

- To exercise oversight over the GfG program on behalf of both Governments, to ensure that it is managing risks and resources in line with Australian Government policy and that it is meeting the priority requirements of the Government of Vanuatu on issues within its mandate;
- To consider advice on the strategic direction of the program and the quality of its portfolio to use the advice, and its own deliberations, to shape future activity by GfG;
- To consider and approve proposals for use by GfG of its activity budget;
- To ensure that GfG's monitoring and evaluation arrangements are working, including by participating in bi-annual reflections on progress;
- To discuss and approve GfG's research pipeline;
- To review budget execution and direct GfG's expenditure choices in the light of available resources;
- To receive reports from GfG on any significant problems in implementation and to advise GfG on possible actions;
- To approve terms of reference for evaluative reviews of the program.