



Governance Assessment

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Vanuatu: Country Partnership Strategy (2010-2014)

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VANUATU COUNTRY PARTNERSHIP STRATEGY 2010-2014 GOVERNANCE ASSESSMENT

A. Introduction

1. ADB's second Governance and Anticorruption Action Plan (GACAP II) aims to improve ADB's performance in implementing governance and anticorruption policies in sectors where ADB is active.¹ GACAP II requires the preparation of governance and anticorruption risk assessment and management plans (RAMPs) as an integral part of country partnership strategies (CPSs). RAMPs focus on specific thematic issues (public financial management, procurement and anti-corruption) at the country level and in priority sectors where ADB is active. ADB is piloting the preparation of these RAMPs in particular developing member countries (DMCs), to ensure it develops a robust and practical implementation approach that can be applied in all of its DMCs over time. In Vanuatu, the risk assessment focuses on the three agreed thematic issues at the country level. This initial risk assessment is based on readily available information rather than new analysis.

B. Overview

2. Vanuatu performs better than average within the Pacific islands region on all standard indicators of governance (Table 1 refers). Despite the thinness of data on which the indicators are based, positive trends in the period 1996-2007 are discernible, particularly for political stability (Vanuatu has ranked in the top 10% of countries since 2005), rule of law and control of corruption. Based on readily available information rather than new analysis, following is a synopsis of the status of Vanuatu's progress in each of the GACAP II thematic areas.

Table 1. Governance Indicators, 2007

	Voice and Accountability	Political Stability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
Vanuatu	0.46	1.36	-0.34	-0.48	0.63	-0.21
Pacific Average	0.43	0.58	-0.56	-0.71	0.18	-0.29

Source: Kaufmann D., A. Kraay, and M. Mastruzzi. 2008. *Governance Matters VII: Governance Indicators for 1996-2007*. Washington DC, World Bank Institute.

Notes: The Pacific Average has been calculated for those countries for which data are available for the particular year, from the group comprising Cook Islands, Fiji Islands, Kiribati, Republic of Palau, Papua New Guinea, Republic of the Marshall Islands, Samoa, Solomon Islands, Timor Leste, Tonga, Tuvalu and Vanuatu. The indicators are measured in the range of -2.5 to +2.5, with higher scores indicating better governance.

C. Public financial management

3. Fiscal aggregates have improved significantly since 2000 on the back of better macroeconomic performance, improved fiscal management and strengthened public financial management (PFM) arrangements. The Government reports using both International Public Sector Accounting Standards (IPSAS) standards and Government Finance Statistics (GFS) 86 standards. Programmatic budgeting was introduced in 1998. The use of program budgeting has increased budget transparency and coverage. Vanuatu PFM arrangements were most recently assessed in 2006 using the *Public Expenditure and Financial Accountability* (PEFA) PFM

¹ ADB. 2006. *Second Governance and Anticorruption Action Plan (GACAP II)*. Manila.

Performance Management Framework,² which found that while budget execution and reporting were of generally sound standards, audit, planning and transparency issues needed some further improvement. Summarized PEFA findings were as follows:

- **Credibility of the budget.** Reflecting improved macro-fiscal settings and better fiscal management, Vanuatu rated highly on budget credibility with A ratings assigned to all four of the relevant indicators. Actual revenue was greater than budgeted revenue. It is generally recognized however that the reliability of the GDP figures is poor and therefore revenue targets (budgets) may be understated. The Government has a centralized payments system and commitment control system and the level of outstanding arrears is not material. The Government also has a number of other measures in place to minimize the potential generation of arrears in central government including prepaid telephone accounts.
- **Comprehensiveness and transparency.** In terms of comprehensiveness and transparency, the Government's ability to oversee fiscal risk remains a concern as many of State Enterprises and Statutory Bodies have not submitted accounts for several years. A Public Enterprise Accountability Bill was drafted in 2006 but did not reach Parliament. Decentralization is in its infancy and although charged with the legal responsibility, subnational activities are relatively minor. There is no Freedom of Information Act in Vanuatu and public access to information on public financial management is limited. Demand for government accountability by the public in Vanuatu is also not well developed.
- **Policy-based budgeting.** The Government has a clear budget calendar which is broadly followed. The Executive (through the Ministerial Budget Committee) is actively involved in the process and the legislature has generally approved the budget in a timely manner. However, the multiyear perspective for financial planning and budgeting is weak; similarly links between national and sector policies and the budget remain under developed.
- **Predictability and control in budget execution.** Tax revenues constitute about 90% of Government domestic revenues. VAT legislation is relatively clear; exemptions in relation to import duties do allow a degree of discretion and are being reviewed. For import duties, the Government has implemented AYSCUDA software and major importers have access to the system. For VAT and other rates and taxes, a separate customs and taxes system is maintained. Non-tax revenues comprise about 10% of domestic revenue. Penalties for non-compliance are insufficient and outstanding arrears are a major problem e.g. port and wharfage, land rents. The Government is considering a number of measures to redress the problem e.g. private debt collectors. The Government is determined to follow a prudent approach to financial management; consequently the MFEM still operates a monthly warrant system. In the period under review, 2003–2005, amounts warranted were in accordance with individual ministry cash flows.

While Debt administration in Vanuatu should be fairly straightforward with relatively few external loans and domestic debts, there is a recognized need to be more proactive in overall debt management and establish a more precise debt management policy for all public sector loans and guarantees. Payroll accounting procedures are fairly robust, but are undermined by delays at the Service Commissions (e.g. Police and Teachers) to process recruitments and terminations. Procurements in excess of VT 5 million must be tendered and be approved by the Council of Ministers on the basis of recommendations from the

² Pretorius, Carole and Corina Certan. 2006. *Vanuatu Expenditure and Financial Accountability*. ECORYS Nederland BV: Rotterdam. Under the internationally accepted PEFA framework, Vanuatu's performance was assessed in relation to seven dimensions of public financial management: (i) credibility of the budget; (ii) comprehensiveness and transparency; (iii) degree to which the budget is prepared with due regard to government policy; (iv) predictability and control in budget execution; (v) accounting, recording and reporting; (vi) external scrutiny and audit operations; and (vii) appropriateness of donor practices in country.

Tender Board. However, maintenance of adequate records to assess the use of open competition and justification for non-use is weak. There also does not appear to be a process of actively using this information to improve procurement processes. The centralized payments system facilitates improved commitment control and financial regulations/circulars and manuals exist to guide sound financial management. Areas of weakness have been identified and are to be addressed in the amendments to the PFEM Act. There are some concerns about the level of compliance, particularly at the ministry/department level and the role of internal audit in assuring management that systems are working and highlighting areas of noncompliance is being developed in response.

- **Accounting, recording and reporting.** The Government operates a centralized payments and payroll system using SmartStream financial software. Line ministries and some provincial offices in Santo have direct access to the system through a wide area network. Bank account reconciliations for the key Treasury managed bank accounts are done on a regular basis. Comprehensive and detailed in year budget execution reports can be extracted as required by all users and financial accounts are now being prepared on an accrual basis and in accordance with most IPSAS.
- **External scrutiny and audit.** Although the formal committee structure for the review of estimates has not been operational, general procedures for the timely review of the budget by Parliament have been followed. The basic legal framework for external scrutiny and audit is in place, although there are some concerns over true independence of the audit function. However, the key concerns are in relation to the capacity of the National Audit Office to meet its legal reporting obligations. No audit reports have been tabled with Parliament since 2000 and the Public Accounts Committee has not met since 2003.
- **Donor practices.** Currently there is no donor co-ordination strategy in place. Budget support in Vanuatu is in its infancy. In the period under review, only two donors provided general support to the budget. Bilateral and multilateral program and project assistance by most traditional donors is in support of projects incorporated in the Government Investment Programme (GIP). However, Vanuatu is also recipient of funds from a number of global and regional funds which tend to fall outside the budgetary process. The GIP process (and databases held by the Department of Economic and Sector Planning and the Ministry of Foreign Affairs) is being reviewed with assistance from the ADB. Some donors provide information on forecast assistance to a project only at the initiation of the project. Subsequent changes in forecast cash flows are therefore not incorporated into the planning process. Actual disbursements for all types of assistance are requested by the Reserve Bank of Vanuatu on a quarterly basis for balance of payments purposes. Most donors provide some information, although the completeness and accuracy of the information is unclear.

4. The Government plans to update the PEFA Assessment in October 2009. Since 2006, progress has been made on improving PFM arrangements. In that connection, the Government's Priorities and Action Agenda (PAA) 2006–2015 identifies a set of overarching national strategic priorities for allocating development resources, policy initiatives and practical measures.³ PAA focal areas are: (i) Private Sector Development and Employment Creation; (ii) Macroeconomic Stability and Equitable Growth; (iii) Good Governance and Public Sector Reform; (iv) Primary Sector Development (natural resources and the environment); (v) Provision of Better Basic Services; especially in rural areas; (vi) Education and Human Resource Development; and (vii) Economic Infrastructure and Support Services.

³ Ministry of Finance and Economic Management. 2006. *Priorities and Action Agenda (PAA) 2006–2015*.

5. In relation to Good Governance and Public Sector Reform, PAA priorities to:
- secure policy stability are to: (i) Develop and adhere to a Medium Term Expenditure Framework to guide government expenditure and allocation of aid donor resources; (ii) Review progress in implementation of the policies of this PAA at three yearly intervals and update the policies as necessary; (iii) Engage stakeholders in policy formulation and implementation; and (iv) Formalize a partnership agreement between Government and NGOs concerning service delivery.
 - provide stable institutions are to: (i) Continue to strengthen the legal sectors with the support of external assistance; (ii) Adequately resource the Auditor-General's and Ombudsman's office and other Constitutional Bodies to enable them to carry out their constitutional duties; (iii) Strengthen the judiciary system by having adequate staff both locally and overseas such as international judges, to reduce the court backlog and contribute to the credibility of the courts; (iv) Examine the options for the creation of a dispute settlement outside the current court system; (v) Strengthen the relationship between the Ombudsman, the Police and the Public Prosecutor's Office; and (vi) Adjust legislation to allow for court prosecution relating to Ombudsman's Reports.
 - Priorities for developing a productive public sector are to: (i) Continue to implement public service wide reforms including: (a) Implementation of decisions of the Remuneration Tribunal; and (b) Better enforcement of disciplinary measures for non-performance throughout the public sector; and (ii) Continue to corporatize State Owned Enterprises and rigorously enforce commercial management and operational practices.
6. Progress is being made on these priorities with support from, for instance, the AusAID-supported Governance for Growth (GFG) PFM Sub-Program, which is supporting a program of PFM capacity building, including provincial PFM capacity building, expected to include the establishment of provincial financial controllers as a means to establish greater accountability and oversight and facilitate deconcentration of decision-making authority.⁴ Nevertheless, ongoing efforts are required to improve public enterprise efficiency and strengthen the budget framework to establish transparency and accountability. In that connection, the Government is seeking to revitalize the Auditor-General's Office and is proposing amendments to the Public Finance and Economic Management Act.

D. Procurement

7. Vanuatu has not been subject recently to a comprehensive review of public procurement operations. Moreover, given the absence of lending operations in the past decade, ADB has little direct experience of procurement arrangements and operations. Nevertheless, the 2006 PEFA assessment conducted a high-level review of procurement policies and processes, which in particular assessed (i) the use of open competition; (ii) justification for use of less competitive methods; and (iii) operation of a procurement complaints mechanism.

8. The PEFA assessment determined that all purchases in excess of VT5 million are required to be processed and approved through the Tenders Board and that Tender regulations prohibit contract splitting. Regulations under the Government Contracts and Tenders Act 1998 provide that all tenders must be called by open and competitive bidding unless another process is approved by the Tenders Board, but make explicit provision for alternative methods such as two-stage tendering, selective tendering and period contracts for repetitive purchases. There is however no regular maintenance of information maintained which analyses the number of

⁴ AusAID. 2007. *Governance for Growth Program: Design Document*. September.

contracts which are actually submitted for open competition or justification for use of less competitive methods. Although decisions to use less competitive methods are minuted at Tender Board meetings, this data is not regularly analyzed. There are no standard bidding documents available. A managing disputes section is included in the purchasing manual but no clearly recognized process is available that enables the submission and timely resolution of complaints submitted by private sector participants. Complaints are therefore processed through the court system.

9. In consideration of these findings, the PEFA assessment assigned procurement arrangements an overall D+ rating (comprising 2 D ratings and a C rating). Similarly, the 2007 Global Integrity Report rated the strength of Vanuatu procurement arrangements as "moderate" (74/100).⁵

10. The Government has been working to strengthen procurement processes, particularly through institutional strengthening and more recently has begun working on amendments to the Government Contract and Tenders Act.

E. Anti-corruption

11. In 2008, Transparency International assigned Vanuatu a Corruption Perceptions Index score of 2.9 (see Table 2). Vanuatu joined the ADB/OECD Anti-Corruption Initiative for Asia-Pacific on 30 November 2001 and, in 2004, an in-depth study of national integrity systems concluded inter alia that "since the commencement of the Comprehensive Reform Programme in 1997, Vanuatu has made significant steps in developing a strong legal framework designed to foster accountability, transparency and responsibility especially in the public sector. On paper, Vanuatu now has very good [National Integrity Framework] with a strong legal framework. In practice, however, it does not yet function effectively."⁶

Table 2: Selected Rankings: Corruption Perceptions Index 2008

Country Rank	Regional Rank (Asia Pacific/32)	Country/Territory	CPI Score 2008
1	1	New Zealand	9.3
9	3	Australia	8.7
62	11	Samoa	4.4
96	16	Kiribati	3.1
109	17	Solomon Islands	2.9
109	17	Vanuatu	2.9
138	24	Tonga	2.4
151	28	Papua New Guinea	2.0

Source: Transparency International. 2008. Corruption Perceptions Index. http://www.transparency.org/news_room/in_focus/2008/cpi2008/cpi_2008_table [accessed on 6 March 2009].

12. The NIS study identified 5 priority areas for action, including (i) general education and awareness, (ii) institutional strengthening through capacity building, (iii) enforcement of laws, (iv) facilitation of integration of national integrity systems, and (v) investigation of decentralization/urbanization and youth unemployment. Since the framework reforms initiated by the CRP, Vanuatu has continued to make progress on anticorruption as evidenced by the 2007 Global Integrity Report, which in the area of anticorruption and rule of law rated Vanuatu

⁵ Global Integrity. 2007. *Global Integrity Report 2007: Vanuatu*. www.globalintegrity.org

⁶ Transparency International. 2004. *National Integrity Systems: Country Report Vanuatu 2004*. Transparency International. p. 5.

Supplementary Appendix

as "strong" with anticorruption policy rated as "very strong", anticorruption agencies rated as "moderate", the rule of law rated as "strong" and law enforcement as "weak".⁷ In the second category, and as identified above, Vanuatu is moving to strengthen the capacity of the Auditor-General's Office and general support is being provided to strengthen law enforcement.

⁷ Global Integrity. 2007. *Global Integrity Report 2007: Vanuatu*. www.globalintegrity.org