



Technical Assistance Consultant's Report

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Vanuatu: Medium Term Strategic Framework (Financed by the Technical Assistance Special Fund)

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For Ministry of Finance and Economic Management (Executing Agency) in cooperation with
Ministry of Foreign Affairs of Vanuatu

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Asian Development Bank

VINSTAR Consulting

Final Report

**ADB TA No. 4362-VAN:
Development of a Medium Term
Strategic Framework**

Submitted to

Government of Vanuatu

and

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Abbreviations

ADB	Asian Development Bank
ADR	Annual Development Report
AusAID	Australian Agency for International Development
COM	Council of Ministers
CRP	Comprehensive Reform Program
DCO	Development Committee of Officials
DESP	Department of Economic and Sector Planning
DSM	Department of Strategic Management
DSPC	Department of Strategic Policy Coordination
DoF	Department of Finance
FMIS	Financial Management Information System
GFG	Governance for Growth
GIP	Government Investment Program
GoV	Government of Vanuatu
MFA	Ministry of Foreign Affairs
MFEM	Ministry of Finance and Economic Management
MTEF	Medium Term Expenditure Framework
MTSF	Medium Term Strategic Framework
NZAID	New Zealand Agency for International Development
PAA	Priorities and Action Agenda
TA	Technical Assistance

Executive Summary

1. The Purpose of the TA was to develop a medium-term strategic framework that would create a basis for setting priorities in sector development plans, corporate plans, departmental budgets, and project proposals. The TA was very successful in achieving this purpose.
2. The Medium-Term Strategic Framework (MTSF) provides a structure that creates a basis for setting development priorities, for linking the Government's strategic priorities to Corporate Plans, Business Plans, the National and Ministerial Budgets, and the Government Investment Program (GIP).
3. The MTSF was endorsed by the Council of Ministers in November 2006 as the basis of national development planning and budgeting in Vanuatu, and announced to the meeting of development partners in the same month.
4. The Priorities and Action Agenda (PAA) 2006 – 2015, a key component of the MTSF, was endorsed by the Government in June 2006 and serves as the guiding document for development efforts over the next 10 years.
5. Medium-term development programs will be formulated and included in Ministry Corporate Plans which, under the TA, were restructured.
6. The GIP has been cleaned up to a substantial extent, but will be replaced by a revised database in 2007. The new database system has been designed and is linked to the government's newly installed Financial Management Information System (FMIS). It will be fully operational by August-September, 2007.
7. Effective aid coordination remains difficult under existing institutional arrangements. Despite recommendations from various sources, including the 2006 review of the Comprehensive Reform Program (CRP), to reposition aid coordination and management, no decision has been taken by the government on this important matter. Effective aid coordination also relies on a robust and user-friendly GIP.
8. The Medium-Term Expenditure Framework (MTEF), developed in the second half of 2006, will be implemented in 2007 in preparation of the FY2008 budget. Full and successful implementation of the MTEF in 2007 is critically important to the overall success of the reform process.
9. Sustainability of the key outcomes of the TA will be supported under the AusAID-supported Governance for Growth (GFG) program. It is expected that three advisors will be provided under the GFG in 2007, with a focus on the implementation of the PAA through application of the MTSF.
10. A monitoring system for the PAA and development programs, identified under the TA as an important need, is currently under development with funding support from AusAID's GFG program.
11. It is important that DESP's Sector Analysts take a proactive and leading role in the preparation of Ministry Corporate Plans and medium-term development programs in 2007. Guidelines for these activities have been prepared and distributed to DESP staff and line ministries.
12. The core roles of DESP and its staff are in urgent need of review and revision to more accurately reflect the important core functions of an economic policy and planning department. It is understood that this will also be supported under the GFG program.

1. Introduction

1.1 Background to the Technical Assistance

The original Technical Assistance (TA) paper for VAN 4362: Development of a Medium-Term Strategic Framework (MTSF) was released in July, 2004. The TA commenced in March 2005, with the Draft Inception Report delivered to the Asian Development Bank (ADB) and the Government of Vanuatu (GoV) on 19 March, 2005. Following periodic inputs in 2005 through to May 2006, a concentrated period of activity was undertaken in the period June 2006 through to the conclusion of TA inputs in March 2007.

The TA Team consisted of the following personnel:

- Public Finance Specialist cum Aid Management Advisor/ Team Leader – Dr Derrin Davis (who replaced David Abbott in June 2006)
- Institutional Development Advisor – Anthony Hughes
- Project Financial Management Advisor – David Hutton

Vinstar provided a Project Director for the entirety of this TA in the form of Executive Director, Gareth Davies.

The Executing Authority for this TA was the Department of Economic and Sector Planning (DESP) within the Vanuatu Ministry of Finance and Economic Management (MFEM). The main counterpart for this TA was the Director of DESP, a role currently undertaken by Fred Hosea, who was preceded by Nancy Wells who in turn was preceded by Paul Kaun. Executive responsibility within the Ministry lay with Director General Simeon Athy.

At the commencement of this TA (in March 2005) the responsible ADB Project Officer was Anaseini Vatucawaqa. Ms Vatucawaqa was succeeded by Nancy Convard (in September 2005), who in turn was succeeded by Elvira Rustamova (in December 2006).

The original Purpose of the TA was stated as: *to develop a medium-term strategic framework that will create a basis for setting priorities of sector development plans, corporate plans, departmental budgets, and project proposals.*

The Outputs listed in the TA paper were:

- *A revised Priorities and Action Agenda (PAA) that clarifies policy objectives and establishes linkages to budget outcomes*
- *A simplified Government Investment Program (GIP) that aligns with the PAA*
- *Well-focused project proposals*
- *A project costing manual*
- *Strengthened capacity of staff and implementing agencies*
- *Improved coordination of externally assisted projects.*

Following in-country discussions in June and July 2006, the list of activities and outputs was reviewed and certain activities added. Those activities included revisions to the Corporate Plans of ministries, development of a medium-term expenditure framework (MTEF), and procedures for monitoring the PAA and sector development programs. The MTSF would have been incomplete without these additions, with the MTEF particularly important.

1.2 The Medium-Term Strategic Framework

The MTSF was designed to provide the means for implementing the PAA. It provides a framework that creates a basis for setting development priorities, for linking the Government's strategic priorities to Corporate Plans, Business Plans, the National and Ministerial Budgets, and the Government Investment Program (GIP). It ensures that development programs and expenditure are monitored, and that development activities and development partner support are well coordinated.

An important component of the MTSF is the Medium-Term Expenditure Framework (MTEF). The MTEF is based on the premise that annual budgeting should not be performed in isolation, but should be linked to planning, in the context of a multi-year framework. The multi-year framework is provided by the MTSF. Medium-term development programs are linked directly to the MTEF through multi-year activities, supported by information on development costs and recurrent funding needs. Consequently, the MTEF provides information about the likely affordability of proposed development activities.

Under the Technical Assistance (TA) a number of activities were undertaken and, importantly, GoV – through the Council of Ministers (COM) – formally endorsed the MTSF as the basis of development planning and budget preparation in November 2006. This endorsement was effective immediately, and will result in the MTSF being used as the framework for budget preparation activities during 2007 for the FY2008 MTEF and Budget.

Key activities undertaken in the TA include:

- Review and update of the PAA 2003 and publication of the PAA 2006 - 2015
- Clarification, diagrammatic representation and endorsement by the Government of the components of the GoV's planning and budgeting systems that comprise the MTSF
- Drafting of revised Corporate Plans of ministries, with those Plans including medium-term development programs
- Preparation and distribution of Guidelines for the preparation of Corporate Plans under the new approach
- A summary of medium-term programs proposed by all ministries, which accompanied the official launch of the PAA
- Preparation of the structure of the MTEF, which will be implemented in 2007 for formulation of the 2008 budget, along with arrangements for the final design of the system as part of the FMIS
- Revision of the Performance Indicators in the PAA and preparation of the background for the development of a monitoring and evaluation system
- Cleaning up the GIP and a move to the next phase of developing a new, more effective database of development assistance
- Agreement with AusAID that, under its GFG program, it will support full implementation and institutionalization of the MTSF.
- Assistance with the process to achieve more effective aid and donor coordination through consultations with the government and development partners on implementation of the Paris Declaration on Aid Effectiveness
- Establishment of a process for ensuring the sustainability of the MTSF processes.

In addition, a number of key documents were produced for use as resource within DESP and by donors. These have been bound together and are available in a separate volume entitled: "Key TA Resources Prepared".

2. Achievement of Planned TA Outputs

2.1 Formulation of the MTSF

The actual MTSF is, appropriately, not listed as an output because, as discussed below, it is simply a framework. Yet the framework formulated underpins all of the activities and the outputs of the TA. The TA ensured that there was a proper understanding of what the MTSF is. One comment from a representative of a senior development partner was that “the PAA is the MTSF”, while most personnel in both the government and in-country development partner agencies had no clear idea of what the MTSF comprised of. In the majority of cases the understanding was that the MTSF was a “document”, such as another plan, or along the lines of the PAA.

Considerable effort went into providing briefings, both verbal and written, to clarify this issue and to enhance the understanding of people that the MTSF is a “framework”, not a stand-alone activity or document. This misperception has been overcome. The definition of a framework, as used for the MTSF, is shown in Box 1.

Box 1: Definition of a Framework

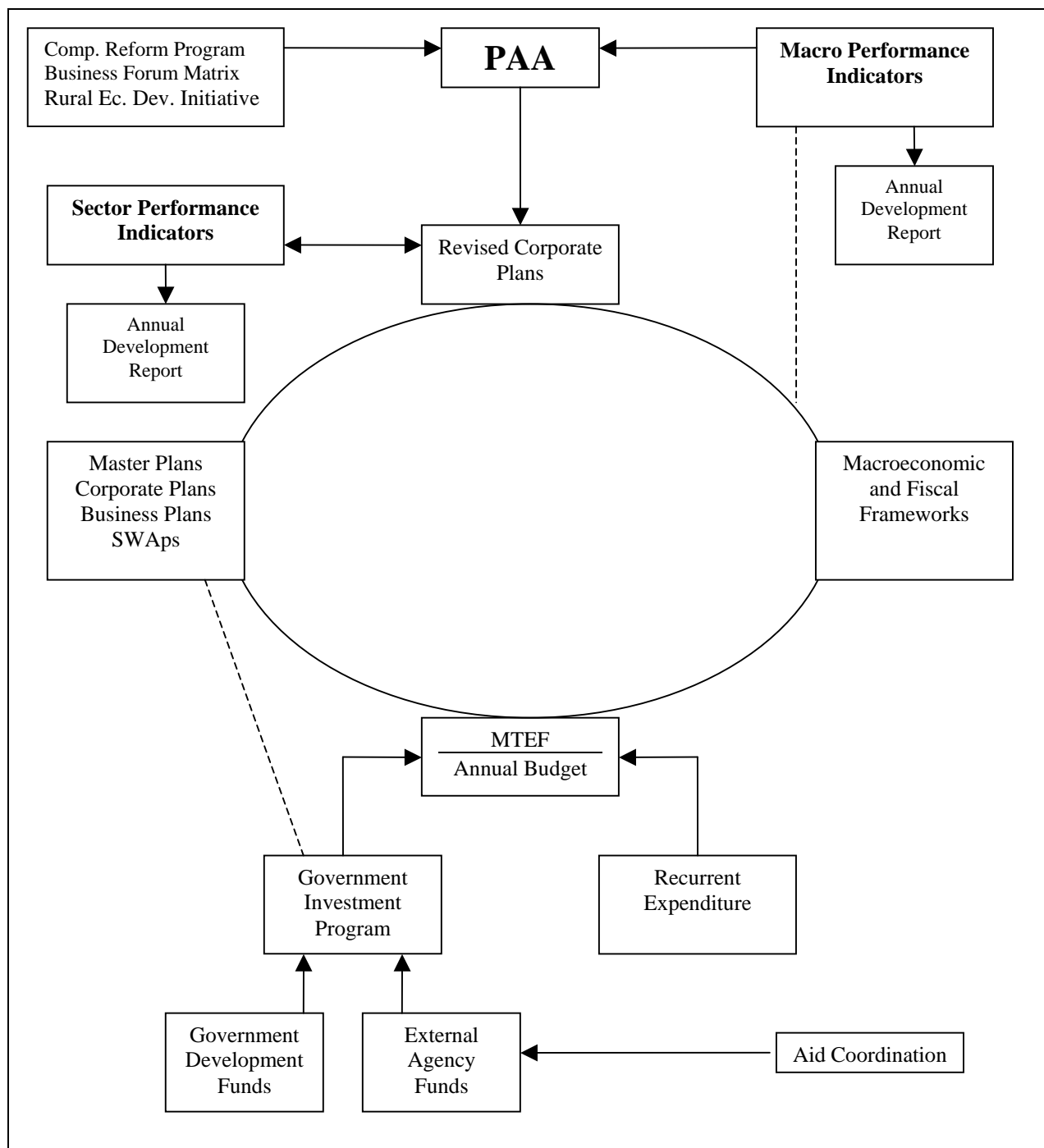
A framework establishes the components of an activity such as national development planning, along with the links between those components. A useful framework is one that is simple, easily understood, systematic, and compatible with current planning processes in the government

It was explained that the features of a framework are, therefore, that it includes all the components of a system, and that it involves processes. Furthermore, it was indicated that the key components of the MTSF include the following:

- The Priorities and Action Agenda 2006 – 2015
- The Comprehensive Reform Program (CRP) Matrix
- The Government Investment Program (GIP)
- The Policies and Corporate Plans of Government Ministries/Agencies
- Medium-term development program proposals from Ministries/Agencies for the GIP
- The Rural Economic Development Initiative (REDI)
- Aid Management and Coordination through the Aid Management Unit of the Ministry of Foreign Affairs (MFA)
- The Medium Term Expenditure Framework (MTEF) once implemented in 2007
- Program implementation, monitoring and evaluation
- The Annual Development Report for Vanuatu, which will be designed in 2007 and implemented in the first quarter of 2008.

The links and relationships between these components show the processes that are involved in implementing strategic, medium-term development planning and budgeting in the Government of Vanuatu. These processes occur within the annual budget cycle; they are illustrated in Figure 1.

Figure 1: Relationships in the MTSF



It was considered important that there was formal government acceptance of the MTSF, thereby embedding it institutionally and ensuring that it was used as the basis of planning and budgeting. Consequently, a briefing note and recommendation was submitted through the Development Committee of Officials (DCO) to the Council of Ministers. The recommendation was:

“It is recommended that COM endorses the Medium-Term Strategic Framework (MTSF) as:

1. The means for implementing the Priorities and Action Agenda 2006 – 2015 (PAA)

2. The basis of the mechanisms for development planning and budgeting in Vanuatu, with a focus on the medium-term.”

This recommendation was endorsed by the Council of Ministers (COM) in November 2006 and, subsequently, announced by the Prime Minister at a meeting with all development partners on 28 November, 2006.

2.2 Revised Priorities and Action Agenda (PAA)

This output, in full, was “A revised Priorities and Action Agenda (PAA) that clarifies policy objectives and establishes linkages to budget outcomes”.

The revised PAA, entitled *Priorities and Action Agenda 2006 – 2015*, was prepared and subsequently endorsed by the Council of Ministers (COM) in June 2006. While officially accepting the revised PAA, however, the COM directed the Department of Economic and Sector Planning (DESP) to supplement it with actual development programs. This resulted in additional work under the TA, with that work comprising a redesign of the approach to the preparation of the Corporate Plans of ministries, the design of a new program proposal form, and assistance to ministries and DESP Sector Analysts in the preparation of medium-term development programs. This is discussed in section 2.4 below.

Policy objectives and strategic priorities for development were outlined clearly in the revised PAA.

The directive from the COM indicates that the third part of the output – establishing linkages to budget outcomes – was, however, not achieved within the revised PAA document. Consequently, it was addressed through the development and implementation of a revised approach to the preparation of Ministry Corporate Plans and the MTEF.

The PAA was officially launched by the Prime Minister at a meeting between the Government and its Development Partners in Port Vila on 28 November 2006. As directed by the COM, it was accompanied by a volume of proposed development programs for the ministries and sectors. Both the Prime Minister and the Minister for Finance and Economic Management stressed that the PAA is the key document that will guide government development activities in the medium-term. Additionally, they requested the nation’s Development Partners to focus their support on the priorities outlined in the PAA.

As proposed in section 4 of this report, the PAA must be reviewed regularly to ensure it retains its relevance, that it is a “living document”, and to ensure that key sectors and needs are not left behind in the development effort. It should be noted that social security; environmental management and protection; and law and justice, which are outside the approved PAA, need appropriate consideration.

2.3 A simplified GIP that aligns with the PAA

Initial work in this area indicated that the GIP list of projects was lengthy, had not been prioritized and that the data were unreliable. For example, it was not clear whether projects had been funded or completed. The GIP database was also seriously misaligned with data held by the Aid Management Unit in the Ministry of Foreign Affairs, as well as with data held in the Department of Finance’s development fund accounting system.

The GIP is added to each year during the preparation of the annual budget. Ministries and agencies use a standard project proposal form to submit bids for development funding to DESP. The Financial Management Advisor judged that there was a need to

improve the fundamental approach to projects, especially in relation to the identification of benefits.

Consequently, in relation to the GIP the TA concentrated on two main activities:

- A clean up of the GIP data base so it was more reliable and could be used as a basis for selecting high priority projects
- Development of a *Guidelines for Project Proposals* document, supported by a training workshop for DESP staff, to address the need for improved project bids.

The work on the clean-up of the GIP database served to highlight the need for a revised system, one that would meet the needs of all users. These users would include the Department of Finance (DoF), DESP, the Aid Management Unit in the Ministry of Foreign Affairs (MFA), and the Department of Strategic Policy Coordination (DSPC – formerly the Department of Strategic Management) in the Ministry of the Prime Minister.

Critically, it was agreed that there must only be one database, with that database regularly updated and maintained. The new database has now been designed as an additional module of the new FMIS software that is being installed by DoF, with support from AusAID. Development of the database will commence in April, 2007, and the new system will be fully operational by August-September, 2007. Consequently, and very importantly, the database will be directly linked to the MTEF and to the budget. This will ensure that development assistance is included in the annual preparation and “roll-over” of the MTEF, and that the database aligns with the priorities outlined in the PAA.

An accurate database of development activities is also extremely important to aid and donor coordination, an issue that is also raised in section 2.7 below.

The second activity referred to above was, at the time of its inception, timely. Since then, however, events have overtaken it, particularly in relation to the approach to development planning, which is now based on medium-term, priority programs. This issue is also discussed further in subsequent sections of this report.

2.4 Well-focused project proposals

This output relates closely to the discussion above. In formulating an MTSF as the means for implementing the PAA, in reviewing the GIP, and in considering aid management and aid effectiveness, it was clear that the existing planning approach, based on a multitude of projects, was ineffective and resulted in inefficient use of scarce government and donor funds. Basing development planning on projects resulted in a piecemeal approach to development, rather than one clearly based on strategic priorities.

Consequently, it was agreed with DESP and the Government that a new approach, consistent with the strategic priorities in the PAA, would be taken. This approach is one where the focus is on medium-term development programs. Each Ministry/sector will develop, or carry forward, a small number of high priority programs – normally about one to four – each year in the preparation of the MTEF, the Budget and the update of the GIP.

The new approach was also related, in part, to the directive from COM to supplement the PAA with development programs for the launch of the PAA. Given that a number of planning documents already exist and that, therefore, it was not desirable to develop still more such documents, it was decided to revise the Corporate Plans of ministries to include high priority programs. All ministries are required to prepare and submit a Corporate Plan each year, with those Plans covering the Vision, Mission, Policy Objectives and Strategies for the Ministry. Adding the requirement to include high priority

development programs makes the Corporate Plans more useful, more strategic, and more important in overall governance.

Subsequent to this decision, relevant staff members from all ministries were briefed on the new approach. Additionally, a new Program Proposal form was developed, with that form including sections for information on how the particular program contributes to the achievement of the strategic priorities in the PAA, along with sections on the approach to be taken to monitoring of the program. Further training is required to assist line ministries to prepare monitoring plans. Guidelines for the preparation of Corporate Plans were also prepared and distributed to all ministries (Information Paper No. 2, December 2006).

Importantly, the proposal to revise the approach to the preparation of Corporate Plans was the subject of a briefing note and recommendation to DCO and, subsequently, the COM. The recommendation, which was endorsed by DCO and COM in November 2006, was:

“It is recommended that COM approves the revised approach to the preparation of the Corporate Plans of Ministries, with the revision comprising the addition to the Corporate Plans of priority medium-term development programs and the estimated costs of those programs.”

2.5 A project costing manual

The Financial Management Advisor, as noted in section 2.3 above, prepared *Guidelines for Project Proposals*, judging that was more important than a project costing manual. A manual for preparing and appraising project proposals had, however, been developed in 2001¹. It was considered that preparation of a project costing manual would have contributed little to the current planning processes which themselves needed to be changed. The preparation of a costing manual may be relevant in the next 1 – 2 years, although this matter needs to be carefully reviewed prior to any move in that direction.

The need in the short-term is for training for line ministry staff and DESP's Sector Analysts in the preparation of program proposals, including how to prepare monitoring plans, how to allocate program activities over multi-year time horizons, and how to prioritize development programs.

2.6 Strengthened capacity of staff and implementing agencies

This is an outcome rather than an output and, without follow-up assessment, success is difficult to judge. Throughout the TA staff members of DESP and line ministries were involved in all activities and this undoubtedly led to strengthened capacity, particularly in DESP. There is greater knowledge of program planning and of the links between planning and budgets; the MTEF approach is now well understood; and the needs of a workable GIP much clearer. The fundamentals of a sound system for aid coordination are also well understood as a result of the TA.

Much remains to be done, however, to strengthen the policy skills of DESP staff and the capacity for planning and monitoring in GoV, along with a strengthening of these skills at the provincial government level. These are matters that will be addressed under support provided in AusAID's Governance for Growth (GFG) program over the next two years. The GFG is discussed in section 3 below.

¹ Department of Economic and Social Development, Government of Vanuatu, 2001. *Manual for Appraisal and Review of Government Expenditure*. August.

2.7 Improved coordination of externally assisted projects

This component of the TA is shown as “Aid Coordination” in Figure 1; and the approach taken to this aspect of the TA was to implement the Paris Declaration on Aid Effectiveness, 2005, to which Vanuatu and its development partners are signatories. Two round table meetings with the government and development partners were undertaken in 2006, based on the Paris Declaration approach to aid effectiveness.

Two particularly important issues were addressed in relation to this component of the TA:

1. Existing aid coordination mechanisms are not working well; they involve DESP, the Aid Management Unit in MFA and, formerly, the Department of Strategic Management (DSM), which is now DSPC
2. The urgent need for an up-to-date and accurate GIP.

In relation to the first issue it is noted that, in the report of the Review of the Comprehensive Reform Program (CRP), released in September 2006, the problems with the aid coordination and management system were raised. Furthermore, it was recommended that the three agencies involved be brought together as one organization, based in the Ministry of the Prime Minister. The Advisor and the development partners agreed with the recommendation to combine the three organizations, although just where the combined institution would be located was not seen as a major concern – location in either of the Ministry of Finance and Economic Management (MFEM) or the Ministry of the Prime Minister would be appropriate.

The imperative to resolve the issue of a poorly functioning system for aid management was, based on discussion at the first round table meeting of donors, presented as the urgent need to make “Authoritative government decisions on the positioning of aid management – both the grading and the placement of the function – and provision of adequate resources for the tasks involved...”² Subsequently, the recommendation of the CRP Review, noted above, was supported following the second round table meeting.

In relation to the grading of aid management, it was noted that the aid program is around Vt30 billion each year and will increase significantly in the near future, yet management of this component of the Government’s overall budget is poorly resourced. It was agreed that it should be at least at Divisional level, headed by a Director.

The second issue, relating to the GIP, was noted in section 2.3 above. Sound aid management and coordination requires that the development program and the status of the activities that comprise that program are accurately known and recorded.

At the time of the conclusion of this TA, despite recommendations from a number of sources, the GOV had not made a decision on the positioning of aid management. This matter is discussed further in Attachment 1.

2.8 Other Outputs

Certain other outputs, in addition to those specified in the original TA paper, were prepared during TA implementation. Some of these were necessary “add-ons”, designed to enhance the completeness of the MTSF, while others were prepared to facilitate engagement by ni-Vanuatu staff in the process of developing the Framework. The additional outputs and activities included the following, along with the documents described in section 2.9 below.

² TA’s Institutional Development Advisor – Visit Report September 2006

2.8.1 Revised Corporate Plans of Ministries

This output was discussed in section 2.4 above. It resulted in formal acceptance by GoV to enhance the Corporate Plans by adding high priority medium-term development programs. Guidelines for the revised approach to Corporate Plans were prepared for distribution to all ministries, with that distribution occurring in January 2007. A briefing on the new approach was also provided to all ministries.

2.8.2 The MTEF

This component was added to the TA by ADB during 2006 and was the most important additional activity undertaken. Without the MTEF the MTSF would only be partially complete. The MTEF was fully formulated between August and November and will be implemented in 2007. Arrangements have been made for the final design of the MTEF system as part of the FMIS, with that design to be undertaken by the economists recently appointed in DESP, supported by the GFG-funded macroeconomics advisor. Staff of the FMIS section will provide training for this purpose.

2.8.3 Performance Indicators, Monitoring and the Annual Development Report

Strategic planning and a strategic framework also require that a monitoring system is in place so that progress towards the achievement of development priorities can be measured. While the PAA included performance indicators, concern arose about the validity, usefulness and measurability of those indicators. Concern also arose about the availability of data for many of the indicators. Consequently, an internal government panel was established to review the performance indicators. This resulted in the removal of 36 of the original 49 indicators and the formulation of 29 new indicators, leaving a total of 42. The sources of data for each of the 42 performance indicators were also identified. The review process and findings of the review group are described in TA Discussion Paper 6 (see 2.9 below).

Initial steps were also undertaken to prepare a monitoring and evaluation (M&E) system for the PAA and for sector development programs. This initiative was commenced when the Team Leader identified that there was no government-wide, effective monitoring system in place to monitor development activities. Following preliminary background work a request was submitted by DESP to the GFG program for support to prepare an M&E framework and process. Following funding approval this work began in November 2006 and will be completed in April 2007.

During the TA it was agreed that an annual development report will be prepared, based on progress towards the achievement of the strategic priorities in the PAA and on the outcomes of development programs. This report will require the availability of credible monitoring information, which emphasizes the importance of developing and implementing a robust government-wide monitoring system.

2.9 Papers Prepared

A number of discussion, information and briefing papers were prepared during the TA. These are listed in Attachment 2. The Discussion Papers were designed to engender local involvement and ownership, as well as to build the capacity of local staff, particularly in DESP, in relation to a number of important issues related to national development planning and budgeting. The papers were also distributed to other ministries and development partners in an effort to elicit feedback, thereby strengthening the quality of the material presented.

The Information Papers were similar, but focused purely on providing information about particular issues, while the Briefing Papers were designed to guide the activities of the Working Group on the PAA Performance Indicators and the staff of DESP.

These papers have been bound together and are available in a separate volume entitled: “Key TA Resources Prepared”.

3. Sustainability of TA Outcomes

The principal concern that arose during the TA was whether the outcomes would be sustainable. DESP’s capacity to implement and maintain the MTSF is seriously constrained in four ways:

1. The small number of staff in the Department and continuing difficulties in recruiting staff;
2. The overall level of skills in the Department;
3. The institutional structures that limit the ability to effectively coordinate aid flows and donor activities; and
4. The fact that DESP is performing tasks that are not normally a core role of a planning department, particularly in relation to the preparation of the annual national budget.

Fortunately, AusAID implemented its GFG program in the third quarter of 2006. The opportunity was taken to approach the program managers for support for DESP, and agreement to provide that support was given. In early 2007, under the GFG program, three advisors will be provided: (i) an organizational development advisor to work with both DESP and DSPC on a range of matters, including core roles in relation to policy development and coordination, along with issues about the core roles and organizational structure of DESP. This advisor will provide six months of input during 2007 and 2008; (ii) a sector policy and planning specialist to work with the Sector Analysts for two years; and (iii) a macroeconomics advisor who might also undertake some line work, again for two years; it has been agreed with the Director of the GFG program that the macroeconomist will support the implementation of the MTEF.

This support will ensure that the momentum that has been achieved in relation to the MTSF and the implementation of the PAA can be maintained and sustainable outcomes achieved. Handover notes were prepared for the incoming advisors so that the work undertaken in the TA for the MTSF can continue in a seamless fashion.

The organizational development advisor will need also to address certain issues relating to core roles and the balance of work undertaken by DESP staff. Two particular issues, reflected in the recommendations in section 4 below, are:

- The need for DESP Sector Analysts to prioritize their work, particularly by taking responsibility only for appraising and managing larger programs (above Vt4 million)
- The need to reduce the level of involvement of DESP staff in budget preparation and to return those roles to the Department of Finance, which is where they would normally belong.

4. Conclusion and Recommendations

4.1 Conclusions

The MTSF

The purpose of the TA, as noted in the Introduction, was to:

develop a medium-term strategic framework that will create a basis for setting priorities of sector development plans, corporate plans, departmental budgets, and project proposals

The TA has been very successful in achieving this purpose, resulting in a framework that ensures the links between all aspects of national development planning are in place. The framework is strategic and sets a clear basis for sector development plans, budgets and program (as distinct from project) proposals. The PAA has been endorsed by the Government as the key guide for development for the next 10 years. The additional activities undertaken during the TA also added substantially to its overall success.

The TA has also been very successful in terms of ensuring that there is widespread understanding in Government and amongst Development Partners about what actually comprises the MTSF. Endorsement of the MTSF by the Council of Ministers, which serves to institutionalize it as an important policy initiative, also reflects the success of the TA.

The GIP

This component of the activity was successful. It was initially constrained by the non-availability of data and by the level of disorganization by which the GIP was typified. The existing GIP database was substantially cleaned up and recommendations for an improved database developed. The design work for a new database has been undertaken and development work will commence in April, 2007. The new database will be linked to the FMIS, will be accessible to those who need to use it, will be far more user-friendly and, importantly, it will be the only database of development programs in use.

The MTEF

This component was added to the TA in mid-2006. The development of the MTEF was, under difficult circumstances, very successful. Data limitations again impacted on the preparation of the MTEF, yet the framework was fully developed and will be implemented in 2007 for the FY2008 budget. Arrangements are in place for the final design of the system as part of the FMIS, with that design to be undertaken by the economists recently appointed in DESP, supported by the GFG-funded macroeconomics advisor. Staff of the FMIS section will provide training for this purpose.

Aid Management

The round table meetings and the efforts to implement the Paris Declaration were productive, yet in practical terms the GOV must actually implement the recommendations of this TA and other reviewers if Aid Management is to become properly effective in Vanuatu. The overriding difficulty is that the main problem with aid management and donor coordination is the institutional structures, with three organizations – in three different ministries – having some involvement. Despite recommendations from the review of the CRP, and requests from donors, it seems that the Government will retain the existing institutional arrangements. This matter is discussed further in Attachment 1.

4.2 Recommendations

A number of recommendations have been made to DESP and the Government. It is expected that most of these will be addressed by the advisors who will be working under GFG funding. They include the following:

1. The PAA should be reviewed regularly to keep it relevant and to ensure that contemporary issues and needs are addressed through the strategic priorities; a full review and revision of the PAA should be undertaken in mid-2008
2. Implementation of the MTEF in the first half of 2007 is particularly important and it is recommended that DESP request that the GFG give the proposed appointment of a macroeconomics advisor high priority and expedite that appointment
3. DESP Sector Analysts must take a proactive and leading role in facilitating the preparation of the Revised Corporate Plans and proposed medium-term development programs of ministries (February-April 2007), using the Guidelines prepared for these purposes
4. A decision must be made about which Department and which personnel are responsible for updating and maintaining the GIP within MFEM
5. An outline of the Annual Development Report (ADR) will need to be prepared in the second half of 2007. The Director of DESP should be responsible for the ADR, with support provided initially by the GFG advisors
6. The workloads of the limited number of DESP staff are an issue and it is recommended that:
 - Projects with a value less than Vt4 million are agreed between donors and implementing agencies, and reported to the relevant DESP Sector Analyst for inclusion in Government accounts
 - DESP Sector Analysts have responsibility for appraising, monitoring and managing only those development programs with a value greater than Vt4 million
 - DESP is relieved of many of the functions it undertakes in relation to budget preparation, and that this issue, and those above, is a key matter addressed by the Organizational Development Advisor to be funded under the GFG program.

Attachment 1

Aid Coordination and Management and the Government Investment Program

Background

The original Purpose of TA No. 4362-VAN was stated as: to develop a medium-term strategic framework (MTSF) that will create a basis for setting priorities of sector development plans, corporate plans, departmental budgets, and project proposals.

Two of the key Outputs listed in the TA paper were:

- A simplified Government Investment Program (GIP) that aligns with the PAA
- Improved coordination of externally assisted projects.

These outputs are specifically discussed in this attachment.

The Key Issue

The critical issue is that of the positioning of aid management in the government. In mid-2003, the Aid Management and Coordination Unit (AMCU) was transferred out of the Ministry of Finance and Economic Management (MFEM) to the Ministry of Foreign Affairs (MFA). In its 2004 TA paper on the MTSF, the Asian Development Bank (ADB) noted that this change failed to address:

- improving communication and coordination with sectoral ministries and line agencies
- timeliness of disseminating information about projects being funded
- tracking of project implementation status.

Currently, the Department of Economic and Sector Planning (DESP), in MFEM, identifies high-priority projects in cooperation with the line ministries, while the AMCU has responsibility for seeking aid funding for those activities. The reality is, however, that the staffing position in the AMCU, which presently has an effective staff establishment of only one officer, means that the system normally does not operate in this manner. Rather, there is significant direct negotiation between aid donors and the line ministries, sometimes with the involvement of DESP, usually leading to a request from DESP to an aid donor for support for a particular development activity.

The ADB TA Paper concluded that the role of, and linkages between DESP and the AMCU need to be clarified because of their interdependence. The intention was that, under the TA, a framework would be developed to help strengthen the working relationship between the two agencies and harmonize coordination of donor priorities and reporting requirements with the overall development strategy and opportunities for growth sought by the Government. At the same time, ADB declared that “the role of the aid coordination and management unit has to be refocused to ensure harmonization of donor programs and funding of approved prioritized policies and programs.”

Some aid management and coordination activities are also undertaken by the Department of Strategic Policy Coordination (DSPC) in the Prime Minister’s Office. DSPC was formerly the Department of Strategic Management, responsible for the Comprehensive Reform Program (CRP).

A further positioning matter is that of the level of the AMCU within the government. Official Development Assistance to Vanuatu plays a key role in development activities and is increasingly represented in the funding of the recurrent operations of government. The total value of external assistance in 2006 was provisionally estimated at about USD30m (approximately Vt30billion), close to 10 percent of monetary GDP and equal to the combined annual budgets of the government's education and health ministries. External assistance is set to increase significantly in the near future. Consequently, it was noted by the advisor on aid management that aid management and coordination should be given the status of a Department, led by a Director and with dedicated staff.

In summary, the issue of the positioning of aid management and coordination in the government – its organizational placement, overlapping roles between agencies, and grading and staffing – is a vital issue to be addressed by the Government.

Round Table Meetings

Following a recommendation from the former Director of DESP it was agreed to pursue the TA activities relating to aid management and coordination under the Paris Declaration on Aid Effectiveness, 2005. Subsequently, the Aid Management Advisor prepared a background paper and two round table meetings, chaired by the Director-General of MFEM, were undertaken with the involvement of resident development partners. Non-resident development partners were invited to the second meeting but none were able to attend. The principal outcomes and agreements from the round table meetings were:

- Considerable support for the joint approach by the government and Vanuatu's aid donors to the application of the Paris Declaration. All resident donors are engaged in some way in putting the principles of the Declaration into practice. The process of periodic round table meetings to report and discuss progress and problems provides a practical, low-cost way of sustaining this approach and should be continued
- The establishment by the government of a single, comprehensive and reliable database, recording all existing and committed ODA-funded programs and projects (including recurrent budget support) is the most important single technical tool required for effective aid management. This issue is discussed in the section below on the Government Investment Program
- The urgent need for the government to address the problem of fragmented and confused responsibilities for its policy and operations relating to aid management
- Agreement that aid management should be accorded higher status – at the level of a department with a Director – in the government structure
- Strong support for the recommendation of the CRP review team – discussed below – to consolidate aid management in one organization.

Recent Recommendations

Outside this TA, under a separate project the CRP was reviewed in 2006, with the report on the review released in September. The problems with the aid coordination system were specifically raised in the report, and it was recommended that the three agencies involved (DESP, AMCU and DSPC) be brought together as one organization, based in the Ministry of the Prime Minister. The aid management advisor to TA 4362-VAN, along with government officials and development partners who attended the round table meetings, agreed with the recommendation to combine the three organizations. They

also noted that a recombined agency could be located either in DESP/MFEM or the Ministry of the Prime Minister – either would be appropriate.

At the CRP Summit, held in the week of 12-16 March, 2007, a working group from MFEM, led by the Director-General, submitted a recommendation that aid management be relocated back to DESP. This recommendation was, however, disregarded and not raised for discussion in the final plenary session.

The Database for the Government Investment Program (GIP)

One of the prime outputs of the TA, as noted above, was a simplified database for the Government Investment Program (GIP) that aligns with the PAA. Such a database will provide government and donors with a complete and reliable source of data on official development aid. Improving aid management and coordination also relies on the availability of an accurate and reliable database, so there is considerable overlap between these two aspects of the TA.

The GIP, which was found to be unreliable and seriously misaligned with data held by the AMCU and with data held in the Department of Finance's development fund accounting system, was cleaned up by the Project Financial Management Advisor under the TA. The clean-up served to highlight the need for a revised database system, one that would meet the needs of all users. These users would include the Department of Finance (DoF), DESP, the AMCU, and DSPC.

Critically, it was agreed that there must only be one database, with that database regularly updated and maintained. Consequently, it was agreed to redevelop the GIP as a "Database of Development Assistance". Based on work undertaken in TA 4362-VAN, redevelopment of the GIP database is currently underway as an additional module of the new Financial Management Information System (FMIS) that is being installed by the Department of Finance. At the time of preparing this paper, design work on the systems and procedures for incorporating the database into the FMIS had been completed. Development will begin in April, 2007. The system will be user-friendly and allow DESP to directly enter data on the development program and support from development partners. It will also allow access by other users, such as the AMCU if aid management remains in the Ministry of Foreign Affairs. The new database is expected to be fully operational in August or September this year.

Consequently, and very importantly, the database will be directly linked to the Medium-Term Expenditure Framework (MTEF) and to the budget. This will ensure that development assistance is included in the annual preparation and "roll-over" of the MTEF, and that the GIP aligns with the priorities outlined in the PAA.

An accurate and user-friendly GIP will also be extremely important to effective aid and donor coordination: sound aid management and coordination requires that the development program and the status of the activities that comprise that program are accurately known and recorded.

Outcomes

At the conclusion of TA 4362-VAN on April 2, 2007, in relation to aid management and a simplified and improved GIP, the situation and outcomes were:

1. Despite widespread agreement that the existing aid management and coordination mechanisms are not working well, and despite recommendations (from this TA and others) and requests for decisions about the positioning of aid management from a

variety of sources, no decision had been made by the government on the positioning of this important function. However, it is expected that by mid-2007, under AusAID funding, an organizational management and development specialist will be placed in DESP³. Amongst this advisor's terms of reference will be the imperative to address the issue of aid management and coordination, building on the work undertaken under the ADB TA

2. Following the clean-up of the GIP and follow-up under the TA on the best way forward to ensure complementarity with government planning and budgeting systems, the redesign of the database has been undertaken, linked to the new FMIS, with development to commence in April/May, 2007. The new database will be operational by August-September, 2007.

³ The proposal from DESP to AusAID for this support arose directly from the work of the MTSF technical assistance.

Attachment 2

List of Additional Papers Prepared under the TA

Discussion Papers

1. Implementing the MTSF - Proposed Next Steps. June 2006
2. Existing Planning Documents and the MTSF: Key Issues. July 2006
3. Program Development, Monitoring and Proposal Forms. July 2006
4. Monitoring the MTSF: Background and Approach. July 2006
5. Sustainability of The Medium-Term Strategic Framework: Support from AusAID's Governance for Growth Program? August 2006
6. Monitoring the Priorities and Action Agenda (PAA) 2006 – 2015: Selecting Performance Indicators. Proposals from a Government Working Group. October 2006
7. Development Programs and Priority Setting. March 2007

Briefing Papers

1. The Medium-Term Strategic Framework (MTSF): Current Status and Activities. Update Presented to the Department of Economic and Sector Planning. 4 September 2006
2. The Medium-Term Strategic Framework (MTSF): Current Status and Activities. Update Presented to the Department of Economic and Sector Planning. 6 December 2006

Information Papers

1. Selecting Performance Indicators for the PAA: Information Paper for Working Group. August 2006
2. Structure of Ministry Corporate Plans: Table of Contents and Approach. December 2006
3. A Glossary of Planning, Development and Related Terms. March 2007

Other

1. The Priorities and Action Agenda: Medium-Term Development Programs. Overview and Program Proposals from Ministries. Document to accompany the official launch of the PAA, November 2006
2. Notes on the PAA and the MTSF. Paper distributed to participants in the Development Partners' meeting, Port Vila, 28 November 2006
3. Handover Notes, March 2007

The above documents have been bound together and are available in a separate volume entitled: "Key TA Resources Prepared".