
VANUATU

INTRODUCTION

VANUATU is a lower-middle-income country with a gross national income (GNI) of USD 2 620 per capita (2009) and a population of 240 000 (WDI, 2011). Net official development assistance (ODA) to Vanuatu in 2009 totalled more than USD 103 million (OECD, 2011), and since 2005 ODA has averaged 13% of GNI (WDI, 2011). In 2009, 93% of Vanuatu's ODA was contributed by the top five donors (OECD, forthcoming). ■

SUMMARY OF PROGRESS

PROGRESS ON THE PARIS DECLARATION INDICATORS depends on improvements by both donors and partner governments. Vanuatu did not participate in the 2006 and 2008 surveys, therefore the results of the 2011 Survey establish the baseline. In 2010, of the 15 indicators, targets were only applicable for 10. Three of these targeted indicators were met, for indicator 2a (reliable public financial management systems), indicator 4 (co-ordinated technical support) and indicator 8 (untying aid).

Only two indicators - public finance management (PFM) systems (indicator 2a) and untying aid (indicator 8) - have been measured over time. Vanuatu made progress in both of these areas. Regarding the management for results and mutual accountability (indicators 11 and 12), Vanuatu does not have a formal mechanism for the mutual review of progress therefore government actions and efforts are required to improve these areas.

ABOUT THE SURVEY

This chapter assesses progress against the quantitative indicators provided by the Survey on Monitoring the Paris Declaration, drawing on data provided by the government and donors, the OECD and the World Bank. In addition to this, it draws on qualitative evidence submitted to the OECD by the national government which incorporates feedback from donors and other stakeholders. Stakeholders note that it is possible that in places definitions and concepts were interpreted differently by survey respondents in 2011 compared with previous years. A degree of caution should be taken when analysing the trends shown by some of the indicators.

The 2011 Survey responses cover eight of Vanuatu's 15 largest donors, comprising 96 % of Vanuatu's core ODA. In total ten donors participated in the 2011 Survey. Vanuatu did not participate in the previous Surveys, and 2010 establishes the baseline. While the survey demonstrated a significant willingness from some key donors to participate in the survey process and share information, participation from line ministries was weak. Key reasons for this were a misunderstanding and lack of awareness of the implementation process of the Paris Declaration. The country report of the 2011 Survey was prepared by the Department of Strategic Policy, Planning and Aid Co-ordination, in the Office of the Prime Minister. ■

TABLE 1:
Baselines and targets
for 2010

| | INDICATORS | 2005 REFERENCE | 2007 | 2010 ACTUAL | 2010 TARGET |
|-----|--|----------------|---------------|---------------|---------------|
| 1 | Operational development strategies | -- | -- | C | 'B' or 'A' |
| 2a | Reliable public financial management (PFM) systems | 3.5 | 3.5 | 4.0 | 4.0 |
| 2b | Reliable procurement systems | Not available | Not available | Not available | No Target |
| 3 | Aid flows are aligned on national priorities | -- | -- | 54% | 85% |
| 4 | Strengthen capacity by co-ordinated support | -- | -- | 60% | 50% |
| 5a | Use of country PFM systems | -- | -- | 31% | No Target |
| 5b | Use of country procurement systems | -- | -- | 29% | No Target |
| 6 | Strengthen capacity by avoiding parallel PIUs | -- | -- | 9 | No Target |
| 7 | Aid is more predictable | -- | -- | 89% | No Target |
| 8 | Aid is untied | 90% | 90% | 93% | More than 90% |
| 9 | Use of common arrangements or procedures | -- | -- | 27% | 66% |
| 10a | Joint missions | -- | -- | 23% | 40% |
| 10b | Joint country analytic work | -- | -- | 60% | 66% |
| 11 | Results-oriented frameworks | -- | -- | C | 'B' or 'A' |
| 12 | Mutual accountability | Not available | Not available | N | Y |

TABLE 2:
Learning from success
and challenges

| | ACHIEVEMENT OR CHALLENGE | LESSON OR PRIORITY ACTION |
|-----------------------|---|--|
| Ownership | <p>Achievement: Sector strategies are consistent with the Priorities and Action Agenda (PAA) and, to an extent, the Planning Long-Action Short (PLSA), a four-year work programme of a matrix.</p> <p>Challenge: The PAA is not costed, nor is there a medium-term fiscal framework or medium-term expenditure framework.</p> | <p>Lesson: The PAA was used as a point of reference for line ministry corporate plans, annual plans, and for policy, programme, and project decisions.</p> <p>Priority action: Effectively link national plans and strategies to the budget.</p> |
| Alignment | <p>Challenge: Aid remains unpredictable and low levels are recorded on budget.</p> | <p>Priority action: co-operate in developing a realistic disbursement plan.</p> |
| Harmonisation | <p>Achievement: The use of a programme-based approach is highly favoured and is now comprehensive in the education sector. Replication of the process is underway in other sectors.</p> | <p>Lesson: Stakeholders should address their capacity development issues first and phase out the use of direct (and uncoordinated) contacts between line ministries and donors.</p> |
| Managing for results | <p>Challenge: There is no monitoring and evaluation framework for the national development strategy.</p> | <p>Priority action: The government should collect baseline development information; this should be consistent so that it enables effective monitoring of progress.</p> |
| Mutual accountability | <p>Challenge: No formal mechanism for the mutual review of progress, so mutual accountability limited</p> | <p>Priority action: The government and donors should develop and implement a joint action plan on aid effectiveness.</p> |

OWNERSHIP

AID IS MOST EFFECTIVE when it supports a country-owned approach to development. It is less effective when aid policies and approaches are driven by donors. In the context of the Paris Declaration, ownership concerns a country's ability to carry out two, inter-linked activities: exercise effective leadership over its development policies and strategies; and co-ordinate the efforts of various development actors working in the country.

Indicator 1 assesses the operational value of a country's development strategy. In particular, it looks at the existence of an authoritative country-wide development policy (*i.e.* a unified strategic framework), the extent to which priorities are established, and whether these policies are costed and linked with the budget. All of these features are important to harness domestic resources for development, and to provide a basis for the alignment of aid to development priorities. Each country has provided evidence against these criteria, and this has been translated into a score by the World Bank using the same methodology as in the 2006 and 2008 surveys. A five-point scale runs from A (highest score) to E (lowest score). The Paris Declaration targets 75% of partner countries achieving a score of A or B by 2010.

Vanuatu received a rating of C in 2010. This means that while an operational development strategy is in place, the potential exists for more substantial progress. Vanuatu's national development strategy is the Priorities and Action Agenda (PAA) formulated in 2006 (covering 2006-15). It is based on the longer-term objectives of the Comprehensive Reform Program (CRP) on which Vanuatu embarked in 1997 and further revised in 2006. The main agenda for action includes increasing productivity in key sectors - especially agriculture and tourism - maintaining macroeconomic stability, cutting costs associated with transport and utilities, improving service effectiveness and enhancing access to basic services such as health and education.

Current sector strategies are consistent with the PAA and to a certain extent with the Planning Long-Action Short (PLAS) matrix, a four-year work programme. The PAA is used as a point of reference for line ministry corporate plans, annual plans, and for policy, programme, and project decisions. The PLAS identifies priorities and implementation sequences. The PAA priorities the links to the Millennium Development Goals and cross-cutting issues. However, the PAA is not costed, nor is there a medium-term fiscal framework or medium-term expenditure framework. The PAA and PLAS link to the annual budget formulation process through the budget narrative, which includes performance indicators regarding policy priorities. The challenge remains for the government to put in place an effective monitoring and evaluation system in regarding progress on government strategic policy priorities.

A mid-term review of the PAA and the PLAS is currently underway. It is anticipated that the review will involve extensive consultations with major stakeholders including civil society and donors involved in the implementation of policy priorities in the PAA. A national summit to conclude the review process will also be convened. ■

ALIGNMENT

AID THAT IS DONOR DRIVEN AND FRAGMENTED is less effective. For aid to be effective, it must make use of national development strategies and use and help strengthen capacity in national systems, such as those for procurement and public financial management. The Paris Declaration envisions donors basing their support fully on partner countries' aims and objectives. Indicators 2 through 8 of the Paris Declaration assess several different dimensions of alignment.

Progress regarding indicators on alignment is uneven and targets for evaluation are mostly unavailable. Both the government and donors face with the challenge of unpredictable aid levels and low level of aid through budgets. Since 2005 Vanuatu has substantially improved the reliability of its public financial management systems.

INDICATOR 1

Do countries have operational development strategies?

Co-ordinated support for capacity development and untied aid are relatively high – and above target – while the indicator regarding the alignment of aid to national priorities has not met the 2010 target by a large margin. Further analysis on remaining indicators cannot currently be made as targets are not applicable for 2010.

INDICATOR 2

Building reliable country systems

Indicator 2 covers two aspects of country systems: public financial management (PFM) and procurement. Do these systems either adhere to good practices or are there plans for reform? If countries have reliable systems, donors are encouraged to use them for the delivery and management of aid. This helps to align aid more closely with national development strategies and enhances aid effectiveness.

INDICATOR 2a

How reliable are country public financial management systems?

Indicator 2a of the Paris Declaration assesses whether PFM systems meet broadly accepted good practices or whether credible reform programmes are in place. The assessment is based on the World Bank's Country Policy and Institutional Analysis (CPIA) score for the quality of PFM systems, which uses a scale running from 1 (very weak) to 6 (very strong).

To score highly, a country needs to perform well against all three of the following criteria: a comprehensive and credible budget linked to policy priorities; an effective financial management system to ensure that the budget is implemented as intended in a controlled and predictable way; and timely and accurate accounting and fiscal reporting, including timely and audited public accounts with effective arrangements for follow up. Meeting the global 2010 target requires half of partner countries to move up at least one measure (*i.e.* 0.5 points) between 2005 and 2010.

Since 2005, Vanuatu has made improvements in the reliability of its public financial management systems, receiving a 4.0 rating in 2010 as compared with 3.5 in the previous two rounds of analysis. Vanuatu has therefore achieved its target for 2010. The country has a PFM strategy in place which tackles a wide range of key reforms to improve performance in all the PFM dimensions as measured by Public Expenditure Framework Assessments (PEFA). In addition to improvements in PFM performance, a PEFA assessment shows that there has been progress over a three-year period (2006-09). Progress has, however, been somewhat weak in three areas: *i)* fiscal risks of state-owned enterprises, statutory agencies, provincial and municipal government; *ii)* procurement system and *iii)* external audit and scrutiny.

INDICATOR 2b

How reliable are country procurement systems?

Indicator 2b was first measured in 2008 by 17 countries. The process is one of self-assessment, using the Methodology for the Assessment of National Procurement Systems developed by the OECD-DAC Task Force on Procurement. The methodology includes baseline indicators to compare a country's systems to internationally accepted good practice, as well as a new set of indicators. These indicators assess overall performance of the system, compliance with national legislation and standards and whether there is a reform programme in place to promote improved practices. The results are expressed as grades on a four-point scale running from A (the highest) to D (the lowest). The 2010 target is for a third of partner countries to move up at least one measure (*i.e.* from D to C, C to B or B to A) although not all countries will perform an assessment.

No data was available or target applicable regarding the reliability of procurement systems. However a recent independent review concluded that while Vanuatu has comprehensive regulations for public procurement, there is no systematic data on the number of contracts submitted for open bidding and justification for using less competitive methods. As a result no overall assessment of performance or public procurement could be made. The review did, however, point out weaknesses in procurement oversight and observe that only a minimal share of public procurement is currently channelled through the Central Tender Board.

INDICATOR 3

Aligning aid flows on national priorities

Comprehensive and transparent reporting on aid, and its use, helps ensure that donors align aid flows with national development priorities. When aid directed to the government sector is fully and accurately reflected in the national budget it indicates that aid programmes are well connected with country policies and processes. This also allows partner country authorities to present accurate and comprehensive budget reports to their parliaments and citizens.

As a proxy for alignment, indicator 3 measures the percentage of aid disbursed by donors for the government sector that is included in the annual budget for the same fiscal year. The indicator reflects two components: the degree to which aid is aligned with government priorities, and the extent to which aid is captured in government's budget preparation process. Budget estimates can be higher or lower than disbursements by donors and are treated similarly for the purpose of measuring indicator 3 despite the different causes.

| | Government's budget estimates of aid flows in 2010 (USD m) a | Aid disbursed by donors for government sector in 2010 (USD m) b | 2005 | | 2007 | | 2010 * | | Total aid disbursed through other donors (USD m) |
|---------------------|---|--|-----------------|----|-----------------|----|-------------------------------|----|--|
| | | | (for reference) | | (for reference) | | (%) c = a / b c = b / a | | |
| Asian Dev. Bank | 0 | 0 | -- | -- | -- | -- | -- | -- | 0 |
| Australia | 16 | 44 | -- | -- | -- | -- | 37% | -- | 2 |
| EU Institutions | 1 | 3 | -- | -- | -- | -- | 40% | -- | 0 |
| France | 0 | 4 | -- | -- | -- | -- | 3% | -- | 0 |
| Japan | 1 | 1 | -- | -- | -- | -- | 66% | -- | 0 |
| New Caledonia | 0 | 0 | -- | -- | -- | -- | 0% | -- | 0 |
| New Zealand | 5 | 7 | -- | -- | -- | -- | 64% | -- | 0 |
| United Nations | 2 | 4 | -- | -- | -- | -- | 43% | -- | 0 |
| United States | 19 | 19 | -- | -- | -- | -- | 96% | -- | 0 |
| World Bank | 0 | 0 | -- | -- | -- | -- | -- | -- | 0 |
| Average donor ratio | | | -- | -- | -- | -- | 44% | | |
| Total | 44 | 83 | -- | -- | -- | -- | 54% | | 2 |

* Ratio is $c = a / b$ except where government's budget estimates are greater than disbursements ($c = b / a$).

The 2010 target is to halve the proportion of aid flows that are not currently reported on government budgets, with at least 85% of aid reflected in the budget.

In 2010, only 54% of aid flow was recorded in the budget, far below the target of 85%. A number of factors account for the discrepancy between budget estimates and actual disbursements, such as: unsystematic reporting to the government by project implementation units on their disbursement; weak financial reporting abilities among line ministries and insufficient inter-ministerial reporting mechanisms; delays in project implementation; and a lack of a centralised database on aid disbursements.

The United States performed best and France worst in terms of accurately estimating disbursements. Australia, a major donor in Vanuatu, also scored relatively low. To improve the alignment of donors on aid priorities and aid reporting, the government has taken actions such as establishing an integrated national development budget, developing a database to financially and operationally monitor the activities of donors, and increasing dialogue with donors on disbursement issues.

For many countries, aid is a vital source of revenue and resources. Being able to predict aid disbursements – both in terms of how much aid will be delivered and when – is important to enable countries to manage public finances and undertake realistic planning for development. The Paris Declaration calls on donors to provide reliable, indicative commitments of aid over a multi-year framework, and to disburse aid in a timely and predictable manner according to agreed schedules.

Indicator 7 examines the in-year predictability of aid for the government sector by measuring the proportion of planned disbursements (as reported by donors) that are recorded by governments in their accounting system as having been disbursed. Indicator 7 therefore assesses two aspects of predictability. The first is the ability of donors to disburse aid according to schedule. The second is the ability of government to record disbursements for the government sector as received in its accounting system. Indicator 7 is designed to

TABLE 3:
Are government budget estimates comprehensive and realistic?

INDICATOR 7
Providing more predictable aid

encourage progress in relation to both, with the aim of halving the proportion of aid not disbursed (and not captured in the government's accounting system) within the fiscal year for which it was scheduled by 2010. The ultimate goal is to improve not only the predictability of disbursements, but also the accuracy with which they are recorded in government systems – an important element to support ownership, accountability and transparency.

TABLE 4:
Are disbursements on schedule and recorded by government?

| | Disbursements recorded by government in 2010 | Aid scheduled by donors for disbursement in 2010 | 2005 | | 2007 | | 2010* | | For reference: Aid disbursed by donors for government sector in 2010 | For reference: % of scheduled aid disbursements reported as disbursed by donors in 2010** | |
|---------------------|--|--|-----------------|-----------|-----------------|-----------|------------|-----------|--|---|------------|
| | (USD m) | (USD m) | (for reference) | | (for reference) | | (%) | | (USD m) | (%) | |
| | a | b | | | | | c = a / b | c = b / a | d | e = d / b | e = b / d |
| Asian Dev. Bank | 0 | 0 | -- | -- | -- | -- | -- | -- | 0 | -- | -- |
| Australia | 33 | 33 | -- | -- | -- | -- | 99% | -- | 44 | -- | 75% |
| EU Institutions | 5 | 5 | -- | -- | -- | -- | 89% | -- | 3 | 53% | -- |
| France | 7 | 4 | -- | -- | -- | -- | 57% | -- | 4 | -- | 94% |
| Japan | 1 | 1 | -- | -- | -- | -- | 88% | -- | 1 | 100% | -- |
| New Caledonia | 0 | 0 | -- | -- | -- | -- | 0% | -- | 0 | -- | 86% |
| New Zealand | 5 | 8 | -- | -- | -- | -- | 58% | -- | 7 | 91% | -- |
| United Nations | 1 | 2 | -- | -- | -- | -- | 94% | -- | 4 | -- | 35% |
| United States | 24 | 16 | -- | -- | -- | -- | 65% | -- | 19 | -- | 83% |
| World Bank | 0 | 0 | -- | -- | -- | -- | -- | -- | 0 | -- | -- |
| Average donor ratio | | | -- | -- | -- | -- | 69% | -- | | | 77% |
| Total | 77 | 69 | -- | -- | -- | -- | 89% | -- | 83 | -- | 83% |

* Ratio is $c=a/b$ except where disbursements recorded by government are greater than aid scheduled for disbursement ($c=b/a$).

** Ratio is $e=d/b$ except where disbursements recorded by donors are greater than aid scheduled for disbursement ($e=b/d$).

As Vanuatu did not participate in the previous baseline surveys no assessment on progress can be made for indicator 7 (aid predictability). However, the figure recorded for this indicator in 2010 is an encouraging 89%. Of the two major donors to Vanuatu, Australia has the highest predictability (99%), while United States has performed substantially lower at 65%.

Predictability differs for aid that goes through the national budget and aid that does not. While predictability is high for the former, that of the latter is very poor. However, the amount of aid registered in the national budget in 2010 is only indicative, and is often not based on forecasts or previsions of donors. Vanuatu manages this gap by registering aid only after a project has been signed. Efforts by the government to foster dialogue with donors based on the annual budget have not prospered due to the fact that some donors, who together provide more than 65% of aid, use a different fiscal year.

During 2011, the government plans a number of actions to improve aid predictability. Firstly, the government and donors understand the need to co-operate closely in developing a realistic disbursement plan. Other actions include improving information systems within the government; improving annual financial planning with donors using different fiscal years; increasing the use of country PFM systems by donors; implementing the (previously mentioned) donor database; and implementing an aid effectiveness action plan.

Capacity constraints present significant challenges to development and poverty reduction efforts and their sustainability. These relate both to aid management capacities (the ability of the government to capture, co-ordinate and utilise aid flows more effectively) and also to broader capacities for the design and implementation of policies and service delivery.

INDICATOR 4
Co-ordinating support to strengthen capacity

Under the Paris Declaration donors committed to providing technical co-operation that is co-ordinated with partner country strategies and programmes. This approach aims to strengthen capacities while also responding to the needs of partner countries. Successful capacity development is led by the partner country.

Indicator 4 focuses on the extent to which donor technical co-operation (an important input into capacity development) is country-led and well co-ordinated. It captures the extent to which technical co-operation is aligned with objectives articulated by country authorities, whether country authorities have control over this assistance, and whether arrangements are in place to co-ordinate support provided by different donors. The Paris Declaration target is for 50% of technical co-operation flows to be implemented through co-ordinated programmes that are consistent with national development strategies by 2010.

| | Co-ordinated technical co-operation (USD m) a | Total technical co-operation (USD m) b | 2005 (for reference) | 2007 (for reference) | 2010 (%) c = a / b |
|-----------------|--|---|-------------------------|-------------------------|--------------------------|
| Asian Dev. Bank | 1 | 1 | -- | -- | 100% |
| Australia | 12 | 23 | -- | -- | 51% |
| EU Institutions | 0 | 1 | -- | -- | 0% |
| France | 1 | 1 | -- | -- | 60% |
| Japan | 1 | 1 | -- | -- | 100% |
| New Caledonia | 0 | 0 | -- | -- | 0% |
| New Zealand | 4 | 5 | -- | -- | 91% |
| United Nations | 1 | 2 | -- | -- | 60% |
| United States | 1 | 1 | -- | -- | 85% |
| World Bank | 0 | 0 | -- | -- | -- |
| Total | 22 | 36 | -- | -- | 60% |

TABLE 5:
How much technical
co-operation is
co-ordinated with
country programmes?

In 2010, 60% of the assistance was well co-ordinated with the country programmes, considerably above the 2010 target of 50%. Technical assistance accounted for 31% of total aid to Vanuatu in 2010.

The lack of experienced staff in all sectors is a serious constraint on the development of Vanuatu. Many government agencies utilise international advisers and consultants in technical areas. However, progress in transferring skills and knowledge to local staff has been slow. Donors generally understand the need for public capacity to be reinforced by staffing the national administration in relation with their own interventions. Despite the relatively favourable score on this indicator, international consultants should dedicate more of their time towards developing local capacity rather than just filling line positions.

Moreover, although appropriate political will and support and measures on technical assistance are present, the implementation of such directives is not efficient. In order to ensure future progress in this area, both line ministries and development need to better integrate and implement technical co-operation as part of country programmes.

Donor use of a partner country's established institutions and systems increases aid effectiveness by strengthening the government's long-term capacity to develop, implement and account for its policies to both its citizens and its parliament. The Paris Declaration commits donors to increase their use of country systems that are of sufficient quality, and to work with partner countries to strengthen systems that are currently weak. Indicator 5 is directly linked to indicator 2 on the quality of public financial management (PFM) and procurement systems.

Indicator 5a measures the extent to which donors use partner country PFM systems when providing funding for the government sector. It measures the volume of aid that uses partner country PFM systems (budget execution, financial reporting and auditing) as a proportion of total aid disbursed for the government sector. The 2010 target is set relative to indicator 2a on the quality of PFM systems. For partner countries with a score of 5 or above on indicator 2a scale the target is for a two-thirds reduction in the proportion of aid to the

INDICATOR 5
Using country systems

INDICATOR 5a
Use of country public
financial management
systems

TABLE 6:
How much aid for the government sector uses country systems?

| | Aid disbursed by donors for government sector (USD m) | Public financial management | | | | | | Procurement | | | |
|-----------------|---|-----------------------------|---------------------|-----------|-----------------|-----------------|------------|---------------|-----------------|-----------------|------------|
| | | Budget execution | Financial reporting | Auditing | 2005 | 2007 | 2010 | Proc. systems | 2005 | 2007 | 2010 |
| | | (USD m) | (USD m) | (USD m) | (for reference) | (for reference) | (%) | (USD m) | (for reference) | (for reference) | (%) |
| a | b | c | d | | | avg(b,c,d)/a | e | | | e / a | |
| Asian Dev. Bank | 0 | 0 | 0 | 0 | -- | -- | -- | 0 | -- | -- | -- |
| Australia | 44 | 17 | 17 | 17 | -- | -- | 39% | 18 | -- | -- | 41% |
| EU Institutions | 3 | 1 | 1 | 1 | -- | -- | 42% | 1 | -- | -- | 42% |
| France | 4 | 0 | 0 | 0 | -- | -- | 5% | 0 | -- | -- | 11% |
| Japan | 1 | 0 | 0 | 0 | -- | -- | 38% | 0 | -- | -- | 0% |
| New Caledonia | 0 | 0 | 0 | 0 | -- | -- | 44% | 0 | -- | -- | 0% |
| New Zealand | 7 | 6 | 6 | 3 | -- | -- | 63% | 3 | -- | -- | 40% |
| United Nations | 4 | 3 | 2 | 2 | -- | -- | 48% | 2 | -- | -- | 34% |
| United States | 19 | 0 | 0 | 0 | -- | -- | 0% | 0 | -- | -- | 0% |
| World Bank | 0 | 0 | 0 | 0 | -- | -- | -- | 0 | -- | -- | -- |
| Total | 83 | 28 | 26 | 24 | -- | -- | 31% | 24 | -- | -- | 29% |

public sector not using the partner country's PFM systems. For partner countries with a score between 3.5 and 4.5 on indicator 2a, the target is a one-third reduction in the proportion of aid to the public sector not using partner country's PFM systems. There is no target for countries scoring less than 3.5.

In 2010, an average of 31% of aid to the government sector used country public financial management (PFM) systems. This figure can be partly attributed to use of the basket fund implemented as part of the Vanuatu Education Road Map (VERM). Reasons donors do not make greater use of country systems vary from the opinion that PFM systems do not meet international standards, or that donor legislative or regulatory standards differ to donor standards. More specifically, considerable external assistance was channelled outside the Government of Vanuatu's financial management system due to the weak capacity of line ministries in budget execution, financial reporting and auditing capacity.

Indicator 5b follows a similar graduated target to indicator 5a which is set relative to indicator 2b on the quality of procurement systems. For partner countries with a procurement score of 'A', a two-thirds reduction in the proportion of aid for the public sector not using the country's procurement systems and for partner countries with a procurement score of 'B' to reduce the gap by one-third.

In 2010, only 29% of aid to the government sector used the country procurement systems. The national procurement system, despite having a clear legal foundation, is still weak and underused by both the government and donors. The capacity of the Tender Board will need to be strengthened before donors can make greater use of the system. Among the largest donors to Vanuatu, 41% of Australia's aid used the country procurement system, while the United States did not make any use of the country systems.

When providing development assistance, some donors establish dedicated project management units or implementation units (PIUs) - to support development projects or programmes. A PIU is said to be "parallel" when it is created by the donor and operates outside existing country institutional and administrative structures. In the short term, parallel PIUs can play a useful role in establishing good practice and promoting effective project management. However, in the long run, parallel PIUs often tend to undermine national capacity development efforts, distort salaries and weaken accountability for development.

To make aid more effective, the Paris Declaration encourages donors to "avoid, to the maximum extent possible, creating dedicated structures for day-to-day management and implementation of aid-financed projects and programmes." Indicator 6 counts the number of parallel PIUs being used in partner countries. The target is to reduce by two-thirds the number of parallel PIUs in each partner country between 2005 and 2010.

INDICATOR 5b
Use of country procurement systems

INDICATOR 6
Avoiding parallel implementation structures

| | Parallel PIUs | | |
|-----------------|-------------------------|-------------------------|-----------------|
| | 2005 (for reference) | 2007 (for reference) | 2010 (units) |
| Asian Dev. Bank | -- | -- | 0 |
| Australia | -- | -- | 6 |
| EU Institutions | -- | -- | 1 |
| France | -- | -- | 0 |
| Japan | -- | -- | 0 |
| New Caledonia | -- | -- | 0 |
| New Zealand | -- | -- | 1 |
| United Nations | -- | -- | 1 |
| United States | -- | -- | 0 |
| World Bank | -- | -- | 0 |
| Total | -- | -- | 9 |

TABLE 7:
How many PIUs are parallel to country structures?

In 2010 there were nine project implementation units (PIUs) in Vanuatu. Most of these units (six) were operated by Australia. There is however no consensus among government and donors regarding PIU classification, consequently, these figures should be interpreted with a degree of caution. Measures to prevent the high number of PIUs are clearly linked to indicators 4 and 5, with an important focus on capacity building and the use of the national public financial management system. In order to reduce the number of PIUs, constant dialogue is needed between the government and donors. One of the reasons why PIUs are set up is because weak capacity environments cannot ensure that projects and programmes are implemented efficiently. Furthermore, weakness of the country systems leads to the need to guarantee the correct and transparent use of donors' funds.

Aid is "tied" when restrictions are placed on the countries that goods and services may be purchased from, typically including the donor country and/or another narrowly specified group of countries. Untied aid not only improves value for money and decreases administrative burdens, but also supports the use of local resources, country systems and the harmonisation of donor support provided through pooled or joint aid instruments and approaches.

Data on the extent to which aid is tied is based on voluntary self-reporting by donors that are members of the OECD's Development Assistance Committee (DAC). The Paris Declaration target is to continue progress towards untying all aid between 2005 and 2010.

Efforts to untie aid in Vanuatu are mainly made by donors at a global level. The government does not provide any specific reforms in this regard. Some progress on untied aid has been made, with the indicator improving

INDICATOR 8
Untying aid

| | Total bilateral aid as reported to the DAC in 2009 | Untied aid | 2005 (for reference) | 2007 (for reference) | Share of untied aid |
|----------------|--|------------|-------------------------|-------------------------|---------------------|
| Australia | 15.6 | 15.6 | 86% | 100% | 100% |
| Canada | 0.0 | 0.0 | 0% | 0% | -- |
| France | 1.3 | 1.3 | 100% | 100% | 100% |
| Greece | 0.0 | 0.0 | -- | 100% | -- |
| Japan | 0.5 | 0.5 | 100% | 100% | 100% |
| Korea | 0.0 | 0.0 | -- | 0% | -- |
| New Zealand | 24.7 | 24.7 | 70% | 100% | 100% |
| Spain | 0.0 | 0.0 | -- | -- | -- |
| United Kingdom | 0.1 | 0.1 | -- | -- | 100% |
| United States | 3.2 | 0.2 | -- | 11% | 7% |
| Total | 45 | 42 | 90% | 90% | 93% |

TABLE 8:
How much bilateral aid is untied?

Source: OECD Creditor Reporting System.

from 90% in 2007 to 93% in 2010. This is higher than the target, which was for untied aid to be over 90% in 2010. Among the largest donors, the United States had the smallest amount of untied aid, while Australia, France and New Zealand completely untied their aid. ■

HARMONISATION

POOR CO-ORDINATION OF AID increases the cost to both donors and partner countries and significantly reduces the real value of aid. Harmonisation of aid delivery procedures and the adoption of common arrangements help reduce duplication of effort and lower the transaction costs associated with aid management. The Paris Declaration focuses on two dimensions of aid as a proxy for assessing overall harmonisation: the use of common arrangements within programme-based approaches (PBAs) and the extent to which donors and partner countries conduct joint missions and co-ordinate analytic work.

INDICATOR 9 Using common arrangements

Aid effectiveness is enhanced when donors use common arrangements to manage and deliver aid in support of partner country priorities. A good mechanism for aid co-ordination can be described as one that has shared objectives and integrates the various interests of stakeholders. Indicator 9 assesses the degree to which donors work together – and with partner governments and organisations - by measuring the proportion of total ODA disbursed within programme-based approaches (PBAs). In practice, there are many different approaches and modalities which can use PBAs and harmonisation takes place at various levels.

At one level, the partner country is responsible for defining clear, country-owned programmes (*e.g.* a sector programme or strategy) and establishing a single budgetary framework that captures all resources (both domestic and external). At another level, donors are responsible for taking steps to use local systems for programme design and implementation, financial management, monitoring and evaluation. Finally, partner countries and donors are jointly responsible for donor co-ordination and harmonisation of donor procedures. The 2010 target is that two-thirds of aid flows are provided in the context of PBAs.

TABLE 9:
How much aid is
programme based?

| | Programme-based approaches | | | Total aid disbursed (USD m) d | 2005 (for reference) | 2007 (for reference) | 2010 (%) e = c / d |
|-----------------|--------------------------------|----------------------------|-------------------------------|--|-------------------------|-------------------------|--------------------------|
| | Budget support (USD m) a | Other PBAs (USD m) b | Total (USD m) c = a + b | | | | |
| Asian Dev. Bank | 0 | 0 | 0 | 1 | -- | -- | 0% |
| Australia | 0 | 6 | 6 | 65 | -- | -- | 9% |
| EU Institutions | 0 | 0 | 0 | 3 | -- | -- | 0% |
| France | 0 | 2 | 2 | 5 | -- | -- | 45% |
| Japan | 0 | 0 | 0 | 2 | -- | -- | 0% |
| New Caledonia | 0 | 0 | 0 | 1 | -- | -- | 27% |
| New Zealand | 0 | 3 | 3 | 11 | -- | -- | 29% |
| United Nations | 1 | 0 | 1 | 5 | -- | -- | 17% |
| United States | 0 | 19 | 19 | 19 | -- | -- | 100% |
| World Bank | 0 | 0 | 0 | 2 | -- | -- | 0% |
| Total | 1 | 30 | 31 | 114 | -- | -- | 27% |

The use of common arrangements within programme-based approaches was reported at 27% in 2010, far below the target of 66%. An important example of the programme based approach is the VERM, implemented through a basket fund. For the most part the VERM basket fund makes use of the national PFM system, although modalities of the fund still need to be improved for it to be totally incorporated into the national PFM system. The main challenges in channelling a greater proportion of aid in support of programme-based approaches include: the lack of sector strategies; the lack of a sector medium-term expenditure framework; weak quality of indicators and monitoring and evaluation systems; and the lack of capacity in financial reporting. Moreover, national ownership of the process is relatively low as it is largely led by donors.

Some sectors are beginning to establish programme-based approaches. For example, in the health sector, a joint agreement between the government and donors was signed in early 2011. In addition, priorities in the sector strategy, an M&E framework, and a capacity building plan are under development. Regular meetings between the government and donors are also in place in the infrastructure sector. Harmonisation of donor procedures is the main challenge, and ownership could be reinforced by implementing sector approaches. However, it is critical that different stakeholders address their capacity development issues first and phase out the use of project approaches and direct (and uncoordinated) contact between line ministries and donors.

A common complaint of partner countries is that donors make too many demands on their limited resources: country authorities spend too much time meeting with donor officials and responding to their many requests. The Paris Declaration recognises that donors have a responsibility to ensure that, to the greatest extent possible, the missions and analytical work they commission are undertaken jointly – *i.e.* that the burden of such work is shared. The 2010 target is that 40% of donor missions to the field are conducted jointly.

INDICATOR 10a Joint missions

| | Co-ordinated donor missions* (missions) a | Total donor missions (missions) b | 2005* (for reference) | 2007* (for reference) | 2010* (%) c = a / b |
|-----------------|---|---|--------------------------|--------------------------|---------------------------|
| Asian Dev. Bank | 6 | 11 | -- | -- | 55% |
| Australia | 3 | 7 | -- | -- | 43% |
| EU Institutions | 1 | 5 | -- | -- | 20% |
| France | 4 | 10 | -- | -- | 40% |
| Japan | 0 | 2 | -- | -- | 0% |
| New Caledonia | 2 | 2 | -- | -- | 100% |
| New Zealand | 3 | 5 | -- | -- | 60% |
| United Nations | 6 | 25 | -- | -- | 24% |
| United States | 0 | 14 | -- | -- | 0% |
| World Bank | 0 | 0 | -- | -- | -- |
| Total | 14 | 59 | -- | -- | 23% |

* The total of coordinated missions has been adjusted to avoid double counting. A discount factor of 35% is applied.

TABLE 10:
How many donor
missions are
co-ordinated?

On aggregate, 23% of a total of 59 donor missions to Vanuatu were conducted jointly in 2010. This is just over halfway to the Paris Declaration target of 40%. The UN conducted the largest number of uncoordinated missions, followed by the United States and France. Efforts are being made to increase the proportion of co-ordinated missions. For example, the future Action Plan on Aid effectiveness will include commitment to reduce the absolute number of missions to the field and increase the number of joint/co-ordinated missions. However, efforts to increase joint missions have been impeded by donors' specific interests, language issues and internal procedures which obstruct joint missions. There may be a need to establish an information exchange platform to address these challenges.

Country analytic work is the analysis and advice necessary to strengthen policy dialogue, and to develop and implement country strategies. It includes country or sector studies and strategies, country evaluations and discussion papers. The Paris Declaration foresees that donors should conduct analytic work jointly where possible as it helps curb transaction costs for partner authorities, avoids unnecessary duplicative work and helps to foster common understanding. Indicator 10b measures the proportion of country analytic work that is undertaken jointly. The 2010 target is that 66% of country analytic work is carried out jointly.

INDICATOR 10b Joint country analytic work

TABLE 11:
How much country
analytic work is
co-ordinated?

| | Co-ordinated donor analytic work * (units) a | Total donor analytic work (units) b | 2005* (for reference) | 2007* (for reference) | 2010* (%) c = a / b |
|-----------------|---|--|--------------------------|--------------------------|---------------------------|
| Asian Dev. Bank | 3 | 3 | -- | -- | 100% |
| Australia | 3 | 3 | -- | -- | 100% |
| EU Institutions | 2 | 2 | -- | -- | 100% |
| France | 1 | 2 | -- | -- | 50% |
| Japan | 0 | 0 | -- | -- | -- |
| New Caledonia | 0 | 0 | -- | -- | -- |
| New Zealand | 1 | 1 | -- | -- | 100% |
| United Nations | 17 | 23 | -- | -- | 74% |
| United States | 0 | 0 | -- | -- | -- |
| World Bank | 0 | 0 | -- | -- | -- |
| Total | 20 | 34 | -- | -- | 60% |

*The total of coordinated country analytic work has been adjusted to avoid double counting. A discount factor of 25% is applied.

In total, 60% of country analytical work was co-ordinated amongst donors in 2010, slightly lower than the 2010 Paris Declaration target of 66%. Most of the co-ordinated missions belong to ongoing programme-based approaches. ■

MANAGING FOR RESULTS

INDICATOR 11 Do countries have results-oriented frameworks?

BOTH DONORS AND PARTNER COUNTRIES should manage resources according to well-defined, desired results, measuring progress toward them and using information on results to improve decision making and performance. Achieving this implies strengthening capacity to undertake such management and emphasising a focus on results. Countries are expected to develop cost-effective and results-oriented reporting and performance assessment frameworks, while donors commit to use them and refrain from requiring separate reporting.

Indicator 11 assesses the quality of a country's results-oriented frameworks. In particular, it considers the quality of the information generated, stakeholder access to information, and the extent to which the information is utilised within a country level monitoring and evaluation system. The government provides evidence against these criteria through the Survey, and this is translated by the World Bank into a score running from A (highest score) to E (lowest score). The Paris Declaration 2010 global target is to reduce the proportion of countries without transparent and monitorable performance assessment frameworks by one-third.

Vanuatu received a score of C regarding the status of a result-oriented framework. Since data for previous years is not available, no conclusions about progress over time can be drawn. Vanuatu does not have a monitoring and evaluation (M&E) framework for its national development strategy (NDS). However, two Annual Development Reports have been published by a Monitoring & Evaluation Unit which was established within the Prime Minister's Office in 2009. The quality of development information is poor, and is a significant impediment because the coverage of qualitative and quantitative indicators for the NDS was not comprehensive. Furthermore, the data did not meet M&E requirements. The remaining challenge is therefore to allocate resources for more frequent surveys; motivate line ministries, and train officials so that they are skilled to collect and compute data. Recent developments towards this include an improvement in the human resource capacity at the statistics office and at the Monitoring and Evaluation Unit.

Stakeholder access to information was rated as relatively poor; however the NDS progress reports are publicly available electronically and in hardcopy in English and French. While public expenditure data are also available in hardcopy in English and French, few materials are available in Bislama, the national language.

Co-ordinated country-level monitoring was also rated as relatively poor in 2010 suggesting that the line ministries did not take full advantage of information contained in the M&E reports in order to monitor the implementation of government programmes at the sector level. The M&E Unit is responsible for tracking outcome indicators and for assisting line ministries to track input and output indicators. Efforts are being made to ensure that service delivery is effective. However, because the M&E system was only set up in 2009, its development is still in progress. ■

MUTUAL ACCOUNTABILITY

STRONG AND BALANCED MECHANISMS that support accountability are required at all levels for aid to be most effective. Donors and partner country governments should be accountable to their respective publics and to each other for implementing their commitments on aid, its effectiveness, and the results to which it contributes.

Indicator 12 examines whether there is a country-level mechanism for mutual assessment of progress on partnership commitments, including on aid effectiveness. There are three criteria that must all be met: the existence of an aid policy or strategy agreed between the partner country government and donors; specific country-level aid effectiveness targets for both the partner country government and donors; an assessment towards these targets undertaken by both partner and donors in the last two years, and discussed in a forum for broad-based dialogue.

The 2010 target is for all partner countries to have mutual assessment reviews meeting these criteria in place. Vanuatu does not have a formal mechanism for the mutual review of progress, and mutual accountability is therefore limited. A donor meeting was held in 2010, which allowed for a multilateral informal survey of the implementation of the Priority Action Agenda (PAA). Although some sectors are benefiting from mutual assessment tools, these do not constitute a general framework for the assessment of the PAA and Planning Long, Acting Short matrix (PLAS).

The presentation of the MDG report and the Annual Development Report to donors have been opportunities to conduct bilateral dialogue on aid effectiveness, but these documents are mostly considered to be national documents, rather than joint assessments. Therefore, the implementation of an action plan on aid effectiveness is necessary for both the government and donors to build their actions and efforts on the current aid co-ordination and monitoring mechanism. The action plan will enclose a mechanism to assess progress in each area, and to discuss challenges and consider new opportunities. ■

NOTES

The quantitative information presented in the chapter is taken from data provided by national co-ordinators up to 31 July 2011, following the data validation process with stakeholders.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

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INDICATOR 12

Mutual accountability

