



Climate PFM At-a-Glance: VANUATU

USD\$ 211.3 Million 2018 Recurrent Budget
 USD\$ 132.0 Million 2018 Development Budget
 USD\$ 378.0 Million Total 2018 Appropriation

US\$11,228 Million Nominal Gross Domestic Production (GDP)
 US\$1,931 (2014 est) GDP/Per Capita

274,775 (2016 est) Population
 Coconut Oil, Copra, Kava, Beef: Main Export

Vanuatu economy has:

- Bounced back strong post-2015 Cyclone Pam driven by tourism & infrastructure investments;
- Embarked on fiscal adjustment measures to address the rising debt and rebuild fiscal buffers and resilience;
- Enactment of anti-money laundering and countering financing terrorism laws; and
- Some challenges still remain.

PFMS is key to:

- Effective economic management;
- Achieving development outcomes; and
- Accessing climate change and disaster risk management (CCDRM) finances.

A summary of Public Finance Management (PFM) performance and key areas for reforming are identified in the consolidated PFM issues matrix¹.

Country's Strategic Direction

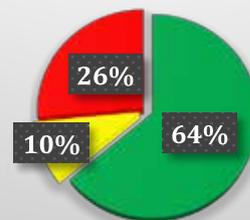
The Government of Vanuatu has adopted a 2030 People's Plan as the National Development Strategy (NSD) for the 2016-2035 with a vision to achieving a stable, sustainable and prosperous country. An infrastructure plan was also developed outlining rural and urban development priorities. The Vanuatu 2016-2030 climate change and disaster risk reduction (CCDRR) policy disaggregates the NSD into specific key areas of the country's concern over CCDRR, which are mostly PFM related such as integrating CCDRR into planning and budgeting and improvement of project management, coordination and implementation.

¹ A traffic-light coding single matrix consolidated PFMS issues guided by PEFA and PCCFAF identified weaknesses and strengthens. The RED required immediate reform actions; GREEN – satisfactory performance and ongoing monitoring to avoid slippage and Yellow: means medium policy reform actions.

Public Finance Management System Performance

The PFM analysis finds that the overall performance reflects good progression in the PFM reforms illustrated by the satisfactory performance of 64% and on-going improvement in the overall PFM system of 10% in the figure 1 below. This is driven by the improvements identified in budget preparation and its formulation. Some good progress was identified in the accounting procedures and processes, but weak performance identified in the oversight institutions such as auditing, procurement process, project management and internal control. These are key functions that need to be strengthened in order to enhance the ability of the country to access climate change finance. The 26% of Vanuatu's PFM system as presented in figure 1 below suggests an immediate reform actions.

Figure 1: Overall PFM Performance: 2018



■ Satisfactory ■ Medium term reform ■ Immediate reform

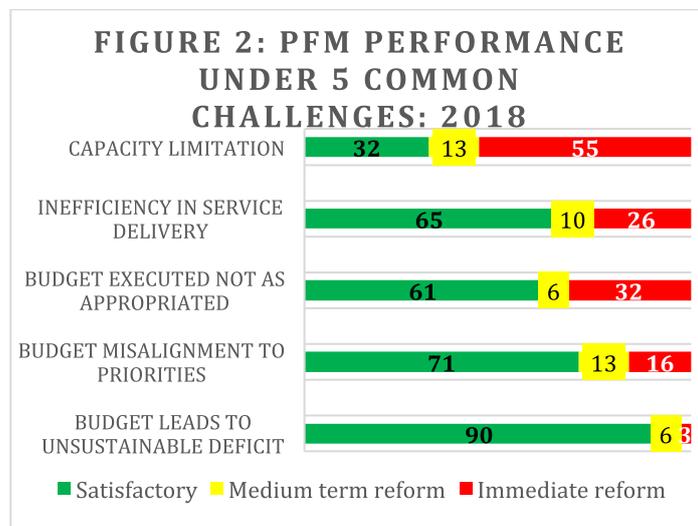
The analysis finds 5 common PFM challenges faced by the FICs, as shown in the table below. Whilst Vanuatu PFM shared same common challenges, capacity limitation identified as the most compelling one.

These are five common challenges namely;

1.	Unrealistic budget leads to unsustainable deficits
2.	Budget misalignment with priorities
3.	Budgets executed not as appropriated
4.	Inefficiency in service delivery
5.	Capacity limitation

PFM performance by common challenges²

The overall PFM system is performing satisfactorily under each common challenge illustrated by the green colour coding with the exception of the capacity limitation challenge represented by 55% of the PFM system and processes that are lacking in adequate resources. This situation requires an immediate enhancement support in order to improve the country's ability to access climate change finance. Capacity limitation refers to shortage of human resources, lack of PFM skills and absence of key soft and hard infrastructure capabilities³ such as proper documentation for project management and state-of-the-art financial management system.



Addressing capacity limitation

Capacity limitations are frequently cited as key constraint to obtaining “best practice” performance standards for PFM. The following are suggested actions to address capacity constraint in Vanuatu.

1. Prioritise capacity to areas that matter most in achieving development outcomes and meeting climate change and disaster risk (CCDR) funds fiduciary criteria;
2. Improve access to capacity building, supplementation and substitution opportunities;
3. Improve infrastructure capabilities;
4. Secure political support of stakeholders involved in PFM reforms (leadership/commitment); and
5. Alignment of donors’ aid modalities to country’s strategies - coordination and harmonisation.

Suggested key PFMS reform Areas

Vanuatu has benefited from US\$20.5 million grant from

the Green Climate Fund, via SPREP, to strengthen the country’s preparedness to cope with climate change in five sectors namely, tourism, agriculture, infrastructure, water management and fisheries. With the economy bouncing back strongly after the 2015 Cyclone Pam, there are downside risks that remain from natural disasters, rate of implementation of projects and lack of capacity to improve the PFM system in order to accommodate the economic diversification efforts and to access climate change finance.

The following are suggested key PFM areas to consider reforming immediately (within 1 – 2 years timeframe):

- a. Integrating priorities into the budget and revamping of the accounting coding system;
- b. Developing a monitoring and evaluation (M&E) framework to measure policy reform performance against desired results;
- c. Strengthening cash-flow management, internal control and internal audit;
- d. Strengthening procurement by establishing an independent appeals body and recording database for transparency processes; and
- e. Developing asset and project management processes, guidelines and framework.

Highlights of available support programs

- DFAT/GIZ CFRP Project consolidated all PFM issues and validated the key areas that need to be addressed;
- CFRP Project can provide direct technical support to specific PFM reforms, including SPC –ISACC on project management capacity development support;
- ADB/PFTAC can provide assistance towards strengthening budget management, monitoring, procurement and asset management; and
- World Bank can provide assistance jointly with ADB within their focal areas of support.

Key documents

- People’s Plan (the National Development Strategy)
- Vanuatu Climate Change Policy
- PEFA Reports and Pacific Country Peer Review
- PFM Consolidated Issues Matrix
- Climate Public Expenditure and Institutional Review Report
- 2018 Vanuatu Climate Change Finance Review Report

² PFM identified common challenges facing FICs.

³ Refers to financial information management technology and key PFM documentations and institutions.