Report

Governance for Growth in Vanuatu

Review of a decade of thinking and working politically

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Cover photo: Kelan Sing, a fisherman from Taremb community, on Vanuatu's Malekula Island, says he can now text for help while at sea. Taremb, Malekula, Vanuatu. Photo: Tom Perry / World Bank.

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Acronyms

ADB	Asian Development Bank
AusAID	Australian Agency for International Development
BSI	Budget Strengthening Initiative (ODI)
CRP	Comprehensive Reform Program
DFAT	Department of Foreign Affairs and Trade (Australia)
DFID	Department for International Development (UK)
DSPPAC	Department of strategic policy planning and aid coordination
FSB	Financial service bureau
GfG	Governance for Growth programme
IFMIS	Integrated financial management information system
KSI	Knowledge Sector Initiative
MFEM	Ministry of Finance and Economic Management
MFEM-ISP	MFEM Institutional Strengthening Project
NGO	Non-governmental organisation
OAG	Office of the Auditor General
ODI	Overseas Development Institute
OECD	Organisation for Economic Cooperation and Development
OPM	Office of the Prime Minister
PDIA	Problem-driven iterative adaptation
PFM	Public financial management
PLP	Pacific Leadership Program (DFAT)
TAF	The Asia Foundation
TRR	Telecommunications and Radiocommunications Regulator
URA	Utilities Regulatory Authority
USAID	United States Agency for International Development
VCMB	Vanuatu Commodities Marketing Board
VTSSP	Vanuatu Transport Sector Support Programme

Executive summary

This report reviews the DFAT-funded Governance for Growth (GfG) programme, which has been supporting economic governance and public financial management (PFM) reforms in Vanuatu for the past decade. It forms one part of a broader evaluation of GfG that will inform the design of the next phase of the programme.

The specific focus of this review is to consider if and how GfG has been able to *work politically*. There are growing criticisms of the way that donors work to strengthen the public institutions of their partner countries, suggesting that much external assistance is better at changing how systems *look* than how they actually *function*. A number of communities of practice are proposing new ways of working politically.[1] They emphasise the need for reforms to be *problem-driven* and *locally led*. They also call for more flexibility to adapt projects during implementation.

GfG has been able to support reforms in a number of different areas by working politically. Flagship changes such as the liberalisation of the telecommunications industry have been accompanied by important reforms in areas such as wharf management, fiscal decentralisation, school capitation grants and taxation. The range of reforms that have been supported by GfG is considerable given the resources available to the programme.[2]

GfG's achievements are grounded in the design process that started in the mid-2000s. The programme built upon the success of an earlier AusAID project for strengthening the Ministry of Finance and Economic Management (MFEM). Not only did the design learn critical lessons from this project, but GfG was also able to harness the relationships that had been developed with a group of influential ni-Vanuatu officials and politicians. As a result, GfG was established with a strong sense of partnership between AusAID and the Government of Vanuatu.

The partnership is reinforced by the organisational arrangements of GfG. Strategic oversight is provided by a management committee comprising officials from the Office of the Prime Minister (OPM) and MFEM. Day-to-day activities are managed by a small team of DFAT staff who are co-located in OPM. Budget responsibilities are devolved to the director so that GfG can operate at arm's length from the High Commission. A commitment to use country systems also allows GfG to support reforms which would be sensitive to implement as a standalone DFAT project.

While these arrangements have remained largely the same for the past decade, interview respondents identified a number of factors that have shaped the way that GfG operates in practice. Relationships with counterparts have been affected by transitions in staff, the introduction of new fiduciary risk requirements and the merger of AusAID into DFAT. GfG has also had to operate for long periods in a context where space for reforms was limited by political instability. Responding to the impact of Cyclone Pam, which struck in March 2015, has also consumed considerable resources in the government. Finally, there were factors that limited the responsiveness of GfG itself. Budget cuts in the Australian aid programme made GfG less able to take on new activities without affecting existing partners. Further, the GfG team has been understaffed at times and concurrently had to dedicate more time to managing the administrative requirements of a complex programme.

In the context of these cross-cutting issues, the review considered six inter-related dimensions of working politically to unpack more explicitly some of the strengths and weaknesses of the programme.[3]

- *Brokering relationships:* GfG is built around its relationships with government, and mainly with senior and mid-level bureaucrats. Many features of GfG, including co-location, aim to encourage close working partnerships between the GfG team and their counterparts in Vanuatu. The team also invests considerable time and effort into maintaining these relationships. However, the original sense of partnership and shared purpose has been diluted by changes in staff. The team also has less time to network than in the early years when successes were greatest.

1. These include a manifesto for *doing development differently*, a community of practice for *thinking and working politically*, and proponents of *locally led, politically smart* development projects.
2. The programme has run over two successive phases (2007-2011 and 2012-2017) with a core team of around four DFAT staff. Expenditures from 2007/08 to 2015/16 totalled A$86.4 million. A large portion of spending between 2007/08 and 2011/12 supported the Vanuatu Transport Sector Support Program (VTSSP) which has since been moved under the High Commission. Excluding transport-related spending, GfG has committed around $58.5 million over nine fiscal years.
3. These dimensions are adapted from the framework for *politically smart, locally led* development projects proposed by Booth & Unsworth (2014).

- *Identifying problems:* GfG relies mainly on its counterparts to identify reform priorities and the right approach to addressing them. However, the space for reform was closed for long periods between 2010 and 2015. In response, GfG aims to have a number of 'irons in the fire', waiting for a reform opportunity to open, and continuing to work on capacity-building in the interim. Notably, the designated budget for research has lacked purpose and has been an easy target for budget cuts as a result. Specialist expert posts have also been vacant for long periods, which might restrict GfG from opening up new windows for work in the way that GfG has done in the past (e.g. developing policies to use country systems to pay school capitation grants).
- *Supporting local leadership:* By working at arm's length from DFAT, GfG can provide support to highly political reforms in a way that supports strong local ownership. Its approach allows the government to consider advice and step back from reforms without losing credibility. Further, the use of accountable grant agreements allows the government to lead implementation as well. However, it was noted that the management committee has been less effective in providing strategic direction than originally envisaged, and the GfG team has assumed more responsibility for managing its portfolio of work as a result.
- *Iterating solutions:* GfG generally aims to develop solutions incrementally, starting with a concept and building on that with the help of its networks. The reduction in the direct involvement of the GfG team in reform implementation has, however, changed the mechanisms that support iteration. In the early years, the GfG team could be heavily involved in implementing reforms. As this responsibility has passed increasingly to a growing number of grant partners and GfG's administrative burden has increased, the team spends less time engaging with each partner, often relying on grant execution rates as a signal of broader problems. However, if circumstances change, GfG is still able to respond quickly and appropriately. The use of country systems also gives GfG an incentive to tackle the constraints that affect programme performance, such as the procurement process.
- *Flexible funding:* GfG has considerable flexibility built into its design. The budget has unprogrammed components and the mandate for GfG is broad, in the knowledge that it is difficult to predict which reforms will be implemented and when. In the early years of GfG, funding was readily available which made the programme even more responsive. However, since 2012, budget cuts have effectively eliminated unallocated resources because these were needed to maintain existing commitments. As funding has become more restricted and the fiduciary requirements have been raised, partners appear to have lowered their expectations of what GfG is able to deliver.
- *Committing for the long term:* Institutional reforms take time to implement. Recognising this, GfG was set up for an initial period of ten years, which will be continued in the next phase. DFAT has also protected many of the programme's key design features, including co-location, which shows a high level of support for GfG's way of working. However, the tenure of the director is typically only three or four years, which makes the senior programme managers critical for maintaining knowledge and relationships over time.

Overall, it is clear that GfG is working politically and that its support has helped the government implement a number of important reforms. The review finds that GfG embodies some principles of locally led, politically smart development more than others. It is a powerful example of the importance of brokering relationships, but also clearly promotes local leadership with flexible and long-term funding commitments. However, relationships are not as strong as they were in the early years of the programme and the mechanisms for adapting reform efforts during implementation have grown weaker as the team have spent increasing amounts of time on administration.

Since February 2016, a new window of opportunity has emerged, with a reformist government taking power and pressing for change. Following the sentencing of 14 MPs for bribery, the newly elected government is seen as both cohesive and activist. The key challenge for GfG in the next phase is to ensure that it is able to help counterparts in government make the most of this political window. A number of recommendations are presented that are considered to be important in (a) allowing GfG to respond to the opportunities presented by the change in government and (b) reinvigorating GfG's role as a trusted adviser to the government:

1. *Using the design process itself to build a common sense of purpose.* The design team should involve a number of different stakeholders. As a minimum, it should include staff from central agencies and key figures in the present government in Vanuatu, and the future counsellor, head of mission and GfG director from DFAT.
2. *Maintaining the core organisational arrangements of GfG.* Retain the core organisational arrangements of GfG and continue the co-location of the GfG office.
3. *Ensuring adequate staffing of GfG.* Consider an additional post at the level of programme manager to free up the director and senior programme manager to engage with partners. Review the purpose, positioning and nature of the specialist PFM and economics roles.
4. *Reinforcing GfG's autonomy to align with Vanuatu's interests.* Maintain GFG's autonomy as a central part of the next design and clarify the relationship between GfG and the rest of the aid programme. Review ex-ante fiduciary controls for GfG assistance to the Government of Vanuatu. Review GfG's requirements for branding in

order to help GfG to be perceived as separate from the High Commission.

5. *Resetting expectations of what GfG is likely to achieve in the next phase.* State clearly upfront in the new design document that GfG is not expected to support more than two to three transformational reforms over the next five years. Retain the broad mandate to improve rural service delivery and economic growth, but review the results area on PFM that expects cross-government improvements in the quality of budgeting and expenditure management.
6. *Strengthening partnerships and strategies for guiding GfG's activities.* Map the top policy demands of the government that are relevant to GfG and the key stakeholders linked to them. The design team should help GfG develop an appropriate set of mechanisms to reflect on and challenge their activities on a periodic basis, such as holding six-monthly reflection and refocus sessions that consider programme direction and implementation challenges. Conduct a stakeholder mapping exercise to reflect upon how to engage with partners most effectively.
7. *Using the research fund to reflect upon and challenge GfG's direction.* Specify the type and range of research inputs that would be useful and consider engaging one or two providers with complementary skills to provide this support. Develop a set of tools within the GfG team for constructing and breaking down problems – both internally and with counterparts
8. *Managing knowledge and staff transitions effectively.* Rebalance the programming and administrative roles in the team to give more strategic responsibilities to the senior programme managers. Use the transition period to explicitly increase lesson-learning and planning through a strategic handover period in Vanuatu for the director; and GfG hosting an induction for the new counsellor and high commissioner.

1. Introduction

This report reviews the DFAT-funded Governance for Growth (GfG) programme, which has been supporting economic governance and public financial management (PFM) reforms in Vanuatu for the past decade. The programme has a unique and innovative design, and a mandate to help the Government of Vanuatu to identify and address institutional constraints to growth and better services in a way that is appropriate and politically acceptable. The programme has run over two phases (the first from 2007 to 2011 and the second from 2012 to 2017) at a cost of nearly A$90 million over the first nine years. GfG is now preparing to enter a third phase, starting in mid-2017.

As part of a broader evaluation of GfG, the objective of the review is to consider if and how GfG has been able to support institutional reforms in practice. It specifically considers the extent to which GfG has been able to work politically. The review, therefore, focuses on the GfG team, its approach to supporting reforms, and the organisational structures and environment that it works within. The analysis is framed alongside broader experiences of *doing development differently* and *thinking and working politically* – two communities of practice seeking to improve donor support for the strengthening of public institutions in partner countries, which are grouped together under the general heading of *working politically* for the purpose of this review.

There is increasing awareness in aid agencies that politics is important for economic and social development. This has followed a series of shifts in the focus of aid from increasing capital investment, to getting the right economic policies, to strengthening institutions and the quality of government. However, this knowledge has not generally translated into an effective way of helping developing countries to build their state capabilities. Most development support for institutional reforms in partner countries is still based on the assumptions that (a) adopting good-practice institutions will promote development, and that (b) change can be effected by adherence to a pre-determined, tightly sequenced plan.

A large and growing literature is criticising this *blueprint* project approach that donors use to support institutional reforms in partner countries (Brinkerhoff & Ingle, 1989; Rondinelli, 1993; Grindle, 2004; Porter et al., 2010; Andrews, 2012). It is argued that this approach might work well for delivering logistical tasks such as administering vaccines, but it has been much less successful in institutional reforms, which are highly complex.[4] In the area of PFM, donor-supported reforms have often changed the way systems *look* without really changing how they *function* (Andrews, 2010; de Renzio et al., 2011; Andrews & Bategeka, 2013). Similar arguments have been made for economic governance reforms (Hallward-Driemeier & Pritchett, 2010). Concerns are emerging that, in supporting reform in this way, donors may be damaging state capabilities by overburdening existing institutions and channelling their efforts away from solving local problems. This scenario has been neatly summarised by some as creating 'capacity overload' (Pritchett & Woolcock, 2008; Porter et al., 2010; Pritchett et al., 2013b).

These concerns are particularly pertinent to small Pacific island countries (Haque et al., 2016). Many of these countries have small populations, which limits the size and capacity of the public administration, and makes it more difficult to support advanced PFM systems (Kidd, 2010; Haque et al., 2015). They are also highly dependent on foreign aid, which makes donors an important part of the political economy of reforms (Riechel, 2002). Many other factors further complicate public administration and service delivery, including dispersed populations and the existence of only a small number of suppliers for goods and services from which governments can procure domestically. Formal and informal systems of governance are often intertwined. This means that the concepts that underpin the democratic institutions in most OECD countries, such as 'social distance in public administration', simply may not hold (Duncan, 2011; Paul, 2006). Many of these issues are documented in the Drivers of Change study of Vanuatu (Cox et al., 2007).

Calls to move from a *best practice* to a *best fit* approach have found new proponents in the doing development differently agenda (Andrews et al., 2012; Booth & Unsworth, 2014). This agenda includes a stronger emphasis on working with the grain of local politics (Levy, 2014), but also calls for a more adaptive approach to implementation. These challenges have been recognised by donor organisations, which are beginning to look more critically

4. Institutional reforms involve many different actors and behaviours, each with its own dynamic and each responding to changes in the other. This makes change highly complex and difficult to predict before the reform process begins. Often the solution to the problem that reforms seek to address is only really understood once the solution has been developed. In this spirit, North writes: 'knowing the kind of institutions that need to be put in place to realise economic growth does not tell us how to acquire them in the first place' (2008, cited in Faustino & Booth, 2015: 2).

at their tools for supporting governance reforms. DFID has developed new SMART Rules, for example, and USAID has introduced the Local Systems Framework, both of which aim to support a new way of working. These changes are being supported by groups such as the Overseas Development Institute (ODI) and the John F. Kennedy School of Government (Andrews et al., 2015), as well as the DFAT-funded Developmental Leadership Programme, which has established a community of practice for thinking and working politically (Dasandi et al., 2016).

Although it emerged before the current language of doing development differently, the GfG programme in Vanuatu shares many common features with other programmes that have been identified as working politically. In the first design document (GfG, 2007), there is an explicit aim to have a 'deeper partnership between donor and government, [that is] able to go beyond sectoral and technical fixes'. Operationally, the programme demonstrates long-term commitment without tightly defining the outputs to be delivered, giving it the flexibility to adapt as policy priorities change.

This review aims to take stock of GfG's experiences over the past decade to inform the design document for the next phase of implementation. The analysis is based on a desk review of existing literature, relevant GfG documents and in-depth case study evidence. The ODI review team travelled to Vanuatu in September 2016 and conducted over 30 interviews with government officials, development partner representatives and GfG programme staff. This was followed by discussions with DFAT staff in Canberra. Findings were tested through follow-up discussions with additional technical and regional specialists.

The discussions of the key findings are organised into three broad sections:

- Section 2 reviews the origins of GfG, how it has evolved over time and the results it has been able to support.
- Section 3 uses a framework for thinking and working politically to understand which factors have allowed GfG to deliver results and which factors have worked as constraints.
- Section 4 provides a final set of conclusions and recommendations for the design of Phase III of GfG.

What emerges from the review is that GfG has been able to support reforms in a number of areas by working politically. Flagship changes such as the liberalisation of the telecommunications industry have been accompanied by important changes in areas such as wharf management, fiscal decentralisation, school capitation grants and taxation. Even where some reforms have not been successful, GfG's approach has been commended by partners in government and other stakeholders.

However, working politically is not easy, and GfG has faced periods of resource shortages, strained relationships and volatile politics in Vanuatu, as well as changes in the Government of Australia's aid programme that have limited GfG's ability to broker or facilitate reforms. While the programme has become more institutionalised over time, it may have lost some of its earlier ability to innovate as a result.

The key challenges now are to find ways to reinvigorate the relationship with the new Government of Vanuatu and to create more flexibility within the programme to respond to its priorities. This requires DFAT to provide the right kind of backing – and to avoid using GfG as a means to directly influence domestic policies. This also presents an opportunity to get the other parts of the bilateral aid programme to work more politically as well.

2. What is GfG, how has it evolved and what results has it achieved?

2.1. Origins of GfG

GfG was formally established in 2007, though it was effectively a continuation of Australian support to PFM and public sector reforms in Vanuatu that had begun at least a decade before. A governance crisis in Vanuatu in the 1990s led to the start of the Comprehensive Reform Program (CRP) under the Asian Development Bank (ADB) in 1997, which initiated numerous institutional and policy reforms to promote good governance and economic management (Ambrose, 1997). AusAID provided dedicated support through two managing contractors to strengthen the Ministry of Finance and Economic Management (MFEM) and implement public service reforms.[5]

Learning from the experiences with these reforms and others across the Pacific, AusAID was keen to try something different. Though there were some successes, the CRP was widely criticised for being too ambitious and legalistic, and for overstretching the capacity of the Vanuatu civil service (Cox et al., 2007: 32). The record of AusAID's support was also mixed. While the MFEM Institutional Strengthening Programme (MFEM-ISP) was widely viewed to be successful, despite challenges with improving capacity in line ministries (AusAID, 2004), the public sector project (the Civil Service Reform Programme) was not. Cox et al. (2007: 54) summarised the factors that made the MFEM project more successful:

> *Its success appears to have rested on a number of elements. It was sustained over a seven-year period, sufficient for new systems to become embedded before international support was withdrawn. The team of foreign technical advisers included Bislama speakers willing to invest extensive time and effort in understanding the networks and power relations involved, and building up relationships with key stakeholders. There was extensive use of informal channels to promote understanding of the reforms and build consensus. Careful attention was given to hiring a new generation of professional staff (including individuals well-positioned within the right social networks). They were provided with scholarships to acquire necessary skills at foreign universities, on condition they remained in the public administration after their return for a fixed period. There was a strong emphasis on skills training of key stakeholders right across government, and efforts were made to improve the transmission of skills among ni-Vanuatu staff.*

GfG was set up by AusAID as a partnership with the Government of Vanuatu. Rather than simply continuing existing support, AusAID created sufficient space to try something new. The AusAID counsellor wanted to give the government more opportunity to use the capacity that had been developed through the MFEM-ISP. In doing so, the next phase of support would build on the strong relationships that had been established with influential local officials through the MFEM-ISP. It would also take advantage of a period of relative political stability in Vanuatu, when the domestic appetite for reform was thought to be strong. Senior officials in AusAID – some of whom had been involved in the review of the MFEM-ISP and would later support the design of GfG as well – backed the counsellor to develop a new approach.

The final design emerged organically and relatively slowly. An initial set of reforms, including for liberalising the telecommunications sector, was agreed with the prime minister to maintain engagements with AusAID while the new programme was developed. A number of influential

5. The Civil Service Reform Programme led by one managing contactor aimed to strengthen the civil service in order to mitigate the consequences of broader efforts to 'right size' the civil service, which eventually reduced the civil service by around 10% (Cox et al., 2007). The MFEM Institutional Strengthening Programme led by a separate managing contractor was designed to support the newly integrated finance ministry to deliver its enlarged mandate for budgeting and accounting under the Public Finance and Economic Management Act (1998) (AusAID, 2004).

officials and politicians from Vanuatu were invited to Canberra to discuss the way forward and establish the principles for the partnership. Many of those officials were staff who had built ties with AusAID through the MFEM-ISP and who continue to maintain close links to GfG. The discussions in Canberra were used to prepare a short concept note to capture the spirit of the programme, with the detail fleshed out later in the 2007 design document for GfG.

2.2. Purpose and principles underpinning GfG

The design centred on supporting the priorities of the Government of Vanuatu and working within the prevailing political realities in Vanuatu. This demanded significant local leadership and ownership, where the role of GfG would not be to lead implementation, but to be 'a facilitator, advisor and broker' of reforms (in the language of the design document for Phase II, GfG, 2012b: 1).

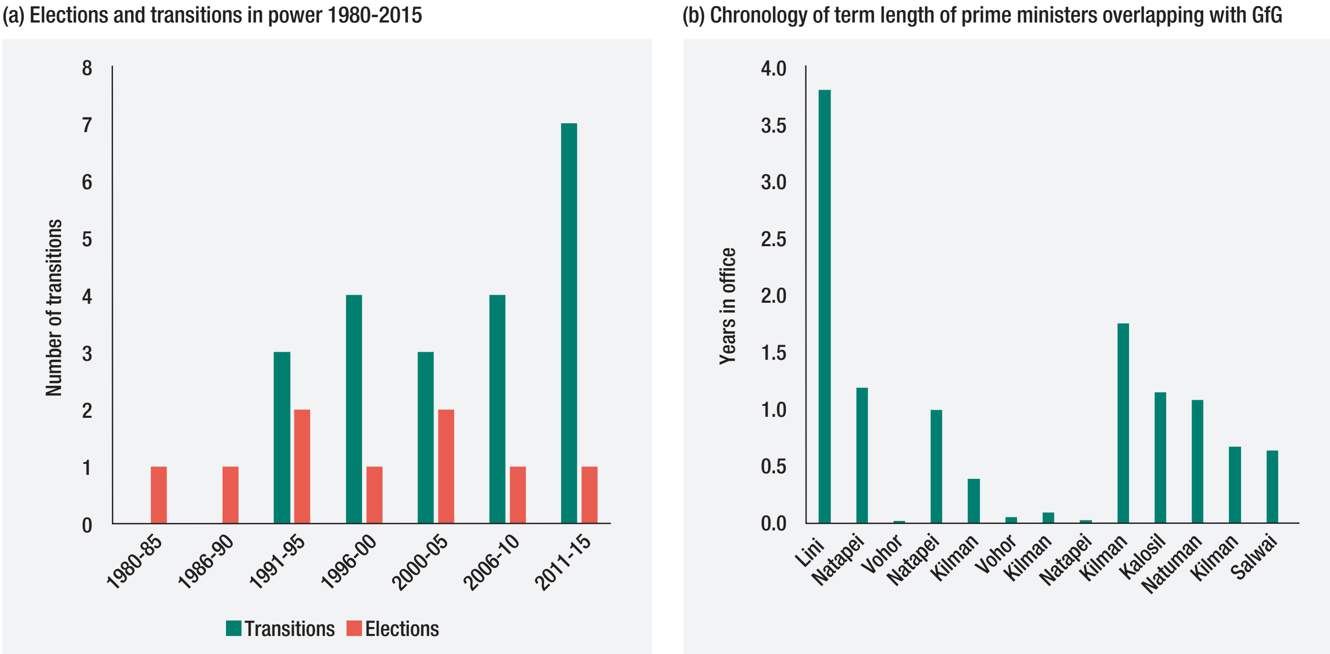
Though the programme was called Governance for Growth, the main focus was to help improve rural services and the quality of public expenditures by addressing institutional constraints. Vanuatu's population of approximately 250,000 is dispersed over 65 of the country's 83 islands and speaks 113 distinct languages and numerous dialects. In the mid-2000s, around 70% of the population were living in rural areas, but the state had limited reach outside the capital, Port Vila, leaving many without access to services. However, politics in Vanuatu is highly personalised and there are strong incentives for MPs to provide jobs, infrastructure and other forms of support directly to their communities (Cox et al., 2007). GfG would therefore work with these prevailing political incentives to get services into local communities, while also improving policies and expenditure management in central government.

Recognising the challenges of working in the context of political instability, the programme hinged on being able to move slowly (doing *transactional* work) until a reform window opened, and then to be ready to move fast (so supporting *transformational* change). Politics in Vanuatu has been prone to instability since the early 1990s. Small constituencies make it possible for candidates to be elected with as few as 350 votes, which reinforces local level patrimonialism and diminishes the significance of political parties. Once in Parliament, politicians often compete for certain posts, with regular cases of MPs *crossing the floor* or raising votes of no confidence in order to destabilise the ruling coalition with little apparent political cost to their position in their constituencies (Cox et al., 2007).

Though GfG began at a time of relative political stability under Ham Lini, the 2008 elections loomed and the project design aimed to minimise the risks of future instability. It did this partly by maintaining a flexible, unallocated fund in the budget so the programme could respond quickly when opportunities arose. It also took a long-term view, acknowledging that implementation can be slow, and politics uncertain. In the short term, there was an implicit aim to strengthen the hand of a number of influential reformers in the government, while longer-term work would centre on issues that had 'policy consistency' across the political spectrum – including the promotion of rural service delivery.

Concerns about the stability of the government were well founded. Ham Lini's premiership, which lasted nearly

Figure 1. The transitions and terms of prime ministers

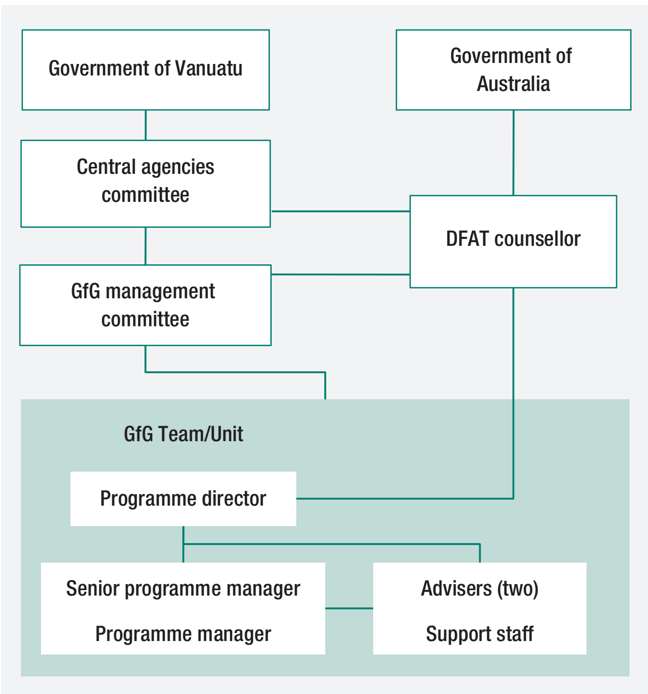


Source: Republic of Vanuatu Parliament, 2016 four years from December 2004 to September 2008, ended soon after GfG was created. None of his successors have matched this level of continuity, as shown in Figure 1b, which gives the number of years each prime minister and acting prime minister held office. The decade that followed has been marked by several periods of instability, particularly since 2010. Figure 1a shows that there were seven changes in prime minister (including acting prime ministers) between 2011 and 2015, but only one election. This has been an important factor in the impact of the programme, as discussed later.

2.3. Organisational arrangements and oversight

GfG has been financed over two phases, the first from 2007 to 2011 and the second from 2012 to 2017, with total expenditures of around A$90 million. These phases have been accompanied by dedicated design documents and budgets, with most of the core features from Phase I retained in Phase II. The core organisational arrangements have largely remained the same for both phases, with the intention of reinforcing the partnership between staff from both countries and to allow GfG to support reforms prioritised by the Government of Vanuatu. Key aspects of the arrangement are as follows:

Figure 2. GfG's management structure



Source: adapted from GfG, 2007, 2012a

- The GfG team is staffed directly by DFAT but operates at arm's length from the rest of the Australian aid programme, with delegated budget authority and an office co-located in the Office of the Prime Minister (OPM).
- Oversight of the programme's activities and finances is carried out by a management committee chaired by the director of strategic policy and coordination in OPM, and comprises staff from GfG, MFEM, OPM and other stakeholders in the Government of Vanuatu who are invited.
- GfG can execute its budget directly but has increasingly honoured an early commitment to use country systems by providing grants for partner organisations to manage with relatively limited additional reporting or fiduciary controls.

The GfG director is a DFAT official at executive level 2, with a designated budget within the broader bilateral aid programme.[6] This puts the GfG director at the same level as the DFAT counsellor, to whom he reports formally. According to some interview respondents, this has led to some disagreements in the past, including over the aggregate budget allocation to GfG. However, the arrangement ensures that DFAT is able to post qualified and experienced staff to the position, and it gives the GfG director the authority to commit expenditures directly, as long as it is within budget and below a limit of A$3 million (recently up from A$1 million). This is a source of autonomy for GfG, but also strengthens the relationship with counterparts, who know that GfG commitments to provide support to the Government of Vanuatu can be credibly backed up with finances.

The GfG team is staffed by DFAT employees, but the activities and spending of GfG are authorised by the management committee. GfG staff are appointed by DFAT and performance of the programme is assessed through the annual aid quality checks. GfG therefore has to observe DFAT's standards for financial management and its activities sit under the commitments of the Partnership for Development (DFAT, 2009) and the new Aid Partnership signed in December 2016.

The management committee gives the Government of Vanuatu greater ownership of GfG activities. The committee is officially chaired by the director-general of OPM, but in practice it has been the function of the director of the Department of Strategic Policy Planning and Aid Coordination (DSPPAC). Other standing members from the Government of Vanuatu include the directors-general of MFEM and the Ministry of Foreign Affairs. Other stakeholders from the government have been invited to attend in the past, including ministries with which GfG has formal grant agreements. The High Commission is represented by the counsellor and the GfG team is represented by the GfG director. This group is responsible

6. Executive level 2 is the highest graded position below the senior executive services. In the Australian High Commission in Vanuatu the councillor is also graded at executive level 2, and serves as the deputy high commissioner.

for approving GfG activities and directing its engagements towards strategic priorities. In theory, this allows coordination with the strategic planning and budgeting arms of government and with DFAT, while day-to-day decisions are delegated to the GfG team. The 2012 design document (GfG, 2012a: 20) explains how decision-making on budget execution is split:

> *Decisions on day-to-day management shall be devolved to the GfG Director. The GfG Director maintains the flexibility to authorise expenditure up to $250,000 from the Flexible Fund, which must be in-line with the agreed priorities of the programme and be reported and scrutinised at the next Management Committee meeting. All GfG expenditure will also have to meet standard AusAID financial management requirements (which may include technical appraisal for high value or high risk proposals).*

The management committee has met with varying frequency during the two phases of the programme. In Phase I of GfG, meetings of the management committee were held once or twice per year. In Phase II, a change in the director of DSPPAC put a greater emphasis on regular meetings, but in practice this has been difficult to sustain, most notably in the past two years, due to changes in government and the impact of Cyclone Pam. Fewer formal meetings have resulted in decision-making taking place via email and this was reported by one interviewee to have lowered the quality of discussions. Recommendations in the 2012 design document to strengthen the strategic function of the committee have so far not been implemented, though the new director of DSPPAC appears keen to reinvigorate the forum and hold regular monthly or quarterly discussions.

The location of the GfG office in the OPM compound is important for both presentational and substantive reasons. The co-location arrangement presents GfG as being independent and separate from the High Commission and the 'large regional power' Australia, which is important for building trust (a benefit of co-location also noted in the context of the Pacific Leadership Programme by Denney and McLaren, 2016: 4). Government of Vanuatu officials routinely and informally drop into the office as they pass by, which makes it easier to build relationships, ultimately helping the GfG team to understand the challenges the government is facing.

To deliver assistance, GfG can provide support either directly or through other partners. Initial support was provided largely through individual contractors and groups such as the World Bank, which worked on the telecommunications reforms. Over time, GfG has also increased its use of country systems and expanded the number of partners that it funds directly – through 'accountable grants', as they are called in the 2012 design document (GfG, 2012b: viii). In 2007, only MFEM received such a grant from GfG, but this modality was subsequently expanded to new partners such as the Ministry of Climate Change, the Ministry of Lands, the Ministry of Trade and the OPM. By 2016, GfG had eight direct funding partners and there are reportedly frequent demands for support from new potential partners.

Grant partners use their own systems to spend GfG resources, including contracting and managing technical assistance. In the absence of a domestic remuneration framework for external advisers, GfG helps partners to set the rates for consultants, but once in place contractors report directly to the contracting authority and not to GfG. Additional ex-ante fiduciary risk requirements have been added over time, notably in 2013, following high-profile fraud cases in Papua New Guinea and the Solomon Islands.[7] Generally, each partner is subjected to a fiduciary risk assessment before receiving an accountable grant. GfG then expects to be informed of any planned expenditures before those expenditures are committed, and of any changes in the activities GfG is supporting. Otherwise, expenditures are executed entirely through partner systems. Reports on progress with reforms and grant execution are submitted semi-annually to GfG and each grant is audited on a regular basis.

In addition to the pre-programmed support, the GfG design includes a small research fund and explicitly leaves some of the budget unallocated as a flexible fund. This is summarised in the context of the original budget estimates in Table 1, though actual spending has diverged from these early plans. The unallocated budget aims to allow GfG to respond to new opportunities, though this has been limited in Phase II when the aid budget was subject to cuts. The research fund was initially intended to commission local research based on the priorities of the government and later changed to focus more on producing briefing documents. In practice, the research fund has been underutilised and has been an easy target for cuts. This is discussed in more detail in Section 3.3.

7. See: http://asopa.typepad.com/asopa_people/2015/08/australias-foreign-minister-had-to-intervene-over-png-aid-fraud.html

Table 1. Estimated budgets for GfG Phase I and Phase II

Budget allocations	Phase I		Phase II	
	Total (A$)	%	Total (A$)	%
Programme management	**3,050,000**	**9**	**4,125,000**	**18**
Core staff, operational costs, advisers	n/a	n/a	3,700,000	16
Programme design	n/a	n/a	200,000	1
Performance/evaluation	n/a	n/a	225,000	1
Managed funds	**31,626,000**	**91**	**19,230,000**	**82**
Office of the Prime Minister	3,000,000	9	3,000,000	13
Ministry of Finance and Economic Management	7,830,000	23	2,250,000	10
Energy sector	8,900,000	26	1,000,000	4
Aviation sector	0	0	500,000	2
Telecommunications sector	6,506,000	19	2,730,000	12
Knowledge, analysis, research, briefing	1,640,000	5	1,050,000	4
Unallocated (flexible fund)	3,750,000	11	8,700,000	37
Total estimated budget	**34,676,000**	**100**	**23,355,000**	**100**

Source: GfG, 2007, 2012a

2.4. The GfG team

The GfG director is a permanent DFAT employee posted to Vanuatu from Canberra. There have been three directors since 2007 and great care has been taken in selecting the right candidates.[8] The director is responsible for the overall development and implementation of the GfG programme and plays a crucial role in managing the balance of interests between the Australian and Vanuatu governments. The directors have also been central to some of the changing partnerships. Box 1 gives more detail about the individual directors.

The director is supported by a small, effective team of ni-Vanuatu, locally engaged staff. Currently, this team comprises one senior programme manager, two programme managers – one of whom focuses on the recovery programme for Cyclone Pam – and one administrator. The skills, networks and institutional memory of the senior programme manager and programme managers have been highlighted by a number of interviewees as particularly important for GfG.[9] Importantly, the ni-Vanuatu staff are able to identify key personalities and understand and communicate cultural sensitivities in a way that the director is not able to, and are therefore central to the working politically approach.

The full complement of positions envisaged in both the 2007 and 2012 design documents has not always been used. Specialist positions were created for the PFM and economic governance activities, as well as to support the monitoring and evaluation of GfG's activities. At the time of this review, monitoring and evaluation support was provided by a remote contractor, but the other two positions were vacant.

The team is particularly cautious when hiring for the specialist roles, such as the one for PFM. This is because partners in the Government of Vanuatu sometimes question whether advisers sitting in GfG might be captured by Australia's interests rather than their own, and may be reluctant to engage with them. As this could undermine the value of having advisers in the GfG office, GfG has been careful not to fill the vacant positions until the right candidate is found.

Rather than take on the wrong person, GfG has filled the gaps through a variety of means. The economic role has been taken on by the current director, who is a DFAT economist. The last PFM specialist left in the final quarter of 2014 and no suitable candidate had been identified to replace her by the time of this review. GfG has filled the gap through a combination of discussions with close partners in MFEM

8. In terms of the selection process for the director, there are no formal interviews and placement depends on the decision of the postings committee, the preferences of applicants, and any informal references that the Vanuatu High Commission is active in seeking. The soft skills that are essential for building and managing relationships are not a prominent feature of the DFAT competency framework as it is assumed that these are skills everyone who applies should have or can develop. However, there is evidence of considerable effort to get the right person in, both in Vanuatu and Canberra. Senior managers in Canberra with links to GfG are often looking for potential future candidates well before the next appointment and they are encouraged to apply for the position. For some appointments, close partners in Vanuatu have also been asked for inputs, though this is not a requirement.

9. The current senior programme manager has been with GfG since 2008 and is well connected and highly respected in both ni-Vanuatu and donor circles. A second senior programme manager worked in GfG from 2006 until 2012. He was a former MFEM employee with good relationships in government and high social status outside his formal role. The current programme managers are relatively new to GfG, but they have extensive experience of working in the Government of Australia and its aid programme.

(such as the acting director-general and the GfG grant coordinator in MFEM) and contracting short-term advisers (including some who used to be linked to the MFEM-ISP). GfG has also contracted a local company, vSolutions, to provide support to partners receiving grants to help them navigate systems such as the Central Tender Board.

Importantly, there have been times when GfG has been understaffed. Most notably, there have been times in the past few years when the office was staffed only by the director and a senior programme manager, with other programme positions unfilled. This has made it particularly difficult to manage the large administrative burden of a complex programme such as GfG, which typically funds numerous small investments and technical assistance contracts. The GfG team expressed the opinion that the current complement of staff and contractors allows more space for strategic thinking and engaging with partners than was possible in the previous three years. However, the team can still be overstretched by ad hoc activities, which is the main reason that it no longer produces annual reports.

2.5. Key phases and events

While the mechanics and organisation of GfG have remained largely the same, interview respondents identified a number of factors that have shaped the way that GfG operates in practice, the kinds of reforms it has been able to support, and its ability to do so successfully. Some of the key events are mapped out below in Table 2.

There are factors that have made it more difficult to preserve relationships with counterparts in Vanuatu and engage on reforms. These include transitions in GfG directors and the merger of AusAID into DFAT, which has coincided with a change in the perception of GfG among some grant partners – partly due to new fiduciary controls introduced around the same time. There were also two periods of particularly marked political instability with frequent changes in government in the build-up to June 2011 and a major corruption scandal in late 2015, which resulted in the sentencing of 14 MPs for bribery. The current director, who has been in post since 2013, estimated that space for reform was restricted for roughly a third of his time in Vanuatu – partly due to domestic politics and partly because of Cyclone Pam, which struck in March 2015.[10] In contrast, politics was more stable and conducive for reforms in the early years of GfG.

Table 2 also captures some of the factors that have limited the responsiveness of GfG. Budget constraints were one such factor. GfG expenditures have followed trends in the broader Australian aid budget, which increased rapidly from 2007 to 2012 and has subsequently been cut. In Phase I of GfG, the Vanuatu country programme was generally able to exceed budget estimates, giving GfG confidence to take on new commitments. In Phase II, resources became less available as AusAID/DFAT searched for ways to reduce the budget, including during the fiscal year. Another factor has been the added burden of managing the Vanuatu Transport Sector Support Programme (VTSSP) and part of the recovery programme for Cyclone Pam. While additional posts have been made available to run these programmes, the overall impact has been to reduce the time the team has available to network with partners.

Table 2. A mapping of key events in the evolution of GfG

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Vanuatu aid (Aus) A$ million	30.3	41.9	45.6	44.2	48.4	41.8	40.9	81.5	41.9
GfG spending A$ million	4.4	16.4	18.4	14.1	15.0	4.8	4.5	4.6	4.2
excluding transport A$ million	4.4	12.6	8.6	6.9	7.9	4.8	4.5	4.6	4.2
Phase	Phase I					Phase II			
Directors	Director 1			Director 2			Director 3		
Projects		VTSSP (Phase I)							Pam
Australian aid	AusAID						DFAT		
Australia politics	Howard	Rudd			Gillard		Rudd	Abbott	
Vanuatu politics	Lini	Natapei		Instability	Kilman		Kalosil	Natuman	Instability

Source: GfG, 2011; GfG Expenditure Reports; Interviews held in September 2016

Note: Spending figures are for the Australian fiscal year which runs from July to June each year; 2014 in the table thus corresponds to the fiscal year 2014/15, and includes the emergency response for Cyclone Pam.

10. The category 5 cyclone is the most powerful on record to have impacted Vanuatu and is considered to be the worst natural disaster in the country's history (ANAO, 2015). Damage from Cyclone Pam was still visible in Port Vila more than a year later, including the need for some government departments to be relocated, such as MFEM.

These themes emerge regularly in the discussions that follow. To frame the remainder of the review, it is possible to group these into three broad periods:

- 2006-2009: There was substantial progress in reforms in the early years of GfG. Many of the most notable reforms supported by GfG were initiated in this period, or even beforehand. This was underpinned by relatively stable politics in Vanuatu, good bilateral relations between Vanuatu and Australia, a growing aid budget, appetite for risk in AusAID, and a shared sense of purpose between the GfG team, AusAID staff and ni-Vanuatu officials.
- 2009-2015: These middle years were characterised by organisational tensions and a closing of the space for reform. Though there were important interventions, GfG work became less transformational and more transactional, as quick wins were delivered and the complexities of implementation were revealed. Some of the relationships suffered and organisational tensions were exposed with changes in personnel, reduced appetite for fiduciary and programmatic risks in AusAID/DFAT, cuts to the aid budget, growing political instability (especially in 2011 and 2015) and major disruption from Cyclone Pam in 2015.
- 2016 to the present: Since February 2016, a new window of opportunity has emerged with a reformist government taking power and pressing for change. Following the sentencing of 14 MPs for bribery, the newly elected government is seen as both cohesive and activist. The 100-day plan launched in March 2016 outlines its top priorities, and the government has initiated major reforms such as the introduction of income tax and has called for deeper fiscal decentralisation. GfG has been supporting some of these reforms but continues to be stretched by the need to manage existing commitments with a smaller budget and a heavy administrative burden.

2.6. Results achieved

The GfG programme has had significant successes over the past decade. Expenditures totalled around A$58 million over nine years from 2007/08 to 2015/16, excluding allocations to the transport sector, which mainly financed the VTSSP. Virtually all documents, interviews and case studies considered as part of this review have been positive about the design and impact of GfG. One respondent suggested that GfG remains the best model of support for governance reforms in DFAT, and that it is able to do the

Box 1. Changes in the operating context for GfG directors

There have been three GfG directors since 2007, with a fourth already selected and starting in April 2017. All of the directors have been men appointed from within the Australian civil service, but their programming experience, working styles and approaches have varied, as has the context in which they were working. These have been important factors shaping the relationships of GfG.

The first GfG director (2007-2010) was authorised to ‘make things work’ as GfG was established. He is widely regarded as having been entrepreneurial and even ‘maverick’ – a result of both personal competencies and the strong backing provided by AusAID. Critically, the director was encouraged to work outside the usual AusAID processes to initiate reforms and build the programme. Initial relationships with government counterparts were developed with the help of the AusAID counsellor and a number of advisers that had been part of the MFEM-ISP – effectively including the director in an existing network of close personal relationships. The relationship that formed was described by some interviewees as a kind of ‘pact’ or a ‘personal commitment’ to fix problems. Trust was reinforced by AusAID and the High Commission, which maintained regular communication with the director, but also understood and supported the ‘distance’ GfG needed to operate.

The second director (2010-2013) faced a very different set of circumstances. He had had considerable programming experience in AusAID and was regarded within the team as an excellent manager. However, his mandate was to ‘rein in the programme’ and reduce AusAID’s exposure to fiduciary risks. Expectations were high and relationships close, so the change in environment was described as ‘a cold shower’ for some government officials and led to some of the established relationships breaking down. New partnerships were forged, but in 2010 and 2011, politics in Vanuatu became less stable, which made it more difficult to engage in reforms. At the same time, bilateral relations reportedly became more ‘heavy handed’, with the High Commission using GfG to have difficult conversations with the government that undermined the perceived independence and credibility of the team. Then, in Phase II, budget cuts were introduced, making it harder to support existing commitments.

The third director (2013-2017) has worked hard to rebuild relationships with some of GfG’s longer-standing partners. A number of partners were willing to give the director a clean slate, and he invested a significant amount of time in networking, including while drinking kava. However, since the integration of DFAT and AusAID in late 2013, perceptions of Australian support among some partners have changed, as the rhetoric about aid as a tool of diplomacy and Australia’s national interest has become more explicit. Administrative requirements have also increased, taking up more of GfG’s time, and for at least half of the director’s posting, politics in Vanuatu would make it inappropriate for partners to push for reforms.

Sources: Interviews in September 2016

thinking and facilitate policy discussions that a standard bilateral programme would not ordinarily be able to do.

While the flagship change has been the liberalisation of telecommunications, GfG support has also helped to increase VAT, devolve financial responsibilities to provinces, establish school capitation grants, improve wharf management, increase access to banking services and strengthen the government's communications infrastructure and ICT management. It has also helped to clear audit backlogs dating back to the late 1990s, improve the functioning of the Central Tender Board and strengthen the Trade Development Division to ensure that growing donor investments in trade projects can be executed through government systems, including substantial resources from the European Development Fund.[11] The range of improvements that have been supported by GfG is considerable given the resources available to the programme.

This review considered in greater detail GfG's support to telecommunications liberalisation, reforms in the regulation of utilities and the establishment of financial services bureaus (FSBs). The telecommunications reforms feature strongly in past reviews of GfG and are widely recognised within DFAT. Liberalisation in 2007 was followed by a rapid increase in mobile coverage, with many benefits to ni-Vanuatu (O'Connor et al., 2011). The experience is considered alongside the less transformational impact of the independent utilities regulator (Box 2). Unlike the telecommunications sector, the utilities market remains dominated by monopoly providers, and the long-standing provider (UNELCO) has been able to maintain its dominance in the market.

Although FSBs have not featured as a success in documentation about the GfG in the way that the telecommunications reforms have, stakeholders in Vanuatu regularly cited the reform as an important change and major improvement on previous systems (Box 3). FSBs have made it easier and quicker to make financial commitments and payments in the provinces. Before FSBs, the payment process was long and often delayed. Many contractors would not accept a local purchase order. Since FSBs were introduced, the number of payments made in the provinces has increased, and the number of local purchase orders has also risen, though more slowly. Critically, the FSB model has proved to be sustainable and is providing a basis for approaching demands from the new government for greater fiscal decentralisation.

There are a number of observations to make about these reforms, and GfG's impact more generally:

- First is that these interventions have generally supported *functional* changes, rather than just a shift in organisational *form*. The impact is difficult to attribute to GfG alone, but interventions have supported important organisational improvements. VAT support has increased VAT collections, for example, while FSBs have cut the time needed to make payments in the provinces, encouraging more suppliers and contractors to accept local purchase orders.
- Second, GfG has been successful in drawing links between different strands of its support, and in some cases with the broader Australian aid programme and other donors as well. There are important links between the FSBs and the Australian Roads for Development Programme (which succeeded the VTSSP), which has improved road maintenance in the provinces. Equally, school grants were set up in the National Bank of Vanuatu, which has offset some of the costs of rolling out banking services outside of the major urban centres of Luganville and Port Vila.
- Third, and consistent with findings in other countries, most of the successful reforms supported by GfG have involved a relatively concentrated set of actors – changing the behaviours of a smaller group of stakeholders rather than the government or civil service as a whole (Andrews, 2010; de Renzio et al., 2011; Israel, 1987; ADB, 1996). Even the more transformational telecommunications reforms and the FSBs have involved a relatively small group of agencies and actors. Certainly, it has not been possible to match the ambition of the design documents to improve the quality of budget allocations and service delivery across the board.
- Fourth, a number of commentators identified cases where GfG support did not result in demonstrable changes in behaviour but were nonetheless regarded as highly appropriate and even successful because of the way that GfG works. The advice provided by GfG on reform options for the Vanuatu Commodities Marketing Board (VCMB) was a prominent example, allowing the government to engage on the issue but ultimately step back when the politics became unsupportive of change.

It is important to note that the capability that has been built up with support from GfG and other development partners may not be easily sustained, making it difficult to determine when a reform has been fully institutionalised. Systems and policies are often dependent on political support for their continuation, which might change rapidly in the context of regular changes in government. Equally, jobs can be highly personalised in countries like Vanuatu, where the civil service is small, making tasks more vulnerable to staff changes. One of the greatest successes of the MFEM-ISP was to help build a new organisational culture in MFEM. Interview respondents in Vanuatu noted MFEM remains one of the most capable ministries in the government today, more than a decade on. However, even in MFEM, capacity has been somewhat eroded in

11. The National Indicative Programme for 2014-2020 allocated €31 million to Vanuatu, of which €25 million is reserved for rural development with a particular focus on investing in value chains for coconut, beef and fruits/vegetables.

recent years as a result of changes in politics and staffing. Equally, a recent external review raised questions about the credibility of regulators in the Vanuatu context, and suggest that continued support from donors has been necessary to protect the independence of these agencies ('Ofa, 2010). Such examples are available from across the Pacific (AusAID, 2004; ADB, 2009; Johnson & Graham, 2011; Haque et al., 2015).

Box 2. Reforms in telecommunications and the utilities regulators

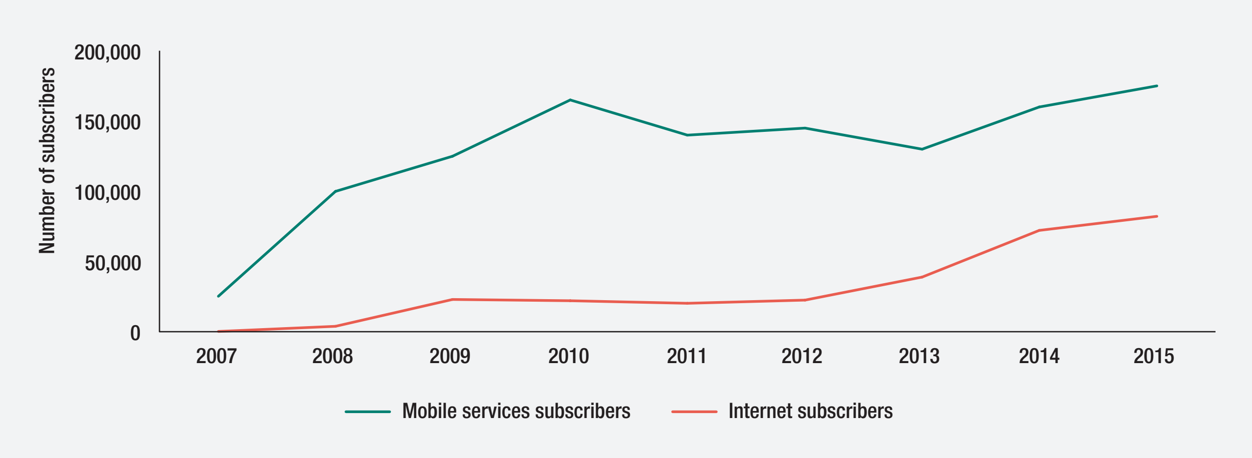
GfG has supported efforts to liberalise both the telecommunications and energy sectors since 2007, with mixed results. Vanuatu's successful telecommunications liberalisation and the establishment of the Telecommunications and Radiocommunications Regulator (TRR) as an independent regulator is still considered to be GfG's flagship success. In contrast the achievements of the liberalisation of the energy sector have been less transformational.

Telecoms liberalisation was initiated as part of the CRP, but it was problematic. As GfG was being established, an agreement was brokered with the prime minister to pave the way for reforms, with GfG providing technical assistance (including legal advice), grant support, advocacy, policy advice and negotiation input. The telecoms monopoly was broken in 2007 and the TRR was established with GfG assistance delivered through the World Bank. Mobile coverage increased dramatically in a short period, from around 25% in 2006 to more than 90% in 2010. It is estimated to have increased GDP by 1% as a result (GfG, 2012b:62). The TRR continues to receive support from GfG but the focus of this support has shifted towards self-financing and concerns about its long-term sustainability. This support has helped the transition from an expatriate to a ni-Vanuatu regulator and to rebuild capacity in the TRR after the majority of staff resigned in 2015 in protest against the previous regulator.

The liberalisation of the energy sector is at a much earlier stage than that of the telecommunications sector. The nature of GfG support has been similar, as it includes technical assistance, legal advice, grant support, advocacy, policy advice and negotiation input. Although reforms started in 2006, they have arguably been more complex, as UNELCO has been the monopoly provider for over 50 years and has benefited from a favourable concession agreement. The government identified the electricity sector reform as a priority, but legal challenges from UNELCO and political contestation have delayed progress. A regulator, the Utilities Regulatory Authority (URA), has been established, and between May 2011 and October 2016, electricity tariffs were reduced by 14% in Port Vila, Malekula and Tanna, and by 21% in Luganville. The reform may still yield results when the next set of court cases is concluded, but at the time of this review only 29% of the population has access to electricity, of which 70% is in Port Vila.

A number of different reasons have been given for the diverging success of these two reforms – but many of them were foreseen and influenced the decision to pursue reforms separately, and not to create a single regulator for both sectors. One factor is that the energy sector has higher fixed costs of distribution than telecommunications. The TRR regulates mainly access and quality, while the URA concentrates on price regulation of monopoly providers in each province. Another set of differences relates to the politics in each sector. While the telecoms liberalisation process was under way with political support when GfG became involved, the energy sector reforms were more nascent and politics more challenging. However, according to some commentators, there have been some issues with the quality of the regulators that has at times reduced the URA's effectiveness.

Increases in phone and internet access



Sources: URA data; TRR, 2016; 'Ofa 2010; interviews in September 2016

Box 3. Decentralisation through financial service bureaus

Early in the GfG programme, conversations between PFM advisers and the director-general of MFEM identified a clear problem: MFEM wanted a way to spend more money in the provinces. As well as facing political pressures to be seen to be doing more in the provinces, the director-general was receiving complaints from line ministries about the slow payment process, particularly from the Ministry of Health. Equally, officials in MFEM faced considerable pressure to process allowances for staff and ministers travelling to provinces because of the inability to make payments there.

Officials explained that when an invoice was received by a provincial office, they would need to take one of the weekly flights to Port Vila to get the purchase order signed. It would then usually take (by policy) two weeks to issue the cheque, which could then be cashed and transferred back to the province by Western Union. Even then, banks were not widely available and officials or suppliers might have had to travel long distances to collect cash. The whole process would often take between one and three months before the supplier or contractor was paid.

Financial service bureaus (FSBs) are intended to de-concentrate MFEM functions to the provinces and ensure provincial officers have access to financial information and advice. The model emerged from discussions between GfG advisers and key staff in MFEM, who took a lead role in developing and testing options with other government staff and politicians. GfG provided MFEM resources as part of the incentive grant to pay for technical advice, equipment and the rehabilitation of office space. It also conducted an assessment of the flow of funds to document the various problems and bottlenecks in the existing systems. This support was complemented by funding to help the National Bank of Vanuatu to roll out banking services through a separate initiative.

The first FSB was established in Santo in 2009, and other provinces followed. The functions of the FSBs were rolled out gradually, starting with revenue collection and remittance. From around 2013, MFEM began to de-concentrate the payments process, starting by posting and training MFEM staff in each FSB, so that purchase orders could be committed centrally but paid at the provincial level. An upgrade to the integrated financial management information system and hardware purchased with GfG funding allowed documents to be sent to MFEM in Port Vila electronically rather than physically by plane/boat, making the central approval process easier and more reliable. Once MFEM staff were in place in the province, the role of the FSB could be expanded to include activities such as monitoring the activities of finance officers from other provincial departments.

For a variety of reasons, ministries took interest in delegating responsibilities to their provincial offices at different times. Health was the first to show interest, which was important for hospital management. Thereafter, the Ministry of Public Utilities began to use FSBs to pay island-based contractors under the Australian-funded Roads for Development programme. This injected considerable additional resources into the provinces and gave greater purpose to the FSBs. By the time of the review, all large ministries except Education and Agriculture had started using the FSBs.

The FSBs have been widely considered to be a successful change in the PFM landscape of Vanuatu. They have significantly cut the time it takes to make a payment, from months to days, and MFEM has noted that the number of payments made in the provinces has gone up rapidly. There is also evidence that more purchase orders are being committed in the provinces, but this is at a slower pace – probably because payments can be made quickly at a central level anyway. Some challenges remain, including occasional issues with cash management and internet connections, as well as the relatively small size of provincial office budgets. However, FSBs still represent a significant improvement on the older systems and provide a strong basis for the government to build on.

Sources: Interviews in September 2016

Box 4. Supporting the introduction of school grants

GfG's support for the establishment of the school grants programme in Vanuatu is a good example of how the relationships built by GfG permitted engagement on policy formulation; how work on central processes (the integrated national budget and FSBs) has been leveraged to improve service delivery; and how GfG is able to utilise the private sector (National Bank of Vanuatu) and public sector relationships (especially central agencies) to ensure successful policy implementation.

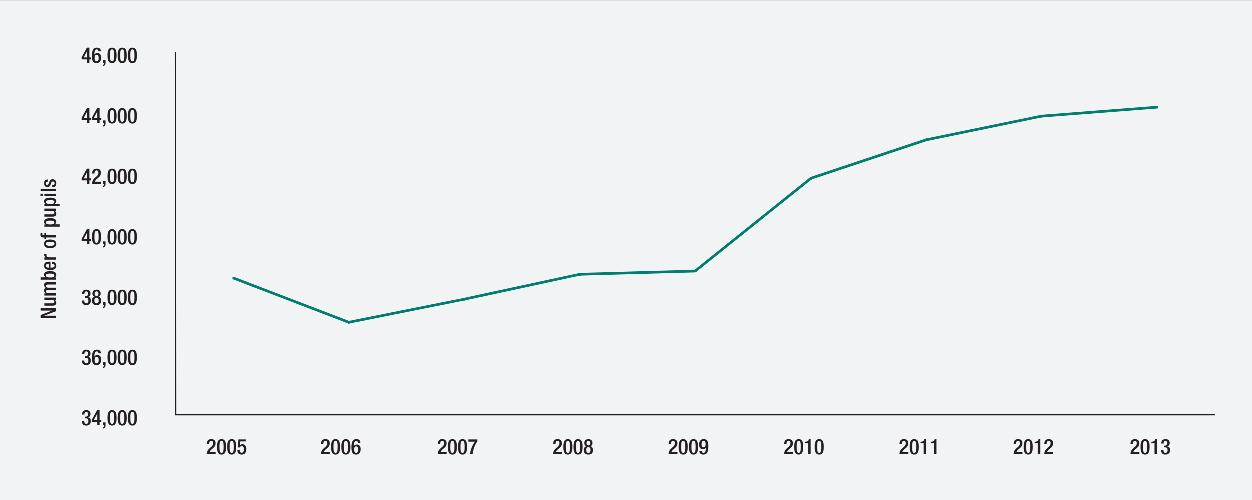
The ambition to introduce free primary education emerged from the then minister of education (now the prime minister) Charlot Salwai at a meeting with development partners in 2009. This was a key policy priority of the prime minister at the time, Edward Natapei. Due to GfG's proximity to the OPM and existing relationships with key players, GfG was asked to help the government develop the policy, including preparing the costings and defining the grant mechanisms that would replace school fees. A policy development process involving the governments of Australia (GfG and the AusAID education team), New Zealand and Vanuatu (OPM, MFEM and Ministry of Education) was put in place.

GfG's involvement was relatively short – less than six months from start to finish – but was crucial nonetheless. A study on the flow of funds (which was linked to the FSBs) found that funding allocated to schools was not finding its way to the school level. A proposal to pay funds directly as capitation grants into school bank accounts became an important factor behind the willingness of donors and government to support the school grants programme. Individual school bank accounts were set up in the National Bank of Vanuatu, which was receiving separate GfG support to expand its provincial banking network. GfG also financed support to build financial management capacity in schools and disseminate information about the new policy.

Within a short period, one of the government's top policy priorities had been implemented with the support of donors. In 2010, the grant scheme had been introduced in 95% of primary schools. Enrolment has reportedly increased, and this is supported by the latest available figures (graph below), and the net enrolment rate has risen from around 82% in 2008 to 87% in 2012. The grant scheme is now administered by the Ministry of Education as a core part of its portfolio, while the creation of school accounts in the National Bank of Vanuatu has helped to offset some of the costs of extending banking services outside the main urban centres of Port Vila and Luganville.

This intervention thus shows some of the strengths of the GfG model in identifying problems and exploiting linkages between a range of sectors – banking, fiscal and financial management and education. It shows how it is able to do this in a way that supports domestic policy formulation and implementation through the national budget process. However, the reforms have faced challenges in recent years. The size of the grant has not increased significantly since 2010 and it is no longer covering costs for schools, which has reportedly encouraged some schools to levy fees again. Schools have also faced problems managing the grant, with some unwilling to spend it at all. The intervention is, therefore, judged by the GfG team as being of mixed success.

Enrolement in primary schools



Sources: Interviews in September 2016; World Bank, 2016; Ministry of Education, 2014

3. How does GfG work politically?

3.1. What is working politically?

A number of different models attempt to summarise what makes some development projects more successful than others (Algoso & Hudson, 2016). Four influential frameworks are noteworthy: *problem-driven iterative adaptation* or PDIA (Andrews et al., 2012, 2015); *politically smart, locally led development* (Booth & Unsworth, 2014); *thinking and working politically*; and *doing development differently*. The frameworks, summarised in Table 3, have many similar features. Critically they are not fully operational models, but rather guiding principles believed to be better suited for implementing governance reforms than the modalities of a conventional aid project. These various models are grouped together under the general heading of *working politically* for the purposes of this review.

A number of case studies document how these principles play out in practice. A summary of some of these experiences is provided in Annex 2, which is used as a basis for making international comparisons with GfG in Section 3.8 of the report. Annex 3 goes into greater depth to explore the similarities and differences between GfG and the Budget Strengthening Initiative hosted by ODI, which also aims to work closely with governments to improve PFM. However, the main analysis considers how GfG operates in the specific context of Vanuatu.

To do this, the review adapts the framework developed by Booth and Unsworth (2014) for politically smart, locally led ways that donors have found to support successful governance reforms. This details a number of features that can be applied as a benchmark for evaluating the way that GfG operates in Vanuatu:

- *Problem identification:* Results are achieved through a way of working that starts with a significant development problem and breaks this down into manageable chunks. The problem is then continuously revisited during implementation.
- *Iteration*: Implementation searches for a workable solution in an iterative manner, learning from each step along the way. Project management involves an element of muddling through, but this is purposive muddling, with continuous links to the immediate problem and solution that are being worked towards.
- *Brokering relationships*: Brokering relationships and building alliances around common interests are related to the above, but have been found to be so critical that they merit some separate discussion. In most cases a considerable amount of time goes into building and managing relationships, which requires persistence and considerable skill.
- *Politically smart:* The leaders and staff of the interventions are politically well informed and have the skills to deploy that knowledge effectively. They can acquire their knowledge and skills in a variety of ways.
- *Local leadership:* The interventions address issues that are important to local actors. The solutions are locally negotiated and delivered because project managers allow local actors to take the lead in finding solutions to challenges and steering the approach.[12]
- *Flexible, strategic funding:* The ability to adjust expenditure in response to strategic needs – both how much is spent and on what it is spent.
- *A long-term commitment, with continuity of staffing:* There is a long-term commitment by the funder – around ten years in the examples reviewed – which is often accompanied by a high level of continuity of donor and project-level staffing.

Booth and Unsworth observe that the politically smart, locally led approach requires a supportive *authorising environment* in the donor agency. In the cases they reviewed, donors gave individuals the flexibility 'to experiment, take risks, learn from mistakes and find effective ways forward' (Booth & Unsworth, 2014: 23). So while interest in flexible and adaptive programming is encouraging donors to create a range of flexible financing instruments, such as DFID's SMART tools, this does not necessarily change the core incentives without a broader shift in the authorising environment to encourage the tools to be used to full effect

12. This may refer to local leadership at various levels, such as the strategic steering of the intervention, the leadership of the individual projects or the leadership of reform areas by government counterparts. Local leadership needs to be underpinned by strong relationships.

(Bain et al., 2016; Booth et al., 2016; Gulrajani & Honig, 2016; Bryan & Carter, 2016).[13]

Though not a necessary feature of this framework, a few studies have also pointed to the benefits of an arm's length approach when working politically (Booth, 2013; Gulrajani & Honig, 2016; Denney & McLaren, 2016). Delivering support at arm's length allows donors to distance their assistance from the broader influencing agenda of their aid programmes. It can also allow implementers to develop closer relationships with counterparts and to respond to the realities at the coalface of policy development and implementation. However, arm's length implementers are not fully autonomous, and so will almost certainly still need donor partners to authorise and accept their way of working – a proposition that extends from contract theory and semi-autonomous agencies (IMF, 2013; Bryan & Carter, 2016).

The rest of this section looks in more detail at how GfG compares with the principles of a politically smart, locally led approach to supporting governance reforms. It asks what organisational features are important for enabling this way of working and considers all this

Table 3. Approaches to working politically

Problem-driven iterative adaptation (PDIA) (Andrews et al., 2012)	**Problem-driven iterative adaptation** has been advocated by researchers at the John F. Kennedy School of Government at Harvard University. It focuses on: • finding indigenous solutions for locally defined problems in performance • creating an authorising environment for decision-making that encourages positive deviance and experimentation • embedding this experimentation in tight feedback loops that facilitate rapid experiential learning, and • engaging broad sets of agents to ensure that reforms are viable, legitimate, relevant and supportable.
Thinking and working politically (Thinking and Working Politically Community of Practice, 2013)	In November 2013, representatives of donors, together with leading thinkers and researchers, created a community of practice promoting **thinking and working politically** in development and focusing on what donors can do. Recognising that political economy analysis has not shifted donor practice, three core principles are promoted: • Strong political analysis, insight and understanding. • Detailed appreciation of, and response to, the national and local context. • Flexibility and adaptability in programme design and implementation.
Politically-smart and locally led development (Booth & Unsworth, 2014)	David Booth and Sue Unsworth document programmes that are characterised as **politically smart and locally led**, which is understood as having the following features: • Politically informed by a sense of history and an in-depth understanding of country and sector context, including continually updated national/subnational political economy dynamics. • Politically astute by using information about politics intelligently and creatively. Donors and partners must be clever operators, with the capacity to work with or around politics, as well as donor constraints. Third parties will be more politically informed and astute than outsiders can ever be. • Nationally and locally owned, not just in the narrow, technocratic sense, such as the Paris Declaration, but focused on problems that have salience for potential beneficiaries and at least some individuals/groups with the power to support, influence or block change. • Nationally/locally negotiated and delivered, prioritising national and subnational leadership and capacity to search for solutions to locally identified problems. Locals will more likely have the motivation, credibility, knowledge and networks to mobilise support, leverage relationships and seize opportunities in politically astute ways.
Doing development differently (The Doing Development Differently Manifesto Community, 2014)	The **doing development differently** community held its first meeting in October 2014, endorsing the Doing Development Differently Manifesto, which commits signatories to develop programmes that: • focus on solving nationally/locally defined problems that are debated and refined in an ongoing process • are legitimised at all levels (political, managerial and social), building real ownership (not just on paper) and momentum • work through national and local conveners to mobilise all those with a stake in progress to tackle common problems and introduce relevant change • blend design and implementation through rapid cycles of planning, action, reflection and revision to foster learning from success and failure • manage risks by making 'small bets': pursuing activities with promise and dropping others, and • foster real results – real solutions to real problems that have real impact: that build trust, empower people and promote sustainability.

Source: Adapted from Denney and Barron, 2015: 13

13. Gulrajani and Honig (2016) draw on organisational theory – and particularly contingency theory – to help understand the donor authorising environment in more concrete terms. They identify a number of dimensions that may be particularly important for *working politically*: autonomy, motivation, performance measurement, accountability and risk management. These issues were used to consider the organisational arrangements of GfG and how AusAID and DFAT were able to support its special way of working.

against the backdrop of a changing context through the different periods of GfG – from the big leap in the early years, through the constrained middle years and into the recent window of emerging opportunity. Where relevant, the analysis captures issues that are not central to the framework presented – so as not to simplistically reinforce a set of principles that are not universally endorsed. It focuses on aspects that are most important to GfG and how these have evolved over time.

3.2. Brokering relationships

Trust and strong relationships are central for any external agent wanting to facilitate change in governance behaviours or policy (Faustino & Booth, 2014; Williamson, 2015). In Vanuatu, there are factors which make this especially important, many of which are documented in the Drivers of Change Study (Cox et al., 2007: 37-38). Individuals' relationships are shaped by local hierarchies and ties to family and place. Public institutions are often dominated by a particular island or church group with shared values, while status and kinship ties (the *wantok* system) overlap politics and administration. This makes informal systems extremely important in the flow of knowledge, information and decisions (Cox et al., 2007). Building trust across groups and bridging the formal and informal systems is therefore central to supporting change in Vanuatu's public sector. Indeed, some interview respondents have described the GfG as a form of 'relationship-based aid'.

Core elements of GfG have been designed to foster trust in the Government of Vanuatu and allow the GfG team to work as genuine partners. Most important is a devolved and flexible budget which ensures that GfG can credibly stand by its commitments to deliver support. This is reinforced by other design elements, such as co-location of the GfG office in the OPM, an on-the-ground DFAT presence, and capable and connected ni-Vanuatu staff. Together, these features present GfG as being closely aligned with the government rather than simply part of the High Commission, and make GfG easier to visit. They endow GfG with knowledge about how the government works and the problems that it faces, but also incentivise the team to align itself to these issues. One interview respondent suggested that it would be very hard not to work politically in this context.

In addition to these core organisational features, GfG's success in working politically is also down to the considerable time dedicated by the team to building and maintaining relationships with stakeholders. Often this happens informally, outside of GfG offices, including in the evening over kava.[14] Core relationships have been forged with officials at MFEM and DSPPAC, typically with mid- and senior-level bureaucrats. At this level, staff turnover is lower and there is generally more space to make incremental improvements in systems and administration. GfG also plays a role in crowding in support from other parts of the aid programme and other development partners, such as the World Bank and IMF, so leveraging its unique position.

Over the life of the programme, the nature of relationships has changed. At the time of its inception, GfG was a genuine partnership involving a small group of individuals. Mutual trust had developed between these individuals during the MFEM-ISP and some of the ni-Vanuatu officials were closely tied to the government of the time, even as civil servants.[15] While a number of these officials maintain links to GfG today, despite moves and promotions, there is less of a sense of partnership than before. This is partly because GfG has broadened its formal engagements and now provides grants to a wider group of ministries beyond MFEM, but is also a consequence of changing personalities. Though more recent partners, such as the Ministry of Climate Change, are almost entirely positive about their relationship with GfG, on balance, relationships with GfG appear to be more formalised than they were in the past, and officials are more cautious of involving DFAT in sensitive reforms.

This highlights a broader challenge in the working politically approach. As relationships are formed with individuals, they can break down or change if staff change, as they have when the first GfG director left his post (described earlier in Box 1). They may also be put under strain if the programme becomes less flexible or responsive. For example, when budget cuts were introduced by AusAID/DFAT in 2012 and 2013, a number of commitments made by GfG had to be withheld, which created tensions with ni-Vanuatu counterparts. One such project was the Lapetasi Wharf project (estimated at approximately A$8 million) which would not only have provided a means to improve wharf infrastructure, but also an opportunity to engage on port reform which GfG has not engaged in substantively since. Inability to follow through with the project also affected relationships with a number of counterparts in the Government of Vanuatu, who viewed the project as an important investment.

14. Kava is a plant that is used to produce a drink with sedative properties that is drunk widely in Vanuatu, typically in the evening at a kava bar (*nakamal*). Kava is an important part of the *kastom* system in some islands, and is drunk in ceremony by men after disputes have been resolved (Forsyth, 2009). A number of interview respondents noted the significance of kava in building informal relationships.

15. GfG staff and contractors were often invited to hold close policy discussions with the government, including sometimes with the prime minister. But more importantly, some interview respondents have described the relationships as a kind of pact – with GfG staff responsible for ensuring resources are available and managing blockages from the Australian bureaucracy, while the ni-Vanuatu officials managed their politics. This was plausible because many of the first set of partners were closely affiliated with the government in Vanuatu. Equally, the AusAID counsellor was well connected in AusAID's offices in Canberra and Suva.

Equally, a number of officials complained about the ex-ante fiduciary controls that had been imposed on top of the usual government systems. As noted earlier, AusAID instructed all programmes in Vanuatu to adopt ex-ante controls over spending and procurement after fraud cases were exposed in some neighbouring countries. This was perceived as unnecessary by ni-Vanuatu officials, particularly among long-standing partners in the OPM and MFEM, who had generally supported ex-post controls. A compromise was reached to introduce the relatively light ex-ante controls described in Section 2.3, but these still fed the perception that AusAID no longer trusted their government partners in Vanuatu. In this way, decisions made by DFAT can indirectly affect relationships of the GfG team, and either enable or limit the space for engaging on reforms by extension.

Another critical challenge is that GfG's networks appear to be shrinking. This issue was identified by an internal review, which found that the GfG team spends most of its time talking to the same contacts. Respondents speculated that this is partly due to the institutionalisation of relationships, which have become more mature over time and allowed GfG to focus attention on areas where needs are greatest. However, it may also be the result of an increasing administrative burden (partly associated with a growing portfolio of work) and periods where key programme management positions have been vacant. There are some concerns that a smaller network could be limiting the capacity of GfG to engage in new issues.

3.3. Identifying problems

Most of Vanuatu's development constraints are well known and reasonably well documented, partly as a legacy of the CRP. One interviewee felt that 'the country has been studied to death'; but this knowledge had not necessarily translated into appropriate support for reforms. According to reviews from around the time when GfG was established, reforms were strongly donor driven (Gay, 2004). Of the donor approach in the CRP, Cox et al. (2007: 32) wrote:

> *Institutional reform was approached mainly through legislative changes. Some 180 new pieces of legislation were adopted over a 2-year period, most of them drafted by foreign technical advisers with limited buy-in from the administration itself. Many reforms involved introducing new functions based on international standards for which no resources, either human or financial, were identified. As a result, much of this legislation has never been effectively implemented.*

The main challenge for GfG has been to identify the problems which could be tackled in an appropriate and politically acceptable manner. An initial set of reforms, including the changes in the telecoms sector, was agreed before GfG became fully operational in 2007. Thereafter, GfG has been working on issues such as financial inclusion from inception, building the necessary networks and political support to promote change.

In the governance arrangements for GfG, there are multiple channels for selecting and directing support and interventions. There is the management committee, which authorises all activities of GfG but has played a relatively limited role in directing reforms in practice (an issue that is discussed further in Section 3.4). Occasionally, issues have also emerged from political engagement by the High Commission, which were subsequently passed on to GfG to support. However, most discussions about priorities have been managed through direct communication between the GfG team and its network of partners, which re-emphasises the importance of GfG's relationships. Decision-making about what to support, therefore, falls largely to the GfG director and senior programme manager.

Key tactics of the GfG team are to have a number of 'irons in the fire' waiting for the right window for reform, and to look for areas where there is policy consistency across the political spectrum. The broad mandate to support *governance for growth* has allowed GfG to pursue a wide range of interventions, but it has also helped to focus discussions on issues that would promote real policy change rather than simply institutional strengthening as an end in itself.

These tactics have generally been successful. The long list of reforms outlined in Section 2.6 is evidence of this, and GfG's methods stand out even more strongly against the legalistic approach taken during the CRP, as highlighted earlier. However, GfG does not always succeed in supporting change, as the VCMB case will show later in the discussion. Nor has it completely avoided engaging in reforms that lack support or face broader capacity constraints. Box 5 illustrates this in the context of GfG's support to the Office of the Auditor General. One strength of the current approach is that these cases remain relatively small costs to GfG and the government. In this way, it is consistent with the approach of taking 'small bets' that is encouraged by Faustino and Booth (2014).

Co-location in the OPM also plays a key role in identifying problems that are important to the government. As noted, officials are more likely to pass by the office and discuss problems than if GfG was based in the High Commission. The fact that the office is staffed mainly by ni-Vanuatu can also encourage trust and frank discussions. The senior programme manager or programme manager may also be able to approach counterparts more freely and openly.[16] These improved communication flows allow GfG

16. One former staff member described how they were able to take off the AusAID hat and discuss policy issues with the prime minister and critical partners as a ni-Vanuatu citizen. Another respondent explained that it was necessary to have ni-Vanuatu staff in order for GfG to understand how reforms are truly progressing – 'if you want to do it properly, then you send them in'.

to respond quickly to opportunities that are presented. Often an informal discussion can develop into a request for support that can then can be formalised later through an email exchange. GfG's devolved budget means that this may then be signed off by the director without the need for further authorisation from the High Commission or Canberra.

Despite initial intentions, the designated research fund has been used more effectively to review the impact of GfG support than to identify or analyse new problems. Initially allocated A$0.8 million for the period 2008-2011, the research fund was set aside to provide policy-makers with access to up-to-date and high-quality information, and to engage the broader public on issues facing growth and service delivery. In Phase I, the budget was spent mainly on studies reviewing the impact of telecommunications liberalisation. In Phase II, the research fund has been affected by budget cuts – with the research fund sacrificed in order to maintain existing commitments to grant partners in Vanuatu as the bilateral aid budget was reduced. There is currently no clear framework for thinking about how more structured research might usefully contribute to GfG's activities, if at all.

More generally, there could be ways for the GfG team to strengthen its approach to identifying problems and working through possible solutions. In considering issues raised by partners, GfG is able to consult its local network and (when appropriate) experts based in DFAT and elsewhere. They might also discuss issues internally within the team to assess (a) the likelihood that GfG support would lead to change and (b) how transformational any change would be. This decision process could potentially benefit from an external challenge role or possibly a more structured internal approach to deconstructing problems (as in Andrews et al., 2015).

3.4. Supporting local leadership

A common explanation for the implementation challenges persisting in systems that have been 'reformed' with donor assistance is that the objectives were neither locally defined nor locally owned (Andrews et al., 2012, 2015). The historical experiences in Vanuatu with the CRP reinforce this view (Gay, 2004). Furthermore, international pressures to adopt new systems in Vanuatu are likely to be amplified by the country's dependence on external development assistance, as the government seeks to maintain legitimacy in the eyes of its international partners to protect future funding.[17]

Both the broad principles of working politically and the core objectives of GfG's design aim to foster reforms that are locally owned and consistent with the Partnership for Development (DFAT, 2009) or the more recent Aid Investment Plan (DFAT, 2015). While GfG may provide

Box 5. Challenges in building capacity of the Audit Office

Support to the Office of the Auditor General (OAG) has cost GfG roughly A$200,000 per annum between 2012/13 and 2015/16. This has supported a long-term resident adviser to the auditor-general (through Scope Global) and allowed the OAG to contract private firms to supplement its own audit capacity.

The assistance has helped clear a large backlog in audits. This is an important success in its own right, but efforts to strengthen the long-term capacity of the office have been undermined by challenges with staff turnover (see the table below showing years in post), while Parliament has yet to make use of the audits in a meaningful way. Arguably, both challenges could have been foreseen and the likelihood is that they will continue into the medium term. GfG will need to balance this risk against the costs of providing support to the OAG over the long term, and the possible benefits that could have for parliamentary accountability in Vanuatu.

Staff in the Audit Office, September 2016

Position	Total posts	Filled posts	Vacancy rate (%)	Avg years in post
Auditor-general	1	1	0	n/a
Principal auditor	1	0	100	n/a
Senior auditor	3	0	100	n/a
Audit office P scale	1	1	0	0
Auditor	6	2	67	4
Assistant auditor	6	1	83	1
Trainee auditor	6	2	67	2
Office supervisor	1	1	0	11
Cleaner / messenger	1	1	0	8

At the time the research was being conducted, this programme of support was being reviewed by the GfG team after conversations with the auditor-general about the over-dependence on external technical advice and the lack of progress in addressing the staffing problems. The outstanding question is whether GfG could or should play a more active role in brokering a solution across the government, or whether to continue to allow the auditor-general to lead this engagement under the renewed threat that GfG support would end if progress cannot be made.

Source: Public Service Commission, 2016

17. Australian assistance to Vanuatu is estimated at 5.9% of GDP and broader official development assistance at 12.4% of GDP in 2014, using data from the OECD Creditor Reporting System and IMF's World Economic Outlook.

advice, inputs and other support, the responsibility for implementation rests largely with the government. These principles have been embodied in nearly all the key features of GfG's design described so far, but rest most obviously in the features that let GfG operate at arm's length from the High Commission. This allows GfG to present itself as different from the High Commission and avoid perceptions in Vanuatu that GfG is a tool for the Government of Australia to influence domestic policy choices, rather than one that supports Vanuatu's policy priorities. Though this distinction is subtle, one GfG contractor explained: 'I keep working on GfG funded things because it's about the only programme I know that does start from a domestic policy perspective and tries to support it without injecting [poor ideas and policy options] from elsewhere.'

In practice, the ability of GfG to respond effectively to the Government of Vanuatu's priorities is closely tied to the autonomy and mandate provided by DFAT. The GfG director carries the main responsibility for ensuring the right balance between the priorities of the governments of Vanuatu and Australia. As an executive level 2, the director has considerable budget authority and policy discretion over what to fund, but as a DFAT employee reporting to the High Commission the director still required to adhere to the organisational systems and processes of DFAT and to align with Australia's broader strategic interests in Vanuatu. When goals are aligned, this arrangement works well and presents few problems. But when goals diverge, or personalities and working relationships are more difficult, it can present challenges and undermine the trust of partners.

The management committee has also played an important role in maintaining ownership of the activities of GfG – a function that was stressed by almost all interviewees. For example, the management committee played a crucial role in increasing the number of partners receiving grants from GfG in Phase I. However, the committee has been less effective in directing GfG activities in recent years. There have been periods when the committee has not met and when personalities have clashed. More generally, the quality of discussions has reportedly deteriorated.

Over time, the GfG team has adopted a greater level of responsibility for directing GfG's activities. As just described, oversight from the management committee has become more passive – with a tendency to focus on grant execution. As a result, the strategic direction and engagement from the management committee has been replaced by bilateral discussions between the GfG team and its (potential) partners. So while individual activities remain locally owned, the prioritisation of GfG's activities has become less so.

The use of government systems through accountable grants has been an effective tool for letting ministries lead reforms. The use of accountable grants has allowed the Government of Vanuatu to directly procure technical advice, giving the government of Vanuatu strong ownership of critical reform efforts. For example, MFEM has chosen to use resources from GfG to improve value-added tax (VAT) systems and develop tax reform options, enabling MFEM to respond to the domestic lobby group criticisms that reforms were imposed by Australia. MFEM was able to explain that advisers were hired by and report to MFEM, rather than the Australian government.

That is not to say that the use of accountable grants is without challenges. Despite retaining flexibility within the grant, resources may be locked up for longer periods than if GfG were to provide support directly. Ministries sometimes spread resources too thinly when there are strong internal incentives to satisfy all eligible departments. Equally, processes such as those required by the Central Tender Board can be cumbersome and cause delays, especially because many financial managers have never had sufficient recurrent resources in the budget to use these systems. Changes in resourcing for specific reforms can also put a strain on relationships, whether due to internal ministry priorities or budget changes in GfG. Hiring vSolutions has been an important step in making these arrangements more effective in recent months.

Some interview respondents asked questions about the positioning of GfG that could not be fully resolved as part of this review. They asked: to what extent is GfG autonomous with a policy agenda of its own, independent of the Government of Vanuatu? Similarly, is GfG able to push for changes in more difficult reform areas while also maintaining its relationships in government?

GfG is a DFAT organisation and is not able to support all of the priorities of the Government of Vanuatu. However, there has been a sustained effort from AusAID and DFAT to position GfG as different from the High Commission – at times exploiting the links and at other times distancing itself. In the early years of GfG balancing these interests was arguably easier – bilateral relationships were strong and there were exceptionally close partnerships between AusAID, GfG and partners in the Government of Vanuatu, with regular informal communication. As these changed, the director has taken on more responsibility for managing differences in priorities.

Balancing Australia's interests with those of partners in Vanuatu can be difficult.[18] The review identified a number of areas where GfG has successfully provided advice or support to the Government of Vanuatu that

18. As an example, the position of the economic adviser did not get advertised because of a lack of consensus over the job specification. The role was pitched as support to MFEM to analyse the costs and policies associated with maintenance of infrastructure. Government of Vanuatu officials on the management committee did not agree that this was an appropriate role for an adviser working in the GfG office. This illustrates some of the sensitivities of operating in the areas GfG is in, and why delivery models such as grants to government agencies have evolved to be the preferred option for much of GfG's assistance

was controversial for some of the programme's important stakeholders – including assistance to the Ad Hoc Parliamentary Committee on the new airport development in 2013/14. This has required considerable efforts to rebuild relationships afterwards, and may undermine the quality of the partnership in the short term at least. It is important to note, however, that international experiences using alternative mechanisms for 'pushing for change', such as budget support policy reform matrixes, face their own limitations (ADB, 2009; de Renzio et al., 2011).

3.5. Iterating solutions

There is growing recognition in international development of the need for greater flexibility and learning in projects. Institutional reforms are often judged to be tackling 'complex' problems that require a large group of people to change their behaviours (Faustino & Booth, 2014). As a result, the path that those reforms will take is highly uncertain. Some researchers argue that development partners have failed to support institutional reforms because the solution was predetermined and followed too rigidly in implementation (Andrews, 2012). Others have noted the limitations of standard monitoring and evaluation systems in guiding the process of adapting reform plans during implementation (Pritchett et al., 2013a). Both sets call for a more experimental and adaptive approach in implementation – 'iterating' solutions as the context changes and new information comes to light.

The interventions supported by GfG that were reviewed in detail as part of the review did not generally follow a blueprint approach derived from international solutions. Instead, GfG's approach has generally aimed to develop solutions incrementally, starting with a concept and building on that with the help of its networks. In at least a few cases, such as the FSB model and the extension of the National Bank of Vanuatu's banking services, it was officials themselves who considered and presented options for reforms.[19] This is consistent with other examples of projects that are thought to 'work politically' (Andrews, 2012; Booth & Unsworth, 2014).

Importantly, GfG's general approach has been commended even when reforms have not been successful. An example frequently mentioned in interviews was the support GfG gave for reforms to the VCMB. VCMB had been a drain on the national budget and a barrier to improving the management of copra, in particular. Over the past decade, there have been several attempts by the government to reform or abolish VCMB, but until now it has not been able to force through a major reform. In this context, GfG was able to provide options and advice in a way that allowed the government to pull back from the reform, without losing face or damaging its relations with international partners – as it might if the reform was in a policy reform matrix.

In the project design, GfG has considerable room to respond to new issues and strong incentives to improve government systems. By using country systems, GfG also has been able to identify and respond to bottlenecks in those systems and to help MFEM strengthen them. Reacting to the issues faced by partner ministries in executing grants, for example, the GfG team has directed support to the Central Tender Board and hired vSolutions to provide on-demand support to line ministries preparing tender documents. It is also one of the core reasons that the current team is engaging with the Public Service Commission on options for strengthening the 'machinery of government'. This shows that GfG has been able to learn from its engagements with partners and adapt accordingly.

It is less clear whether GfG has strong mechanisms for adapting interventions as reforms develop. The approach to supporting and monitoring reforms has clearly changed over time. In the first period, this relied on regular communications and the close relationships between GfG and a small group of influential politicians and bureaucrats. The team would play an active role in reforms and recruit additional consultants as needed to supplement their efforts and add expertise. This way of working had many features discussed in the literature on adaptive programming and working politically – with regular feedback between implementers and an honest dialogue about what was working, what was not and what needed to be done next.

Over time, the responsibility for managing reforms and adapting solutions has been increasingly left to line ministries, with GfG providing guidance and support when necessary. This change has been driven by a number of factors, but mostly clearly by the increasing number of grant partners. A larger share of reforms are implemented through partners in Vanuatu today than at the start of GfG. As a result, GfG has focused more of its own efforts on grant management and other administrative requirements – coinciding with increased demands for accountability and risk management in AusAID/DFAT. Monitoring of reforms is now tied to progress in executing GfG resources – with low execution rates triggering a more detailed discussion on the reforms.

This does not mean that there is no iteration during implementation. The value of grants is increased incrementally to ensure that there is capacity and political interest to absorb funds. When there are issues with

19. When GfG was established, PFM reforms had been directed largely at MFEM and line ministries. The FSB model emerged from discussions with the minister of finance, senior MFEM officials and GfG's PFM adviser discussing options to spend more money in the provinces. Much of the thinking about how this could be done was left to senior MFEM officials. GfG supported the proposal, recognising the strong support from senior officials and ministers and because the reform represented a relatively practical and easy option for improving financial management in the provinces (Harradine, n.d.). The project was subsequently endorsed by the Council of Ministers before GfG provided grant funding in 2008.

implementation, the team is able to dedicate considerable time to support partners. This was the case for the URA, which has faced regular challenges to its independence, with URA getting in touch with GfG to discuss issues as they arose. Other partners retain regular communication with GfG, either informally over kava or more formally by email or telephone. However, the close feedback loops which characterised early reform efforts have been replaced by less regular engagement for most partners.

3.6. Maintaining flexible and responsive funding

The flexibility of the GfG budget has been one of the most powerful elements of the programme. As noted earlier, being able to commit to deliver on a promise of support is essential for building trust with partners in Vanuatu. Flexible funding also allows GfG to adapt its programmes as priorities change. Even as relationships have changed, the GfG stands out as being one of the few donor programmes able to respond to emerging priorities.

This flexibility is available in the overall budget of GfG and individual accountable grants. In the initial design, the budget would include an unallocated portion to respond to new or changing opportunities. In theory at least, there are few activities that GfG should not be able to support if they are truly a priority of the Government of Vanuatu and are broadly consistent with DFAT's aid investment plan for Vanuatu. In addition, line ministries and other partners receiving grants may reallocate resources from one priority to another, as long as there is an agreement from GfG and, later, from the management committee.

GfG funding also has relatively few strings attached. The administrative requirements are perceived to have increased, and the addition of ex-ante fiduciary checks has frustrated some long-standing partners. The GfG team and their partners also find it difficult to ensure all grants are audited each year – a process that can take two-to-three months for each grant. Still, most continue to prefer GfG's processes to those of other donors, including beneficiaries that have access to a range of partners, such as the Vanuatu National Statistics Office.

Counterparts that have received GfG support clearly value these arrangements. A number of partners have been involved with GfG since its inception and retain the partnership even if they move posts. Other grant recipients placed great importance (and even pride) on the submission of timely acquittals and monitoring reports. The High Commission also values the flexibility and embedded nature of GfG and its influence on the broader bilateral relationship.

Box 6. PDIA and organisational learning in reform

In the context of addressing 'complex' problems, a greater emphasis has been placed on learning and adaptation during implementation. For change to happen, inputs must be turned (through activities) into outputs and into outcomes and ultimately impact. However, the process by which that happens is not known in advance, and often cannot be known. A number of assumptions will therefore underpin the actions taken to support institutional change, and an effective programme would need to regularly review those assumptions to see if they hold.

Traditionally, this has been encouraged through a process of monitoring and evaluation. However, monitoring is generally focused on inputs or processes, while evaluation often comes with a substantial lag time and considers if inputs resulted in certain outcomes. As a result, neither is likely to yield useful and timely information to adjust reforms as they are being implemented.

In GfG, demands for accountability from AusAID and DFAT have also put greater emphasis on monitoring and evaluation systems, which have become more developed in Phase II. This has been useful for preparing aid quality checks, but the systems have not been particularly influential in strategic decisions within GfG. Instead, activities are guided by conversations with partners and (to a lesser extent) the quarterly monitoring reports from grant recipients.

The problem-driven iterative adaptation approach to reform promoted by Harvard's John F. Kennedy School of Government has attempted to operationalise a different kind of learning. Short pushes are made over the course of a few weeks, after which the reform team is encouraged to reflect on what they have done, what they have learned and what they will do in the next few weeks. This intensive process aims to encourage reformers to learn about the space and test the assumptions that underpin their actions with that new knowledge.

Other aid programmes have found other ways to encourage organisational learning during implementation. The Pacific Leadership Program, for example, has held six-monthly 'reflection and refocus' sessions to encourage reflection on programme direction or particular implementation challenges. This model is similar to that used in the Governance for Development programme funded by DFAT in Timor-Leste.

Sources: Pritchett et al., 2013a; Andrews et al., 2015; Denney & McLaren, 2016

Figure 3. GfG expenditure trends 2007/08-2015/16

Source: GfG, 2012a; GfG, 2016

However, in Phase II, there has been less flexibility in the budget, making it more difficult to respond to new opportunities without affecting existing commitments and partnerships. At the start of the GfG, relatively little of the grant was pre-programmed, reporting requirements were minimal and the aid budget was growing. This has changed over time (as illustrated in Figure 3):

- Initially, budget allocations were effectively a floor, with scope to do more if the opportunity arose. As GfG became more successful it had to ensure its budget did not get too big, and the VTSSP was viewed by most interview respondents as too much to manage on top of the core GfG operations and support. The VTSSP and its successor project (Roads for Development) has since been integrated into the broader bi-lateral aid programme.
- Budget cuts in Phase II have reduced the extra space for taking on new activities and have affected the unallocated resources and research fund in particular, which has limited the responsiveness of GfG.[20] The budget is now clearly a firm ceiling, with little scope to take on additional activities. Equally, in-year budget cuts made GfG less certain over what could be committed in some years. Flexible, unprogrammed expenditures have typically been first to be restricted or cut.
- The growth in the number of grant partners has reduced flexibility to some extent, and forced hard decisions to be made because of resource restriction, including for the Office of the Government Chief Information Officer and the OAG. It has also contributed to the rising administrative burden described in earlier sections.

Officials in the Government of Vanuatu appear to have lowered their expectations of what GfG can agree to support. They have witnessed budgets becoming more restrictive and noticed the additional fiduciary requirements: fiduciary risk assessments were conducted for each government ministry entering into a formal grant agreement with GfG, making Vanuatu's country systems among the most assessed in the Pacific region. Some of these changes have overlapped with the integration of AusAID into DFAT, which may have undermined the trust of partners in the underlying motives behind budget cuts and risk management strategies. However, it is also clear that political instability and Cyclone Pam have reduced the interest and capacity of the government to engage on reforms in recent years.

This reveals some of the tensions between budget flexibility, accountability for results and fiduciary responsibilities in Australian aid. Flexibility in the budget is needed to allow GfG to respond to new opportunities. However, some interview respondents suggested that flexibility has allowed GfG to deviate too far from commitments in the first design document, including work on gender and broader stakeholder engagement, which have not been explored. The absence of interventions in these areas is noted in the annual quality checks as well. There are also risks that GfG is seen as a kind of flexible 'slush fund' in the absence of other flexible instruments. The responsibility for the management of these risks lies largely with the GfG director.

There was criticism from a small number of interview respondents that there is an oversupply of external technical assistance, which should be considered in more depth during the next design process. Over the past decade,

20. The estimated budget for Phase I (excluding transport) was A$34.7 million and final outturns around A$40.4 million. Phase II had an estimated budget of A$23.4 million and actual outturns are expected to be around A$22.3 million.

GfG has provided an array of support, including the provision of software, hardware and the temporary paying for key staff/posts. A number of interview respondents had special praise for GfG's support to the telecommunications reforms which allowed the government to hire high-quality legal support which was not available in Vanuatu. Some have suggested that GfG has become more restricted in the kinds of activities that it funds in recent years.[21] However, it was not possible to assess whether the specific criticisms of technical assistance reflect a genuine oversupply or other underlying concerns, such as the frustration with large differentials in pay between Vanuatu officials and expatriate consultants. Nonetheless, this is a serious criticism and one that would be a good point of reflection for the management committee in future.

3.7. Committing for the long term

GfG was set up as a ten-year project and has been maintained through two funding phases, demonstrating Australia's long-term commitment to the initiative. It also extends the previous ten years of bilateral support to MFEM. As in other countries, this long-term commitment has been critical for supporting the full period of implementation of reforms. The ten-year investment has still only just been long enough to bed down some key institutional changes, such as the telecommunications regulator.

Staffing has not been quite as long-term. The director's tenure of three years is relatively short, but has at least been predictable, with each of the directors completing their full posting. This has been offset to some extent by longer tenures for programme managers. The senior programme manager, for example, has worked for GfG since 2008. This brings greater stability in contacts and relationships over longer periods and ensures that directors are able to quickly build their networks, a process that generally will take six months or so.

The GfG has also generally relied on a handful of good, proven consultants to deliver work in key areas, such as financial management IT systems and tax reforms. These consultants have been based in Vanuatu for long periods and are generally trusted by ni-Vanuatu counterparts. On top of this, the GfG has been able to support partners to hire specific skills to address bottlenecks in key reforms – including legal support for the telecommunications and utilities regulators.

One challenge that was noted by some stakeholders is to ensure that locally engaged staff are used to their full potential and there are plans to manage any future transitions. An interviewee noted that the ni-Vanuatu staff in GfG had a broader role than in other DFAT-supported countries and had been in their positions for longer. Currently, the senior programme manager is the main source of institutional memory, and her departure would leave a significant gap. Equally there have been times when ni-Vanuatu staff were appointed to administrative roles, which undermines their usefulness as a bridge between Australia and Vanuatu.

3.8. International experiences of working politically

As the recognition of the potential effectiveness of thinking and working politically or doing development differently has been growing, so has the documentation of where the approach has been applied. This provides a growing body of examples from which GfG can potentially learn – and to which it can be compared.

The examples reviewed as part of this study are summarised in Annex 2 and 3. They are: the Budget Strengthening Initiative (Williamson, 2015); Knowledge Sector Initiative (KSI) in Indonesia (Jackson et al., forthcoming a, forthcoming b); the Pacific Leadership Program (PLP) (Denney & McLaren, 2016); the Governance for Development programme in Timor-Leste (DFAT, 2014); the DFID-supported Pyoe Pin in Myanmar/Burma and the Enabling State Programme in Nepal (Booth & Unsworth, 2014); the DFID supported State Accountability and Voice Initiative in Nigeria (Booth & Chambers, 2014); quality improvement in the health sector (Tulloch, 2015); The Asia Foundation (TAF) land reform in the Philippines (Booth, 2014); the Investment Board of Nepal (Laric & Waddell, 2016); and the Facility for Oil Sector Transparency in Nigeria (Bhalla et al., 2016); the DFAT and Asia Foundation partnerships in Bangladesh (Harris, 2016) and Cambodia (Denney, 2016).

These international comparisons highlight how the different contexts, constraints and actors make different features of the working politically model more or less important. Many of these case studies illustrate the existence of only some of the features of the locally led, politically smart approach; and where these features were in place it was to varying extents.

A more detailed comparison of GfG with ODI's Budget Strengthening Initiative (BSI) is provided in Annex 3. These two programmes are arranged differently and work in different environments, but they are useful comparisons because both support their partner governments' central agencies directly, rather than through NGOs or other independent groups (as used by the PLP and DFID programmes). In this context, both programmes have

21. Budget cuts and a high administrative burden may have influenced the kinds of activities GfG has funded. For example, as the budget for the overall aid programme became more restrictive, GfG has spent less of its resources brokering large investment projects, such as improving port infrastructure or promoting rural electrification, because resources would almost certainly not be available within DFAT to support implementation. Similarly, the team has sometimes avoided preparing small contracts, which have a similar administrative burden to larger ones.

Table 4. The demonstrated features of working politically

Example	Working politically					
	Problem identification	Iteration	Brokering relationships	Local leadership	Flexible funding	Long-term > 6 years
GfG	x	x	x	x	x	x
BSI	x	x	x	x	x	x
KSI Indonesia	x	x	x	x	x	x
DFAT Timor-Leste	x	x	x	x	x	x
DFAT PLP		x	x	x	x	x
DFAT TAF Cambodia	x	x	x	x	x	
DFID Burma civil society		x	x	x	x	x
DFID Nepal enabling state		x	x	x	x	x
DFID SAVI Nigeria		x	x	x	x	x
Quality improvement in the health sector	x	x			x	
USAID Asia Foundation Philippines	x	x	x	x	x	
DFID Investment Board Nepal	x	x	x	x	x	
DFID Oil Sector Transparency Nigeria	x	x	x	x	x	x

Source: authors' analysis with framework adapted from Booth & Unsworth, 2014

shown an ability to identify priorities of their government counterparts, and to provide support in a way that is appropriate to the context. This approach has taken GfG into areas such as strengthening the Central Tender Board, and BSI into helping to develop fiscal transfers in South Sudan, not because of a predetermined interest in these issues, but because of genuine problems and bottlenecks that were important for counterparts. When priorities changed, both programmes have found ways to respond.

In many of the examples of thinking and working politically, the way that impact has been delivered is notable. Most adopt an arm's length approach to encourage local leadership. The interventions generally rely on keeping a low profile and using local networks to support change. In the case of BSI's work in Liberia, the finance minister has stressed the importance of technical advisers 'taking a back seat'. In Vanuatu, a number of commentators point positively to the way that GfG has provided advice behind the scenes for attempted reforms to the VCMB. The emphasis in both programmes on building relationships and brokering change (rather than driving it) gives a greater sense of partnership than a traditional project for supporting governance reforms.

The ability to work in this way has a lot to do with the organisational arrangements and incentives built into the structure of the programmes. For example, BSI is its own organisation, with its own strategic objectives and staff. Many of its staff in South Sudan have ties to government that go back long before BSI was established, ensuring that interests are well aligned. As a DFAT entity, GfG is tied more closely to Australia's bilateral relationship with Vanuatu than BSI is to UK's relationship with South Sudan. However, the programme shares some of the characteristics that have enabled BSI to work effectively. The early years of GfG were built around existing personal relationships with key local stakeholders. Though these relationships have since changed, GfG is set up at arm's length from the High Commission in order to encourage closer partnership with the Government of Vanuatu. It is also staffed by competent, well-connected ni-Vanuatu staff who endow GfG with local knowledge and make it easier to build relationships with counterparts.

The positioning of the programme is also important. Co-location is a common feature of programmes that present themselves as working closely with government. Similarly, branding by programmes such as PLP and BSI is usually minimal in order to ensure reforms are viewed as being locally led rather than donor-driven. GfG has been allowed to develop its own brand to distinguish itself from the High Commission, and may even avoid being explicit about its involvement when work is particularly sensitive. The GfG team believes that these arrangements have been sufficient to allow GfG to work behind the scenes in the Government of Vanuatu. However, interviews in Vanuatu did raise tensions between the desire of some stakeholders to more clearly distance GfG from the High Commission and the pressures on GfG to be recognised when interventions are successful.[22]

22. The GfG team has noted occasions when GfG interventions were not recognised by development partners, and in some cases stakeholders in the government itself. For this reason, branding remains an important tool for raising awareness of the programme and demonstrating impact to external audiences, including the High Commission. On the other hand, there is a perception among some stakeholders that GfG has become more aligned with the broader diplomatic interests of the High Commission since the merger with AusAID. Although branding was not raised as an explicit issue in these interviews, branding policies are important for how GfG is presented, and should be discussed as part of the design process for the next phase of the programme.

There are periods of intense work and activity and periods when the appetite for reform diminishes or policy priorities changes, which is often tied to broader politics and political stability. For example, in BSI's South Sudan programme, conflict has caused both humanitarian crisis and economic turmoil that has spilled over into budget management and other parts of the PFM system. Similarly, GfG has been disrupted by an increase in political instability in Vanuatu since 2010, as well as the impact of Cyclone Pam in 2015. It is unlikely that either programme would be able to foster transformational changes during these periods, and this must be taken into account when setting expectations of what can be achieved by GfG in the future.

Explicit mechanisms to guide iteration reflect upon how to manage the programme during times of political disruption. For example, important observations from PLP are the six-monthly reflection and refocus sessions that consider programme direction and implementation challenges, encouraging iteration and learning. Similarly, The TAF Bangladesh case study used strategy testing sessions that brought the entire team together and allowed discussions across different levels of authority. These were followed by continual micro adjustments in response to problem-solving efforts and 'informal reflection on tactics' (Harris, 2016: 11). In Cambodia, TAF conducted strategy testing on a quarterly basis, examining the theory of change, contextual changes and questioning whether there have been changes in the relevance and feasibility of the reform.

The examples also show that brokering relationships requires a substantial time investment and the necessary skills to build trust with key actors. Also important in this is having established a relationship that enables a support or advisory role to be undertaken. This was evident from the KSI example, where the presence of advisers supported the Indonesian team, and in turn the KSI team advised and supported other knowledge-sector actors in Indonesia, facilitated by the convening and technical support roles fulfilled by KSI (Jackson et al., forthcoming a). In contrast, mentoring played a role in supporting the TAF team as exchanges with the TAF Philippines team guided them in applying a development entrepreneurship model as they, in turn, supported the Bangladesh leather sector (Harris, 2016).[23]

There are also challenges with managing relationships when success leads towards greater expansion and stretches capacity. This can lead to overstretching and resources being pulled in multiple directions, as seen in the cases of BSI and GfG. First, when problems are followed and results delivered, the programmes are often encouraged to work in new areas. For example, BSI is taking on ever more work in Uganda and in revenue administration in South Sudan and Liberia, where there is strong support for change. Second, when support is provided for reforms that are underperforming, it is difficult to withdraw in case relationships break down and prevent future engagement on important issues. So resources may become stretched over time, and managing the competing pressures is a continuous challenge.

Overall this comparison illustrates a number of important points. One overriding point is that there is no standard approach to working politically on which GfG could base the next design. While there may be elements of other projects that GfG could emulate, such as the *reflect and refocus* sessions instituted by the PLP, these arrangements will need to fit the unique way that GfG operates. The comparison also illustrates some common challenges of working politically: it is time intensive; relationships are often highly personalised; work has a stop-start nature; impact can be difficult to demonstrate; and success can lead teams to overextend resources. Managing these challenges will be important for the continued success of GfG.

3.9. Key conclusions

GfG was clearly set up to work politically, and is generally delivering against that ambition. The arrangements represent an innovative approach to supporting governance reforms in Vanuatu that has proven to be successful over its ten-year implementation period, with results in a range of sectors. It also serves as an important and valued complement to the broader bilateral aid programme for Australia and diplomatic relations between the two countries.

Some of the key features of GfG's way of working and the organisational incentives that enable the team's approach are summarised in Table 5. It suggests that GfG's design and way of working strongly embody the principles associated with the locally led, politically smart approach outlined earlier. Many of those are mutually reinforcing – for example, co-location has helped to broker relationships, identify problems and promote local leadership. As a result, challenges such as budget cuts and increased administrative requirements can impact significantly on a number of different elements – perhaps most significantly in the capacity to monitor and engage proactively with counterparts (discussed in Section 3.5).

It also highlights the way that GfG has shifted from a loosely defined programme based on shared interests and mutual trust to one that is more strongly defined by its organisational arrangements and incentives. Those incentives continue to guide staff towards a certain way of working – building networks, supporting Vanuatu counterparts and responding to their priorities. However, these incentives are also influenced by the broader bilateral relationship and the systems and processes within DFAT, which gives the GfG

23. The concepts of development entrepreneurship applied by the TAF Bangladesh team included technical expertise, political skills, networks, being an insider and being a strategist (Faustino & Booth, 2014, cited in Harris, 2016).

team the confidence and space to align with the priorities of their partners in Vanuatu. The environment for GfG has become more conservative over time with greater focus on risk management. GfG has become more formalised, and perhaps less innovative as a result.

Some aspects of GfG could be strengthened or reinvigorated. Comparing GfG today with the early years suggests that networks have shrunk. The management committee has become less proactive in steering or challenging GfG's activities. Monitoring and adaptation is also more closely tied to grant execution rather than reform progress. These issues are linked to broader changes – including the rising administrative burden and staff rotation – but they remain potentially within the control of GfG as it moves into its next phase.

Table 5. GfG's approach to working politically

	Approach	Organisational incentives
Brokering relationships	• GfG is built around its relationships with government, and mainly with senior and mid-level bureaucrats. It also crowds in support from other donors where appropriate. • The team invests considerable time and effort into maintaining these relationships and most partners believe that GfG is more in tune with domestic politics as a result. • The original sense of partnership and shared purpose has been diluted and the team has less time to network than in the early years when successes were greatest.	• Most features of GfG, including co-location, aim to encourage close working partnerships between the GfG team and their counterparts in Vanuatu. • Initial partnerships based on individuals and a shared vision built through the MFEM-ISP and the GfG design process. • For a number of reasons, GfG's relationships have changed and possibly become more formalised over time. • Increased administrative requirements have limited space for networking and 'joining the dots' between stakeholders.
Identifying problems	• GfG relies mainly on its counterparts to identify the key priorities and the right approach to addressing them. • Key tactics are to have a number of 'irons in the fire', waiting for a reform opportunity to open. When appetite for reform is more limited, GfG continues to work on capacity-building or policies supported across the political spectrum. • The focus of GfG is to support existing systems in a way that is 'good enough now' and respond to new problems as they arise, while keeping the bigger goal in mind.	• Operating at arm's length from the High Commission encourages GfG to support local priorities, though this is balanced against the need to demonstrate success to DFAT. • Focus on *governance for growth* gives a broad mandate to support reforms, while discouraging reform for reform sake. • Working on a number of areas allows GfG to report successes each year, even if some reforms do not progress. • The research fund has lacked purpose and has been an easy target for budget cuts as a result.
Supporting local leadership	• Reforms are generally led by government counterparts, with GfG providing advice and other support as required. • Working at arm's length from DFAT, GfG can provide support to highly political reforms. This approach also allows the government to consider advice and step back from reforms without losing credibility.	• Delegated budget authority and a degree of autonomy from DFAT's broader aid programme reinforces the partnership. • The management committee gives a greater sense of ownership and provides important cover for GfG decisions. • Use of country systems though accountable grant agreements has allowed the government to lead implementation.
Iterating solutions	• Today, GfG works mainly through other partners who manage the day-to-day issues arising from policy changes and reforms. • GfG supports the iteration and adaptation in reforms by responding quickly and appropriately to emerging issues. • As the programme and grant partners have expanded, engagements have become less frequent for most partners, except where there are significant issues to be addressed.	• Within the programme design and budget, GfG has considerable room to adapt and engage with emerging issues. • Use of country systems also encourages GfG to address problems as they arise, because it also slows disbursements. • As GfG's administrative burden has increased, the team has spent less time engaging with each partner. It now often relies on grant execution rates as a signal of broader problems.
Flexible funding	• The programme is intentionally flexible, and does not claim to predict which reforms will be delivered or by when. • The flexibility of GfG allows the team to make commitments to partners and follow them through with resources. • As funding has become more restricted and the fiduciary requirements have been raised, partners appear to have lowered their expectations of what GfG is able to deliver.	• The results framework is open and a small part of the budget is intentionally left unallocated each year. • Accountable grants are open and flexible enough to allow partners to quickly respond to new issues as they arise. • In the early years funding was readily available, which made the programme even more responsive, but in Phase II, budget cuts have effectively eliminated unallocated resources because these were needed to maintain existing commitments.
Long-term commitment	• GfG was set up for a ten-year period, with initial funding for five years. The next phase is expected to continue that support. • The long tenure of ni-Vanuatu staff ensures helps to maintain knowledge and relationships when directors transition.	• AusAID/DFAT continues to finance GfG and has protected many of its key design features, including co-location. • The relatively short tenure of the director results in the senior programme manager and programme managers being particularly critical for GfG's strategy and management. They could take on a more strategic role.

4. Conclusions and recommendations

4.1. Lessons from Phase I and Phase II of GfG

GfG pre-dates the language of doing development differently and other similar models of working politically, yet its design reflects many of the core features of the approach: most notably, a long-term commitment to supporting locally led and politically feasible institutional reforms. Through GfG, the Government of Australia has established a way of operating at arm's length from its broader diplomatic and aid agendas. This distance (both perceived and actual) has allowed GfG to operate as a trusted adviser to the Government of Vanuatu and work on sensitive policy reforms with partners in the central agencies in a way most programmes cannot.

Particular elements of the programme are essential to ensure this way of working. These include: co-location; a strong team of well-connected ni-Vanuatu employees; a devolved and flexible budget that provides some independence from the rest of the bilateral aid programme and the ability to respond quickly to reform opportunities; a commitment to use country systems; and formal oversight provided by core partners in the OPM and MFEM. The broad *governance for growth* mandate and a focus on rural service delivery have also supported this flexibility, while giving the programme a reasonably clear sense of purpose in selecting areas of intervention.

How these systems have worked in practice has changed as the programme has matured and as the context has shifted over the past ten years. The close alignment of a small group of individuals (and their interests) in the early years of GfG has been eroded with changes in personnel. Relationships also suffered from changes in emphasis in AusAID/DFAT from a trusting, 'get it done' spirit to one that was more concerned with internal accountability and mitigating risk. At the same time, when the political environment in Vanuatu became less stable, counterparts in the Government of Vanuatu were left with less time and authority to engage in reform initiatives. GfG has adapted to these changes partly by following its organisational responsibilities and structures more closely, which may make it seem less innovative.

Budget cuts and increases in administrative requirements have also made it more difficult for GfG to engage in new areas. In the early years of GfG, budget increases allowed the team to foray into new areas without compromising existing commitments. However, cuts imposed in Phase II have required more active reallocations in GfG's activities and made relationships with partners more difficult to manage. New fiduciary requirements were also frustrating for longstanding partners of the programme. At the same time, the portfolio of work and partners has grown and administrative requirements have increased. This has restricted the amount of time that the GfG team has to network and think more strategically about their engagements. Together, these changes have restricted (though not completely removed) the team's ability to try new policy and institutional reforms at a crucial time for the new government.

This also highlights some of the challenges of working 'opportunistically' and relying on particular relationships. Over time, the success and flexibility of GfG has made it a credible and attractive partner. For those looking for this kind of support there is arguably no alternative in Vanuatu. There may, therefore, be a temptation to spread resources too thinly. Yet once partners are established, it is difficult to withdraw support without damaging relationships that may matter in the future. GfG has faced criticism from the Vanuatu National Statistics Office, for example, as resources were reprioritised by MFEM's management away from statistics and towards tax reforms. In the early years of GfG, these issues were more easily managed because the relationships were new and effort focused on initiating reforms. As the partnership became more formalised and partners developed clearer expectations of what GfG would (or should) fund, reallocating resources has been more difficult.

Below these macro-level issues are a number of other challenges, where parts of the programme have not necessarily served the purpose that they were originally intended to. The management committee has not been as effective at providing strategic direction and a challenge function for GfG's activities as it has at giving a sense of ownership of the programme as a whole. As a result, the GfG team has taken on a stronger role for deciding which activities to fund than initially intended. Equally, the feedback loops between GfG and its partners have become longer as GfG has broadened into new areas. This means that GfG monitors and learns from progress less frequently than it did, for example, during the telecommunications reforms in the early years. The research fund has also largely lacked a clear purpose. The recommendations that follow reflect on how these issues could be considered in the forthcoming design process.

International comparisons highlight how different aspects of the working politically model will be more or less important, depending on the context. In the programmes reviewed, success has been judged both in terms of the impact and also the mode of delivery, with an emphasis on building relationships and brokering change (rather than driving it) to provide a sense of partnership. Operating at arm's length from donors such as DFAT and DFID has been critical in allowing programmes such as BSI, PLP and GfG to align more with the interests of their partners than a mainstream aid programme or managing contractor might. Branding has been minimal and the role of national staff has been critical for identifying and working with local partners.

There are also interesting insights into the kinds of reforms and problems that are likely to be supported successfully. Most examples of working politically have focused on specific policies and have changed the behaviours of a relatively small group of stakeholders. The comparison between BSI and GfG shows that both programmes face challenges in ensuring that they do not get overstretched as demand from counterparts grows. It is notable that neither BSI nor GfG has integrated research into its learning and advisory activities to the level that is demanded from its staff and counterparts. These points are considered in more detail in the recommendations below.

4.2. Recommendations for the design of Phase III

GfG is preparing to enter the design phase for Phase III of the programme. This final section makes some initial recommendations to guide the design process that will unfold over the next six months. It is important that the design process remains open and exploratory, so the recommendations presented here are not prescriptive. Instead, they are concentrated on a few areas that are likely to be important to (a) allow GfG to respond to the opportunities presented by the change in government and (b) reinvigorate GfG's role as a trusted adviser to the government:

- Using the design process itself to build a common sense of purpose.
- Maintaining the core organisational arrangements of GfG.
- Ensuring adequate staffing of GfG.
- Reinforcing GfG's autonomy to align with Vanuatu's interests.
- Resetting expectations of what GfG is likely to achieve in the next phase.
- Strengthening partnerships and strategies for guiding GfG's activities.
- Using the research fund to reflect upon and challenge GfG's direction.
- Managing knowledge and staff transitions effectively.

4.2.1. Using the design process to build a common sense of purpose

A key finding from this review is that the initial design of GfG was both highly innovative and highly successful in building on both the partnership between the governments of Vanuatu and Australia and the successes of past institutional strengthening. It combined considerable authority to try something new with the close participation of key reformers in the government. The design was intentionally loosely defined, and relied on the alignment of interests between various individuals as well as good bilateral relations. As the reach of the programme grew and the political context changed, some interview respondents thought that the spirit of partnership has been diluted and that GfG has become more formalised, making the organisational structures of GfG and the modalities of its support more important.

This puts considerable importance on the forthcoming design process. GfG should consider carefully who to involve in the design, and how, in order to take advantage of the prevailing appetite for reform in Vanuatu. In doing so, there may be scope to reinvigorate the shared vision and sense of partnership between counterparts of the two governments. Equally, the design will need to strike a balance between maintaining space and flexibility to experiment within the programme (particularly to support informal networks and approaches) and setting appropriate formal structures to manage the risks of changing personnel and changes in the nature of the relationship between GfG and the High Commission.

In selecting key people to be part of the design process, there are a range of options to consider. The context has clearly changed since the start of GfG and any future partner of the programme will need to be considered carefully within that context. However, it will be useful to consider how to engage with prominent or influential actors in Vanuatu, to ensure they are aware of GfG and understand what the programme will have to offer in Phase III. Those personnel could include officials, political advisers and (possibly) politicians from the Government of Vanuatu (particularly those who have transitioned from the civil service into politics and have a pre-existing relationship with GfG). The design process might also include the future counsellor, head of mission and the GfG director from DFAT, to help to build a strong understanding of what is needed from them. Taking key counterparts from the Government of Vanuatu to Canberra to interact with DFAT, as was done at the inception of GfG, could also be a way to deepen the understanding of the partnership on both sides.

Recommendation: *The design team should involve a number of different stakeholders. As a minimum, it should include staff from central agencies and key figures in the present government in Vanuatu, and the future counsellor, head of mission and GfG director from DFAT.*

4.2.2. Maintaining the core organisational arrangements of GfG

While the core features of GfG should remain open to discussion, this review identified a number of particular features of GfG that were considered to have provided positive incentives to work politically: co-location; a director at executive level 2; a strong team of connected ni-Vanuatu programme staff; the broad *governance for growth* mandate and a focus on rural service delivery; MFEM and OPM bureaucrats as core partners; flexible budgets; and use of country systems.

Co-location of the office in the OPM was recognised by numerous interview respondents as being particularly important in allowing easy access to the GfG team, which in turn helped to build relationships and trust. This also helped ni-Vanuatu officials to see the GfG team as separate from the High Commission when rhetoric surrounding the aid programme became more explicitly linked to Australia's national interest. On the side of GfG, it also helped the team to keep up to date with developments in the Government of Vanuatu and to identify areas for support, providing the opportunity to work in spaces that DFAT typically would not.

The effectiveness of co-location depends in part on other elements of the programme, notably staffing. Having a director at executive level 2 allows DFAT to hire experienced candidates. It also gives GfG the authority to support the priorities of counterparts with financial resources, if needed. Equally, having strong, qualified and connected ni-Vanuatu staff provides the GfG team with extensive knowledge of Vanuatu and helps to align GfG with the Government of Vanuatu's priorities.

Recommendation: *Retain the core organisational arrangements of GfG and continue the co-location of the GfG office.*

4.2.3. Ensuring adequate staffing of GfG

Although another review will consider resourcing in more depth, it is useful to note it here as resourcing will have important implications for GfG's capacity to work politically. The current team is lean and has struggled at times with a high administrative burden. GfG is a complex programme with multiple grant partners, and it is directly implemented by DFAT staff with a staffing portfolio that is not substantially bigger than the sector programmes being run out of the High Commission with the assistance of managing contractors. While GfG has benefited from the decision to contract vSolutions and a monitoring and evaluation specialist, there have been periods when the office was managed by just the director and one programme manager. More staff could help to ensure that the unit is able to work more effectively.

This recommendation does not necessarily extend to the specialist advisory positions for PFM and economics, which have been vacant for some time. These positions are aimed at improving GfG's expertise for it to fulfil its mandate, rather than managing the administrative burden. Given the sensitivity of these positions, the GfG team has been careful not to fill the vacant positions until the absolutely right candidate is found. The design team should reflect with the GfG team and their partners what expertise would be most useful to strengthen the partnership, and if that expertise should be permanent or deployed using short-term contracts or other means.

Recommendation: *Consider an additional post at the level of programme manager to free up the director and senior programme manager to engage with partners.*

Recommendation: *Review the purpose, positioning and nature of the specialist PFM and economics roles.*

4.2.4. Reinforcing GfG's autonomy to align with Vanuatu's interests

GfG is an extension of DFAT, which makes the programme different from most other examples of working politically reviewed as part of this study. While this arrangement has many benefits, lessons from the first two phases of GfG suggest that greater autonomy for GfG is important to allow the programme to support highly political reforms in central government agencies.

Most of the organisational features of GfG allow GfG to operate (or be seen to operate) at arm's length from DFAT: co-location, a delegated budget and reporting to the management committee. Australia is a major power in the South Pacific and Australian support is sometimes viewed with suspicion in Vanuatu.[24] Though partners know that GfG is part of DFAT, maintaining a degree of distance from the High Commission has helped foster trust, particularly in the central agencies. This allows GfG to support sensitive reforms which might otherwise be opposed.

24. See, for example, a story from 2004: http://www.radionz.co.nz/international/pacific-news/151953/vanuatu-deputy-pm-disputes-australian-criticism-in-aid-warning

Though organisational features are important, the autonomy of GfG also relies on the authorising environment provided by DFAT. DFAT can provide or restrict the authority for GfG to exercise its mandate through a number of channels. Aid quality checks, for example, are important for demonstrating the performance of GfG. The mandate and trust granted to the GfG unit by the High Commission is therefore critical for encouraging GfG to align to Vanuatu's interests and priorities. This issue is well documented in other examples of working politically (Booth & Unsworth, 2014: 22-23; Bain et al., 2016).

DFAT (and previously AusAID) has clearly provided considerable support and backing for GfG during the past decade and the commitment to funding a third phase of the programme is evidence of this. There has been a deliberate and sustained effort in AusAID/DFAT to position GfG as being different from the rest of the aid programme and High Commission. This has been critical to the success of the programme. However, a wide range of interview respondents noted a reduced appetite for risk and more onerous processes in AusAID/DFAT. They explained that this, combined with budget reductions, has made GfG less effective than it was in the early years.

The design process could usefully reflect on how the High Commission and DFAT headquarters could reinforce the autonomy of GfG. For example, the design should ensure there are no formal requirements in the terms of reference for the GfG director to provide economic briefings to DFAT (see GfG, 2007: 97). The design could also consider softer issues of presentation and perception, such as the way GfG is branded. Branding was not explicitly raised as an issue by counterparts in Government yet it is an important tool for securing recognition of GfG's work. There is, however, a perception among some stakeholders that GfG has become more aligned with the broader diplomatic interests of the High Commission since the merger with AusAID. A balance will need to be struck, but it may be possible to exempt GfG from certain policies around branding or more actively promote GfG's own brand.

More generally, the relationship between GfG and the rest of the bilateral aid programme could be presented more clearly in the next design document. In particular, the design could consider how to manage the budget under the counsellor and the GfG director, especially how to preserve flexibility in the face of potential budget cuts. It may also be useful to consider an induction into the GfG programme for new officials involved in overseeing GfG – including future counsellors and high commissioners in Vanuatu – in order to help build a strong, shared understanding of the programme.

Finally, DFAT could consider reviewing some of the ex-ante fiduciary controls introduced since 2013. Guarding against fraud is important in the use of public funds and for the long-term viability of GfG. However, DFAT could consider whether ex-post controls and additional technical support for procurement provided by vSolutions would provide sufficient safeguards against losses. Though not onerous, lifting the ex-ante controls would confirm the trust DFAT has in its grant partners in Vanuatu.

Recommendation: *Maintain GfG's autonomy as a central part of the next design and clarify the relationship between GfG and the rest of the aid programme.*

Recommendation: *Discuss with counterparts the requirements for branding GfG activities in order to help GfG to be perceived as separate from the High Commission.*

Recommendation: *Review ex-ante fiduciary controls for GfG assistance to the Government of Vanuatu.*

4.2.5. Resetting expectations in a new context

GfG has supported a number of important reforms and policy changes. The considerable successes in the early years in particular have given GfG strong credibility in Vanuatu and in DFAT. They have also created high expectations around what the programme can achieve. In DFAT, formal reviews remain positive, but some interview respondents questioned when the next 'big' reform would/should emerge. However, it is important to reset these expectations to some extent.[25]

At the outset, senior Australian officials believed that GfG would only ever deliver two or three big reforms – a target it has surpassed. As with broader international experiences of supporting governance reforms, the most successful interventions are notably where actors are concentrated and it has been possible to develop 'islands of excellence' (Israel, 1987; ADB, 1996; Andrews, 2010). These reforms have not, and should not be expected to, lead to wholesale, cross-government improvements in economic governance and PFM.

It is also clear that for long periods the political environment in Vanuatu, with frequent changes in government, was unlikely to support big, transformational changes. Turnover of prime ministers was higher in Phase II of GfG, between 2010 and 2015, than at any point in the previous decade. Cyclone Pam also closed the space and capacity for institutional reforms. The environment has changed since the elections in February 2016, presenting an opportunity to support the priorities of the new, activist government.

25. A second part of the evaluation will cover issues of content – what GfG has and should be working on in order to maximise its impact on growth and service delivery. This study does not, therefore, prescribe specific areas of future work for GfG, but considers the kinds of reforms GfG might realistically be able to support.

Taking advantage of the current window of opportunity will not necessarily be straightforward. GfG today is more constrained by resource availability and administration than the programme was in the early years. Equally, some long-standing partners are cautious about what GfG is able to do – including warnings from two interviewees that GfG should not engage in highly political issues of a sovereign nature, such as the introduction of income taxes. However, there is a significant opportunity for GfG to support the new government at a crucial time.

It will be important to manage (up front) the expectations of what GfG can reasonably deliver over the next phase. Returning to the starting assumption that GfG could support two or three significant reforms if the climate is favourable appears reasonable. At the very least, the expectation that GfG can support wholesale improvements in the quality of PFM and budget allocations in line ministries should be reviewed. It is more realistic that reforms will continue to change behaviours around more concentrated actors and specific policies.

Recommendation: *State clearly upfront in the new design document that GfG is not expected to support more than two to three transformational reforms over the next five years.*

Recommendation: *Retain the broad mandate to improve rural service delivery and economic growth, but review the results area on PFM that expects cross-government improvements in the quality of budgeting and expenditure management.*

4.2.6. Strengthening partnerships and strategies for guiding GfG's activities

The close relationship between GfG and government partners was a key factor behind the programme's successes in the early years. At this time, there was an implicit aim to strengthen the hand of a few key reformers, many of whom had ties to the former MFEM institutional strengthening project. This gave those involved in the programme, both in Vanuatu and in Canberra, a common sense of purpose. It also provided a mechanism for challenging and directing GfG that involved both Australian and ni-Vanuatu officials.

Interview respondents believe that GfG is more invested in its stakeholders than most other aid programmes in DFAT, but they have also noted that the nature of relationships has changed over the past decade. The initial network changed with staff turnover and the shared sense of purpose was difficult to sustain in practice. This is true both within DFAT and between GfG and its Vanuatu counterparts. As a result, interactions are more formal than they were previously, and possibly also less frequent.[26]

It has also been suggested that GfG's network is shrinking, and that the team spends most of its time talking to the same stakeholders, principally the grantees. This is partly a result of a maturing relationship – allowing the team to focus on the few areas where there are substantive problems. It is also a factor of the growing administrative burden placed on the programme. These changes have left the team with less time to network with partners and engage directly with reforms. Unlike the early days, feedback on the progress of reforms managed by each partner is now often linked to the ability to spend GfG funds.

A key issue for the design process is how relationships could be reinvigorated. As suggested already, the design process provides one mechanism to do this – by helping to build trust and a shared vision between key stakeholders. Adding an additional staff member would also give the team more time to engage with partners and help them to broker reforms. The overall aim should be to ensure GfG has a close partnership with key officials and reformers, and ensure that there is regular dialogue with these partners on how reforms are progressing.

GfG will need to be able to divest some of its activities and take on new priorities as demands change. Currently, the mechanisms for doing this are largely internalised – GfG might discuss issues within the team or bilaterally with close partners. The management committee has occasionally provided strategic support, but has been more effective for providing cover for decisions that were already taken by the GfG team and its operational partners. To supplement this, GfG may benefit from a stronger challenge role or other mechanisms to direct future efforts, as recommended in the Mid-Term Review (GfG, 2011). This could involve partners in Vanuatu and other local stakeholders or invite an external challenge from DFAT or other groups with experience in the Pacific or adaptive programming, such as The Asia Foundation.

It will be useful to consider the best way to identify the priorities of the new government that could be supported by GfG and/or challenge the current portfolio of support. Strategic oversight options that could be considered in more depth during an inclusive design phase include the following:

- Engage with key officials and politicians to raise awareness of what support GfG can provide for the government's reform agenda.
- Conduct a 'deep dive' into the progress on a selected reform issue with the management committee, asking what has been done, what has been learnt and what could be done next.
- Hold six-monthly reflection and refocus sessions that consider programme direction and implementation challenges.

26. Denney and McLaren (2016) have noted a similar risk for the PLP that relationships become more focused on projects, which makes them less dynamic.

- Set up a forward-looking meeting for GfG as part of the strategic planning phase of the budget process, involving key ministers and members of the management committee, or join an existing one.
- Host a dedicated (narrow) strategic forum, such as a semi-annual strategy meeting of a small, carefully selected group of senior allies to brainstorm on future directions for GfG support.
- Host a broader strategic forum, to provide wider oversight and dialogue, possibly even in public, as is done in the Timor-Leste's Governance for Development programme.[27]

Recommendation: *Map the top policy demands of the government that are relevant to GfG and the key stakeholders linked to them.*

Recommendation: *The design team should help GfG develop an appropriate set of mechanisms to reflect on and challenge their activities on a periodic basis, such as holding six-monthly reflection and refocus sessions that consider programme direction and implementation challenges.*

Recommendation: *Conduct a stakeholder mapping exercise to reflect upon how to engage with partners most effectively.*

4.2.7. Using the research fund to reflect upon and challenge GfG's direction

Throughout the two phases of GfG, the research fund has been underutilised, representing a missed opportunity to influence the strategic direction of the programme. To some extent this reflects the rapidly changing environment, limited demand from government officials and a lack of clear function for research in supporting GfG's activities (as noted in the previous review of Phase I). It has also been an easy target for budget cuts with the rest of GfG's budget largely committed.

The suggestion from this review is that at least part of the research fund should be more explicitly linked to the mechanisms for reflecting and challenging GfG's activities. Options to use the research fund include the following:

- Inputs for identifying and analysing key problems. This could take the form of explicit research into a blockage or constraint to reform, such as drawing on the 'binding constraints to growth' approach advocated by Hausmann et al. (2006). It could also involve the use of participatory tools such as fishbone diagrams to break down the problem (Andrews et al., 2015).
- Short policy notes identifying clear options to take forward (as was the practice in the early years of the programme) to support discussions and GfG's convening of stakeholders.
- A rapid (even independent) review each quarter of the activities of a specific partner to inform discussions with the management committee.
- Background preparation to increase understanding of issues ready for when they eventually crop up: e.g. framing of issues/sectors and options for policy change or reform to inform decisions.
- A stocktake of issues that have been identified by GfG to date, but where there has been limited progress, that may inform new areas to support.

GfG could directly recruit these studies or could subcontract others to provide a research function, covering all these options.[28] This would require an understanding of the different types of support required at different times and a corresponding ability of the provider to adapt to these specific needs. In some cases, this would be preparing research or briefing, but in others it may be a brokering or facilitation role that GfG feels it needs to outsource.

It would also be appropriate to use the research fund to disseminate information on government's successful reforms (such as the FSBs), to garner feedback on ongoing reform efforts, or to have ni-Vanuatu perspectives on key issues related to service delivery and economic governance in outer islands.

A more strategic use of the research fund could be supplemented by strengthening the tools used by the GfG team to construct and deconstruct problems. This should not be too specific about the kinds of projects that could be funded, but could help to narrow down broad issues into 'good' problems to address, drawing on practical approaches such as problem-driven iterative adaptation (Andrews et al., 2015).

Recommendation: *During the design process, specify the type and range of research inputs that would be useful and consider engaging one or two providers with complementary skills to provide this support.*

Recommendation: *Develop a set of tools within the GfG team for constructing and breaking down problems – both internally and with counterparts.*

4.2.8. Managing knowledge and staff transitions effectively

It will be important to manage the transition of the director, the counsellor and the high commissioner in a way that strengthens the commitment to working politically. All three posts are due to be replaced in 2017, which will put pressure on the relationships with the Government of Vanuatu at a time when working with the

27. The Governance for Development programme does not have one multi-ministry oversight committee. Instead, it holds an annual high-level policy forum, on topics relevant to the programme and involving senior representatives of relevant central agencies. This high-level forum is an opportunity for policy dialogue, information sharing, and a practical focus on issues of common concern.

28. GfG could consider how to use call down support from DFAT's resource facility or set up something similar locally with the University of the South Pacific to respond to specific requests emerging from partners or to follow up discussions.

political momentum is crucial. This will also increase the pressure on the other staff in GfG to manage relationships, strategy and administration, with corresponding concerns about resourcing and strategic oversight.

Historically there has been limited hand-over between directors. The current director benefitted from interactions with GfG in a previous role and from overlapping with the AusAID counsellor who knew the programme well. However, with the transition of many important positions in the High Commission in a short period, it is important to consider how to manage the handover from the current director to his successor.

Looking beyond the transition and beyond the mandate of this study, the lessons from the relationships that GfG has built with partners in Vanuatu could be extended to other parts of the Australian aid programme. The locally engaged staff in the High Commission have a wealth of knowledge of Vanuatu and strong connections to their sectors, but their location in the High Commission can separate them and their counterparts (whether figuratively or in actual terms because of the difficulties entering the High Commission). It may be possible to place (or even second) these staff into ministries to reinforce the relationships.

Recommendation: *Rebalance the programming and administrative roles in the team to give more strategic responsibilities to the senior programme managers.*

Recommendation: *Use the transition period to explicitly increase lesson-learning and planning through a strategic handover period in Vanuatu for the director; and GfG hosting an induction for the new counsellor and high commissioner.*

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Annex 1: List of groups and individuals consulted

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Chris Bleakley	Former GfG Director
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Helen Corrigan	Senior Programme Manager, Safer Communities, Australian High Commission
Simon Cramp	Former GfG Director
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Simon Flores	Deputy High Commissioner, Australian High Commission
Antony Garae	Director, Department of Energy
Collin Gesa	Deputy Director, Department of Customs & Inland Revenue
James Gilling	First Assistant Secretary, Contracting and Aid Management Division, DFAT
Lizzie Govan	Chief of Staff, Utilities Regulatory Authority
Jonathan Gouy	Director, Development Economics Section, DFAT
Patrick Haines	Senior Programme Manager, Recovery, Australian High Commission
Matthew Harding	GfG Director
Mark Harradine	Former GfG PFM Coordinator
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Alice Kalontano-Kailes	GfG Programme Manager
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Simil Johnson	Government Statistician, Vanuatu National Statistics Office
Nigel Malosu	Acting Director, Treasury, MFEM
Stuart Mathison	Head of Operations, National Bank of Vanuatu
Judith Melsul	Manager, Planning Unit, Public Service Commission
Benuel Lenge	Senior Statistician, Vanuatu National Statistics Office
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Willie Luen	Principal Trade Development Officer, Ministry of Trade
Gregoire Nimbtik	Director, DSPACC
Stella Nishai	Accountant, R4D Programme, Public Works Department
Derek O'Brien	Local Consultant
Praveen Reddy	VAT Compliance Adviser
Katherine Ruiz-Avila	Former Councillor, AusAID, Vanuatu
Fred Samuel	Former Chief Information Officer, OCGIO, OPM
Tony Sewen	Acting Director General, MFEM
Benjamin Shing	Acting Director General, Ministry of Internal Affairs
Nikunj Soni	Consultant (former MFEM-ISP)
Leisau Tarip	Senior Consultant, vSolutions
James Tatangis	Senior Economist, Ministry of Trade
Christelle Thieffry	Senior Programme Manager, Education, Australian High Commission
Robert Tranter	First Assistant Secretary, Public Diplomacy and Communications Division, DFAT
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Primrose Toro	GfG Grant Coordinator, MFEM
Leith Veremaito	Former Senior Programme Manager, GfG
John Winter	Monitoring and Evaluation Adviser

Annex 2: International case studies of working politically

Criticisms of conventional approaches to supporting government have led to a growing interest in alternative models for providing development assistance. Case studies present a range of specific projects that have successfully supported governance reforms in developing countries. In some cases donors worked through NGOs and other external agents to influence changes in government policy from outside, such as The Asia Foundation in the Philippines (Faustino & Booth, 2014). In other cases, development agencies have found new ways of designing and implementing projects in difficult environments. The World Bank's work on health and agriculture in Nigeria is a recent example (Bain et al., 2016). Other case studies document how contractors can work inside the government at arm's length from donors to facilitate reforms (Williamson, 2015).

Examples presented here include the Knowledge Sector Initiative in Indonesia; the Governance for Development programme in Timor-Leste; the Pacific Leadership Program (Denney and McLaren 2016); a DFID programme to support civil society groups in Burma; the DFID-supported Enabling State Programme in Nepal; Quality Improvement in the health sector; The Asia Foundation land reform in the Philippines; The Investment Board of Nepal; and the Facility for Oil Sector Transparency in Nigeria.

The Knowledge Sector Initiative in Indonesia

In Indonesia DFAT is supporting efforts to strengthen the enabling environment for evidence-informed policy-making by increasing funding for research and addressing regulatory obstacles. Problems were identified through diagnostic studies and participatory problem identification exercises done by the enabling environment team during the design of the Knowledge Sector Initiative (KSI). DFAT adapted the timeline tool suggested by Faustino and Booth (2014) to encourage entrepreneurship by recording activities, changes in plans and decisions, setbacks and blockages and the action taken by the team to pass them. DFAT provided technical support that provided an entry point for engaging with key government stakeholders on procurement reform. KSI acted as a knowledge broker, for example a diagnostic study on constraints in Indonesia's knowledge sector was a catalyst for opening up dialogue on the need for reform; and a knowledge-sharing event brought together universities, policy research institutes and decision-makers to discuss the issues in Indonesia's enabling environment for research. The approach of the team has been collaborative with strong local leadership. The knowledge brokering efforts allowed the policy research institutes and the Ministry of Research, Technology and Higher Education to explain the issues from their perspective directly to the government's procurement agency, where the strong engagement from the director and staff steered the reform. 'A key aspect of the political knowledge that the programme's government counterparts had was knowledge about how to get things done in the context of Indonesia's bureaucracy' (Jackson et al., forthcoming b: 7).

The Governance for Development programme in Timor-Leste

The DFAT-funded Governance for Development (GfD) programme in Timor-Leste is a A$42.4 million programme running for four years until 2018. The programme provides advisory services to support economic policy-making, financial management and other systems impacting on service delivery. It builds on DFAT support in Timor-Leste since 1999 and specifically continues the work of three capacity development programmes: (i) the public sector capacity-programme; (ii) the planning and financial management programme; and (iii) the justice sector support facility.[29] GfD conducts regular political economy analysis and 'is designed to work iteratively, with an emphasis on partnership, flexibility and mutual accountability' (DFAT 2014: 2).[30] The theory of action of GfD is informed by an understanding of how policy is formulated in Timor-Leste, which in turn has informed the programme strategy. GfD aims to build strong relationships with key decision-makers and to 'actively broker increased interactions and flows of information between central agencies and [line ministries]'. This is underpinned by a strategy of 'formal and informal knowledge generation' with the aim of understanding the policy-making environment and identifying reform areas and supporting the brokering function (DFAT, 2015: 11). However, the large size of the GfD programme makes it highly visible, which has implications for the way in which the programme can operate at arm's length.

The Pacific Leadership Program

The DFAT funded Pacific Leadership Program (PLP) has been supporting leaders in four target countries: Samoa, Solomon Islands, Tonga and Vanuatu, since 2008, with a total budget of nearly A$52 million over the expected nine

29. https://dfat.gov.au/about-us/publications/Documents/govdev-design-document.pdf

30. Although this observation was made before the current GfD phase started.

years of the programme. Since 2014, it has been focusing on reform coalitions. There are some clear characteristics of PLP that Denney and McLaren (2016) emphasise in their paper that explored the work of four coalitions: (i) Women in Shared Decision-Making, Vanuatu; (ii) Tongan National Leadership Development Forum; (iii) Simbo for Change, Solomon Islands; and (iv) the regional Green Growth Leaders' Coalition. PLP has established a strong partnership, based around cooperative agreements that support local priorities and 'provide space for partners to lead their change processes, with PLP playing a role as a convener and a 'critical friend'' (ibid). There are four key features of PLP that illustrate how *working politically* is done in practice: (i) almost all staff are Pacific Islanders, who extensively use their personal networks, and a substantial time investment is made in meeting partners; (ii) on the basis of information gathered, PLP approaches contacts to convene coalitions, sometimes reaching sensitive issues through indirect, less-sensitive routes; (iii) PLP staff keep a low profile to ensure that reforms are truly locally led, often using family, school and church networks; and (iv) PLP appreciates uncertainty, by 'muddling through' with incremental changes. Funding is also flexible as the programme determines how to allocate it among partners. Denney and McLaren (2016) note that the 'approach to learning and adaptation is relatively informal' through frequent informal conversations internally and knowledge-sharing across programme areas and with partners. PLP has six-monthly reflection and refocus sessions that consider programme direction and implementation challenges, rather than the reform strategies. A noted challenge is maintaining an arm's length relationship with DFAT in the context of reduced budgets and an increased focus on short-term results. One of the associated tensions is how funding coalitions present the risk that they become projectised and therefore less dynamic; and the tension between PLP keeping a low profile versus communicating results and contributing to the *working politically* debate.

Pyoe Pin in Myanmar/Burma and the Enabling State Programme in Nepal

The DFID-supported Burma and Nepal programmes analysed by Booth and Unsworth (2014) are particularly relevant for GfG as they were implemented in a context of political instability. The Burmese civil society support programme (Phase 1 budget £4 million, Phase 2 £12.8 million) helped to create networks and coalitions around specific issues and to support to generation of social and political capital. The Enabling State Programme in Nepal ran for 13 years with a budget of £33 million. It provided flexible funding to different groups implemented by a team of well-connected Nepali staff. The approach taken by the teams and supported by DFID was to identify entry points based on the politically astute insights of the local teams. Furthermore, they adapted quickly as the situation on the ground changed. The programmes were directly organised around engaging and influencing salient political issues.

Leather sector reform in Bangladesh

The reform of the leather sector in Bangladesh was one of the areas of focus of the strategic partnership between DFAT and The Asia Foundation (TAF). Alongside other work, TAF supported efforts to move tanneries out of a polluted location to a modern industrial park to improve compliance with health and environmental protection standards, and potentially support the growth of the sector. Small amounts of initial funding were provided by DFAT for TAF to identify a transformational reform to support, applying a flexible, adaptive and political approach. Once the leather sector was identified as a reform area, TAF's team focused on building a coalition to resolve disagreements and develop a consensus (Harris, 2016).

They were to aim for *transformational*, rather than *transactional*, changes, the impact of which would be visible in terms of concrete, tangible outcomes. Similar to GfG's support to reforms, it is notable that intensity varied from times when commitment was high to time when reforms were put on the back burner. Further, Harris (2016) noted how the need for informal networking outside office hours required a highly committed team. A requirement of DFAT support was that strategy testing would be used to guide iteration. The sessions brought the entire team together and allowed the space for discussions and updates across different levels of authority from management to more junior staff (Harris, 2016). Knowledge gathering involved three processes: (i) investing in research products; (ii) consultations with partners; and (iii) leveraging relationships. The work is still ongoing so the longer-term results remain to be seen; however, substantial progress in relocating the leather tanneries in Dhaka to a more environmentally and economically sustainable location has been made. Of the 155 tanneries allocated new plots on an industrial estate, 95% have started construction.

Reforming solid waste management in Cambodia

Another area of the strategic partnership between DFAT and TAF was supporting improvements in the solid waste management sector in Phnom Penh, Cambodia.

The problem is a waste collection service that is 'characterised by a single company with a long-term confidential contract that is difficult to monitor, a fee structure that does not encourage improved household waste collection, garbage collectors whose conditions do not incentivise performance, and communities that are difficult to access and do not always understand the importance of sanitary waste disposal' (Denney, 2016: 9). There was a focus on understanding the incentives and politics affecting service delivery and to address this the team worked in a flexible way with a range of partners, drawing on their technical expertise. Contracting experts on a short-term basis helped to build relationships and contributed to the knowledge base, built through a broad range of activities from research and relationships, to news and social media. Denney (2016) notes that TAF conducted strategy testing on a quarterly basis, examining the theory of change and any contextual changes, and questioning if there have been changes in the relevance and feasibility of the reform. This allows improved responsiveness to changes. As the work is ongoing, results are yet to be determined.

State Accountability and Voice Initiative in Nigeria

The DFID State Accountability and Voice Initiative (SAVI) in Nigeria has been supporting state-level demand-side governance since 2008. It operates in ten states so needs to be flexible and adaptive to the different contexts and prevalent issues. It provides support to State Houses of Assembly, mass media organisations and civil society organisations in education, health and state budgeting, with a focus on building capacity to further politically tractable issues. SAVI keeps a low profile by using programme staff who are indigenes of the state to provide mentoring and support to other stakeholders, including government staff, to work collectively to resolve issues of shared concern. It holds monthly and quarterly reflection meetings that support iteration. It also places governance issues firmly at the centre of its approach to delivering tangible development outcomes. A self-assessment scheme elicits intrinsic motivation and engagement with other actors while also providing a means of monitoring and assessing progress. Booth and Chambers' (2014) report highlights that, where there is the motivation, donors can create the enabling environment for this type of support in a complex context. However, they also suggest that arm's length models may be more appropriate as fewer constraints would be faced.

Quality Improvement in the health sector

Quality Improvement (QI) in the health sector applies a cycle of planning, implementing, reviewing and adjusting: known as 'plan-do-study-act' (PDSA). It can be applied to various aspects impacting on the delivery of health services such as efficiency, accountability and performance (Cofie et al., 2014). The reflection and learning allow each new cycle to improve upon the former – a central tenet of the adaptive approach. It is problem driven, iterative and flexible. This comparison relies on this one feature as QI does not necessarily follow a political or locally led process, although it can be particularly effective when there are local champions in place. QI has been successfully scaled up to a national level in Ghana, where it has helped to increase skills and local innovations to respond to maternal health challenges. In Ethiopia, the QI approach is being applied to community health systems, but despite strong lessons there is no evidence that it will be rolled out nationally (Tulloch, 2015).

The Asia Foundation land reform in the Philippines

Securing property rights in the Philippines emerged from the 2010 enactment of a law on residential free patents that resulted in a 1,400% increase in residential land titling in the Philippines. The project was operated at arm's length through two cooperative agreements between USAID and TAF. The intermediary role played by TAF served to protect the team from undue donor compliance demands, while also relieving the donor from managing a large number of small grants and contracts. TAF navigated the reporting requirements to USAID. It was not clear at the outset what the formula for success would be. The team of local activists discovered a way of formulating the reform objective to avoid major opposition and threatening entrenched interests. Several avenues were abandoned after an initial exploration. The gaining of support involved 'leveraging of sources of influence, including extended family relations, classmate networks and professional affiliations' (Booth, 2014: ix).

The Investment Board of Nepal

The Investment Board of Nepal (IBN) was established by the DFID-funded Centre for Inclusive Growth (CIG) with the aim of building hydroelectric power capacity. Two new foreign investments totalling over US$2 billion were brokered by the IBN, which will more than double electricity production and increase employment and export revenue. There were three key features of DFID's support. First, DFID was able to quickly scale up funding to allow CIG to respond to a political opportunity. Second, the support was not visibly from DFID as branding was limited, such that the support was arm's length. This allowed Nepalis to navigate the complex political challenges. Third, DFID shouldered the risk and remained committed and closely engaged, even without immediate results being apparent (Laric & Waddell, 2016).

The Facility for Oil Sector Transparency in Nigeria

The Facility for Oil Sector Transparency in Nigeria is a DFID programme that pursues long-term institutional strengthening partnerships alongside short-term opportunities. The programme's achievements have included helping to recoup over £300 million of Nigerian government funds and contributing to legislative change. Bhalla et al. (2016) highlight how the programme works adaptively and responds to opportunities arising, and is politically smart due to extensive networking and partnerships, and how the programme management is low profile and does not claim credit for results.

Annex 3: ODI's Budget Strengthening Initiative

The first phase of the Overseas Development Institute's Budget Strengthening Initiative (BSI) ran from 2010 to 2015 with a budget of £15.6 million and experiences from this period have been documented as part of an evaluation (Cox & Robson, 2015), as internal lesson-learning notes and as a published synthesis of these experiences (Williamson, 2015). This documentation provides useful material for comparing the experiences of GfG in a number of areas, and was supplemented by a peer-to-peer discussion between GfG and BSI staff on 16 November 2016.

Overall, BSI is well regarded and has received strong endorsement from external commentators. In terms of effectiveness, the recent evaluation reviewed 25 annual work stream reviews and confirmed that 22 of them scored an 'A' or higher on DFID's evaluation scale. BSI also tracks the outcomes of its support through 'stories of change', which capture changes in policy, attitudes, behaviours and processes. The evaluation was able to verify a total of 14 significant institutional changes.

Currently, BSI works with officials in South Sudan, Sierra Leone, Liberia, Democratic Republic of Congo and Uganda, as well as with the Secretariat of the g7+, based in Timor-Leste. Each of these programmes operates in a different environment and provides support in a different way. In South Sudan, a large BSI team supports budget and cash management, revenue administration and fiscal transfers to subnational government. In contrast, the team in DRC operates in a cross-ministry coordination group for PFM reforms because central agency functions are shared between the three ministries of finance, budget and planning.

Across these different programmes, BSI has a common set of guiding principles and theory of change. The theory of change is summarised in Box A1 along with the key hypothesis that underpins it. It closely echoes the reflections of some academics that changes in institutional arrangements do not drive development but that these move concurrently, as institutions address problems and learn from those experiences (Harrington, 2016).

As part of ODI, BSI also has a strong role for research in its work. This aims to reinforce and inform the work done at country level and ensure that practical engagement in-country is informed by comparative experience and ongoing international dialogue. Equally, experiences of working in fragile states is expected to feed back into research in ODI to influence the global debate.

The rest of this annex considers in more detail how BSI works in practice, reflecting on the approach the programme takes on the ground and the organisational incentives it faces, before drawing out some of the key issues relevant to GfG and this review.

Box A1. Theory of change for the Budget Strengthening Initiative

The theory of change for BSI is summarised as follows:

> 'The extreme poor will be increasingly concentrated in fragile states, where achieving the Sustainable Development Goals will be the most challenging. Weak fiscal governance exists in fragile states and diminishes prospects for conflict prevention, peace-building, state-building and development. BSI aims to help governments of fragile states to increase their capacity to develop more effective, transparent and accountable fiscal governance systems, so as to reinforce the legitimacy of state institutions and to mobilise and utilise domestic and foreign resources in support of equitable development that lowers the threat of organised violence and contributes to peace.'

The key hypothesis behind this theory of change is that:

> Problem-driven support …
>
> … which takes account of context, constraints, capacity and political incentives and seeks to work through country staff and country systems …
>
> … will enable ministries of finance to sustainably spearhead improvements in fiscal governance (raising and managing revenues, equitable spending in support of service delivery and development, and strengthening government accountability for transparent, efficient and effective use of public funds)…
>
> … thus contributing to increased capacity and confidence in government institutions; increasingly politically negotiated budget processes; increasingly efficient and service delivery-oriented expenditure; and increased government accountability for use of public funds….
>
> …. thus contributing to peacebuilding and state building.

Sources: Budget Strengthening Initiative monitoring and evaluation framework

BSI's approach to supporting reforms

The stand-out intervention for BSI is arguably its support to local service delivery in South Sudan (Cox & Robson, 2015). This support began following the breakdown in discussions between the Government of South Sudan and donors on the prospects of budget support. Donors were concerned about the fiduciary and programmatic risks of using country systems to support poverty reduction, while the government wanted to demonstrate its ability to provide services which were mainly delivered through parallel systems, including NGOs.

In this context, BSI worked with the government and other development partners to resolve how domestic and external resources could be used to finance basic service delivery. Williamson (2015: 31) writes: 'A process initiated to address a disagreement on how aid should be delivered evolved over the next four years into a government-led process to strengthen service delivery by providing fiscal transfers to subnational government. In between, problems associated with local government PFM, the design of fiscal transfers, human resource management and social accountability were addressed. Each step with a clear rationale and purpose, responding to the evolving situation and issues faced.'

Over time, there have been considerable challenges to sustaining this initiative. While the government demonstrated considerable commitment early on to local services, by funding fiscal transfers directly from the budget, this commitment has been affected by outbreaks of violence and fiscal shocks resulting from a shutdown of oil production in 2012/13 and a collapse in the oil price in more recent times. In this time, BSI's role has increasingly been to help maintain some of the basic systems that have been built up and to support the ministry of finance in rationing cash and commitments.

This broadly captures the approach used by BSI. The core of the support remains problem-driven and responsive to changes in the nature of the problem and government priorities. However, these may change and the pace of reform varies – with periods of intense activity and problem-solving followed by quieter periods. 'It is not one continuous stream of rapid iterations' (Williamson, 2015: 31). It is largely for this reason that BSI operates at a variety of levels. Most support is targeted at middle-managers in government, but this is supplemented by more strategic engagement at the level of ministers and politicians through connected consultants.

A few areas of BSI support have been challenged either officially in reports and evaluations or less formally in discussions and other forums. The evaluation pointed out that BSI's approach to capacity-building is not well articulated or understood by counterparts, for example. Equally, there have been discussions over how well BSI considers cross-cutting issues such as gender in its programming. The role of the Advisory Board has also not been as useful as intended for providing strategic inputs.

It is also useful to reflect on the mixed success of using research to inform in-country advisory work. One successful case was the high-level research on the capabilities of finance ministries. The case study conducted in Sierra Leone identified cash management and the process of cash rationing as a crucial part of the finance ministry's activities, but one that suffered from weak coordination. Addressing this problem is the core aim of the new BSI programme in Sierra Leone, and the capabilities approach has also opened space for BSI to support the induction of new finance ministry staff – an activity which the government has chosen to pay for itself.

In general, however, the link between advisory work and research has not been exploited as much as it potentially could. This may be partly because advisory work operates on a shorter timeframe than research. Equally, central research teams have better access to information on global trends and high-level policy issues than to the specific details of changing contexts, such as South Sudan or Liberia. Integration has worked better when researchers and advisers have the opportunity to collaborate. The recent integration of ODI's research team on public finance and institutions with BSI may therefore help to improve the links over time.

BSI's organisational incentives

The strengths of BSI's organisational arrangements for providing flexible and demand-driven technical assistance are summarised well in the mid-term evaluation (Cox & Robson, 2013, cited in Williamson, 2015: 47).

> *Its approach is flexible, iterative and politically informed, making it well placed to identify and promote solutions to problems that might defeat other [technical assistance] programmes. This has contributed to a good level of implementation of the reforms it has supported…the BSI programme structure facilitates its strategic orientation and its flexible, problem-solving approach to delivery.*
>
> - *It is funded from an accountable grant, giving it greater autonomy in the pursuit of agreed goals.*
> - *It has an open-ended design. Its logframes commit it to achieving a certain number of identifiable institutional changes, without specifying in advance what those changes should be.*
> - *As an implementer, ODI brings its own mandate as a development think tank with a commitment to improving international aid practice that goes beyond its immediate accountability to BSI's funders.*
> - *ODI deploys staff (many of them former ODI Fellows) with experience of working inside institutions and supporting change processes in a low-profile manner. Their team brings strong analytical, communication, facilitation and networking skills, together with a familiarity with the politics of reform processes.*
>
> *Together, these factors create a distinct set of incentives that set BSI apart from other [technical assistance] providers. BSI teams display an evident concern not*

just with the immediate outcomes of their activities, but with the success of the wider development partnership. They are willing to facilitate processes behind the scenes without taking credit for them, which contributes to their ability to support meaningful institutional change. (The Liberian Deputy Minister for Budget praised BSI's willingness to 'move from the driving seat to the back seat'.) It also affects the way they work with other aid projects. In South Sudan, we observed that they were helping to shape and facilitate other projects and were willing to pass activities across to other projects where that made sense.

Booth (2013) echoes some of these aspects in his reflections on the approach of BSI. As he points out, the ability of BSI to operate at arm's length from donors such as DFID can help foster certain incentives. BSI (and a few other technical assistance providers, including the Africa Governance Initiative) are not primarily concerned with disbursing funding, are able to focus on problems without a pre-established influencing agenda, and can recruit local or locally-experienced staff on relatively long-term contracts. As an independent organisation, BSI can have its own strategic objectives and be more closely aligned to local stakeholders' interests – a position that is reinforced by the participation of counterparts from partner countries in the Advisory Board.

While experience has generally been positive, there are some challenges with the operational model of BSI. One important issue identified in most discussions of BSI is the security of funding. While BSI has been able to raise considerable resources for its efforts, 'the uncertain and piecemeal nature of its funding has led to high transaction costs and hampered programme development' (Cox & Robson, 2015: i). In the case of BSI support to Uganda, some consultants put in considerable additional time *pro bono* to maintain the reform effort, which was ultimately unsustainable and led to gaps in support at crucial times in the budget cycle.

There is also a longstanding challenge between expanding BSI and maintaining its effectiveness. The current programme of support is relatively small and focused mainly on fragile states, and within that on the budget cycle. However, the BSI model is applicable in most low-income country contexts as an alternative to standard technical assistance programmes. BSI has also started to work in other areas of financial management, including revenue administration and tax policy, as demands emerge. A crucial challenge raised in the recent Advisory Board meetings, therefore, is to strike the right balance between expanding the programme and maintaining the quality of support currently offered.

A related issue is the challenge that BSI faces in stopping support to key partners. Relationships with counterparts are a crucial part of delivering effective support through BSI. This requires a credible and often long-term partnership – or what Williamson (2015: 52) describes as the need to 'sustain consistent support over the long term'. In some cases these need to be sustained even when reforms are not progressing, in the expectation that space to progress change will reopen at some stage in the future or simply to maintain functionality in some of the most basic systems of government financial management. However, this commitment can potentially reduce the opportunity to engage in new areas without finding additional resources to maintain existing engagements.

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Cover photo: Kelan Sing, a fisherman from Taremb community, on Vanuatu's Malekula Island, says he can now text for help while at sea. Taremb, Malekula, Vanuatu.
Photo: Tom Perry / World Bank.

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