

**THE UNFINISHED STATE**  
**DRIVERS OF CHANGE IN VANUATU**

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*Team members*

Marcus Cox  
Hannington Alatoa  
Linda Kenni  
Anna Naupa  
Dr. Gregory Rawlings  
Nikunj Soni  
Charles Vatu

*Senior advisers*

George Sokomanu  
Vincent Bulekone

## **Executive summary**

Development is a fundamentally political process, and development assistance is more likely to be effective if it is based on a sound understanding of the country context, including political processes and incentives. 'Drivers of change' is an analytical tool used by donors to assess the prospects for and constraints on development in a particular country context. Taking a political economy perspective, it assesses the interaction among structural features (economic, social and cultural systems), institutions (formal and informal rules and incentives) and actors (individuals and organisations).

The study is intended to be non-normative in nature. That is, the analysis does not start from any particular vision of Vanuatu's development, but considers how things are at present, how they came to be as they are, and what processes of change can be observed.

This drivers of change study of Vanuatu is the first of its kind commissioned by AusAID, and will inform the development of the AusAID country programme in the coming period. It is also written to provoke debate within Vanuatu and the donor community on the priorities, risks and opportunities facing Vanuatu in the coming years.

### **Socio-economic drivers of change**

In recent years, Vanuatu has experienced strong economic growth, estimated at nearly 7% in 2005, after more than a decade of stagnation. Growth has been driven by foreign investment in tourism and land development, attracted by the liberal tax regime, relative political stability, sound macroeconomic management and successful institutional reforms.

However, growth is not making much impact on the lives of most ni-Vanuatu. With formal employment under 15% and a micro-business sector that is heavily overcrowded, most ni-Vanuatu have little opportunity to participate directly in the formal economy. As a result, the income differential between the urban and rural populations is growing sharply. This imbalanced growth is driving a number of potentially disruptive social trends. Economic growth is clearly desirable, but it creates an urgent policy imperative to ensure that more ni-Vanuatu are able to participate in its benefits.

One sector of the economy that has been in steady decline over the past decade is the offshore financial centre, which provides 5% of GDP and generates 5.5% of government revenue. Since September 11, 2001, OECD countries have tightened their regulations on money laundering and financial transparency, making it increasingly uneconomic for international investors to deal with a small jurisdiction like Vanuatu.

In its place, real estate has become the new magnet for investment. More than 90% of coastal land on Efate has now been alienated. With limited land-use planning, residential subdivisions are taking over prime beach frontage and blocking local communities from accessing the sea. Given the politically charged nature of the land question in Vanuatu's history, poorly managed land development has the potential to generate serious tensions. Yet ni-Vanuatu communities are clearly not inherently opposed to development.

Sensitive development of land for tourism, generating jobs and business opportunities for local communities, would be widely welcomed.

Rural communities in Vanuatu live primarily from subsistence agriculture which, given the abundance of high quality land on most islands, is able to sustain families with only modest input of labour. While rural communities have poor human development indicators, acute poverty is virtually unknown. However, households increasingly need to supplement subsistence agriculture with cash income in order to pay for public services (school fees, medicines) and necessities like salt, clothing and kerosene. The penetration of cash into the rural economy is a major driver of change. Low agricultural productivity, isolation from markets, poor infrastructure, lack of government services and a range of cultural factors all make it difficult for rural ni-Vanuatu to earn cash income, placing major strains on households and communities. Rural women are bearing a disproportionate share of the burden, as the pursuit of income takes them away from their domestic and social roles.

Lack of opportunity in rural areas is contributing to rapid urbanisation. The pursuit of cash income, flight from disputes and social restrictions in the villages, land shortages, intermarriage among communities and the growing appeal of a modern lifestyle are all driving urbanisation. If the peri-urban villages around Port Vila are included, the urban population is now around 30% of the total. Port Vila has acquired densely populated squatter settlements lacking basic services, creating a new urban poverty. Land disputes between groups of immigrants to Efate and the indigenous communities are a potential source of conflict that should be closely monitored. A range of social problems are emerging among the new urban generation, with high rates of unemployment contributing to substance abuse, property-related crime, prostitution and teenage pregnancy. These are new challenges, to which public institutions have little experience of responding. This report argues that managing change is at the heart of the development challenge in Vanuatu.

### **The political system**

The political system in Vanuatu is generally described as unstable and fragmentary, with political competition based on patronage rather than competing policy platforms. It has been characterised by fierce infighting within unstable coalitions, with no fewer than 16 changes in government in the 13 years leading up to the 2004 elections. Patronage drives corruption at the highest levels, while leading to chronic 'short-termism' that undermines any sustained approach to development.

Westminster-style democracy is sometimes described as a foreign imposition in Vanuatu, yet it is clear that politics is deeply influenced by pre-existing cultural norms. Traditional society is based on complex relationships of reciprocity between leaders and their communities. Politicians in Vanuatu are under constant pressure to provide direct, material benefits to their constituents in exchange for their support. The small scale of political life, with some MPs elected with as few as 350 votes, exacerbates this tendency.

Coalition formation follows a similar logic of patronage. Politicians compete to secure access to key posts (ministerial positions; boards of public companies and quasi-public entities) that provide opportunities for redistribution. Governing coalitions are based on a pyramid of patronage and are inherently unstable, with individuals and parties bidding for a greater share of the resources. While the prime minister has succeeded in keeping

the present coalition intact since the 2004 elections, this represents an example of successful patronage, rather than any change in the logic of the system.

Corruption in Vanuatu should be viewed through the lens of the patrimonial system, as a systemic problem, rather than simply individual misconduct. The dispensing of largesse is seen as a legitimate means of obtaining status and influence. While some forms of corruption in Vanuatu carry heavy costs for the public, and have even brought the state close to bankruptcy, most ni-Vanuatu do not recognise it as affecting their personal interests. The formal accountability institutions – parliament, the Auditor General, the Ombudsman – have proved to be largely ineffective, and there is debate as to whether accountability processes of the adversarial type favoured in Western democracies are workable in Vanuatu.

In such a political system, individuals are important. The fragmented nature of politics in Vanuatu means that no group is in a position to control the state and its resources. There is therefore space for individuals within the political establishment to pursue a development agenda.

### **State capacity**

State-building in Vanuatu is an on-going process. It has entailed a dual challenge: the transformation of the colonial-era administration into a ni-Vanuatu-managed structure; and the development of the functions of a modern state. Both processes have taken place against the backdrop of a very limited human resource base. The administration is critically dependent on a few key individuals. There are 313 unfilled professional positions across the administration, but only a handful of graduates join the administration each year. New institutions have often been created without regard to the availability of qualified staff to fill them, stretching the limited human capacity ever more thinly.

Government is generally weak at formulating and implementing coherent development policy. Policy initiatives tend to be inconsistent and short-lived, driven by immediate reaction to constituents' concerns, rather than advice from the executive. However, there are specific institutional sites capable of producing evidence-based policy. The most effective initiatives tend to come from individual ministries up through the budget process. The annual budget provides an opportunity for civil servants to provide technical analysis to politicians on policy choices, and for discussion of departmental performance. Policy making is at its weakest in multi-annual planning and cross-sectoral prioritisation. Pressure from donors to produce comprehensive development strategies has produced documents with limited ownership across the administration.

The most obvious unfinished element of the state-building project in Vanuatu is the limited reach of the state outside the capital. Apart from primary schools and first aid posts, most ni-Vanuatu have little contact with the state. The six provincial governments are under-resourced and largely unable to deliver services outside the provincial headquarters. There is little coordination between the provincial administrations and central government departments. The 63 Area Councils, the lowest formal level of government, have only a single employee each, and are active mainly in tax collection. The provincial structure is commonly seen as artificial and ineffective.

By contrast, customary and informal institutions at local level are seen as legitimate and relevant to people's lives. However, their capacity to support community development is limited. Chiefs continue to be the main authority at community level, especially in law and order. The churches are also active participants in community governance, providing a range of services, particularly for women, youth and the vulnerable. While the chiefs and churches may tend to be socially conservative in nature, they play an important role in governance at the local level. These local structures are quite fluid in nature, adapting in response to changing conditions. They will need to continue to adapt if they are to respond successfully to the pressures on rural communities.

## Conclusions and recommendations

The report maps out some possible development scenarios for Vanuatu over the coming 10-15 years, based on different assumptions around political governance. These represent three points on a spectrum of possibilities, chosen to illuminate the choices, risks and opportunities facing Vanuatu.

The **medium case** assumes a continuation of recent positive trends, including political stability, sound macroeconomic management and continued strengthening of core government systems, especially the budget. However, resources remain concentrated in the capital, and there is no increase in the state's capacity to support development among the rural population. The result would be a continuation of modest growth, driven by aid flows and foreign investment in tourism and financial services. However, the benefits of growth would accrue mainly to expatriates. Income differentials between the urban and rural areas would grow, increasing the pressure on rural communities and accelerating urbanisation, with its accompanying social problems. Lack of effective land-use planning would generate growing tensions.

The **low case** assumes a return to the political instability and mismanagement of the 1990s. With frequent changes in government, patronage drives high-level corruption. Macroeconomic management weakens, and no long-term policy agenda is possible. The administration becomes more politicised, with high turnover of professional staff, and public financial management begins to break down. In this case, economic growth would fall below population growth. Foreign investment in tourism would decline, and the offshore financial centre might collapse altogether. While Port Vila would continue to grow, the pull factors for urbanisation would be less. Subsistence agriculture would cushion the effects for the rural population, but dissatisfaction with the 'poverty of opportunity' in rural areas would steadily increase.

The **high case** assumes that more stable coalitions emerge, political competition becomes more issue-based and government is able to articulate clearer national development policies. The budget becomes a more effective tool of policy making, and government works with donors on a long-term approach to capacity building. There is a shift of resources towards local service delivery. In this scenario, Vanuatu is recognised as an island of stability in the Pacific, and attracts a greater share of foreign investment and tourism. Development is managed sensitively, to limit social tensions and provide ni-Vanuatu with more opportunity to participate in its benefits. Port Vila grows rapidly, but with higher employment rates and more responsive government, the accompanying social challenges are easier to manage. There is a gradual improvement in transport and communications in rural areas, making it easier for rural ni-Vanuatu to participate in the

formal economy. A new generation is increasingly able to participate in both modern and traditional life.

These scenarios suggest a number of core development priorities for Vanuatu.

- Consolidate on the progress made in recent years in macroeconomic management, public financial management and improved policy capacity. Make sure these core competencies are insulated against the effects of patronage and political instability.
- Develop initiatives to enhance the capacity of the population to participate in the benefits of economic growth, to prevent inequality becoming a source of social and political instability.
- Increase opportunities to earn income in the rural areas, to relieve stresses on rural communities. Invest in rural transport and communications, and initiate credible agriculture and rural development programmes.
- Improve the capacity of the public administration to anticipate and respond to social changes and pressures, in areas such as land-use planning and social policy.
- Develop a coherent approach to state-building in Vanuatu, in particular by filling the gap between formal institutions and local communities, to enable the state to become an agent of development across its territory.

What kind of change is possible in this political environment? There are few precedents for patronage-based, post-colonial states being transformed from within (or through foreign aid) into developmentally effective states. However, there is considerable variation across patrimonial states in their ability to mobilise resources for development. A credible vision for Vanuatu is incremental change, with core government systems being gradually strengthened and donors working in strategic alliance with reform-minded individuals within the political establishment and administration.

This report maps different options for activities that AusAID might take in the political governance arena. It assess a range of institutional problems within the political system in the following areas:

- political parties as organisations;
- political party financing;
- the electoral system;
- the participation of women in politics;
- procedures and institutional capacity in Parliament;
- accountability institutions;
- ministerial discretion;
- state-owned enterprises and quasi-public institutions.

With no political constituency at present for radical reform, AusAID's interventions will need to be opportunity-driven, with individual initiatives in these areas taken as and when a political opening emerges.

On the demand side, options for channelling public discontent into effective demand for improved governance might include civic education campaigns, to address the inappropriate expectations that many ni-Vanuatu have about the political process, and

working with bodies such as the National Council of Chiefs and the Vanuatu Christian Council to develop their capacity to represent community interests in the national policy arena. Building the capacity of NGOs in research, analysis and policy advocacy would also be useful.

AusAID should also consider pursuing an **issue-based approach**: that is, taking issues around which there is already a degree of political mobilisation, and using them as entry points to strengthen demand for better governance. The most obvious candidate is land policy, building on the success of the recent National Land Summit where a coalition of interests from across society was able to extract important reform commitments from government. Another interesting development is a growing debate within Vanuatu on how to involve traditional authorities more effectively in the national arena, including improving the capacity of the National Council of Chiefs to develop policy positions and engage government in policy dialogue. It would be useful for AusAID to facilitate a national debate on decentralisation and the relationship between traditional and formal institutions.

The report also makes a number of recommendations for improving aid effectiveness, including:

- Avoid overloading the policy agenda with too many initiatives and over-ambitious reforms. Given government's tendency to accept any assistance offered, donors need to prioritise their efforts, focusing on areas where there is a genuine political opening for change.
- Ensure consistency in donor interaction with the national policy process. Help build up policy capacity in key sectors, while supporting the Ministry of Finance to provide technical oversight through the budget process. Assist government to identify and focus on a limited number of development priorities, to provide a basis for medium-term budget planning.
- Improve harmonisation among donors, including through more joint programming, better strategic coordination and improved division of labour. Move towards simple forms of programmatic assistance in key sectors, using government systems wherever possible.
- Give careful consideration to the prerequisites for effective capacity building. Recognise that long-term relationships with key institutions will be required. Ensure TA providers understand the importance of building relationships and consensus across stakeholders.
- Improve strategic coherence among donors through more intensive dialogue, including by selecting individual donors to lead the policy dialogue in particular sectors.
- Encourage government to develop a local service-delivery strategy that includes partnerships with non-state actors, including the churches.

## Abbreviations

|          |   |
|----------|---|
| ACE      | Advocacy Coalition for Economics  |
| ADB      | Asian Development Bank  |
| AusAID   | Australian Agency for International Development                                     |
| CRP      | Comprehensive Reform Program  |
| DARD     | Department of Agriculture and Rural Development                                     |
| DCO      | Development Committee of Officials  |
| DESP     | Department for Economic and Sector Planning   |
| DFID     | United Kingdom's Department for International Development                           |
| DoF      | Department of Finance   |
| FATF     | Financial Action Task Force   |
| GDP      | gross domestic product  |
| GIP      | Government Investment Program   |
| HIV-AIDS | Human Immunodeficiency Virus-Acquired Immune Deficiency Syndrome                    |
| HRD      | human resources development   |
| IMF      | International Monetary Fund   |
| MCA      | Millennium Challenge Account  |
| MDG      | Millennium Development Goals  |
| MFEM     | Ministry of Finance and Economic Management   |
| MP       | Member of Parliament  |
| NDP      | National Development Plan   |
| NGO      | non-government organisation   |
| NUP      | National United Party   |
| OECD     | Organization for Economic Cooperation and Development                               |
| OFC      | offshore financial centre   |
| PAA      | Prioritised Action Agenda   |
| PSC      | Public Service Commission   |
| REDI     | Rural Economic Development Initiative   |
| SBS      | Special Broadcasting Service (Australia)  |
| SSGM     | State, Society and Governance in Melanesia Project (Australian National University) |
| STI      | sexually transmitted infection  |
| TA       | technical assistance  |
| UMP      | Union of Moderate Parties   |
| UN       | United Nations  |
| VANGO    | Vanuatu Association of NGOs   |
| VANWIP   | Vanuatu Women in Politics   |
| VAT      | value-added tax   |
| VBTC     | Vanuatu Broadcasting and Television Corporation                                     |
| VCC      | Vanuatu Christian Council   |
| VCMB     | Vanuatu Commodities Marketing Board   |
| VEPAC    | Vanuatu Education Policy Advocacy Coalition   |
| VMF      | Vanuatu Mobile Force  |
| VP       | Vanua'aku Party   |
| Vt       | Vatu  |
| WAC      | Women's Advocacy Coalition  |

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## INTRODUCTION

### 1. Aims of the study

Development is a fundamentally political process, and development assistance is more likely to be effective if it is based on an understanding of political processes and incentives. ‘Drivers of change’ is a tool of political economy analysis, used by donors to assess the prospects for and constraints on development in particular political systems. It helps donors move beyond a purely normative approach to programming (i.e., beginning from a set of assumptions about what partner countries *should* be doing), towards an evidence-based approach, which starts from the country reality and looks for opportunities to promote pro-poor change.

The drivers of change approach situates development in a historical context, examining longer-term trends that are often overlooked in donor programming cycles. It considers the interaction between:

- **structural features** (economic, social and cultural systems, resource endowments and other non-institutional factors);
- **institutions** (formal and informal rules and incentives structuring the behaviour of different actors); and
- **actors** (individuals and organisations, and the goals they pursue).

It does not adopt any particular theory of politics or institutional change, but draws upon insights from various disciplines to illustrate different dimensions of the development process.

This drivers of change study of Vanuatu is the first of its kind commissioned by AusAID. It has a number of specific objectives. First, over the coming period AusAID will be reviewing its Vanuatu country programme. This study is one of a number of analytical inputs that will inform that review, helping to identify priorities, opportunities and risks for development assistance. Second, it is an opportunity to examine how the donors in Vanuatu interact with the political process, the public administration and non-state actors. It will assist AusAID and its donor partners in identifying opportunities for improving the quality of their engagement. Third, AusAID is considering introducing new activities to promote improved governance. This analysis will assist with identifying possible entry points within the political arena.

The report provides a number of recommendations to AusAID on development priorities, modes of engagement and programming opportunities. These recommendations are necessarily of a general nature, indicating areas where further analysis and design work may be needed.

This report is also written with a view to stimulating debate within Vanuatu on the politics of development. We have therefore not hesitated to offer views on a broad range of contemporary issues, even on controversial subjects, in order to provoke debate. Wherever possible, we have also presented the evidence on which our opinions are based, to give readers the opportunity to make their own assessment. The opinions expressed in the report are purely those of the research team, and do not represent the official position of AusAID.

## 2. Scope and methodology

The project began with a visit to Canberra and Port Vila in October 2006, to discuss the scope of the work with AusAID staff and a range of external partners. Based on those discussions, a list of research questions was developed, grouped into three areas:

- i) socio-economic drivers of change;
- ii) the political system and the process of state-building;
- iii) the quality of the development partnership.

A number of themes were identified as important to the research, including:

- examining the trajectory of state-building in Vanuatu in the 26 years since independence;
- assessing the interaction between the state and traditional or informal governance structures;
- understanding the importance of group identities on political and social life; and
- looking at the different roles of women and men in politics and the economy.

A multidisciplinary team was selected, including both ni-Vanuatu and international men and women, bringing a broad range of knowledge and experience to the project. Annotated bibliographies and material collections were commissioned, in both English and French. The main field research was carried out over a three-week period in November/December 2006. It included a large number of interviews with key informants in politics, public administration, donor agencies, business, churches, NGOs and community leaders. There were also a number of events with groups of discussants, including:

- a *storian* with chiefs and religious leaders: “Church, *kastom* and state: their respective contributions to Vanuatu’s development”
- donors, civil servants, technical assistance providers: “What is the record of development assistance in Vanuatu?”
- NGOs: “What role does civil society play in governance in Vanuatu?”
- business representatives: “Is there a level playing field in Vanuatu?”
- various church leaders: “What role do the churches play in community governance and service delivery?”
- local Chief’s Council at Paunganisu, Efate: “What are the challenges facing local government?”
- representatives of four different communities on Santo: “What are the challenges facing local government?”.

Discussion and debate among the team members were also central to the methodology. The team benefited greatly from the advice and support of two Senior Advisers, George Sokomanu (former President of Vanuatu) and Vincent Bulekone (former government minister and leader of the opposition), who offered historical depth and rich insights into politics and *kastom*.

The report is therefore a synthesis of existing knowledge and information on Vanuatu, combined with key informant views and debate among a multidisciplinary team of

researchers. The project did not undertake new anthropological research, although it drew on insights available from existing and on-going work. The value of the report is its synthetic nature, drawing together diverse information on the formal and informal economy, social trends, politics, government, civil society and community structures, to enable a broad view of Vanuatu's development challenges to emerge.

All interviews for this project were conducted in confidence. For that reason, no references are given for information obtained from oral sources. Nor have we included a list of interviewees. References are given to written sources, and an extensive bibliography is attached. However, academic formalities have been kept to a minimum, in order to produce a document suitable for a general readership.

The report is structured as follows. The first chapter looks at socio-economic drivers of change, considering the nature and quality of current economic growth in Vanuatu, and its impact on the rural population and income equality. It considers two sectors of the economy undergoing important changes: the offshore financial centre, which is stagnating, and real estate and construction, which is going through a boom. It looks at the rural population and how the spread of the cash economy is placing strains on rural communities. It assesses rates and causes of urbanisation, and a range of new social problems that are emerging among urban youth. The chapter establishes the theme of 'managing change' as central to the development challenge in Vanuatu.

The second chapter considers a range of political and institutional factors that influence the effectiveness of the state in Vanuatu in promoting development. It provides an overview of the political system, looking at how political dynamics have changed in the 26 years since independence and assessing how political power is gained and exercised. It discusses the patrimonial logic of the system, and considers the implications for corruption and accountability. It provides a historical perspective on state-building, looking at constraints on institutional development, especially human resources. It analyses the policy making process, looking at different institutional channels for policy making and the space for evidence-based policy. It also looks at regional and local government, including informal institutions at community level, and identifies the gap between the state and local communities as an unfinished element in the state-building project.

The third chapter assesses the quality of the relationship between donors and government in Vanuatu, identifying 'reform overload' and fragmented aid delivery as key problems. The final chapter sketches possible development scenarios for Vanuatu, based on different assumptions on political governance, and list the core development priorities that emerge from the analysis. It also provides recommendations on options for developing a political governance programme, and on improving aid effectiveness.

## I. DRIVERS OF CHANGE IN VANUATU

### 1. Managing change

What is development in Vanuatu? The question is not a straightforward one, and there seems to be little consensus either within ni-Vanuatu society or among development partners. The government's most recent development strategy, the Prioritised Action Agenda, calls for an "educated, healthy and wealthy Vanuatu" – goals that few people would disagree with. However, the questions of what changes in society are required to bring this about, and what are the forces that will drive those changes, remain very much open.

Like other small, Pacific states, Vanuatu faces a host of barriers standing in the way of success in the global economy. Its small and highly dispersed population (estimated at 215,000 in 2004) means that it cannot realise economies of scale in manufacturing or agriculture, while its remoteness from international markets ensures high costs for inputs and transportation. Its island geography and scattered population make the costs of providing infrastructure and public services particularly high. According to a recent World Bank assessment of the "price of smallness", even if wages were set at zero, products manufactured in Pacific island countries would still be uncompetitive.<sup>1</sup>

On the other hand, Vanuatu is a wealthy country, as many ni-Vanuatu are quick to point out. Land in Vanuatu is rich and in most places abundant, and distributed fairly equitably across the population through customary systems. Most ni-Vanuatu still live in 'subsistence affluence', enjoying plentiful natural resources in an unspoiled environment. They share a diverse linguistic and cultural heritage, which includes over a hundred languages and a rich spiritual life that combines Christianity with traditional beliefs. Rural communities are intact and remarkably resilient, providing security against material hardship and social unrest. There is a strong loyalty to *kastom* – the hybridized mixture of beliefs, practices and social structures perceived as traditional. Though its actual content varies significantly across the country, the idea of *kastom* represents what ni-Vanuatu see as most valuable in their own society. In the 26 years since independence, *kastom* has provided the foundation for Vanuatu's emerging sense of national identity.

As a result of plentiful natural resources and social capital, hard-core poverty of the kind found in many parts of the developing world is almost unknown in rural Vanuatu. Yet the rural majority suffer from what is often called 'poverty of opportunity' – a lack of access to services (education, health, regular water supply, transport, communications) and income-earning opportunities that would enable them to improve their standard of living. Lack of economic opportunity and growing demand for the trappings of modern life are placing stresses on rural communities. The lifestyle gap between the urban population and the rural majority is steadily increasing. Growing numbers of people, especially the young, are drifting to the two main urban areas, Port Vila and Luganville, which are growing beyond their capacity to provide job opportunities. In the urban centres, a new kind of poverty and attendant social problems are emerging among those who came in search of a better life, but found the reality to be very different. Life in Vanuatu is therefore changing, and the pace of change is likely to increase in the coming years.

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<sup>1</sup> World Bank, "At Home and Away: Expanding Job Opportunities for Pacific Islands through Labour Mobility", 2006, pp. 3-7

This paper argues that the heart of the development challenge in Vanuatu is managing change. Many of the drivers of change discussed here – tourism and land development, changing consumption patterns, the penetration of cash into the rural economy, inter-island migration – have the potential to offer greater choices and opportunities to ni-Vanuatu. However, they also threaten rising inequality and a raft of new social problems, and could prove highly disruptive to communities and their way of life. It appears that most ni-Vanuatu want to share in the advantages that development can bring, but at the same time to preserve what is unique and valuable in their own society. Looking across the Pacific today, at political and social turmoil in the Solomon Islands, Fiji, Papua New Guinea and Tonga, it is clear that managing this balance is no easy task.

If they are to succeed in their aspirations, ni-Vanuatu need to become more aware of the forces that are changing their society. They also need a government that is capable of anticipating and responding to these challenges, to maximise the benefits of change while minimising the disruption.

## 2. Growth and equity

Vanuatu came to the end of its first quarter century with living standards almost the same as at Independence (GDP of approximately A\$2,200 *per capita*). Economic growth lagged behind population increase throughout the 1990s, and from 1999 to 2003 it turned negative by an average of 2.4% *per annum*.<sup>2</sup> The structure of the economy remained fairly static. There was steady growth in the offshore financial centre and other expatriate-dominated service industries, but plantation agriculture and the few manufacturing enterprises inherited from the colonial period slowly declined. In 2003, services (including tourism, the offshore financial centre and government) accounted for 77.5% of the economy, agriculture 13.0% and industry (including utilities) 9.5%. There was no real base in manufacturing or agro-processing, with only a handful of producers operating under state subsidies. A large majority of ni-Vanuatu continued to depend on subsistence agriculture.

From 2003, Vanuatu's economy began to grow again, by 0.6% in 2003, 2.8% in 2004 and 6.8% in 2005.<sup>3</sup> The growth has been driven mainly by foreign investment, particularly in tourism and land. Efate island, where Port Vila is located, is experiencing a land and construction boom, fuelled by large price differentials with Australia and New Zealand for beach-front land and a tax regime favourable to investment. Land is being heavily promoted for holiday and retirement homes, and for investments in tourism. As with any land boom, it is partly speculative in nature and likely to be of limited duration.

However, part of the economic growth is stable, based on recent institutional changes. Since 2003, Vanuatu has restored macroeconomic stability. Budget deficits are rare, inflation is low and the currency is stable. A reduction in tariffs has created a more open trade environment. The 'open skies' policy, allowing access to regional airlines, has provided a major boost to tourism. Sound macroeconomic management has led to a virtuous circle of economic growth combined with sound fiscal controls, a reduced stock of debt, large increases in Central Bank reserves and net foreign assets, and low levels of inflation.

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<sup>2</sup> World Bank, "Pacific Regional Strategy FY2006-2009", Washington, May 2005, p. 9.

<sup>3</sup> Except where otherwise indicated, data in this section is taken from 2005 National Accounts prepared by the Vanuatu Statistics Office, which in turn draws on preliminary data from the 2006 Household Income and Expenditure Survey and Agricultural Census.

Vanuatu also receives generous aid flows. From 2000-03, Vanuatu was the 4<sup>th</sup> largest recipient of aid in the world on a *per capita* basis (around A\$300 in 2002 prices). With its sound macroeconomic environment and its relative political stability within a troubled region, aid flows are set to increase dramatically in the coming years.

Who is actually benefiting from this economic growth? There are indirect benefits to the population through increased government revenues, which have enabled the government to maintain high levels of social spending. Education expenditure at 26% of the budget and health at 14% are among the highest in the region, although the quality of service outside urban areas is limited. It has also enabled a long-overdue increase in public-sector wages and salaries.

However, most ni-Vanuatu are not direct participants in economic development. The tourist industry and the offshore financial centre are mainly expatriate controlled, and the benefits accruing to the local population are limited. The profits from land transactions have accrued mainly to expatriate speculators. The commercial sector is small and fairly closed. The tax structure makes entry costly, but keeps operating costs low. Combined with the small size of the markets, this creates a tendency for monopolies and cartels, often with close relationships to politics. There are very few ni-Vanuatu-owned businesses in the formal sector. Informal, micro-businesses tend to congregate in a few sectors – small retail outlets, buses and taxis, kava bars and catering businesses – providing a modest livelihood for ni-Vanuatu in the urban centres. However, these sectors are heavily overcrowded, and there is little scope for further expansion.

Vanuatu has the lowest formal-sector employment in the region. The working-age population is approximately 110,000 (or 51.4% at the 1999 Census). Formal sector employment in 2004 was estimated at 16,300, yielding an employment rate of only 14.7%.<sup>4</sup> It is estimated that the working age population will grow by 30% in the next decade, way ahead of employment growth. Each year, 3,500 school leavers enter the workforce, but fewer than 1,000 new jobs are created.<sup>5</sup>

This means that there is no mechanism for the new wealth being generated in Vanuatu to ‘trickle down’ to the majority of the population. Vanuatu’s Gini coefficient (a measure of income inequality) is among the highest in the world (0.56-0.58)<sup>6</sup>, although this data excludes most of the informal sector.

As a result, the current economic growth is not changing the lives of most ni-Vanuatu. One recent study concluded,

“Formal wage employment is unlikely to touch the majority of Vanuatu’s population even in the medium to long term... If it is to touch the majority of the population – economic growth must therefore derive in the main from the activities of the majority of the population itself.”<sup>7</sup>

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<sup>4</sup> World Bank, “At home and away”, p. 39.

<sup>5</sup> UN, “Common Country Assessment: Vanuatu”, Suva, May 2002, p. 43.

<sup>6</sup> Bazeley, Peter and Ben Mullen, “Vanuatu: Economic Opportunities Fact-Finding Mission”, July 2006, pp. 4-5.

<sup>7</sup> *Ibid.*, pp. 3-4.

There is concern among economists that the economy may be overheating, as a result of land speculation, increased aid flows and a loosening of macroeconomic discipline. If inflation takes off, the urban elite will be partly cushioned from its effects, particularly following the public-sector salary increases. However, for the majority of ni-Vanuatu in the informal sector and in agriculture, the main effect of economic growth may be a sharp decline in real incomes. This imbalanced growth will generate greater income inequality, which in turn drives many of the negative dynamics discussed here. Economic growth is clearly desirable, but it creates an urgent policy imperative to ensure that more ni-Vanuatu are able to participate in its benefits.

### 3. The offshore financial sector

Vanuatu's offshore financial sector (OFC) was created by the British colonial authorities in 1970/1. The Condominium had been a tax haven for British and French citizens since its establishment in 1906, due to the failure of the two powers to agree on the introduction of income tax. During the 1970s, the British administration sought to capitalise on this by providing greater security for transactions and creating an attractive regulatory environment for offshore banking, trust companies, insurance and other financial services.

During the 1970s, the OFC experienced phenomenal growth. Thirteen overseas banks opened branches in Vila, and the trust companies managed investments for multinational institutions around the world. After Independence, growth continued at an average of 15% per year from 1980 to 1995. The success of the OFC during this period helped to finance the development of the urban environment in Port Vila.<sup>8</sup>

The OFC now has 26 offshore and 5 domestic insurance companies, a maritime fleet of 600 vessels, 11 trust companies, 7 offshore banks and 4,664 registered international business companies used for corporate ventures outside of Vanuatu.<sup>9</sup> This is small even by Pacific standards (Samoa and Cook Islands are both larger). However, it represents an important share of Vanuatu's economy, comprising 5% of GDP and employing around 300 people (not counting a further 300 people in the domestic financial sector and the auxiliary employment associated with the expatriate presence).<sup>10</sup> It also provides government with 5.5% of its revenue.

The OFC has been stagnating or in decline since the late 1990s, as a result of a combination of international and domestic factors. OECD countries have changed their tax rules to make it more difficult to use OFCs. There has been pressure for greater transparency, and blacklists of non-compliant jurisdictions. Competition among the OFCs has become more intense. Domestically, there was a lack of cooperation between the OFC and the government over regulatory policy. New legislation needed to develop new products and retain market share was not forthcoming. Political instability, poor

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<sup>8</sup> Rawlings, Gregory, "Law, liquidity and eurobonds: the making of the Vanuatu tax haven", *The Journal of Pacific History*, Vol. 39(3), 2004.

<sup>9</sup> Bois-Singh, Sunita, "Costs and benefits of adopting and implementing new international standards for the operation and regulation of the international financial services sector in Vanuatu", March 2006, p. 18.

<sup>10</sup> Sharman, Jason, "Development Implications of Anti-Money Laundering and Taxation Regulations." Paper for the Commonwealth Secretariat, Commonwealth Finance Ministers Meeting, Colombo, Sri Lanka, 12-14 September 2006, FMM(06)17, p. 5.

macroeconomic management and growing levels of corruption after 1993 undermined the confidence of international investors.

Since September 11, 2001, international efforts to curb money laundering and tax evasion have intensified. In 1998, the OECD launched its 'harmful tax initiative', designed to persuade 35 OFCs, including Vanuatu, to increase transparency and information exchange with OECD member states. Most jurisdictions initially refused to comply with the OECD's requirements, and were labelled 'uncooperative tax havens'. Foreign banks also came under increasing pressure, obliged to introduce tough due diligence and 'Know Your Customer' procedures that made it uneconomic to deal with minor jurisdictions. While Vanuatu has never been formally blacklisted by the OECD, it lost a substantial share of its international business as international financial institutions decided to terminate or restrict their dealings with Vanuatu.

Over the past few years, the government has responded to international pressure and declining revenues by amending its legislation to reflect international best practices.<sup>11</sup> It adhered closely to the demands of the IMF, the OECD and the Financial Action Task Force (FATF), becoming one of only a handful of countries around the world to have adopted all of the 42 FATF requirements. The idea was that a modern regulatory regime would attract more and better quality clients, helping to reverse the OFC's decline. In fact, the opposite has happened. The new legislation only accelerated the collapse of the offshore banking sector, which went from 92 banks in 1995 to 59 in 2000 and 7 today. The promised reputational gains have not eventuated, with Vanuatu still seen as occupying the shadier end of the market.

The decline of the OFC has the potential to cause significant rupture between Vanuatu and its donor partners. There is a widespread perception that Australia and New Zealand are trying to force the closure of the OFC and impose an income-tax regime, to stem their own tax leakages. Despite the new legislation, they remain critical of Vanuatu's efforts, and have been unwilling to assist in turning around its image. The perception among government officials in Vanuatu is that the determination of the two countries' tax authorities to prevent relatively minor losses is causing disproportionate damage to Vanuatu's economy.

#### 4. The land boom

Even as the OFC has declined, the real-estate sector has become a new magnet for investment, drawn by the low price of coastal land and the opportunities it offers to minimise tax. Vanuatu is being marketed in Australia and New Zealand as the new Queensland – an ideal place for holiday and retirement homes, which also offers extraordinary returns on investments. As a result, 90% of coastal land on the main island of Efate is now reported to have been alienated, and developers are turning their attention to Santo and most recently to the island of Epi, which has large agricultural leases that might become available for subdivision.

Land development has been a politically charged issue in Vanuatu for over a century. The first land boom occurred in the 1860s, when Europeans first established cotton plantations on Efate and Epi to exploit opportunities created by the American Civil War, and then diversified to copra (dried coconut) and cattle. Between 1886 and 1902, most

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<sup>11</sup> Most notably through the passage of the *International Banking Act 2002*.

of north-west Efate was sold in 14 separate transactions.<sup>12</sup> Development led the French and British governments to establish a joint naval commission to provide security for their nationals and commercial interests, eventually leading to the Condominium in 1906. Through the 20<sup>th</sup> century, there was a constant cycle of land booms (and busts), until by 1972 over a third of the country's land had been alienated for agricultural purposes, comprising most of the arable land on the coastal plains and river valleys. However, not all of the land was used, and many ni-Vanuatu communities continued to live within plantation boundaries, unaware that the land had been sold generations before.

During the 1960s, there was an acceleration in agricultural development, with more bush cleared for cattle ranches and more ni-Vanuatu evicted from their traditional lands. Then a major land boom began in the 1970s, with land for the first time subdivided for expatriate residential development. Much of the boom was driven by American investors, especially on Santo. The growth of the OFC also caused real-estate prices in Port Vila to skyrocket, with the cost of commercial sites rivalling Sydney or Melbourne. During the 1970s boom, the Condominium tried to prevent its most blatant excesses. In 1972, the British Resident Commissioner Sir Colin Allan declared:

“The day has gone when a few individuals may hold the New Hebrides to ransom and pollute these islands and seas for their private exorbitant profits. I would like to make it clear that my Administration and I will not be even faintly deterred by the political pressuring of those few irresponsible property owners who simply seek their personal enrichment at the expense of the fair and responsible expectations of the people of this territory.”<sup>13</sup>

It was the loss of land that first gave rise to a national political consciousness among ni-Vanuatu, and became the mobilising issue for the independence movement. Some political movements, including the Vanua'aku Party, campaigned for the cancellation of all European interests in land. Others, particularly among the francophone parties, were willing to recognise existing commercial interests.

At Independence, the new Constitution proclaimed: “All land in the Republic of Vanuatu belongs to the indigenous custom owners and their descendants.” Freehold titles were cancelled, and the land formally restored to its former owners. Some European planters (mainly French citizens who had supported the Nagriamel secession movement on Santo) were driven from their land, many of them resettling in New Caledonia. However, the majority of European planters were granted long-term leases over their lands, and remained. Land titles within the Port Vila municipal area were protected, with freehold automatically replaced by a relatively secure urban leasehold system.

The new Republic therefore began with a strong political statement in favour of indigenous rights, but quickly accommodated foreign interests. The main effect of the Constitution was that long-term leases replaced freehold title. A Supreme Court decision in 1995 concluded that, while the sale of land was prohibited by the Constitution, there was no bar on granting long-term leases, even if that would deprive the indigenous owners of their land for several generations.<sup>14</sup> A practice developed of granting 75-year leases, normally for a single, up-front payment. The law provides that the indigenous

<sup>12</sup> Ballard, Chris, “A history of land in North-west Efate”, presentation delivered at Vanuatu National Land Summit, 26 September 2006.

<sup>13</sup> *Pacific Islands Monthly*, “New Hebrides Warning to Developers”, Vol. 43 No. 12, 1972, p. 108.

<sup>14</sup> Supreme Court of Vanuatu, *Trethan Constructions Limited and Trevor Hannam and Claude Mitride v Philip Malas and Loken Malas* 1995 (d'Imercourt C.J., p. 8).

owners can only recover their land at the end of the lease if the lessees are compensated for any improvements. This has opened the door once again to the permanent alienation of land.

Most of coastal Efate is now alienated, radically transforming the social and geographical environment. Land development has spread out from Port Vila around the coastline, with residential subdivisions taking over beach frontage. Land-use planning is very limited. While on principle the Shefa provincial government, which has jurisdiction over Efate, is responsible for planning permission, its capacity is weak and its focus mainly on the collection of revenues from development, giving it a pro-investor bias. As a result, developers have been permitted to enclose the foreshore in such a way as to block access to the coast by ni-Vanuatu communities. Purchasers have been (illegally) offered exclusive beach access rights, setting them up for conflict with local villagers who use the beach for both recreation and fishing. Some residential developments have become gated communities, surrounded by high fences to exclude the indigenous land owners.

This form of development is almost guaranteed to generate social tension. There is already evidence that, where expatriate residents come into conflict with local communities, their properties may be targeted for burglary or vandalism in their absence.

These tensions are often exacerbated by land disputes. Vanuatu has a great variety of indigenous systems of land use and ownership, and none of them is codified. Indigenous titles depend upon oral histories, 'memory culture', complex local categories and varying inheritance practices. Within a single community, there may be different types of interest in land, attaching to individuals, families, clans or the community at large. The precise status of particular plots may be known to only a few people in the community, and disputes are common, particularly where there has been inter-marriage between communities.

In these circumstances, the question of who among the local community has the right to grant a lease over the land can be hotly disputed. There have been many cases on Efate of speculators negotiating a lease with an individual (sometimes the chief) whose right to dispose of the land is subsequently questioned. The courts have interpreted the law in favour of the investors, so that disputes over the underlying title do not invalidate the lease. Under the law, the Department of Lands is given a role in the negotiation process, to advise the parties on their rights and consult with the local community over the status of the land. However, the landowners retain the right to bypass this process and deal directly with the investor. Moreover, the Minister of Lands has broad discretion to approve development where the title is disputed. This has led to numerous allegations of corrupt dealings. Following the 2006 National Land Summit, the Minister agreed on a temporary moratorium on the approval of new leases.

While many ni-Vanuatu have been willing to lease their land to take advantage of cash offers, the evidence is that this once-off injection of funds is delivering little lasting benefit in terms of development. First, many communities have little understanding of the commercial value of their land, and have sold to speculators at prices far below market rates.<sup>15</sup> Second, most of the leases involve a single, up-front cash payment, rather than an annual rent. Communities that are still only partially integrated into the formal economy have no tradition of savings, and no mechanism for making effective use of a

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<sup>15</sup> This was partly a result of government evaluations set at 1980 prices.

cash windfall. Anecdotal evidence suggests that the proceeds are often rapidly depleted through conspicuous consumption or gambling, which has become increasingly prevalent on Efate. Alternatively, individuals are investing the proceeds into business ventures that, without any support or advice, have little prospect of a return. For example, there has been an explosion in the number of taxis and minibuses, overcrowding the sector. The purchase of expensive vehicles requiring fuel and maintenance only accelerates the depletion of funds.

The current pattern of development is potentially highly corrosive of the social order, and could generate serious tensions in the future. A recent SBS documentary on Australian television showed instances of road blocks being erected to prevent investors from accessing their property. Poor management of development ends up harming both the investors and local communities. Yet ni-Vanuatu communities are clearly not inherently opposed to development. Sensitive development of land for tourism, generating jobs and business opportunities for local communities, would be widely welcomed.

It is remarkable, given the significance of land in Vanuatu's political history, that the alienation of most of Efate island has taken place without any effective policy response from government. It reflects a tendency of the state to respond to short-term commercial interests, without considering the social implications. However, the recent National Land Summit (September 2006) provides some ground for optimism that this may be changing. Organised by government on the initiative of the National Council of Chiefs, with broad participation from different social groups and commercial interests, the Summit provided an opportunity for intensive debate on land and development. Among its recommendations were:

- clearer definitions of customary ownership, and stronger processes for determining ownership and resolving disputes;
- reform of the land administration, to reduce the Minister's discretionary powers, increase community participation in decision making and strengthen the role of government as an intermediary to ensure fair dealings by all parties;
- strengthening government capacity to enforce planning regulations governing issues such as public access.

## 5. Rural communities

Economists struggle to characterise the standard of living in rural Vanuatu. A multidimensional view of poverty, based on the Millennium Development Goals, indicates that poverty in rural communities is high. Only 5% of rural households have electricity, and 20% have access to a shared telephone line. Forty percent of the population does not have continuous access to clean water. Despite substantial expenditure by government, access to basic education and health services remains poor. In 1999, 17.7% of the workforce had received no education at all, while a further 29.2% had failed to complete primary school. Immunisation rates for tuberculosis and measles are only 63% and 48% respectively, while infant mortality remains high at 31 deaths per thousand.<sup>16</sup> Non-communicable or lifestyle diseases such as diabetes are on the rise,

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<sup>16</sup> All figures in this paragraph are taken from Henckel, Timo, "Vanuatu's economy: is the glass half empty or half full?", *Pacific Economic Bulletin*, Vol. 21, No. 3, November 2006.

triggered by changing consumption patterns. These are the conditions that the UN describes as ‘poverty of opportunity’.

However, although only 10% of the rural workforce is in paid employment, the informal, subsistence economy remains remarkably robust. Land is fairly abundant on most islands. Seventy percent of the rural population cultivates a garden for subsistence purposes, and a further 26% also cultivate crops for sale.<sup>17</sup> Informal social protection networks within rural communities guarantee food security, except in times of drought or natural disaster. The subsistence economy still utilises barter and traditional exchange items (pigs, mats), although cash is required for accessing certain public services (primary school fees, medicines) and imported goods (particularly fuel). Until 2006,<sup>18</sup> there was almost a complete vacuum of data on the subsistence economy, and its importance has been systematically underestimated in economic statistics. It is clear, however, that rural production has been able to expand to cover high population growth over the past two decades. The quality of the land enables a high return (in terms of food) per unit of effort, enabling families to reach subsistence levels with only a modest input of labour.

The two conventional portrayals of the rural economy – ‘subsistence affluence’ and ‘poverty of opportunity’ – are both to some extent true. However, there does appear to be a perception among the rural population of growing hardship, and evidence that local communities are under increasing stress.

The penetration of cash into the rural areas is one of the main pressures. Cash is increasingly becoming necessary to maintain a basic standard of living. In addition to primary school fees (up to Vt 3,000 (A\$40) per term in rural areas), households need cash for necessities (salt; sugar; soap; clothing; kerosene). These may be twice as expensive in rural areas, owing to the costs of transport. People are also increasing their consumption of imported foodstuffs (rice; tinned fish), to supplement local produce.

This has various implications for rural communities. There is pressure on households to spend more time earning cash income, principally through the sale of agricultural produce or wood. The remoteness of many rural communities and the high transport costs makes this a laborious task, with very low margins. It forces people to become more individualistic in outlook, and less willing and able to devote time and resources to their communities. It also causes an erosion in the authority and status of chiefs, who are no longer able to fulfil their traditional role of seeing to the material wellbeing of their followers.

Rural women are bearing a disproportionate share of these new economic pressures. Women are becoming more involved in income-earning activities, whether by travelling to the market to sell produce or taking on more of the agricultural labour in the absence of their husbands. In urban and peri-urban areas, they also have the opportunity of working as domestic labour (*baosgels*) and pursuing informal businesses in areas such as catering. One might expect that the entry of women into the formal economy would result in their economic empowerment, and a consequent increase in social status. However, according to ni-Vanuatu women interviewed for this study, the opposite is generally the case. Within rural communities, the status of women depends upon how active they are in their community roles, including church and women’s groups, and the

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<sup>17</sup> ADB, “Discussion paper on poverty”, October 2002, p. 10.

<sup>18</sup> In 2006, a new Agricultural Census and Household Income and Expenditure Survey were carried out. Some preliminary data is available.

contribution they make in caring for the elderly and vulnerable. When women are obliged to increase their involvement in income-earning activities, in addition to their domestic roles, they have little time left for other activities, and consequently suffer a loss of status. Their absence from the household may also be associated with an increase in problems such as domestic violence and teenage pregnancy.

Rural ni-Vanuatu share a need for easier access to income-earning opportunities. At present, the productivity of agriculture is extremely low. The 80% of the population working the land produce only 10% of GDP (although these figures undervalue subsistence production).<sup>19</sup> Most agricultural products are exported in the same, low-value-added form as they were at independence.<sup>20</sup>

Kava has become a key product for both domestic consumption and export, and the high profits it offers has attracted extensive smallholder participation (more than half of rural households, at the time of the 1999 census). The export market has been reduced by an EU health ban, together with a lack of quality control and inequitable marketing practices by the Vanuatu Commodities Marketing Board (see p. 28 below). However, strong domestic and regional markets make kava one of the key sources of income for rural households. Beef has been another growth sector in recent times, with the potential to exploit high-value organic markets in Australia and Japan. In the past, there was substantial smallholder participation in the sector, particularly on Santo, but it has declined in recent years following the withdrawal of government support for transport and marketing.<sup>21</sup> Copra remains the largest export commodity, but is based on outdated, labour-intensive forms of production with very low returns. The sector is dominated by plantations with palms approaching a hundred years of age, which are no longer viable without replanting. Government price controls may also be distorting the copra market.

Over the years, many ni-Vanuatu have looked to new, high-value products to transform the agricultural sector (e.g., vanilla, ginger, pepper, cocoa, coffee). Some, like vanilla and cocoa, have enjoyed some limited success. However, product development has been held back by a lack of skills, the low reliability and high cost of transport, lack of cool storage facilities (associated with lack of electrification) and the difficulty of achieving economies of scale. Essential government services are also lacking. There are no effective extension services, while export is held back by a lack of marketing support, sanitary and phyto-sanitary controls and export certification. Insecure property rights also deter commercial investors. According to one recent report, the Department of Agriculture and Rural Development (DARD)

“was diminished in capacity by the public servants’ strike of 1993 and again by the CRP [Comprehensive Reform Program] restructuring initiatives of the late 1990s. No comprehensive restructuring plan was implemented to guide DARD to function effectively in its depleted form. As a result, extension officers suffer from low morale and productivity and the public image of DARD is negative.”<sup>22</sup>

As a result, there are still few opportunities available to rural communities for profitable smallholder farming.

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<sup>19</sup> World Bank Operations Evaluation Department, “Evaluation of World Bank Assistance to Pacific Member Countries, 1992-2002”, Washington, March 2005, p. 72.

<sup>20</sup> Bazeley, *op. cit.*, p. 13.

<sup>21</sup> *Ibid.*, p. 26.

<sup>22</sup> *Ibid.*, p. 47.

There are also social and cultural factors inhibiting ni-Vanuatu from participating effectively in the formal economy. Many ni-Vanuatu engage in what is described as ‘target work’ – that is, taking on casual labour or other income-earning activity only for as long as required to meet a specific financial target, such as the payment of school fees or the purchase of a single item. The lack of sustained effort prevents people from achieving the higher levels of productivity required for success in commercial agriculture or other business. The weakness of demand may therefore represent a constraint on rural development. There is also no tradition of cash savings among ni-Vanuatu communities, which makes it difficult to fund investments.

Cultural factors may also inhibit individual entrepreneurship. Individuals who enjoy financial success are expected to redistribute the benefits among their clan and community, or (in the retail sector) to extend credit to friends and family. Those who fail to do so may be subject to social sanctions, in the form of malicious gossip, jealousy or even destruction of property. Disputes within families or communities over control of business assets and the distribution of income are also common. This creates a kind of ‘tall poppy syndrome’ within rural communities, discouraging individuals from the pursuit of individual advancement. The question of what is the natural economic unit in Vanuatu – household, extended family, village – seems to be unresolved, and may vary widely across different communities.

The inability of rural ni-Vanuatu to participate in economic development, despite their growing need for cash income, is Vanuatu’s most pressing development challenge. The major investments in transport infrastructure planned under the Millennium Challenge Account will help to address one of the constraints. However, infrastructure alone will not make a major difference unless accompanied by other measures, including agricultural extension and skills training targeted to opportunities in business. There is also a need for research into how to achieve a better ‘fit’ between business ventures and ni-Vanuatu cultural norms, so that the close bonds within rural communities become an asset rather than a barrier to participation in the formal economy.

In November 2006, the Prime Minister launched the *Kastom Economy* initiative. The *Kastom Economy* is a collection of ideas on strengthening the traditional economy. It includes achieving greater self-reliance for rural communities through the promotion of local produce over imported food. It also includes greater use of barter, including in payment for public services such as school fees, and greater use of traditional exchange items (e.g., pigs, mats) in local commerce. Ni-Vanuatu in urban areas are being encouraged to use these items, rather than cash, in *kastom* ceremonies, in order to stimulate the demand for rural produce.

The *Kastom Economy* initiative has not yet coalesced into a clear rural development agenda, but it does suggest greater attention at the high political level to the needs of the rural economy. It may provide a political opening for new thinking on rural development.

Another issue mentioned by many of the ni-Vanuatu consulted for this research is environmental degradation. With its many volcanoes, Vanuatu is situated within the Pacific ‘Ring of Fire’, and is prone to earthquakes, cyclones, droughts and floods. Natural disasters can have major impact on the social and economic fabric. Cyclone Uma in 1987 cost US\$25m in damage to infrastructure, and a further US\$25m for

business. The 2002 Port Vila earthquake caused US\$2.5m in damage, while Cyclone Ivy in 2004 caused US\$6m in damage and affected around 50,000 people.

Poor environmental practices are adding to the vulnerability of the rural population. Many communities have inadequate water storage capacities. Deforestation, the loss of topsoil and damage to water catchments are exacerbating their water problems. On Efate, these problems may be associated with land clearing for real-estate development. On other islands, they may be associated with over-harvesting of timber by local communities seeking to generate cash income. There appear to be no policies or institutional structures in place for environmental management.

Global climate change is also likely to have an impact, increasing the frequency of both floods and droughts. Subsistence communities have few savings to cushion them against the effects of extreme weather events, and low capacity to adapt to climate change.

## 6. Urbanisation

Rapid population growth and urbanisation are widely cited as key drivers of change in Vanuatu, with potentially serious implications for social cohesion. The 1999 census put the population of Vanuatu at just under 188,000, but growing at 2.7% per annum, suggesting a doubling of the population every 25 years.

Vanuatu's high population growth may be a transitory phenomenon. As in many other developing countries, it has been caused primarily by a dramatic fall in the death rate over the last 20 years, from 50-60 per 1,000 in 1979 to only 6 in 1999, due to improved access to health services. The birth rate has also declined, but more slowly, from 45 in 1979 to 33 in 1999. This has caused a spike in overall population growth which should eventually flatten out, although with nearly half of the population under 16 years of age, growth will continue to be high for some time. The most recent figures from the National Statistics Office suggest that population growth has declined slightly from 2.8% in 1991 to 2.6% or even slightly lower in 2005, but this will need to be confirmed as more data becomes available.

Within those figures, however, it is the growth of the urban population that is likely to be the most significant driver of change. According to the census, the urban population included 29,356 in Port Vila and 10,738 in Luganville, making up 21% of the total and growing at 4.2%, nearly twice the national average. However, these figures included only population within the formal municipal boundaries. If the figure is expanded to include the peri-urban villages of Pango, Ifira, Erakor, Mele and Mele-Maat, then the population of the Port Vila urban centre increases to above 40,000, giving at least 30% of the population now living in an urban environment.<sup>23</sup> It is estimated that, by 2010, there could be 75,000 people living in and around Port Vila, and 25,000 in Luganville.

| Population increase in Vanuatu (per 1,000) <sup>24</sup> |      |      |      |
|--|------|------|------|
|  | 1979 | 1989 | 1999 |
| Crude birth rate   | 45   | 37   | 33   |

<sup>23</sup> World Bank, *Cities, Seas, and Storms: Managing Change in Pacific Island Economies Vol. II Managing Pacific Towns*. Papua New Guinea and Pacific Islands Country Unit, 2000, p. 2.

<sup>24</sup> Sources: Department of Statistics (1999); Asian Development Bank.

|                  |       |    |    |
|------------------|-------|----|----|
| Crude death rate | 50-60 | 8  | 6  |
| Natural increase | 15-25 | 29 | 27 |

While these are still small towns by international standards, they represent an entirely new social phenomenon for Vanuatu. Urbanisation was unknown in Melanesia until the advent of colonialism.<sup>25</sup> Until the 1950s, ni-Vanuatu were not permitted to live within the urban boundaries, and those who worked in town were subject to a 9pm curfew.

Urbanisation in Vanuatu is actually comprised of a number of distinct but interlocking dynamics. There is natural population increase in the urban areas, rural to urban migration, the gradual incorporation of the indigenous villages around Port Vila into the town, and the subdivision of land for expatriate housing. This in turn gives rise to quite distinct population groups in and around Port Vila:

- the indigenous population of the peri-urban villages on their traditional lands;
- immigrants from other islands, living in densely populated urban settlements;
- immigrants living on agricultural land outside the municipal boundary, including on the traditional lands of the peri-urban communities;
- expatriates living in coastal housing or gated communities.

Rural-urban migration is driven by a combination of push and pull factors. Among the push factors:

- **Income:** The scarcity of paid employment in the islands and the difficulty of earning cash income from agriculture compels many people to migrate to Vila in search of cash income, particularly to meet their children's school fees. Although jobs in Vila are difficult to find, urbanisation still provides the best chance for many families of maximising their income. Agricultural land is available to lease in areas reasonably close to Vila, such as the Teouma valley and the area towards Bouffa. Many immigrants acquire plots, and sell the produce in green markets in town. Inter-island remittances have become increasingly important, providing a means of redistributing income back into the rural areas.
- **'Flight' migration:** Significant numbers of people come to the capital in flight from problems in their home village. These might include arranged or coerced marriages, customary penalties for civil or criminal infractions, or abuse by relatives (physical or sexual abuse is frequently offered as a reason for flight). In Vanuatu, *'running away'* is a socially sanctioned way of dealing with disputes and domestic problems. People do not completely sever their ties with their communities. They retain relationships and links with their villages, with urban-based relatives playing a mediating role. Flight migration is increasingly common among youths trying to avoid the strict rules set by chiefs in many parts of the country.
- **Land shortages:** The ratio of population to land varies widely throughout Vanuatu. In some islands, such as Santo and Erromango, population density is low and land is relatively abundant. In other islands, particularly Tanna, Tongoa and the Shepherds, Paama and parts of Ambae, population pressures

<sup>25</sup> Connell, John & John Lea, "Cities of Parts, Cities Apart? Changing Places in Modern Melanesia." *The Contemporary Pacific: A Journal of Island Affairs*, Vol. 6, No. 2, 1994, p. 268.

are high and land productivity is low, due to poor soil quality or irregular water supply. In these cases, shortages of land may be a major factor in urbanisation. In addition, once an individual is absent from their island for a lengthy period, their land is often reallocated, making it difficult for them to return. Some may even face personal danger (physical assault or ‘black magic’ – *nakaemas*) from those occupying their land.

- **Marriage:** Inter-island marriage is widespread in Vanuatu, and is a key driver of inter-island migration, including urbanisation. Traditionally, a bride would leave her own community to live with her husband. Now, it is increasingly common for husbands to join their wife’s community if land is more readily available, or if it leads to income-earning opportunities in urban areas.

There are also ‘pull factors’ into the urban areas, including:

- **Chain migration:** People frequently migrate, permanently or for short periods, to join family in town. Vanuatu is a highly integrated society, and people’s ability to move around is closely linked to their family networks across different islands. In Vanuatu, brothers-in-law (*tawean*) have a respected position within extended families, and can expect support, hospitality and short-term accommodation from their in-laws on arrival in town. Urbanisation is therefore facilitated by existing family networks.
- **Lifestyle choices:** The ‘bright lights’ of Port Vila (its urban spaces, kava bars, nightclubs, casinos and multiple opportunities for socialising) are an important pull factor for young people, who increasingly find the lifestyle in traditional villages to be constraining. People are also attracted to the consumption possible in Port Vila, giving them an opportunity to participate (if only vicariously) in globalisation.

Many of those who come to the capital in search of a better life find the reality is very different. According to one report, Port Vila provides merely the “image” of improved services and conditions, without the reality.<sup>26</sup> Many of the informal housing settlements around Port Vila are desperately overcrowded. Some families are living up to 8 people to a room, yet still required to pay more than half of their household income on rent. Some settlements lack basic services, such as rubbish disposal, sanitation and clean water, and pose a serious public health risk. The municipal government has no effective housing policy, and has failed to expand the urban infrastructure to keep up with the new arrivals.

Pressure on land caused by urbanisation is a potential source of instability in Port Vila. Immigrants from Tanna and Tongoa are occupying lands leased from the traditional owners. As land prices around Port Vila have increased, there are a growing number of disputes. Tongoans have asserted traditional rights to land on Efate and in Port Vila, based on inter-island migration going back several hundred years, bringing them into conflict with peri-urban communities, particularly the Ifira Islanders. Tannese communities are now reported to have aligned themselves with their Ifira island landlords, introducing further complexity into inter-group dynamics characterised by rapidly shifting allegiances.

## 7. The new urban generation

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<sup>26</sup> UN, “Common Country Assessment: Vanuatu”, Suva, May 2002, p. 35.

For the first time in its history, Vanuatu is acquiring a generation of young people who have grown up in an urban environment. Their sense of identity and their expectations of life are fundamentally different to those of their parents. Often from mixed marriages, they are a Creole generation, speaking Bislama as a first language. They bring with them a specifically urban set of social problems.

A survey of 1,026 young people between the ages of 13 to 25 years carried out in the urban shanty towns and squatter settlements of Port Vila in 1997 found an unemployment rate of 64.1%.<sup>27</sup> For those who do find employment, wages are reportedly often less than half of the minimum wage (Vt 20,000 or A\$250 per month). The hotel industry, where many young people from the shanty towns find work, is notorious for poor wages and conditions.<sup>28</sup>

High rates of unemployment and underemployment are contributing to a range of social problems, including crime, substance abuse, prostitution and high rates of sexually transmitted disease. While there are no reliable figures on crime rates, anecdotal evidence suggests that property-related offences have increased significantly over the past decade. Domestic violence is reportedly much higher in urban areas than among rural communities. While *raskol* gang activity of the kind found in Papua New Guinea and the Solomon Islands is rare, there are reports of gangs of young men in Port Vila available to commit criminal acts for hire.

Many informants for this study were concerned about abuse of both kava, which leads to lethargy and a lack of motivation, and alcohol, which is closely correlated with violence. Cannabis is also increasingly consumed openly around Port Vila and in rural communities, and there have been a number of recent high-profile police raids against growers. The long-term health consequences of combining kava and cannabis are unknown, but there are reports from Fiji that it can lead to an increase in mental illness.

Increased drug and alcohol use make people more susceptible to high risk sexual activity, which in turn exposes them to the risks of unplanned pregnancies and Sexually Transmitted Infections (STIs). Health statistics reveal very high rates of STIs among young women (50% in young mothers at their first ante-natal visit), indicating that casual sexual activity is common. Teenage pregnancy rates have also been rising.

Also of concern for women in Vanuatu is the alleged increase in transactional sex work. There is ample anecdotal evidence of home-run brothels, pimping and kava bar side businesses in Port Vila and Luganville. Common explanations include young women repaying their parents' investment in school fees when they are unable to find work, unemployed men pimping their wives and single mothers struggling to make ends meet.

There have only been three confirmed cases of HIV-AIDS (including one fatality) in Vanuatu. However, the high rate of STIs suggests that the risks of an epidemic are substantial. It is possible that the actual prevalence of HIV-AIDS is already much higher than reported.

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<sup>27</sup> Mitchell, Jean, "Young People Speak: A Report on the Vanuatu Young People's Project, April 1997 to June 1998", Port Vila, Vanuatu Cultural Centre, 1998.

<sup>28</sup> Slatter, Claire, *The Con/Dominium of Vanuatu: Paying the Price of Investment and Land Liberalisation – A Case Study of Vanuatu's Tourism Industry*, Oxfam New Zealand, 2006, p. 9.

The new urban generation is therefore experiencing a range of social challenges, some of which were virtually unknown even a decade ago, and to which the public institutions have little capacity to respond.

## II. STATE BUILDING AND STATE EFFECTIVENESS

### 1. The political system

A central question to ask in determining the development effectiveness of a state is: how is political power gained and exercised? In many developing countries, political dynamics work directly against the ideal of rational, evidence-based policy making and sustained commitment of resources to poverty reduction that donors promote. Poor development outcomes which appear on the surface to result from a lack of resources or capacity may in fact be coded into the logic of a political system.

As in other parts of Melanesia, politics in Vanuatu is generally described as unstable and fragmentary, with political competition based on patronage rather than policy platforms. It is characterised by fierce infighting within political parties and coalitions for access to government and the resources it offers. Although the present government has held office since the 2004 elections, there were no fewer than 16 changes in government during the 13 years prior to then – a condition of chronic instability which Morgan describes as “political centrifugalism”.<sup>29</sup> Patronage drives corruption at the highest levels. It also leads to chronic short-termism across government, undermining any sustained approach to development.

Westminster-style parliamentary democracy is sometimes described as a foreign imposition, alien to Vanuatu’s own traditions. Many ni-Vanuatu regard *politik* with some distaste, contrasting it to the realm of *kastom* (including traditional governance) where social hierarchies follow a different logic. Yet at the same time, it is clear that the form of democratic politics that has evolved in Vanuatu has been deeply influenced by pre-existing cultural norms, values and practices, and that public expectations of public figures are a key driver of political behaviour.

This section analyses some of the factors that influence political dynamics in Vanuatu, and how they affect the capacity of the state to pursue a development agenda.

#### *a) A short political history*

The origins of Vanuatu’s modern political system are only slightly older than the country’s 26-year history of independence. Traditional society consisted of small, scattered communities, with extremely high levels of cultural and linguistic diversity. They were linked by complex kinship and trading networks, but not by any common political structure. Oral histories tell of points in history when much of the archipelago was united under a single leader, Roi Mata, who introduced a system of kinship based on totems (*naflak*) that persists today. By the time of European contact, however, there were no institutional structures above village level, and no common identity attached to the territory of contemporary Vanuatu.

Ni-Vanuatu did not enjoy the rights of citizens during the colonial period, and did not play a major role in the colonial administration until the 1970s. As a Condominium (joint colonial territory) of Britain and France, Vanuatu’s early political and institutional development was dominated by rivalry between the two powers. Each worked to secure the loyalty of the indigenous population through investments in education, creating

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<sup>29</sup> Morgan, Michael, “Cultures of dominance: institutional and cultural influences on parliamentary politics in Melanesia”, SSGM Discussion Paper 05/2, 2005, p. 5.

communities that were nominally anglo- or francophone (even if that did not imply a very high level of competence in the language<sup>30</sup>). Catholic missionaries promoted French-speaking communities, while the protestant churches recruited to the anglophone cause. Indigenous communities tended to play off one colonial power against the other, switching loyalties when expedient in order to secure greater benefits. During the 1960s, as decolonisation gained momentum around the world, France dramatically increased its expenditure on the indigenous population. Its spending on health, for example, went from 2 million French Pacific Francs in 1964 to 36 million in 1968.<sup>31</sup> French largesse saw the francophone population grow from 12 percent of the total in the early 1960s to 35 percent by the time of independence in 1980.

The activities of missionaries and colonial administrators impacted on social structures in important ways, particularly by strengthening and to some extent standardising the role of chiefs at village level. The churches provided the first leadership opportunities for ni-Vanuatu, introducing them to global political currents, including anti-colonialism.

An independence movement emerged in the early 1970s among this first generation of educated teachers and church leaders. In 1971, the New Hebrides National Party was formed, later changing its name to the Vanua'aku Party (VP). The main mobilising issue for the independence movement was the protection of indigenous land rights. (By 1972, 36.1% of the total land area had been alienated, of which 89% was in French hands.<sup>32</sup>) In 1977, the VP declared an unrecognised People's Provisional Government, which coexisted for a short time with formal self-government introduced by the colonial powers in 1978. The two were merged when the VP won a resounding victory in the first national elections in 1979.

By the 1970s, the United Kingdom was eager to divest itself of its remaining colonies. France, however, sought to retain the New Hebrides, or at least areas such as Santo where it had commercial interests, as a territorial possession or sphere of influence. France was seen as complicit in a secessionist movement on Santo (Nagriamel), which was suppressed after independence with the assistance of Papua New Guinean and Australian troops. While some francophone ni-Vanuatu opposed independence, there was also a range of francophone political movements pursuing political and cultural autonomy within an independent Vanuatu. These groups united to form what became the Union of Moderate Parties (UMP), the main opposition bloc after independence.

Vanuatu's political history since Independence in 1980 falls into two distinct phases. The first decade was characterised by the political dominance of the Vanua'aku Party, under the strong personal authority of its first leader, Father Walter Lini, and the relative coherence of the UMP as a political opposition.

Having succeeded in preserving territorial integrity during decolonisation, the VP placed strong emphasis on national unity, and pursued a centralising agenda. It built on the small but relatively efficient administration inherited from the colonial period, with the continuing support of foreign technical advisers supplied by the former colonial powers and new aid donors. The regime was characterised by integrity and sound management,

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<sup>30</sup> Miles, William, *Bridging Mental Boundaries in a Postcolonial Microcosm: Identity and Development in Vanuatu*, Honolulu: University of Hawaii Press, 1998, p. 37.

<sup>31</sup> Van Trease, Howard, *The Politics of Land in Vanuatu*, Suva: USP, 1987, pp. 110-11.

<sup>32</sup> Jackson, A.L., "Towards political awareness in the New Hebrides", *The Journal of Pacific History*, Vol. IV-2, 1972, p. 157.

running a regular budget surplus. Its development philosophy, summed up in the VP slogan ‘Economic Self-reliance, Financial Independence and Rural Development’, was mildly socialist in orientation, in keeping with many other newly independent countries at the time, but in practice focused more on institution building than social development.

To build a sense of nationhood among the culturally diverse population, the government promoted Bislama as a common national language, which over time became the primary language of politics and government. It also appealed to *kastom* – a hybridized mixture of traditional knowledge and practices, Christianity and local authority structures (including chiefs) emerging in the colonial period – as the common cultural heritage of ni-Vanuatu. By reconciling *kastom* with Christianity and the new state with traditional authority structures, the independence leaders created a foundation on which a sense of national identity could gradually emerge.

Leadership disputes, factionalisation and eventually splits within the VP in the late 1980s brought the post-Independence era to an end. In 1991, Father Lini was ousted from the party leadership, and responded by creating a new party, the National United Party (NUP). With the Anglophone vote divided, the VP was forced into a coalition government in the 1991 elections. Since then, coalition governments, based on short-term allegiances rather than any common ideological position, have become the norm. Personal rivalries among the senior leadership have driven continuing fragmentation, with the VP splitting five times since 1988:

- the Melanesian Progressive Party (1988);
- the People’s Democratic Party (1988);
- the National United Party (1991);
- the People’s Progressive Party (2002); and
- the Vanua-K Group (2004).

The advent of coalition politics gave the francophone parties the opportunity to participate in government. However, the UMP went through a similar process of fragmentation, splitting to form the Tan-Union (1991), and then the Vanuatu Republican Party (1998), which in turn split to create the Popular Movement (2004). New parties were also established with the support of business interests, including the Green Party (2002), backed by the offshore finance centre, and the National Community Association (2002), funded by sections of the Asian business community. There has also been a proliferation of independent candidates. By 2004, the three major parties (NUP, VP and UMP) between them held only half of the 52 parliamentary seats.

The breakdown in political cohesion was accompanied by rapidly declining standards in governance. Corruption and mismanagement at the highest levels depleted the country’s cash reserves and brought its major financial institutions to the point of collapse. Parliamentary proceedings became dominated by no-confidence motions and the constant renegotiation of the governing coalition, and government was unable to pursue any substantive policy agenda.

By the end of the 1990s, the legitimacy that government had built up during the 1980s was largely squandered, and public disillusionment with politics and government was acute. However, the public reaction – voting out sitting members (around half of whom

lost their seats in the 2002 and 2004 elections), and supporting minor parties and independents – tended only to increase political centrifugalism.<sup>33</sup>

A key dynamic over the past decade and a half has been the decline in the political salience of the anglo-/francophone divide. In the post-Independence era, these opposing identities provided a ready basis on which to organise a government and opposition, each looking to different foreign patrons for support. During the 1990s, this organising structure for political life largely disappeared. This reflected the changing geopolitical context, as France and Britain were supplanted by Australia and New Zealand as the main metropolitan powers. Governing coalitions came to include both anglo- and francophone parties, while the major parties included both French and English speakers. Language policy remained a controversial issue within the education system, but Bislama became the primary language of government, overcoming the linguistic divide between French and English.

Some observers still see the persistence of a francophone bloc within the public administration, but it is far less prominent than group identities based on island, church affiliation and clan. This mirrors developments in wider society. For many families, deciding in which language to educate their children has become a matter of consumer choice, and many choose to educate some in English and others in French in order to maximise their opportunities.

The decline of the language division has both positive and negative implications for politics in Vanuatu. It weakens the one line of division that has historically generated major conflict among ni-Vanuatu, and therefore contributes to stability. On the other hand, it leaves the political system without any clear poles of identity around which opposing political blocs could form. It therefore contributes to political centrifugalism.

The present governing coalition – led by Ham Lini, brother of the first Prime Minister – has survived since the 2004 elections, despite four motions of no confidence. Some observers believe that this may indicate a trend towards the consolidation of political coalitions back into their traditional blocs. This might reflect widespread public distaste for continuing political instability, particularly given events elsewhere in the region, and a recognition by political elites that disunity may carry a high electoral cost in the run-up to the 2008 elections. However, with 11 of 12 political parties presently in the governing coalition, other observers suggest that the current stability is merely a temporary lull, and that the political dynamics of the past decade will reassert themselves as the 2008 elections approach.

### ***b) Political competition***

This section explores in more detail some of the factors that contribute to the particular form of political competition that has emerged in Vanuatu. Analysing these influences systematically may assist donors in identifying entry points for strengthening the political institutions.

A number of academic commentators have pointed out that, while parliamentary democracy may be an imported institution, the particular form that it has developed in Vanuatu is suffused with local cultural elements. Perhaps the most important influence

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<sup>33</sup> Morgan, Michael, “Cultures of dominance: institutional and cultural influences on parliamentary politics in Melanesia”, SSGM Discussion Paper 05/2, 2005, p. 5.

of culture on the political system is the expectations which the public holds of political leaders. Politicians in Vanuatu (and to an extent also other individuals prominent in public affairs or business) report that they are under constant pressure to assist members of their communities in resolving problems, in particular of a financial nature.

Traditional society is based on complex relationships of reciprocity between leaders and their communities. In *kastom*, individuals owe a duty of loyalty to their chief, and are required to contribute materially, in the form of labour or wealth (food and other traditional exchange items) to support the augmentation of the chief's status and authority. In return, the chief is required to support members of the community in very direct ways, including ensuring their food security in times of need. Favours are extended and gifts are given, in the expectation that they will be returned at the appropriate time. In this cultural context, the Weberian notion that the rights and obligations of public office should be rigorously separated from the personal ties and interests of the office bearer, is quite alien.

Electoral politics takes on a similar aspect, with individuals seeing their vote for a candidate as an investment in future support. Campaigning often consists of exaggerated promises of material benefits to particular communities, concerning infrastructure, jobs or business opportunities. Most of these promises are never kept, which increases public disillusionment with the political process. Politicians who succeed in being elected to parliament are given an allocation of Vt 2.4 million (just over A\$30,000) to spend in their electorate each year. There are no rules governing how these funds should be spent, and no reporting requirements. Some MPs reportedly establish local committees to allocate the funds to community needs, but no information is available on how the funds are used. Some observers see the MP Allocation as a legitimate means of distributing funds to rural communities, and as a pragmatic means of adapting parliamentary democracy to the cultural environment. Others see it as encouraging vote buying and reinforcing the public's misunderstanding of the role of elected representatives.

In most cases, the benefits offered by politicians to their electorates are small in scale. Politicians may pay for feasts at weddings, funerals and other ceremonial occasions, providing them with an opportunity to demonstrate their largesse and a platform for political oratory. At election time, they may distribute agricultural tools or foodstuffs, or small cash gifts to assist supporters with school fees. Senior politicians with access to greater resources can provide more substantial benefits. For example, one member of the current government reportedly provides each newly married couple in his home village with a wedding gift of Vt 100,000 (A\$1,250). Some Efate politicians have also provided land to immigrants from other islands, effectively creating a captive electorate. A number of studies show that the public does not consider that spending public funds or private wealth to influence votes represents corrupt behaviour.<sup>34</sup>

The weakness of the state in rural areas contributes to this dynamic. Other than primary education, the state provides few services to its citizens as a matter of right. Those benefits that do arrive in rural communities are therefore readily portrayed as acts of largesse by individual politicians. The state is seen as a distant 'big man', while the elected politician is a channel for accessing its largesse. As Morgan puts it,

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<sup>34</sup> See Transparency International, "National Systems: Transparency International Country Report", Port Vila, 2004, pp. 10-11.

“The belief that political leaders, rather than impartial state services, are the most bankable avenues for resource distribution now characterises Melanesian politics.”<sup>35</sup>

Aid-funded projects are also routinely politicised in this way. This attitude towards public services tends to dampen political engagement and inhibit demand for change.

The very small scale of politics in Vanuatu facilitates this direct reciprocity between politician and electorate. Vanuatu has 17 multi-member electoral constituencies to elect its 52 members of parliament. The largest of the districts (Santo, Malekula, Tanna) elect seven members each, while the five smallest districts have only a single member. There is no preferential voting or party lists. Voters nominate a single candidate, and the highest ranking candidates are returned. In practice, this means that, in absolute terms, a relatively small number of votes are required to secure election. In the 2004 elections, votes per candidate ranged from 349 up to 1,201, with an average of 765.<sup>36</sup> This means that candidates can focus their campaigns on a few villages.

Electoral irregularities also play a part in election results in Vanuatu. Observers of the 2002 election concluded that the electoral roll overstated the correct number of voters by 20,000.<sup>37</sup> It has not been kept properly up to date, and is inconsistent with the 1999 Census data. With the population becoming more mobile, many individuals have registered to vote in a new location without deregistering in their place of origin, giving them two votes. It is reportedly common for candidates to collect registration cards and proxy voting forms from citizens, in order to vote on their behalf. With only five permanent staff, the Electoral Commission does not have the resources to improve the electoral roll, although it will be receiving support from the Australian Electoral Office in preparation for the 2008 elections.

These dynamics explain why it is that politicians who have been publicly implicated in misconduct face no apparent political cost. For example, in July 2002 former prime minister Barak Sope was given a 3-year prison sentence for fraud in connection with forged government guarantees. He was re-elected in 2003, following a presidential pardon on grounds of ill-health. Although Sope did reportedly suffer a drop in his public standing as a result of the conviction, he was able to use some of the techniques described here to secure the loyalty of a core of supporters, sufficient to ensure his re-election in 2004 with 970 votes.

The direct relationship between politicians and their electorate diminishes the significance of political parties. Many MPs are elected for local reasons, rather than as a result of their party affiliation. They therefore have only limited allegiance to a political party, and are free to change affiliation once elected in order to secure political advantage. Morgan writes:

“Parties often act like parliamentary associations, with members joining a party once they have been elected to parliament. Rather than parties driving the pre-selection of candidates, parties are forced to choose popular local candidates for their survival.”<sup>38</sup>

Political parties have declined as organisations since the 1980s. New parties compete for power by attracting existing MPs to join them, rather than by building up a membership

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<sup>35</sup> Morgan, Michael, *op. cit.*, p. 4.

<sup>36</sup> Data obtained from the Electoral Commission.

<sup>37</sup> Transparency International, *op. cit.*, p. 18.

<sup>38</sup> Morgan, *op. cit.*, p. 3.

base, and are therefore weakly institutionalised. Most lack the resources to pay for transport, and can therefore campaign only in a few locations. The VP, however, still retains a substantial organisational structure, inherited from the 1970s and 80s when it was a highly effective grass-roots movement. It has up to 300 sub-committees at village, ward or area level, with the authority to select and de-select local candidates. While the VP has been significantly weakened by leadership disputes over the past decade, there is still a structure on which an effective, mass-membership party could be revived.

The highest level of politics in Vanuatu is the formation of coalition governments, which since 1991 have been a permanent feature of the political system. There is no ideological or policy basis for the formation of coalitions, which are therefore constantly subject to destabilisation. Prior to the 2004 elections, even quite small shifts in power within parliament could trigger the renegotiation of the governing coalition. There is no real opposition function within parliament, as the major political leaders are all competing to be part of cabinet. Under the Constitution, successful votes of no confidence do not require a new election to be called, but simply trigger a new round of negotiations over government formation. No-confidence motions therefore carry few political costs, and are brought or threatened in nearly every parliamentary session. Opposition politicians use private members bills on populist issues to attract government backbenchers and destabilise the coalition. For example, in the December 2006 session, legislation was introduced setting above-market prices for copra, although it has little prospect of being implemented, in order to embarrass the government.

Coalition formation appears to follow the logic of patrimonialism established at the community level. Politicians compete to secure access to positions that provide opportunities for redistribution. Certain ministerial posts (Finance, Land, Infrastructure) provide opportunities for ministers to favour certain commercial interests, in exchange for financial support. Membership of the boards of public or quasi-public authorities (such as the Vanuatu Commodities Marketing Board, the Vanuatu Maritime Authority, the national airline) may provide rent-seeking opportunities. Senior politicians may also seek legitimate political party financing from business interests or foreign powers, notably China and Taiwan.

Senior politicians in Vanuatu base their authority on a pyramid of patronage. Prime ministers form coalition governments by offering the most lucrative positions to the leaders of coalition partners, who in turn provide further opportunities to their supporters, down to the constituency level. This style of politics is inherently unstable, because dissatisfied individuals within the system have a constant incentive to destabilise the existing coalition in order to secure access to more resources to build their own power base.

This is not to say that there is no room within Vanuatu's political system for policy agendas or personal integrity. There are individuals within the current government that enjoy a reputation for both honesty and diligence. However, it means that, whatever their personal standards, professional politicians must to some degree play according to the rules of the patrimonial system. As Penelope Schoeffel puts it:

“The problem lies in the nature of public expectations about the politician's role. Political office is won by demonstrating power through the capacity to attract and amass wealth, and redistribute at least some of it and thereby win renown... Even highly-educated

Melanesians who are well-versed in the theory of the modern democratic state, must bow to this way of doing things if they wish to win public office.”<sup>39</sup>

Within this political system, there is no basis on which ‘the poor’ as a group could organise politically in pursuit of their collective interest. Their demands of politicians are at the micro level, rather than at the level of national policy. Politicians are in some sense accountable for their performance in office, as demonstrated by the high turnover of parliamentarians at each election. However, they are not accountable for their ability to deliver on a national policy agenda. The electoral system is therefore not in itself a driver of development.

In this environment, the personal qualities of individual politicians plays a rather important role. Vanuatu’s first generation of political leaders had, and in some cases may still have, a pro-development political ideology. Development in Vanuatu may depend upon alliances between external donors and individuals within the political elite.

### **c) Risks of conflict**

Given the conflicts that have affected other countries in the region, in particular the Solomon Islands and Fiji, it is worth noting that some of the factors that make the political system in Vanuatu relatively ineffective at promoting development also provide a measure of protection against the risk of conflict. With the decline of the francophone/anglophone division, being the one line of division that has historically generated significant conflict, the society is characterised by multiple fragmented and overlapping identities – island, church, kinship networks, language groups. No single group is large or influential enough to bid for control of the state and its resources. Because broad coalitions are required in order to form a government, the resources for patronage are divided among multiple groups and actors. No groups are permanently excluded from the power-sharing arrangements.

Furthermore, respect for the basic rules of the constitutional process appears to be solid. Political parties frequently resort to the courts to resolve disputes over party leadership or parliamentary procedures, and judgments are respected.

Patrimonialism in Vanuatu therefore produces a very different style of politics from that found in, for example, many African countries, where power and resources may become heavily concentrated in the hands of a strong president, who uses the security apparatus to suppress rivals for power. In Vanuatu, both the formal constitution, which has no executive head of state, and the style of consensus-based politics works against such a concentration of power, providing protection against state capture.

Vanuatu’s security services – the Vanuatu Police Force and the paramilitary Vanuatu Mobile Force (VMF) – have not played a political role in some years. During the 1990s, the VMF intervened in politics on a number of occasions to defend its own status and privileges, including by briefly kidnapping the prime minister in 1996 and forcing the resignation of its own Commanding Officer.<sup>40</sup> However, on other occasions during that

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<sup>39</sup> Schoeffel, Penelope, “Myths of community management: sustainability, the state and rural development in Papua New Guinea, Solomon Islands and Vanuatu”, SSGM Discussion Paper 97/8, 1997, pp. 7-8.

<sup>40</sup> Ambrose, David, “Vanuatu politics – Two into one won’t go”, *Pacific Economic Bulletin*, Vol. 12, No. 2, 1997.

period, the police and VMF played a constructive role during constitutional crises, acting as a guarantor of constitutional process.<sup>41</sup> The VMF is not considered at present to be a threat to stability.

Conflict among different island groups on Efate poses a more substantial risk. As described above, there are land disputes between the indigenous communities around Port Vila (Ifira, Erakor, Mele and Pango) and migrant groups from other islands, in particular Tanna and Tongoa. These disputes are in some ways reminiscent of inter-island disputes on the Solomon Islands, and will need to be watched carefully. However, Vanuatu's conflict resolution mechanisms have so far proved capable of managing these tensions. The National Council of Chiefs (Malvatumauri) has intervened to resolve conflicts among island groups, including reining in civil disturbances by groups of young men. It carries considerable respect and authority across the communities, and deploys customary practices to resolve disputes (including pig-killing ceremonies). Its conflict resolution capacities are in many respects superior to those of the state. When a group of prisoners recently broke out of prison in Port Vila, the authorities turned to the chiefs to persuade them to return.

#### **d) Corruption and accountability**

Corruption in Vanuatu should be viewed through the lens of the patrimonial system, as a systemic problem, rather than simply individual misconduct. The dispensing of largesse is a means of obtaining status and influence. So long as the benefits are redistributed, rather than kept as personal wealth, it is not viewed as improper in Vanuatu society.

Gift giving has great cultural significance in Vanuatu. A gift immediately creates a debt which must be repaid, either immediately if the recipient does not wish to maintain the relationship, or at a later time. As one Transparency International report notes, these customary practices tend to blur the line between customary exchange and bribery.<sup>42</sup> In the absence of internalised values against this kind of conduct, formal accountability is very difficult to establish.

In 1998, there were riots in Port Vila following a report of the Ombudsman that pension funds had been misappropriated from the Vanuatu National Provident Fund. In that case, workers were faced with the loss of funds they had contributed from their wages into the Fund. In most instances, however, ni-Vanuatu do not see the redistribution of public resources as affecting their personal interests. Ni-Vanuatu do not pay direct taxes. Indirect taxes (VAT, customs, excise) are paid by the consumer in the form of higher prices, without being directly visible. People therefore do not recognise public funds as belonging to them.<sup>43</sup>

High-level corruption in Vanuatu takes a number of forms. There are a number of quasi-public bodies such as the Vanuatu Commodities Marketing Board whose governing boards are appointed by politicians. These bodies are not required to submit their accounts to government. Leakage from these bodies is reportedly high.

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<sup>41</sup> Ambrose, David, "A coup that failed? Recent political events in Vanuatu", SSGM Discussion Paper, 1996.

<sup>42</sup> Transparency International, *op. cit.*, pp. 10-11.

<sup>43</sup> The importance of tax paying in state- and nation-building is attracting more attention in the development field. See Moore, Mick, "Taxation and the political agenda, North and South", *Forum for Development Studies*, No. 1, 2004.

Government ministers have extensive executive discretion, which may be used to support business interests. These include discretions over import and export licensing, tax exemptions, immigration matters and land leases. Vanuatu's small economy, with low taxes but high costs of entry, has a tendency towards the formation of monopolies and oligopolies. It is common for prominent business interests in Vanuatu to donate to political parties, in order to secure protection or commercial advantage. Some businessmen have built up close associations with particular political parties, which they have used to secure advantages, from land for development to government construction contracts. Businessmen may make payments to political parties in order to secure particular government decisions in their favour, such as exemption from customs duties or a ban on the import of a competitor's product. This contributes to the lack of commercial competition in Vanuatu, resulting in higher prices for consumers.

Some forms of corruption carry more direct costs for the public. For example, the Vanuatu Commodities Marketing Board (VCMB) has a monopoly over the export of agricultural products, including kava. The VCMB purchases dried kava from farmers at Vt 1,000/kg., well below the production cost, while selling to a monopoly supplier in the lucrative New Caledonian market at Vt 2,700.<sup>44</sup> In effect, the politicians that control the VCMB are running a lucrative, monopoly business, at the expense of individual farmers.

Corrupt deals at the highest levels have even brought the state to the brink of bankruptcy. One example involved a scam by a Thai businessman, Amarendra Ghosh, who offered what purported to be an 80 kg ruby as security to refinance the national debt. The government agreed to provide Mr Ghosh with bank guarantees worth US\$23 million, causing it to fall in a vote of no-confidence in April 2001.<sup>45</sup> With the state's financial position now greatly improved, the risk of this kind of disruption has diminished. However, the episode illustrates that corruption and patronage can make the state vulnerable to destabilisation by unscrupulous business interests and international conmen.

Petty corruption within the administration is reported to be on the rise, although no hard data is available. Informants for this study agreed that it has become more common to pay public servants directly to receive preferential treatment in ordinary bureaucratic processes, particularly in the police and the ministries of immigration and lands. The problem is not yet acute, and it is still possible to obtain services without paying bribes. However, it does suggest a worrying decline in the public service ethic.

Formal accountability over politicians and administrators has proved difficult to establish. Parliament remains a fairly weak institution. It meets for only two sessions a year, each around three weeks in length – the minimum required by law. Given the likelihood of facing a no-confidence motion, prime ministers have little incentive to call more frequent sessions. Legislation is routinely rushed through under urgent procedure, without time for parliamentary debate. The committee system is not functioning. The only two committees to meet regularly are Standing Orders and Privileges, but these deal only with internal matters. The Public Accounts Committee met only once, in 2003. There is no induction for new MPs, many of whom arrive with little formal education and no understanding of parliamentary business. Administrative support is very weak. The offices of the Speaker and the Parliamentary Clerk are understaffed and play a

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<sup>44</sup> Information provided by a member of the Vanuatu business community.

<sup>45</sup> Economist Intelligence Unit, "Vanuatu Country Profile 2006", p. 5.

limited support role. There is provision in the parliamentary budget for additional staff, but the Parliamentary Management Board is reportedly unable to find qualified candidates. A new Parliament Act was passed in 2005, but some observers are sceptical that it offers workable solutions.

Apart from the Sope case mentioned above, there have been no prosecutions of senior figures for corruption. The Public Prosecutor is a political appointee, and lacks the resources for the complex prosecutions required for corruption cases. The Auditor-General has not been active in recent years. The Ombudsman, a constitutional post first established in 1995, was initially very active against corruption, producing a large number of highly critical reports and conducting public campaigns against misconduct. However, government reacted by reducing the Ombudsman's powers to bring action under the Leadership Code, and appointing less confrontational individuals to the office. In recent years, the Ombudsman has continued to issue critical reports, but without the same media profile.

There is debate as to whether accountability institutions of the adversarial type favoured in Western democracies are appropriate or effective in the Vanuatu context. Traditional notions of justice favour reconciliation over punishment. Some observers believe that it might be possible to develop accountability institutions that take a more Melanesian approach, based on behind the scenes negotiations rather than open confrontation.

The media plays only a limited accountability role in Vanuatu. There are two newspapers – *the Daily Post* and the weekly *Independent* – each with a circulation of under 3,000. Although they have limited capacity for investigative journalism, both papers have on occasion exposed major corruption scandals. However, according to the editors, there is little public outcry in response to political misconduct. The newspapers are relatively free of government interference, although the editors have at times received threats from individuals accused of misconduct.

Radio and television services are limited to the state broadcaster, VBTC. Lack of equipment and poor management means that there is very limited coverage outside the urban areas, although this is being addressed with the support of donors. VBTC is subject to a degree of government control, and does not broadcast confrontational news reports. Nonetheless, its journalists report that government is gradually becoming more tolerant of criticisms of its conduct.

#### **e) *Women in politics***

There is limited participation of women in any level of politics in Vanuatu, and men have primary control of the social, political, economic and cultural institutions. Only two of the 52 sitting MPs are women, one of whom is also a government minister. In the senior levels of the public administration, women make up one of nine Director Generals, and ten of 56 Directors. These figures have not changed significantly over the past decade.

There have been various initiatives by women's groups to boost women's participation in politics. In several elections, NGOs such as Vanuatu Women in Politics (VANWIP) organised women to run as independent candidates, in protest against the failure of the established parties to pre-select women. None were elected, but they did succeed in extracting commitments from some of the parties to increase women's representation.

The government has committed itself in regional fora to increasing the representation of women in parliament to 30% by 2015.

There appear to be a range of reasons for the low participation of women in politics. First and foremost, political leadership in Vanuatu is a gendered construct, in that both men and women see it as essentially a male role. The route to electoral success requires a candidate to become a highly public figure, constantly available to the community to help with personal problems. It appears that most women do not consider this an appropriate role, preferring to serve their communities through other roles in the family and church. Both *kastom* and Christianity are deployed as discursive strategies to emphasise the role of the male as head of both household and community. While assertions such as these are obviously contested, it is clear that any attempt to promote a version of gender equality that is not perceived as in accordance with *kastom* is unlikely to attract much support, from either men or women.

Women also face a range of practical constraints on their participation in politics. The burdens of motherhood and other domestic responsibilities, and the important role played by women in food production and income generation, leave little time for political activity. It is also very difficult for women to succeed in politics without the support of an established political party, whose usual preference is for male candidates.

Some women have succeeded in building up sufficient authority and support through their roles in the community to succeed in national politics. Vanuatu's two female MPs, both from Epi, were selected as VP candidates following the death of the sitting members. Isabelle Donald, currently Minister for Justice and Social Welfare, was able to attract 19.5% of the vote in her electorate in 2004. She attributes her success to her work with women and youth in the electorate over the years, as well as the support of a number of chiefs and the VP party structure.<sup>46</sup> Using community work as a stepping stone into politics may therefore be a possible strategy for political empowerment. However, it is likely that women elected to parliament will be subject to the same relationships of reciprocity as their male counterparts, and required to play the political game according to the prevailing rules of patronage.

There is some uncertainty in the anthropological literature on the role played by women in traditional society, and there is considerable variation in different parts of the country. On some islands, such as Epi, women may be appointed as chiefs within their communities. In areas such as North Ambae and North Pentecost, women traditionally played important roles in succession, inheritance and peace-making, although these roles have been gradually eroded since independence. On other islands, notably Tanna, women's roles are highly restricted, with women traditionally seen as "reproductive chattels",<sup>47</sup> rather than autonomous individuals.<sup>48</sup> Overall, the status of women in Vanuatu escapes easy characterisation. As Lissant Bolton writes,

"the idea of a singular identity... is entirely alien to the indigenous system. In each relationship, a person has different responsibilities and obligations and different access to authority or power... The suggestion that all men have power over all

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<sup>46</sup> Donald, Isabelle, Jane Strachan & Hilda Taleo, "Slo, slo: increasing women's representation in parliament in Vanuatu", *Development Bulletin*, No. 59, 2002, p. 54.

<sup>47</sup> Miles, *op. cit.*, p. 169.

<sup>48</sup> The practice of paying bride price in cash is said to reinforce the attitude that the wife is the property of the husband, and may be a contributing cause to domestic violence.

women misunderstands the specificity of each relationship in such a system – between a daughter and her father, a father’s sister and her brother’s son, or a wife and her husband.”<sup>49</sup>

There is clearly some resistance in Vanuatu to discussion of formal gender equality, particularly when couched in Western terminology, for fear that it may undermine traditional roles and practices. Yet ni-Vanuatu also stress that women play important roles within the community, and that their relative absence from national politics does not mean they are not active in other public spheres. It is common for women throughout the country to take on leadership roles within the churches and local committees, and to be influential in consensus-based decision-making processes at village level. These roles generate status for women within their own communities, which may be seen by women themselves as more desirable than political office. Participation in national politics should therefore not be regarded as synonymous with women’s empowerment.

Women’s NGOs in Vanuatu have focused mainly on awareness raising, particularly around domestic violence. Some informants report that chiefs and traditional leaders are responsive to the idea of women’s rights (or respect for women), when couched in appropriate, non-confrontational language. However, ignorance of individual rights principles is widespread, and the authority of the constitution and of chiefs are often seen as in tension, rather than complementary. Chiefs see their own role as preserving community relations, rather than protecting individual rights.

The most important reform initiative on women’s rights in recent years has been the Family Protection Bill, which was to have introduced a system of interim protection orders for victims of domestic violence. The Bill has repeatedly failed to pass parliament due to opposition from chiefs and traditional leaders. The main bone of contention was provisions that would shift the jurisdiction over family violence cases away from chiefs to the formal legal system. The women’s groups that sponsored the Bill have now shifted strategy and are working to persuade the Malvatumauri to reassess its views on domestic violence.

## **2. Institutional capacity**

This section looks at various factors influencing the capacity of national government in Vanuatu to formulate and implement development policy. It looks at the historical process of state-building, and various constraints on institutional development. It also discusses how culture influences institutional behaviour.

### **a) State-building**

The development of the state in Vanuatu has entailed a dual challenge: the transition of the colonial-era administration into a ni-Vanuatu-managed structure; and the expansion in the role of the administration to fulfil the functions expected of a modern state. Both processes have taken place against the backdrop of a number of important constraints, in particular the very limited skills base in Vanuatu, and the extremely high costs of service delivery to a dispersed population. Both processes are still underway. The development challenge in Vanuatu is therefore at the same time a state-building challenge.

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<sup>49</sup> Bolton, Lissant, *Unfolding the Moon: Enacting Women’s Kastom in Vanuatu* (2003), p. 55.

Vanuatu inherited a core of functional institutions from the Condominium period, with some 35 public-sector agencies organised into nine ministries. The transition from colony to sovereign state was swift. Ni-Vanuatu participation in the colonial administration was very limited before 1970. There were only a few short years to prepare ni-Vanuatu cadres to take over the institutions of government. However, many foreign professional and managerial staff stayed on after independence, paid for from aid programmes.

Vanuatu inherited a relatively expensive public administration, due in large part to the increases in expenditure on the French side in the decade prior to Independence. Britain and France provided some direct budgetary support to the new state straight after independence, but this was phased out within three years, leaving the new state to depend on its own revenues and international aid. The new state also inherited quite well developed infrastructure in Port Vila and Luganville, including water supply, electricity, communications and port facilities. However, these were expensive to maintain, causing resources to remain concentrated in the two urban centres – a pattern which has prevailed ever since.

The first decade of the transition process proved quite successful. The new VP-led government provided both political stability and careful economic management, running regular budget surpluses throughout the 1980s. Many core government systems, including budgeting, financial management and payroll, were taken across from the British system, and were operated successfully with the support of expatriate staff. However, there was limited success in building a developmental state – one capable of promoting economic growth and expanding the reach of public services.

During the 1990s, standards of governance in Vanuatu deteriorated dramatically. The fragmentation of political authority led to a series of crises in the public sector. A protracted public-sector strike over salaries in 1993-4 led to the dismissal of a large number of professional staff, and their replacement with less qualified personnel. By 1997, poor macroeconomic management by a succession of short-lived governments had depleted the state's cash reserves. Cash-strapped governments raided the public purse, diverting budgetary resources, increasing the debt burden and bringing a number of financial institutions to the brink of collapse. Several billion vatu of expenditure was unaccounted for during this period. As relationships with the main donors soured, government turned to non-traditional donors, particularly China, in search of finance.

By the mid-1990s, there was a general perception across the political and administrative elite of a governance crisis, creating a political opening for a major reform programme. The government turned to the international development banks, particularly the Asian Development Bank (ADB), for assistance in designing a Comprehensive Reform Program (CRP), supported by a US\$20 million loan. Launched in 1997, the CRP was intended to restore the separation of powers and ensure that the three branches of government had the authority and resources to discharge their functions. There was new legislation to increase the efficiency of Parliament and enhance the independence of the judiciary. Legislation was adopted to give effect to the Leadership Code in the Constitution, and to establish the offices of Ombudsman and Auditor-General. Public servants were placed under the authority of a Public Service Commission, for the first time creating a clear separation between politics and the administration.

The CRP was a major opportunity to correct the course of state-building in Vanuatu, arising as it did from a consensus across the political elite that urgent corrective measures were needed. However, many of the ambitious goals of the CRP were not achieved. It became a large and poorly focused programme, with a matrix of some 66 objectives covering governance, economic reforms and development programmes.<sup>50</sup> Under the influence of the ADB, it incorporated many of the traditional features of a structural adjustment programme – macroeconomic stabilisation, tax reform – reflecting the development fashions of the time, even though Vanuatu had not experienced a balance of payments crisis. A large part of the programme was directed at ‘right sizing’ the civil service, with around 400 staff (10 percent of the total) laid off. The retrenchment was done in an arbitrary fashion, based on political expediency rather than solid analysis, and may have stripped out state capacity in key development areas such as agricultural extension.

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.

Nonetheless, there was a core set of achievements. A more rational structure for policy making at the centre of government was developed (see below). The division between politics and public administration was more clearly identified, and formal processes for recruiting professional staff were established. A public financial management programme introduced programme budgeting and established effective controls over budgetary resources – a major achievement in the circumstances.

Many of the pressures that are now driving state-building in Vanuatu are international in nature. Donors offer funding for programmes to develop new public functions or institutions. The government usually finds it expedient to accept these offers, regardless of whether they accord with the government’s own priorities. Likewise, membership in international bodies and fora place extensive demands on the state. Vanuatu engaged in a number of institutional and policy reforms in preparation for joining the World Trade Organization, before pulling out of the process after negotiations had been concluded. International pressures to combat money laundering have obliged Vanuatu to establish a Finance Intelligence Unit, which is unable to function effectively due to a lack of qualified staff. As a result of these pressures, the number of Departments (including constitutional bodies but excluding cabinets) has grown from about 35 after Independence to 46 in 2006.

### ***b) Capacity constraints***

This illustrates a key dynamic in contemporary state-building in Vanuatu – the tendency for institutions to proliferate beyond the limited human-resource base available to the government. New institutions have been created without regard to the availability of qualified personnel to staff them. The result is that the limited human capacity in the public administration is stretched even more thinly.

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<sup>50</sup> ADB, “Program completion report on the Comprehensive Reform Program to the Government of Vanuatu”, December 2002.

There is no overall plan for human resource development (HRD) across the public administration, despite extensive donor assistance in this area. In recent times, the ministries have begun to formulate their own HRD plans, with support from the Public Service Commission. However, while each individual HRD plan may appear rational, as a whole they are inconsistent and impractical. For example, the total number of lawyers required under ministerial plans is well in excess of the total number of law graduates in the country. There are only two ni-Vanuatu with internationally recognised professional qualifications in accounting, while existing structures of government would require more than two dozen to function effectively. Altogether, according to the Public Service Commission, there are 313 unfilled professional positions across the administration. Staffing gaps has a significant impact on the morale and motivation of public servants, and increase their dependence of foreign advisers.

Around 8,000 children begin primary education every year, but only some 120-150 graduate from secondary school. Seventy-seven percent of students who graduate from urban-based primary schools continue on to secondary school, but only 29 percent from rural-based primary schools.<sup>51</sup> Studying at university, usually abroad, requires a scholarship, of which 43 are provided by donors each year. With a few exceptions, these programmes are not targeted to fill specific needs in the public administration. Furthermore, only 20 percent of those who return with internationally recognised qualifications enter into public-sector employment. There are only a few local opportunities for skills development. There is a technical college offering basic skills up to certificate level, while the Human Resources Development Unit in the PSC has been running training courses for several years, but the quality of these programmes is questionable. As a result, there is no prospect of the education system overcoming the skills shortage in the short to medium term.

There are also cultural constraints on the transfer of skills and knowledge within the administration, between public servants. In ni-Vanuatu culture, knowledge is seen as a source of power and status. Those with knowledge are often reluctant to share it, which inhibits institutional development. An attempt was made to create a culture of skills transfer under a DFID-funded programme in the Department of Finance (DoF) in the 1990s, which established a Finance Sector Training Unit specifically to train DoF staff in finance-related skills. However, the Unit was disbanded in 1997/8 and the training function transferred to the local technical college.

The other major constraint on state-building in Vanuatu is the very high cost of delivering services across a highly dispersed population. By international standards, Vanuatu devotes a high proportion of its budget to delivering health and education, which in 2003 made up 12.9% and 28.8% of the budget respectively. However, the quality of services in both sectors remains low. The World Bank concluded,

“Despite Vanuatu’s progress towards achieving universal primary education, its education sector outcomes remain disappointing and do not seem to be commensurate with the level of funding provided to the education sector from both the government and donors.”<sup>52</sup>

This reflects the extremely high unit costs of delivery to scattered communities across 83 inhabited islands. To make primary education accessible to the entire population, in

<sup>51</sup> UN, “Common Country Assessment: Vanuatu”, Suva, May 2002, p. 43.

<sup>52</sup> World Bank, “Pacific Regional Strategy FY2006-2009”, Washington, May 2005, p. 86.

accordance with its MDG commitments, Vanuatu is required to post primary teachers in small and remote communities. As a result, student-teacher ratios are extremely low, and salaries make up more than 90% of all education expenditure, leaving few resources to lift the quality of service. Across the administration, wages and salaries made up 56% of all recurrent expenditure in 2005.<sup>53</sup> and this is forecast to rise to 61% by 2009.

It is clear that institutional development in Vanuatu faces constraints that will be difficult to overcome in the short to medium term. Under these conditions, creating new institutions does not necessarily entail any increase in state capacity. Lacking any overall strategy for capacity building, government has tended to respond to pressures for improved institutional performance, whether internal or from donors, with fairly cosmetic reforms. It is common for staff, Departments and functions to be moved around between Ministries, and new Departments to be created on paper without human or financial resources. This reflects the complex political bargaining that goes on within governing coalitions, and is also a response to multiple pressures from the donor community. It tends to create only the appearance of reform, without improving institutional performance.

The high unit cost of service delivery has forced the state to be selective in the services it offers. Social protection is left almost entirely to the community and the family to provide, while recreation, culture, religion, housing and the environment all receive a negligible share of the budget. The state also invests little in law and order outside the urban centres. This demonstrates the practical limits on the state's ability to provide a social safety net. It may also represent a tacit acknowledgement that traditional and local institutions have a comparative advantage in the social sectors. However, it leaves the state with little capacity to reallocate institutional and financial resources to meet emerging social challenges.

| Allocation of recurrent expenditure in 2003<br>(preliminary figures) <sup>54</sup> |            |
|--|------------|
| Sector   | % of total |
| Education  | 28.84      |
| General public service   | 24.56      |
| Economic affairs (inc. agriculture, transport, communications)                     | 21.24      |
| Health   | 12.87      |
| Public order & safety  | 9.99       |
| Housing and amenities  | 1.21       |
| Recreation, culture, religion  | 0.95       |
| Environmental protection   | 0.37       |
| Social protection  | 0.18       |
| Defence  | 0.03       |

### c) *Culture and institutional performance*

The development of a modern administration in Vanuatu takes place in a rich and diverse cultural context, which influences institutional development in important ways.

<sup>53</sup> Henckel, Timo, "Vanuatu's economy: is the glass half empty or half full?", *Pacific Economic Bulletin*, Vol. 21, No. 3, November 2006, p. 4.

<sup>54</sup> Source: Department of Finance.

This section looks very briefly at certain cultural dynamics in Vanuatu that those delivering development programmes, in particular capacity-building support, should seek to understand.

Public institutions in Vanuatu are often dominated by a particular island or church group, with closely interlocking kinship ties (referred to in Bislama as the *wantok* system). This is an area of some sensitivity among the political elite, but is nonetheless clearly observable. Kinship networks overlap both politics and the administration, which works against a strict separation of the two spheres.

This suggests that recruitment in the public administration is not purely meritocratic. Interview panels for civil-service positions are selected by the Director General of each Department. Once established in a particular organisation, the network will tend to replicate itself over time. This does not necessarily mean that professional standards are jeopardised. Efforts are still made to match the qualifications of the recruit to the needs of the position. However, it means that recruitment occurs within a much narrower pool. Occasionally, chiefs or church elders are appointed to senior positions within the administration without appropriate qualifications.

Because of these networks, organisations can develop a social hierarchy that differs from their formal structure – that is, a civil servant with a high social position may be of higher rank than more senior officers within the organisation. In practice, this means that consensus among the senior figures from both hierarchies is needed for important decisions. These dynamics are usually opaque to foreign advisers. When advocating for reforms, they may appear to have the consent of the right people, but nonetheless find that progress is blocked by a lack of consensus across the network, or resistance from key authority figures and power holders within the network. This suggests that foreign advisers may need to broaden their engagement with their counterpart institutions, to build consensus for change across a wider group.

In Vanuatu culture, there is a deep logic of relationality among individuals, based on local hierarchies, family ties and relationships to place. These are central to the way individuals relate. In some groups, seniority is an earned status, as aspirants for leadership and high social ranking pass through a series of steps or grades, usually marked by initiation ceremonies such as pig killing. In other groups, social status is conferred by birth. Seniority within particular clans or families often follows birth order. First-born children may carry greater responsibilities than their siblings throughout their lives.

Knowledge is one of the key markers of rank. Senior figures may have access to knowledge – for example, of customary practices, the natural environment, genealogies or family history – which they are not expected to share with others, and which may in fact be taboo to pass on. If this information is shared, then its distribution is governed by specific protocols and protections to ensure that knowledge remains restricted to a few key people within communities.

Educated ni-Vanuatu in public service have a good understanding of the norms, values and practices that govern a modern administration, but at the same time operate within a traditional set of values and attitudes towards knowledge and authority. They vary in their ability to negotiate the differences between traditional practices and public office. Senior figures may hoard knowledge and skills, rather than passing it on to their colleagues and subordinates – a tendency exacerbated by territoriality and political

divisions across the administration. Junior staff may be reluctant to take initiatives that implicitly challenge their place in the hierarchy. This behaviour may make organisations appear from the outside to be slow and conservative, with a tendency to follow the path of least resistance, but it has cultural and social legitimacy in Vanuatu.

Different communities and networks in Vanuatu have their own, unique sets of values and social relations. People from within a particular network share a common set of cultural codes, which makes it easier for them to interact with each other, than with outsiders. Thus, organisations dominated by a single network, although not necessarily the most meritocratic, may nonetheless function more effectively than one in which staff are drawn from many different areas, and need constantly to negotiate different cultural codes.

Importantly, these cultural values are often gendered – that is, they entail beliefs about the proper role of women and men in social relationships – but again the content varies across different groups. People from certain areas are familiar with women in leadership roles within their own communities, and so are comfortable with having a female superior in the administration. People from other communities may find this more difficult to adjust to. Thus, certain institutions (like the Treasury) have attracted a cadre of young, professional women, while others remain male dominated.

### 3. Policy making

Under the Paris Declaration, partner countries commit to preparing and implementing national development strategies, while donors commit to aligning their assistance with country-led strategies and programmes. The national development plan is therefore the cornerstone of current approaches to aid effectiveness. Yet the kind of rational, evidence-based policy making called for in the Paris Declaration tends to be the exception to the rule in most countries. To deliver aid effectively, donors need to understand the specific dynamics of the policy process in each of their partner countries.

Government in Vanuatu is generally poor at formulating clear and coherent development policy. Policy initiatives tend to be inconsistent and short-lived, driven by the need for “immediately tangible and relatively short-term reaction to constituents’ concerns, rather than evidence-based advice from the executive.”<sup>55</sup> The unstable policy environment can be quite disruptive for the private sector, which complains of not being adequately consulted or informed. Government has a poor record on commissioning analysis or conducting scenario planning, and often produces policies that are poorly suited to the environment. Policy studies commissioned by donors usually have little ownership in the administration, and the information often remains within donor circles. All of these conditions are symptomatic of a patronage-based political system.

While policy making is usually short term and *ad hoc*, there are specific institutional sites capable of producing evidence-based policy. Among the various channels, formal and informal, that exist for policy making, the most effective initiatives tend to emerge from individual ministries up through the annual budget process, rather than top down from the centre of government. Policy making in Vanuatu is at its weakest in multi-annual planning and cross-sectoral prioritisation.

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<sup>55</sup> Bazeley, *op. cit.*, p. 14.

**a) Mapping policy processes**

Until 1996, the primary policy instrument was the 5-year National Development Plan (NDP). These were comprehensive development strategies of the kind favoured by many newly independent countries at the time. They were prepared and monitored by a National Planning and Statistics Office within the Prime Minister's Office, with extensive donor inputs. On principle, implementation of the NDP was the responsibility of each individual ministry. In practice, however, NDPs were prepared in isolation from the budget. The annual budget process was a simple, line-item cash appropriation, which varied only at the margins from year to year and left little room for new initiatives. As a result, development planning was a largely theoretical exercise, except in so far as it guided donors in programming their assistance.

This system proved highly vulnerable to the political instability of the 1990s. From 1992 onwards, public financial management deteriorated rapidly. The annual budget process was thrown into disarray as governments appropriated cash through frequent use of supplementary supply bills. No serious policy making was possible during this period.

The Comprehensive Reform Program (CRP) was an ambitious attempt to establish a unified policy and budget process, and to build up policy-making capacity at the centre of government. From 1999, the planning function was shifted into the Ministry of Finance, to what is now called the Department of Economic and Sector Planning (DESP). There was a move away from comprehensive, five-year national plans, in favour of corporate planning by individual ministries within the annual budget process. The introduction of programme-based budgeting set in place a key condition for the budget to become a tool for policy making, and not just a book-keeping exercise.

Under the system as it has evolved since then, the Ministry of Finance and Economic Management (MFEM) prepares a macroeconomic framework, which is used to assign a resource envelope to each sector. Each ministry is then responsible for setting its priorities and costing its activities within this limit. The process is led by a corporate unit within each Ministry, which includes the senior management and first political adviser, plus finance and human resources staff trained in managing budgets. Each Ministry prepares a corporate plan, setting out its goals, policies and priorities, on which it bases its annual budget submission. These submissions are scrutinised by MFEM (DESP and the Budget Section), to maintain technical and regulatory control. A comprehensive set of budget papers are then submitted to the Ministerial Budget Committee within the Council of Ministers, and in due course to Parliament. The different stages of the process are clearly set out in the annual budget calendar.

The Treasury and Budget Section of MFEM controls budget releases, establishing for the first time a non-political control mechanism over government finances. This mechanism becomes critical at times when government faces a cash shortage. An effective, computerised public financial management system has been put in place, which has brought budget leakage down to a minor level. There continues to be a serious shortage of personnel trained to operate these systems. Nonetheless, recent independent assessments have found the budget process to be fundamentally sound, although there are some concerns about the comprehensiveness of the budget, with certain bodies (quasi-public entities; schools) still falling outside its coverage.<sup>56</sup>

<sup>56</sup> Pretorius, Carol & Corina Certan, "Vanuatu Public Expenditure and Financial Accountability: Final Report", July 2006, pp. 38-9.

At present, the annual budget is clearly the most effective policy instrument in Vanuatu. It provides the only occasion on which civil servants are invited to provide technical analysis to politicians on policy choices. Budget submissions include not just proposed activities, but also an assessment of each ministry's past performance. While sectoral monitoring is not yet well developed, this process provides an opportunity for discussion behind closed doors on departmental performance. Serious policy initiatives do emerge through the budget route, including the 'open skies' policy on air travel and recent reforms to the pension fund.

Policy capacity varies significantly between and within ministries. Where capacity exists, it usually depends upon a handful of key individuals, who carry the entire weight of policy making for their organisation. Where the Minister is a strong figure, the department may defer all decisions to the Minister and the First Political Adviser. In other cases, ministers are not actively engaged in policy making, and the lead role is taken by the Director General or senior bureaucrats. Delivering effective technical assistance invariably means finding the right individuals within the organisation to support.

There are other formal avenues for policy initiatives outside the budget process, but these tend to be less effective. New legislation in 1998 established a Development Committee of Officials (DCO), to review policy submissions before they are submitted to the Council of Ministers. The DCO initially comprised the Director Generals of each Ministry, and was later expanded to include First Political Advisers in acknowledgement of their important role in policy making. The Department of Strategic Management provides a secretariat function, and is responsible for ensuring that policy initiatives are consistent with higher-level strategies, such as the CRP and the Prioritised Action Agenda. In practice, however, scrutiny by the DCO is treated as a purely administrative step. Proposals that have political support are often rushed through the day before a Council of Ministers meeting, without advanced circulation of papers and with little substantive debate. On the other hand, initiatives that lack a political sponsor may simply be lost in the procedure. A recent example is the new bill on chattel mortgages, which was developed following extensive consultations with the private sector, but has been stalled for some time for want of attention from high political levels.

New policy initiatives may also come directly from Parliament, at the initiative of backbenchers. As discussed above, these are often populist measures, designed to embarrass the government or destabilise the coalition, but may nonetheless be adopted, despite a lack of technical scrutiny or costing.

Many policy initiatives that are adopted outside the budget process end up failing in the implementation phase for lack of financial resources. Ministerial budgets are dominated by wages and salaries and other fixed costs, leaving little discretionary finance for new initiatives. It usually falls to the Budget Section within the Department of Finance to determine whether additional resources can be found, making it a key player in determining which initiatives come to fruition. That many policy initiatives fail at this point may be politically expedient. It allows government to appear to yield to demands coming from donors or other interest groups, without actually committing resources. This suits Vanuatu's style of government, in which leaders are reluctant to provide a direct refusal to their constituencies (including donors). However, it results in a proliferation of unfunded initiatives that can be a source of incoherence within the administration.

For their part, in accordance with current development orthodoxy, donors have been supporting the preparation of ambitious, medium-term development plans, covering the full spectrum of national development needs. There are currently two of these strategies in existence – the CRP and the Prioritised Action Agenda.

The original CRP involved a detailed policy matrix comprising some 66 individual reforms, programmes and policy measures, developed through an extensive consultation process. The matrix is updated every second year by the Department of Strategic Management, following further consultations with civil society and the private sector. However, because the CRP process is not directly linked to the budget, there is little incentive to prioritise. Over the years, it has become an increasingly large and unwieldy document, full of proposals for which no resources have been identified. While formally it continues to be the highest level of development strategy, it is no longer taken seriously as a planning instrument.

In order to produce a more focused strategy that could be used for medium-term budget planning, in 2003 the government prepared the Prioritised Action Agenda (PAA). Originally this was intended to be a concise list of priority actions, that would form the basis for a 3-year, rolling expenditure plan. The document was prepared by sector analysts in DESP, with donor support. However, within a short period of time, the PAA came to reflect the same set of flaws as the CRP. Weak oversight by DESP and multiple, poorly coordinated inputs from donors, against a background of political instability, meant that prioritisation proved impossible, and the document became a parallel national strategy of 9 chapters, along the lines of a Poverty Reduction Strategy Paper. The PAA was not prepared by reference to a medium-term budget framework, and has therefore become another vision document that would need to be prioritised before it could be implemented.

It is not clear that the strong emphasis placed by donors on the preparation of a comprehensive national development strategy has helped to strengthen the policy process in Vanuatu. The PAA provides donors with an instrument around which they can align their programmes, helping them to meet their Paris Declaration commitment. However, as all of the existing areas of donor support are included within the PAA, this alignment is more nominal than real.

The PAA and the CRP have become competing development strategies, with different institutional homes. Neither has been effectively linked to resource allocation, and both are perceived as donor-driven with limited traction across the administration. Both strategies are produced in parallel to the corporate planning process carried out by line ministries, resulting in multiple and sometimes contradictory policy statements in the same sectors. This has the unintended effect of leaving the real resource allocation decisions to be made in an *ad hoc* and politicised manner.

The difficulty of preparing a single development plan that is comprehensive, but at the same time prioritised and operational, is not only overstressing Vanuatu's limited policy-making capacity, but also displacing the capacity that exists. As DESP has taken on the task of preparing the PAA, its role has been changed from a technical oversight body within the budget process, to a planning agency in its own right. Given that DESP consists of only nine staff, this has diverted its capacity away from the important role it was beginning to play in scrutinising ministry corporate plans.

**b) Participation in the policy process**

Public or civil society participation in the policy process is fairly limited. Government does not have a strong tradition of consultation, although it has made a public commitment to institutionalising greater stakeholder participation.<sup>57</sup> At the same time, capacity and interest among civil society actors to contribute to national policy debates is also quite limited, and the opportunities that exist are not being used effectively.

Both the CRP and the PAA are based on formal consultations with civil society and the private sector. There are rounds of consultation every second year to update the CRP matrix, including a Business Forum with the private sector. These events are used to generate a matrix of proposed activities. Consultations of this kind tend to generate long lists of demands for new spending projects, without giving the participants an opportunity to contribute to the setting of spending priorities. They therefore tend to contribute to the poor focus of the strategies themselves, while leaving many participants feeling that their input was not taken seriously by government.

National Summits organised on specific topics or sectors have also emerged as important events in the policy cycle, addressing a range of topics including education, rural self-sufficiency and land. While the quality of these events has varied, the 2006 National Land Summit is widely described as a very positive event, bringing together a broad range of participants from around the country to challenge government policy in a highly sensitive area.

Private business is able to exercise some influence over the development of government policy, but its influence is irregular and poorly institutionalised, often depending on personal contacts with Ministers. There have been occasions when the Offshore Financial Centre was consulted in advance on key legislation or international agreements affecting its operations, but at other times has found out about important reforms (such as changes to the International Banking Act in 2002) only after their passage by Parliament. While government is at times sensitive to pressure from commercial interests, it often responds in a knee-jerk fashion, without consulting broadly or conducting its own analysis of the public interest. A common complaint among the business community is the unpredictability of the policy environment. However, businesses may also contribute to this dynamic through their habit of lobbying government for individual advantage, rather than on behalf of their collective interests.

NGOs in Vanuatu have traditionally been more active in service delivery than in advocacy, voice and accountability. Of the 21 NGOs registered under the Charitable Organizations Act, only a few have an active research and advocacy agenda (particularly in the area of domestic violence and women's issues). They have difficulty attracting qualified staff, and are dependent on a handful of active individuals. Most are forced to compete for short-term project funding, which inhibits collaboration across different organisations. One analysis characterised Vanuatu's NGO sector as demonstrating

“mistrust, personality conflicts between NGO leaderships, competition for scarce resources, and very limited energy to expend outside their immediate areas of work.”<sup>58</sup>

<sup>57</sup> Government of Vanuatu, “Priorities and Action Agenda 2006-2015”, June 2006, p. 1.

<sup>58</sup> Pacific Skills Link, “Understanding Civil Society in Kiribati, Tuvalu and Vanuatu”, January 2006, p. 22..

However, the Vanuatu Association of NGOs (VANGO) is beginning to develop the capacity to act as an umbrella organisation for its 90 members (including community-based organisations). It has been developing advocacy coalitions in a number of areas, including education (VEPAC), women (WAC) and economic affairs (ACE).

Under the Constitution, the National Council of Chiefs (Malvatumauri) may be consulted in connection with any bill before Parliament, particularly relating to tradition and custom. However, the executive has resisted involving the chiefs in the policy process, while the Malvatumauri as an institution has little capacity to initiate policy dialogue itself. Though its leadership is considered to be quite dynamic, the Council meets only once or twice a year and most of its 22 members lack the skills to scrutinise bills or policy documents. Nonetheless, the chiefs exercise important influence behind the scenes. Civil society activists note that the chiefs are sometimes in a position to block new policy initiatives. The Family Protection Bill, which addresses domestic violence and has been championed by women's groups, is said to have been rejected by parliament in large part because of the opposition of the chiefs, who see it as threatening to the integrity of the family and their jurisdiction over local dispute resolution. This suggests that policy advocates need to be engaging with the chiefs at an early stage. The chiefs would like to play a stronger role in the policy dialogue, but lack both the human and financial resources.

The Vanuatu Christian Council (VCC) is a peak body representing the most established churches in Vanuatu (Catholic, Anglican, Presbyterian, Churches of Christ and Apostolic, with the Seventh Day Adventists as observers). In the past, there were strong links between church and politics, with senior political leaders emerging from within the churches, giving them significant influence over policy. That influence has faded, with the churches becoming less engaged at national level. Church leaders interviewed for this study expressed some dissatisfaction with the VCC as an institution. Its weakness may reflect the fact that the traditional churches are more concerned with preserving their influence at the local level in the face of competition from new arrivals, particularly evangelical churches from North America. There is some appetite among the churches to making the VCC into a more effective platform for raising issues with government, particular around social policy, education, urbanisation and public health.

Some observers take the view that the interests pursued by the churches are socially conservative, rather than progressive, particularly on issues relating to the role of women and reproductive health. For example, some churches are reported to have reinforced community prejudices when giving messages about the threat of HIV-AIDS.

#### **4. Vertical state-building**

One of the most striking features about the state in Vanuatu is the limited reach of the formal institutions outside the capital, and the resulting absence of the state from the lives of most ni-Vanuatu. The state provides health clinics and primary schools in rural areas, which for most ni-Vanuatu represent the sole contact with the state. The state has little capacity to provide other services, or to play an active role in rural development in anything other than an episodic manner. This reflects not just the high unit costs of service delivery, but also the absence of any effective institutional structures at regional level.

In the absence of the state, traditional and informal institutions, including chiefs, the churches and a range of modern community adaptations, continue to provide basic governance functions and services at village level. By most accounts, they are fairly robust and enjoy a high degree of popular legitimacy. However, changing expectations among the rural population, greater mobility and the spread of the formal economy are placing increasing strains on local institutions, and generating demand for services that could only be provided by an effective state.

There is a major gap between the state institutions, concentrated in the urban areas, and the informal and traditional institutions that govern village life. This gap is the most prominent weaknesses in the state-building process in Vanuatu, and is key to explaining the limited development effectiveness of the state.

### **a) *The politics of decentralisation***

Decentralisation has been a charged political subject in Vanuatu since the colonial period, representing (together with language and education policy) the principal area of dispute between anglo- and francophone parties. French and francophone interests promoted a federal system, to allow francophone areas to retain closer ties with France. In reaction to this, the Vanua'aku Party pursued a centralising agenda as a means of preserving national unity.

In Condominium times, the archipelago was divided into four districts, each governed jointly (or competitively) by an English and French District Agent. They were responsible mainly for matters of law and order, and presided over 'native courts' which heard disputes among the indigenous population that could not be resolved at the local level. They were advised by 'native assessors' on the application of *kastom*.

In 1957, the Condominium established a system of 25 Local Councils, with members chosen by consensus and a few limited administrative duties. The Local Councils were primarily a British initiative, although adopted through Joint Regulation. In 1975, Local Councils were abolished in favour of a system of Municipal and Community Councils, developed under a French initiative. These Councils were smaller in area, had greater powers and were directly elected. In the final years of the Condominium, these two local government systems existed to some degree in parallel.

At independence, a system of 11 Local Government Councils was created on a provisional basis, while decentralisation remained a topic of intense political debate. The Councils were made up of a mixture of elected and appointed members (including representatives of chiefs, churches, women and youth), with a Secretary and Treasurer providing administrative functions. They had some limited powers to raise their own revenues, and were mandated to engage in local social development activities as well as the provision of basic services. The system drew on structures inherited from the colonial period and was seen as a legitimate form of local government, while remaining consistent with the ruling party's strong emphasis on national unity.

After its election in 1991, the francophone Carlot-Korman government reverted to a policy of greater regional autonomy through the creation of the current provincial system. The Decentralisation Act of 1994 created six Provinces, each covering a group of islands, together with two Municipal Councils in the urban areas. However, the reforms were poorly conceived and executed. According to some informants, the

Government attempted to replicate the provincial model used in New Caledonia, but without the massive resource transfers from the French state that has made the New Caledonian system effective.

A decade later, decentralisation in Vanuatu still has the character of a process that has stalled half way through implementation. A Decentralisation Review Committee was established in 2001 to assess the present structures and produce options for reform. Its recommendations have not been acted upon. Some observers put this down to a reluctance of central government to consider any serious transfer of resources to the provinces. According to one informant, “Government uses the Decentralisation Act as an excuse to absolve itself of its national responsibilities.”

### **b) Decentralisation today**

Provincial government in Vanuatu today is widely recognised as functioning very poorly. Legally, provinces have a range of functions, including licensing of businesses, physical planning and control of land use, the provision of basic administrative services such as personal records and vehicle licensing, and the local implementation of national laws in areas such as agriculture and fisheries. In practice, the provinces are chronically under-resourced and able to deliver very few services outside the provincial headquarters. With few resources to travel around the islands under their jurisdiction, they often appear as remote from the communities they are supposed to serve as the national government.

Political competition at provincial level reflects many of the dynamics seen at national level – instability, patronage, inflated promises to local communities and a lack of policy substance – and is regarded with distaste by many ni-Vanuatu. The Government’s 2001 Decentralisation Review Committee described provincial politics as “neither participatory nor democratic”,<sup>59</sup> and queried whether elections at this level were appropriate at all. According to the law, Provincial Councils should contain a mixture of elected members, and appointed representatives of chiefs, churches, women and youth. In practice, the latter are often not appointed at all as a cost-saving measure, or have become political appointees and lost their representative character. Council members often have little understanding of the proper role of the province, leading some observers to call for a minimum education standard for candidates. Only two staff in each province are civil servants appointed under formal procedures. The rest are political appointees, usually changing after each election and often required to assist with political campaigning. Corruption and mismanagement of funds is common, as is infighting and political deadlock within the Councils. The Provincial Council of Santo and the Luganville Municipal Council were recently disbanded by the Ministry of Internal Affairs because they had ceased to function.

Each province receives a central government grant of Vt 33m, irrespective of population. This has declined from a high of Vt 50m several years ago.<sup>60</sup> The provinces also raise revenues of their own through business licenses and land development, which may be substantial for the larger provinces, but much less for the outer provinces. Most of the provincial budgets are spent on core administrative costs, in particular salaries. The discretionary component is in most cases only enough for minor public works in the provincial centre. Provinces have great trouble attracting qualified staff, and are largely

<sup>59</sup> Decentralisation Review Committee, “Report: Vol. 2 - Findings and Recommendations”, June 2001, p. iv.

<sup>60</sup> Information provided by the Department of Provincial Affairs, Ministry of Interior.

unable to comply with financial management and reporting requirements. As a result, the government has little reliable information on public spending at provincial level.

The provinces on principle have a responsibility to coordinate the work of central government departments in the province, but in practice this does not happen. The provincial outlets of government departments report upwards, to Port Vila, and operate largely in isolation from the provincial institutions. There are reportedly instances when the agencies cooperate informally (*e.g.*, sharing transport facilities), but this remains the exception. The Decentralisation Unit in the Ministry of Internal Affairs is responsible for liaison among the levels of government, but has few staff to carry out this out.

The provinces have few opportunities to participate in the formulation of national policy. Provinces are supposed to produce their own corporate and business plans, setting out their development priorities. However, these plans are not taken into account by central government agencies when allocating their expenditure. The provinces may also submit capital projects for inclusion in the Government Investment Program (GIP). The most common outcome, however, is that the provincial outlets of central agencies such as the Department of Agriculture find that their annual budgetary allocations are diverted to other needs during the course of the financial year.

As a result, there is no coherent set of relationships between central and provincial government. The provinces are systematically starved of resources, while confused lines of responsibility make it difficult for the public to see who is responsible for what. Decentralisation remains a regular topic of political debate, but the long-term trend is for resources to shift towards the capital.

The Decentralisation Act also provides for the creation of elected Area Councils, chaired by a chief and including representatives of different local communities and groups. Sixty-three Area Councils have been established. The sole employee at Area Level is the Area Secretary, who provides a range of administrative services (business licensing, registration of births, deaths and marriages, assistant registration officer at election time). Most Areas have no office building, transport or communications. With no budget for travel, an Area Secretary may go for lengthy periods without contact with the provincial administration. The Area Secretary travels around the communities collecting taxes (mainly business license fees). In Penama, a recent reform authorises Area Secretaries to retain half the revenues to support local development projects. However, with no financial reporting, misuse of funds is common. At its worst, the system has been described as a form of tax farming.

One attempt by the state to extend its reach into rural communities was the Rural Economic Development Initiative (REDI), initiated in the 1990s. Under REDI, Area Secretaries work with communities to help them define their local development needs and identify income-generation projects. Proposals are approved by a REDI unit in the province (there is a trained 'Planner' in the provincial administration, often supported by an international volunteer) and forwarded to a national REDI Unit in the Ministry of Internal Affairs. The required assets are procured centrally and sent back to the community.

In practice, Area Secretaries lack the capacity to provide communities with advice and support on how to develop income-generation projects. With few skills available at local level, REDI has been held back by a shortage of credible proposals. Most of the budget

has been consumed by the costs of coordination among central government agencies. Where projects are approved, beneficiaries are not offered any training in connection with their projects. There is no reporting or monitoring, and no way of assessing the success rate. However, participants suspect that the failure rate is high.

REDI is the only channel by which the state funds small development projects at community level, and a laudable attempt to create a set of working relationships between the central administration, provincial governments and local communities. It has therefore attracted considerable interest from donors. However, it demonstrates just how difficult it is for the state in Vanuatu to operate on a decentralised basis. There is a severe lack of capacity at local levels, and travel and communication problems are acute. While a full review is pending, it is likely to demonstrate that the state lacks at present the structures that would enable it to play an effective development role at the community level.

### *c) Informal and traditional governance*

Most rural ni-Vanuatu have very little interaction with formal state institutions, beyond the local primary school or first-aid post, and studies reveal that even provincial governments are seen as artificial and remote. By contrast, customary and informal institutions at local level are seen as highly legitimate and far more relevant to people's lives. When compared to other Melanesian countries, the strength of these institutions is arguably Vanuatu's most precious asset, helping to offset a range of pressures on traditional communities. However, while they are effective in keeping the peace, they tend to be conservative in nature and poorly equipped to play an active role in community development.

The institution of chief is largely a modern invention, emerging out of the interaction between missionaries, colonial government and the diversity of local political forms they encountered among the ni-Vanuatu. The churches and the colonial authorities found it expedient to deal with a single representative of each community, and in many cases were active in installing sympathetic individuals.<sup>61</sup> While there has continued to be a range of ways of becoming chief (e.g., election, appointment, bloodline),<sup>62</sup> the chiefly function was to some degree standardised during the 20<sup>th</sup> century. However, the authority of chiefs has not been codified in the formal legal system, and is still interpreted in different ways across the country. Although the state has relied extensively on the chiefs for local governance functions, particularly in law and order, it has resisted recognising their role within the formal legal system. Attempts to create a register of chiefs, most recently under the National Council of Chiefs Act 2006, have encountered (or triggered) local disputes, and have so far not been implemented. Disputes over chiefly title can take years to resolve, and can have a debilitating effect on local communities.

Chiefs are the main authority at community level, with a particularly important role in maintaining law and order. Most disputes, whether of a civil or criminal nature, are resolved through processes utilising the authority of the chief. While some chiefs are autocratic in style, the oral, face-to-face nature of rural communities means that chiefly authority is dependent to a large degree on their ability to generate consensus among the

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<sup>61</sup> Rawlings, Gregory, "Foundations of Urbanisation: Port Vila Town and Pango Village, Vanuatu" 70 *Oceania* 72, 1990, p. 82.

<sup>62</sup> Forsyth, Miranda, "Leadership Structures and Dispute Management Systems in Vanuatu from First Contact to Independence", *Journal of Pacific Studies* (forthcoming), p. 18.

community.<sup>63</sup> Many chiefs have recognised the need to establish village councils, to provide a forum where representatives of different groups within the community can meet to discuss and decide jointly on local matters.

Chiefs are supported by a diversity of institutional forms at local level, as communities organise themselves to meet the needs of modern life.<sup>64</sup> Local committee structures, linked to church, women's or youth groups, have long been a feature of village life, and are often established to oversee particular services (primary schools, aid posts, local water facilities). They provide a range of opportunities for participation in local governance, in particular by women and youth. However, it is also reported that they often fail for want of commitment or skills at the local level.

The churches also play a key role in community governance. They have strong moral authority, particularly on issues relating to marriage and family life. They also play an important role in service delivery, and see their role as catering to the material as well as the spiritual needs of the population. They are often involved in the establishment of schools and health clinics, as well as providing basic social services for women, youth and vulnerable members of the community. While the churches are not particularly active in national policy debates, they are the only national institution in Vanuatu with an effective organisational structure at grass-roots level. However, there is at times an element of unhealthy competition among the churches, several of which may be active in a single community. The traditional churches are also under increasing pressure from more recently arrived evangelical churches, mainly from North America.

While local community structures are seen as customary and deeply rooted, they are in fact quite fluid in nature, adapting in response to the pressures of modern life. There are various pressures on local communities that suggest the need for continuing adaptation.

Chiefs are increasingly called upon to assist their communities with problems of a financial nature, and their inability to do so can weaken their authority. Increased need for cash and changing consumption habits make the population more individualistic in outlook, and less willing to contribute time and resources to *kastom* and community needs. The proliferation of new institutions at community level are blurring the lines of responsibility, and many people reportedly hold confused or inappropriate expectations of different levels of authority.<sup>65</sup> Not all of the new structures are successful, with many local committees failing for lack of skills or commitment. The question of how best to organise local services and govern community assets often remains unresolved.

The combination of chiefs and churches can be patriarchal and socially conservative. Strong opposition to divorce and family breakdown can lead to a refusal to acknowledge problems such as domestic violence and incest. Women's NGOs active in awareness raising in these areas stress that it is possible to educate chiefs and other community leaders on these issues, but that an individual rights perspective is only slowly emerging at local level.

Chiefs are not subject to any formal accountability mechanisms. Some chiefs on Efate have been involved in disposing of land for personal profit, against the interests of their

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<sup>63</sup> White, Geoffrey, "Indigenous governance in Melanesia", SSGM ANU, February 2006, p. 14.

<sup>64</sup> For a detailed description, see Kalontano, Alice, Charles Vatu & Jenny Whyte, "Assessing community perspectives on Governance in Vanuatu", FSPI, October 2003, pp. 100-120.

<sup>65</sup> *Ibid.*

own community. However, communities have no formal mechanisms for challenging their decisions.

There is also inter-generational tension, with youths seeking greater freedom from the authority of the chief and the tight social restrictions at village level. Greater mobility, particularly among those who have been educated, gives youth more opportunity to opt out of the authority of the chiefs. Some chiefs have responded by trying to prevent youths from travelling to the urban areas, despite a constitutional guarantee of freedom of movement.

#### **d) *Filling the gap***

There are two unfinished dimensions to state-building in Vanuatu. One is extending the state's capacity at regional level, to enable it to play a more active role in rural development. So far, decentralisation has been largely unsuccessful – that is to say, it has never been seriously attempted. Ever since independence, the tendency has been for a continuing concentration of resources in the capital. Basic questions about the roles of different institutions, and their relationships with each other, remain unresolved.

The other unfinished dimension is building up the capacities of local communities, to enable them to interact with the state and become active agents in their own development. They need to be empowered to deal with the state and operate within the formal economy, while at the same time keeping intact the structures and traditions that they value. Until now, the state has relied extensively on traditional structures for local governance, particularly in the area of law and order, without investing in building their capacity.

Progress on both of these fronts will be required in order to close the gap at the heart of the Vanuatu state. Neither is likely to succeed in isolation from the other. Traditional and informal institutions have great legitimacy and authority, representing what ni-Vanuatu perceive as most valuable in their society. The quality of representation they offer is widely seen as superior to the electoral process. However, their strength is not in promoting modern service delivery or economic development. For this, they need support from the state.

Building up the state's capacity at sub-national level poses major practical challenges. Given the acute capacity constraints at local level, an effective programme of decentralisation will raise difficult sequencing issues, and will need to be carefully planned. There seems to be a good case for giving provinces a stronger role in setting regional priorities, and coordinating the work of central government agencies. There is also a need to address infrastructure deficits, particularly in communications, to enable provincial government to expand beyond the provincial centre.

However, in the short term, the state does not have the institutional capacity for a major expansion in local service delivery. A more productive strategy would be to develop more effective partnerships between the state and other institutions with greater capacity at the local level, along the lines envisaged in the European Union's Cotonou Agreement.<sup>66</sup> The most obvious candidate is the churches, which have the most effective grassroots network in Vanuatu, exceeding the reach of the state, although the

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<sup>66</sup> [http://ec.europa.eu/development/body/cotonou/index\\_en.htm](http://ec.europa.eu/development/body/cotonou/index_en.htm).

churches are often competitive with each other. The churches provide a range of social services for children, youth, women, the disabled and other vulnerable groups. They engage in public education on issues such as urbanisation, HIV-AIDs and the misuse of kava, alcohol and drugs. They support local communities in the establishment of primary schools, skills training centres and health clinics, some of which subsequently receive state funding.

While government has been content to leave the delivery of social services largely to the churches and NGOs, it does not seem to have an active strategy for engaging with them as partners in service delivery. What seems to be required is a joint strategy on local service delivery, in which the state, chiefs, churches and NGOs agree on their comparative advantages in different areas, and develop strategies and structures for working together. The churches may have greater reach at community level, but the state has a key role to play in funding, regulating and monitoring service delivery. The funding modalities developed by donors are likely to be influential in determining whether these institutions work in partnership or in competition.

A number of key informants for this study spoke of the importance of using *kastom* and community to strengthen the state-building project in Vanuatu, creating a more established structure of traditional institutions extending from village level up to the Malvatumauri. The idea is linked to the Custom Economy concept, promoted by the Cultural Centre and other influential voices. While no clear policy agenda has yet emerged, there appear to be a number of ideas in circulation, including:

- building up the capacities of village chiefs, through education and awareness raising and the development of more open and participatory structures at community level;
- reconstituting Area Councils from the ground up, making them more representative of chiefs and local community groups, with a stronger institutional base and the resources to decide autonomously on local services and development projects;
- stronger Island Councils of Chiefs, with the brief to watch over the activities of Provincial Councils;
- a stronger role and greater capacity for the Malvatumauri, so that as well as continuing to support the state on law and order, it can provide an alternative channel for representing community interests to central government, advising on policy areas such as land, and acting as a counterbalance to current centralising tendencies.

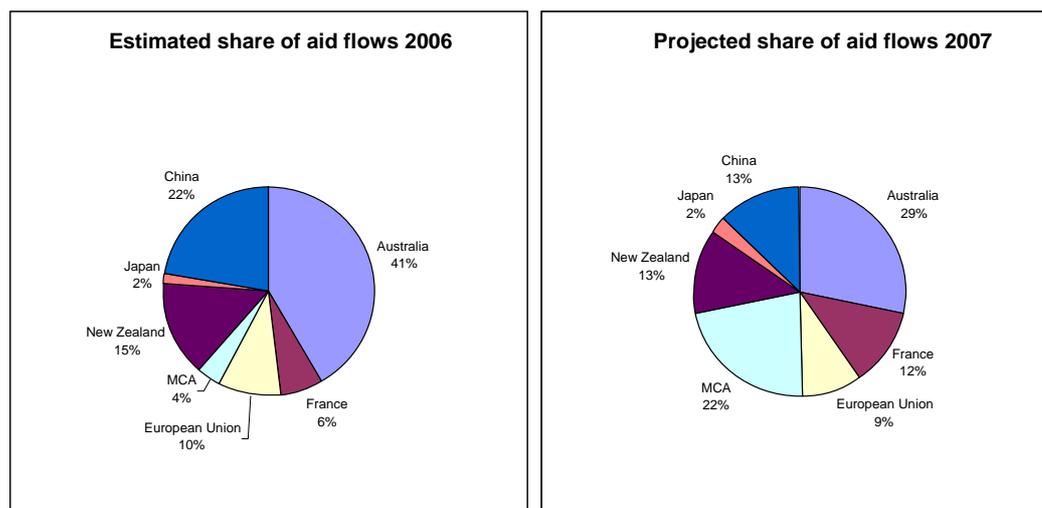
The common theme of these ideas is that, by establishing a clearer structure of traditional institutions, it may be possible to strengthen both the legitimacy of the state and the quality of representation within the political system, creating a form of democracy that is more appropriate for Vanuatu's culture and traditions. Whether ideas such as these have the political momentum to alter the current dynamics of state-building in Vanuatu remains an open question. However, they offer at least the potential to revitalise the state-building project.

### III. THE AID RELATIONSHIP

Aid flows are central to the political economy of Vanuatu. Aid funds 20-30 percent of the budget, depending on the cycles of the larger projects, and most capital investments. At around 6 percent of GDP, not including multiplier effects, it is an important driver of the formal economy. Foreign technical advisers have been highly instrumental in the development of the Vanuatu state and the formulation of its development policies. Inevitably, therefore, the quality of the relationship between the state and donors is a key component of the development effectiveness of the state.

All of Vanuatu's major donors are planning to scale up their aid dramatically in the coming years. With the Millennium Challenge Account (MCA) 5-year allocation heavily frontloaded, total aid flows will almost double from 2006 to 2007, from around Vt 4.5 billion (A\$56 million) to nearly 7.75 billion (A\$97 million), with all of the major donors (Australia, New Zealand, the European Union, France, China, Japan) planning significant increases.<sup>67</sup> It is therefore essential to take a critical look at the quality of the aid relationship.

| Projected aid flows (million Vatu) <sup>68</sup> |       |       |
|--|-------|-------|
|  | 2006  | 2007  |
| Australia  | 1,877 | 2,193 |
| France   | 282   | 926   |
| European Union                                   | 430   | 717   |
| MCA  | 165   | 1,729 |
| New Zealand                                      | 669   | 1,000 |
| Japan  | 72    | 186   |
| China (unofficial)                               | 1,000 | 1,000 |
| Total  | 4,495 | 7,751 |



<sup>67</sup> Authors' estimates, based on a combination of public information and private communications from the donors.

<sup>68</sup> Figures based on projections provided by the donors. MCA figures will decrease sharply again from 2009. Chinese figures are based on informal communication from the Chinese Embassy.

Traditionally, aid in Vanuatu has displayed many features common in small, aid-dependent countries. Government has been poor at communicating its development priorities and its expectations of donors, and has shown limited interest in aid coordination. In the absence of effective leadership from government, donors have not seen a strong need to coordinate, either at the strategic or the programming level.

## 1. Fragmentation

One of the consequences has been highly fragmented, project-led aid delivery. The government's Aid Coordination Unit reportedly has more than 900 individual aid projects on its books.<sup>69</sup> Government has had great difficulty over the years in keeping track of aid projects and obtaining accurate and timely information on aid flows. On principle, all proposed aid interventions should be scrutinised by the Department of Economic and Sector Planning in MFEM, and then approved by the Ministerial Budget Committee for inclusion in the Government Investment Program (GIP). The GIP therefore provides a mechanism for integrating the capital with the recurrent budget. This process was intended to establish government control over aid flows, but has been largely ineffective. Both donors and government ministries have often ignored the rules, requiring aid projects to be placed retrospectively into the GIP. Out of frustration, the aid coordination function was recently moved out of DESP and into the Ministry of Foreign Affairs, although this is unlikely to improve the situation. The Reserve Bank, which administers an annual donor survey, and the National Statistics Office also play a role in monitoring aid flows, but the different responsibilities of the three agencies in aid coordination have not been fully resolved. As a result, the most basic data on the sectoral distribution of aid flows is not available.

When aid flows take such a fragmented form, it creates incentives that work against aid effectiveness. Project aid provides ministries with the majority of their discretionary spending, and the ability to provide material benefits of various kinds to their staff. Ministries prefer to deal directly with donors, rather than via the budget process and the Government Investment Program, in order to maximise their independence in accessing and using these funds. In the political climate of Vanuatu, aid projects also become politicised – that is, they permit politicians to direct benefits towards their own constituencies, to secure votes. This creates a preference for capital investments – schools, health clinics, small infrastructure – that are highly visible, rather than the much harder and less politically rewarding reforms required to improve service delivery. It appears that national politicians and the heads of diplomatic missions from the major donors may share a common interest in ribbon-cutting ceremonies, that is not always helpful in maintaining a focus on results.

International experience suggests that the best way to address these perverse incentives is by moving towards simple forms of programme-based approaches to aid programming, adapted to the level of capacity present in particular sectors (see chapter IV, section 4 below). Current preparations for a sector-wide approach in education are therefore timely.

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<sup>69</sup> *Ibid.*, p. 18.

## 2. Reform overload

A second problem with aid practices in Vanuatu has been the tendency of donors to bombard government with more initiatives than it has the capacity to absorb. There is a very small number of policy competent people in the administration, whose active engagement is needed to initiate a new programme or reform. These individuals find themselves pulled in many different directions, so that on a single day they may be dealing with several, diverse subjects while entertaining a number of donor officials and missions. This has the effect of crowding out the limited domestic policy space, making it very difficult for government to articulate and hold to its own priorities.

In these circumstances, the tendency of senior figures in government is to accept any initiative proposed by donors, without careful scrutiny. This keeps aid flowing into the institutions, while at the same time keeping the donors happy. It also accords with a cultural reluctance to give a direct refusal. The consequence is that initiatives become led by donors and foreign technical advisers, without sufficient ownership by government to ensure their continuity and lasting impact. This explains the failure of many technical assistance projects in the past.

The Comprehensive Reform Program offers the most extreme examples of this tendency. As discussed above, the CRP emerged from one of those rare opportunities where a widespread sense of crisis creates a political opening for tackling difficult reforms. Donors and some stakeholders within government tried to make the most of this opportunity by including far too many activities within the CRP matrix, overwhelming the administration and dissipating its energy for reform. The resulting programme required some 60 foreign consultants and advisers to implement. Much of the legislation was drafted by foreigners, and pushed through without any real scrutiny or understanding from national counterparts. A recent review commissioned by the government found that the CRP:

“was so broad in scope that it was impossible for it to be carried out by existing ni-Vanuatu personnel. This had the consequence that it had to be sustained by a large number of advisers and consultants overseas... It is difficult to resist the impression, at least standing 10 years later, that the CRP adopted in the 1990s was something of an ‘overkill’, resulting from, perhaps, overly nervous politicians or overly zealous aid donors and overseas consultants.”<sup>70</sup>

The Asian Development Bank’s own programme completion report concluded:

“The Program underestimated the severe capacity constraints within Vanuatu. The reform initiatives created new systems and processes that are alien to Vanuatu’s management and local culture. Consequently, considerable frustrations, lethargy, and communication breakdown were experienced during implementation.”<sup>71</sup>

Any administration has a finite capacity to absorb change. In a weak administration, reform needs may be extensive, but a practical reform agenda needs to be limited and carefully prioritised. As aid to Vanuatu is scaled up, the dangers of overloading the reform agenda will become correspondingly greater. Donors will need to discipline themselves to limit the range of their interventions. This will involve agreeing with

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<sup>70</sup> Government of Vanuatu, “Review of Comprehensive Reform Programme of Vanuatu: Report of Review Team”, September 2006, p. 32.

<sup>71</sup> ADB, “Program completion report on the Comprehensive Reform Program to the Government of Vanuatu”, December 2002, p. 16.

government, and among themselves, on a core set of strategic priorities, and agreeing a division of labour in terms of which donors will lead the policy dialogue in different areas.

### **3. Capacity building**

Traditionally, technical assistance (TA) has been an important component of aid programmes in Vanuatu. State-building in Vanuatu has depended significantly on foreign personnel funded through aid programmes, to fill key capacity gaps in the new institutions. The provision of large amounts of TA entails certain risks for donors. First, the more that Vanuatu's own institutions develop, the greater the risk that foreign personnel might substitute for rather than build up national capacity, inhibiting the development of national institutions. The fact that the government has not managed to produce an overall human resources development strategy, or to effectively link its education programmes with its own capacity needs, may suggest that foreign TA has relieved pressure on government to build domestic capacity.

Second, there is a growing awareness that TA projects in Vanuatu, as in other developing countries, have had a consistently disappointing record. Effective skills transfer from foreign advisers to national personnel is difficult to accomplish, due to cultural and communication barriers, poor understanding by foreign advisers of the political and institutional context, high turnover among national staff and other factors. Informants interviewed for this study were able to describe many past projects where foreign consultants were engaged by donors to deliver a standard package of institutional reforms (e.g., organograms, job descriptions, work plans, procedural manuals) to a national institution. As contractors, their incentives were to ensure that these reforms were accomplished on paper, irrespective of whether they had buy-in from those they were intended to benefit. For the counterpart institution, the incentives were to accept the financial benefits associated with the project, without querying its modality. Projects of this kind often have little lasting impact. In recognition of this problem, AusAID has moved to a more flexible, direct-execution model for its new Governance for Growth programme.

Aid programmes would benefit from further analysis of what kinds of capacity-building support have been most effective in the Vanuatu context. Many informants interviewed for this study pointed to the public-financial management project in MFEM as the most successful capacity-building programme in recent times. The project accomplished reforms (introducing programme budgeting and new public financial management systems; de-politicising controls over budget releases) that in most developing countries are regarded as very difficult, because of their tendency to encounter strong vested interests. 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.

The project also depended on the political backing of key government ministers. It was the combination of this strong political leadership with well-designed external support that enabled meaningful reform to be achieved. Even so, it appears that the ministers in question suffered electorally as a result of their efforts.

There are now signs that donors are shifting away from the provision of long-term TA in areas like public-financial management. They should remain aware, however, that the capacity that has been developed remains critically dependent on a handful of personnel. For essential government systems, there might be a case for continuing with long-term support, to prevent past successes from unravelling. There may also be a case for working with government to develop a more strategic, cross-sectoral approach to capacity building, around which donors could coordinate their support.

#### **4. Beyond Port Vila**

Perhaps the greatest dilemma facing Vanuatu's donors is posed by the state's limited capacity to deliver development programmes and services to its rural population. Under the Paris Declaration, donors are committed to increasing the proportion of their assistance delivered via government systems. However, the more they do so, the more their assistance will reflect the urban bias in the government's own institutional development and spending patterns. Already, informed ni-Vanuatu observers describe Port Vila as a 'black hole' into which all the aid money disappears, without reaching the population at large. In these circumstances, there is a very real risk that aid will simply drive up prices in the urban areas, increasing income differentials and contributing to the very social problems that it should be trying to address.

This suggests that donors need to broaden their partnerships and delivery mechanisms beyond the state, to find ways of channelling funds more effectively into rural development. However, anecdotal evidence suggests that the record of aid provided directly to local communities (mainly via international or local NGOs) is very mixed. Community development projects are vehicles for delivering capital, technology or skills directly to local communities. They may involve an external facilitator to help local communities organise themselves to utilise and sustain the benefits. For example, a local water project may involve an initial investment in infrastructure, provided on condition that the beneficiary communities organise a water-users' committee to manage the system, levy charges on households and use the proceeds to pay for routine maintenance.

Although the evidence is largely anecdotal, it appears that the failure rate among projects of this type in Vanuatu is high. The problems of the REDI programme, described above, demonstrate many of the problems of working at local level, particularly low capacity in skills such as financial management, and the difficulties of transport and communications. Vanuatu also appears to offer a challenging social environment for projects of this kind. Projects are prone to generating disputes over land use, control of assets or sharing of income, particularly if they cover more than one village. Management committees often cease to operate after the period of external facilitation. Communities tend to see maintenance as the responsibility of the donor or the government.

It is beyond the scope of this research to explore the reasons for the low success rate of community development projects. However, informed ni-Vanuatu observers expressed the strong view that the problem was not due to any inherent inability of village communities to organise themselves. Rather, it was due to a lack of understanding on the part of those delivering the projects as to *how* local communities were organised, and a failure to engage with them in an appropriate manner. This was particularly the case for income-generation projects, where the assumption that productive assets could be held collectively by a community represented a misunderstanding of the basic structure of village society. This suggests there is a need for more research as to how community-level development works in Vanuatu, and what kinds of external assistance are most productive.

## 5. The geopolitics of aid

A further challenge facing Vanuatu's traditional donors is the growing importance of Asian donors, in particular China and Taiwan, and increasingly new donors such as India and Indonesia.

Over the past decade, assistance from China and Taiwan has taken the form of 'cash diplomacy', aimed transparently at influencing recognition policy. Chinese and Taiwanese representatives have on occasions arrived with suitcases of cash for politicians during the formation of a new government, in the hope of procuring a sympathetic coalition. Successive governments have played the two rival powers off against each other, most notoriously during the Vohor government which courted Taiwan despite Vanuatu's official 'One China' stance. China's policy is not to condition its aid on policy choices or reforms, but to support the choices of the government of the day. Chinese aid is therefore often seen as 'easy money'.

However, some observers are of the view that Chinese engagement in Vanuatu is becoming deeper and more sophisticated. Chinese officials have been building more long-term relationships with key figures in politics and government. In response to the preferences of the government, more Chinese aid is being provided in the form of direct budget support. China has also written off most its bilateral debt, augmenting the value of its aid programme significantly. China's strategic interests may not have changed, but it appears to be playing an increasingly sophisticated game.

This throws down a challenge to the traditional donors. Vanuatu's rapid access to the United States' Millennium Challenge Account and the scaling up of Australian and New Zealand aid are all viewed, rightly or wrongly, as a response to this challenge. With the government able to access financial support from multiple sources, donors such as Australia will also need to become more strategic. Public diplomacy that demands higher quality governance from political leaders in exchange for Australian aid may have the inadvertent effect of driving Vanuatu towards the competition, or at least encouraging it to play donors off against each others. The alternative is to use aid to cement relationships with influential individuals and networks, building on successes such as the MFEM programme. Tighter coordination at the strategic level between the key donor partners, Australia, New Zealand and the European Commission, may also help to strengthen their collective influence.

## IV. CONCLUSIONS AND RECOMMENDATIONS

### 1. Mapping future scenarios

This paper has presented a series of drivers of change in Vanuatu, from socio-economic trends through to influences on the effectiveness of the state. By combining these variables in different ways, it is possible to map out some possible scenarios for Vanuatu's development over the coming 10-15 years.

Here we set out medium, low and high case scenarios, based on different sets of assumptions concerning political governance. They are intended not as predictions of the future, but as points on a spectrum that help to illuminate the choices, risks and opportunities now facing Vanuatu. They may assist government and donors in identifying key themes and priorities for inclusion in the national development agenda.

**Medium case.** This scenario assumes a continuation of some of the positive dynamics of recent years, and is therefore moderately optimistic in nature. Political stability is sustained. The political system remains based on patronage, but avoids a return to the excesses and overt mismanagement of the 1990s. Sensible macroeconomic management and broadly pro-investment policies are maintained. There is continued development of core public institutions, and continued progress in strengthening the budget and public financial management. However, institutional and financial resources remains largely confined to the capital. There is no progress on decentralisation or developing an effective service-delivery strategy at local level. Foreign aid is increased in accordance with current projections.

In this case, we would expect to see a continuation of modest, long-term economic growth, driven by aid flows and foreign investment in tourism, financial services and some commercial agriculture. The current land boom would run its course by 2009/10, but might recur periodically. Efate and Santo would be home to growing expatriate communities, generating some jobs and business opportunities for ni-Vanuatu. However, most profits from tourism and commerce would remain in foreign or expatriate hands.

Economic growth would not affect the majority of rural ni-Vanuatu, who would remain dependent on subsistence agriculture, while experiencing greater need for cash income. Aid-funded investments in transport infrastructure would be under-utilised, owing to supply constraints in the rural economy (lack of extension services and institutional support, low savings rates and access to credit, lack of skills). Income differentials between Efate and the other islands would increase. There would be more population mobility, with people coming to Efate in search of employment or to sell produce. Urban drift among young people would accelerate, causing inter-generational conflict and a decline in knowledge of and respect for *kastom*.

Port Vila would grow at an accelerating rate, with a growing underclass of urban poor and an increase in accompanying social problems (unemployment, substance abuse, prostitution, crime). Population growth would place major strains on urban infrastructure. Land disputes would continue to generate tensions, particularly between different island groups on Efate. Lack of sensitive land-use planning would also generate tensions between expatriate and ni-Vanuatu communities, resulting in an increase in property-related crime.

**Low case.** This scenario assumes a return to the political instability and mismanagement of the 1990s. There are frequent changes of government, and politics is dominated by coalition formation. The high cost of political patronage drives high-level corruption. The administration becomes more politicised and unstable, morale declines and professional staff leave government service. Public financial management systems begin to break down, and leakage from the budget increases. Macroeconomic management weakens, and no long-term policy agenda is possible. Deteriorating relations with donors causes aid flows to flatten out or decline.

In this scenario, economic growth would fall below population growth rates. Investment in tourism would decline, and the offshore financial centre might collapse altogether. Connections between business and politics would intensify, creating high profits for established businesses while suppressing competition. Port Vila would continue to grow, with the accompanying social problems, but at a slower rate. With no effective land-use planning, tensions between ni-Vanuatu and gated communities of expatriates would increase.

In this scenario, the rate of change for rural communities may in fact be slower, with the subsistence economy providing a cushioning effect. The need for cash income would remain, but the 'pull factors' for urbanisation would be weaker. There would be no improvement in service delivery, and dissatisfaction with 'poverty of opportunity' in rural areas would increase. Increasing public disillusionment with the political process would result in greater 'centrifugalism' in the political system, making it less likely that dissatisfaction with poor governance outcomes is converted into effective demand for better governance.

**High case.** This scenario assumes a re-consolidation of traditional parties and coalitions in Vanuatu, leading to more stable and effective governments. Political competition becomes more issue-based, as governments articulate clearer national development goals. The budget becomes an increasingly effective policy-making tool. Government works with donors to develop a national capacity-building strategy, which accelerates institutional development. There is a shift of resources into regional and local development initiatives, including stronger provincial governments and better partnerships between the state and non-state actors around service delivery.

In this scenario, Vanuatu becomes recognised internationally as an island of stability in the Pacific, and attracts a higher share of both foreign investment and aid flows. There is more serious investment in tourist infrastructure, financial services and commercial agriculture. Tourist development is planned so as to preserve social harmony, while maximising the opportunities for ni-Vanuatu to gain employment or business opportunities. There are more opportunities for ni-Vanuatu to learn skills required to succeed in small business.

Port Vila continues to grow rapidly, with the accompanying social challenges. However, there is more public investment in urban planning, housing and infrastructure. With more urban employment, social problems are more manageable, and government is more active in anticipating and responding to the challenges they present.

There is more investment in rural development. Provincial governments become more effective at service delivery, working in partnership with chiefs, churches and NGOs.

More effective vehicles are found for delivering rural development, including extension services and support for rural institutions such as agricultural collectives. Transport and communication links are slowly improved. More opportunities are created for rural ni-Vanuatu to earn cash income from agriculture. Population mobility and urbanisation remain, but more options are created for the rural population to earn income at their place of origin. This gives rural communities greater opportunity to participate in development and modernisation, without losing their *kastom* and social bonds. Ties between rural and urban communities continue to intensify, so that a new generation is able to participate effectively in both modern and traditional life.

## 2. Identifying development priorities

Sketching out possible futures in this way can help to identify the variables that are most likely to influence Vanuatu's development prospects over the medium term, and that need to be integrated into the policy agenda.

First, there is a need to consolidate and build on the progress of recent years in building up core government systems and processes, including:

- maintaining sound macroeconomic management;
- strengthening policy making and the budget process;
- protecting the integrity of public financial management;
- continued progress in building capacity within the central administration.

Leading up to and following the 2008 elections, there is a risk that political instability may undermine progress in these core governance areas. There may be a need to explore ways of protecting them against political disruption, for example by securing cross-party support for key reform goals, and through strategic technical assistance programmes that provide a degree of political cover for public servants. Over the longer term, the risks posed by the patronage system can be to some extent counterbalanced by initiatives in the political governance arena that promote political stability, enhance public accountability and increase popular demand for better governance. Options are discussed below.

Second, there is a need for initiatives that enhance the capacity of the population to participate in economic growth. The main engines of growth – real estate development and construction, tourism, financial services – are sectors with limited ni-Vanuatu participation. With low rates of formal employment and a heavily overcrowded micro-business sector, there are few mechanisms by which the resulting wealth can be shared with the population. Over the long term, inequality between expatriates and the small urban elite, on the one hand, and the urban poor and the rural majority on the other, poses the greatest to social cohesion and political stability. We need a better understanding of the factors that prevent ni-Vanuatu from participating more effectively in development, and a strategy to address them. This would include improved education and skills training targeted specifically at helping ni-Vanuatu participate in the formal economy. It might also include better enforcement of labour laws and minimum wages and conditions.

Third, the rural majority need greater income-earning opportunities, particularly in agriculture. The growing need for cash income in rural areas is placing stress on communities and families, and accelerating urbanisation. Maintaining social stability in

Vanuatu must involve finding ways of enabling the rural population to improve their standard of living in their place of origin. This requires investment in transport and communications, and improving the reach and quality of services, particularly health and education. It also involves developing a credible agricultural and rural development strategy, involving effective extension services, support to rural institutions such as agricultural cooperatives, and improved mechanisms for delivering project funding and external facilitation to local communities.

Fourth, in all of the above scenarios, social change in Vanuatu will continue to accelerate. Inter-island migration, urban drift, unemployment, land disputes, inter-generational conflict and a range of new social problems like substance abuse, prostitution and property-related crime are all phenomena that can already be observed in Vanuatu, and will inevitably increase in the future. Whether or not these problems cause serious disruption depends in large part on how effectively the state is able to anticipate and respond to them. This will mean the development of policy making and implementation capacity in areas that are substantially new for the state in Vanuatu, particularly around social policy. There are some areas, such as land use planning, where the state must take the lead. In other areas, such as programmes for young people, partnerships between the state, the churches, chiefs and NGOs may be most effective approach.

Finally, these core needs must in turn be used to define a coherent state-building agenda in Vanuatu. The most obviously unfinished elements to state-building in Vanuatu are the poor state of provincial governments, and unresolved relationships between the central and provincial governments and between the state and local communities. Despite geographical and demographic constraints, the state needs the capacity to promote development and deliver services at the community level. It needs to overcome its long-term tendency to concentrate financial and institutional resources at the centre. Decentralisation needs to go beyond political rhetoric, to become a practical programme of action. However, building up provincial government is only part of the solution. Strengthening ties with communities and traditional authorities through stronger representative structures will be key. Effective service delivery at local level will also involve utilising the non-state institutions that are already in place, including churches and NGOs.

### **3. Developing a political governance programme**

#### ***a) What kind of change is possible?***

This analysis has described the political system in Vanuatu as patrimonial or clientelistic in nature. The system generates strong incentives on the part of politicians to behave in certain ways, in order to gain and exercise political power. Politicians may perceive that they have no alternative but to play according to the rules of game, if they aspire to political office.

Poor governance outcomes are to some extent coded into the logic of a patrimonial system. Public resources are diverted for patronage, whether legally or illegally. Policy platforms and record in office play only a minor role in electoral outcomes. Decision making is based on short-term political expediency, rather than long-term planning. For all these reasons, a patronage-based political system is unlikely to generate a coherent or sustained approach to national development.

Yet this does not mean that the political system should be viewed solely as a constraint on development. Individuals within the system can and do have a genuine commitment to the public interest, and are capable of formulating and pursuing coherent policies. The first generation of political leaders in the 1980s were able to articulate a national development agenda, and this commitment has not entirely disappeared. Because the patrimonial system is highly fragmented, rather than dominated by a single leader or group, there is space for individuals within the political process to pursue policy goals.

In addition, the system has retained a basic respect for constitutional and legal process. This suggests that key government systems like the budget can be to some extent insulated from political patronage, particularly with the support of donors.

There is no clear evidence of any changes underway in the political system that would challenge the basic logic of the patrimonial system. Some observers expressed the hope that there may be a reconsolidation of political parties and coalitions into their traditional blocs, with the VP-led coalition in particular restoring some discipline within its own ranks. There is also some willingness within the political elite to recognise that political instability is contrary to the national interest. A proposed constitutional amendment, designed to strengthen the authority of the executive, was passed by parliament in 2004, but struck down by the Court of Appeal as unconstitutional. It is unlikely, however, that either new political alliances or legal/institutional reforms to the political system will change the basic dynamics of the system over the short to medium term. The likelihood is that there will be an increase in political instability leading up to or following the 2008 election.

Experience from around the world suggests that patrimonial systems do not change quickly or easily. There are historical precedents in both Europe and Asia of patrimonial states that have been transformed from within by strong groups emerging out the political establishment, who set about introducing fundamental political change in the name of a higher cause, typically nationalism. However, this has occurred mainly in countries that could look back to a tradition of a strong state at a previous point of history. It has not often been the case with young, post-colonial states (Botswana and Mauritius are possible exceptions). In Vanuatu, nationalism remains a weak mobilising force, and the legal-rational state has few historical or cultural roots.

The alternative is modest, incremental change. Again, there are few historical precedents for patrimonial states being transformed through democratic processes (or foreign aid) into effective developmental states. However, there is considerable variation within patrimonial states in their ability to mobilise resources for development. A reasonable goal for Vanuatu is to contain patronage within limits that allow for a degree of institutional development and policy coherence. This might involve measures to protect core government systems against the disruption caused by clientelism and political instability. It would also involve donors working in strategic alliance with reform-minded individuals within the political establishment and the administration, wherever the opportunity arises.

In this process of incremental change, there are few quick wins to be had. As the history of the CRP shows, even if legislation reflecting international best practice can be pushed through parliament, its effect on governance will be minimal if it is not based on a genuine consensus on the need for change. However, where that consensus is present,

as in the public-financial management arena at the time of the CRP, and where it is backed by effective donor support, then meaningful reform is possible.

It is perhaps worth mentioning that there is no evidence that Australia's strong rhetorical stance on good governance in the Pacific, and its threats to condition its aid on higher standards of governance, are helping to improve the functioning of the political system. The roots of the patrimonial system run deep, and neither chastising politicians nor appealing to their better nature is going to change the incentive structure in which they operate. However, nor does this mean that Australia should turn a blind eye to political mismanagement or corruption. Australian officials should be making it clear in their dialogue with government that they are astute observers of the political process, and aware both of its shortcomings and its potential. This makes it more likely that Australia will be able to engage in meaningful dialogue on politically sensitive issues, and will be seen as a credible partner in supporting political reform.

**b) Entry points on the supply side**

The analysis of the political system presented in this paper can be used to identify specific areas where institutional weaknesses contribute to clientelism. These represent possible entry points for reform, giving a range of options from which the most promising can be selected.

These can be loosely divided into the supply side (the core institutions for political governance and accountability) and the demand side (avenues for mobilising public pressure for improved governance). The following table sets out a range of institutional weaknesses on the supply side.

| <b>Institutional weaknesses in political governance</b> |  |
|---|--|
| <i><b>Institution</b></i>                               | <i><b>Weaknesses</b></i>   |
| Political parties                                       | <ul style="list-style-type: none"> <li>◆ Low membership base</li> <li>◆ Weak organisational structure</li> <li>◆ Weak pre-selection of candidates</li> <li>◆ Lack of opportunities for women</li> <li>◆ Lack of training of candidates</li> <li>◆ Lack of issue-based policy platforms</li> </ul>  |
| Political party financing                               | <ul style="list-style-type: none"> <li>◆ Lack of effective regulation</li> <li>◆ Lack of transparency</li> <li>◆ Absent or ineffective rules on conflicts of interest</li> <li>◆ Weakness of legitimate avenues for private sector lobbying</li> </ul>   |
| Electoral system  | <ul style="list-style-type: none"> <li>◆ Basic design of system (do multi-member constituencies contribute to fragmentation or clientelism?)</li> <li>◆ Flawed electoral roll (duplicate entries, lack of updating)</li> <li>◆ Improper practices (misuse of registration cards and proxy voting forms)</li> <li>◆ Lack of capacity in Electoral Commission</li> </ul> |
| Women in politics                                       | <ul style="list-style-type: none"> <li>◆ Low participation of women in formal politics</li> <li>◆ Gendered ideas of political leadership</li> </ul>  |

|   |  |
|---|--|
| Parliament  | <ul style="list-style-type: none"> <li>◆ Role of MP Allocations in clientelism</li> <li>◆ Lack of regulation &amp; transparency of MP allocations</li> <li>◆ Rules governing votes of no confidence</li> <li>◆ Poor induction and training of new MPs</li> <li>◆ Weak scrutiny of legislation (overuse of urgent proceedings)</li> <li>◆ Weak parliamentary oversight of public finances (Public Accounts Committee; Auditor General; budget approval process)</li> <li>◆ Lack of an effective committee system</li> <li>◆ Inadequate support services and facilities</li> </ul> |
| Accountability institutions                           | <ul style="list-style-type: none"> <li>◆ Low impact of Ombudsman reports</li> <li>◆ Weak capacity of the Public Prosecutor</li> <li>◆ Lack of enforcement of the Leadership Code</li> <li>◆ Lack of independence of the accountability institutions</li> </ul>   |
| Ministerial discretion                                | <ul style="list-style-type: none"> <li>◆ Excessive discretion providing opportunities for corruption</li> </ul>  |
| State-owned enterprises and quasi-public institutions | <ul style="list-style-type: none"> <li>◆ Patronage surrounding board memberships</li> <li>◆ Lack of financial oversight</li> <li>◆ Lack of supervision of and accountability for activities</li> </ul>   |

This list indicates that there is extensive scope for reform to improve the workings of the political system. However, a reform programme that attempts to tackle all these areas is unlikely to succeed. There is not at present any political constituency for radical change. The alternative is opportunity-driven reform, where individual initiatives are pursued as and when a political opening emerges.

There are examples of reforms which could usefully be pursued at the moment. The donors have recently taken up the issue of the management of quasi-public institutions, in particular the Vanuatu Commodities Marketing Board (VCMB). There is widespread awareness of the shortcomings of this institution and the costs to the public, in particular kava growers. The potential for developing a momentum for reform may be there, if the donors apply clear and consistent pressure and look for allies within the political establishment, public administration and civil society.

Reducing and controlling ministerial discretions is another area where they might be an opening, following the pressure placed on the Minister of Land at the National Land Summit. There is scope for improving the electoral roll and building up the capacity of the Electoral Commission in advance of the 2008 elections. It may be an appropriate time to test the waters on regulation of political party financing, or to determine whether some of the more established political parties are interested in receiving support to develop their institutional capacity.

In other areas, it is difficult to see much prospect of change in the short-term. There is widespread scepticism on the potential for strengthening parliament at present. While it is obviously a key institution, it would be difficult to generate cross-party consensus on reform in the lead up to an election. Capacity-building support, targeting the committee system, support services or new MPs, are unlikely to have much impact so long as the underlying political incentives remain unchanged. However, there was interest among a number of our interlocutors in reassessing the MP Allocation, which is seen as contributing to the inappropriate expectations that members of the public often hold of politicians.

There is also scepticism about the prospects of building up the accountability institutions – Ombudsman, Auditor General, Public Prosecution – to the level where they can enforce standards in public life. The evidence suggests that a Western-style adversarial approach to accountability is unlikely to be successful until such time as the values and norms governing probity in the public sector are more widely shared with the public.

However, many of our interlocutors were concerned about the rise in petty corruption in the administration, particularly the police force. This is a problem that, once it becomes entrenched, will be very difficult to eradicate. It is therefore an issue that AusAID might like to examine in the context of other programmes, such as its support to the police.

**c) *Building demand for better governance***

Public discontent with the political system in Vanuatu seems to be high. On principle, dissatisfaction should be an important engine of change. In Vanuatu, however, it does not translate into effective pressure. Popular expectations of the state are low, and any pressure tends to be directed towards local politicians, in the hope of securing direct benefits, rather than towards systemic change. There is also a cultural reluctance to question the conduct of leaders, combined with a generally low understanding of the principles on which the formal political system is based.

Given these factors, what opportunities might there be in Vanuatu to develop channels for converting dissatisfaction into effective pressure for change?

One option would be civic education on the political process itself. Surveys have found that many ni-Vanuatu, especially in rural communities, hold confused or inappropriate expectations of politicians and governance institutions. Confusion about the role of different institutions dilutes pressure for change. A sustained civic education campaign (not just in the pre-election period) could be used to challenge the logic of patronage at its most basic level, in the relationship between communities and their local representatives.

The limited coverage of the media makes it difficult to mount public education campaigns, although planned donor support to the public broadcaster should increase the coverage of radio. In the absence of broad media coverage, the churches may offer a mechanism for civic education at the grass-roots level. Over the longer term, incorporating civic education into the primary school curriculum might be most effective.

The Malvatumauri offers another avenue for channelling demand for better governance. The Council of Chiefs represents an alternative structure for representation, with considerable authority and legitimacy within Vanuatu society. There is resistance from politicians to giving it a formal role in the legislative process, and this is unlikely to change. Furthermore, giving the Malvatumauri a stronger constitutional role might produce little change in political dynamics, as chiefs are no less embedded in relationships of reciprocity than parliamentarians, and are likely to behave in similar ways.

However, there may be scope for strengthening the role played by the Malvatumauri in governance processes, even without altering its formal status or functions. If the Malvatumauri were to develop greater capacity to represent local interests, articulate

policy positions and engage government in policy dialogue, it might have the effect of compelling government to respond with a more active policy agenda of its own. In other words, the Malvatumauri might be able to use its traditional authority to influence governance processes, while remaining on the demand side of the governance equation.

That is not to say that the policy positions taken by the chiefs would necessarily be socially progressive. On certain issues, such as domestic violence, they may continue to be very conservative. However, the chiefs already exercise a great deal of behind-the-scenes influence in such areas, and cannot be bypassed. By giving the Malvatumauri a more active role in policy debates, it would help to increase understanding of the issues over time within the traditional structures.

AusAID has recently begun a 'Kastom Governance Partnership' with the Malvatumauri,<sup>72</sup> focused mainly on conflict prevention. This could be broadened to include support to strengthen its capacity to represent community interests (e.g., through improve communications and linkages with Island Councils of Chiefs), and to develop positions on key policy areas such as land use (e.g., through having some institutional capacity or a budget to carry out or commission studies on particularly policy areas to inform its positions, possibly in alliance with research and advocacy NGOs).

It might also be appropriate to consider the role of the Vanuatu Christian Council as a peak body representing the considerable moral authority of the churches. There appears to be an appetite within the churches for making the VCC into a more effective platform for engaging government on social policy issues, education, urbanisation and public health. Although they do have a tendency towards social conservatism, attitudes within the churches can perhaps be influenced through the exposure to international debate and experience that would come from a more active engagement in the policy process. Capacity-building support designed to provide the churches with more information about these issues and how they are dealt with internationally might help them to play a positive role in the national policy arena.

Supporting the development of research and advocacy capacity within the NGO sector is another option. As new social issues emerge in Vanuatu, NGOs are likely to be quicker to analyse and respond to them than government. While the government is not enthusiastic about NGOs playing a formal accountability role, it may come to recognise that NGOs can play a valuable role in the learning cycle around development policy. As donors develop their support for monitoring systems for the PAA or sectoral programmes, they may find that NGOs have a comparative advantage in certain monitoring activities, including qualitative and participatory monitoring. Developing NGO capacity in these areas would help to promote evidence-based policy making.

At present, the capacity and motivation within civil society to play these roles remains limited. Donors should jointly assess their current NGO funding modalities, to try to minimise competition between them and provide more scope for sustained capacity development. Mentoring by international NGOs such as Oxfam or Save the Children in policy-related research and advocacy may be useful. Donors may also be able to help attract ni-Vanuatu graduates to work in the policy arena by requiring the beneficiaries of scholarships to provide a period of public service, either within the public administration or in civil society.

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<sup>72</sup> AusAID, "Vanuatu Kastom Governance Partnership Design Document", September 2006.

At present, the media has limited capacity to generate demand for better governance, owing to its low coverage. However, support by AusAID and other donors to the Vanuatu Broadcasting and Television Corporation (VBTC) should expand the coverage of the radio service, which can become a key tool for raising public awareness on policy issues and government performance. As AusAID's documents anticipate, there will be a need to look at the corporate governance of VBTC, to ensure it has the independence to engage in objective analysis on policy issues. There is also a need for continuing support to organisations like Wan Smol Bag, that produce programme content with a public-education focus.

**d) *Issue-based approaches***

Another entry point for building demand for better governance is to focus on specific issues that already attract strong interest in Vanuatu across the political sphere and civil society. Coalitions for change are most likely to emerge around issues with high political salience.

At present, the most obvious candidate is land. The issue has played an extremely important role in Vanuatu's political history, and is an area where there is both genuine public concern and strong commercial interests. The recent National Land Summit was a very promising event, bringing together a diverse range of actors to debate the issue in a productive manner. It provided an opportunity for developing strategic alliances among individuals and organisations. The government was compelled to make a series of policy commitments. If the alliance for change can be sustained, there is a chance for real progress in this area.

For AusAID, land policy is an area of substantive interest, and a study is underway to examine options for support. Under an issue-based approach, AusAID would design its support so as to strengthen political governance, as well as the land system itself. This might involve supporting research and advocacy work in civil society, opinion polls and surveys, conferences, study tours and so on, with a view to building useful alliances and capacities and demonstrating the potential for effective reform coalitions.

Working in this manner requires considerable flexibility and innovation. The challenge is not to lead on the substantive policy agenda, but to play a facilitative role, providing flexible funding to respond to opportunities and initiatives as they arise.

The proposed sector-wide approach in education might offer another platform for improving civil society engagement with a key policy process. As the education sector policy and budget framework develops over time, donors can use their influence to ensure that different civil society actors (NGOs, community-based organisations, churches, the Malvatumauri) have a seat at the policy table, and an opportunity to participate in monitoring government performance. Educating stakeholders on how policies are made, and helping them to understand the constraints and trade-offs involved, is necessarily a long process, but can offer important benefits over time. Equally important is to educate government ministers and senior civil servants that civil society scrutiny is a necessary and useful part of an effective policy-making process.

**e) Vertical state-building**

State-building is an on-going process in Vanuatu. This report identifies the vertical dimension – the state of provincial government, links between provinces and central government, links between the state and local communities – as the most obviously unfinished element in the state-building project. The lack of interaction between most ni-Vanuatu and the state is a major deficit in the political system, undermining the legitimacy of the state.

A coherent approach to state-building should therefore be integral to the AusAID programme, running across its Governance for Growth and political governance activities. This should include encouraging the Government of Vanuatu to be more systematic in analysing and addressing its own capacity-building needs.

As the Government itself has identified, there is clearly a need to revisit the decentralisation agenda and consider options for building more effective structures at the regional and local levels. The topic of decentralisation is less politically sensitive than it was in the 1980s and 90s, creating scope for a more open national debate. Donors could support such a debate with high quality analytical work, building on the work of the Decentralisation Review Committee from 2001. Analytical work is needed not just on the effectiveness of the provinces, but on the capacity of the state as whole to deliver services and support development beyond the urban areas. This would involve looking at the comparative advantages of central and provincial governments in delivering different kinds of services and functions, and how they could more effectively work together. It would entail looking at the distribution of financial resources (grants and taxation powers) and functions, to determine whether they are matched. It would involve reviewing the capacity of provincial governments to develop regional development priorities and allocate resources accordingly. It should also consider where investments in transport and communications infrastructure could boost the capacity of the state to operate across its territory.

Decentralisation poses major practical challenges, and is unlikely to provide a quick solution to the problem of local service delivery. Given the lack in human resources in the regions, including in financial management and reporting, channelling more funds through the provinces without the right sequence of reforms is unlikely to do much to boost services.

A coherent approach to service delivery will therefore also need to draw on non-state actors already present at local level, including the churches, chiefs and community-based organisations. These traditional institutions may not be easy partners to work with, given their structural weaknesses, capacity constraints and tendency to be competitive with each other. They are, however, for better or worse a critical part of local governance in Vanuatu, and no credible service-delivery strategy can afford to ignore them.

Between them, the churches have the most effective grass-roots network, even if they do not always coordinate effectively with each other. They would seem to have a comparative advantage in the social policy field, in areas such as youth and women's issues and on public health. They are also an important conduit for providing information and education to their members. There are concerns among the donor community about the conservatism of the churches, including fears that their messages on HIV-AIDS have increased stigmatisation of vulnerable groups. However, this makes

it all the important to involve them as partners in the social policy arena, so that they are not working in opposition to the state. Some form of pilot activities looking at ways to support the churches on local service delivery could be attempted, to assess whether they are capable of being effective partners.

The research team encountered a number of ideas in circulation about how to strengthen traditional structures, so that they become an integral part of the state structure. These ideas include:

- Formally recognising and to some extent codifying the role of chiefs in community governance. Reinforce their obligation to respect individual rights, and to work in a consultative manner with their local communities. Support them with training and awareness raising on modern governance challenges.
- Support churches and NGOs to act as external facilitators for institutional development in local communities, helping to transfer knowledge and skills required to access government services and participate in the formal economy.
- Revitalise Area Councils by strengthening their role in community development, giving them a stronger institutional base and allowing them to retain local revenues to fund development projects. Invest in improving communications with provincial and central governments.
- Support Island Council of Chiefs to play a more active role in setting regional development priorities and pushing provincial government to be more responsive.
- Strengthen the role of the Malvatumauri in representing community interests in national policy debates. This might include developing partnerships between the chiefs and NGOs.

The significance of these ideas is that they represent proposals developed by ni-Vanuatu for strengthening the democratic process in a culturally appropriate way. They appear to have the support of some key opinion leaders, although the depth of the consensus remains to be seen. They may offer an additional structure of representation within the political system, albeit largely informal, that would help to counterbalance some of the shortcomings of the formal political structures.

This is an area where there is a clear value in broad national debate. One of the useful interventions that AusAID could make is to create opportunities for such a debate, including helping different stakeholders to develop and articulate their positions. Such a debate might ultimately produce constitutional reform, such as a stronger role for the Malvatumauri in the legislative process. However, even without reform to the formal structures, debate is useful if it focuses the attention of the policy elites (in government and civil society) on the performance of and relationships among the different institutions.

#### **4. Improving aid effectiveness**

With development assistance to Vanuatu set to increase substantially in the coming years, it is extremely important for AusAID to invest time working with the government and donor partners on improving aid effectiveness. The government has begun to initiate dialogue with donors on implementing the Paris Declaration. At this early stage of the aid-effectiveness agenda in Vanuatu, there are a number of points that should be taken into account.

First, donors need to take care not to overload the policy agenda with too many initiatives or over-ambitious reforms. Any developing country has a finite capacity to absorb change, and in Vanuatu, with its heavy dependence on a small number of key individuals within government, that limit is necessarily fairly low. Preserving country leadership of the reform agenda is more important than maximising the number of reform initiatives. Donors should bear in mind the government's tendency to accept any assistance offered by donors, whether or not it corresponds with the government's own priorities. Given this, donors must discipline themselves to prioritise their initiatives and avoid overloading the agenda. There is a need for more sober political analysis, to assess whether there is genuine political support for proposed reforms. Where there does not appear to be a political opening, it is usually best to leave the issue for another day.

Second, donors need a common understanding of the mechanisms for policy making, and must ensure that they engage with the policy process in ways that are appropriate and consistent. The current emphasis on comprehensive national development strategies such as the Prioritised Action Agenda, while reflecting current donor orthodoxy, may be over-stretching the capacity of the system at present. Placing too much emphasis on a comprehensive development strategy may have unintended effects, creating policy documents that are primarily for donor consumption and have limited ownership across the administration. Donors should recognise that the annual budget process is for the time being the most effective policy instrument, and provides a good foundation for continuing efforts to strengthen the policy process, including:

- building up sectoral policy-making capacity in key ministries and departments, through the development of departmental corporate plans and annual budget submissions, and gradually introducing more effective performance monitoring;
- supporting MFEM to provide a technical oversight role in the annual budget process, and to engage departments in dialogue on the performance of their programmes;
- concentrating higher-level policy processes on setting a limited number of core national priorities, to provide a foundation for medium-term budget planning;
- increasing opportunities for public consultation and participation around the budget and policy-making processes.

Third, donors need to continue their efforts to overcome the fragmented and project-dominated aid delivery that has traditionally characterised aid to Vanuatu. There needs to be greater harmonisation between donors, whether through joint programming, better coordination or delegation of lead roles in particular sectors to individual donors. There needs to be a concerted effort to shift towards programmatic aid delivery. Depending on the sector, this need not necessarily involve complex delivery arrangements. Rather, it is about taking steps to improve government's capacity to develop effective oversight and management of the range of donor activities across a particular sector. This might include:

- support government departments to determine their sectoral priorities, and progressively develop policies and strategies;

- develop a simple matrix of resources and activities for the sector, beginning with a list of on-going projects, and relate donor activities to specific priorities and objectives articulated by government;
- develop a process to coordinate donor and government activities, led by government. The initial focus could be establishing an agreed process for reviewing proposed new activities, and ensuring that government has the opportunity to direct them into priority areas;
- increase harmonisation of donor procedures for reporting, budgeting, financial management and procurement;
- gradually increase the use of government systems for aid delivery, taking advantage of recent progress in public financial management;
- develop joint sectoral monitoring and review mechanisms, in order to focus the policy dialogue, increase results orientation and generate common learning.

In the social sectors, where improving service delivery requires complex, interlocking institutional reforms and careful coordination of capital investments with recurrent budgets, moving towards full SWAps may be appropriate. In other sectors, projects are likely to remain the dominant modality, but can nonetheless be brought within a coherent, government-led sectoral framework.

Fourth, donors need to give careful attention to the preconditions for effective capacity building. They should be realistic about the length of commitment required to achieve meaningful reform, and not be too impatient to see their counterpart institutions 'graduate' from support. Technical assistance providers should invest in developing relationships with key stakeholders and building constituencies in support of reform. This requires greater understanding of the power relations and cultural dynamics within institutions, and more willingness to use informal channels of communication. In practice, this may require that long-term TA providers go through a more rigorous cultural induction process and learn Bislama. When working through contractors, donors need to ensure that they understand the importance of relationships and consensus-building, and structure their incentives accordingly. On the whole, it requires a broader and more politically astute engagement with institutional reform processes than has usually been the case in the past.

Donors should give particular attention to the need to address human resource constraints. It is important to avoid displacing national capacity with foreign technical assistance. However, where there are skills gaps that cannot be filled in the short term, donors should remain willing to provide foreign advisers, provided that it forms part of a coherent, long-term approach to capacity building. Donors need to remain aware that core government systems may be critically dependent on a handful of key people, and therefore at risk of decaying with staff turnover. Donors should be encouraging government to develop more effective, long-term strategies for addressing its human resource constraints. This should include closer integration of education policy with the needs of the public administration and the economy more generally. Donors may consider tying scholarships to a period of public service. It also includes giving more attention to knowledge transfer mechanisms between ni-Vanuatu staff.

Fifth, there is a need for more effective mechanisms to ensure strategic coherence among donors. The donor community is small and has so far depended largely on informal contacts for coordination, which have not always been effective. Government leadership of donor coordination remains in its infancy. If donors do not resolve their differences

among themselves, their dialogue with government is unlikely to be productive. One way to facilitate dialogue with government is for the donors to divide the lead role in policy dialogue in different sectors among themselves, according to their comparative advantage. The lead donor would be responsible for developing consensus positions among the donors, and then representing them to government.

Sixth, despite their commitment to alignment under the Paris Declaration, there will still be a need for donors to work with non-state actors. In fact, the principle of alignment raises a genuine dilemma for donors in Vanuatu. The more that aid is aligned with government priorities and directed through government systems, the more it is likely to reflect the government's own bias towards centralisation of resources. Donors need to ensure that their aid reaches its intended beneficiaries, including the rural majority. This means working with government to develop a coherent approach to decentralisation and local service delivery, including developing effective partnerships with non-state actors such as the churches.

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