

**THE GOVERNMENT OF VANUATU**



**MILLENNIUM CHALLENGE ACCOUNT VANUATU**

**FISCAL ACCOUNTABILITY PLAN**

**Fiscal Accountability Plan  
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This plan shall serve as the policy on all financial and procurement issues undertaken under the Millennium Challenge Account grant received from the Millennium Challenge Corporation.

## **1 General**

- (a) In all events, no financial or procurement transaction shall take place that is contrary to the requirements or prohibition of the Compact, the Disbursement Agreement, the Procurement Agreement, the Fiscal Agent Agreement, Governance Agreement or any other related documents.

## **2 Authorized Parties**

- (a) Parties authorized to act in procurement and financial management matters on behalf of MCA-Vanuatu are:
  - i. Procurement Agent
  - ii. Fiscal Agent – Department of Finance, Ministry of Finance and Economic Management
- (b) A Requesting Agency shall include MCA-Vanuatu, or any agency that has entered into an Implementing Entity Agreement giving authority to make requests for goods, works, or services to MCA-Vanuatu.

## **3 Procurement**

A flowchart of required steps in the procurement process is included in the Appendices to this Plan.

- (a) Basic procedures for the procurement of goods, services and works by any provider are covered in the Procurement Guidelines as a part of the Procurement Agreement between the Government of Vanuatu and MCC. In all procurement matters requiring action by MCA-Vanuatu, the Procurement Agent will administer the procurement process.
- (b) While the Chair of the MCA-Vanuatu Steering Committee has general signatory authority for any contracts to which MCA-Vanuatu is a party, the Director of MCA-Vanuatu has the signatory authority for contracts up to US \$50,000 with third party contractors on behalf of MCA-Vanuatu.
- (c) No procurement action shall be finalized nor contracts signed until it is determined to have complied with the approval requirements of the MCA-Vanuatu Steering Committee and MCC as required by the Procurement Agreement and this Fiscal Accountability Plan.
- (d) Procurements related to the Compact for works, goods and services will be outlined in the Procurement Plan prepared by the Procurement Agent. Even though the procurement may be indicated in the plan, the Procurement Agent will need written authorization from the Director of MCA-Vanuatu, as evidenced by a properly executed Requisition Form,

to start the procurement process.

- (e) In addition to the thresholds requiring approval per Schedule 2 of the Procurement Agreement, all Procurement actions in excess of the equivalent of US \$50,000 shall require the approval of the MCA--Vanuatu Steering Committee. If the MCA-Vanuatu Unit or Steering Committee would like to obtain MCC “no objection” for procurement actions which fall below MCC’s approval threshold, a request in writing shall be submitted from the MCA-Vanuatu Steering Committee to the Procurement Agent, who will then forward the request onto MCC.
- (f) A Requisition Form will be completed for all procurements (except those purchased under standing imprest arrangements) by the agency requesting the goods, works, or services. The required Requisition Form is provided as Attachment B to this Plan. The Director of MCA--Vanuatu shall approve all requisition requests and by doing so confirms that the current approved budget for the MCC Program is sufficient to cover the projected amount of the procurement obligation. The Director of MCA-Vanuatu shall indicate the remaining budget for this class of procurements on the requisition form (as shown in the SmartStream funds control workbench). The Director shall provide evidence of any required authorizations from the Steering Committee and MCC along with the requisition form.
- (g) Once the Procurement Agent receives written authorization by way of the Requisition Form, advertisements as part of the procurement process can be initiated. The original of the Requisition Request will be kept with the Procurement Agent and a copy with Director of MCA--Vanuatu.
- (h) The Procurement Agent shall assure that the requested procurement is in the approved Procurement Plan. In the event that a requested procurement is not in an approved Procurement Plan, the Procurement Agent shall request evidence of approval of the procurement by the MCA-Vanuatu Steering Committee and MCC.
- (i) The Procurement Agent will undertake the procurement process and request MCA-Vanuatu to obtain approvals of the procurement steps as required by the Procurement Guidelines. The Procurement Agent will be responsible for assuring that any participating companies and individuals are checked against the excluded parties list at appropriate times during the procurement process.
- (j) Upon completion of the procurement process, the Procurement Agent will propose an award recommendation, ensure that the selected contractor is checked against the excluded parties list, and return a signed copy of the Requisition Form to the Requesting Agency for their final confirmation to go ahead with the purchases.
- (k) The Requesting Agency shall sign and approve the Requisition Form and return it to the Fiscal Agent who shall record as a commitment a local purchase order for the purchase of the goods, works, or services.

The Fiscal Agent will provide the local purchase order to the Director of MCA-Vanuatu. The Fiscal Agent shall investigate and halt the procurement process if any anomalies are suspected or if insufficient budget is available for the actual purchase.

- (l) After the supplier/provider is selected the contract will be approved by the appropriate parties depending on the approval thresholds listed in Schedule 2 of the Procurement Agreement. Once the contract negotiation process is over, the contract will be signed between the third party and the Director of MCA-Vanuatu or the Chair of the Steering Committee, if the contract amount is more than US \$50,000 or such signatory authority has not been delegated to the Director.
- (m) The Procurement Agent shall be responsible for providing a notice, prepared by the Fiscal Agent, to all contractors concerning the tax exemption applying to all activities resulting from funds provided by MCC and instructions on obtaining such tax exemption.
- (n) The Procurement Agent will keep an original copy of the contract. The Director of MCA-Vanuatu will keep a copy and provide a copy to the Fiscal Agent so that the Fiscal Agent can record a commitment of the MCC Program.

#### **4 Procurements Prior To Placement of a Procurement Agent**

- (a) In the event that a Procurement Agent is not in place after Entry into Force of the Compact, the Director of MCA-Vanuatu is authorized to conduct procurements during the period between Entry into Force and the placement of the Procurement Agent.
- (b) The Director is authorized only to conduct procurements that are:
  - i. Less than the equivalent of US \$10,000
  - ii. In accordance with the Procurement Guidelines
  - iii. Only in accordance with an approved Procurement Plan.
- (c) The Director shall assure that all procedures outlined in this Interim Fiscal Accountability Plan are followed.
- (d) In the event that the Director conducts procurement under this provision, the Director shall not serve as an authorized signatory for vouchers resulting from the procurement. One of the Analysts of the Management Unit (such designation to be evidenced in a written delegation submitted to the Fiscal Agent) shall have sole authority to serve as an authorized signatory for such transactions.

#### **5 Financial Management**

- (a) Procedures for financial management of the MCA-Vanuatu program will be governed by the Compact, the Procurement Agent Agreement, other Compact documents and specific procedures will be governed by the Public Finance and Economic Management Act No. 6 of 1998 and

the regulations promulgated thereunder (the “Financial Regulations”).

- (b) The Director of MCA-Vanuatu shall be the authorized signatory for purposes required by the Financial Regulations. It will be the responsibility of the Director of MCA-Vanuatu to assure that all necessary approvals required by the MCA-Vanuatu Steering Committee and MCC have been obtained prior to authorizing any action. In the absence of the Director, one of the Analysts of the Management Unit (such designation to be evidenced in a written delegation submitted to the Fiscal Agent) shall serve as the authorized signatory and shall be responsible for obtaining all required approvals. Evidence of any required approvals, either from minutes of Steering Committee meetings, written approvals from MCC, or other appropriate evidence shall be included in any vouchers or other documentations to which the Director is authorizing.

### **Financial Plans**

- (c) The detailed financial plan for the MCC program and MCA-Vanuatu will be prepared on a rolling quarterly basis through the Compact Term. For the purposes of the financial plans and the disbursement requests, the quarter shall begin on the 1st day of each of January, April, July and October. The first quarter will start on the Entry into Force date and end on June 30, 2006. The program will have the following project, project activities, and subproject activities, as described in Exhibit A of the Compact:

<b>Project Component</b>	<b>DESCRIPTION</b>	<b>COFOG Code</b>	<b>Code COFOG Description</b>
	<b>Activity</b>		
	<b>INFRASTRUCTURE ACTIVITY</b>		
MCA01 01-99	Design/ Build Firm	70485	R&D Transport
MCA02 01-99	Efate Ring Road	70451	Road transport
MCA03 01-99	Santo-East Coast Road	70451	Road transport
MCA04 01-99	Santo-South Coast Road Bridge	70451	Road transport
MCA05 01-99	Malekula - Norsup Lakatoro Litzlitz Road	70451	Road transport
MCA06 01-99	Malekula - South West Bay Airstrip	70454	Air Transport
MCA07 01-99	Pentecost - Loltong Road and N-S Road	70451	Road transport
MCA08 01-99	Tanna - White Sands Road	70451	Road transport
MCA09 01-99	Epi - Lamén Bay Wharf	70452	Water transport
MCA10 01-99	Ambae - Road Creek Crossings	70451	Road transport
MCA11 01-99	Malo - Road Upgrade	70451	Road transport
MCA12 01-99	Warehouses	70471	Distributive trades, storage, and warehousing
MCA13 01-99	Supervision: Engineering & Environment Firms	70443	Construction
	<b>INSTITUTIONAL STRENGTHENING ACTIVITY</b>		
MCA14 01-99	PWD Equipment	70451	Road transport
MCA15 01-99	Equipment through Civil Contracts	70451	Road transport
MCA16 01-99	PWD Institutional Strengthening	70451	Road transport

<b>MCA PROGRAM ADMINISTRATION</b>			
MCA17 01	MCA-Vanuatu Program Administration	70112	Financial and fiscal affairs
MCA17 02	Customs and Inland Revenue	70112	Financial and fiscal affairs
MCA17 03	Department of Labour	70412	General labor regulation
MCA17 05	Fiscal Agent	70112	Financial and fiscal affairs
MCA17 06	Procurement Agent Fees	70112	Financial and fiscal affairs
MCA17 07	External Audit	70112	Financial and fiscal affairs
<b>MONITORING AND EVALUATION</b>			
MCA18 01	Household Income Expenditure Survey	70132	Overall planning and statistical reserves
MCA18 02	Database, reporting systems and manuals	70112	Financial and fiscal affairs
MCA18 03	Data Quality Auditor	70112	Financial and fiscal affairs
MCA18 04	Tourism Survey	70132	Overall planning and statistical reserves
MCA18 05	MCA-Vanuatu Site Visits	70132	Overall planning and statistical reserves
MCA18 06	Hotel Capacity & Occupancy Survey	70132	Overall planning and statistical reserves
MCA18 07	Road-side Enterprise Survey	70132	Overall planning and statistical reserves
MCA18 08	Traffic Count Survey	70132	Overall planning and statistical reserves
MCA18 09	Outer Island Wharf & Warehouse Use Survey	70132	Overall planning and statistical reserves
MCA18 10	Final Evaluation	70132	Overall planning and statistical reserves

- (d) The Financial Plan will have the following structure:
- i. Project
  - ii. Project Component (milestones or components of the main project).  
Economic classification shall be determined for each Project Component.
  - iii. Project Cost Element (detailed breakdown of expenses)

### **Financial Plan Preparations, Changes and Approval**

- (e) In accordance with the plan of activities of the different projects, the Director of MCA-Vanuatu, with the assistance of the Fiscal Agent, will present the financial plan (budget) proposal for approval by the MCA-Vanuatu Steering Committee each year prior to deadlines set by the Ministry of Finance and Economic Management (MFEM). After approval is obtained, the financial plan shall be submitted to the MFEM for inclusion in the national budget of Vanuatu.
- (f) Budget adjustments may be made if done in accordance with terms of the Compact and upon approval of the MCA-Vanuatu Steering Committee. A request for any kind of budget adjustments will normally be communicated to MCC via quarterly MCC Disbursement Requests.
- (g) Budget adjustments without approval of MCC can be made between the quarterly MCC disbursements if (i) the adjustment is evidenced with proper justification on the standard Government budget adjustment form utilized in accordance with the Financial Regulations and (ii) the adjustment is made in accordance with the procedure outlined in sub-section xii of Section 1.7 (c) of the Governance Agreement that states: "MCA-Vanuatu may, without the approval of MCC, modify the Detailed Financial Plan so long as (A) all such modifications relating to

the same line item described in the Multi-Year Financial Plan set forth in Annex II of the Compact do not exceed in the aggregate the lesser of 10% of the relevant line item in the most currently approved Multi-Year Financial Plan and US \$500,000, (B) such modification is consistent with the Objectives and does not cause the amount of MCC Funding to exceed the aggregate amount specified in Section 2.1(a) of the Compact and (C) MCA-Vanuatu promptly delivers to MCC any such modified Detailed Financial Plan, together with a modified Multi-Year Financial Plan to reflect the corresponding modifications.”

- (h) The Director for MCA-Vanuatu shall obtain the approval of the Steering Committee for any budget adjustments and any adjustments that do not require prior approval of MCC shall be communicated to MCC within three days of Steering Committee approval of the budget adjustment.
- (i) The Director of MCA-Vanuatu may initiate request for a special Disbursement from MCC in between quarterly Disbursement Requests in the event that valid cash requirements require a cash replenishment prior to the end of a quarter.

### **Payments**

- (j) Procedures for requesting payments shall be governed by the Financial Regulations.
- (k) The Director of MCA-Vanuatu shall serve as the authorized signatory and shall provide evidence of any approvals required by any Compact documents and this Fiscal Accountability Plan. In the absence of the Director, one of the Analysts of the Management Unit (such designation to be evidenced in a written delegation submitted to the Fiscal Agent) shall serve as the authorized signatory and shall be responsible for evidencing all required approvals.
- (l) The Fiscal Agent shall counter-sign all payment request documents to confirm that it is approved for payment.
- (m) All vatu payments shall be made through the normal cheque run procedures and be paid from the Government of Vanuatu’s normal payment account.
- (n) All USD payments shall be made by telegraphic transfer directly from the MCA-Vanuatu account held with the Reserve Bank of Vanuatu
- (o) Reimbursements of payroll and other vatu denominated operating costs shall be made on a monthly basis by transfer of the USD equivalent from the MCA-Vanuatu account to the Government of Vanuatu Number 1 account, both held with the Reserve Bank of Vanuatu. The Fiscal Agent shall maintain records of all such reimbursements.

### **Reporting**

- (p) The Fiscal Agent will produce monthly, quarterly and annual reports for the use of MCA-Vanuatu and MCC as required by all Compact documents. Ad hoc and customized reports will be prepared by the



Fiscal Agent upon written request of MCA-Vanuatu with reasonable notification.

## **6 Audits**

- (a) The Director of MCA-Vanuatu, with assistance from the Fiscal Agent, will prepare an Audit Plan no later than August 31, 2006. The Audit Plan will include any required audits of Covered Providers, as required by the Audit Guidelines.
- (b) The Statement of Work included in bidding and contract documents will conform to that provided for by the MCC Inspector General. As required by the Audit Guidelines and approved Statement of Work, the auditor will also conduct a review of compliance with the Procurement Agreement and the Fiscal Accountability Plan.
- (c) The Fiscal Agent will designate one person from its team to serve as a contact point with the auditors.
- (d) Upon receipt of any findings by an auditor, the Director of MCA-Vanuatu will prepare a written response and submit it to the Steering Committee for approval, prior to submission to the MCC. Timing of these actions will be done to assure that the written response is provided to MCC within 30 days of the finding.

## **7 Personnel**

- (a) Employees of MCA-Vanuatu shall be employed through employment agreements approved by MCC. The employment agreements shall incorporate certain provisions of the Public Service Commission Staff Manual.
- (b) All personnel actions shall be approved by the Steering Committee. Any action regarding the employment or termination of employment of the Director shall be approved by MCC. Employment of staff of other agencies (in Department of Finance, Customs and Inland Revenue and the Labour Department) will be subject to Chapter 3 of the Public Service Staff Manual.

### **Timesheets and Time clock**

- (c) Procedures for maintaining timesheets and utilizing a time clock for all MCA-Vanuatu employees shall be governed by the Public Service Commission Staff Manual. Approval of the timesheet of the Director of MCA-Vanuatu shall be signed by the Director-General of the Ministry of Finance.

### **Payroll**

- (d) Procedures for establishment and payment of payroll shall be governed by the Financial Regulations, except to the extent that any relevant

provisions of the Compact, related documents, and this Fiscal Accountability Plan shall prevail.

## **8 Imprest Accounts and Other Agreed Purchases**

### **Petty Cash**

- (a) Petty Cash shall be governed by the Financial Regulations of the Government of Vanuatu and each of the following Departments shall maintain a petty cash Standing Imprest that will not exceed 30,000 vatu for each Department:
- i. MCA-Vanuatu Program Administration
  - ii. Department of Customs and Inland Revenue
  - iii. Department of Labour
  - iv. Department of Finance (Fiscal Agent)
  - v. Public Works Department
  - vi. National Statistics Office

Petty Cash Reimbursements shall be approved by the MCA-Vanuatu Director and also by the Fiscal Agent. The Director of MCA-Vanuatu shall confirm that all purchases made using petty cash are for purchases approved in the financial plan.

### **Travel**

Travel of MCA-Vanuatu shall be governed by Chapter 4, subsection 4.8 and 4.9 of the Public Service Staff Manual.

### **Petrol and Diesel**

- (b) Petrol or diesel shall be purchased in accordance with the normal Government advance imprest process as set forth in the Financial Regulations.
- (c) Each Government Agency authorized to utilize MCC funds under the Detailed Financial Plan to purchase petrol or diesel shall be allocated a specific monthly allotment per vehicle to be used for the MCA Project. The monthly allotment will be paid in advance to the supplier and will be approved by the Fiscal Agent.
- (d) The Director of each Government Agency approved to purchase fuel utilizing MCC funds shall notify the Fiscal Agent of the officer who is approved to purchase fuel and provide a sample signature for that officer.
- (e) Each respective Government Agency will authorize only one officer per approved vehicle to draw down on this facility from the fuel depot. At the end of the month, each authorized officer will submit a request for replenishment of the fuel allotment from the Fiscal Agent, attaching all

receipts from the supplier evidencing the fuel consumption. This process will then be reconciled and cross referenced for signatory authorization compliance. Once this process is completed and all documents are deemed to be in order by the Fiscal Agent, the request will be approved and a purchase order will then be committed and authorized for payments processing of the next months allotment.

- (f) A log book will be maintained for each vehicle utilizing MCA funds and fuel consumption will be tested using the vehicle log book.

## **9 Asset Management**

- (a) Asset management and disposition shall be governed by the Financial Regulations of the Government of Vanuatu. The Office of Assets with the assistance of the Development Accountants shall be responsible for preparing the inventory of MCA-Vanuatu assets. All assets purchased by MCA-Vanuatu for the Implementing entities will remain the property of MCA-Vanuatu until the end of the Compact term.
- (b) Assets acquired with funds provided by MCC shall only be used in furtherance of Compact objectives and shall not be used for the personal benefit of any employee or individual other than incidental and occasional use.
- (c) A log book will be maintained in accordance with the Finance Regulations for any vehicles purchased with MCC funds.

## **10 Tax Exemptions**

- (a) MCA-Vanuatu, as a unit within the Ministry of Finance and Economic Management, shall be zero-rated for all Vanuatu taxes.
- (b) As an approved donor program ratified by Parliament, the MCC funds provided under the Compact and the Project are automatically exempted from taxes under Schedule III, Section 1 of the Import Duties Act. The relevant project code assigned to the Compact and the Project are required to evidence such exemption. No annual appropriation is necessary for the reimbursement of VAT, customs duties or other related taxes.
- (c) Contractors providing goods, works and services funded by the MCC Program shall be required to register with the Director of Customs to be eligible for reimbursement of taxes. The Fiscal Agent will be responsible for ensuring all eligible contractors are properly notified of registration requirements and that tax reimbursements are being processed within 30 days after such request for reimbursement is submitted. The Fiscal Agent shall immediately notify MCA-Vanuatu, with a copy to MCC, of any failure by the Director of Customs to timely administer such tax exemptions or promptly reimburse such taxes relating to the MCC Program.

- (d) Government Departments or Ministries utilizing MCC funds for the purchase of goods, works and services related to the Project are automatically reimbursed for VAT through direct credits to their respective budgets for amounts spent.

## **11 Delegations**

- (a) The Fiscal Agent may delegate his responsibilities under this Fiscal Accountability Plan as required. All delegations will be notified to the MCA-Vanuatu Steering Committee, MCA-Vanuatu Program Management, and MCC.

By signing below, each of the parties acknowledges and certifies that this Fiscal Accountability Plan is valid and binding until such time as the parties agree to amend this plan after obtaining MCC approval.

                    /S/                      
Chairman, MCA-Vanuatu

Date: December 8, 2006

Acknowledged by:

                    /S/                      
Authorized Rep of Fiscal Agent

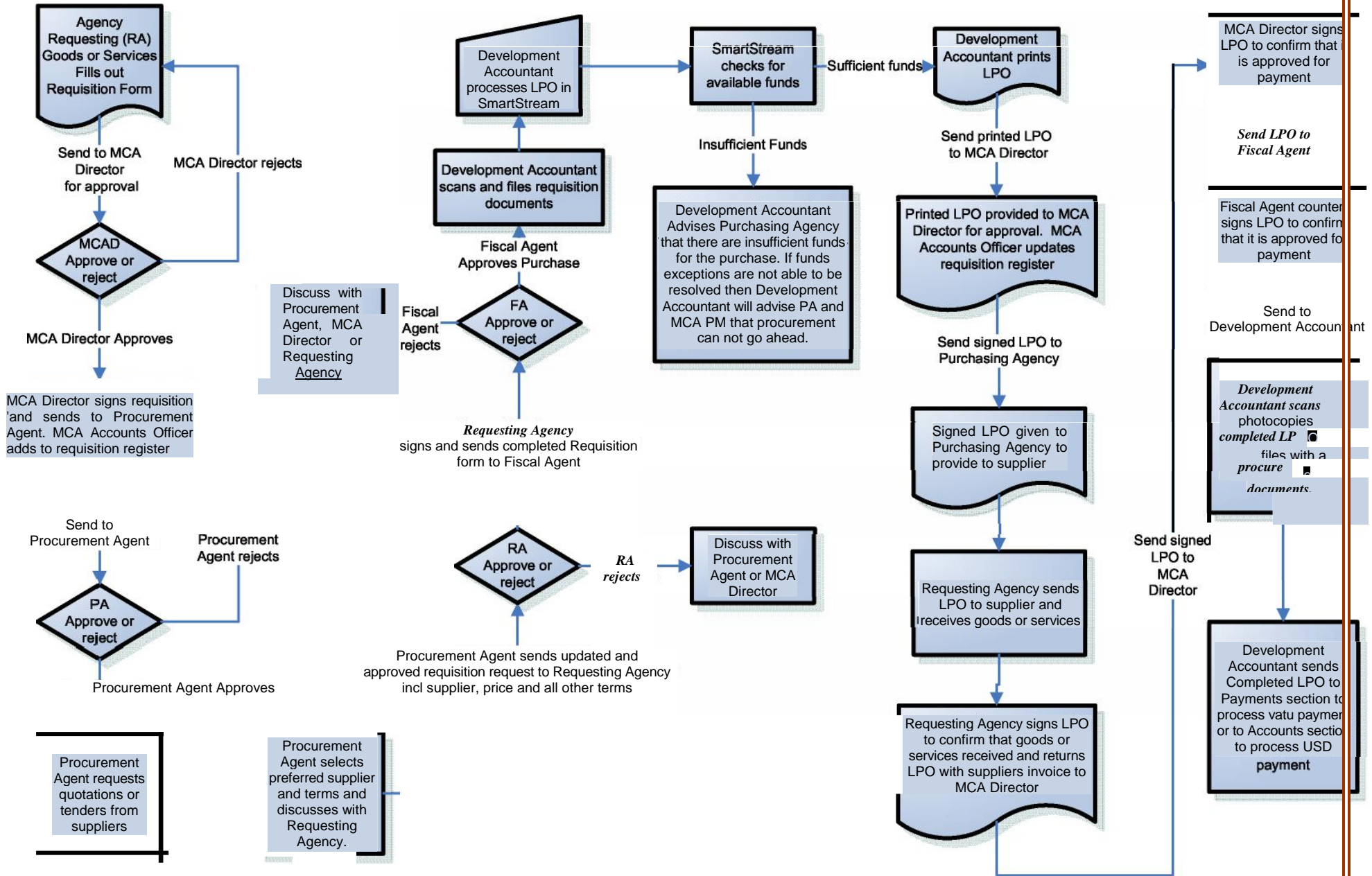
Date: December 8, 2006

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Authorized Rep of the Procurement Agent

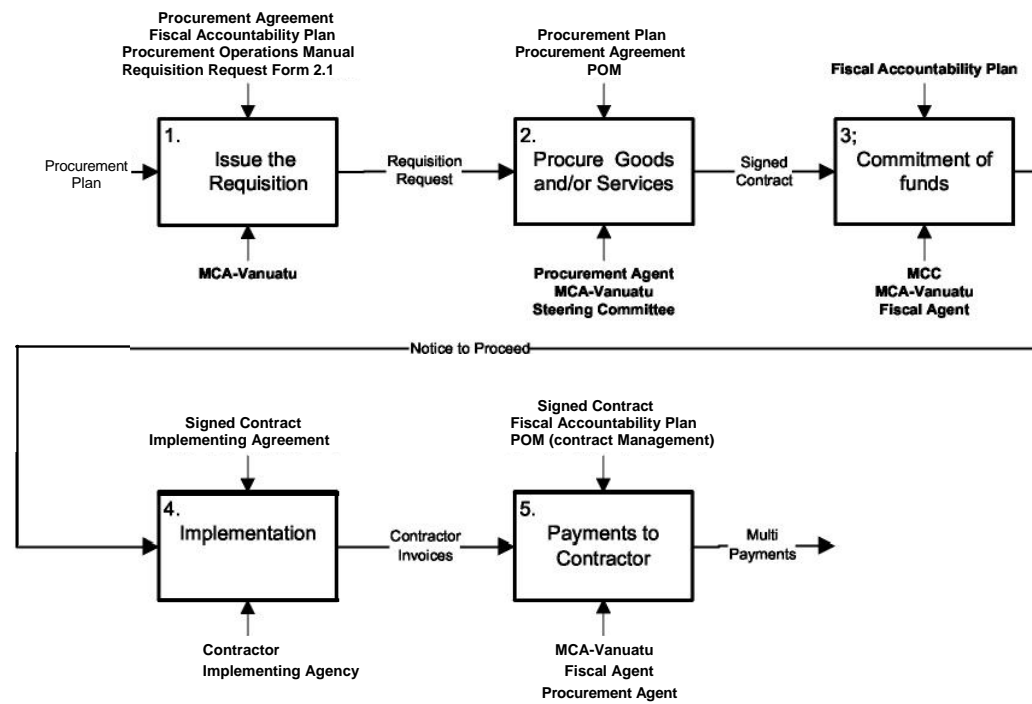
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# APPENDICES

## MCA Vanuatu Procurement Process – for simple purchases (1 requisition, 1 purchase order)

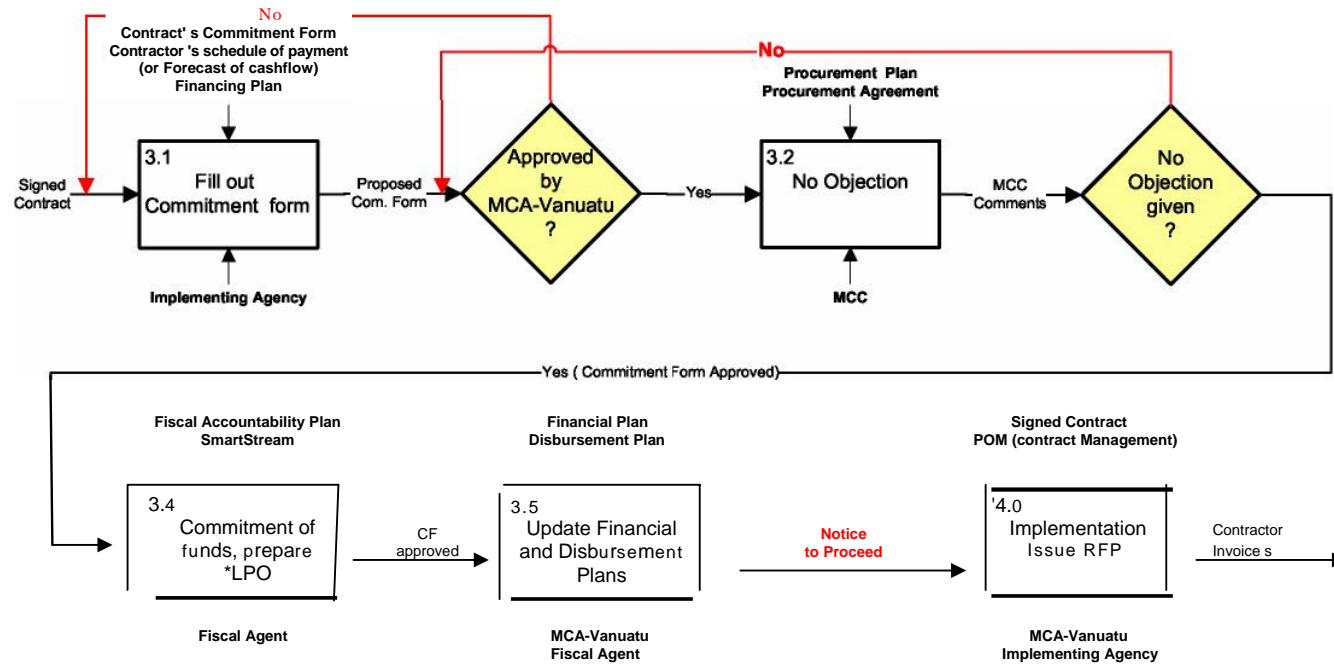


### Flowchart 7.01 Contract's Procurement and Payment Process



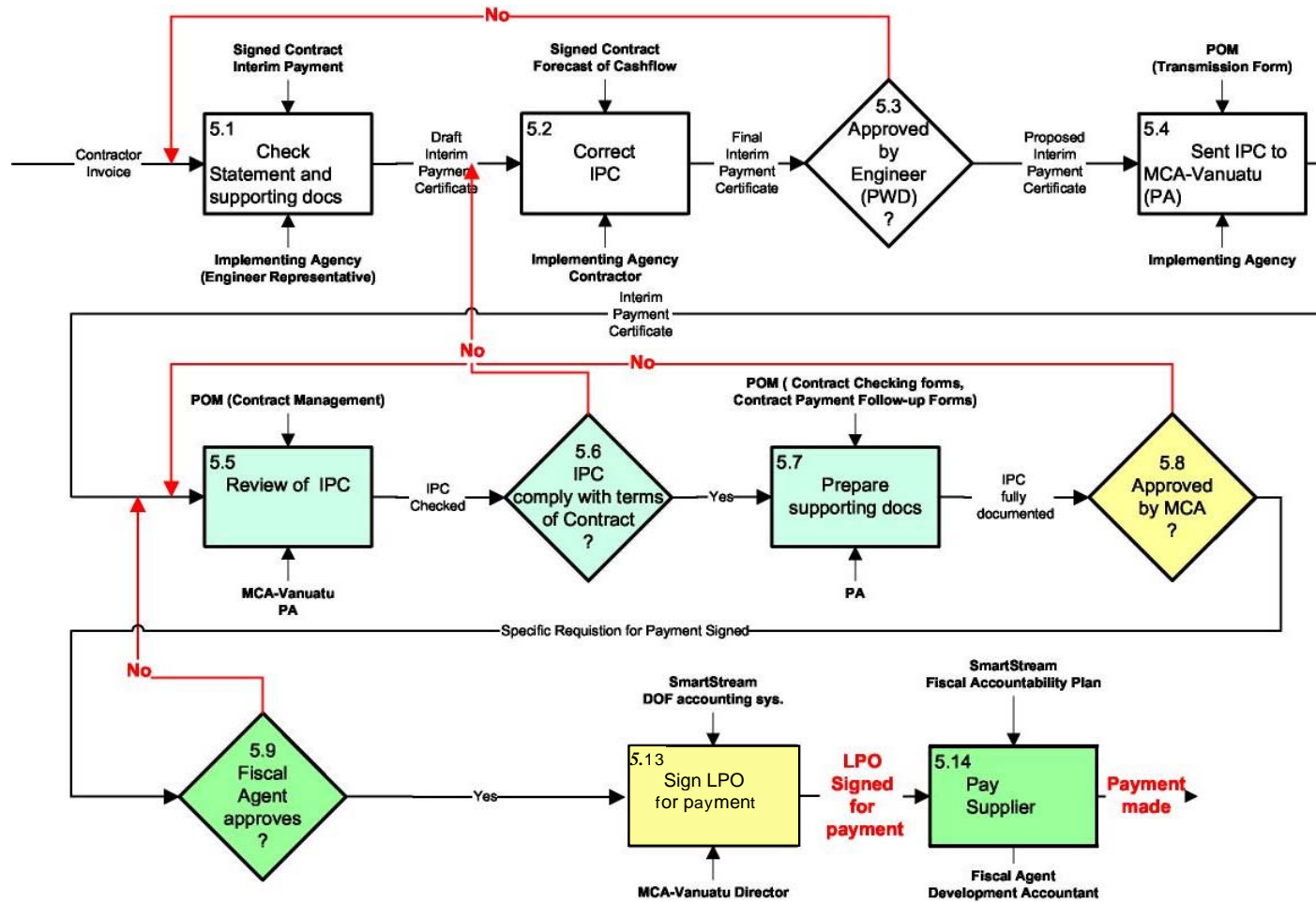


### Flowchart 7.03 Commitment of Funds Process for Contract



\* For each Lump sum Contract payment

### Flowchart 7.05 Works Contract Payment Process



*Note 1: For payment to the Supplier by LPO, follow process as for simple purchase*

*Note 2: This process will be used for each interim contract payment*



