

Institutional Capacity Assessment Report - Department of Customs and Inland Revenue

Under the Ministry of Finance and Economic Management

Vanuatu Public Service Commission

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1. LIST OF ABBREVIATIONS

Table 1.1: List of Abbreviations

Abbreviation	Definition
CSO	Civil Society Organization
FBO	Faith-Based Organization
HRM	Human Resource Management
ICA	Institutional Capacity Assessment
ICAG	Institutional Capacity Assessment Grid
IT	Information Technology
M&E	Monitoring and Evaluation
NGO	Non-Governmental Organization
NSDP	National Sustainable Development Plan
OECD	Organisation for Economic Co-operation and Development
OPSC	Office of the Public Service Commission
PSC	Public Service Commission
UNDP	United Nations Development Programme

2. ACKNOWLEDGMENTS

We would like to express our sincere gratitude to the staff of the Department of Customs and Inland Revenue for their participation in the Institutional Capacity Assessment (ICA) survey. Their valuable insights and contributions have been instrumental in identifying key areas for capacity development. We also thank the Vanuatu Public Service Commission (PSC) for initiating and supporting this assessment process. Special thanks to the Vanuatu Bureau of Statistics for digitizing the 2025 PSC ICA report, which has facilitated the automation of data processing, analysis, and report generation for upcoming years' ICA surveys. This collaborative effort underscores our commitment to strengthening public institutions in alignment with the National Sustainable Development Plan (NSDP).

3. INTRODUCTION

The NSDP's society pillar goal 6 provides for “strong and effective institutions for ensuring a dynamic public sector with good governance principles and strong institutions delivering the support and services expected by all citizens of Vanuatu”. OPSC's overall development program and policy objectives for the work of individual or institutional capacity assessment and development is also guided by this goal.

This report provides some background to the ICA process undertaken in August 2025 with the Department of Customs and Inland Revenue staff and provides the results or outcome of the assessment. The Department of Customs and Inland Revenue is encouraged to review and verify the report, and make appropriate plans to address any shortfall or improvements in institutional capacity areas or elements identified through the assessment.

4. BACKGROUND

4.1 What is meant by “capacity” and “capacity development”?

The phrase “we need more capacity” is often used to refer to: we don’t have enough staff; we need more training; our office space is too small; our strategy is demanding more of us than what we can realistically deliver; we need better systems of work; we need more efficient processes; our infrastructure is outdated and needs replacement; we need bigger budgets. Any of these statements are a reflection of capacity, but none of them alone suffices a thorough definition of capacity.

‘Capacity’ is a commonly used term in the context of international, organisational, and community development. However, when confronted with institutional capacity development assessment and planning requirements, it is important to have a shared understanding of what ‘capacity’ means to ensure effective development approaches. Key understanding can be drawn from the following perspectives on the nature of capacity and capacity development.

On the nature of capacity...

“...the ability of individuals, institutions, and societies to perform functions, solve problems, and set and achieve objectives in a sustainable manner.” (United Nations Development Programme, 2009, p. 5)

On the development of capacity...

Capacity development involves much more than enhancing the knowledge and skills of individuals. It depends crucially on the quality of the organisations in which they work. In turn, the operations of particular organisations are influenced by the enabling environment – the structures of power and influence and the institutions – in which they are embedded. Capacity is not only about skills and procedures; it is also about incentives and governance. (Organisation for Economic Co-operation and Development, 2006, p. 12)

Capacity development is a locally driven process of learning by leaders, coalitions and other agents of change that bring about changes in socio-political, policy-related, and organizational factors to enhance local ownership for and the effectiveness and efficiency of efforts to achieve a development goal. (Otoo, Agapitova, & Behrens, 2009, p. 3)

So, capacity is about people, action, and results, all influenced by the contexts and environments in which they operate. Capacity development is therefore about learning and change that supports the achievement of desired development results within that context and environment. Institutional capacity development ultimately aims to increase the ability of institutions to achieve the results for which they are responsible.



Figure 4.1: Capacity – people, context & environment

It is important to understand the idea of “capacity” as an emergent property and is “living and dynamic” (Fowler & Ubels, 2010, p. 17) rather than as a fixed and easily measurable “thing”. Capacity can manifest in many ways: from an individual’s choice to exercise a key skill to achieve a task result, to a workgroup’s ability to coordinate actions to process a complex request, through to the coordinated delivery of public services to the community.



Figure 4.2: Key factors influencing ‘capacity’

Figure 4.2 provides important ideas to guide the way we can examine and understand capacity and how capacity might be developed in the line agencies of the public service. It seeks to bring these ideas together, by identifying

the key factors that are likely to influence capacity and the development of capacity in this context and environment:

At the highest strategic level, line agencies operate under particular legal frameworks and national policies such as the NSDP that define their powers and responsibilities that parts of their overall work system hold, which is then reflected in the mandate and purpose of each part. These in effect, define and bind what capacity is required of the line agencies as a whole, and of each part.

Two key broad categories bound the capacity elements at the core: institutional capacity, which is influenced by strategic plans and budgets, and human resource capacity, which is influenced by the culture and environment of the workplace. At the core are the institutional elements of organisational design, operational systems, HRM, and management processes, all of which influence the performance and outcomes of the agency.

Underpinning all this is the capacity of institutions to demonstrate effective leadership and management, together with key enabling elements such as access to IT and information, facilities and equipment, availability of human resources with required capabilities, and the available options for targeted and specific human resource development.

In summary, the following key points are essential to consider when planning for capacity development:

- Capacity is about the knowledge, skills, and abilities of people, and about what people can and will do together;
- The primary driver for capacity concerns the strategic goals and purpose of the organisation, so all development planning must consider how well existing capacity serves these needs, which is what drives the need for assessment;
- Changes in capacity should be measurable through achievement of planned activities, outputs, and outcomes, and ultimately impacts in the community through the line agencies' service delivery;
- Capacity development is a long-term process – it takes time, resources, and perseverance;
- Capacity is an emergent property of an overall work system, and many factors contribute to capacity, how capacity emerges, and what can be achieved, so sensitivity and acute observation are needed to ensure that development is timely and appropriate.

5. INSTITUTIONAL CAPACITY ASSESSMENT GRID

5.1 How Department of Customs and Inland Revenue's institutional capacity was assessed

OPSC's Framework for Institutional Capacity Assessment and Development (see Appendix A) is designed to clarify the capacity needs, and assessment and development approach that is relevant at the level of the Institution or Agency. The focus is on institutional capacity targeting organisational design, HRM, operational systems, leadership and management practice, facilities and equipment, and the effectiveness of the organisation in coordinating action to achieve operational and development objectives.

The assessment framework and descriptions are based on a range of sources that describe aspects of effective organisational functioning that have been adapted to the unique Vanuatu Public Sector context.

The objectives of the ICAG, which can be used by staff and stakeholders alike, include:

- To identify those particular areas of capacity that are strongest and those that need improvement;
- To assess changes in an institution's capacity over time by readministering the ICAG;
- To draw out different views within an organisation regarding capacity. Different responses to the ICAG amongst staff, stakeholders, and donors, for example, can be a valuable discussion starter within an organisation.

This assessment examined a range of institutional capacity elements within the Department of Customs and Inland Revenue. A total of 10 Department of Customs and Inland Revenue staff completed the institutional capacity assessment in August 2025.

The primary tool used to undertake the assessment is the Institutional Capacity Assessment Grid (ICAG), a diagnostic tool that has been developed and tailored to capture key data about capacity that is relevant to line agencies or institutions. The ICAG asks the reader to score the organisation on each element of organisational capacity provided, by selecting the text that best describes the organisation's current status or performance.

The ICAG itself is not a scientific tool, and should not be used as one. It is difficult to quantify the different dimensions of capacity, and therefore the different descriptive text is intended to be indicative rather than exact. In this way, the scores are meant to provide an indication of the "temperature" of the organisation's capacity in order to identify areas of improvement.

The tool is meant to be a starting point for conversation leading to capacity development planning. The 5 steps in the process are described in the following diagram.



Figure 5.1: Five-Step Process for Assessing and Planning Capacity Development Using the ICAG

This report supports Step 3, and is intended to encourage closer examination of key capacity areas that can then become the focus of capacity development. The ICAG is also designed to help the members of individual agencies reflect on and assess their own organisational capacity.

The results of the ICAG can be used in many ways:

- To define key development priorities for line agencies;
- To establish a “baseline” for organisational capacity and identify common development issues across line agencies and sectors;
- Lastly, to identify where additional program supports from the OPSC or from development or donor partners could be offered to best effect.

5.2 Methodology

5.2.1 Data Collection

The Institutional Capacity Assessment Grid (ICAG) was used to gather information about the organizational capacity of different departments within the Vanuatu Public Sector, including the Department of Customs and Inland Revenue. This tool helps evaluate key areas like organizational design, human resource management, operational systems, leadership practices, and infrastructure. The survey was conducted using Microsoft Office 365 Forms. They rated 31 capacity categories on a scale from 1 (Clear Need) to 4 (High) based on statements that described how well the department was performing (e.g., from “little shared understanding” to “clear and compelling vision”).

The survey responses were collected through Microsoft Office 365 Forms and saved into a spreadsheet. This file included answers from various departments, such as the Department of Customs and Inland Revenue and the Department of Water Resources. Each row in the spreadsheet represents one respondent, with details like their ID, email, name, province, ministry, department, and their ratings for the 31 capacity categories, written as descriptive text based on their chosen score.

5.2.2 Data Processing

The following steps were undertaken:

The information from the survey was prepared for analysis. Here’s what was done:

1. **Data Extraction:** The survey responses were changed into a format that could be easily analyzed.

2. **Data Cleaning:** The text answers (e.g., “little shared understanding”) were turned into numbers based on the ICAG scale:
- A = 1 (Clear Need)
 - B = 2 (Basic)
 - C = 3 (Moderate)
 - D = 4 (High) The first letter of each response was used to assign the correct number. If a response was missing or unclear, it was marked as missing and handled later.

5.2.3 Data Analysis

The prepared data was analyzed using R to understand the Department of Customs and Inland Revenue’s institutional capacity. The process included the following steps:

1. **Loading the Dataset:** The survey data was brought into R¹, and only the responses from the Department of Customs and Inland Revenue were selected.
2. **Calculating Mean Scores:** We figured out the average scores for each of the 31 capacity categories based on the Department of Customs and Inland Revenue’s responses.
3. **Identifying Strongest and Weakest Capacities:** The top two categories with the highest average scores were noted as the strongest, and categories with averages of 2 or lower were marked as the weakest.
4. **Rating Distribution:** We counted how many times each score (1 to 4) appeared for each capacity category.
5. **Visualization Data:** The average scores were prepared for charts, with one chart showing categories from most to least developed and another from least to most developed.
6. **Visualization:** Charts were created using R. The first shows average scores ordered from most to least developed, and the second ranks them from least to most developed, using colors to highlight the scores and lines to show different levels of need.

5.2.4 How the ICAG Scale and Analysis Methods Were Chosen

The Institutional Capacity Assessment Grid (ICAG) scale, ranging from 1 to 4, was carefully designed to reflect the varying levels of organizational capacity within the Vanuatu Public Sector, including the Department of Customs and Inland Revenue. This scale—where 1 represents “Clear Need,” 2 indicates “Basic,” 3 denotes “Moderate,” and 4 signifies “High”—was developed based on qualitative descriptors tailored to the local context, drawing from established organizational development frameworks. The descriptors for each level (e.g., “little shared understanding” for 1, “clear and compelling vision” for 4) were crafted to capture the spectrum of performance across 31 capacity categories, ensuring relevance to the department’s operational and strategic challenges.

The analysis methods, including the calculation of mean scores and the establishment of thresholds for identifying weakest capacities, were selected to provide a robust, evidence-based foundation for actionable priorities. Mean scores were computed by averaging the ratings provided by the 10 Department of Customs and Inland Revenue staff who participated in the August 2025 assessment, offering a reliable aggregate measure of capacity across each category. The threshold of ≤ 2 was chosen to flag capacities requiring urgent attention, as scores at or below this level indicate performance that is either at “Clear Need” or just reaching “Basic,” signaling significant gaps that hinder effective service delivery and strategic goal attainment. This cutoff was determined to align with the National Sustainability Development Plan’s (NSDP) goal of strengthening public institutions, ensuring that the Department of

¹R is a free, open-source software used for statistical analysis, data processing, creating visualizations like graphs and tables, and automating this report’s generation.

Customs and Inland Revenue can prioritize resource allocation and capacity-building efforts where they are most needed. This approach enables the department to focus on critical areas, such as infrastructure or responsiveness, while supporting long-term planning and improvement.

5.3 Overview of Results

As a public institution with a broad scope and mandate for implementing the national government’s priorities, the MALFFB Corporate Plan, the Department Business Plan, and other priorities of the National Sustainability Development Plan (NSDP), the Department of Customs and Inland Revenue acknowledges its challenges, including limited financial and human resources. The Department has undertaken to shift its approach toward working closely with, and harnessing the available resources offered through other government line agencies, as well as credible non-government, civil, and faith-based organizations. This shift necessitates the development and consolidation of specific skills and capacities.

To build an evidence base for capacity development to support this transition, staff from the Department of Customs and Inland Revenue participated in an institutional capacity assessment activity conducted by the Office of the Public Service Commission (OPSC) in August 2025. The assessment, based on the Institutional Capacity Assessment Grid (ICAG), involved 10 staff members and evaluated 31 capacity categories to identify strengths and areas for improvement.

The analysis reveals that the Department of Customs and Inland Revenue excels in strategic planning and mission clarity, with mean scores reflecting a moderate to high capacity in these areas. However, critical gaps persist in infrastructure, responsiveness to environmental changes, and financial management, necessitating targeted interventions to enhance overall performance. These findings provide a foundation for the Department to prioritize resource allocation and capacity-building efforts, aligning with the NSDP’s goal of strengthening public institutions.

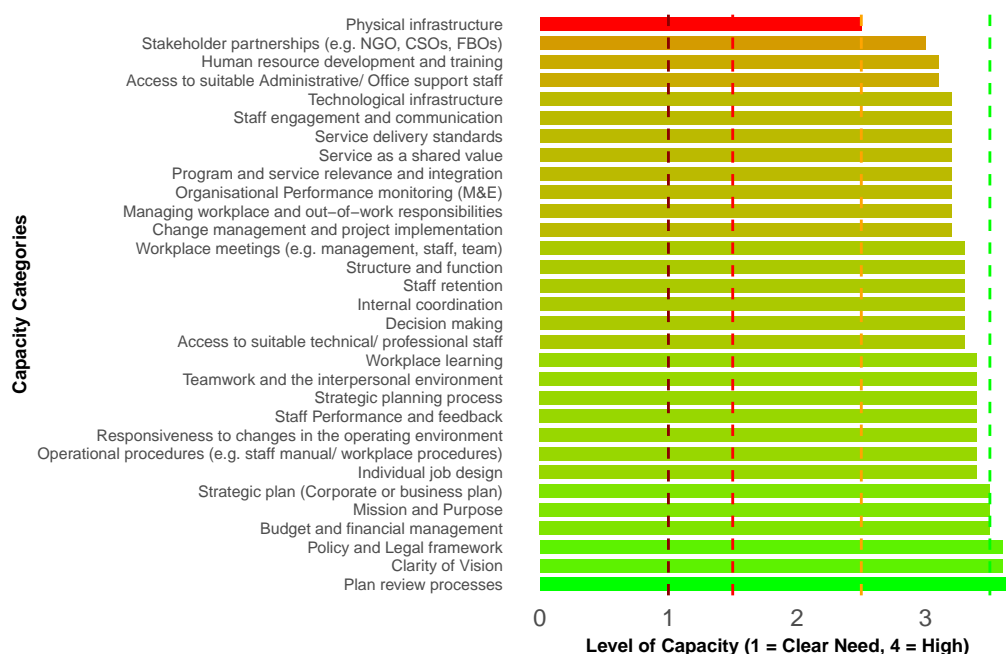


Figure 5.2: Summary of results by category (institutional average)

5.3.1 Strongest Capacities

Based on Figure 5.2, capacities that indicate a moderate to high level include:

- **Plan review processes**, described as The plan review is done, but it is usually reactive and may be based on an outside request or a problem that has emerged; Plan review is not a normal part of management practice, with a mean score of 3.7.
- **Clarity of Vision**, described as Mixed understanding of what the organisation aspires to achieve; lacks clarity or specificity; held by only a few people or just something that is written on a plan but with little ownership, with a mean score of 3.6.

Table 5.1: Summary of Strongest Capacities

Capacity Category	Mean Score
Plan review processes	3.7
Clarity of Vision	3.6

5.3.2 Top 10 Development Priorities and Recommendations

The OPSC analysis identifies the following 10 capacity areas as priorities for development, based on mean scores ≤ 2.5 , indicating performance at or below the “Basic” level. These priorities are critical for the Department of Customs and Inland Revenue to address to enhance institutional effectiveness and align with NSDP goals. Recommended actions are provided to guide decision-making and resource allocation.

Table 5.2: Development Priorities and Recommendations

Capacity Category	Mean Score	Recommended Action
Physical infrastructure	2.5	Develop a clear vision statement through staff workshops

5.3.3 Capacities Requiring Urgent Development

The Department of Customs and Inland Revenue demonstrates commendable effort and capacity across most assessed areas, with all mean scores exceeding 2, reflecting a solid foundation in delivering its mandate. This achievement highlights the dedication of the staff and the effectiveness of current practices. However, there are still areas where improvement is needed to enhance overall performance. The following capacities, identified as the lowest scoring, warrant focused attention:

- **Physical infrastructure**, described as Physical infrastructure can be made to work well enough to suit the organisations immediate needs; Little if any room for growth; Obvious improvements could be made to help increase effectiveness and efficiency (e.g. improved maintenance; rearrangement of office space), with a mean score of 2.5.
- **Stakeholder partnerships (e.g. NGO, CSOs, FBOs)**, described as Some partnerships and alliances in place; Not very active and/or troubled by some poor relationships, with a mean score of 3.

While these areas show mean scores above the 'Basic' level, there is still work to be done to elevate them to at least a 'Moderate' level, supporting the Department of Customs and Inland Revenue's strategic objectives.

Table 5.3: Summary of Capacities Requiring Attention

Capacity Category	Mean Score
Physical infrastructure	2.5
Stakeholder partnerships (e.g. NGO, CSOs, FBOs)	3.0

6. Appendix A: Descriptive Statistics

The following table provides descriptive statistics (mean, standard deviation, minimum, maximum, and median) for each capacity category based on the responses from 10 staff members in the Department of Customs and Inland Revenue.

Table 6.1: Descriptive Statistics by Capacity Category

Category	Mean	SD	Min	Max	Median
Clarity of Vision	3.6	0.52	3	4	4.0
Mission and Purpose	3.5	0.53	3	4	3.5
Policy and Legal framework	3.6	0.52	3	4	4.0
Responsiveness to changes in the operating environment	3.4	0.70	2	4	3.5
Strategic plan (Corporate or business plan)	3.5	0.53	3	4	3.5
Strategic planning process	3.4	0.52	3	4	3.0
Plan review processes	3.7	0.48	3	4	4.0
Budget and financial management	3.5	0.53	3	4	3.5
Program and service relevance and integration	3.2	0.79	2	4	3.0
Structure and function	3.3	0.82	2	4	3.5
Individual job design	3.4	0.52	3	4	3.0
Operational procedures (e.g. staff manual/ workplace procedures)	3.4	0.84	2	4	4.0
Internal coordination	3.3	0.82	2	4	3.5
Access to suitable Administrative/ Office support staff	3.1	1.10	1	4	3.5
Access to suitable technical/ professional staff	3.3	1.06	1	4	4.0
Staff Performance and feedback	3.4	0.70	2	4	3.5
Human resource development and training	3.1	0.88	2	4	3.0
Staff retention	3.3	0.82	2	4	3.5
Decision making	3.3	0.82	2	4	3.5
Staff engagement and communication	3.2	0.63	2	4	3.0
Workplace meetings (e.g. management, staff, team)	3.3	0.67	2	4	3.0
Change management and project implementation	3.2	1.03	1	4	3.5
Service delivery standards	3.2	0.92	2	4	3.5
Stakeholder partnerships (e.g. NGO, CSOs, FBOs)	3.0	1.05	1	4	3.0
Organisational Performance monitoring (M&E)	3.2	0.92	2	4	3.5
Teamwork and the interpersonal environment	3.4	0.70	2	4	3.5

Service as a shared value	3.2	1.03	1	4	3.5
Workplace learning	3.4	0.97	1	4	4.0
Managing workplace and out-of-work responsibilities	3.2	1.03	1	4	3.5
Physical infrastructure	2.5	1.08	1	4	3.0
Technological infrastructure	3.2	0.79	2	4	3.0

7. Appendix B: Planning for Institutional Capacity Development

The following process is offered as a means by which Department of Customs and Inland Revenue can:

- Make sense of the results of the ICAG
- Identify key priorities and strategies to address capacity needs, and
- Ensure where necessary that the strategies are captured in 2026 and onwards business plans.

Step 1: Gather a group of senior staff to examine the results

Move gradually through the report, step by step, taking time to explore any anomalies or results that are surprising or unexpected.

Step 2: Identify the key ideas for capacity development

Section 3.3 of the report lays out the priorities based on the analysis of the data from the assessment process. The “thermometer” indicates the current level of capacity according to the results, and the accompanying text provides the descriptors from the ICAG questionnaire to help identify possible development directions. Taking into consideration the recommendations made, work through each one in turn and ask:

- What can we realistically do in the next 12 months and onwards to develop capacity in this area?
- Will we need additional resources to do this? If so, where will the resources be sourced from?
- What kind of changes will this require of us? What will we need to keep doing? Stop doing? Start doing?
- How will the changes be embedded institutionally, into policies, procedures, or systems of work?
- How will we know if our efforts have been successful in developing greater capacity? (M&E)

Step 3: Decide the preferred strategies and integrate into the 2026 Business Plan and subsequent plans.

This step is an important part of recognising the importance of the change that is needed by embedding it into the priorities for 2026 and subsequent years. Inclusion in annual business plans will also ensure that the work is budgeted for and that progress is monitored as part of the plan review.