

VII. Donor Assistance

This chapter describes donor-coordination mechanisms and discusses donor activities in relation to financial management and governance arrangements. It is structured as follows:

- 1 – Introduction
- 2 – Overview
- 3 – Financial Management Improvement Program
- 4 – Financial Management Project
- 5 – Funding of FMP
- 6 – The PNG Government Structural Reform Program
- 7 – ADB Technical Assistance

1. Introduction

The Financial Management Project (FMP) (PNG 30535) is the only project or technical assistance, undertaken in recent years in PNG, which bears some relationship to the objectives of TA 5877. The FMP is designed to strengthen public sector financial management throughout PNG, enhancing the basic systems and strengthening their actual implementation. The Project also helped finalize implementation of the urgently needed Year 2000 information technology remedial programs in applications critical to the functions of public operations.

2. Overview

Table 1. Official Development Assistance⁴

	Cambodia	People's Republic of China	Mongolia	Pakistan	Papua New Guinea	Uzbekistan	Viet Nam
Dollars per capita	36	2	99	5	78	6	13
Percentage of GNP	12.1	0.2	26.7	1.0	7.8	0.5	4.1

⁴ Data is for 1997 and is sourced from: World Bank. 2000. *World Development Report 2000*.

Table 2: Overall External Assistance to Papua New Guinea⁵

External Source (\$ million)	Past 3 – 5 Years (Cumulative 1994 – 1998)		1998 Approvals	
	Loan/Credit	TA	Loan/Credit	TA
Multilateral				
ABD	29.6	4.1	14.1	0.3
Japan Special Fund	..	4.3	..	2.3
UNDP	..	8.0	..	..
World Bank	40.0	..	..	..
Subtotal	69.6	16.4	14.1	2.6
Bilateral				
Australia	..	232.0	..	..
Canada	..	..	..	..
France	..	..	..	..
Germany	..	10.0	..	..
Italy	..	..	..	..
Japan	..	37.0	..	..
New Zealand	..	4.0	..	..
United Kingdom	..	1.0	..	..
United States	..	..	..	..
All Others	..	4.0	..	..
Subtotal	..	288.0	..	..
Total	69.6	304.4	14.1	2.6

3. Financial Management Improvement Program

The Financial Management Improvement Program (FMIP) was initiated by the PNG Government, and the design has been developed in consultation with ADB, AusAID and UNDP. On the basis of the design the ADB loan and AusAID and UNDP technical support has been finalized. As the first stage of the FMIP implementation, ADB provided technical assistance to develop a Strategic Framework for the FMIP. This Strategic Framework identifies the major reform goals, the strategy to achieve those goals, and the program management structure for the FMIP.

⁵ Asian Development Bank. December 1999. *Country Assistance Plan. Papua New Guinea*. p. 16.

A summary of the volumes that comprise the Strategic Framework is set out below:

- Volume 1** Strategic Framework - Key Reform Strategies
- Volume 2** Implementation Plan and Terms of Reference for Loan Consultants
- Volume 3** Detailed Paper on Operational Strategies
- Volume 4** Detailed Paper on Information System Strategies
- Volume 5** Detailed Paper on Human Resources and Training Strategies
- Volume 6** Chart of Accounts
- Volume 7** Background Paper on Existing Financial Management

The Government through the Department of Finance and Treasury (DFT), has taken the initiative of coordinating the Financial Management Improvement Program (FMIP). A working committee on Financial Management Improvement was established in May 1997. In June 1997 an Information Technology (IT) Strategy was concluded. The FMIP was developed for two reasons. First, the need to respond to the fundamental restructuring of the machinery of government, and the financial relationships between the levels of government. Second, the fact that most of the financial computer systems were not Year 2000 compliant.

The FMIP and the IT Strategy provided a policy framework, plans, and an institutional focus for a reform of financial management. Within DFT, work has already been initiated on the FMIP, and a Manager (full-time) designated. Similarly, the IT Division has initiated action under the strategic plan.

4. Financial Management Project

A number of studies were undertaken in the period 1995-1997 which culminated in the Financial Management Improvement Program (FMIP). Included in the studies were:

- A preliminary Review of Financial Management Systems of the Government of Papua New Guinea – by Behdad Nowroozi, September 1995
- An Assessment of PNG's Financial and Fiscal Management – by Behdad Nowroozi, June 1996

Both these Studies formed the basis of the World Bank's Country Financial Accountability Assessment for PNG (PNG CFAA).

The Studies were confined to the Public Sector and covered such matters as:

- Financial Management Systems
- Budgets
- Government Assets
- Accrual Accounting
- Revenue and Loan Management Function
- Auditor General
- Implementation of Organic Law
- Weaknesses of the Present Systems
- Recommendations involving Accounting and Budgeting, Training, Cash Flow Management, Payroll, Accounting for Off-Budget Items, and Information Technology.

ADB provided TA2962 for \$272,000 to help refine the FMIP and to prepare a proposal for the Financial Management Project (FMP). At the PNG Government's request, the FMP was extended to cover a wider range of remedial actions associated with computerization including the Y2K problem. In addition, AusAID and UNDP prepared detailed proposals for their respective components of the FMP.

5. Funding of FMP

ADB loan RRP: PNG 30535 for	US\$ 25.8 m
AusAID	12.0 m
NDP	0.5 m
PNG	8.6 m
Total	US\$ 46.9 m

FMP Covers Five Components:

- Improve Planning and Budgeting Systems
- Improve Budget Execution and Accounting Systems
- Enhance Information Technology Systems
- Provide Training and Strengthen Resource Management
- Enhance Change and Program Management

This Project mainly involves the financial and budgeting systems of the Central and Provincial Governments. The Project could be used as a vehicle to initiate some of the recommendations identified in this Study.

TA5877- REG objectives not covered in the FMP include the following:

- Private Sector
- Accounting Infrastructure
- Accounting and Auditing Standards
- External Audit

6. The PNG Government Structural Reform Program

The present PNG Government inherited an economy in tatters, which had suffered because of regional economic crises, a series of natural disasters, deterioration in governance and pursuit of poor policies by the previous government.

The Government's structural reform program, for which World Bank and ADB support is being sought, covers two broad areas: strengthening economic management, and improving governance. Within these two areas are a number of specific programs all of which will strengthen accountability, governance and performance. The details of the Government's reform program and specific actions that will be taken to achieve it are set out in a document titled Matrix of Policy Actions. The main programs in this Matrix are as follows:

- To improve fiscal management and enhance macroeconomic stability;
- To improve debt management;
- To improve the operating environment for business;
- To improve governance;
- To improve the efficiency and effectiveness of the public service;
- To improve the resources and delivery of health and education services;
- To improve forestry management; and
- To improve efficiency of financial services and reduce systemic risk.

The PNG Government intends to work closely with the World Bank, ADB and other donors to ensure the success of its structural reform program.

7. ADB Technical Assistance

TA 3280 was approved by ADB on the 26 October 1999 and this TA agreement provides Technical Assistance to Papua New Guinea for preparing the Governance and Public Sector Reform Program.

The objective of the TA is to assist the Government in undertaking an analytical and consultative process that will culminate in the preparation of a Governance and Public Sector Reform Program. The appointed consultants are required to undertake the following tasks:

- Obtain agreement with and commitment from the heads of five to six key service departments to introduce results-based performance management;
- Assess current performance on a selection of key frontline performance indicators to serve as baseline data and benchmarks;
- Identify, through a cause-effect analysis, key institutional variables that are influencing inadequate performance;
- Develop a service improvement plan for each department; and

The plan will include addressing how National, Provincial and Local Government levels will work and coordinate to make performance more effective.