



Validation Report

Reference Number: PCV: PNG 2007-28
Project Number: 33145
Loan Number: 1875
February 2008

Papua New Guinea: Public Service Program

Operations Evaluation Department
Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
OED	–	Operations Evaluation Department
PCR	–	program completion report
PMNEC	–	Department of the Prime Minister and the National Executive Council
PNG	–	Papua New Guinea
PSC	–	Public Service Commission
PSP	–	public service program
RRP	–	report and recommendation of the President
SIP	–	service improvement program
TA	–	technical assistance
TCR	–	technical assistance completion report

Key Words

adb, asian development bank, economic growth, papua new guinea government, performance evaluation, policy reform, private sector, program completion report, public sector service reform, validation

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Operations Evaluation Department Program Completion Report Review

1. Project Data		PCR Review Date Posted		
Project Number	33145		Appraisal	Actual
Project Name	Public Service Program (PSP)	Total Project Cost (\$ million)	70.00	34.91
Country	Papua New Guinea	Loan/Credit (\$ million)	70.00	34.91
Sector	Law, Economic Management, and Public Policy	Cofinancing (\$ million)		
Financing (\$ million)	ADF	Borrower Contribution (\$ million)		
	OCR: 34.91	Board Approval	12 December 2001	
Cofinanciers		Closing Date	31 March 2005	
Project Officers Appraisal/ Implementation	Name	Designation	From (month/yr)	From (month/yr)
	Steven H. van der Tak	Project Specialist	31 March 2005	31 December 2005
PCR	Steven H. van der Tak	Country Director		
Evaluator	Peter Robertson	Director	R. Keith Leonard	
Quality Control Reviewer	Peter Robertson			

ADF = Asian Development Fund, OCR = ordinary capital resources, PCR = program completion report, PNG = Papua New Guinea, PSP = Public Service Program.

2. Project Description (in the report and recommendation of the President [RRP])

- a. **Rationale.** Public service management has deteriorated because of poor governance. Good governance is a main pillar of the Government's structural reform program. The Government must show improvements, particularly in frontline service to poor and rural communities.
- b. **Impact.** Improved living standards in Papua New Guinea (PNG): increase in the human development index, decrease in the percentage of the population living below the poverty line.
- c. **Expected outcomes.** Support for policy reform in (i) improving public service delivery in key sectors (education, health, agriculture, and transport infrastructure); and (ii) increasing private sector-led economic growth.
- d. **Outputs**
 - (i) Performance-oriented public service
 - (a) Strengthen policy commitment.
 - (b) Create a public sector reform management unit.
 - (c) Vest responsibility for performance management and evaluation of

department heads and departments in the Department of the Prime Minister and the National Executive Council (PMNEC).

- (d) Vest disciplinary powers over all department secretaries and provincial administrators in the chief secretary
- (e) Require all departments and agencies to submit annual updates of their corporate plans and annual performance reports.
- (ii) Reorientation of personnel management systems and processes
 - (a) Develop an action plan to increase the capability of the Department of Personnel Management (DPM).
 - (b) Establish an integrated human resource and payroll information system in DPM.
- (iii) Governance probity and oversight agencies
 - (a) Develop an action plan to strengthen the oversight institutions of the Auditor-General's Office and the Ombudsman Commission.
 - (b) Conduct an independent audit of the financial and control systems of the Department of Health.
 - (c) Conduct an independent audit of the financial and control systems of the Department of Education.
- (iv) Mechanisms for Public Service Delivery
 - (a) Develop an annual awards program for high-performing departments and staff, including a public service award.
 - (b) Develop performance indicators for basic service delivery in health, education, agriculture, transport, and works.
 - (c) Develop and circulate service charters for sectors covered by service improvement programs (SIPs).

3. Evaluation of Design and Implementation (envisioned versus actual, as assessed by the evaluator)

- a. **Relevance of design and formulation.** The Program is rated partly relevant. It was based on the public sector reform agenda of the Government of Papua New Guinea and was consistent with the country strategy and program of the Asian Development Bank (ADB), both at appraisal and at completion. However, the program design was overly ambitious in scope and assumptions, overestimating the Government's capacity, and providing too short a time for the intended reforms to take root. The RRP did not provide mitigation measures for the risks identified in the design and monitoring framework (output level). These turned out to be key constraints on the implementation of the reforms.
- b. **Key conditions** (outputs and costs, by component, as envisioned during appraisal, as compared with actual costs and achievement of outputs; reasons for deviations). The \$70 million program loan was divided into two portions. The amount of \$40 million was to be used for staff retrenchment, retraining, and repatriation (\$13 million); privatization, including regulatory and competition reviews (\$12 million); development and implementation of service improvement programs, conduct of functional and expenditure reviews, and maintenance of high-level coordinating secretariats (\$8 million); implementation of reforms in the human resource management and payroll system (\$4 million); and other structural adjustment expenditures (\$3 million). The balance of \$30 million in loan

funds was to be used to retire public debt and arrears. However, only a first tranche of \$33.95 million was disbursed. The program completion report (PCR) does not give details of the use of counterpart funds, although these are mentioned in the draft progress report prepared for the release of the second tranche. The release was withheld pending compliance with a key condition pertaining to the selection of heads of government departments (section 3c).

- c. Project cost, disbursements, contribution of Borrower, and conformance with schedule** (as relevant to the success of the Program). The program loan was to be disbursed in two tranches of \$35 million each, the first on loan effectiveness and the second after seven specific conditions were met. However, in 2003, while legislation was being prepared to amend the Constitution to reinforce the authority of the Public Service Commission (PSC), an independent agency, to select agency and department heads, the acting head of the National Fisheries Authority was selected in contravention of the agreed new procedures. Concerns regarding the lack of transparency in this process led to a delay in the Program. Extensive policy dialogue was carried out with the Government to obtain its firm commitment not only to introducing the programmed legislative and procedural reforms relating to the selection and performance monitoring of department heads and heads of statutory bodies, but also to implementing those reforms. As a result, the loan closing date had to be extended three times, until 31 March 2005. The Government did not seek a further extension, and the Program closed 2 years late, before the second tranche could be disbursed. During implementation, two changes of government and external macroeconomic shocks slowed progress despite very strong initial support and the senior positions held by reformers throughout implementation and beyond.
- d. Implementation arrangements, conditions and covenants, and related technical assistance.** While the implementation arrangements, according to the PCR, were the most robust feature of the Program's design they seemed overly complex, with a multiplicity of coordination points. The Department of Treasury, as the Executing Agency, was directly responsible for implementing some specific activities that had been devolved to other agencies. Overall coordination was vested in the central agencies coordination committee, made up of department heads who coordinated policies and endorsed draft policy statements from the ministries before these were submitted to the Cabinet. Implementation was the responsibility of PMNEC, and day-to-day coordination, that of the public sector reform management unit, a secretariat within the PMNEC. The PCR does not say how and to what extent this complex of implementing agencies was effective.

Two technical assistance (TA) projects were associated with the Program. The first was designed as a preparatory TA for \$600,000 but, with an additional \$381,000 from the Australian Agency for International Development, continued through loan implementation. The second, an advisory TA for \$850,000, was designed to support the first outcome of the Program, including the pilot-testing of improvements in public service. The PCR states that "although the TA succeeded in achieving its specific terms of reference, its impact was constrained by insufficient Government commitment of leadership and financial resources for effective implementation" (PCR, para. 33). The PCR does not refer to the TA completion report (TCR), which rated this TA successful. The TCR suggested

that, while the TA achieved its two expected outputs, at least by preparing plans of various kinds, it did not achieve the intended outcome of improving overall public sector performance and service delivery in key sectors—education, health, agriculture, and works. Thus, a successful rating could be in question.

- e. **Performance of the Borrower and the Executing Agency.** The performance of the Borrower was less than satisfactory. Although most conditions and covenants were technically achieved, the Borrower's commitment to provide the resources needed for implementation was doubtful. Further, the Borrower did not have enough commitment to deal with fundamental issues of transparency raised by the failure to comply PSC procedures, which eventually led to the premature closure of the Program. Lack of commitment was also noted in the implementation of the advisory TA (PCR, para. 33), the implementation of SIPs (PCR, para. 21), and the sustainability of reforms (PCR, para. 39). The Department of Treasury was an adequate Executing Agency, according to the PCR, which, however, does not refer to the quality of reports provided to ADB.
- f. **Performance of the Asian Development Bank.** ADB's performance is rated satisfactory. Concerns regarding the Program are those referred to in section 3a. During implementation, ADB provided adequate monitoring and supervision support from its headquarters and resident mission. The resident mission actively engaged the Government in policy dialogue, which, although ultimately unable to keep the Program from closing prematurely, did reinforce the importance of transparency, a key principle of good governance. ADB also successfully facilitated the sourcing of additional funds for one of the piggybacked TA projects from the Australian Agency for International Development.

4. Evaluation of Performance (assessment by the evaluator)

- a. **Relevance.** Partly relevant (section 3a).
- b. **Effectiveness in achieving outcome.** Less effective. The Program achieved neither of the outcomes stated in the design and monitoring framework. The PCR, in fact, does not refer at all to private sector-led growth or to the failure of the policy matrix and the outputs in the design and monitoring framework to address this outcome. With regard to the first outcome, clearly the focus of the Program, the PCR notes that the Government did transform the architecture of public service management and laid the foundations for further improvements. But the reforms have yet to take hold across the public service, and the systems improvements have yet to be reflected in better service delivery (PCR, para. 38). It would appear that, although almost all conditions and covenants were achieved, the outcome was not. In particular, the Government's inability to convince ADB that it was committed to implementing the general principles behind its reform agenda led to the premature closure of the loan, before the second tranche could be released. Reference to considerable improvements in macroeconomic performance can be credited to the Fund Program—a multi-donor (International Monetary Fund, World Bank, ADB, Australian Agency for International Development) program, and to better macro management, of which the public sector program (PSP) was a key component.
- c. **Efficiency in achieving outcome and outputs.** Less efficient. Although only

half of the loan was disbursed and therefore significantly less could be achieved, the failure of the Government to provide adequate counterpart resources reduced the efficiency of the Program and the associated TA.

- d. **Preliminary assessment of sustainability.** Unlikely. The Government's failure to fully implement many of the reforms, including providing sufficient resources and addressing transparency issues in civil service selection, does not bode well for the future. However, reform efforts continue, with support from some reform-minded civil servants and politicians.
- e. **Impact** (both intended and unintended). Without monitoring data, the overall impact can only be rated modest at best, although the Program was able to provide a sound institutional and legal foundation for further public sector reform.

5. Overall Assessment, Lessons, and Recommendations (assessment by evaluator)

- a. **Overall assessment.** From the ratings presented in section 4, the PSP is rated partly successful overall.
- b. **Lessons.** Attitudinal changes take time and ADB must institute mechanisms to maintain support for public sector reforms over the long term.
- c. **Recommendations**
 - (i) In policy-based lending, ADB needs to provide enough resources to assess and support capability development requirements during and beyond the life of a program loan.
 - (ii) ADB's resident mission must have adequate resources to provide the continuity of policy dialogue needed to sustain support for public sector reforms.

6. M&E Design, Implementation, and Use (assessment by evaluator)

The monitoring and evaluation system—its design, implementation, and use—was not well developed. The design and monitoring framework was not consistent with the RRP, had an outcome that was completely out of place, and appeared to have been constructed after the policy matrix was prepared. The monitoring indicators were unlikely to provide the information required to assess the achievement of outcomes, and there is no mention in either the PCR or the back-to-office reports for the Program that data on these variables were collected or used. Assumptions were overly optimistic and there were no mitigation measures for critical risks.

The PCR does not draw on the findings of an ADB assessment in 2006 of PNG's public financial management performance against the public expenditure and financial accountability framework for 2002, 2005, and 2006. The PCR should at least have referred to the assessment report, and to some of the indicators that were relevant to the reforms supported by the PSP.

7. Other (safeguards, fiduciary, unintended impact—positive and negative)

There were no safeguard violations or major unintended consequences.

8. Ratings	PCR	OED Review	Reason for Disagreement/Comments
Relevance	Highly relevant	Partly relevant	The program design, including assumptions and assessment of capacity, was overly ambitious. There was no mitigation strategy for key risks.
Effectiveness in Achieving Outcome	Partly successful	Less effective	
Efficiency in Achieving Outcome and Outputs	Partly efficient	Less efficient	
Preliminary Assessment of Sustainability	Unsustainable	Unlikely	
Borrower and EA	Partly satisfactory	Less than satisfactory	
Performance of ADB	Satisfactory	Satisfactory	
Impact	Not rated	Modest	
Overall Assessment	Partly successful	Partly successful	
Quality of PCR		Unsatisfactory	See section 9.

9. Comments on PCR Quality

These comments are based on the following:

- (i) Quality and completeness of evidence and analysis to substantiate the ratings given.
- (ii) Consistency with PCR guidelines (PAI 6.07).
- (iii) PCR candor and internal consistency; consistency of narrative and ratings with monitoring indicators and other data.
- (iv) Candid, accurate consideration of external factors (positive and negative) and attribution of results.
- (v) Extent to which lessons and recommendations are based on evidence and analysis.

The PCR is unsatisfactory for the following reasons:

- (i) The PCR does not present enough evidence to support the ratings given. No information is provided on the monitoring indicators in the program framework; rather, the original program framework is presented without change. The PCR asserts that macroeconomic conditions improved considerably during the program period, and that the program contributed “considerably” to reestablishing macroeconomic stability (PCR, para. 39). However, although the PSP helped improve public sector management and policy making, the PCR does not present macroeconomic data to substantiate this claim or provide evidence linking improvements in public sector performance to the Program.
- (ii) The PCR does not use rating terms consistently: it uses the terms “partly efficient” (PCR, para. 40), “partly successful” (effectiveness, PCR, para. 39), and “partly satisfactory” (Borrower performance, PCR, para. 36) interchangeably. The PCR

does not cover project design in its assessment of relevance and consequently gives a higher rating than might be expected, given the key design flaws recognized in the report. However, the PCR does include an update of the status of conditions and covenants in the appendixes.

- (iii) The PCR is inconsistent in describing the commitment of the Borrower. Ownership and leadership are lauded (PCR, paras. 6 and 35), while their lack is also cited as the reason for the non-release of the second tranche and the premature close of the Program (PCR, para. 8) and for concerns about sustainability (PCR, paras. 6, 41, and 43). The PCR could have drawn out more effectively the impact of changes in government and the difficulties facing the champions of reform over time.
- (iv) The PCR attributes the improved macroeconomic conditions to the Program when they should be attributed instead to the multi-donor effort and improved macroeconomic management.
- (v) The lessons and recommendations are consistent with the evidence and analysis.
- (vi) The PSP PCR was identified by the Operations Evaluation Department as requiring "in-depth review," which could have given more detailed initial advice on the draft PCR.

DPM = Department of Personnel Management, OED = Operations Evaluation Department, PCR = program completion report, PMNEC = Department of the Prime Minister and the National Executive Council, PNG = Papua New Guinea, PSC = Public Service Commission, PSP = public service program, RRP = report and recommendation of the President, SIP = service improvement program, TA = technical assistance, TCR = technical assistance completion report.

REGIONAL DEPARTMENT'S RESPONSE TO THE PROJECT COMPLETION REPORT VALIDATION REPORT

On 2 October 2007, Director, OED1, Operations Evaluation Department (OED), received the following comments from the Pacific Department (PARD).

The draft Program Completion Report Validation Report for Loan 1875-PNG: Public Service Program, was circulated on 6 September 2007. A summary of comments were prepared by OED. PARD finds the summary of comments excellent. Accordingly, OED has noted and taken into account some minor changes. Therefore, PARD has no further comments to make on the final draft.