



Validation Report

Reference Number: PCV: PNG 2008-22
Project Number: 35456
Loan Number: 1889
August 2008

Papua New Guinea: Nucleus Agro-Enterprises

Operations Evaluation Department

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
BTOR	–	back-to-office report
DAL	–	Department of Agriculture and Livestock
DMF	–	design and monitoring framework
DNPRD	–	Department of National Planning and Rural Development
DNPM	–	Department of National Planning and Monitoring
EA	–	executing agency
IA	–	implementing agency
IPA	–	Investment Promotion Agency
NE	–	nucleus enterprise
OED	–	Operations Evaluation Department
PCR	–	program completion report
PNG	–	Papua New Guinea
PPTA	–	project preparatory technical assistance
PSC	–	Project Steering Committee
RRP	–	report and recommendation of the President
SFS	–	subproject feasibility study
TA	–	technical assistance
TASMU	–	Technical Assistance Screening and Management Unit
TCR	–	technical assistance completion report
TSC	–	Technical Steering Committee

NOTES

In this report, “\$” refers to US dollars.

Key Words

adb, agro-industry enterprises, asian development bank, comparative advantage, nucleus enterprise, nucleus estate, policy program completion report, project implementation, validation

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OED PCR Validation Report Form

A. Basic Project Data		PCR Validation Date:	July 2008	
Project and Loan Number:	35426, Loan 1889		Appraisal	Actual
Project Name:	Nucleus Agro-Enterprises	Total Project Costs (\$M):	7.4	2.7
Country:	PNG	Loan/Credit (\$M):	5.9	1.5
Sector:	Agriculture and Natural resources	Total Cofinancing (\$M):	0.0	0.0
ADB Financing (\$M):	ADF: 5.9	Borrower (\$M):	1.0	1.1
	OCR: –	Beneficiaries (\$M):	0.0	0.0
Cofinancers:		Others (\$M):	0.0	0.0
Approval Date:	18 Dec 2001			
Loan Suspension:	16 Feb 2005	Closing Date:	30 Jun 2004	21 Nov 2007
Project Officers:	Name:	Location (HQ or RM):	From	To
	D. Ponzi	PAHQ, PARD	Dec 2001	Jan 2004
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ADB = Asian Development Bank, ADF = Asian Development Fund, HQ = headquarters, M = million, OCR = ordinary capital resources, OED = Operations Evaluation Department, OED1 = Operations Evaluation Division 1, PCR = project completion report, PNG = Papua New Guinea, RM = resident mission.

B. Project Description (summarized from RRP)

- (i) **Rationale.** Papua New Guinea (PNG) was considered to have comparative advantage in most of the tree crops and in many high-value food crops. Agro-industry enterprises operating in PNG demonstrated the private sector to be in a position to increase rural household incomes by providing inputs, extension services, and assured markets for smallholder production. However, expansion of agribusiness investment faced four key constraints: (a) law and order issues and overall policy environment which distort price signals, and add to uncertainty and risk; (b) institutional weakness, which result in poor service delivery; (c) lack of infrastructure and poor maintenance, affecting the flow of inputs and products to the markets; and (d) lack of credit and equity capital for such ventures (including credit for smallholders).

The private sector, smallholders, and concerned Government agencies showed interest in using nucleus enterprise (NE)-smallholder partnerships to achieve mutually beneficial results. While several potential ventures combining a private sector NE, smallholder development, and associated infrastructure had been identified; these needed to be prepared in detail. More importantly, a coordinated approach was required to establish a mechanism for screening, policy analysis, and awareness building. Based on careful upfront analysis of the enabling environment, detailed feasibility and marketing studies were needed together with social impact and environmental assessments. Prior to considering direct project financing for NE-focused development, it was thus considered desirable to help develop agro-based NE project concepts and to assess their viability thoroughly.

- (ii) **Expected Impacts.** No specific goal is identified in the report and recommendation of the President (RRP), nor any indication of impact. This is considered to be a design weakness. The closest to a goal statement in the main text is in para. 25 of the RRP which envisaged

“that the assistance would help to overcome the difficulties currently experienced in sector activities in PNG. The technical assistance (TA) loan would be used for obtaining development finance from multilateral, bilateral, and commercial sources, including Asian Development Bank (ADB), for the project proposals developed.”

The logframe goal is also considered to be more of the nature of a purpose level objective rather than a goal—“to identify, develop, and support new arrangements for the development of commercially oriented agriculture in PNG through private/public partnership, and smallholder development.” In the view of Operations Evaluation Department (OED), the goal of the project should have been set at a higher level, perhaps as identified in the target column of the logframe goal—“an expansion of commercial agriculture using new and expanded modalities based on the concept of a private sector NE serving outgrowers and smallholders.”

- (iii) **Objectives or Expected Outcomes.** As stated by the project framework “the proposed TA Loan would identify and prepare a pipeline of subprojects based on the NE and smallholder development concept that can be packaged into a series of subproject proposals for financing by the ADB or other financing agencies.” This objective is also weak as it does not specify why the project is being undertaken. This is significant insofar as it relates to project effectiveness

- (iv) **Components and/or Outputs.** No separate components were identified.

Outputs. Three stages were envisaged for subprojects: (a) initial project identification and screening (expected to be between 40 and 50 in number [RRP, para. 29]); (b) subproject feasibility studies (20); and (c) investment in pilot project activities. For the latter, the number was not specified, but budget of \$1.5 million was provided with a maximum of \$200,000 per subproject.

C. Evaluation of Design and Implementation (PCR assessment and Validation)

- (i) **Relevance of design and formulation.** The Project’s preparatory TA (PPTA) is assessed as a solid piece of work. However, significant shortcomings were (a) limited institutional and risk analyses; and (b) lack of assessment of comparative advantage for the major potential NE crops, which it was tasked to look at. While it assessed five enterprises as financially and economically viable (including two oil palm enterprises), it did not look at comparative advantage per se; a significant omission. However, both PPTA and appraisal analyzed strengths, weaknesses, opportunities, and threats for potential NE crops. Appraisal moved substantially away from the concepts of PPTA, which had proposed a more investment oriented project. Appraisal also changed the implementing agency (IA) from the Investment Promotion Authority (IPA) to the new TA Screening and Management Unit (TASMU), leading ultimately to severe implementation problems.¹

The Project’s objectives were not clearly stated but were relevant at the time of appraisal, since the objective of expanding commercial agriculture had long been an objective of the Government, and reflected its Medium-Term Development Strategy. The experience of PNG in the oil palm sector and particularly the NE in East New Britain, assisted by ADB, had generally been positive; and it was anticipated that such success could be replicated in other sectors. The Project was also fully in-line with the ADB Country Operational Strategy (1998).

Despite this coincidence of stated objectives, in retrospect it can be questioned whether a TA loan was the best approach to NE development. For example the TA completion report (TCR para. 95.) states that “Government should not have taken on a loan for TA. It became apparent to the consultant team during the early stages of the Project that their presence in

¹ It is recognised that it is not possible to say at this stage whether IPA would have been more successful than TASMU. It should however, at the least have been more responsive to ADB’s requests to improve administration.

TASMU was not welcome... There was a general feeling that the TA support was not felt to agriculture be necessary and the task of packaging subproject feasibility studies (SFSs) and pilot projects could have been managed by national experts. This view was further re-emphasized when there was an outright rejection of the proposal for further TA to be provided to enable implementation of the Project to be completed...it is surprising that Government agreed to the loan, a substantial proportion of which was designated for the TA contract. Under these circumstances it would have been preferable for the loan to be confined to support for SFSs and pilot projects, with TA provided under a grant funding arrangement.”

While design coincided with ADB and PNG Government strategies, there were a number of issues that should have been evident at the time of design. Of key importance was the comparative advantage claimed for PNG in most of the tree crops and in many high-value food crops (see rationale above). While intuitively, the concept would seem to be true because of favorable climate and soils; in practice, PNG agriculture has experienced difficulty in developing sustainable exports due to logistical and security problems and to some degree the high value of the kina particularly in the period to 2000.² The overvalued kina has been due to the predominance of mineral exports, and the high proportion of aid in relation to the national budget. PNG has, however, been able to export palm oil, coffee, and cocoa successfully; though these have been volatile, with, e.g., prices for coffee being undercut by high levels of production in Vietnam. Thus, while in some areas and for some crops, project objectives were sound; it is considered that the design was optimistic in the context of PNG agriculture. More work is considered to have been required at the time of design to analyze comparative advantage more closely with the intention of limiting the range of enterprises to be supported and thus, to limit unnecessary work by proponents and the potential for failed enterprises.

While the NE concept worked well in West New Britain, it is a concept that has experienced difficulties in other countries and sectors. While offering an excellent method for improving technology, financing, and marketing, it can face problems in attracting and retaining growers, and in black marketing. Oil palm is an ideal NE crop, since it must be processed (in an expensive plant) soon after harvesting. Black marketing is, thus, impossible. Few other crops meet this criterion to the same degree. In this context, the decision to limit the extent of support oil palm enterprises (to 3 out of 20 feasibility studies—Memorandum of Agreement Review mission of December 2003, para. 33) can be questioned. More research is considered to have been required, at the time of design into this issue and the crops which were potentially suitable for NE development.

Other aspects of NE production also needed more assessment, for example the social and management requirements. There is often potential for conflict between the NE and its outgrowers due to mistrust or misinformation about processing and marketing costs. Such conflict can be particularly severe in PNG.

The Special Review Committee generally endorsed the Project with most discussion focusing on issues of cost sharing and taxation. The Senior Economist (South Pacific Poverty Reduction) questioned the rationale for the project in terms of value added, sustainability, and priority. He asked what additional value the new organization (TASMU) could provide beyond the work of South Pacific Trade Commission, and the South Pacific Project Facility in

² Although the exchange rate fell markedly in the late 1990s, the factors which caused high kina valuation in relation to export industries (aid inflows and mineral exports) continue to affect exchange rates, causing competition for resources with other manufacturing and export industries. However, according to an International Monetary Fund report (International Monetary Fund. 2008. *Selected Issues and Statistical Appendix*. Country Report No. 08/93. PNG) “actual exchange rate was mostly undervalued by a small margin during 1994–2007. There were three periods of significant undervaluation during 1995, 1998–2000, and 2001–2002, and three brief periods of small to moderate overvaluation in 1997, 2000, and 2005.” Export of agricultural (non-forest) products was less than 10% of export value in 2006; while gold, copper, and oil exports totalled \$10 billion, or 82% of export value. (ADB. 2007. *ADB Key Indicators 2007*. Manila).

Sydney; and existing commercial and development banks, and private businesses in PNG. Not much more could be gained by public intervention in investment analysis. In this context, was it a priority to establish another investment analytical agency? He questioned the sustainability of a public entity undertaking a private service and priority in terms of many other constraints to private investment in PNG at the time. These comments proved to be incisive during project implementation, and needed to be more fully addressed by appraisal.

- (ii) **Project Outputs** (or conditions in the case of program loans). The Project received 177 NE subproject submissions. Although not discussed by PCR under Outputs, it reports under Lessons (para. 52) “that time-consuming, small, uneconomic subprojects should be eliminated at the outset, especially those recycled from Department of Agriculture and Livestock (DAL) and other agencies. Such proposals could be better supported by DAL, commodity boards or nongovernment organizations.” The implicit conclusion is that a large number of proposals were unsuitable. The number, perhaps, could have been reduced by pre-screening proposals against well-publicized criteria.

The Project prepared 41 NE subproject identification reports, and undertook feasibility studies of these subprojects. Of the 41 subprojects, the Technical Screening Committee (TSC) screened and approved 22 (13 subproject feasibility studies, seven pilot project activity appraisals, and two joint feasibility study and appraisals). Only one enterprise, Pacific Spices was granted pilot project funds (K494,672 or around \$160,000) by the Project.

- (iii) **Project Cost, Disbursements, Borrower Contribution, and Conformance to Schedule** (as relevant to project performance). Estimated project cost at appraisal was \$7.40 million. ADB was to lend \$5.90 million equivalent from its Special Funds resources with the Government financing \$1.00 million and the NEs \$0.50 million. Actual project cost totaled \$2.68 million or 36% of appraisal estimates. \$4.19 million equivalent was cancelled during implementation, and a further \$0.99 million equivalent at loan closing. An imprest account was established with an initial deposit of \$0.50 million. The Project Completion Report (PCR, para. 20) indicates that replenishment of the imprest account was often delayed; mainly due to incorrect categorization of expenditures, and inclusion of ineligible expenditures.

At appraisal, government contribution was estimated at \$1.00 million. In practice, actual expenditure is recorded by PCR (page iv) at \$1.14 million. While the overall local budget exceeded target, availability during the main project period was limited. PCR considers that the Government only partly complied with the covenant relating to counterpart funds, stating (in Appendix 5) that “shortage of counterpart fund provision prevailed during implementation.” A significant part of the government contribution appears to be ex-post repayment of ineligible expenditures required for loan closure, and the funds were therefore not available during project implementation.

Delays were experienced in recruitment of consultants, the main cause of the extension requested and granted of 17 months. PCR reports (para. 22) that loan closing and imprest account liquidation were substantially delayed, well beyond allowable time limits, leading to loan account closing in November 2007, approximately 22 months after ADB requested that the outstanding loan amount be refunded.

- (iv) **Implementation Arrangements, Conditions and Covenants, and related TA.** The PNG Department of National Planning and Rural Development (DNPRD) was executing agency (EA) for the Project. The problems experienced by the Department suggest that an alternative EA (perhaps DAL) may have been a better choice (see TA Completion Report para. 25). Neither PPTA nor appraisal analyzed the implementation arrangements for the project and provide no information on why DNPRD was selected. No assessment was made of the strengths and weaknesses of DNPRD as EA or of possible alternatives or the range of possible IAs.

Implementation was through the TASMU, established to implement the Project. The unit experienced severe management and administration problems throughout its life. It would appear that the difficulties and risks of establishing a new IA in the often difficult institutional environment of PNG were not sufficiently recognized at design.

Projects recommended as viable by TASMU were initially screened by the TSC. According to PCR (para. 24) the TSC ceased to function in September 2004, after three meetings. As a result of difficulties in administration and financial control within TASMU, DNPRD requested the Project Steering Committee (PSC) to assume monitoring of TASMU activities.

A majority of the loan covenants were complied with either partially (11), late (2), or not at all (2). Partial compliance was observed in relation to counterpart funding allocation, the enactment of sound administrative policies and procedures for management; and use of funds, accounting and internal control, and auditing of project accounts. Serious management problems prevented these conditions from being complied with during the implementation period. Persistent problems with project administration—in particular, delays in submitting project audited accounts for fiscal years 2002 and 2003, and highly deficient project accounting and financial management—resulted in suspension of withdrawals from the project account. ADB demonstrated prudent flexibility in adjusting agreed deadlines for compliance with the loan covenants, and reached agreement with the Government to embark on a process that would lead to closure of the loan. On 12 August 2005, ADB terminated the rights of the Borrower to make loan withdrawals; and an amount equal to uncommitted project funds was cancelled.

- (v) **Performance of the Borrower and EA.** The performance of the borrower is rated partly satisfactory (PCR unrated) by OED. PCR (para. 32) reports that “the borrower faced difficulty in sustaining counterpart-funding for the Project in accordance with the loan agreement, and the failure to provide counterpart funds at critical periods proved to be a major constraint to the Project.” Delayed or inadequate counterpart funding was reported by every review mission, and was a factor leading to the inappropriate use of imprest account funds.

Performance of the EA is rated unsatisfactory by OED, the same as PCR (para. 33), which identifies nine key failings of the EA. Almost all of these, however, relate to the difficulty in locating a suitable co-head, the search for whom took 6 months; followed by the appointment of an inexperienced head who was not able to adequately manage the unit.³ An office was provided on a timely basis but needed to be relocated twice due to size and access limitations (PCR para. 24). The TSC was appointed but ceased to function after three poorly attended meetings and was replaced by the project steering committee to undertake its functions. The financial and administrative problems that ultimately caused the cancellation of the loan largely arose due to poor management of TASMU. DNPRD, through the TSC and the PSC, was fully aware of these problems and should have allocated resources to address them. The delay in appointment of the project consultants (about 16 months after the TASMU head commenced work) is considered to have been a possible cause of TASMU’s problems. If the consultants could have been appointed on a timely basis, they could perhaps have assisted the co-head to develop improved administration systems. However, given the later lack of cooperation between the consultants and TASMU management, this is perhaps optimistic.

The performance of TASMU, the IA, was also unsatisfactory. Consultant recruitment was delayed and in some cases inappropriate, while financial management and control were inadequate, resulting ultimately in loan cancellation. Even after the commencement of the consultant team, problems continued and the April 2004 special review mission reported that

³ However, it is worth recording that the inception back-to-office report (BTOR) considered the co-head to be “a proactive and competent PNG professional.” The problems seem to have arisen due to the preference of the co-head to focus on public relations and technical aspects, when his duties were meant to relate to management and administration.

“the internal control and accounting systems appear to have deteriorated further since the Review Mission in December 2003 and are currently in an appalling state. The accountant has resigned, but no replacement found. It continues to be difficult to determine the current status of expenditure by budget line, and vouchers do not provide complete supporting documentation and are in some cases missing.”

- (vi) **Performance of ADB.** ADB mounted a number of review missions. The gap of 16 months between the inception mission in August 2002, and the first review mission in December 2003, is considered to have been too great at a critical time for the Project. The problems of setting up TASMU, and recruiting consultants, merited more intensive input at this time. Subsequent review mission frequency was adequate, with more than two per year. It is notable that the Project’s performance rating was satisfactory from September 2002 to March 2004, but progressively degraded to unsatisfactory by November 2004. This appears to confirm less than adequate oversight during the 2002 to 2004 period. While ADB did try to assist TASMU and DNPRD to lift their game, this proved ineffective. At the least, OED considers that more pressure should have been brought to bear on Department of National Planning and Monitoring (DNPM) to improve TASMU performance or to replace key staff. However, TCR (para. 94) states that “in general the reviews conducted by the ADB were treated with contempt by both DNPRD and TASMU, and the attempts to effect improvement were largely futile. ADB should have adopted a much more assertive role when it was apparent that important loan covenants were being disregarded.”

Although the Project had largely been designed with oil palm in mind, ADB policies were opposed to funding oil palm development. This was due to (a) the fact that the private sector should be capable of organizing development, and (b) the need to clear forest to establish palm. These are understandable concerns. However, in practice, OED considers that the limitation on oil palm was a negative aspect of implementation, since PNG’s experience, and comparative advantage in the crop, give it a significantly greater chance of success than any alternative.⁴ The lack of focus on oil palm represents a missed opportunity. OED considers that ADB’s performance was partly satisfactory (PCR, satisfactory).

D. Evaluation of Performance (PCR assessment and Validation)

- (i) **Relevance.** Despite the negative factors listed under Section C (i), it is considered that the design was relevant. TASMU should have been able to undertake or commission the work needed to assess comparative advantage, financial viability (recognized in several review mission reports as inadequate), and other issues relating to NEs. However, in practice, there is no evidence that such analysis was undertaken, though it is expected that it would have been undertaken for specific investment proposals.

During implementation, a total of 177 proposals were received, far higher than the 40–50 which was planned to assess. While in principle this might suggest that demand was high, PCR reports that many of the proposals were “recycled” from proposals previously put to DAL for example. While PCR indicates that they were NE proposals, a review mission in December 2003 reported that “not all of these relate specifically to the formation of NEs, and that they mainly comprise submissions that had been previously made to IPA, DAL, and DNPRD.”

PCR considers that the analysis conducted by TASMU may prove useful to enterprises in future. However, only one enterprise was supported at the pilot project level (Pacific Spices) with total expenditure of around \$160,000 out of a total budget of \$1.5 million (11%).

⁴ It is noted that the project website (www.agro.org.pg) does not include oilpalm among the 11 enterprises pictured on its home page. The website was launched in early 2005, just before the end of the Project.

At completion, the project remains relevant in the context of the Government's medium term development strategy. This includes development of the nucleus agro-enterprise model within one of its seven expenditure priorities (reported in ADB Country and Strategy Program 2006–2010, para. 36). The new Country and Strategy Program expects support to the NE model to continue within the context of private sector development. ADB expects to work with the Government in a lead role to develop a coordinated approach to private sector development. Although as implemented, the Project demonstrated limited relevance to agricultural sector development in PNG, due to its management problems, overall it merits a rating of relevant, the same as PCR.

- (ii) **Effectiveness in Achieving Outcome.** The planned outcome of the project according to its design and monitoring framework (DMF) was to “assess the feasibility of development packages comprising the NE, associated smallholder development, and necessary infrastructure; and prepare suitable proposals for funding.” This outcome is considered to be an inadequate purpose level objective since the preparation of feasibility studies is closer to an output rather than an outcome.

While it met or exceeded its output targets, only one NE was funded under the Project, and none is recorded by PCR as being taken up by other financial institutions. However, it is possible that other NEs have been funded by other agencies.

OED considers that a higher level purpose objective should have been developed for the project, for example reflecting the development of a number of NE using project or non-project funds. Against this objective, the Project would probably be rated ineffective, with only one enterprise apparently funded and requiring additional outside finance, against a target of perhaps 10 under the project and a similar number funded externally. Against the DMF purpose reproduced above the Project is rated “less effective” the same as PCR.

- (iii) **Efficiency in Achieving Outcome and Outputs.** Process efficiency was limited. Project administration was deficient for the entire period between inception and loan suspension. The imprest account was misused; and project recording, reporting, and financial management were inadequate. TASMU management lacked a clear understanding of its roles and responsibilities, and focused more on technical project implementation (which was the role of the consultant team) rather than on administration. Very poor coordination and communication was demonstrated between TASMU management and the consultant team.

Consultant recruitment was delayed by almost 1 year (PCR para. 35). However, the target number of 40 detailed NE project assessments exceeded the appraisal target. This was a commendable achievement and could have laid the groundwork for a successful project. However, the limited number of subprojects that were implemented on the ground suggests that economic impact will be minimal. Economic internal rate of return is likely to have been negative, though economic internal rate of return was not calculated at any stage of the Project.⁵ OED rates the project inefficient (PCR less efficient).

- (iv) **Preliminary Assessment of Sustainability.** PCR considers that a number of the studies undertaken by the Project (a) provided templates that may assist rural planners and private sector investors in future developments, either of the subject NEs, or similar proposals; and (b) the Government is presently using its own resources to pursue other potential opportunities identified by the Project. Sustainability will largely be a function of how relevant the studies are seen to be by the NEs and their potential financiers. At present, no information on this is available; and the Project is tentatively rated less likely sustainable in terms of the outcomes defined by the project framework (a number of studies). PCR rated the project partly satisfactory, which probably means less likely sustainable under the OED ratings criteria.

⁵ Financial internal rate of return was calculated for some SFSS.

- (v) **Impact** (both intended and unintended). While there are positive impacts, in relation to a few of the enterprises studied, overall impact is considered by OED to be negative. This is primarily due to the level of expectations raised by the project among numerous enterprises and smallholders that could not be realized. It is possible that other agencies will be able to build on the foundation laid by the project and to assist viable NEs to develop and prosper. Others however, will fail, and the impact of the project on most of these is almost certainly negative. PCR (para. 49) reports that the two most promising of the enterprises analyzed were facing tribal conflicts and land disputes, which have bedeviled PNG agricultural development since independence.

E. Overall Assessment, Lessons, and Recommendations (Validation of PCR assessment)

- (i) **Overall Assessment.** The Project overall is rated partly successful though close to the boundary with unsuccessful (PCR, partially successful). If the Project's target outcomes had been set at a higher level than specified in the DMF, the Project would probably need to be classed ineffective, consistent with an overall unsuccessful rating.
- (ii) **Lessons.** PCR identifies four useful lessons in relation to (a) the need for sound and experienced management; (b) the need for improved subproject screening, and avoidance of raising false expectations; (c) the need to fully enforce adequate financial checks and balances; and (d) the requirement for timely counterpart funding if implementation is not to be disrupted.

OED concurs with these lessons. In addition, it is considered that in a country such as PNG, more weight needs to be placed during design and implementation the pressures that face enterprises in PNG due to land ownership, tribal conflict, compensation and the difficult socio-cultural and logistical environment.

A further lesson, which appears to apply to many less successful ADB projects, is that adequate institutional analysis during design is essential followed by selection of the right institutional arrangements, if institutional problems during implementation are to be minimized. OED further considers that the experience with TASMU highlights the potential problems of establishing a new institution for project implementation. In this case, inexperienced and sometimes inappropriate staff were appointed to the unit. The concept of co-heads, while appearing to provide adequate "localization," in practice was a recipe for problems, in so far as the results-oriented expatriate consultant team leader and the inexperienced local co-head were almost bound to conflict.

- (iii) **Recommendations.** PCR makes a number of recommendations, which while useful, perhaps need further analysis:
 PCR (para. 54.i) recommends that: "Follow-up action in the form of a review should be undertaken to evaluate lessons that can inform future efforts to assist potential agricultural projects to achieve overall sustainability." OED would suggest that PNG Resident Mission considers taking a proactive position in assisting DAL (for example) to support some of the enterprises studied under the Project to develop. Initially this could involve commissioning a review of those of the 20 or so selected projects that remain interested in development, e.g., under a small-scale TA. Advice could be provided on optimal approaches to update studies and apply for finance.

PCR suggests (para. 54.ii) that "the selection of a project's EA should be subjected to a thorough analysis to ensure that the capabilities and capacities of the EA are relevant for the project." The implication of this is that DNPM was not the appropriate EA for the project. However, a key problem of the project lay in the difficulty of finding a competent and experienced local co-head for TASMU which would have affected all agencies equally. Project design needed to give more cognizance to this issue, and perhaps to have suggested a different management structure, with an expatriate head reporting to a local board.

This approach was adopted successfully in the PNG National Fisheries Authority, supported by ADB (Loan 1656-PNG: Fisheries Development Project—June 1999 to December 2003). Given that TASMU was a new organization, the appointment of the consultant team leader as head of TASMU, at least for an initial period, could have been beneficial.

F. Monitoring and Evaluation Design, Implementation, and Utilization (PCR assessment and Validation)

Information is not available on the detailed monitoring mechanisms established under the project. However, PCR reports that TSC, and later PSC, were at least able to report back to DNPM on the management and administration issues facing TASMU. Overall, TASMU's management and control was weak, and this is likely to have been reflected in inadequate monitoring mechanisms.

G. Other (Safeguards, including governance and anticorruption; Fiduciary aspects) (PCR assessment and Validation)

Overall, governance of the Project was weak. Both internally and in terms of oversight by DNPM, the Project's administrative and control structures were inadequate for the tasks required. In addition to severe problems managing the project finances and imprest account,⁶ audits were delayed or not completed (the latter in 2004). PCR reports (para. 33) irregular hiring of national experts and lax internal controls, particularly in relation to unauthorized travel and purchase of office equipment. The governance problems appear to have related more to lack of experience in management rather than corruption.

H. Ratings	PCR	OED Review	Reason for Disagreement/Comments
Relevance:	Relevant	Relevant	Project is relevant in relation to the DMF objectives and national and ADB policies. However, the DMF purpose level objectives are not appropriate. If they had been cast at a higher level, the project might merit an irrelevant rating.
Effectiveness in Achieving Outcome:	Less effective (Partly effective)	Partly effective	Close to the boundary with "ineffective" due to inadequate analysis by appraisal of risks and comparative advantage. However, likelihood that some subproject studies will be useful in relation to seeking of alternative finance justifies a partly effective rating.
Efficiency in Achieving Outcome and Outputs:	Less efficient	Inefficient	Poor process and negligible economic impact.
Preliminary Assessment of Sustainability:	Partly satisfactory (Less likely)	Less likely	
Borrower and EA:	Unsatisfactory	Unsatisfactory	

⁶ The December 2003 BTOR reported that "TASMU had been utilizing the ADB imprest fund for items that were supposed to be funded under the Government's trust account. The total amount transferred from ADB imprest account to the Government trust account, since August 2003, is K0.275 million. The transfers were done despite the fact that ADB had repeatedly reminded the Project during the Inception Mission in August 2002, the CPRM in March 2003 and in October 2003, not to transfer funds from the imprest account to the trust account as this is against ADB's Disbursement guidelines. Although an amount of K0.0321 million has been refunded to ADB account, the Mission is concerned that TASMU will again resort to transferring funds to pay for the Government of PNG expenditures... The Mission reminded the TASMU that improper use of the imprest account procedure could lead to the cancellation or suspension of the use of this facility."

Performance of ADB:	Satisfactory	Partly satisfactory	Design issues, weak DMF, poor choice of EA/IA. Lack of review at critical period. Insufficiently forceful in dealing with IA problems. However, close attention paid to project in last 2 years, though performance failed to improve greatly.
Impact:	No major negative impacts	Marginal	PCR did not assess impact (against the target of “an expansion of commercial agriculture using new and expanded modalities based on the concept of a private sector NE serving outgrowers and smallholders).
Overall Assessment:	Partly successful	Partly successful	Project exceeded the target number of subproject assessments. OED’s rating is just above the border with unsuccessful.
Quality of PCR:		Satisfactory	See next item.

I. Comments on PCR Quality

OED assesses the PCR as satisfactory.

PCR presents a solid analysis of the problems afflicting the Project. It is consistent with the TCR prepared by the consultants (though somewhat less critical of design and implementation arrangements).

ADB’s PCR is consistent with the guidelines of PAI 6.07. PCR has introduced some new terminology in rating performance. While the terms are understandable, the report should use standard OED’s rating nomenclature.

The report provides a useful discussion of the problems facing TASMU and project management. However, it does not appear to adequately assess the potential for ADB’s project officers to rectify the situation.

Lessons and recommendations are sound. However, a recommendation such as that in para. 56 which states that “it is imperative to introduce equitable land tenure regulations and controls” is probably too general to be of much use—though it does add to the body of evidence over the period since independence on the extremely difficult topic of land tenure.

J. Recommendations for OED follow up

No follow-up action required.

K. Data Sources for Validation

BTORs, PCR, RRP, and consultations with Pacific Department staff.

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

On 13 June 2008, the Operations Evaluation Department (OED) circulated the draft Project Completion Validation Report for interdepartmental comments. OED received comments from the Papua New Guinea Resident Mission on 26 June 2008. The Resident Mission, also speaking on behalf of the Pacific Regional Department, supports the assessment which was provided in OED's Project Completion Validation Report.