

## FRAGILE SITUATION ASSESSMENT<sup>1</sup>

1. This section examines the Asian Development Bank (ADB) policy and programming activities in Papua New Guinea (PNG) in regards to best practices and recommendations for fragile states engagement and capacity development. The following policy documents are reviewed for this analysis: (i) Country Strategy and Program Papua New Guinea 2006-2010 (2006), (ii) Country Operations Business Plan: Papua New Guinea 2008-2010 (2007); (iii) Country Operations Business Plan Papua New Guinea 2009-2011 (2009), and (iv) Country Strategy and Program Midterm Review Papua New Guinea 2006-2010 (2009).

### I. CSP BACKGROUND

2. Drafted in 2006, the PNG Country Strategy and Program (CSP) pre-dates ADB's Weakly Performance Countries (WPC) approach and the Organization for Economic Co-operation and Development (OECD) Principles for Good International Engagement in Fragile States and Situations and does not make any direct reference to state fragility. In fact, to a certain extent, the CSP initially seems to take a somewhat optimistic view of PNG's state of affairs, noting "PNG has enjoyed a period of solid progress in economic management and policy development since 2002, assisted by a supportive external environment and relative political stability" (ADB 2006a, p. 1). However despite this assessment, the document goes on to note that scarce employment opportunities, breakdowns in law and order, and poor service delivery remain significant challenges for the PNG government. Cross-cutting issues are weak governance and capacity limitations, which act as binding constraints on all development efforts.

### II. STRATEGIC ALIGNMENT

3. Although the CSP does not refer to PNG as a fragile state as such (in fact, ADB staff indicated the strategy may not have been primarily intended to reduce fragility), the main issues and problems it identifies are clearly those which are common in situations of fragility. On a strategic level, the document is generally consistent with elements of Principles for Good International Engagement and ADB's WPC approach, as seen below:

**Table 1. Assessment of PNG CSP vis-à-vis Fragile States Best Practices and Policies**

<b>ADB PNG CSP Policy</b>	<b>Best Practices for Fragile States Engagement</b>
Support implementation of PNG's Medium Term Development Strategy (MTDS)	Align with local priorities in different ways in different contexts (OECD)
Focus on areas of ADB comparative advantage and remain engaged	Act fast...but stay engaged long enough to give success a chance (OECD)
Develop appropriate relationships with PNG's other development partners	Agree on practical coordination mechanisms between international actors (OECD)
Tighten the focus of ADB's strategy and program to maximize impact in priority areas	Selectivity and focus (ADB WPC approach)

<sup>1</sup> B. McDonald. 2009. *Capacity Development in Small and Fragile Pacific States - Case of PNG*. ADB. Manila.

4. PNG's CSP policy can be further articulated by thematic area, with strategic listed priorities as follows:

- (i) public financial management,
- (ii) private sector development,
- (iii) the transport sector, and
- (iv) health and HIV/AIDS.

5. These four areas all align with aspects of PNG's Medium Term Development Strategy (MTDS) and are also supported by the Pacific Strategy 2005-2009. The CSP reports that the MTDS has strong ownership in PNG society and is supported by politicians, civil servants and the wider civil society, despite noting the segmented, clan-based nature of PNG society.

### III. ANALYSIS

6. From a strategic perspective, the directions pursued by ADB are generally consistent with PNG priorities and are related to best practice recommendations for fragile states engagement. In regards to the latter, health sector support figures the most prominently. Defined as an essential service by the OECD, the provision of quality health care is identified as a key indicator of governance (OECD, 2008a). Deficiencies in this and other social services are indicative of more systemic problems throughout the state, with the OECD (2008a) noting, "public services underpin the social contract between states and citizens and, as such, are an indicator of the health of a society. Grossly inadequate service delivery signals fragility" (p. 7). Given that "Papua New Guineans have experienced an overall deterioration in their health status since the 1990s" (ADB 2006a, p. 135) and that many citizens, particularly those in rural areas "do not have access to basic health services" (Bolger, Mandie-Filer & Hauck, 2005, p. vi), ADB engagement is viewed as appropriate in this sector.

7. Transportation is an MTDS priority and traditionally has been an area of strength for ADB, however, given the range of challenges present in PNG, it is not entirely evident how intensification in this sector is likely to reduce state fragility vis-à-vis other priority areas. The literature on fragile states makes scant mention of the role of infrastructure in promoting turn-around and contributions in this realm are viewed as relatively neutral in terms of their overall impact on reducing state fragility. Although large scale infrastructure development projects may serve as a source of employment for laborers and construction crews, new roads may also enable an authoritarian regime to deploy troops more effectively or provide new opportunities for increased criminal activity. It is recognized that infrastructure is identified as a pressing PNG country need and thus assistance here is appropriate in that regard, however, for such infrastructure to yield significant fragility-reducing dividends, a wide range of complimentary efforts are needed across additional sectors.

8. In regards to private sector development, from a thematic perspective this is considered consistent with OECD DAC recommendations on state building in fragile situations via creating an enabling environment for strong economic performance, income generation and employment creation. ADB's focus on developing this sector is thus considered suitable.

9. Public financial management (PFM) assistance, categorized under the banner of state-strengthening activities, is considered consistent with fragile states engagement and can contribute to macroeconomic stability, allocative efficiency and efficient budget execution and service delivery (AusAID, 2008a). Improvements in these areas can be contributing factors in reducing the sources of fragility in PNG. It should be noted, however, that issues surrounding

budget frameworks and processes are inherently political; as such, political analysis should be supplied to public financial management specialists which "identifies the political constraints to PFM reform" (AusAID, 2008a, p. 1) and ensures that "programming [is] underpinned by political analysis to consider technical and political dimensions together" (AusAID, 2008a, p. 1). Although the PNG CSP notes that "sound PFM is both a prerequisite for good governance and a driver of change" (ADB 2006a, p. 4), it is unclear to what extent significant political economy analysis has been undertaken in support of PNG public financial management initiatives. It is acknowledged that there is a governance assessment in the CSP in regards to PFM; however, it is largely descriptive, tending to outline what the current state of affairs is rather than delve deeply into why these conditions exist in the first place. Remedial or mitigation efforts explored in this assessment tend to take a somewhat technical response to the issues raised and do not seem to employ an approach which incorporates the underlying political elements in a comprehensive manner.

10. In fact the need for strong political economy analysis extends beyond the realm of PFM and has particular significance for all aspects of fragile states engagement. Department for International Development (DFID) has been a strong advocate of pursuing such approach, reflected in its Drivers of Change initiative, which emphasizes that a deep understanding of a country's history, culture, power dynamics, institutions (and the relationships which underpin them) is essential for any reform or development efforts to be successful (DFID, 2005a). This paradigm requires moving beyond the application of technical solutions and incorporates how the informal rules of the game affect state processes. Within ADB, a 2009 Internal Evaluation Department (IED) report on public sector reforms in the Pacific also notes the importance of knowing the local context, stating "reforms introducing modern systems needed to better consider historical, social, and cultural traditions and context in designs and implementation" (Bolt, 2009a, p. viii).

11. Accordingly, a deeper approach to political economy analysis is recommended for PNG engagement, with a stronger focus on sector-specific political economy analyses. A 2008 World Bank report on the political economy of policy reform underscores this sentiment, noting "understanding the significance of power relations within the sector, vested interests, and the links to national political processes can be critical to being an effective actor in policy dialogue" (World Bank 2008a, p. i). Analysis of this nature is considered key and should be conducted early in the process of donor engagement (World Bank 2008a, p. ii).

12. For ADB, such analysis need not be conducted as a stand-alone exercise but rather could be integrated into country operations and strategy formulation. Potential points of entry may include a macro-level country analysis for use in drafting the CPS, with a complimentary pilot initiative to conduct an in-depth sector analysis as an input to that thematic area's roadmap design. Possible candidate sectors could be transportation or public financial management, SOE reform given their importance to ADB operations in PNG and the particular relevance of political economy analysis to sector needs, respectively. This analysis could also be prepared in conjunction with any Governance and Anticorruption Action Plan (GACAP) II initiatives, as there may be reciprocal relevance for the two activities. Information obtained here would also be passed on to sector project designers for use during the project conception phase.

13. It is acknowledged that at present, an AusAID political economy analysis study for PNG has been approved, although the study has been somewhat slow to become fully operational. Scope for sector-specific work for ADB may be possible under this effort, if so, this would be viewed as a positive step. Plans for the upcoming CPS drafting may include a possible political economy analysis dimension to a planned growth diagnostic study; this is also an encouraging

move towards greater incorporation of political economy analysis into the country strategy process and it is recommended that such efforts be expanded upon in the future.

14. It is important to emphasize that in any case, ADB need not reinvent the wheel when it comes to toolkits and assessment frameworks for political economy analysis - a review of the literature reviews a veritable laundry list of methodologies, including detailed explanations for implementing the Drivers of Change approach (Leftwich, 2006a; Leftwich 2006b), an additional DFID analytical framework for understanding the political economy of sectors and policy arenas (Moncrieffe & Luttrell, 2005), a Governance and Social Development Resources Centre [GSDRC] political economy in fragile states methodologies paper, (GSDRC, 2008a) and the Poverty and Social Impact Analysis (PISA), Tools for Institutional, Political and Social Analysis of Policy Reform (TIPS) and problem-driven approach to governance and political economy (PGPE) methodologies of the World Bank (World Bank, 2008a; World Bank, 2003a; World Bank, 2009a). As an example of the benefits which can be brought by using such tools, the World Bank (2008a) notes:

PSIA methods are also very useful for analysis of the political economy. Through PSIA, one can examine both the risks *to* a reform process, and the political economy risks *of* policy reform to equity outcomes. For example, a review of 23 PSIA exercises carried out in the agriculture sector concluded that in many instances social analysis had played a major role in uncovering political economy risks, and in providing practical strategies to handle or mitigate these risks. Most of the risks identified were related to elite capture and control of rents, but in some cases, the risks of conflict between different government agencies, and lack of 'buy-in' from key stakeholders were also significant to determining outcomes (p. 2).

15. While the methodology employed by ADB would depend on the best fit for the context, overall the literature clearly emphasizes the advantages of utilizing such a deeper political economy analysis for country programming efforts. Although the aforementioned ADB IED report (Bolt, 2009) adopts a political economy perspective and is informative in regards to directions on how to proceed in the future, as it is an evaluation paper, it does not contain specific tools which may be of direct use for country analysis project design.

## **A. Capacity Development**

16. There is an element of inconsistency in the CSP with regards to capacity development. Broadly, there is strong recognition of the capacity deficit in PNG, with the CSP noting "capacity constraints significantly affect the PNG Government's ability to strengthen government and deliver public goods and services. Of concern to the Government and its development partners is that overall public sector capacity appears not to have improved in the past 2 decades—and many observers would argue that it has declined...capacity development is a vital challenge in which ADB plans to play a focused role, working closely with Australia and other grant donors to ensure that broader needs are addressed" (ADB 2006a, p. 5, p. iii). Elsewhere in the document, there are frequent references to capacity and the need for development in this realm, such as the health sector roadmap which lists capacity deficits as "the single greatest challenge to progress" (ADB 2006a, p. 138).

17. Yet despite this awareness, the CSP is limited on specifics for how exactly capacity can be enhanced via ADB's operations. The CSP does not list any capacity improvements as outcomes for country goals, even though several objectives list capacity limits as key constraints. Although other donors' roles in developing capacity are mentioned, it is largely

unclear from the CSP how this coordination will be achieved. In fact, the CSP seems to call for ADB to play a minor role in actually implementing any capacity development activities. "Given extensive needs and limited grant TA resources, ADB will take a very focused approach to capacity development using its own resources, concentrating on specific skills and capacities closely tied to specific objectives in the four priority strategic areas. For example, "...grant donors, especially AusAID, are better placed than ADB to help address PNG's extensive capacity development needs" (ADB 2006a, p. 29, p. 30).

18. ADB's limited approach is further reflected in the lending and non-lending pipelines in Appendix 3, which lists only 2 projects addressing capacity development, the Capacity Development for the Department of Environment and Conservation for PNG Gas Project and Financial Management Project concept paper (ADB 2006a, p.156, p. 151). However, despite the name, the Gas Project was not classified thematically as a capacity development intervention and it is unclear what activities were undertaken here as the proposed loan was later cancelled. Although claiming capacity development efforts will be directed to the four priority strategic areas for ADB engagement in PNG, no other mention of planned capacity development interventions is apparent in the CSP.

19. While recognizing that ADB's Capacity Development Medium-Term Framework and Action Plan (2007) was not developed until after publication of the CSP, given the elevation of capacity development to thematic priority in 2004 by ADB (ADB, 2004a, p. 57) and growing awareness of capacity implications for development efforts in the last 10 years, it is somewhat surprising that the CSP did not give greater attention to including capacity development efforts into its targets. This is all the more puzzling given the candid recognition of the role capacity deficiencies can play in potentially hindering ADB's goals. This is most evident in the section on risks, which notes a key country risk is that "the implementation of priority sector and thematic objectives does not meet expectations because of weak management or capacity in the responsible PNG Government agencies. This is a very real risk, given capacity constraints and the deterioration of infrastructure and service delivery in PNG in the past two decades" (ADB 2006a, p. 32). It is somewhat incongruent to state the severity of this risk yet expect other donors to undertake the majority of capacity development efforts, or to cite lack of budget as reason for not pursuing strong capacity development initiatives, given the possible implication of capacity deficits for ADB projects.

20. Accordingly, it may have been advantageous to explicitly call for additional support for capacity development in ADB priority areas. This could take a number of forms, depending on what is most appropriate for the context. Generally, the scope exists for attachment of capacity development-oriented projects to proposed loans, or the inclusion of clear capacity objectives within projects. A similar approach could be used for proposed TA projects, with interventions either incorporating or implementing in tandem capacity development aims. Such an approach would have required additional financial support, given the existing budgeted amount of \$2–\$2.5 million per year for project planning and advisory grants reported in the CSP is "modest relative to PNG's extensive TA and capacity development needs" (ADB 2006a, p. iii).

21. Other agencies (particularly large bilateral partners or those with higher volumes of grant resources) often take the lead on capacity development issues in PNG, due to differing organizational comparative advantages and possible reluctance on the part of the government to borrow for capacity development purposes. These constraints are acknowledged; however, through selective use of non-lending resources and co-financing modalities, it may be possible to expand the focus of capacity development activities beyond what has been pursued.

22. There is also the issue of achieving project outcomes. Although ADB may wish to rely on other donors for capacity related activities in its priority sectors, there is no guarantee that partner donor's capacity development efforts will necessarily be an appropriate fit for ADB project needs, given differing project cycles and timeframes, desired development outcomes and donor political priorities. As capacity is often cited as a binding constraint on PNG engagement, it seems integral to project outcomes to include some elements of capacity development, either through incorporating them into the design or addressing them through other non-lending means.

## **B. Governance**

23. Strengthening governance and addressing capacity deficits therein is key for reducing state fragility. This is recognized in the MTDS, which lists good governance as one of the government's three foundation stones for development and lays out an ambitious agenda for governance reform. The CSP echoes this sentiment, noting the quality of governance will affect all development efforts and that improving governance is critical for the PNG to meet its objectives. In support of this priority, the CSP lists good governance as goal number one of Country Outcomes under Medium Term Development Goals in the Indicative Results Framework for 2006-2010 (ADB 2006a, p. 34).

24. To address this, ADB had two reported initiatives for promoting good governance in the CSP; the Financial Management Project (supplementary loan) and the Public Expenditure Review and Rationalization (PERR) project. These projects are important for controlling budget allocation, providing information for aiding decision making and improving financial management practices. There is coherence between the nature of these two interventions and thematically they are considered appropriate with country needs and fragile states engagement recommendations. However, the Financial Management Project did not proceed and efforts under the PERR have stalled. Currently, the model used for PERR is being reshaped to incorporate greater flexibility, as the previous approach was found to be less effective than originally expected.

25. The issue of outcomes aside, from a strategic perspective, the governance approach taken by ADB in the CSP is somewhat state-centric. However, the Pacific Strategy calls for increased dialogue and cooperation among civil society organizations, private sector groups and governments, along with increased community participation and ownership in development programs. The importance and relevance of such activities in fragile contexts is also recognized in ADB's WPC approach paper and OECD Principles for Good Engagement in Fragile States and Situations, and the CSP itself notes that "helping PNG's citizens and interest groups to hold the government accountable for delivery of the MTDS would be an extremely valuable donor contribution" (ADB 2006a, p. 74). Such assistance efforts are not present in the CSP, and ADB initiatives may have benefited from complimentary interventions of this nature to promote greater demand for governance and strengthen capacity. The World Bank's Demand for Good Governance (DFGG) project as described on page 8 may be a useful model in this regard. A greater focus on local government level capacity may also be advantageous, to compliment the predominantly central agency-oriented approach ADB has outlined.

26. PARD staff has stated that most efforts have been oriented towards the central government due to resource limitations. However, it would seem that a strategic choice would have had to have been made at some point in the country programming process with regards to where funds could be directed (i.e., in preparing project concept notes). If the decision had been taken during this process to include more demand-side actors or sub-national governments,

ostensibly resources could have been allocated for this as appropriate. The main entity for ADB engagement would remain the central government, but projects could have been developed with a broader view of possible stakeholders and levels of government for involvement.

### **C. Coordination**

27. A high level of donor activity is present in PNG which makes it somewhat difficult to determine the degree of coordination vs. coincidence between various partner activities. However, the CSP shows considerable awareness of the activities of other donors, as seen in the Summary of Major Development Partners Support for Papua New Guinea ADB Role, which outlines annual funding contributions and priority themes for various donors, the Partnerships in PNG Priority Development Areas table, which also describes the initiatives of development partners and ADB for each sector, and the Development Coordination Matrix, which specifies in greater detail the nature of various interventions being undertaken by each donor, including some by People's Republic of China (PRC). Sector roadmaps further discuss the work being pursued by each agency, with some analysis of past efforts as well. The CSP reports that donors have been consulting substantially, that "Australia and ADB have been the first to advance their strategies in close consultation and are now communicating with the European Union (EU), World Bank, and United Nations (UN) system as those agencies follow a similar process" (ADB 2006a, p. 11) and that the PNG government is being encouraged to take the lead in coordination, as per Paris Declaration directives. Based on the information presented here, coordination efforts appear reasonable. However, no details are provided as to how specific coordination takes place, nor its frequency. It may have been beneficial to provide additional information which more clearly demonstrates the extent to which various agencies are coordinating, as awareness of other partners' work does not necessarily translate into policy coherence and coordinated efforts, given varying institutional preferences and goals.

### **D. Consultation and Participation**

28. The CSP states that its main strategic principles for PNG engagement were developed in a collaborative fashion, based on extensive consultation between ADB, the government and civil society (ADB 2006a, p. 17). Appendix 11 goes on to describe the process in greater detail, with the Consultative Implementation and Monitoring Committee (or CIMC, described as a joint venture between PNG government and civil society actors) serving as the main means of carrying out ADB's consultation process. The CSP notes that "a useful communication tool was CIMC's email list of government and civil society contacts, especially as consultation was not carried out beyond Port Moresby. In addition, a roundtable and specific discussions were held with PNG's development partners" (ADB 2006a, p. 86).

29. While this may seem appropriate to a certain extent, the reliance on email as a means of consultation may be somewhat unsuitable in a country where "only 10% of Papua New Guineans have access to electricity and urban electric supplies are intermittent and low quality" (ADB 2009b, p. 3). In addition, literacy rates are reported as 50.92% for females aged 15 and over and 63.44% for males in the same age group, based on the most recent country data available at the time the CSP was drafted (ADB 2006a, p. 42). Combined, these factors may call into question the effectiveness of ADB's consultation and participation efforts as pursued through email in regards to formulating PNG's country strategy. Although "a half day workshop co-chaired by the Secretary for National Planning and Monitoring and the Director General of ADB's Pacific Department, and attended by a CIMC officer representing PNG civil society" (ADB 2006a, p. 87) was held after sector roadmaps were drafted, the sequencing, scope and duration of this workshop may not have been sufficient to truly allow for input or comment on the CSP by

non-state actors, particularly as the diversity of "civil society" was represented by only one individual, the CIMC officer. A broader, in-person consultative process with civil society, held at an early stage in the CSP formulation is recommended as a means of deepening ADB's efforts here. The views of groups operating beyond the capital and the technical limitations and constraints facing such organizations should also be given more consideration.

30. In addition to the CSP formulation process, the document overall is largely devoid of any significant policy statement reflecting intention to pursue meaningful consultation and participation in country programming efforts. No sector goals or indicators reflect a concerted effort to engage with civil society actors. Although "increased community participation and ownership in development programs" (ADB 2006a, p. 18) is identified as a Pacific Strategy aim in the Alignment of PNG MTDS, ADB Pacific Strategy, and ADB PNG CSP table (ADB 2006a, p. 18), this aim shows no alignment with any PNG CSP goals. This is in contrast to Pacific Strategy objectives of improved financial services and provision and maintenance of infrastructure, which are clearly indicated to be aligned with the CSP. Stronger recognition of the benefit consultation and participation efforts can contribute to ownership and more appropriate projects, coupled with concept papers which actually operationalize this awareness, would have been a valuable addition to the CSP.

#### **IV. COBPS AND CSP MIDTERM REVIEW**

31. Since the publication of the CSP, ADB has also produced additional policy directives in the form of Country Operation Business Plans 2008-2010 (2007), a draft of the COBP 2009-2011 (2009), and the CSP Mid-Term Review 2006-2010 (2009). All documents were reviewed to see what extent fragile states issues and capacity development objectives were addressed.

##### **A. COBPs**

32. The 2007 COBP remains consistent with CSP priorities and is aligned with the MTDS. No major deviations of strategic aims were evident, and support for ADB's four main priorities (public financial management, private sector development, transport sector and health and HIV/AIDS) remains. No explicit mention of fragility or capacity development was present in the COBP, and lending and non-lending pipelines in the document do not include any reference to capacity development initiatives. An observation is that COBPs do not analyze country development settings; as such one may not necessarily expect to see references to fragility and capacity in the documents. However, as other staff have reported using the WPC approach paper in preparing their country COBP, scope apparently does exist for including such issues in the business plan update. The choice of whether or not fragility or capacity is addressed here may reflect the importance these matters are accorded in the country's overall strategy.

33. In 2009, a new draft of the COBP was prepared, covering the period of 2009-2011, 1 year beyond the existing CSP. This document also makes no mention of state fragility. The 2009 COBP remains aligned with the CSP in terms of ADB's 4 strategic priorities, and the lending program has been enlarged and expanded in these regions. The Financial Management Project Loan (targeted to governance and capacity development) was withdrawn in 2008 and is reintroduced on a 'standby' basis for 2011. An additional microfinance loan was added to private sector development support, which is consistent with OECD's best practices for state building on economic development and income generation opportunities.

34. Capacity development priorities appear more prominently in this COBP draft, with the document noting "several new capacity development TAs and policy and advisory TAs are

programmed for 2009-2011 covering public financial management, finance for private sector development, road sub-sector financing and management, and electricity policy implementation" (ADB 2009c, p. 3). This inclusion reflects greater awareness at a policy level of the importance of capacity development and how efforts here can strengthen ADB's overall priority goals for PNG.

35. The Country Partnership Strategy Results Framework (previously the Indicative Results Framework in the CSP) has also been revised and updated. Although no explicit capacity development goals are present in the new framework, the first goal of good governance has seen its country outcomes revised and expanded. Two objectives are now articulated for this goal, (i) a more efficient and effective government administration, and (ii) improved aid effectiveness. Although the former remains focused on management of public funds, the latter aims to support alignment, harmonization and simplification of ADB efforts with a focus on results. This will be achieved through unspecified policy dialogue and improvements to ADB systems and processes, and through Small Scale Technical Assistance (SSTA) Support for Development Planning. The expansion of the governance goal reflects improved efforts to use country systems which may bolster government capacity and further alignment with local priorities and contexts, although the resources allocated to the SSTA are relatively small in size (US\$225,000).

36. In pipeline lending and non-lending plans for 2009-2011, one capacity development-themed loan is scheduled, along with three TA's explicitly classified thematically as capacity development. These TAs are closely linked to lending projects earmarked for the 2009-2011 time period, which also shows greater coordinated capacity development efforts and support for state building and service delivery efforts.

## **B. CSP Midterm Review**

37. In May 2009, a draft of the CSP Midterm Review (MTR) was produced which examined progress on the attainment of CSP outcomes. The review recognizes the importance of ADB's strategy for engaging in fragile states, and "explicitly adopts elements of ADB's Approach to Engaging with Weakly Performing Countries (the Approach) by promoting a differentiated country approach that will be consolidated in the follow-on country partnership strategy commencing 2011" (ADB 2009b, p. 7).

38. However, it is somewhat unclear what this adoption means in practice, and how this differentiated approach differs substantially from what was outlined in the CSP in 2006. Indeed, the review affirms support for CSP priority areas and continues to strengthen ADB efforts here. As all member countries invariably have a differentiated approach by virtue of their CSP/CPS, it is not entirely evident what direct relevance the WPC approach paper has had for the CSP review. Although the MTR notes ADB will remain engaged in areas where progress has been slow (namely transportation and PFM), given ADB's comparative advantage in transport assistance, withdrawal from this sector is unlikely in any case. Financial management is also a targeted area for public sector reform, as outlined in the MTDS and thus is likely to remain an ADB focal point regardless of WPC paper recommendations.

39. One stronger point of departure from the 2006 CSP is the emphasis the Midterm Review places on the need to work more closely with civil society. This is in an effort to stimulate public demand for transparency and results and also to involve NGO partners in the monitoring and delivery of project outputs. Initiatives of this nature are mentioned in the Pacific Strategy 2004-2009 and thus not entirely specific to the WPC paper, however, they remain important for

strengthening ADB efforts in PNG and reducing overall state fragility. Such civil society engagement activities are present in the Lae Port Development Project and the Highlands Region Road Improvement Investment Program. The review also notes that support for capacity development will be extended to key agencies and country systems, both at the central and provincial levels.

40. The focus on governance in the country results framework remains somewhat narrowly directed to PFM support, targeted to state actors only. Although appropriate, wider awareness of forms of governance support, particularly in regards to "bottom-up" strategies which strengthen state accountability and legitimacy may be additional aspects for consideration in PNG governance initiatives.

41. Greater movement towards long term engagement is also apparent in the MTR, with the document noting "the Government also favors a programmatic approach to its partnership with ADB, featuring long-term predictable financing in each sector...the Government prefers the multi-tranche financing facility for this purpose" (ADB 2009b, p. ii). Although MFF is not a direct product of ADB's WPC paper, its approach is consistent with more effective engagement in fragile situations and PNG government preference for this modality is viewed as a positive sign. PARD staff is supportive of this modality and have indicated, it is under consideration for the proposed Civil Aviation Development Investment Program. This is considered encouraging and to the extent possible, further use of the MFF is recommended.

## **V. PROJECTS REVIEW**

42. Having completed an assessment of PNG policy guidelines, a review of all PNG capacity development projects from 2007 onwards will now be presented. This analysis will focus on what extent these efforts have incorporated best practices recommendations for fragile states and capacity development, with reference to OECD guidelines and ADB's WPC and capacity development frameworks.

43. In all projects reviewed, there was no mention of fragile situations or weakly performing country contexts. In regards to capacity, no reference was made to any of ADB's policies or publications. Broadly speaking, the project documents examined indicate a wide range of awareness and incorporation of a capacity development focus into project design. At one end of the spectrum, the Papua New Guinea: Preparing the Pilot Border Trade and Investment Development Project PPTA (ADB, 2008a), despite being flagged as an intervention for capacity development, was in fact minimally geared towards this purpose. Capacity development aims were added based on comments from RSDD (ADB 2008b), and there was little if any systematic thinking about capacity and the concepts underpinning its promotion. Although a roadmap for capacity development was to be prepared by the PPTA, no reference to a collaborative or indirect role for consultants here was noted. However in the April 2009 PNG-Pilot Border Trade and Investment Development Project loan's concept note, a much broader capacity development section exists (ADB 2009d) for a TA being piggybacked onto the project. Although perhaps not reflecting comprehensive thinking about capacity from a systems perspective, this aspect of the proposed project is a significant expansion compared to the earlier PPTA project and is a positive progression in terms of capacity thinking for this overall initiative. A regional Capacity Development Technical Assistance (CDTA) is also being processed to enhance sub-regional economic corridors between PNG and Indonesia; this is also seen as a compliment to strengthening the Pilot Border Trade and Investment Development Project's executing agency and related stakeholders.

44. In regards to outcomes, the Technical Assistance to PNG for the Power Sector Development Plan (TA 4932) claimed capacity development efforts in project proposal documents through on the job training and technology transfer by the project consultants, with specific reference to assessing these outcomes upon completion (ADB, 2007b). Despite these stated intentions, it is entirely unclear what the consultants actually did in this regard. No mention of capacity development or building outcomes is present in their final report (VisionRI Connexion Services Private Limited, 2009).

45. Moving towards the other end of the spectrum, a notably greater awareness of capacity development needs was apparent in some project designs. The Proposed Multitranche Financing Facility Papua New Guinea: Highlands Region Road Improvement Investment Program noted the severe capacity deficits present throughout the Pacific and how this was particularly true in all levels of PNG government (ADB, 2008c). Capacity is cited as a key enabling factor for this project, and significant capacity development initiatives are outlined for a wide range of government agencies, with specific reference to those involved as executing agencies in this project. Cooperation with other development partners was also referenced several times, in an effort to compliment ongoing capacity development activities by these partners in the targeted sector. Although details of how capacity would be developed in this intervention are not evident from the project documents, overall this initiative indicates strong recognition of capacity constraints and their implications for the viability of project activities.

46. As seen in a similar manner in the CSP, most projects examined for capacity development viewed this concept from a state-centric perspective. Although strengthening the state directly is certainly one of the key aims of fragile states engagement, project efforts to enhance capacity should also consider how citizens and broader society can play a role in achieving this objective. For example interventions to strengthen accountability cannot rely entirely on governments to supervise themselves, but should be paired with initiatives to promote awareness and disclosure of goals and targets to civil society/non-government organizations (NGOs), and projects could possibly include a component for strengthening civil society groups so they are able to assume this "watchdog" role more effectively.

47. One possible model for improving demand-side activities in regards to capacity development and governance is the Demand for Good Governance (DFGG) Project, a World Bank initiative in Cambodia. The project is described as "the World Bank's first project devoted exclusively to developing demand side approaches to tackle governance issues, linking the work of both state and non-state institutions" (World Bank 2007b, p. 1). The project was first conceived in 2006 in response to severe governance problems in Cambodia and is based on "the realization that... improving governance cannot be done without working on the 'demand side' – that is with institutions that are engaged in a process of empowering citizens, civil society, and other non-state actors to make the state more accountable and responsive" (World Bank 2007b, p. 8).

48. Conceptually, DFGG is defined as "the extent and ability of citizens, civil society organizations, and other non-state actors to hold the state accountable and to make it responsive to their needs. And in return, this DFGG enhances the capacity of the state to become transparent, accountable, and participatory in order to respond to these demands" (World Bank 2007b, p. 1). The DFGG model is viewed as a process with four key elements:

- (i) Promotion of Demand: This consists of disclosure of information, demystification of information, dissemination of information, and collective action.
- (ii) Mediation of Demand: developing feedback channels for civil society and citizens to government officials, consultation of these actors in policy and decision making by government, and dispute resolution by formal and informal means.
- (iii) Response to Demand: Strengthening government in regards to service delivery, performance incentives, and participatory action planning.
- (iv) Monitoring to Inform Demand: Non-executive oversight support through participatory monitoring (such as citizen surveys and social audits), independent policy and budget analysis, and formal oversight mechanisms. (World Bank, 2007b)

49. This project is quite innovative in its approach and may have applicability for PNG or other PDMCs. It is felt that an intervention of this nature would truly constitute a differentiated approach to fragile states engagement and may be of consideration for a pilot initiative in one region, either in PNG or elsewhere. To acquire a deeper understanding of the project's components, a study tour to Cambodia may be the first point of entry, with an eye to what aspects may be replicable in the Pacific context.

50. Among the ADB PNG projects reviewed, the one exception which did take a particular strong community-oriented perspective was the Japan Fund for Poverty Reduction (JFPR) grant-funded Extending the Socioeconomic Benefits of an Improved Road Network to Roadside Communities project. Although not classified as capacity development as such, the project contains a strong focus on improving the skills and livelihoods of citizens residing near the Highlands Region Road Improvement Investment Program (HRRIP), in addition to awareness raising on social and gender issues and the promotion of gender-responsive transportation initiatives (ADB, 2009e). Though not linked to state accountability, such activities may still enhance the capacity of citizens to manage their own affairs more effectively and expand their potential range of opportunities. Admittedly small in scale when compared to the HRRIP, this project nonetheless is considered an appropriate demand-side compliment to the HRRIP's state-based focus. Based on an evaluation of project outcomes, the Extending the Socioeconomic Benefits of an Improved Road Network to Roadside Communities project may be a suitable candidate for scaling up or replication in other areas of PNG.

51. Additionally, it is not evident what, if any, capacity diagnostic or assessment was done in the design phase of any project reviewed. Although many projects point to general capacity constraints, there is no indication of any specific toolkits used or assessments done to hone in on capacity weaknesses and their implications for the proposed project. From the documents reviewed, specific (and significant) capacity weaknesses became evident in project final reports. It may have been advantageous to have undertaken a thorough capacity diagnostic during the planning phase of the project, as information obtained here may have been useful in altering the actual design of the project which may have lead to even more desirable outcomes. It is recommended that future projects incorporate such an assessment or diagnostic exercise into the conception and design phase.

52. Many projects which did have a capacity development component also viewed it largely from the perspective of training, ostensibly to 'build' capacity. In fact several documents referred only to capacity building and not capacity development. The difference is not purely semantic; capacity building implies creating additional structures, whereas capacity development can mean reducing the strain on existing resources so they function better (Bolger, 2008). A more comprehensive and holistic view of capacity and capacity development may have led to a wider

scope of engagement in the projects reviewed, which also in turn may have improved outcomes. Such wider views would also be consistent with ADB's Capacity Development Medium-Term Framework and Action Plan (2007) and development field best practices in this area.

53. In a related area, the conceptualization of capacity development elements of projects also appears to be often outsourced to consultants. In a few cases capacity aims were included in the project and consultant TOR on the basis of interdepartmental comments and essentially appeared to be little more than add-ons. No large degree of comprehensive or systematic thinking about capacity by ADB staff is evident in project documents. While implementation by consultants is consistent with ADB practices, the danger in delegating all aspects of capacity development thinking is that it may be largely up to the consultant to determine what capacity development actually means and how this will be incorporated in the project. This may lead to approaches which are too narrowly construed or inconsistent with ADB's strategic frameworks for capacity development. Greater planning in terms of how capacity is conceived by ADB staff with less room for interpretation for consultants may lead to more systems-oriented capacity development efforts.

## **VI. OVERALL PNG ASSESSMENT**

54. Viewed from a longitudinal perspective, the documents examined show a degree of evolution in capacity and fragile states thinking. Although not uniform, more recent policy and project documents exhibit greater awareness and incorporation of these priority issues.

55. It is recommended that the future CSP for PNG have a more explicit focus on capacity development efforts and the overall fragile nature of the country, with key examples of how projects could be undertaken to directly address these matters. Although the upcoming CSP will undoubtedly remain aligned with PNG needs, scope exists for broadening the nature of this alignment to examine country issues through a more appropriate lens of fragility.

56. In terms of programming activities, projects could benefit from a wider, deeper and more consistent conceptualization of capacity development, with greater strategic planning in this realm by ADB staff as opposed to consultants. Positive design steps being taken here on stronger projects in regards to capacity should be accelerated and these interventions should be used as reference points for other ADB initiatives. Greater demand side capacity development efforts (such as strengthening civil society and developing accountability and feedback mechanisms between citizens and government) may improve service delivery and strengthen PNG state legitimacy. Greater political economy analysis of country and sector situations may provide deeper insight into the underlying nature of fragility and serve to better inform bank directions in the PNG context. As little mention of political economy concerns was evident in any policy or project documents, this may be an area where significant gains could be made. Specific capacity diagnostic toolkits may provide better baseline information for use in all projects' design phase.