



Validation Report

Reference Number: PVR-238
Project Number: 29637
Loan Number: 1706
December 2012

Papua New Guinea: Employment-Oriented Skills Development Project

Independent Evaluation Department
Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
AusAID	–	Australian Agency for International Development
DCD	–	Department of Community Development
DOE	–	Department of Education
NGO	–	nongovernment organization
PCR	–	project completion report
PNG	–	Papua New Guinea
PIU	–	project implementation unit
PME	–	project monitoring and evaluation
PSC	–	project steering committee
SDTF	–	Skills Development Trust Fund
STRU	–	skills training resource unit
TVET	–	technical and vocational education and training
VTC	–	vocational training center

NOTE

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

Key Words

adb, asian development bank, employment, employment-oriented skills development project, independent evaluation department, papua new guinea, project completion validation report

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PROJECT BASIC DATA

Project Number:	29637	PCR Circulation Date:	Dec 2008	
Loan/Grant Number:	1706	PCR Validation Date:	Dec 2012	
Project Name:	Employment-Oriented Skills Development Project			
Country:	Papua New Guinea		Approved (\$ million)	Actual (\$ million)
Sector:	Education	Total Project Costs:	38.997	27.629
ADB Financing: (\$ million)	ADF: 20.00	Loan/Grant: (SDR equivalent)	20.000 14,590	16.851 11,740
	OCR: 0.00	Borrower: (SDR equivalent)	12.099	5.083
		Beneficiaries:	1.962	0.768
Cofinanciers:		Total Cofinancing:	4.936	4.927
	GDS	GDS	2.446	0.000
	AusAID	AusAID	2.490	4.927
Approval Date:	28 Oct 1999	Effectiveness Date:	27 Jan 2000	26 Jun 2000
Signing Date:	29 Oct 1999	Closing Date:	30 Jun 2006	25 Sep 2008
Project Officers:	A. Lee E. Kulumbu S. Van der Tak W. Schneider A. Iffland	Location:	PNG Resident Mission PNG Resident Mission PNG Resident Mission PNG Resident Mission ADB headquarters	
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ADB = Asian Development Bank, ADF = Asian Development Fund, AusAID = Australian Agency for International Development, GDS = German Development Services, IED1/2 = Independent Evaluation Department (Division 1/2), OCR = ordinary capital resources, PCR = project completion report, PNG = Papua New Guinea, SDR = special drawing rights.

I. PROJECT DESCRIPTION

A. Rationale

1. The labor market of Papua New Guinea (PNG) at appraisal was characterized by a small formal sector comprising about 10%–18% of the employed labor force and a large informal sector. About 80%–85% of the total population fall under the informal sector and were engaged primarily in subsistence agriculture. Over 50,000 out-of-school youth with no employable skills join the labor force each year. Only a minority would find formal wage employment.

2. The technical and vocational education and training (TVET) system was rigid and academically oriented. Its minimum entry requirements of Grade 8 catered only to a minority. Vocational training centers (VTCs) offered 2–3 years training in basic vocational skills but did not include short-term, employment-oriented, nonformal vocational training. Other nongovernment-training providers offered similar services, but these were very limited to meet

the steadily increasing demand. Vocational training resources were inadequate, especially in terms of facilities, management and teacher expertise, programs, and instructional materials.

B. Expected Impact

3. The expected impact of the project¹ was improvement in income-earning and generating employment opportunities for the unemployed and underemployed population in the rural and urban areas, with a special emphasis on women and the youth.

C. Objectives or Expected Outcomes

4. The expected outcome was an increase in the availability of short-term, quality, competency-based, relevant employment-oriented skills training, and greater possibilities for application of acquired skills in wage and self-employment.

D. Components and Outputs

5. The project comprised three main components:

- (i) Component 1: Implementation of a legal and policy framework conducive to employment-oriented skills development
- (ii) Component 2: Institutional capacity building, including enhancement of the technical, managerial, and entrepreneurial capacities and competencies of VTCs, churches, nongovernment, and private training providers
- (iii) Component 3: Establishment of a sustainable financing mechanism for short-term employment-oriented skills training delivered by VTCs, churches, nongovernment organizations (NGOs), and private training providers on a demand and cost sharing basis

E. Provision of Inputs

6. The estimated project cost at appraisal was approximately \$39.00 million of which Asian Development Bank (ADB) provided \$20.00 million, cofinanciers provided \$4.94 million, beneficiaries \$1.96 million, and the Government of Papua New Guinea \$12.10 million. At completion, the actual cost was \$27.63 million of which \$16.85 million was from ADB, \$4.93 million from AusAID, \$0.77 million from beneficiaries, and \$5.08 million from the government. Consequently, the cost-sharing structure changed significantly with ADB's share increased from 51.3% to 61.0%, and AusAID's share from 7.4% to 17.7% while that of beneficiaries decreased from 5.0% to 2.8% and that of the government from 31% to 18.4%. The project completion report (PCR)² explained that the savings of \$11.40 million was mainly due to the non-recruitment of international consultants because of additional contributions from provincial governments, international consultants who worked as volunteers, and the unused physical and price contingencies. It should be pointed out, however, that what is considered as savings does not necessarily imply efficiency gains considering the shortfalls in output targets.

¹ ADB. 1999. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Papua New Guinea for the Employment –Oriented Skills Development Project*. Manila.

² ADB. 2008. *Completion Report: Employment –Oriented Skills Development Project in Papua New Guinea*. Manila.

7. Disbursements were made through an imprest account established in 2000. To facilitate the replenishment process, ADB approved the use of statement of expenditure procedures for payments of less than \$20,000. Disbursement during the first 2 years was slow due to start-up problems but gradually increased the next 2 years and significantly picked up in 2004 when the Skills Development Trust Fund (SDTF) started operation. At completion, disbursement totaled \$16.85 million or 84% loan utilization rate. The undisbursed balance of \$3.15 million was canceled.

8. The loan was approved on 28 October 1999 and it became effective on 26 June 2000 or about 8 months later due to the government's difficulties in meeting loan effectiveness conditions. This was followed by more slippages in the implementation of the different project components, resulting in the need to extend loan closing date from 30 June 2006 to 25 September 2008. Despite the extension of more than 2 years, the project still posted significant shortfalls relative to targets set at appraisal.

F. Implementation Arrangements

9. The implementation arrangements as originally designed appeared adequate. Under the overall direction of the Department of Treasury and Planning as executing agency, the project organization structure designated two implementing agencies—the Office of National Planning for components 1 and 3 and the Department of Education (DOE) for component 2. A project steering committee (PSC) was established to provide overall policy guidance and coordinate activities among national, provincial, and local government agencies, NGOs, and private sector stakeholder groups. Chaired by the Director of the Office of National Planning, the PSC was composed of representatives from relevant departments and agencies and private organizations. In addition, a project implementation unit (PIU) was established to handle day-to-day project administration and implementation matters. Headed by a full-time project manager, the PIU was provided with an adequate number of qualified staff supported by international consultants.

10. A series of reorganizations complicated the original implementation arrangements. The Department of Treasury and Planning as executing agency was replaced by the Department of National Planning and Rural Development, which in 2004 was in turn replaced by the Department of Community Development (DCD) in line with its new role as focal point for the informal sector that included informal skills training. The DCD concurrently became the implementing agency for component 1 while the DOE remained as implementing agency for component 2. Upon establishment of the SDTF, its National Board of Trustees became the implementing agency for component 3. This validation agrees with the PCR assessment that the resulting implementation arrangements were not wholly satisfactory as it required the DCD to undertake tasks outside its normal role. The reorganization created many discontinuities in operations caused by transition problems related to delineation of roles, staffing, and learning curves. These changes significantly contributed to the underperformance of the project.

11. The PSC, which initially met regularly, was unable to do so after the reorganization, which disrupted the availability of senior officials to attend meetings. They were often unable to address problems and/or issues that arose in the course of implementation. However, the participation of organizations represented in the PSC has been institutionalized with the appointment of their representatives to the national and provincial Boards of Trustees, including the Department of Employment and Youth, DOE, the National Training Council, the Department for Provincial Affairs and local level government, the Department of Commerce and Industry,

development partners, and the National Capital District representative representing the interests of the provinces. It would have been useful if the PCR had appended the final project organization structure that resulted from the series of reorganizations.

12. The government took about 5 months to meet the two conditions for loan effectiveness: (i) the government and at least one of the participating provinces would have made provision in the 2000 budgets concerned for their respective first contributions to the SDTF (government: \$1.5 million or K4.5 million; provincial government: \$500,000 or K1.5 million, whichever is less in each case); and (ii) the government would have selected for the PIU a project manager satisfactory to ADB. Of the 30 loan covenants, all except 3 were satisfactorily complied with. The two covenants that were complied with but always late were the submission of quarterly reports and the provision of counterpart funding. The covenant that was only partly complied with was the delivery of training output where only about 25% was achieved at completion.

II. EVALUATION OF PERFORMANCE AND RATINGS

A. Relevance of Design and Formulation

13. The PCR rated the design and formulation *relevant*. This validation concurs with the PCR rating. The project was designed to result in a significant reform of the TVET system. Anchored on an analysis of the existing structure and trends of the labor market and a critical assessment of the TVET subsector, the design ensured that the project would address the central issue of mismatch between the demand for and supply of labor.

14. The project design identified components that aligned the TVET delivery system with the needs of the labor market at the policy and operational levels. The policy component included the development of national TVET policies that would enhance access to quality training, particularly by women and youths in the rural and urban areas, by introducing modular competency-based training courses based on national skills standards. With entrepreneurship modules included in the training, the graduates were expected to have the basic skills to go for self-employment while some might qualify for wage employment. The project provided for the strengthening of capacities of training providers including the VTCs, churches, NGOs, and private institutions, and a mechanism for working in partnership with government agencies. A critical support component to complete the package was the establishment of a funding mechanism for short skills training through the SDTF.

15. As designed at appraisal, the project was fully supportive of the national development priorities set forth in the country's Medium-Term Development Strategy, 1997–2002, and the National Education Plan, 1995–2004, both of which emphasized the importance of broadening training options to meet local and community needs. The project was also aligned with ADB's Country Operations Strategy, 1998, which called for stimulating the non-mining sectors to generate broad-based employment and income-growth. The high dropout rate in basic education filled the labor market with early school leavers without employable skills. The project's objectives and components, thus, addressed squarely the urgent need to provide employment-oriented skills training to the great majority of out-of-school youths and adults who unwittingly were automatically excluded from accessing formal TVET programs because of Grade 8 minimum entry requirements. The project reoriented the TVET system toward the majority of its target clientele so that they can take advantage of opportunities particularly in the informal sector.

16. At completion, the project remained relevant and consistent with PNG's new Medium-Term Development Strategy, 2005–2010, and ADB's Country Strategy and Programs for PNG, 2006–2010, both of which continue to underscore the importance of employment-oriented skills training geared mainly toward self-employment in the informal sector and wage-employment in the formal sector. It remained relevant and consistent with the subsequent policies and plans affecting the TVET subsector including the Informal Sector Development and Control Act, the Integrated Community Development Policy, the National Youth Policy, and the National Education Plan. The project continues to be relevant even after completion.

B. Effectiveness in Achieving Project Outcomes

17. The PCR rated the project *less effective*. This validation concurs with the PCR rating. At the outcome level, the project had four main targets: (i) by December 2005, at least 40,000 people will have received training; (ii) at least 40% are female participants; (iii) at least 40% of participants are male between 16 and 28 years old; and (iv) at least 75% of the beneficiaries will have increased their income within the first year after training. While the targets on gender mix and age group have been achieved, only about 25% of the main targets, i.e., the number of beneficiaries trained and the increase in income of those trained, were achieved. This was way below expectation.

18. The reasons behind such low performance can be traced to the three component outputs. The first component—legal and policy framework—has been completed. It provided the policy environment and defined the parameters within which the other two components were to be carried out. The problems, however, were at the institutional and operational levels in executing the other components. The capacity-building component was constrained by the limited capacity of the skills training resource unit (STRU) in developing training curricula and materials and in distributing the materials to the provinces. The effectiveness of training programs for management and supervisors, education officers, and vocational instructors was hampered by the lack of basic understanding of the English language and weak mathematical skills of participants, limited capacity of training providers, lack of acceptable PNG training and education standards for technical and vocational courses, and lack of labor market analysis. The SDTF, on the other hand, was beset by disagreements between its Board of Trustees and the DCD, which is the executing agency. The SDTF Deed of Trust is under review by the government to align it with DCD operations. The project's sustainability plan has yet to be completed as the Management Steering Committee of the SDTF did not accept the initial plan submitted. There is a possibility, however, that the output targets may yet be achieved but over an extended period through the continued operation of the SDTF.

19. Appendix 1 of the PCR could have been improved by adding a separate column for achievements and providing the actual status or accomplishments for each performance indicator. As currently presented, it is difficult to follow which one is the target and which one is the actual result in a number of indicators.

C. Efficiency of Resource Use in Achieving Outputs and Outcomes

20. The PCR rated the project *less efficient*. This validation agrees with the PCR rating. In the absence of an economic internal rate of return estimate at appraisal, assessment for this criterion is based mainly on operational efficiency. A major consideration is the fact that with an investment cost of \$27.63 million or 70.8% of estimated cost at appraisal, the project achieved only about 25% of its main targets despite a 2-year extension. However, the flow of benefits can be expected to continue because the SDTF still has funds to sustain operations. Much of the

problems that contributed to reduced operational efficiency stemmed from the series of reorganizations resulting in confusion of roles and scope of responsibilities, frequent changes in personnel of the implementing agency and PIU, and slowed down process of decision-making. In a number of cases, it took time before issues and/or problems were resolved. As most of these problems were essentially within management control, it is reasonable to assume that with more effective project management, the operational efficiency could have been much better.

D. Preliminary Assessment of Sustainability

21. The PCR rated the project *likely* sustainable. This validation concurs with the PCR rating. Through component 1, the legal and policy framework has been formulated and/or legislated, institutionalizing an enabling environment for employment-oriented skills training in the informal and formal sectors. The delivery system has been strengthened through training of management and support staff, education officers, and instructional staff of the central agencies and public and private training providers in the areas of management, development of curricula and training materials, and teaching methods although improvement of the quality of training has been pointed out. Completing the package is the establishment of the SDTF to provide a funding mechanism with capital provided from part of the ADB loan proceeds and contributions from national and provincial management. As of 31 August 2008, the SDTF had about K53 million (\$20.8 million).

22. However, some concerns have been raised on the administrative arrangements and operations of the SDTF and the DCD to the extent that some of the provinces wanted to already withdraw their contributions. A comprehensive resolution to these issues is needed if the training activities through the SDTF are to be sustained in future.

E. Impact

23. The project's intended impact was increased income-earning potential of the unemployed and underemployed population in the rural and urban areas. The impact was to be measured in terms of the extent that nonfarm employment and rural productivity were increased and urban unemployment was reduced. At completion, the project had trained more than 10,000 target beneficiaries comprising unemployed and underemployed out-of-school youths and adults, 40% of them women, and 10%–15% comprised males between 16–28 years old. It was estimated that only between 20%–30% of those trained increased their income after training. The PCR did not specify how this figure was arrived at. It may be too early to determine the full impact of the project since additional benefits will continue to flow in the years to come through the operation of the SDTF. The PCR did not rate the impact explicitly and this validation rates the impact *moderate*.

III. OTHER PERFORMANCE ASSESSMENTS

A. Performance of the Borrower and Executing Agency

24. Despite the unstable political situation, the borrower was able to substantially discharge its responsibilities under the loan agreement. It was able to provide the required counterpart funding, albeit oftentimes delayed, and showed commitment to sustain the project through institutional and budget support. It also substantially complied with the loan covenants. This validation agrees with the PCR that the borrower's performance was *satisfactory*.

25. The executing agency was changed three times starting with the Department of National Treasury and Planning, and shortly thereafter, the Department of National Planning and Rural Development and in 2004 the Department of Community Development. As the agency responsible for providing overall coordination and support, the executing agency experienced difficulties throughout the implementation period. The recruitment of international and national consultants was significantly delayed. Then there were problems arising from personnel changes involving the project directors and managers, accountants, trainers, coordinators of the STRU, and staff of the SDTF Secretariat. Consequently, the implementation of the different components was adversely affected, including the construction of the STRU facilities. This validation agrees with the PCR rating that the executing agency's performance was *less than satisfactory*.

B. Performance of the Asian Development Bank

26. ADB fielded 11 review missions throughout the implementation period, excluding inception, contract negotiation, midterm review, and project completion review. Toward the later part of the project, however, the review missions became less frequent, fielding only one mission in 2005, none in 2006, and one in 2007. The PCR gave no reasons for this and did not indicate whether this somehow affected project performance. Nevertheless, ADB provided enabling support to the executing agencies, the implementing agencies, and the PIU by training their staff on ADB implementation guidelines and procedures, including financial accountability, integrity, and governance. ADB responded promptly to implementation issues raised during the missions, brought these to the government's attention, and persistently followed up the required actions. This validation concurs with the PCR assessment that ADB's performance was *satisfactory*.

C. Others

27. A major concern of ADB, the government, and of cofinanciers is ensuring that project funds are used on activities, for which they are intended, hence, the need for an effective financial monitoring, accounting, and control system. Review mission reports during the earlier years up to 2003 indicated deficiencies in the management of project finances, including improper use of funds. These deficiencies, however, were addressed through financial audit, development and implementation of a financial and management information system, and recruitment of a new project manager. Financial records and reports subsequently became acceptable according to ADB standards. No significant misuse of funds was reported following the improvements in the financial management system.

IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

A. Overall Assessment and Ratings

28. The PCR rated the overall performance of the project *partly successful* (see table). This validation concurs with the PCR assessment and gives it a *less than successful* rating. The project design and formulation was good and relevant to the development needs of the country and aligned with ADB's Country Strategy and Program for PNG. It initiated a reform process of the TVET system reorienting its focus toward the provision of short, employment-oriented skills training geared toward exploiting the opportunities in the informal sector while, at the same time, strengthening its capacity to deliver higher quality training for the formal sector. It thus responded directly to the needs of the community and the labor market.

29. The problems appeared to be mostly in implementation. The project had a slow start with the delay in meeting conditions for loan effectiveness. Further delays in the recruitment of consultants followed. Compounding the situation were the series of reorganizations that led to changes of executing agencies and implementation agencies, resulting in confusion over roles and scope of responsibilities, changes in personnel, and slowing down of the decision-making process. All these adversely affected the implementation of the project components. Consequently, actual outputs at completion were mostly way below targets despite the 2-year extension of the implementation period. However, with substantial amount of funds still available through the SDTF, the development and delivery of employment-oriented skills training can continue in the years to come.

Overall Ratings

Criteria	PCR	IED Review	Reason for Disagreement and/or Comments
Relevance	Relevant	Relevant	
Effectiveness in achieving outcome	Less effective	Less than effective	
Efficiency in achieving outcome and outputs	Less efficient	Less than efficient	
Preliminary assessment of sustainability	Likely sustainable	Likely sustainable	
Overall assessment	Partly successful	Less than successful	
Borrower and executing agency	Borrow: Satisfactory Executing agency: Less than satisfactory	Satisfactory Less than satisfactory	
Performance of ADB	Satisfactory	Satisfactory	
Impact	No rating	Moderate	See para. 23.
Quality of PCR		Satisfactory	See para. 33.

ADB = Asian Development Bank, IED = Independent Evaluation Department, PCR = project completion report.

Note: From May 2012, IED views the PCR's rating terminology of "partly" or "less" as equivalent to "less than" and uses this terminology for its own rating categories to improve clarity.

Source: ADB Independent Evaluation Department.

B. Lessons

30. This validation agrees with the lessons identified in the PCR. In addition, the following lessons may be added:

- (i) **Quality of project management.** A more effective project management could have avoided, or at least minimized much of the implementation problems related to coordination, conflict resolution, scheduling, and monitoring and reporting. The position of project manager is the bridge between the key policy and decision makers and the people involved in implementing the different activities. Thus, the selection process should ensure that the candidate is able to deal effectively with those at the top and those on the ground.
- (ii) **Cancellation of consultant inputs.** During the feasibility study stage, the estimate of consultant inputs is based on the assessment of existing institutional capacity to carry out certain activities. In this project, about \$7.2 million worth of international consultants inputs were not used. The absence of such a significant amount of

international expertise could have contributed to the project's underperformance. The lesson here is that before making a decision to cancel consultant inputs, careful consideration should be taken as to its impact on project performance.

C. Recommendations for Follow-Up

31. The PCR gave comprehensive and logically thought through lessons based on issues and/or problems encountered during implementation. This validation agrees with the PCR's recommendations.

V. OTHER CONSIDERATIONS AND FOLLOW-UP

A. Monitoring and Evaluation Design, Implementation, and Utilization

32. A project monitoring and evaluation (PME) system was required to be established within 3 months of loan effectiveness to monitor project activities and achievements related to the specific objectives, including the activities and expenditures of the SDTF. Monitoring procedures was to be refined, finalized, and agreed upon with ADB within the first year of project implementation. Despite the importance of such a PME system, the PCR did not elaborate on how the PME system was functioning. An effective PME system should have included progress monitoring and compliance monitoring combined with a baseline study at project commencement and an evaluation study at least toward completion. The absence of information on how the system worked points toward the lack of information about project's achievements over time and preliminary indications of its impact. Monitoring and evaluation appeared to be among the weakest aspects in project implementation.

B. Comments on Project Completion Report Quality

33. The PCR follows the PCR guidelines (Project Administration Instruction 6.07)³ and is internally consistent. It candidly discussed the issues and problems affecting the effectiveness and efficiency of the project. Although the PCR made a general assessment of the project's impacts generated during project implementation, it did not provide a rating. Lessons and recommendations were sound and derived from the analyses and findings. This validation rates the PCR as *satisfactory*.

C. Data Sources for Validation

34. Loan review mission reports, PCR, report and recommendation of the President, minutes of the management review meeting on the project, minutes of the Board meeting, and project audit report.

D. Recommendation for Independent Evaluation Department Follow-Up

35. Preparation of a project performance evaluation report may not be needed.

³ ADB. 2009. Completion Report for Sovereign Operations. *Project Administration Instructions*. PAI 6.07. Manila.