PUBLIC SECTOR MANAGEMENT ASSESSMENT

A. Introduction

1. This document evaluates the results of Asian Development Bank (ADB) support to the Government of Papua New Guinea (PNG) for public sector management (PSM) between 2003 and 2014. It summarizes the findings of the assessment, draws lessons, and makes recommendations for improving the future performance of ADB support in PNG. The country assistance and program evaluation (CAPE) covers the period 2001–2014, across three country strategies—country assistance plan, 2001–2003; country strategy and program, 2006–2010; and the country partnership strategy (CPS), 2011–2015. The assessment covers one loan, a project, and 12 technical assistance (TA) projects classified as belonging to the PSM sector.

B. Sector Context

2. The government that had initiated reforms was defeated in the 2002 elections, although many reform-minded politicians were re-elected and reformers remained in the bureaucracy. By early 2003, however, there was growing criticism from internal and external commentators and development partners regarding the state of the PNG economy, and in particular the governance framework. Some claimed that PNG was at risk of becoming a failed state.

3. Nevertheless, the new government pronounced its continued commitment to sound economic management, and political unrest was addressed to some extent through the Organic Law on the Integrity of Political Parties and Candidates (2003). Since 2005, PNG has enjoyed continued growth as a result of high commodity prices, mineral investment inflows, sound fiscal and monetary frameworks, and a healthy banking sector. After a large fiscal deficit in 2009, the budget returned to surplus in 2010. The public financial management (PFM) system, however, has remained weak. The 2008 Public Expenditure and Financial Assessment (PEFA) showed that performance against five of nine indicators had remained unchanged since 2006, and the other four had deteriorated. The International Monetary Fund 2007 Article IV Report noted that progress on the structural reform agenda, designed to improve growth prospects and the investment climate, had stalled in 2007, and particularly with respect to public sector reform.

4. There is currently no PFM or PSM strategy in PNG, despite the urgent need for an inclusive public sector reform agenda. The 2009–2010 PNG Household Income Expenditure Survey data indicates that 40% of Papua New Guineans consumed less than a minimum basket of food and other goods and services in 2010. PNG is also not expected to meet the targets set out in the Millennium Development Goals by 2015. The change in the composition of growth sources towards high priority areas,

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4 The Financial Management Project was classified under the finance sector, but given the nature of the intervention, it is included under PSM for purposes of this evaluation.
7 Footnote 3. This basket, which includes items that households purchase and those they produce themselves, is the sum of the costs of attaining a minimum number of daily calories (2,200 per day for each adult-equivalent) based on prevailing local diets and food prices, plus an allowance for the purchase of essential nonfood items.
8 IMF. 2013. Papua New Guinea Staff Report for 2012 Article IV Consultations. Washington, DC. The government assessed that the Millennium Development Goals would not be achievable and therefore established its own national targets, related to the first seven global Millennium Development Goals. Even for these national targets, two are on track and three are off track, with mixed results for the remaining two.
necessary for inclusive growth, will also pose significant challenges. Economic growth and activity are also expected to decline with the winding down of construction under the liquefied natural gas (LNG) project (footnote 6).

5. The present approach to PSM is interpreted from several planning documents and existing laws. These include the government’s Papua New Guinea Vision 2050, which states the long-term strategy for the country; and the PNG Development Strategic Plan, 2010–2030, issued in 2010, which provides the detailed strategy for the Vision 2050. The Development Strategic Plan targets broad-based private sector-led economic growth and establishes a mid-term goal of becoming a middle-income country by 2030. The Medium Term Development Plan (MTDP) 2011–2015, which aimed to enhance direction and accountability for all sector activities, was issued shortly thereafter. The MTDP shifts PNG’s planning process from expenditure-based to policy-focused, with accountability placed on line agencies for achieving specific sector targets. It also indicates the projects to achieve the desired results. It prioritizes four key policy objectives: (i) sustain prudent fiscal and macro management; (ii) nurture development of an entrepreneurial culture and vibrant business environment; (iii) reverse the regressive conditions of human development; and (iv) support the seven identified MTDP “key enablers”—transport infrastructure, key utilities (energy and communications), primary and secondary education, higher and technical education, health, unlocking land for development, and law and order.

6. In view of the anticipated revenue inflows from the LNG and other mineral projects, the government has proposed to establish an offshore Sovereign Wealth Fund (SWF). It will comprise three components—a savings fund, a stabilization fund, and an infrastructure fund. This SWF is to be integrated into the budget framework of the government. However, this revenue by itself will be inadequate to sort out the challenges facing PNG. To generate a broad-based improvement in the living standards of PNG citizens, the government needs to spend more effectively, and undertake structural reforms to improve the efficiency of the private sector and state-owned enterprises (SOEs). Moreover, the pace of job creation is likely to slow significantly, increasing the challenges of improving the inclusiveness of future growth and reducing poverty (footnote 6). Thus, the urgency of ensuring a transparent and efficient public sector gains critical importance for PNG’s future economic growth.

7. ADB’s strategy and objectives for supporting public sector management in PNG were consistent throughout the evaluation period (Table 1). Its main goal, as stated in its country strategy documents, was poverty reduction through improved service delivery. Specifically, ADB aimed to strengthen PFM and development planning in key government agencies, with a view to driving broader public sector reforms and improving service delivery. Building on the groundwork provided under the Financial Management Improvement Program (FMIP, the overall donor-supported government program), ADB also planned through a project programmed for 2002, to strengthen provincial and local level government management capacities.

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10 Footnote 6. Fiscal revenues from the LNG project are projected to begin in 2018 and peak in 2024.
### Table 1: ADB’s Strategy for Public Sector Management

<table>
<thead>
<tr>
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<tr>
<td>Work with other development partners in progressing public service reforms, focusing on financial management (e.g., Financial Management Project, Public Service Program) as well as provincial and local management capacities</td>
<td>Carry over initiatives, including capacity building and institutional development initiatives at sector levels</td>
<td>Strengthen financial controls and compliance as a driver of broader public sector reforms: – performance of public enterprises; – revenue management; – functioning relationships between national, provincial and local governments, and – participatory budget preparation and monitoring processes</td>
<td>Continue to strengthen PFM: – government-wide framework for enhancing fiscal management; – governance standards for infrastructure projects, statutory authorities, SOEs and executing agencies – support development planning in key line agencies</td>
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</tbody>
</table>

ADB = Asian Development Bank, CAP = country assistance plan, CPS = country partnership strategy, CSP = country strategy and program, CSPU = country strategy and program update, PFM = public financial management, SOE = state-owned enterprise.


8. In addition to 10 advisory TA projects (excluding project preparatory TA projects), the main support in this sector was through two operations (Table 2). This included: (i) the Financial Management Project,¹¹ which aimed for the development and eventual implementation of new budget and government accounting information technology systems; and (ii) a Public Service Program Loan (PSPL) that was to be released in two tranches of $35.0 million.¹² The PSPL aimed to support, as part of the wider reform agenda of the government, policy reform measures in four areas: (i) building a performance-oriented public service, (ii) re-orienting personnel management systems and processes, (iii) strengthening probity and oversight agencies, and (iv) improving delivery of major services.

### Table 2: Support for Public Sector Management during the Evaluation Period

<table>
<thead>
<tr>
<th>Name of Activity</th>
<th>Total ($)</th>
<th>Approval Date</th>
<th>Closing Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>TA-Supporting Public Financial Management, Phase 2</td>
<td>1,000,000</td>
<td>12 Nov 2012</td>
<td>30 May 2015</td>
</tr>
<tr>
<td>TA-Facilitating Public-Private Partnerships</td>
<td>800,000</td>
<td>23 Feb 2011</td>
<td>30 Apr 2014</td>
</tr>
<tr>
<td>TA-Supporting Public Financial Management</td>
<td>1,000,000</td>
<td>10 Dec 2009</td>
<td>31 Dec 2012</td>
</tr>
<tr>
<td>TA-Support for Development Planning</td>
<td>225,000</td>
<td>11 Dec 2008</td>
<td>30 Sep 2010</td>
</tr>
<tr>
<td>TA-Support for Public Expenditure Review and Rationalization</td>
<td>500,000</td>
<td>29 Jun 2007</td>
<td>30 Apr 2009</td>
</tr>
<tr>
<td>TA-Strengthening the Capacity of the Parliamentary Accounts Committee</td>
<td>500,000</td>
<td>10 Sep 2004</td>
<td>Cancelled</td>
</tr>
<tr>
<td>TA-Improving Economic and Social Statistics</td>
<td>800,000</td>
<td>24 Oct 2002</td>
<td>31 Dec 2009</td>
</tr>
<tr>
<td>TA-Poverty Analyses for Socioeconomic Development Strategies</td>
<td>650,000</td>
<td>6 Jun 2001</td>
<td>31 Mar 2004</td>
</tr>
<tr>
<td>TA-Strengthening Public Sector Management</td>
<td>850,000</td>
<td>18 Dec 2001</td>
<td>31 Mar 2005</td>
</tr>
<tr>
<td>TA-Review of Mining and Hydrocarbon Tax Regimes (previously listed as Fiscal Reform Studies)</td>
<td>325,000</td>
<td>21 Dec 2000</td>
<td>31 Dec 2003</td>
</tr>
<tr>
<td>Public Service Program Loan</td>
<td>70,000,000</td>
<td>12 Dec 2001</td>
<td>31 Mar 2005</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>102,450,000</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

TA = technical assistance.

Note: Project preparatory technical assistance projects were not included in the table.


9. An important complement of the PSPL was support for strengthening the capacities of key governance institutions (including the Auditor General’s Office), working in collaboration with other donors (notably the Australian Government and the World Bank). ADB also supported improved law enforcement and legislative drafting.

C. Evaluation of ADB Support

10. The CAPE assessment of ADB support for public sector reform is made against six standard evaluation criteria: strategic positioning, relevance, efficiency, effectiveness, sustainability, and development impact.

1. Strategic Positioning

11. ADB support was responsive to the country context and needs. The government recognized that the root cause of PNG’s weak economic performance was poor governance, but was not able to address these risks effectively. ADB loans and TA projects aimed to strengthen governance and public administration (through the PSPL), enhance public sector financial management (through the Financial Management Project), and build the capacities of central government agencies and provincial governments. Although the total amount of support was relatively low compared to the support for infrastructure projects, it was targeted at areas in a transparent and effective system of public resource management.

12. ADB support was responsive to the government’s need to achieve inclusive development through improved service delivery. Although the government did not have a public sector strategy, ADB support was responsive to the Vision 2050 as well as the Development Strategic Plan, 2010–2030. The focus on improving service delivery through better public service management was a critical concern of these policies.

13. Donor collaboration in the sector appears to have been satisfactory during the early period when ADB was involved more actively in public sector reform. For example, the government in collaboration with ADB, Australian Government, the United Nations Development Programme, and the World Bank developed the framework and vehicle for financial improvements under the donor-supported FMIP. As noted earlier, ADB contributed through its Financial Management Project and associated TA projects.

2. Program Relevance

14. The overall relevance of the objectives is assessed to be “borderline relevant.” While ADB’s support was considered to be relevant in its strategic positioning, the design of the individual programs was less relevant given the weak capacity and public sector context in the country.

15. ADB’s program of support was consistent with ADB strategies, as well as the objectives of the Pacific strategies. The ADB goals of improving PFM and public sector service management were highly relevant in improving transparency and efficiency in the delivery of key basic services. Several of the TA projects fitted well with the overall strategy of supporting poverty reduction, encouraging private sector participation, and reviewing and improving the complex public sector landscape. In fact, two TA projects, namely Improving Economic and Social Statistics, and Poverty Analyses for Socioeconomic Development Strategies, were directly focused on poverty reduction and improving the delivery of services.

16. However, ADB did not adequately incorporate measures to address the risks arising from political changes and weak governance. Forms of traditional governance based on clan authority and the churches are predominant; and to many, customary institutions and loyalty are more important
than the state as a source of social capital. ADB did integrate some of these risk considerations into the overall design of its country program in the sense that the nature of the PSM support was mostly on enhancing governance in the public sector and improving delivery of services in the public sectors. However, efforts to address specific and critical concerns, as well as mindsets, at the local levels were weak.

17. Support for PSM did not translate into a long-term engagement, even though this was essential in the fragile PNG context. ADB exited from the PSPL and the Financial Management Project before any of the key objectives were achieved. The more recent shift to financing long-term programs in infrastructure has enhanced relevance for the government. Shifting to a multi tranche facility program was considered very responsive to client needs and priorities.

18. The ADB portfolio could have better reflected the risks associated with a fragile country such as PNG. Given the lack of basic infrastructure, poor policy regimes, weak institutions that are unable to deliver basic services, weak governance, and political instability, an institutional strengthening plan would have helped to reduce the implementation risks, particularly given the lack of a clear and monitorable PSM strategy of the government. It was only in 2011 that ADB characterized PNG as being in a fragile situation and suggested that an approach more appropriate for weakly performing countries should apply. The 2011 CPS cautioned the need for designing more realistic expectations about what could be achieved within a particular timeframe. It noted that reforms and TA interventions would need to be carefully sequenced in future and take into account institutional capacity constraints at national and subnational levels.

19. Over-ambitious targets and complexity of design, however, reduced relevance in a country with weak implementation capacity. In the case of the Financial Management Project, for example, the design formulated at appraisal was reasonable and relevant, but the change to an integrated financial management software package introduced undue risks in implementation and resulted in failure to achieve the main expected outputs even 11 years later. Nevertheless, the government believed that the model of PFM proposed by ADB was outdated for PNG, and when ADB resisted the change on the grounds of inadequate capacity, the government decided to maintain the system through its own funds. The PSPL was over-ambitiously designed without fully taking into account the risks inherent in a coalition government and the importance of a consistent commitment to reforms. As a result, international consultants had to be engaged to perform the tasks, which led to decreased ownership. The program performance evaluation report (PPER) also notes that the policy actions were not appropriately designed to meet the PSPL outputs or outcome, and concludes that the total loan of $70.0 million was not required to meet the policy conditions.

20. The results orientation of ADB support was weak. The performance monitoring and evaluation system developed for the Financial Management Project was not put to full use as the project’s main expected outputs were not realized. According to the PPER, the PSPL documents did not provide any

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14 In the case of the PSPL, the second tranche was cancelled on the grounds of the arbitrary appointment of the Managing Director of the National Fishing Authority and the governance issues related to the deposit of revenue collected. In the case of the FM project, the government’s insistence on immediately shifting to an Integrated Financial Management System, and abandonment of the two-phased approach recommended by ADB, resulted in ADB not financing the second phase.
15 The program was designed in two phases. The first phase aimed to address urgent problems and areas of high risk in the public sector financial management system as well as year 2000 (Y2K) compliance. Phase 2 was to encompass a move to an integrated financial management system (IFMS) for all aspects of PFM. This phase was to be implemented over the long term through a process approach as human resource capabilities were built up over time. However, 3 years into the project implementation period, the executing agency, the Department of Finance (DOF), required that components 1 and 2 be combined and that a fully integrated system covering planning, budgeting, budget implementation and accounting would be procured and installed. This meant shifting immediately to the ultimate goal of phase 2 of the FMIP, the establishment of an IFMS—which was originally envisaged at a much later date, once institutional capability to handle such a system had been built up.
analysis or linkages between the actions of the reform program and the expected outcomes and macroeconomic indicators set out in the design and monitoring framework. Neither details nor specific baseline conditions were provided for the three performance measures identified. The project’s PPER also noted the need for greater clarity and consistency in the policy reform conditions included in the development policy letter, as well as in the policy measures and government assurances included in the loan agreement (footnote 16). The results framework was considered weak. As a result of these problems, the government still does not have a national framework for monitoring development outcomes.

3. Effectiveness

21. ADB’s contribution in this sector was less effective, when assessed against the objectives stated in the CPS. ADB’s engagement in public service reforms ended in November 2002, quite early during the evaluation period. Although TA projects continued beyond this date, and allowed ADB to sustain dialogue, the TA completion reports note limited government commitment of resources or personnel to support their implementation and little follow-up on their recommendations. Support for strengthening PFM was overall ineffective. In the case of the PSPL, while there was considerable high-level dialogue between ADB and the government between 2003 and 2004, they were unable to reconcile differing views on what was necessary to meet release conditions for the second tranche. The government reportedly continued to pursue its public sector reform agenda after the second tranche was denied and the loan was closed, but concerns remain about the depth of commitment to good governance as progress on reforms appeared to stall in 2007. The results are in Table 3.

Table 3: Public Sector Management Portfolio and Completion Report Assessment

<table>
<thead>
<tr>
<th>Name of Loan/TA</th>
<th>Type</th>
<th>Amount ($)</th>
<th>Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Management</td>
<td>OCR</td>
<td>25,800,000</td>
<td>U</td>
</tr>
<tr>
<td>Supporting Public Financial Management</td>
<td>CD</td>
<td>1,000,000</td>
<td>U</td>
</tr>
<tr>
<td>Supporting Public Financial Management, Phase 2</td>
<td>CD</td>
<td>1,000,000</td>
<td>Open</td>
</tr>
<tr>
<td>Public Service Reform Program</td>
<td>OCR</td>
<td>70,000,000</td>
<td>PS</td>
</tr>
<tr>
<td>Facilitating Public-Private Partnerships</td>
<td>CD</td>
<td>800,000</td>
<td>Open</td>
</tr>
<tr>
<td>Support for Development Planning</td>
<td>AD</td>
<td>225,000</td>
<td>S</td>
</tr>
<tr>
<td>Support for Public Expenditure Review and Rationalization</td>
<td>JFPR</td>
<td>500,000</td>
<td>S</td>
</tr>
<tr>
<td>Strengthening the Capacity of the Parliamentary Accounts Committee</td>
<td>AD</td>
<td>500,000</td>
<td>Cancelled</td>
</tr>
<tr>
<td>Improving Economic and Social Statistics</td>
<td>AD</td>
<td>800,000</td>
<td>S</td>
</tr>
<tr>
<td>Poverty Analyses for Socioeconomic Development Strategies</td>
<td>AD</td>
<td>650,000</td>
<td>S</td>
</tr>
<tr>
<td>Strengthening Public Sector Management</td>
<td>AD</td>
<td>850,000</td>
<td>PS</td>
</tr>
<tr>
<td>Review of Mining and Hydrocarbon Tax Regimes (previously listed as Fiscal Reform Studies)</td>
<td>AD</td>
<td>325,000</td>
<td>Open</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>102,450,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

AD = advisory, CD = capacity development, JFPR = Japan Fund for Poverty Reduction, OCR = ordinary capital resources, PS = Partially Satisfactory, S = satisfactory, TA = technical assistance, U = Unsatisfactory.

Note: Project preparatory technical assistance projects were not included in the table.

a. Strengthening Public Sector Accountability

22. ADB’s contribution to the strengthening of public sector accountability has been largely ineffective. Overall, PNG has made limited progress, as confirmed by the most recent PEFA assessment. Significant weaknesses in the system, including lack of capacity, continue to impede the

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17 A 2014 PEFA assessment is currently being undertaken.
government’s ability to control expenditures, disburse the budget as approved, and provide essential services.

23. ADB supported several key outputs in this dimension. Outputs of the Financial Management Project included identification of deficiencies in the public sector financial management system and establishment of a strong public sector financial management infrastructure as a basis for implementing the Financial Management Improvement Program over time.18 The first TA for PFM helped to support the public expenditure review and rationalization process in PNG to improve accountability for results.19 It supported efforts to enhance oversight of statutory authorities, strengthen procurement arrangements, and enhance the transparency and monitoring of subnational service delivery. The 2012 financial management TA (Phase 2) also aimed to support the design and implementation of transparent and accountable systems for financing the construction and maintenance of infrastructure from a newly created SWF.20 The PSPL supported several legislative and regulatory outputs to enhance predictability and overall accountability.21 This loan also supported the strengthening of the probity and transparency of oversight agencies.

24. Although many planned outputs were generated, these did not translate into the desired outcomes. Outputs of the Financial Management Project were limited to the preparatory activities needed to establish an improved financial management system, and the project was assessed as ineffective (footnote 16). The results of the PSPL were better and it was assessed as partly effective. However, by the time of the Independent Evaluation Department mission, some of the initial achievements had not been sustained. The results of the two loans and associated TA projects are discussed below.

25. Financial Management Project. More than a decade after an integrated financial management system was introduced through the Financial Management Project, the system has been partially implemented in three government departments. Other departments and provincial governments use different systems such as the PNG Government Accounting System, Oracle, and so on. This makes integration of budget and accounting systems very difficult. The 2014 Budget was prepared using the integrated financial management system (IFMS), but government officials note the continuing difficulty of preparing budget or accounting reports using the new system. They note that there is little rigor in the routine monitoring of inputs and outputs of key government programs, and therefore any reports produced are often unreliable and need a lot of manual handling.22 Until recently, strong political will was also absent in this area. Despite the challenges, the Department of Finance, which has pursued the IFMS with government and some donor funds is highly optimistic and intends to gradually roll out the system to other parts of the government. They attribute the delays to a lack of changed mindsets, failure of senior managers to attend training, and problems of inadequate capacity for accurate data

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18 Specific outputs included better planning and budgeting systems; improved budget execution and accounting systems; strengthened information technology systems and government enterprise network; improved human resources at different tiers of the government; and a change management program.
21 Independent Evaluation Department (IED). 2008. Project Performance Evaluation Report: Public Sector Reform in Papua New Guinea. Manila: ADB; IED. 2008. Validation Report: Public Service Program in Papua New Guinea. Manila: ADB (Loan 1875). The legislative and regulatory outputs included (i) amending the Constitution to ensure PSC decisions were legally binding; (ii) giving the PSC authority over selection, appointment, and discipline of departmental heads, provincial administrators, and heads of regulatory statutory authorities; (iii) passing new legislation, including Public Services (Management, Selection, and Appointment of Departmental Heads and Provincial Administrators) Regulation (2003), the Regulatory Statutory Authorities (Appointment to Certain Offices) Act (2004), and amending the Public Services (Management) Act (1998); (iv) approval of a Code of Ethics, the Business Conduct of the Public Service, and complementary general orders; and (v) approval of a regulatory framework for the public servants performance management system.
22 The IFMS project team told the CAPE mission that incorrect data entry led to the problems rather than problems with the system.
entry. The Financial Management Project, however, did help to address the year 2000 (Y2K) compliance issue. The project completion report (PCR) also notes the completion of a disaster recovery center, consisting of an alternative service center to be used in case of the catastrophic loss of the main system.

26. **Public Service Program Loan.** Support through the PSPL for strengthening the probity and oversight agencies was partially effective. The PPER found that the policy actions identified for the Auditor General’s Office, Attorney General, and the Ombudsman Commission were not sufficient to achieve strengthened governance of the probity and oversight agencies. The combination of insufficient resources, lack of ownership, and poor political oversight constrained effective implementation. Nevertheless, there were some important outputs. The Ombudsman Commission, for example, confirmed that they continue to prepare an annual Ombudsman Corporate Plan that is linked to the budget. Quarterly performance reviews of targets are being conducted using several predetermined indicators. Performance of individuals is also reviewed against targets given to them at an individual level, team level, and organization level. Three regional offices have been established and currently there are 104 staff, with 150 as the ceiling. Weak capacity to handle the 3,000 cases a year has been a constraint and, since 2006, no annual reports have been produced. In the Auditor General’s Office (AGO), an independent audit of the Department of Education financial and control systems was completed, which was a condition of the ADB loan. However, inadequate allocation of financial resources constrained strengthening. The revitalization of the Public Accounts Committee in late 2002 was a positive development in holding agency heads publicly accountable for reports from the AGO, and this resulted in some positive actions (including an improvement in the AGO’s profile). Although audited accounts continue to be subject to delay, much of this is due to the poor maintenance of accounts within government agencies.

27. **Technical assistance.** TA projects related to procurement and service delivery were ineffective. ADB support for procurement was overtaken by the preparation of a Country Procurement Assessment Report prior to the commencement of the TA, and the main activity for procurement was no longer required. However, a review of the procurement section of the Public Finances (Management) Act 1995 was completed, and provided input to the current review of that Act. The effort to improve local service delivery was ineffective. The proposed surveys to assess service delivery in 3 ADB focus districts were refined, but the actual surveys were not conducted, and the proposed expansion of pilot service delivery activities did not materialize. Efforts to strengthen the governance of the SWF did not have a full impact because, although the SWF should have been established by law in 2013, the legislation is still pending.

b. **Enhancing the Transparency of State-Owned Enterprises and Statutory Authorities**

28. ADB support in this dimension was partially effective. SOEs and statutory authorities continue, for the most part, to function outside the budget system, and their transparency is limited. This said, ADB has initiated a process of reform, through, which ADB maintains a close policy dialogue with the government on these issues, supporting them in their push for reform.

29. Outputs in this dimension aimed to strengthen the financial management and monitoring framework of SOEs and statutory authorities. The first PFM TA aimed to strengthen oversight of statutory authorities, recognizing that the government was increasingly devolving functions to statutory authorities in sectors where ADB was active (such as the National Roads Authority and the

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23 The CAPE mission understands that senior officials typically send younger officials to training sessions for IFMS system. They prefer to limit their involvement to the clearance authority, and do not always use the IFMS as a source of budget or accounting information.


Civil Aviation Authority). The second phase of the PFM TA sought to strengthen the oversight of statutory authorities by the Treasury. Another TA has indirectly helped the reform of state-owned agencies by supporting increased private sector investment in infrastructure and related services through public–private partnerships (PPPs); this has entailed helping the government establish and operate a PPP center and a project development facility to prepare properly structured PPP arrangements. It also supported the government in implementing a community service obligations framework. ADB also undertook an analysis that compared the performance and economic impact of SOEs in PNG with that of five other countries.

30. The effectiveness of ADB support provided through the first TA was only partial in strengthening oversight by the Department of Treasury (DOT). The TA did not effectively strengthen the oversight of statutory authorities by the DOT. Through close coordination with an inter-agency working group, 10 statutory authorities agreed to participate in the new oversight process, reviewing current information systems, agreeing key performance indicators, identifying additional information requirements, and improving monitoring processes. However, ownership varied significantly among these authorities. The TA outputs included reports that provided clear guidance on the frameworks and monitoring systems required to enhance statutory authority governance, and training workshops. The completion report for the TA notes that the new system and reference materials are being used by the DOT, but expected outcomes are weak. In fact, the results were not sustained, and the monitoring systems are still inadequate and weak. However, the TA allowed ADB to remain engaged with the government on a range of PFM issues that were important for ADB operations in a number of sectors.

31. With ADB support, the government has now, in September 2014, developed specific PPP legislation to complement existing and planned PPP arrangements. This legislation will lead to additional expertise in government given the recent establishment of a PPP center. The government expects these steps to give potential investors greater confidence to invest in PNG. The implementation of this law is expected to lead to the reform of state-owned agencies, since the new law classifies them as belonging to the public sector.

32. The mission finds that ADB support for generating knowledge of the economic impact of State Owned Enterprises (SOEs) in PNG has been progressing, although it is still an on-going process. The ADB report compared PNG’s performance in the area and with that of five other countries. It found that, while PNG’s SOEs have produced net profits that are in the upper range of the SOE portfolios in the six benchmarked Pacific countries (PNG, Fiji, the Marshall Islands, Samoa, Solomon Islands, and Tonga), they have done so at a substantial cost to the government in terms of ongoing fiscal transfers and other subsidies, and to the detriment of the poorer segments of the population due to the generally poor quality of the services provided and limited range of delivery. The study showed the need for SOE reform and initiated a public debate on the subject as well as a better understanding of the need for reform. Although some steps were taken to strengthen the Independent Public Business Corporation to improve the professional management, commercial orientation, accountability, and transparency of SOEs, these are still in their early stages. Similarly in the case of statutory authorities, with support from ADB, the government has developed a monitoring unit and framework for statutory

26 Outputs included preparing sectoral case studies of financial management and analysis (e.g., for a transport sector project, energy sector project, and social sector project); preparing and delivering four workshops on project financial management and analysis; and advising on financial management and analysis issues.


29 Although the TA completion report assesses the TA to be successful, interviews with staff at the Treasury in September 2014 indicated that the initiative has “frittered away.”

30 Implementation of the Act is expected to begin immediately, with support from ADB. This will include the establishment of the PPP Centre and development of a PPP project pipeline. ADB’s ongoing assistance is funded partly through its Pacific Private Sector Development Initiative (PSDI), a regional technical assistance facility cofinanced by ADB, the Government of Australia, and the New Zealand Government.
authority performance, and there is some optimism that with political will, the reform may move slowly forward.


33. In this dimension, despite significant effort and some promising intermediate outcomes in the initial stages, results are less effective. The PSPL PPER notes that “while a number of senior civil servants remained committed to the reform program, the political commitment and allocation of adequate personnel and financial resources to reform was at best variable, and increased political interference eroded civil service independence and incentives to implement reforms” (footnote 21).

34. Relevant outputs in this dimension were supported through the PSPL and a TA project. The PSPL had eleven conditions to support policy reform measures in building a performance-oriented public service, and reorienting personnel management systems and processes. The expected outcomes in this dimension of the PSPL were stated rather vaguely and broadly.31 An accompanying TA supported analysis of (i) the introduction of performance-focused management systems in selected departments and the related restructuring of roles, responsibilities, processes, and staffing; (ii) budget and financial management; (iii) civil service regulations and human resource management; (iv) strengthening key governance institutions; and (v) national-provincial coordination.32

35. ADB support initially helped to revitalize public service operations through reforming personnel management, introducing human resource development mechanisms, and streamlining procedures.33 Support was provided to implement action plans for capacity strengthening in Department of Personnel Management, Public Service Commission (PSC), and PNG Investment Promotion Authority, as well as to institutionalize a process of continuous improvement in the provision of basic services (health, education, agriculture, and transport infrastructure) in four pilot provinces. The emphasis was on adjusting administrative processes to reduce bottlenecks, rather than on increasing resources. By February 2003, with PSPL support the necessary legislative and regulatory changes were all in place for establishing the Performance Management System. The PSC was established as an independent entity with powers to appoint heads of department, statutory and regulatory authorities, and provincial administrators. A new protocol for the appointment of department heads was developed to improve stability in the senior ranks.34 PSC decisions on appeals on appointments were final and binding. Department and agency heads were responsible for performance plans and accomplishment reports as approved by the Central Agencies Coordination Committee; the Chief Secretary was given disciplinary powers over all department secretaries and provincial administrators; and a new Code of Ethics and Business Conduct of the Public Service governed the conduct of public servants.35

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31 For example, one condition included introducing performance orientation in public service. To achieve this, the Loan would “focus attention of policy makers and officials on delivering results”, and “promote transparency and accountability.” It would establish an “appropriate personnel management framework” by reorienting “personnel systems and processes to support public service objectives”; by “improving the quality and integrity of knowledge of personnel and control costs”; by “promoting objectivity, professionalism, and performance” by ensuring “fairness, due process, and transparency”; by strengthening the “process addressing personnel grievances” and promoting “transparency and accountability”.

32 ADB. 2001. Technical Assistance to Papua New Guinea for Strengthening Public Sector Management. Manila (TA 3812-PNG). The TA was approved in December 2001. It was to commence in March 2002 and run for 18 months. As the consultants were not mobilized until October 2002, the TA was extended by 3 months to June 2004. It was actually completed in late 2004, with the final report submitted to ADB in August 2005, and closed in July 2006.


34 “In the same month that Parliament passed the necessary constitutional and legislative amendments to restore the powers of the PSC in appointing heads of departments, statutory and regulatory authorities, and provincial administrators, political interference in appointing the head of the NFA led to ADB’s withholding the PSP’s second tranche and eventual cancellation of the PSP loan in March 2005” para. 31 of the PPER.

35 The PSPL PPER finds that the TA was intermittent, with many gains earned from each consultant visit, but lost by the time of the next visit. ADB should have given greater attention to the effective implementation of this program, particularly in the periods when consultants were not on site.
36. Despite the above results, gains made in 2003 in building a performance-oriented public service were not sustained.\textsuperscript{36} The second tranche of the PSPL loan was cancelled when the acting general manager of the National Fisheries Authority (NFA) was appointed without fully transparent selection procedures. This led to several efforts being discontinued midway. Even today, the PSC continues to be constrained by a lack of qualified staff and the assignment of inappropriately skilled staff.\textsuperscript{37} More recently, the situation has deteriorated. The Constitution has been re-amended and the powers of appointment of the PSC are being transferred to a Ministerial Executive Appointments Committee. The law is yet to be passed and this transfer of responsibility is expected to happen soon, which will be a reversal of some of the achievements of the 2003 reform initiated by ADB’s loan. Although stakeholders comment that the delays and inefficiencies of the PSC have resulted in such a transfer, there is no doubt that the lines between the legislators and executors will be further blurred, negating much of the impact of the PSM reform in this area.

37. Support provided through the TA was less effective. The TA completion report rated the advisory TA as “successful,” and concluded that it had achieved its outputs, but its impact was constrained by ineffective government leadership and insufficient financial resources for effective implementation. However, the Operations Evaluation Mission rated the TA “partly successful,” as the outcome was not met primarily because, as noted in the TA completion report, the assumptions were overly optimistic and the risks were not adequately mitigated. ADB also supported the preparation of a report on the rightsizing of the PNG bureaucracy. A report was produced in 2005, but the government did not implement its recommendations, and so it was ineffective.

d. Improving Delivery of Major Services

38. In this dimension, ADB introduced several diagnostic tools and instruments, and several outputs were generated, but the objectives were only partially achieved. Moreover, ADB support for reform of the public sector was too short-lived to bring any significant improvements to service delivery.

39. Planned outputs in this area were diagnostic tools, collection and analysis of relevant statistics, and support for poverty reduction strategies. The PSPL loan included activities such as (i) functional and expenditure reviews in the Department of the Prime Minister and the National Executive Council and the departments of Treasury, Finance, Health, Works, and Transport to identify internal improvements; and (ii) a service improvement program (SIP) to improve service delivery in agriculture, education, health, and transport infrastructure. A 2002 TA\textsuperscript{38} aimed to strengthen and upgrade the capacity of the National Statistics Office (NSO) and Bank of PNG in preparing regular economic statistics such as national accounts, poverty analysis, and the consumer price index, which are essential for policy development. Another TA project\textsuperscript{39} helped in (i) the preparation of a national poverty reduction strategy (NPRS) and the medium-term development strategy (MTDS), which was expected to contribute to a results-based performance delivery, (ii) the preparation of the first “Priorities of the Poor” booklet in English as well as in Pidgin and Motu, and (iii) the development of frameworks and standardized methodologies for participatory assessment of poverty. A third TA provided support for development

\textsuperscript{36} This conclusion is based on the 2008 PER (footnote 20) and the CAPE mission’s interview with PSC staff.

\textsuperscript{37} In PNG, the second tranche was not released, although 10 of the 11 tranche release conditions and 30 of 34 policy actions were fully complied with (IED. 2009. Special Evaluation Study: ADB Support for Public Sector Reforms in the Pacific: Enhance Results through Ownership, Capacity, and Continuity. Manila: ADB). The government’s failure to comply with the condition to ensure the merit-based selection of heads of statutory regulatory authorities led to ADB’s withholding of the second tranche and, for all intents and purposes, the end of the program.


\textsuperscript{39} ADB. 2002. Technical Assistance to Papua New Guinea for Poverty Analyses for Socioeconomic Development Strategies. Manila. The objective of the TA was to assist in the preparation of a national poverty reduction policy framework involving civil society through a participatory process, and to help better plan, program, and implement actions required to operationalize the National Program for Reconstruction and Development. However, the planned activities did not materialize.
planning in PNG by allowing national development planners to apply relevant and tested good practices.  

40. The preparation of functional and expenditure reviews also had only a limited impact. Although agency budgets were adjusted to enable recommendations to be implemented, only a few departments took ownership of these activities as consultants had undertaken the reviews. Consequently, implementation was slow and had limited impact. To address this, the government in 2002 undertook a wide-ranging review and rationalization of expenditure across the entire public service, which was supported by ADB, AusAID, and the World Bank. This, too, had limited effect.

41. ADB support for the SIP was more effective. Consultants supported the formulation of SIP guidelines and a training manual, and they trained officials in four departments and four provinces plus one PNGIPA instructor. Provincial SIP coordinators were appointed. There was some confusion as to whether this was merely a service improvement program that comprised a list of improvement projects requiring funding, and this contributed to the perception that the SIP had not been very successful. However, the CAPE mission found that the use of the SIP was sustained by the National Executive Committee in the Prime Minister’s Office for a few years after the second tranche had been declined.  

The government picked up the budget till 2008. The Prime Minister and National Executive Council (PM-NEC) has now revived the tool in 2013 and it is being used at the subnational levels with some results. The staff cited several positive outcomes of using this program, such as an Education SIP workshop, which led to the development of a school census from the collection of 6 years of overdue data. The government, which has funded the program again in 2014, has prepared a manual and improved a worksheet that had been developed with ADB support. In their view, given the recent allocation of public funds to be used at the subnational level, the SIP is an important training and capacity development tool in the provinces, although the lack of capacity at the subnational level to apply such a tool is highly constraining. On the other hand, the Department of Personnel Management was trained to use the Service Improvement Program as a management tool to review its own structure of operations. Staff of Department of Personnel Management attended the workshops, but the process was never completed, and the staff interviewed could not remember what happened.

42. Support for strengthening the statistical unit was partially effective. The TA project (footnote 38) provided relevant support for the country’s development priority to establish economic and social statistics. Although the scope was slightly revised, the analysis of Demographic Health Survey data (supported by ADB) was led by NSO. The data compilation and analysis under the TA was useful for the government and development partners in policy making and conducting comparative analysis with other Pacific countries. Training of NSO and Bank of PNG staff in data compilation and analysis was useful for conducting future national scale surveys. While the TA delivered the outputs stated in the design and monitoring framework, the NSO continues to be weak in delivering timely analyses of accurate data to assist in the design of service delivery.

43. The other TA project helped the government to better focus public sector resources towards meeting the country’s development challenges (footnote 39). Although the TA contributed to prioritizing, understanding, and addressing poverty in PNG, the government did not by and large follow up on the findings. A third TA (footnote 40) helped focus both government and donor

41 Footnote 21, paras. 35–37.
42 Based on conversations with managers and staff of Prime Minister and National Executive Council. See also: IED. 2012. Special Evaluation Study: Asian Development Bank’s Support For Promoting Good Governance In Pacific Developing Member Countries. Manila: ADB (para. 73.).
43 It was also noted by government stakeholders that AusAID has recently developed a new tool for institutional analysis, which provided monetary incentives to recipients, thereby distorting the system.
activities on the needs of the poor, especially those in rural communities. ADB support helped to prepare a report, which reviewed the implementation of the 2005 MTDS and recommended actions to achieve developmental objectives in the next Medium-Term Development Strategy. However, although the review was completed satisfactorily, there was insufficient time for the findings to be more comprehensively addressed in the MTDS. 46

4. Efficiency

44. ADB support was less efficient. The validation report for the financial management Loan and by the PPER for the PSP rated both loans as inefficient. The CAPE team did not find any evidence or further progress that would require a change of rating.

45. The Financial Management Project was inefficient. The decision of Department of Finance (DOF) to adopt an integrated financial management system without having sufficient institutional and technical capacity introduced risks that adversely affected project implementation. Delays were experienced, with the project closing almost a decade later than planned. Funds were inefficiently used, and main outputs expected from the project were not realized.

46. The PSPL was less efficient. The lack of counterpart funds and the failure to release the second tranche undermined the efficiency of the advisory TA. It took 39 months from loan effectiveness to completion/closure (as opposed to the envisaged 15 months) with non-release of the second tranche. Moreover, the PPER notes that the program loan was approved to finance short-term adjustment costs associated with the government’s ongoing wide-ranging structural reform program during 2001–2003, valued at $40.0 million. Any remaining balance was to be used by the government to retire the most expensive (mostly domestic) public debt and arrears. By December 2002, when 10 of 11 tranche release conditions and 30 of 34 policy actions were fully complied with, actual expenditure on adjustment costs had totaled $26 million, with around $8 million contributing to debt reduction. The lack of counterpart funds and the failure to release the second tranche undermined the efficiency of the advisory TA. The weakness in articulating specific outcomes of the policy conditions meant that the basis for compliance with conditions remained unclear.

47. Arrangements for execution of ADB support also led to inefficiencies. In the Financial Management Project, responsibilities shifted from the Department of Treasury and Planning to the DOF once the latter was established. The project management team, led by two local consultants who were both DOF employees on leave of absence, reported directly to the secretary of DOF. One concurrently served as the project manager and manager for the Financial Management Improvement Program. The second team comprised consultants from an international firm, under the supervision of the deputy project manager who was also an international consultant. This arrangement resulted in mixed lines of responsibility between the program and the project, few checks and balances, and limited oversight by either the government or ADB. In effect, actual implementation was undertaken by a group of consultants who were operationally separated from the agency executing the project. PSPL implementation was constrained by a lack of consistent budget resources for implementing reforms, lengthy gaps in filling key leadership positions, a center–province service delivery disconnect, and varying interpretations of key aspects of the reforms.

5. Sustainability

48. The sustainability of ADB support is less likely. Although some TA projects allowed ADB to remain engaged with the government after 2003 on a range of PFM issues that were important for ADB operations in PNG, most results were not sustained. As noted by government stakeholders, ADB abruptly stopping financing in both loans and providing little follow-up. Although the government

continued to fund the IFMS, the results have been slow and partial. The PSPL resulted in a stronger legislative and regulatory framework for service delivery, but the conditions were insufficient to embed reforms and impact service delivery. There is little evidence from discussions with heads of a range of departments and agencies that government funding has led to notable changes in key performance areas supported by the PSPL or the Financial Management Project. The lack of synergy between central and local (provincial and district) agencies and of improvements in management competencies remains a big challenge that is still to be overcome. The TA projects supported the development of several outputs, but sustainability is also less likely.

6. Development Impacts

49. Overall, ADB support for poverty reduction and inclusive growth in public sector management is less successful. Support was not provided within a comprehensive and focused PSM strategy that would help to enhance service delivery and inclusive economic growth. Such a strategy was particularly important in view of the 1995 New Organic Law on Provincial and Local Level Government. Without such a strategic approach, the results remained individual and scattered. Moreover, capacity issues (institutional, organizational, and human resources) are a major constraint in all tiers of the government.

50. There is little evidence to show that ADB support was effective in improving service delivery. The PSPL contributed to further development of PNG’s legal and regulatory framework, but it was insufficiently resourced to address the key governance constraint of ineffective implementation. Support for improving the performance of government personnel appeared to be making progress, but was implemented weakly and was recently reversed. Processes for institutional assessment of sector institutions were strengthened through SIPs and public expenditure reviews. Overall, PNG has made little progress towards having a transparent and integrated system of financial management.

7. Overall Assessment

51. The two large projects (Public Financial Management and PSPL) respectively generated unsuccessful and less than successful results. Risks were not properly identified or addressed, time frame allocated for the reform program was unrealistic, and the design and monitoring frameworks were weak. The earlier TA projects were too short and had insufficient focus on embedding reforms to achieve program outputs. The later TA projects, which have narrowed focus to reform of public sector agencies, appear to be more successful in achieving desired outputs. Overall, the results of ADB support for public reform in PNG is assessed to be less than successful (Table 4).

Table 4: Public Sector Management Overall Performance Rating

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Weight</th>
<th>Assessment</th>
<th>Score</th>
<th>Weighted Average Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic positioning</td>
<td>0.1</td>
<td>Satisfactory</td>
<td>2.0</td>
<td>0.2</td>
</tr>
<tr>
<td>Program relevance</td>
<td>0.1</td>
<td>Relevant</td>
<td>2.0</td>
<td>0.2</td>
</tr>
<tr>
<td>Effectiveness</td>
<td>0.2</td>
<td>Less than effective</td>
<td>1.0</td>
<td>0.2</td>
</tr>
<tr>
<td>Efficiency</td>
<td>0.2</td>
<td>Less than efficient</td>
<td>1.0</td>
<td>0.2</td>
</tr>
<tr>
<td>Sustainability</td>
<td>0.2</td>
<td>Less likely sustainable</td>
<td>1.0</td>
<td>0.2</td>
</tr>
<tr>
<td>Development impacts</td>
<td>0.2</td>
<td>Less than satisfactory</td>
<td>1.0</td>
<td>0.2</td>
</tr>
<tr>
<td>Overall assessment</td>
<td></td>
<td>Less than successful</td>
<td>1.0</td>
<td>1.2</td>
</tr>
</tbody>
</table>

* The evaluation scoring system rates the overall sector performance based on these criteria: (i) if the overall weighted average score for criteria combined is >= 2.7, then the overall performance is highly successful; (ii) if it is <2.7 but >=1.6, overall performance is successful; (iii) if it is <1.7 but >= 1.6, it is borderline successful; (iv) if it is < 1.6 but >= 1.5, it is borderline less than successful; (v) if it is <1.5 but >= 0.8, then the overall performance is less than successful; and (vi) if it is < 0.8, then the overall performance is unsuccessful.

D. Other Evaluations

1. Capacity Development

52. The objectives of ADB support for capacity development were partly relevant through the evaluation period. They were focused on building capacity relevant for strengthening governance and improved service delivery. This was an urgent need, and it continues to be consistent with MTDP 2011–2015, which reiterated that building capacity to implement the public sector reforms and improving service delivery mechanisms within and between the sectors continue to be important. However, although the objectives were clear, support was provided through TA loans that dealt with different issues and the overall support was fragmented. Neither the country nor ADB had a strategy to strengthen institutions.

53. Although there were some small success stories, the overall development of capacity was less than modest. While ADB contributed to strengthening the institutional framework, the efforts were modest in terms of strengthening implementation capacity. The PSPL Loan, for example, also included measures to enhance public sector financial management, build capacity in line agencies and provincial governments that provide essential services, and strengthen central agencies and governance institutions. However, the results were weak and it did not contribute to sustainable capacity building. When the project was redesigned, the planned capacity development efforts were found to be irrelevant.

54. Strengthening institutional capacity for implementation was not very successful. A plan to enhance the PNG Institute of Public Administration (PNGIPA’s) capacity as a center of excellence for training and developing skilled and professional public servants was implemented, but, with ineffective leadership, little has been achieved. The Public Service Commission’s independence and mandate regarding oversight of public servant appointments and disciplinary procedures was strengthened—particularly for department heads, statutory and regulatory authorities, and provincial administrators. However, the efficiency gains were not sustained, and it is in the process of being stripped of its authority to appoint senior bureaucrats. Laws and regulations for service delivery were also passed. However, PNG does not lack legal instruments or institutions but rather the willingness to implement good governance practices that respect the rule of law.

55. Organizational capacity was not attempted for the main part and not achieved. As noted in the PSPL PPER, the integrated payroll and human resource management system and the improved personnel control systems yielded payroll savings. However, the reform has not been sustained, with a large number of ghost workers continuing on the government payroll.

56. Human resource capacity was built to a limited extent. This was mainly because the loan and the project utilized existing government public sector reform implementation arrangements rather than establish specific arrangements for implementation. Although this may have delayed implementation, it helped to build sufficient capacity to undertake SIPs in the PM-NEC, prepare expenditure review reports in the Treasury, and conduct large surveys in the NSO. The training component of the Financial Management Project contributed to improving the financial skills and academic qualifications of the agencies involved in the project. However, the validation report and the PCR note that the training was less relevant in that no new or improved financial management system was in place through which the training could be applied.

57. Overall, therefore, successful outcomes from capacity development efforts were scattered and had only a limited influence in strengthening institutional, organizational, and human capacity. The CAPE mission concurs with the findings of the PSPL PPER that the overall contribution to capacity development was only modest. The overall design underestimated the government’s capacity to
implement reforms, and it provided insufficient time to embed the intended reforms to achieve outcome 1—improved public service in key sectors.

2. **ADB Performance**

58. ADB performance is considered *satisfactory*. Its performance in both the loans, which ended in 2002, was considered less than satisfactory. However, ADB’s strategic performance since then has been more effective, and the overall performance is therefore considered to be satisfactory.

59. ADB did not support a fully relevant program. Although the areas of support were relevant and critical to the ADB mandate, ADB underestimated the significant risks and did not design the support accordingly. Although it recognized to some extent the risks stemming from the forthcoming elections, the risks inherent in the form of government and those involved in imposing a western form of governance in a society where traditional and customary principles were predominant were not fully recognized. Time periods for reform were, therefore, almost always insufficient, and attempts at changing mindsets and consulting with stakeholders were inadequate.

60. ADB also did not demonstrate the importance of monitoring development outcomes. In both loans, although ADB supported the government in formulating its reform program and maintained policy dialogue during loan implementation, regular program monitoring missions did not report on outcome indicators. Additionally, ADB never engaged for the long term in this sector, and ended support after the first phase in all cases.

61. This said, ADB had to adjust its focus as it was working in a challenging environment with changing political agendas and commitments. Given the unique country context, ADB’s shift in scope and focus from strengthening public sector management in a broad manner to addressing PFM issues in infrastructure sectors is considered appropriate. ADB’s support for reforming the PMS landscape, particularly the role of statutory authorities and SOEs, which were crowding out space for private sector participation, is also highly relevant for the achievement of its objectives in the focus sectors. In focusing its support on PSM areas critical to the country, ADB appears to have made a right shift.

3. **Borrower’s Performance**

62. Government performance is considered to be partially satisfactory. Government performance was inconsistent, with changes in government leading to changes in commitment to reforms. Initially, the government was very committed to the reform program, including the government that came into power in 2002. In 2007, improved revenue earnings seem to have lessened the pressures for reform. While a number of senior civil servants have remained committed to the reform program, there has been increased political interference and erosion in the independence of actions and incentives for implementing reforms. In the case of the Financial Management Project, the government’s performance was assessed to be unsatisfactory, given the project delays, the sudden decision by the government to opt for integrated software that led to inefficient use of funds, and the non-realization of the expected outputs (validation report). While several outputs were achieved under the PSPL, they were not pursued with vigor or translated into sustainable outcomes. Although some of this can be attributed to the weak human resource capacity, efforts by the government also needed strengthening.

E. **Conclusion**

1. **Key Findings**

63. ADB support was relevant in nature and scope but short lived during the evaluation period. ADB support to PNG in this sector was provided only until 2002. Discussion of the second tranche conditions of the PSPL and implementation of the few remaining TA projects helped ADB to continue
to maintain dialogue with the government. ADB also decided not to continue support for the Public Financial Management System. Support was, therefore, dropped midway in both loans, thereby reducing the high relevance of both areas.

64. ADB support to PNG was less than successful. Several reasons have reduced the impact of ADB support for public sector reform in PNG. First, the attempt to impose modern public sector institutions in a context still predominantly based on a culture of loyalty to tribesmen and fragmented by diverse cultures proved to be a great challenge. Second, the absorptive capacity within the country was low. Ownership of such reforms was therefore often weak or non-existent. Third, a strong governance framework typically provides the underlying context for modern PSM institutions, systems, and processes. The lack of a strong governance framework in PNG has detracted from development effectiveness. While government commitment to governance has generally been weak, it is likely to be stronger with the expected revenues from the LNG project.

65. Effective public sector reform and governance is critical for PNG. The criticality has increased, given the need to ensure that the anticipated revenues from LNG and other mining and petroleum projects are efficiently and equitably utilized for effective service delivery and aligned with development priorities. Transparent use of the funds can help to translate this financial wealth into broad-based delivery of basic services. The lack of an integrated system of budgeting and accounting is, therefore, a serious concern. This is particularly true given that service delivery is a responsibility of subnational governments. A unified system that runs across all government departments, through the four tiers of government, and ties in State Authorities and SOEs is critical, but not yet on the radar screen. It is a complex and difficult task that cannot be achieved without greater political will, government commitment, financial resources, collaboration with development partners, and greater capacity. Until then, the development budget of the country will not present a complete picture.

66. Coordinated donor efforts will be essential to improve public sector management. If such efforts are left uncoordinated, the current significant risks will add to the difficulties of public sector management instead of resolving them. While development partners have played a substantial role in resource transfers, in the future, it is likely that with the receipt of the revenues from LNG, such resources may become less and less important. This means that the ability of donors to seek PSM reform may decline compared with the last decade.

2. Lessons

67. Support for strengthening the transparency and efficiency of SOEs is critical to enhancing private sector participation. Accurate, relevant, and timely information is important in improving the accountability of all institutions handling public funds.

68. In countries that are not yet ready for imported systems of governance, such as PNG, capacity development is important. Program and project objectives should be crafted carefully and design should be kept simple and uncomplicated, with a clear plan for how capacity will be transferred to local actors.

69. A bottom-up approach of strengthening local communities and institutions is one way of creating demand for effective and efficient public sector management. This approach is particularly relevant in countries like PNG where there are significant governance issues and weak capacity. It is equally important to strengthen civil society engagement in planning and monitoring the use of public sector resources so that local citizens/NGOs are better able to demand accountability from those in positions of responsibility.
3. **Suggestions**

70. ADB should continue to strengthen public sector management issues in its focus sectors. These sectors are large and critical in achieving effective development. Results-based and focused support to improve demand for and systems of transparent and effective public sector management will be a significant contribution. Within these sectors:

(i) ADB should support PNG, in collaboration with other development partners, to establish a strategic overall framework for monitoring the results of development interventions. Such framework should take into account existing policy outcomes and respective sector strategies.

(ii) Given the fragile context in the country, ADB should develop an institutional strengthening action plan for PNG in consultation with the government and other development partners.

(iii) As a matter of priority, ADB should ensure the rollout of the IFMS (after an assessment of its adequacy) in key ADB sectors such as health, energy, and transport. An action plan should be drawn up for this with the Department of Finance, since this is likely to be a long-term activity. Essential capacity and infrastructure should first be built up as the needed financial infrastructure is established.

(iv) Ensure continuity in policy reform and institutional development support, as ADB is doing in the case of support for the reform of SOEs.

(v) Support innovative approaches to demonstrate how to strengthen partnerships between local governments and communities (including NGOs/churches) to enhance the efficiency and effectiveness of public sector spending at the local level.