



Completion Report

PUBLIC

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Papua New Guinea: Supporting Public Financial Management (Phase 3)

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TECHNICAL ASSISTANCE COMPLETION REPORT

TA Number, Country, and Name: TA 9209-PNG: Supporting Public Financial Management (Phase 3)		Amount Approved: \$1,000,000.00	
		Revised Amount: \$1,250,000.00	
Executing Agency: Asian Development Bank	Source of Funding: ADB Technical Assistance Special Fund (TASF-other sources and TASF 6)	Amount Undisbursed: \$152,327.92	Amount Used: \$1,097,672.08
TA Approval Date: 19 October 2016	TA Signing Date: 2 December 2016	TA Completion Date	
		Original Date: 31 October 2019	Latest Revised Date: 31 October 2021
		Financial Closing Date: 4 January 2022	Number of Extensions: 2
TA Type: Capacity development TA			

Description

The technical assistance (TA) was developed in response to a request from the Government of Papua New Guinea (PNG) to support the strengthening of government capacity in public financial management (PFM), including fiscal and budgetary management. The need for support became acute in 2016, when the TA was approved, following a shock to the PNG economy and associated government tax revenues from falling global commodity prices.

PNG's public debt to gross domestic product (GDP) ratio fell from 62.6% in 2002 to a low of 16.3% of GDP in 2011 after a period of generally sound macro-fiscal management and sustained growth. However, by 2015, the debt to GDP ratio had jumped back up to 29.9% of GDP. This was largely due to a series of wide fiscal deficits, which averaged 5.9% of GDP during 2013–2015.

In 2012, the government ramped up expenditures significantly, from an average of 13.8% of GDP during 2007–2011 to 24.2% during 2012–2016, as more funding was directed towards public sector wages, public office rentals, health care, education subsidies, and debt-service costs. Government revenue was also on an increasing trend during this period, although it did not keep pace with expenditures, increasing from an average of 13.9% of GDP during 2007–2011 to 19.4% of GDP during 2012–2016. Higher commodity prices and the construction of a \$19 billion liquefied natural gas plant were the basis for these revenue changes, as PNG enjoyed an economic boom period. However, confidence in the longevity of the boom perhaps allowed the government to pursue generous fiscal policy. When oil prices fell from \$120 per barrel in mid-2014 to \$58 per barrel in March 2015, the government faced a fiscal crisis.

Within this context, the government requested for ADB's support for prudent management of PNG's fiscal policy and budget, and the attainment of high standards of public sector management. The TA aimed to support strategic budgeting within a sustainable medium-term fiscal framework, and the efficient and effective management of public funds. The TA built upon, and advanced achievements of, two previous public financial management TA phases.¹

Expected Impact, Outcome, and Outputs

The TA impacts were (i) prudent management of the government's fiscal policy and budget, and (ii) the attainment of high standards of public sector management in all levels and institutions of government.² The expected outcome was strengthened government capacity for prudent fiscal management.

The TA had two outputs. The first output was to support prioritized government spending within a sustainable fiscal envelope. This output envisaged providing capacity development and associated technical advice to the Department of Treasury (DOT), which is responsible for budget preparation and fiscal strategy. Planned activities included developing a credible, regularly updated medium-term fiscal strategy; annual budgets; and in-year budget reporting.

¹ ADB. 2009. *Technical Assistance to Papua New Guinea for Supporting Public Financial Management*. Manila; and ADB. 2012. *Technical Assistance to Papua New Guinea for Supporting Public Financial Management, Phase 2*. Manila.

² Government of PNG, Department of National Planning and Monitoring. 2010. *Papua New Guinea Development Strategic Plan, 2010-2030*. Port Moresby.

The output sought to provide flexible support for reforms in PFM and to respond to evolving reform needs and political windows of opportunity. The second output was focused on improved communication of PFM reforms to stakeholders.

Implementation Arrangements

The TA envisaged mobilizing one public finance economist (international) for 18 months on a continuous basis, and three senior public finance specialists (international or national) on an intermittent basis, for a total of 3 months each. However, the TA mobilized four international consultants for a total of about 70 person months. Two international public finance economists provided support to the DOT's Macroeconomic Policy Division in fiscal strategy and budget preparation. The first consultant was mobilized from March 2017 until September 2018 on a continuous basis, and the second consultant was mobilized from March 2019 until September 2021 on a continuous basis. One international debt management specialist, who was not in the original TA, was mobilized from August 2019 to October 2021 on an intermittent basis, to provide support in debt management to the DOT's Financial Management Division. The TA also mobilized one international procurement specialist on a continuous basis, who was also not in the original TA, from September 2019 to September 2020 to provide support to the National Procurement Commission and the Department of Finance with implementation of procurement reforms under the National Procurement Act. During TA implementation, to respond flexibly to changing priorities of the DOT, the positions of two senior public finance specialists were converted into the more specialized positions of a debt management specialist and a procurement specialist. Both ADB and the government agreed on the decision.

The TA was approved for an initial amount of \$1 million, for period of 3 years, with an initial closing date of October 2019. The first extension was for 1 year until October 2020 and allowed for uninterrupted support. The second extension was for one further year until October 2021. The TA amount was also increased by \$250,000 at the time of the second extension. It became critical to maintain ADB's support for PFM in PNG during the coronavirus disease (COVID-19) pandemic. The extension was discussed and agreed with the government. Changes were deemed minor and there was no change in scope. No revisions were made to the DMF during the TA lifetime.

Conduct of Activities

The first output of the TA was to support prioritized government spending within a sustainable fiscal envelope. In line with the planned activities, the TA provided support for (i) economic analysis for prudent macroeconomic and fiscal policies; (ii) updates to medium-term fiscal, revenue and expenditure strategies; (iii) preparation of annual budget documents; and (iv) the provision of PFM policy advice and guidance for the prioritized spending of public funds.

The public finance economists supported or implemented: (i) preparation and drafting of budget papers, annually, including the national budget, supplementary budget, and budget strategy paper; (ii) improvements to budgeting techniques and frameworks, including improved cash flow management and the development of the medium-term fiscal, revenue and expenditure strategies, as well as a strategy for payroll reform; and (iii) the provision of advice for economic and fiscal policy, including support for drafting revisions to the Fiscal Responsibility Act, assessment of the economic and fiscal impact of the COVID-19 pandemic, and support for preparing tax policy submissions. The debt management specialist supported or implemented: (i) a diagnostic review with recommendations made on improving debt data quality and the organizational structure and resources of the debt management function; (ii) assisting with preparations for migrating to a new debt management system; (iii) revising regulations related to debt guarantees; (iv) providing advice on the Debt Service Suspension Initiative process; and (v) drafting the first edition of an annual public debt bulletin (unpublished). The procurement specialist supported or implemented (i) implementation of the National Procurement Act; (ii) preparation of a strategy for implementing an e-procurement system; (iii) preparation of procurement guidelines, toolkits, and templates; and (iv) designing procurement standard operating procedures.

The second output of the TA was to effectively communicate fiscal and PFM reform to all stakeholders. In line with the planned activities, the TA (i) prepared and published frequent economic and fiscal reform program updates, (ii) released policy briefs on economic, fiscal and PFM policy concerns; and (iii) developed fiscal and PFM communication capacity within key government institutions. The TA had envisaged the development of a brief communication strategy document on fiscal and PFM matters; however, no tangible output was produced, in part because the government directed consultant resources to other more practical tasks. In practice, the strategy employed was one of continual dialogue between ADB's PNG Resident Mission, consultants and government officials. Key activities and deliverables under the second output from the public finance economists included presentations to stakeholder audiences, for example, at the 2020 Deloitte Budget Breakfast and at ADB's year-end development partner events. The debt management specialist presented to development partners at a PFM working group and provided tailored training sessions to DOT staff.³ The

³ The PFM working group includes Australia, the European Union, Japan International Cooperation Agency, the World Bank, and International Monetary Fund.

public finance economists supported consultations with the International Monetary Fund's Staff Monitored Program and Article IV missions, a World Bank Development Policy Operation, and ratings agencies, as well as assisting with a multi-agency working group tasked with designing a response to the COVID-19 pandemic. The procurement specialist prepared training materials and conducted procurement training with selected line ministries. TA activities also supported government's achievement of PFM policy actions under three subprograms of a policy-based lending operation in the health sector.⁴

Technical Assistance Assessment Ratings

Criterion	Assessment	Rating
Relevance	The TA is rated relevant. The TA was requested by the government and was consistent with the government's overall development goals, including prudent fiscal management. PNG's public debt had risen to 29.9% of GDP in 2015, when the TA was approved, from 16.3% in 2011. The TA advocated for strategic budgeting within a sustainable medium-term fiscal framework, as well as efficient and effective management of public funds. The TA was designed to assist the government in making prudent decisions in a fiscally constrained environment that required gradual adjustments. This enabled the government to reduce the fiscal deficit to 2.6% of GDP in 2017 and 2.5% of GDP in 2018 and to stabilize debt levels while safeguarding social spending for basic services, particularly for poor and vulnerable groups. However, a new government administration switched to an expansionary fiscal policy in 2019, increasing the fiscal deficit to 5.0% of GDP and focusing on increasing capital spending while maintaining tight control over operational expenditures. The COVID-19 pandemic battered the PNG economy in 2020, undermining the fiscal balance, which increased to an 8.9% of GDP deficit, with public debt to GDP reaching 49.2%. The relevance of the TA was highlighted during the COVID-19 pandemic with ongoing critical support provided in fiscal and debt management.	Relevant
Effectiveness	<p>The TA is rated less than effective. Three out of four output indicators were achieved. In line with the first output, the TA supported the production of key budget documents, such as the annual National Budget, the annual Budget Strategy Paper, and the Medium-Term Fiscal Strategy 2018–2022. The TA additionally supported revisions and amendments to the Fiscal Responsibility Act, which helped to guide fiscal consolidation. In line with the second output, the government communicated fiscal and PFM reforms through the annual National Budget and other DOT documentation. Economic and fiscal information was presented to stakeholders at various venues on multiple occasions by consultants, ADB staff and DOT officials. However, a written communication strategy was not developed or documented (output 2a), partly because this was not prioritized by government, which directed consultant resources to other more practical tasks.</p> <p>The TA strengthened government capacity for prudent fiscal management, but the outcome indicators were not met: neither the country performance assessment nor the public expenditure and financial accountability (PEFA) scores improved during the period of the TA. TA effectiveness was hampered by continued difficult economic conditions and the COVID-19 pandemic. The fiscal deficit increased to 5.0% of GDP in 2019 as the new government administration abandoned the existing fiscal consolidation plan. In 2020 the deficit reached 8.9% of GDP due to the impact of COVID-19 on the economy.</p> <p>For debt management, the TA delivered some critical stepping-stones to reforms, including a path to improved data management and organizational management structure, as well as significant support for the drafting of the revised PNG State Guarantee policy.</p>	Less than effective

⁴ ADB. [Papua New Guinea: Health Services Sector Development Program, Subprogram 1](#); ADB. [Papua New Guinea: Health Services Sector Development Program, Subprogram 2](#); ADB. [Papua New Guinea: Health Services Sector Development Program, Subprogram 3](#).

Criterion	Assessment	Rating
Efficiency	The TA is rated efficient. Four consultants were contracted under the TA, including two public finance economists, who provided timely support to the DOT in 2017 and 2018 with the drafting of the Medium-Term Fiscal Strategy and National Budget, as well as in 2020–2021, during the COVID-19 pandemic. Consultant recruitment was processed quickly (as individual consultant selection) with no significant issues. Only international consultants were recruited, reflecting government's prioritization of high-quality technical specialists. Between September 2018 and March 2019, no consultants were active under the TA, causing a delay. The delay occurred because the DOT stalled with its approval of a replacement consultant; however, support resumed when a suitably qualified consultant was found. The TA was extended twice due to the needs of the government for continued support, especially with the onset of the COVID-19 pandemic. The TA amount was increased by \$250,000 with the second extension due to full utilization of the existing budget within the first 4 years. Savings were recognized at a point when follow-on TA was in place allowing for continuity of support.	Efficient
Overall Assessment	The TA is rated successful. The project was relevant, less than effective, and efficient. The choice of TA and its design were appropriate.	Successful
Sustainability	The TA is rated sustainable. Most of the documents, databases and communications were developed in close collaboration with government officials, ensuring knowledge transfer to local staff. Processes and systems were put in place and have been sustained beyond the TA. ADB approved a follow-on TA (TA 50204-002) in 2021 which will enable the support of further reforms and capacity building in core government functions. ⁵	Sustainable

Lessons Learned and Recommendations

Design and/or planning	<p>Beyond DOT, more support for fiscal planning and strategy is required. The Prime Minister's office, for example, is involved in fiscal policy. Support for that office would be beneficial.</p> <p>It was critical for the TA to maintain flexibility in order to respond to changing needs. Political and bureaucratic changes in government are common in PNG. Future design of similar TA can consider greater flexibility of outcome indicators, considering the fragile context of PNG.</p>
Management of staff and consultants	For the TA to be successful, ADB observed that it was critical for consultants to be embedded within government departments and report directly to government officials. This was critical for building trust, because consultants were frequently privy to sensitive information that was not available to external parties, including ADB.
Stakeholder participation and partnerships	Several development partners are involved in supporting PFM in PNG, therefore, close coordination is required. A quarterly development partners working group (footnote 3) has been a useful forum for maintaining ongoing dialogue with partners and ensuring program complementarity.
Other lessons	Sustained support and capacity building is needed in fiscal, debt and financial management, along with strong coordination with development partners and government counterparts.

Follow-up Actions

ADB approved a new TA in 2021, Strengthening Fiscal, Debt and Financial Management, to ensure support to build on reforms. This TA completion report should guide implementation of the new TA.

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⁵ ADB. 2021. Strengthening Fiscal, Debt and Financial Management, Manila.

DESIGN AND MONITORING FRAMEWORK

Impact Fiscal policy and budget prudently managed; and high standards of public sector management in all levels and institutions of government attained (PNG Development Strategic Plan, 2010–2030) ^a		
Results Chain	Performance Indicators with Targets and Baselines	Achievements
Outcome Government capacity for prudent fiscal management strengthened	By the end of 2019 ^c : a. Country performance assessment scores for fiscal policy and quality of budgetary and financial management increased by 0.5 points (2015 baseline: 3.0 for fiscal policy and 3.5 for quality of budgetary and financial management) b. PEFA performance indicator ^b scores for PI-9 and PI-10 improved to C (2015 baseline: D)	a. Not Achieved. Fiscal policy scores worsened to 2.5, and the score for quality of budgetary and financial management remained unchanged at 3.0. The worsening in fiscal policy was partly due to change in fiscal policy in 2019 which saw a wider fiscal deficit of 5.0% of GDP. b. Not Achieved. The 2019 PEFA indicator scores for both PI-9 and PI-10 are D.
Outputs 1. Prioritized spending within a sustainable fiscal envelope supported 2. Fiscal and PFM reform program communicated effectively to all stakeholders	By the end of 2017 ^c : 1a. Medium-term fiscal strategy, 2017–2021 approved and published 1b. Annual budget strategy paper and budget, in compliance with medium-term fiscal strategy, approved and published 2a. Communication strategy approved 2b. Semiannual press conferences held and fiscal updates published	1a. Achieved. The 2018–2022 MTFS is published on DOT's website. The MTFS continues to be implemented. 1b. Achieved. The annual budget strategy paper and budget, in compliance with medium-term fiscal strategy, were approved for every year during the TA. Additionally such documents continue to be approved. 2a. Not Achieved. No tangible written communication strategy was documented or approved. In practice, the strategy employed was one of continual dialogue between ADB's resident mission, consultants and government officials. 2b. Achieved. The public finance economists gave fiscal updates at ADB's development partners event and at the Deloitte Budget Breakfast in 2020. The public debt specialist presented to development partners on debt related matters in 2020 during a PFM working group. The ADB Country Economist and Economics Analyst presented at multiple forums.

Actual Key Activities with Milestones**1. Prioritized spending within a sustainable fiscal envelope supported (2016–2021)**

- 1.1 Conduct economic analysis to support the development of prudent macroeconomic and fiscal policies (November 2016–October 2021).
- 1.2 Update medium-term revenue and expenditure plans to feed into a regularly updated medium-term fiscal strategy that safeguards social spending in education and health and other development priorities (November 2016–October 2021).
- 1.3 Support preparation of annual budget strategies and documentation based on medium-term fiscal strategies (November 2016–October 2021).
- 1.4 Provide PFM policy and technical advice and capacity development to ensure prioritized allocation and spending of public funds based on priorities identified in consultation with government stakeholders and coordination with other development partners (November 2016–October 2021).
- 1.5 Conduct a diagnostic review of the quality of debt management and provide recommendations for improvements in debt management and capacity building in debt management (August 2019–October 2021).
- 1.6 Assist the DOF to implement procurement reforms from the National Procurement Act at national and subnational levels (September 2019–September 2020).

2. Fiscal and PFM reform program communicated effectively to all stakeholders (2016–2019)

- 2.1 Develop a brief communication strategy for the government's comprehensive fiscal and PFM reform program, identifying key internal and external audiences, and tailored, effective communication channels (November 2016–March 2017).
- 2.2 Organize regular internal discussion forums and press conferences and prepare and publish frequent economic and fiscal reform program updates (November 2016–October 2021).
- 2.3 Release policy briefs on economic, fiscal, and PFM policy concerns to the public (November 2016–October 2021).
- 2.4 Develop fiscal and PFM communication capacity within key government institutions (November 2016–October 2021).

Actual Inputs

Asian Development Bank: \$1,097,672.08

Government: \$150,000 estimated in-kind contribution from the government in the form of counterpart support, including staff time, office space, office supplies, secretarial assistance, and domestic transportation, and other in-kind contributions.

ADB = Asian Development Bank, DOF = Department of Finance, DOT = Department of Treasury, GDP = gross domestic product, MTFs = Medium Term Fiscal Strategy, PEFA = public expenditure and financial accountability, PFM = public financial management, PI = performance indicator, PNG = Papua New Guinea, TA = technical assistance.

^a Government of Papua New Guinea, Department of National Planning and Monitoring. 2010. *Papua New Guinea Development Strategic Plan, 2010–2030*. Port Moresby.

^b Performance indicators refer to public access to key fiscal information (PI-9) and fiscal risk management (PI-10).

Source: Asian Development Bank.

^c Although the design and monitoring framework indicators were not updated at the time of the TA extension, the indicators continued to be applicable for the lifetime of the TA. The achievements column provides more details on achievements against each indicator against the total TA lifetime.

TECHNICAL ASSISTANCE COST

Table A2.1: Technical Assistance Cost by Activity
(\$'000)

Item	Amount		
	Original	Revised	Actual
Asian Development Bank^a			
1. Consultants			
a. International consultants	800.0	1,050.0	1,097.7
b. Out-of-pocket expenditures			
i. International and local travel	50.0	50.0	0.0
ii. Training seminars and/or conferences	50.0	50.0	0.0
iii. Reports and communications	5.0	5.0	0.0
iv. Miscellaneous administration and support costs	5.0	5.0	0.0
2. Contingencies	90.0	90.0	0.0
Total	1,000.0	1,250.0	1,097.7

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-other sources).
Source: Asian Development Bank estimates.

Table A2.2: Technical Assistance Cost by Fund

	TASF 6 and TASF- other sources	Total Cost
1. Original	1,000,000.00	1,000,000.00
2. Revised	1,250,000.00	1,250,000.00
3. Actual	1,097,672.08	1,097,672.08
4. Unused	152,327.92	152,327.92

TASF = Technical Assistance Special Fund.
Source: Asian Development Bank estimates.