



Performance Evaluation Report

Reference Number: PPE: PNG 2008-19
Project Number: 29634
Loan Number: 1875-PNG
December 2008

PNG: Public Service Program

Operations Evaluation Department

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 31 April 2008)

Currency Unit	–	kina (K)
K1.00	=	\$0.364
\$1.00	=	K2.745

ABBREVIATIONS

ADB	–	Asian Development Bank
AGO	–	Auditor General's Office
AusAID	–	Australian Agency for International Development
CACC	–	Central Agencies Coordinating Committee
DMF	–	design and monitoring framework
DPM	–	Department of Personnel Management
GDP	–	gross domestic product
IMF	–	International Monetary Fund
NEC	–	National Executive Council
NFA	–	National Fisheries Authority
OED	–	Operations Evaluation Department
OEM	–	Operations Evaluation Mission
PCR	–	program completion report
PMNEC	–	Department of the Prime Minister and National Executive Council
PNG	–	Papua New Guinea
PNGIPA	–	PNG Institute of Public Administration
PPER	–	program performance evaluation report
PPII	–	Provincial Performance Improvement Initiative
PSC	–	Public Service Commission
PSP	–	Public Service Program
PSRMU	–	Public Sector Reform Management Unit
RRP	–	report and recommendation of the President
SIP	–	service improvement program
SISU	–	Service Improvement Support Unit
TA	–	technical assistance

NOTE

In this report, "\$" refers to US dollars.

Key Words

adb, asian development bank, good governance, program performance evaluation, public service program, papua new guinea

Director General	H. S. Rao, Director General, Operations Evaluation Department (OED)
Director	R. B. Adhikari, Director, Operations Evaluation Division 1, OED
Team leader	P. M. Robertson, Evaluation Specialist, Operations Evaluation Division 1, OED
Team members	M. O. Nuestro, Evaluation Officer, Operations Evaluation Division 1, OED B. Q. Cafirma, Evaluation Assistant, Operations Evaluation Division 1, OED

Operations Evaluation Department, PE-716

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The guidelines formally adopted by the Operations Evaluation Department (OED) on avoiding conflict of interest in its independent evaluations were observed in the preparation of this report. Mr. Graham M. Walter was the consultant. Peter Robertson, Evaluation Specialist, OED1, was the team leader until the end of July 2008. Keith Leonard supervised the evaluation until end of July 2008. To the knowledge of OED management, the persons preparing, reviewing, or approving this report had no conflict of interest.

BASIC DATA

Program Preparation and Institution Building

TA No.	Technical Assistance Name	Type	No. of Person-Months	Amount (\$'000)	Approval Date
3280	Governance and Public Sector Reform Program	PPTA	30	600	16 Oct 1999
3280	Governance and Public Sector Reform Program (Supplementary)	PPTA		381 ^a	26 Oct 2000
3812	Strengthening Public Sector Management	ADTA	30	850 ^b	18 Dec 2001

Key Program Data (\$ million)

	As per ADB Loan Documents	Actual
Total Program Cost	70.00	34.91
ADB Loan Amount and Utilization	70.00	34.91

Key Dates

	Expected	Actual
Reconnaissance		11–25 Mar 1998
Fact Finding		13 Feb–1 Mar 2001
Follow-up Mission		16–28 July 2001
Management Review Meeting		28 Aug 2001
Appraisal		3–22 Sep 2001
Staff Review Committee		24 Oct 2001
Loan Negotiations		8–9 Nov 2001
Board Approval		12 Dec 2001
Loan Agreement		12 Dec 2001
Loan Effectiveness	Dec 2001	13 Dec 2001
First Tranche Release	Dec 2001	13 Dec 2001
Second Tranche Release	Sep 2002	Not released
Program Completion	31 Mar 2003	31 Mar 2005
Loan Closing	31 Mar 2003	31 Mar 2005
Months (effectiveness to completion)	15.0	39.0

Borrower Independent State of Papua New Guinea
Executing Agency Department of Finance and Treasury

Type of Mission	No. of Missions	No. of Person-Days
Identification and Program Preparation	2	37
Fact-Finding	1	17
Consultation	2	18
Appraisal	1	20
Review	5	17
Program Completion	1	5
Operations Evaluation	1	30

ADB = Asian Development Bank, ADTA = advisory technical assistance, PPTA = project preparatory technical assistance, TA = technical assistance.

^a Supplementary financing of \$381,000 was provided by the Australian Agency for International Development.

^b Financing was provided by the Japanese Special Funds.

EXECUTIVE SUMMARY

Country Context and the Political Economy. When Papua New Guinea (PNG) gained independence in 1975, it had neither an indigenous tradition of state formation nor a bureaucratic governance structure to build on. Governance institutions, including legal and regulatory frameworks and a public administration, were developed with external technical assistance. Political leaders' strong links to their local areas led to the formation of numerous political parties and election of coalition governments. By the early 1990s, concerns that a lack of financial accountability and political influence had undermined the professionalism and effectiveness of the public service were confirmed by a task force on public service rationalization. A balance of payments crisis in the mid-1990s forced the Government to undertake a structural adjustment program. However, early gains in reducing inflation and rebuilding foreign reserves were undermined by exogenous factors, including the Asian financial crisis (which reduced prices for PNG's key exports), a significant reduction in agricultural and mining production, weak monetary policies, and poor budget management.

By the late 1990s, PNG's ranking at 133 of 174 countries on the United Nations Development Programme human development index put the country last among Pacific island countries. Over 90% of PNG's population in rural areas, and 37% overall, was below the country-specific poverty line. Women are responsible for a disproportionately large amount of work in the rural sector, fare worse than men across nearly all indicators, and have a lower life expectancy than men. In response to the country's deteriorating social and economic situation, the Asian Development Bank's (ADB) 1999 PNG country strategy focused on reducing poverty by improving governance, developing the private sector, and improving social indicators through a mix of longer-term systemic change and direct poverty interventions.

Since the mid-1990s, ADB had engaged in policy dialogue with the PNG Government (the Government) on public sector reforms through technical assistance (TA) and loans supporting fisheries and public finance sector reforms. However, it was not until a new coalition government came to power in 1999, under the leadership of a reform-minded former governor of the central bank, that the Government recognized that poor governance was a causal factor in the country's weak economic performance. Public service reforms became a priority, and in 1999 ADB was requested to provide TA to support the Government to prepare a public service reform program and design a supporting loan. In 2001, ADB approved the Public Service Program (PSP), a \$70 million loan from ordinary capital resources, to be disbursed in two equal tranches over 2 years.

The PSP was designed to support policy reform measures in four areas: (i) building a performance-oriented public service, (ii) reorienting personnel management systems and processes, (iii) strengthening probity and oversight agencies, and (iv) improving delivery of basic services by both national and provincial governments. Thirty-four policy actions were agreed, 11 of which were tranche release conditions (four for the first tranche and seven for the second). The PSP was closed on 31 March 2005—2 years after its scheduled completion—without release of the second tranche due to the Government's failure to comply with the condition to ensure the merit-based selection of heads of statutory regulatory authorities.

PSP implementation arrangements were based on those in place for managing the Government's reform program, with the Department of Treasury being the PSP's Executing Agency. Overall coordination responsibility lay with the newly created Central Agencies Coordination Committee that reported to the Chief Secretary. The Department of the Prime Minister and National Executive Council was responsible for PSP implementation through its

Public Sector Reform Management Unit. The departments of Personnel Management, National Planning and Monitoring, and Finance were responsible to implement policy actions.

Key Evaluation Findings. Overall, the Program was rated *partly successful*. While the program was consistent with the Government reform agenda and also ADB's country strategy, it was over-ambitiously designed, it was found *less effective* in terms of achieving envisaged outcomes. However, the program did support to a certain extent appropriate legislative and regulatory frameworks, pilot an effective diagnostic tool to analyze and reformulate service delivery processes, and utilize existing government public sector reform implementation arrangements rather than establish specific arrangements. Its second tranche was not released due to increased uncertainty about reform commitment. The program is rated *less efficient* in resource delivery and use. Its outputs and outcomes are *less likely* to be sustained.

Although the OEM concluded that the collective support from PNG's development partners to reforms since 2001 had some impact on the economy in stabilizing economic and fiscal policy, economic activity and public expenditure was largely influenced by improved prices for PNG's exports. It was not possible to attribute any specific macroeconomic developments to specific reform actions, nor was it possible to attribute any impact on poverty reduction, as the service improvement delivery component made only limited progress. The PSP 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.

Both the Government's and ADB's performances were rated *less satisfactory*. 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. There are no records from several official meetings with the Government to address concerns regarding release of the second tranche in late 2002 or through 2003. Despite adverse developments on the PSP, ADB seems to have been able to continue dialogue with the Government, to remain on good terms, and to process other loans and TA. 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.

Issues Identified. *Design should include a more realistic assessment of political risks—not just of elections but also of the form of government.* Although the loan document (i.e., report and recommendations of the President) seemed to recognize this, the time frame allocated for the reform program was nevertheless unrealistic. Further, while the design recognized that national elections were scheduled during program implementation, it did not recognize the risks inherent in coalition governments and for a consistent commitment to reforms. In the event, political decisions were taken that undermined the Government's commitment to the reform process. Political expediency to maintain the coalition trumped the need to consistently implement reforms. The initial monitoring seemed deficient in not looking at the impact of the reforms. More importantly, cancellation of the second tranche seems to have ended ADB's engagement in the public sector reform program, and thus ADB's ability to contribute to and influence further reforms.

Monitoring and Tranching mentioned in the loan document does not refer to the design and monitoring framework (DMF) or the specified outcomes. The loan documents do not provide any analysis or linkages between the actions of the reform program and the expected outcomes and macroeconomic indicators set out in the DMF. Neither details nor specific

baseline conditions were provided for the three performance measures identified. This suggests the DMF, including the stated monitoring and evaluation system, was provided mainly to meet an ADB Board document requirement.

The second tranche seemed to mark the first time that ADB had used an assurance in a program loan agreement relating to the development policy letter as a rationale for not releasing a tranche. ADB interpreted the broader definition of “departmental heads” in the development policy letter in invoking the assurance to delay release of the tranche. The Government indicated to the Operations Evaluation Mission (OEM) its concern that while it had met all the policy actions included in the loan agreement as conditions for the second-tranche release, the tranche was not released. *There should have been greater clarity and consistency in policy reform conditionalities included in the development policy letter, as well as in policy measures and Government assurances included in the loan agreement—particularly inasmuch as ADB staff drafts both documents.*

The technical assistance (TA) provided was too short and had insufficient focus on embedding reforms to achieve program outputs. The limited commitment and funding for the service improvement program (SIP), compounded by poor management (including a period where there was no manager appointed) by the executing agency, constrained program effectiveness. The TA provided by ADB was intermittent, with many gains earned from each consultant visit 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.*

Legislative and regulatory changes were enacted, a diagnostic tool (SIP) was successfully piloted, and corporate planning processes were introduced. However, in all cases a *combination of insufficient resources, lack of ownership, and poor political oversight constrained effective implementation.*

Public sector reform is a long-term and complex activity, and time is needed for reforms to be embedded in the public service culture and administrative practices. PNG’s electoral history suggested the electoral process would produce (i) high turnover of elected representatives after each election; and (ii) due to the large number of political parties, a new government that was a politically diverse coalition of the dominant party and several smaller ones. This creates a conundrum in undertaking public sector reforms, as these require iterative steps, considerable time, and sustained political commitment to change management and the impact on entrenched, sometimes culturally defined practices. The PSP was designed to support short-term, “initial phase” policy changes while focusing primarily on institutional (legal, regulatory, and procedural) reforms that were expected to be achieved within 15 months of loan effectiveness (i.e., before the next elections), but took 39 months to completion (without the release of the second tranche).

Reform programs need to take full account of the social structures and cultural norms that may influence the actions of politicians and public service staff. This is particularly true in PNG, which is heavily fragmented along ethnic, tribal, and linguistic lines, and which acquired its independence in 1975 without any strong countrywide sense of nationalism. The state-formation process had been greatly compressed. The first local representation in the national legislature had been allowed only in 1951, some 24 years prior to independence. “In the absence of any established culture and experience to promulgate the distinction between the state and society,

the former in time was to find itself ‘captured’ and manipulated by forces of the latter.”^a Traditions such as the *wontok* system of obligations and patronage (para. 13) constrain the anticipated adoption and acceptance of western-oriented public sector behavior and standards.

Lessons Identified. Based on the foregoing, the evaluation identified lessons and good practices that should be considered in formulating future programs to support reforms in PNG.

The following are areas of strengths which future assistance could consider: (i) legislation and regulations are in place, the challenge is to enforce the link between individual performance assessments and managing implementation; (ii) SIP has proven to be an effective diagnostic tool to analyze and reformulate business processes; (iii) province-level officials (at least in the province visited) appreciate the value of reformed systems and recognize the importance of central-level reforms being coordinated with provinces and districts; and (iv) program loan’s implementation arrangements can use the Government’s public sector reform institutions rather than establishing program-specific arrangements, which will keep transaction costs low.

In addition, agreement among public servants that public service reform remains a prerequisite for improved service delivery; central agencies can work directly with their provincial counterparts to analyze and address service delivery constraints; earmarking funds can ensure provincial officials receive the financial and operational support required to implement reforms in service delivery processes; and multi-year budgets will more effectively link multi-year plans (corporate plans) to the budget process. There can be a focus on developing public service management competence that is linked to performance assessments; and SIP can be adopted as a standard planning tool and institutionalized through the PNG Institute of Public Administration training of public servants.

There are also areas of weaknesses which need attention in formulating future programs in PNG: (i) disengagement of implementers—by ensuring senior and widespread levels of participation in developing systems and processes; (ii) processes as projects—the penchant to define reform of operational processes as “projects” creates parallel systems and creates separate budget allocations, this also marginalizes and undermines the effectiveness and institutionalization of diagnostic tools such as SIP. Accountability is another weak area that could be addressed by providing managers with techniques enabling them to enforce accountability, as well as to implement laws, regulations, and processes, while respecting cultural norms and social values.

Follow-Up. No follow up actions are necessary.

H. Satish Rao
Director General
Operations Evaluation Department

^a Institute of National Affairs. 2004. *Understanding Reform in Papua New Guinea: an Analytical Evaluation*. Port Moresby.

I. INTRODUCTION

1. In early 1998, the Asian Development Bank (ADB) began a policy dialogue with the Government of Papua New Guinea (PNG) on measures to improve public sector performance. However, it was not until a government led by Sir Mekere Morauta¹ was installed in 1999² that the impetus to undertake significant public sector reforms was created. ADB was requested to provide technical assistance (TA) to support the Government in articulating its governance and public sector reform agenda.³ The new Government recognized the country's weak economic performance, characterized by declining performance of public institutions and poor transparency of policy making and implementation. It began implementing a wide-ranging structural reform program that aimed to (i) promote good governance, (ii) sustain macroeconomic stability, (iii) improve public sector performance in core areas through privatization to reduce the public sector's involvement where its performance had been poor and where the private sector could improve service delivery, and (iv) remove barriers to investment and economic development. The international community responded positively in 1999 and 2000, providing more than \$374 million in loans and grants approved by the International Monetary Fund (IMF), World Bank, Australian and Japanese governments, and the European Union. On 12 December 2001, ADB approved \$70 million from its ordinary capital resources for the Public Service Program (PSP).⁴

A. Evaluation Purpose and Process

2. The PSP was selected for evaluation within the annual sample of completed projects post-evaluated by ADB's Operations Evaluation Department (OED). The purpose of this evaluation is to draw lessons from the Program's experience which can be used in formulating new program/projects and in improving the implementation of ongoing assistance not only in PNG but also for ADB's other developing member countries. A two-person Operations Evaluation Mission (OEM) visited PNG from 12–27 April 2008, 3 years after the program loan was closed. This program performance evaluation report (PPER) has been prepared following OED's revised project evaluation guidelines.⁵ The report's findings will also contribute to a special evaluation study on ADB's support to public sector reform in the Pacific.

¹ Sir Mekere Morauta was the first Papua New Guinean to be appointed Secretary of the Department of Finance and a former Governor of the Central Bank.

² PNG's politics are highly competitive. There are many parties, and most members are elected on a personal and ethnic basis within their constituencies. As a result, all governments have been coalitions of several parties. In an effort to create greater stability by reducing incessant votes of no confidence, the Organic Law on the Integrity of Political Parties and Candidates Act was passed in 2000, forbidding members of a party in parliament from shifting loyalty to another party. From 1996–2005, the government changed four times. Sir Julius Chan was Prime Minister from 1994 to March 1997, when he was forced to step down over a controversy involving the Government's contracting international mercenaries to fight in Bougainville. A coalition government led by Bill Skate was formed after the 1997 elections, but he resigned in 1999, to be replaced by a new coalition government led by Sir Mekere Morauta. He remained Prime Minister until elections in 2002, whereupon Sir Michael Somare returned to form a coalition government that also remained in power after the 2007 elections. In 2003, to broaden members' of parliament constituencies, the electoral system was changed from a simple majority system to limited preferential voting. This system was used in the 2007 national elections. The political context makes enacting and sustaining reforms particularly challenging in PNG.

³ ADB. 1999. *Technical Assistance to Papua New Guinea for Preparing the Governance and Public Sector Reform Program*. Manila (TA 3280-PNG, for \$600,000, approved in October; supplementary cofinancing of \$381,000 from the Australian Agency for International Development approved on 26 October 2000).

⁴ ADB. 2001. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Papua New Guinea for the Public Service Program*. Manila.

⁵ ADB. 2006. *Guidelines for Preparing Performance Evaluation Reports for Public Sector Operations*. Manila. Available: <http://www.adb.org/evaluation>

3. The evaluation draws on a review of project documents and other relevant studies, as well as on discussions with ADB staff, senior officials of government executing and implementing agencies, and representatives of other funding agencies based in PNG. In PNG, the OEM met with officials in the Departments of the Prime Minister and National Executive Council (PMNEC), Finance and Treasury, Justice and Attorney General, Personnel Management (DPM), National Planning and Monitoring, Education, Health, Transport, and Works; the Central Agencies Coordinating Committee (CACC); Public Service Commission (PSC); PNG Institute of Public Administration (PNGIPA); and the Auditor General's Office (AGO). The OEM visited Milne Bay, one of the four provinces piloting the service improvement program (SIP) process, and it met with the provincial administrator and heads of the province's health, education, and works departments. A copy of the draft PPER was shared with relevant ADB and government departments and agencies, and their views have been incorporated and acknowledged where appropriate.

4. The program completion report (PCR) circulated to the Board in December 2006 (21 months after loan closing) rated the Program as *highly relevant, partly effective, partly efficient, unsustainable*, and overall, *partly successful*.⁶ The PCR noted that when the second tranche was due for release there was evidence—both within the PSP and more broadly—that some stakeholders were not committed to the reform process. It argued that ADB had little choice but to withhold payment pending improved performance. Not surprisingly, the PCR found that it was unrealistic to expect reforms to be embedded sufficiently in PNG's systems after only a year or two of serious reform effort. The PCR reported that subsequent to the decision to cancel the second tranche and close the loan the Government actively continued to pursue its public sector reform agenda.

5. The PCR commented that although concerns remained about the depth of commitment to good governance in PNG, it was important not to underestimate the extent of reform that had occurred by 2006. Many of the legislative or regulatory requirements for responsible and responsive public administration were in place, and many politically difficult reforms had been introduced. The PCR found that all formal documents and procedures identified as indicators in the program framework had been substantially provided. The key constraint to progressing reform was not the quality of institutions but, rather, a lack of capacity (especially in management, coordination, and compliance) and willingness, as the incentives for good governance in PNG did not outweigh institutional weaknesses, including patronage and corruption. OED's PCR validation report had agreed with the PCR's "partly successful" overall rating, with downgrading of Highly Relevance to Relevance rating mainly because of very ambitious design and not having a risk mitigation strategy.⁷

B. Expected Results

6. The Government recognized that the root cause of PNG's weak economic performance was poor governance. The PSP was expected to help the Government to place the economy on a sound and sustainable path and to begin establishing an effective and efficient public service that is capable of delivering basic services. The PSP would help achieve fiscal balance by trimming the size of the public service, thereby reducing expensive public debt and its servicing. It was also expected to have an impact on poverty reduction through improved delivery of key services (education, health, agriculture, and transport infrastructure) in provincial areas. The

⁶ ADB. 2006. *Program Completion Report of the Public Service Program (Papua New Guinea)*. Manila.

⁷ ADB. 2008. *Validation Report on Public Service Program in Papua New Guinea (Loan 1875-PNG)*. Manila. The PCR validation was conducted by the PPER OEM team leader.

program design and monitoring framework (DMF, see Appendix 1) identified two outcomes: (i) improved service delivery in these key service areas, and (ii) increased private sector-led growth. While the DMF provided some macroeconomic indicators for these two key outcomes, however, the loan documents provided no analysis or linkages between the actions of the reform program and these expected outcomes and macroeconomic indicators. Neither details nor specific baseline conditions were provided for the three identified performance measures.

7. As part of the broader development and reform agenda, the PSP was to support policy reform measures in four areas, with expected outputs covering (i) building a performance-oriented public service, (ii) reorienting personnel management systems and processes, (iii) strengthening probity and oversight agencies, and (iv) improving delivery of basic services by both national and provincial governments. The Program included measures to enhance public sector financial management and strengthen the capacities of central government agencies and provincial governments.

8. The policy matrix, included in the PSP's report and recommendations of the President (RRP), was structured consistently with the DMF and set out 34 policy actions. Eleven conditions were identified for release of two loan tranches (four first-tranche and seven second-tranche conditions). The PSP was closed on 31 March 2005 without releasing the second tranche. Appendix 2 details the policy actions and updates their status at the time of the OEM.

9. Project preparatory TA was approved in 1999, initially to support an 8-month analytical and consultative process to assist the Government in preparing its reform program and to design ADB's support package (footnote 3). This TA was later supplemented by Australian Agency for International Development (AusAID) financing and continued until 2002. Advisory TA was approved in 2001 to support implementation of the PSP policy actions.⁸ Appendix 3 summarizes the scope of each TA project.

II. DESIGN AND IMPLEMENTATION

A. Formulation

10. Two TA projects were provided to support the PSP, one preparatory and one advisory. The preparatory TA assisted the Government to prepare its structural reform program and the PSP loan. ADB had provided TA since 1997 and was designing a loan to assist public financial management reforms.⁹ The PSP TA and proposed loan would complement these reforms by focusing on improving public sector management, which would also assist the Government to meet IMF and World Bank reform conditions. The TA supported analysis of (i) the introduction of performance-focused management systems in selected departments and 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. Consensus across key central government departments and with development partners on the scope of public service reforms provided the

⁸ ADB. 2001. *Technical Assistance to Papua New Guinea for Strengthening Public Sector Management*. Manila (TA 3812-PNG for \$850,000, approved on 18 December).

⁹ ADB. 1997. *Technical Assistance to Papua New Guinea for Financial Management Project*. Manila (TA 2692-PNG, for \$150,000, approved on 22 December, increased to \$272,000 on 4 May 1998); ADB. 1999. *Technical Assistance to Papua New Guinea for Financial Management Strategic Framework*. Manila (TA 3240-PNG, for \$500,000, approved on 9 August); ADB. 1999. *Report and Recommendation of the President to the Board of Directors for the Financial Management Project*. Manila (Loan 1703-PNG, for \$25.8 million, approved on 21 October).

basis for the PSP's design. Originally scheduled for completion on 30 September 2000, the TA was extended with supplementary funding from AusAID to September 2003 and was finally completed in July 2006. The supplementary funding enabled ADB to extend its advisory inputs in support of developing reform initiatives during the early stages of PSP implementation, and in particular to support the development of SIPs.

11. Within ADB, three meetings were held during program loan processing: (i) management review meeting, (ii) staff review committee, and (iii) the ADB Board. The key issues from these meetings are summarized here. The first of these authorized an appraisal mission that was directed to address concerns regarding the relatively short duration of the program loan, the overly ambitious timing of the second-tranche release (noting that elections were due just after its scheduled release), and the fact that program closure should coincide with final tranche release. Further, monitoring aspects should have been strengthened in the interest of program sustainability. In response to concerns raised by OED regarding the monitoring framework, the staff review committee concluded that program monitoring and policy evaluation would be discussed with the Government during loan negotiations with a view to obtaining agreement that a part of counterpart funds would be allocated to monitoring and/or TA be provided for this purpose. The committee recommended waiver of the loan and technical assistance coordination committee meeting requirement. The Board approved the loan with abstention by one member, whose concerns were shared by a number of other Directors who supported loan approval. Several Board members viewed and supported the PSP as an integral part of the Government's comprehensive reform program, which was already delivering results. Continued reform could have enormous impacts. Concerns included: realism of the time frame, given the long-term nature of the reform process; sustained political will and concerns as to whether the reform agenda would be pursued after elections that were scheduled prior to the second-tranche release; the number of tranches and the way conditions and their indicators were designed; whether the program loan modality was appropriate; and use of the program loan to pay back domestic debt and as balance of payment support.

B. Rationale

12. In 1994, a task force on public service rationalization concluded that PNG's public service had been in crisis since gaining independence in 1975. A lack of financial accountability combined with a public service where advancement depended on political connections not professionalism had undermined the sense of national identity that was needed in a public service. Poorly drafted legislation created overlapping departmental mandates which had led to rivalry, fragmentation, and compartmentalization. Larmour (1995) argued that traditional PNG political systems were small and stateless with no sense of nation-state. Order was maintained by a mixture of self-help, reciprocity, and supernatural sanctions. Consequently, the colonial powers—Germany and Australia—defeated or enlisted local leaders and imposed a bureaucratic structure of government.¹⁰

13. The domains of governance, including its conceptual, legal, regulatory, and institutional frameworks were overlain upon a society with no such traditions, which was then expected to embrace and adopt, and ultimately to be judged by, these new values and norms in the process of building a nation-state. In explaining the weakening of democratic institutions in PNG using a public choice construct, Thorogood (2008) recently argued that although the necessary legal frameworks and institutions were in place for functional democratic governance in PNG, neither the constitution nor the rule of law were respected by the Government which undermined their

¹⁰ Larmour, P. 1995. State and Society. *Pacific Economic Bulletin* 10(1).

claim to legitimacy and the principal-agent relationship between the three main actors (society, government, bureaucracy) to be effective.¹¹

14. Back in 1995, following a balance-of-payments crisis, the Government embarked on a comprehensive structural adjustment program. Until mid-1997, the tightening of macroeconomic policies achieved some success in bringing down inflation, rebuilding foreign exchange reserves, and fostering a recovery in output. However, there was little success on the broad structural reform agenda. By late 1997, the economy was being battered by a series of adverse exogenous shocks, including a prolonged drought that affected mining output as well as agricultural production. The regional financial crisis resulted in steeply declining prices and demand for PNG's principal export commodities. The macroeconomic effects of these shocks were exacerbated by weak monetary policy and deteriorating budget management. The deterioration of governance, marked by growing political interference in public policy implementation, further undermined private sector confidence. The situation was compounded, too, by a breakdown in relations with PNG's bilateral and multilateral development partners.

15. Efforts to alleviate poverty were constrained by sustained low levels of infrastructure and productive investment. Patronage, as expressed through the *wontok* social structure,¹² along with weak public administration and corruption have undermined the professional ethos of the public service and the quality of services in rural areas—particularly in such key sectors as agriculture, education, and health. By 1998, with over 90% of the rural population and 37% of the population overall living below the country-specific poverty line, PNG was ranked 133rd among 174 countries on the human development index.¹³ Among Pacific island countries, PNG was last on this index. Income distribution was skewed, with the richest 10% of the population accounting for 36% of consumption while the poorest 50% accounted for only 20%. Women fared worse than men across nearly all indicators. Indeed, PNG remains one of the few countries in the world where women have a lower life expectancy than men. Women are responsible for a disproportionately large amount of work in the rural sector but are generally underrepresented in senior positions in the public and private sectors.

16. ADB's 1999 PNG country strategy focused on reducing poverty by improving governance, developing the private sector, and improving social indicators.¹⁴ The strategy supported a mix of longer-term systemic change and direct poverty interventions. ADB project loans included support to strengthen governance and public administration, including to enhance public sector financial management and to build the capacities of central government agencies and provincial governments.

17. To address the deteriorating economic and sociopolitical conditions, in mid-1999, the incoming coalition Government, led by a highly respected former senior technocrat, Sir Mekere Morauta, immediately introduced a structural reform program. By November 1999, a National Charter on Reconstruction and Development had been signed by the Prime Minister and all 20 governors. Perhaps not surprisingly, relations with development partners were restored, with

¹¹ Thorogood, N. 2008. Governance: a question of principled agents. *Pacific Economic Bulletin* 23 (1). Available: <http://peb.anu.edu.au/pdf/PEB23-1-Thorogood.pdf>

¹² The individual is inextricably linked to, and has responsibilities towards, his or her tribe. These responsibilities are inviolable, and reconciling this social structure with the predominantly western values underpinning the effective management of a nation state is challenging.

¹³ By 2003, this ranking had slipped to 137th. United Nations Development Programme. 2006. *Asia Pacific Human Development Report*. Colombo, Sri Lanka. Available: http://www.undprcc.lk/rdhr2006/rdhr2006_report.asp

¹⁴ ADB. 1999. *Country Operational Strategy Study: Papua New Guinea*. Manila.

ADB releasing a \$25 million tranche from a health sector development loan.¹⁵ A fortuitous turnaround of some commodity prices enabled the central bank to recoup a significant amount of reserves by early 2000. Between November 1999 and July 2000, consultants financed by ADB's preparatory TA (footnote 3) reviewed the Government's reform agenda and designed the PSP. Additional AusAID funding enabled ADB to continue providing TA to support the planning, formulation, and implementation of specific reform initiatives supported by the PSP.

18. ADB recognized that public service reform is a complex, long-term process requiring a decade or more of sustained government attention and external assistance. The PSP design explicitly focused on the initial stages (a period of about 2 years) and supported introducing key policy, legislative, and institutional measures. Although longer-term indicative indicators and performance targets were developed, it was argued that flexibility was required to accommodate the iterative nature of reform processes. It was expected that by carefully monitoring the initial phase, appropriate follow-up support would be designed to further the reforms.

C. Cost, Financing, and Executing Arrangements

19. 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. It contributed to continuing the Government's retrenchment program (initially \$13 million), including the costs of repatriation; beginning to implement the SIPs and departmental functional review recommendations (\$8 million); beginning to implement the new payroll and human resource management system (\$4 million); contributing to the Government's ongoing program of privatization and regulatory and competition reviews (\$12 million); and other structural reform activities (\$3 million). The balance not needed for these direct structural adjustment costs would be used, as agreed by the Government and ADB, to enable the Government to continue its program for retiring the most expensive (mostly domestic) public debt and arrears. This program of expenditures was consistent with the agreed IMF and World Bank programs. Specific minimum expenditure targets were initially specified for the use of PSP funds, as summarized in Table 1. A total of \$40 million was earmarked for these particular categories of expenditure.

Table 1: Use of Program Loan Proceeds

Activity	Full Program Targets (\$ million)	Full Program Targets (K million) ^a	Actual Expenditure (to end-2002) (K million)	Planned Expenditure 2003 (K million)
Staff retrenchment, retraining, and repatriation	13.0	49.8	50.7	20.5
Privatization activities and regulatory and competition reviews	12.0	46.0	37.1	51.0
Development and implementation of SIPs, functional and expenditure reviews, and cost of PSRMU and CACC Secretariat	8.0	30.7	3.9	5.2
Human resource management and payroll system implementation	4.0	15.3	12.9	21.0

¹⁵ ADB. 1997. *Report and Recommendation of the President to the Board of Directors on Proposed Loans to Papua New Guinea for the Health Sector Development Program*. Manila (Loans 1516/1517-PNG, for \$45 million and \$5 million respectively, approved on 20 March).

Activity	Full Program Targets (\$ million)	Full Program Targets (K million) ^a	Actual Expenditure (to end-2002) (K million)	Planned Expenditure 2003 (K million)
Other structural adjustment expenditures	3.0	11.5	3.4	5.8
Total	40.0	153.3	108.0	46.0

CACC = Central Agencies Coordinating Committee, PSRMU = Public Sector Reform Management Unit, SIP = service improvement program.

^a The kina fluctuated from K1:\$0.28 to K1:\$0.21 between 2001 and 2003. An exchange rate of K1.00 = \$0.26 has been used.

Source: Public Service Program, Draft Progress Report for Interdepartmental Circulation, 27 February 2003.

20. The \$70 million loan was to be disbursed to the Government in two tranches. The first tranche of \$35 million was to be made available upon loan effectiveness in December 2001. The net proceeds, after deducting the commitment fee and reimbursing preparation costs, amounted to \$33.95 million. The second tranche of \$35 million was originally scheduled for disbursement by September 2002, subject to compliance with seven second-tranche conditions.

21. The implementation arrangements established for the PSP were based on those already in place for the Government's reform program. The Department of Treasury was the Executing Agency, with primary responsibility for the loan funds. Overall coordination responsibility was vested with CACC, which was a newly created mechanism reporting to the Chief Secretary with a small secretariat of committed, high-quality personnel. The PMNEC was responsible for overall implementation of the PSP, with day-to-day implementation coordinated by the Public Sector Reform Management Unit (PSRMU) based in the PMNEC. In addition, the DPM, Department of National Planning and Monitoring, and Department of Finance were responsible to plan and implement specific PSP policy actions.

D. Procurement, Construction, and Scheduling

22. The PSP did not include procurement. Although the Program was designed to conclude on 31 March 2003, 15 months after effectiveness in December 2001, the second tranche was planned for release some 9 months after effectiveness. During the Board discussions, Management commented that it could be possible to achieve the second-tranche conditions within 6 months of effectiveness, that is, before the planned national elections in July 2002. That did not occur, however, as there were implementation delays as a new Government came to power following the elections. Nevertheless, by November 2002, the Government requested ADB to consider release of the second tranche, stating that it had met almost all of the seven tranche release conditions and was in dire need of the \$35 million to address the adjustment costs in the 2003 Budget, the country's current cash situation, and the critically low level of foreign reserves.¹⁶ The Minister of Finance approved a delegation headed by the Minister of Public Services to visit ADB in Manila in November 2002 to discuss the release of the second tranche.¹⁷ It was not until late February 2003 that ADB staff prepared and circulated internally a draft progress report to the ADB Board that recommended release of the loan's second tranche, finding that the Government had fully complied with six and substantially complied with the seventh tranche release condition. It is not clear why this report was not prepared until 3 months after the Government's first request for release of the second tranche and the delegation's visit.

¹⁶ Correspondence from the Government to ADB on 6 November and 28 November 2002.

¹⁷ No records of this meeting at ADB headquarters could be located in the files.

23. Although the draft board paper received general endorsement when circulated for interdepartmental comment, further processing of the tranche release was halted when a new acting general manager of the National Fisheries Authority (NFA) was appointed without fully transparent selection procedures (see paras. 29–30). This was in breach of the loan agreement assurance that all commitments in the Program’s development policy letter, including the principle of transparent selection of the heads of statutory and regulatory authorities, would be honored during the life of the Program. ADB entered into policy dialogue with the Government, aiming to obtain firm commitment not only to introduce programmed legislative and procedural reforms related to the selection of the heads of departments and statutory bodies and monitoring their performance but also to implementing those reforms. The loan closing date was extended three times until 31 March 2005, at which time the Government no longer sought further extension and the loan was closed.

E. Design Changes

24. No major changes in scope or implementation arrangements were approved by ADB subsequent to appraisal.

F. Outputs

25. The Program’s four outputs correspond to the four policy matrix objectives (Table 2). The following section updates the status of each output at the time of the OEM.

Table 2: Program Outputs and Policy Matrix Objectives

Program Outputs (DMF)	Policy Matrix Primary and Secondary Objectives
1. Performance-oriented public service built	1. Introduce performance orientation in public service 1.1 Focus attention of policymakers and officials on delivering results (<i>policy actions include 1T condition 1</i>) 1.2 Promote transparency and accountability (<i>policy actions include 1T condition 2 and 2T condition 1</i>)
2. Personnel management systems and processes reoriented	2. Establish appropriate personnel management framework 2.1 Reorient personnel systems to support public service objectives (<i>policy actions include 1T condition 3</i>) 2.2 Improve quality and integrity of knowledge of personnel and control costs 2.3 Promote objectivity, professionalism, and performance (<i>policy actions include 1T condition 4</i>) 2.4 Ensure fairness, due process, and transparency 2.5 Strengthen process addressing personnel grievances (<i>policy actions include 2T conditions 2 and 3</i>) 2.6 Promote transparency and accountability
3. Governance probity and oversight agencies strengthened	3. Promote good governance in the public sector 3.1 Enhance accountability and probity (<i>policy actions include 2T condition 4</i>)
4. Mechanisms to deliver public services improved	4. Improve performance of the public service 4.1 Improve efficiency and effectiveness 4.2 Promote transparency and accountability (<i>policy actions include 2T conditions 5 and 6</i>)

Program Outputs (DMF)	Policy Matrix Primary and Secondary Objectives
4.3	Strengthen monitoring and performance evaluation
4.4	Institutionalize recognition of performance
4.5	Improve specific services (<i>policy actions include 2T condition 7</i>)

1T = first tranche, 2T = second tranche, DMF = design and monitoring framework.

Source: ADB. 2001. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Papua New Guinea for the Public Service Program*. Manila.

26. **Output 1: Performance-Oriented Public Service Built.** In 2000, the Government's policymaking framework was reformed, clarifying the roles of the NEC and its secretariat, central agencies, and line departments. A streamlined system of committees was put in place to ensure government agencies would be fully consulted on policy matters relevant to their mandates. Policy submission and decision-making procedures were strengthened, and transparency was enhanced by publicizing all NEC decisions. The CACC, comprising the permanent heads of the central agencies¹⁸ and a secretariat, was established to coordinate decision making between the bureaucrats and politicians. The PSRMU was established in the PMNEC to oversee day-to-day implementation of the reforms. The CACC continued to meet regularly through mid-2008 to review the reform program and for general policy development matters. The OEM notes that the media reported in May 2008 that the Government was considering to abolish both the position of the Chief Secretary and the CACC, replacing them with a system of ministerial, sectoral, and intergovernmental committees.¹⁹

27. By February 2003, with PSP support the necessary legislative and regulatory changes were all in place. For example, departmental and agency heads were responsible for performance plans and accomplishment reports as approved by the CACC, 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. However, compliance with the new agency performance management system since 2002 was at best uneven. Although a number of agencies initially prepared multi-year corporate plans, these were not linked to budget resources. Few prepared annual agency performance reports following either the new or old reporting requirements. In 2003, corporate plans were only updated in response to the need to ensure release of the second tranche. During the OEM, corporate plans of selected agencies were in existence but had no relationship with the budgeting process and were essentially vision statements with little practical relevance to the agencies' operations. In summary, implementation of the performance monitoring and evaluation system for departmental heads was mixed during and since PSP implementation and the intended DPM inspections as to application of the Code of Ethics did not occur.

28. **Output 2: Personnel Management Systems and Processes Reoriented.** To address the steady erosion since the 1980s of the professionalism, integrity, and independence of the public service, this output aimed to support reestablishment of an appropriate personnel management framework to improve the quality and integrity of public service operations. The PSP supported initiatives to strengthen the PSC, DPM, and PNGIPA, including complementary TA (footnote 8) to plan and implement a detailed improvement plan for managing and developing public service human resources. The CACC approved a human resource development action plan outlining a strategy for workforce development and including restructuring the DPM. The integrated payroll and human resource management system has

¹⁸ The departments of the PMNEC, Treasury, Finance, National Planning and Rural Development, Personnel Management, and Justice and Attorney General, chaired by the Chief Secretary.

¹⁹ *The Nation*. 2008. Chief Secretary's post to be abolished. 30 May.

improved personnel control systems and yielded payroll savings. A plan to enhance the PNGIPA's capacity as a center of excellence in training and developing skilled and professional public servants was implemented, but, with ineffective leadership, little has been achieved.²⁰

29. An important aspect of this output included the introduction of personnel management procedures based on fair, transparent, merit-based selection procedures to insulate personnel decisions from politicians' arbitrary action. As one of four program effectiveness conditions, the NEC had approved revised processes for selection, appointment, transfer, and termination of department heads and endorsed an action plan (including submission of proposed legislative amendments, as necessary) for implementing the revised processes. The Government's development policy letter, attached to the Program's design document, clarified this policy action, specifying:

In addition, a new protocol for the appointment of departmental heads is being developed to improve stability in the senior ranks, NEC approval is being sought for the Public Service Commission to take a proactive role in the selection, appointment, suspension and dismissal of Departmental Heads, Provincial Administrators and Heads of Statutory Bodies in order to improve stability, performance and better accountability within the Public Service (footnote 4, Appendix 2, para. 38).

30. The constitution was amended in March 2003²¹ and legislation enacted to strengthen the PSC's independence and mandate regarding oversight of public servant appointments and disciplinary procedures—particularly for department heads, statutory and regulatory authorities, and provincial administrators.²² PSC decisions on personnel appeals were made legally binding, and initial efforts to reduce the backlog of appeals for review by canceling cases that were no longer relevant led to an immediate two-thirds reduction of cases by early 2003. These efficiency gains were not sustained, however, and in 2008 the PSC continued to be constrained by a lack of qualified legal staff and by DPM's assigning it inappropriately skilled staff.

31. 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.

32. The NFA was born out of a restructuring of the Department of Fisheries and Marine Resources undertaken in 1995. Building the NFA's requisite internal systems and procedures was necessary to secure government approval for its change in status to an autonomous noncommercial statutory authority as recognized in the Fisheries Management Act (1998),²³ which, among other things, empowered the Minister of Fisheries to appoint the head of the NFA. In late 1998, ADB approved the Fisheries Development Project to strengthen the capacity of the

²⁰ Resources from a complementary ADB loan to improve financial management were also directed to PNGIPA. (See footnote 9).

²¹ Government of Papua New Guinea. 2006. *Constitution of Papua New Guinea*. Port Moresby. Article 190.

²² This included the Public Services (Management, Selection, and Appointment of Departmental Heads and Provincial Administrators) Regulation (2003), and the Regulatory Statutory Authorities (Appointment to Certain Offices) Act (2004).

²³ The change in NFA status required the approval or agreement of several government departments, including the departments of Personnel Management, Treasury, and Finance; the Office of the Attorney General; Salaries and Conditions Monitoring Committee; and Central Agencies Coordinating Committee.

NFA to fulfill its mandate of promoting effective and sustainable management of PNG's fisheries resource, as well as to support private sector investment through developing basic infrastructure.²⁴ Project effectiveness was delayed until August 1999 by political instability that led to a change of government in July 1999. Over the first 6 months of the Project, the Minister of Fisheries changed twice²⁵ and there were three changes in the NFA managing director. To provide stable leadership in the NFA, the new minister requested ADB to use loan proceeds to hire an expatriate as senior adviser with management responsibilities. Between early 2000 and 2003, and with ADB approval, NFA engaged three successive international consultants in this position using reallocated loan proceeds. Although the project design envisaged NFA autonomy by mid-2000, and despite successful efforts to reduce staff numbers to those necessary to fulfill the NFA's mandate, this proved far more complex than expected and autonomy was not achieved until January 2002. This experience, along with that related to management of the forestry authority supported by the World Bank, influenced the PSP's design and, in particular, the need to insulate senior appointments from political interference. Consequently, the actions of the new Minister of Fisheries, who was also the leader of a minority party in the newly elected coalition government, led ADB and other development partners to question the Government's commitment to reforms. The fact that this event coincided with extensive criticism of the Government by national and international researchers²⁶ both reinforced ADB's decision to make a stand on this issue and made it more difficult for the two sides to find a compromise position that would allow the funds to be released.

33. Output 3: Governance Probity and Oversight Agencies Strengthened. Developing the capacities of the Ombudsman Commission, Department of Justice and Attorney General, and the AGO was to be achieved by approving corporate and annual action plans to strengthen the offices, ensuring yearly budget allocations were maintained in real terms at the 2002 levels while accommodating approved action plans, and conducting annual consultations with the CACC on the timeliness of annual audit reports. Action plans were approved. During 2002–2005, however, annual budget allocations remained constant in actual not real terms. That constrained the ability to implement any new actions. Although the first-tranche loan funds were allocated to meet adjustment costs, it appears that either there were insufficient funds or the funds were not allocated to support implementation of key reforms. It was not until 2006 that the Ombudsman's Commission budget was increased. This increase was said to be due to the Ombudsman heeding the advice of AusAID advisors to proactively enter into discussions with the Treasury prior to budget submission so as to clarify proposed expenditures. Although similar increases were provided to the other two offices, there was little appreciable increase in the ability of these offices to improve their services during the life of the Project. AGO meetings with the CACC were not sustained. The revitalization of the Public Accounts Committee in late 2002 was a positive development in holding agency heads publicly accountable for reports from AGO, and this resulted in some positive actions (including to improve 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, rather than its being the responsibility of the AGO per se.

34. Output 4: Mechanisms to Deliver Public Services Improved. This output had two dimensions. First, functional and expenditure reviews were undertaken in PMNEC and the

²⁴ ADB. 1998. *Report and Recommendation of the President to the Board of Directors on the Proposed Loan Fisheries Development Project (Papua New Guinea)*. Manila (Loan 1656-PNG for \$6.514 million, approved on 11 December).

²⁵ The previous government's Minister of Fisheries became Prime Minister, and a new reform-minded minister was appointed.

²⁶ The Windybank and Manning paper (footnote 28) resulted in extensive critical media in Australia. The World Bank support to forestry sector reforms was under threat, and AusAID was reassessing its support to PNG.

departments of the Prime Minister, Treasury, Finance, Health, Works, and Transport to identify internal improvements. Although agency budgets were adjusted to enable recommendations to be implemented, as the reviews were undertaken by consultants, the departments did not take ownership of these. 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 that was supported by ADB, AusAID, and World Bank. This, too, appears to have had limited effect.

35. Second, the Government introduced in 2002 a SIP with the aim of improving service delivery in four key basic service areas: agriculture, education, health, and transport infrastructure. This was a key reform tool highlighted in the RRP as being supported under the PSP. Working initially in four pilot provinces—Milne Bay, Morobe, Western Highlands, and West New Britain—the SIP was intended to bring together key decision makers at national and provincial levels in developing improvement plans with a focus on improved performance. SIP in essence is a process-oriented diagnostic planning tool to assist management (senior government officials and politicians) in identifying appropriate actions to reform procedures and practices in order to improve the efficiency and effectiveness of delivering services to the people. A Service Improvement Support Unit (SISU) with seconded staff was established in the PSRMU to guide and support SIP implementation. An SIP coordinator was appointed in each agency and province, and SIP teams were created in each agency to implement the Program with support from the SISU. A national SIP task force was established to oversee implementation. ADB-financed consultants supported the formulation of SIP guidelines and a training manual, and they trained SISU staff (footnote 8).

36. The SIP has not been very successful. There is seemingly widespread confusion as to whether it is a service improvement program per se that comprises a list of improvement projects requiring funding or whether it is a diagnostic approach to problem solving. This is discussed in more detail in Appendix 4. Where the SIP was implemented as a diagnostic tool, its value in identifying effective solutions was realized. However, the Government's review of SIP in 2007 identified constraints mirroring those found by the OEM:

- (i) Lack of leadership and support from political leaders and departmental heads led to a decline in commitment to implement SIP projects and other reform programs. The national SIP task force met only once in 7 years (in May 2007).
- (ii) What could be termed “projectizing” SIP resulted in the tool (means) being confused with the reform actions (ends) to result from its application. Consequently, considerable variation—and a degree of confusion—was evident in the understanding of SIP among many public servants.
- (iii) Institutionalizing the Program within respective government agencies with annual appropriations has not materialized. The roles and responsibilities of provincial and agency SIP coordinators took precedence over their SIP coordination responsibilities.
- (iv) Provinces had insufficient funding to implement SIP training and projects.
- (v) High turnover of SIP staff and trainers resulting in limited continuity.
- (vi) Poor linkages between central and provincial agencies limited the effectiveness of implementing system-wide solutions.
- (vii) The absence of a monitoring and evaluation system meant that the PSRMU provided no feedback.

37. Overall, limited commitment and funding has inhibited SIP's effective application and implementation in the provinces (both pilot and elsewhere), although in some provinces where

provincial administrations are being strengthened under the Australian funded Provincial Performance Improvement Initiative (PPII),²⁷ the administration is able to continue with some of the identified improvement programs as part of its broader reform and improvement agenda.

G. Consultants

38. Although consultants were not employed using loan funds, they were engaged under both TA projects in accordance with ADB consultant selection procedures. The TA's performance rating is discussed in para. 41.

H. Loan Covenants

39. The policy matrix (Appendix 2) included 35 policy actions to be implemented under the PSP, of which four identified as first-tranche release conditions were met prior to loan approval. Seven were identified as second-tranche release conditions, and, although six of these seven were fully complied with by February 2003, 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 the second tranche and, for all intents and purposes, the end of the Program. This appears to be the first time ADB has used an assurance in a program loan agreement relating to the content of a development policy letter as a rationale for not releasing a tranche and eventually cancelling the loan. Appendix 5 updates the status of compliance with conditions for release of the second tranche. Appendix 6 updates the Borrower's compliance with loan covenants.

I. Policy Framework

40. Although the Government changed after the 2002 elections and the initiator of the reforms returned to the opposition benches, the fact that many reform-minded politicians were reelected and reformers remained in the bureaucracy was an encouraging sign for development partners, including ADB. By early 2003, however, there was a growing chorus of criticism from internal and external commentators and development partners on the state of the PNG economy, and in particular its parlous governance. Windybank and Manning's article in March 2003²⁸ encapsulated a commonly held concern that PNG was in danger of becoming a failed state, which, despite windfall incomes from abundant natural resources and foreign assistance, was facing economic stagnation as economic binges, deficit financing, systemic and systematic corruption, and waste were taking their toll. They claimed PNG was moving "down the path to economic paralysis, government collapse and social despair... (A)t the heart of PNG's problems is a cultural clash between traditional tribal customs and the institutions of modernity... PNG's dysfunctional institutions suffer from a lack of legitimacy as much as they do a lack of capacity and resources." Nevertheless, the new Government made a number of public statements indicating its continued commitment to sound economic management.

²⁷ This is now part of AusAID's Sub National Strategy Program, a new long-term initiative that aims to improve service delivery by strengthening day-to-day public administration at the subnational level, as well as through improving intergovernmental financing systems; the legal structures for intergovernmental management; and the coordination, monitoring systems, and capacity building provided by the national government. It has absorbed some existing AusAID funded programs such as the PPPII.

²⁸ Windybank, Susan, and Mike Manning. 2003. Papua New Guinea on the Brink. *Issue Analysis* 30: 1, 9. Manning, the director of a PNG-based research institute, was called before a parliamentary committee to answer questions relating to this article.

41. The same week this article was published, the actions of the Minister of Fisheries, a traditional politician whose political support was required to maintain the coalition government, in appointing a new head of NFA in contravention of both PSP policy conditions and the Public Service General Orders,²⁹ reinforced concerns of political interference in appointments and undermined the Government's commitment to reform. The Prime Minister used his weekly column in the *Nation* newspaper to defuse the situation, explaining how the Government's commitment to merit-based appointments would "restore pride and professionalism to the public service and bring back the much-needed stability... [and] contribute significantly to the successful implementation of Government policies and programs by the public sector."³⁰ Despite correspondence and meetings between the Prime Minister and Minister of Finance and ADB's President, Vice President, and Director General of the Pacific Department over the course of 2003, this issue was not resolved and PSP implementation lapsed.

J. Technical Assistance

42. The advisory TA (footnote 9) was approved to assist the Government to establish an effective and efficient public service capable of delivering basic services through improving (i) overall public sector performance; and (ii) service delivery in the key sectors of health, education, agriculture, and transport infrastructure. It would do so by helping revitalize public service operations through reforming personnel management, introducing stronger and more effective human resource development mechanisms, and streamlining procedures. Consultancy support was provided to implement action plans for capacity strengthening in DPM, PSC, and PNGIPA, as well as to institutionalize a process of continuous improvement in the provision of basic services (health, educational, agricultural, and transport infrastructure). It would start in four pilot provinces (Milne Bay, Morobe, Western Highlands, and West New Britain). The emphasis was on adjusting administrative processes to reduce bottlenecks, rather than on increasing resources. The TA completion report rated the TA as "successful," claiming it achieved its outputs but noting its impact was constrained by ineffective government leadership and insufficient financial resources for effective implementation. The OEM 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.

III. PERFORMANCE ASSESSMENT

43. The OED's guidelines (footnote 5) identify four evaluation criteria: (i) relevance of the program to both PNG's and ADB's development strategies and of the design; (ii) effectiveness of the program's implementation, outputs, and outcomes; (iii) efficiency of its design and implementation; and (iv) sustainability of the program outputs and outcomes. The other criteria such as institutional development and impact are assessed but not rated due to difficulties in precise quantification and attribution. The OEM's findings relative to these criteria are outlined below.

A. Overall Assessment

44. Overall, the Program was rated "partly successful." Insufficient resources and time were provided to support an overly ambitious reform program that failed to achieve either of its outcomes. The Program did support appropriate legislative and regulatory frameworks, pilot an effective diagnostic tool to analyze and reformulate service delivery processes, and utilize

²⁹ *The Nation*. 2003. Chapau hiring not proper: TI. 8 April: p. 3.

³⁰ Somare, M. T. 2003. It's Official – PM explains merit-based appointments. *The Nation*. 8 April: 3.

existing government public sector reform implementation arrangements rather than establish program-specific arrangements. In general, these findings reflect those of Ives in his analysis of support by a number of development partners to post-2000 public sector reform in PNG.³¹

Table 3: Summary of Overall Assessment

Criteria	Weight	Rating	Rating Value	Total
Relevance	0.2	Partly Relevant	1.0	0.2
Effectiveness	0.3	Less Effective	1.0	0.3
Efficiency	0.3	Less Efficient	1.0	0.3
Sustainability	0.2	Less Likely Sustainable	1.0	0.2
Overall	1.0	Partly Successful		1.0

Note: The rating follows Operations Evaluation Department's evaluation guidelines, see footnote 5.

Source: Operations Evaluation Mission.

B. Relevance

45. The Program was rated *partly relevant*. It supported the Government's public sector reform agenda. It was consistent with ADB's country and institutional strategy to support good governance to reduce poverty. However, program design was overly ambitious in both scope and assumptions. Despite support from a number of reform-minded politicians and bureaucrats, the 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 of education, health, agriculture, and transport infrastructure. Lessons from ADB's earlier agricultural and fisheries sector loans and the World Bank's support to structural adjustment in the 1990s appear either not to have been learned or were overlooked in the desire to support a reform-minded Prime Minister. Neither the policy matrix nor the outputs in the design and monitoring framework addressed outcome 2—increased private sector-led growth. Policy actions in the matrix were not capable of achieving program outcomes. Further, given that ADB was aware of the issues associated with appointing heads of statutory regulatory authorities through its Fisheries Development Loan, it was an oversight that the policy action addressing this process was not more explicit in the policy matrix. TA was too short and insufficiently focused on embedding legal and regulatory reforms to achieve program outputs.

C. Effectiveness

46. The Program was rated "less effective." By November 2002, the Government claimed 10 of 11 tranche release conditions were fully complied and one substantially complied with. ADB confirmed this in February 2003. Legislative and regulatory reforms 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

³¹ Ives, Denis. 2004. Public sector reform in Papua New Guinea—the saga continues. *Pacific Economic Bulletin* 19(1): 80–93. Available: <http://peb.anu.edu.au/pdf/PEB19-1Ives-policy.pdf>

complementary general orders; and (v) approval of a regulatory framework for the public servants performance management system.

47. Corporate plans were prepared and updated by some agencies in what appears to be a mechanical fashion demonstrating no ownership. Annual plans and reports were prepared with no evidence that the supervising authorities (the CACC or Parliament) provided any feedback. Further, there was typically no link between a corporate plan, annual action plans, and annual budgets, and the budget allocations to departments and agencies (including the Ombudsman, Attorney General, and AGO) were maintained at the same real level between 2002 and 2005. Budgets were increased by up to 30% in 2006—well after the PSP was closed—and have been maintained at this new level since. The policy actions identified for the offices of the AGO, Attorney General, and Ombudsman Commission were not sufficient to achieve output 3—strengthened governance probity and oversight agencies.

48. SISU was established in the PSRMU, with consultants supporting the formulation of SIP guidelines and a training manual, as well as training SISU staff. Officials in four departments and four provinces plus one PNGIPA instructor were trained and provincial SIP coordinators appointed. Although the application of SIP fell off in 2003–2005, when the head of the unit was not replaced, SIP has proven to be an effective tool to analyze selected service delivery processes in four provinces, later extended to two more provinces, and more recently in the DPM. In essence, SIP is a diagnostic tool to identify change management processes. Perhaps it is poorly named as, while its purpose is understood and appreciated in some agencies, more generally it seems to have been interpreted as a collection of parallel projects to improve service delivery and is now seen in some provinces as a poor relation to the Australian-funded PPII (para. 35). Application of SIP has nonetheless identified many improvement and reform initiatives that should be implemented, and it has the potential to be institutionalized as a planning and management tool.

49. For all intents and purposes, ADB's engagement in public service reforms ended in November 2002. Although TA projects continued beyond this date, the TA completion report noted limited government commitment of resources or personnel to support their implementation and no action on their recommendations.³² Through 2003 and 2004, there was considerable high-level dialogue between the two parties, but 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 loan was closed, but concerns remain about the depth of commitment to good governance as progress on reforms appeared to stall in 2007 (paras. 55–57).

D. Efficiency

50. The Program was rated “less efficient.” 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 million (see Table 1). 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. Although only half the loan had been

³² TA 3812-PNG 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.

disbursed, almost all the policy actions had been implemented. Although the OEM does not believe the policy actions were appropriately designed to meet the PSP outputs or outcome, this suggests the total loan of \$70 million was not required to meet the policy conditions. Although TA was efficiently utilized to support program loan formulation, 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 envisaged 15 months) with non-release of second tranche.

E. Sustainability

51. Program sustainability (i.e. sustainability of outputs and outcomes) was rated less likely sustainable. Legislation, regulations (general orders), and processes are necessary, but not sufficient, conditions to embed reforms and impact on service delivery. Province-level officials (in the province visited by the OEM and reportedly from other provinces) appreciated the value of reformed systems and recognized the importance of central-level reforms being coordinated with provinces or districts. However, province officials required financial and operational support to implement service delivery process reforms. Although corporate (strategic) plans continue to be prepared, there is a need to institute multi-year budgets to link multi-year plans to the annual budget. SIP has proven to be an effective diagnostic tool to analyze and reformulate processes, having been used by the DPM and in some provincial administrations to identify and address service delivery problems and internal management mechanisms. However, the perception that SIP is a “project” and not a diagnostic tool as part of a planning process appears to constrain its institutionalization. Although the PSP design stated that public service reforms require long-term support, ADB was unable to find a means to continue support beyond early 2003. After a hiatus during 2003–2005, the Government reportedly has been providing some K40 million per annum to support reforms.³³ However, the OEM could find little evidence from discussions with heads of a range of departments and agencies that this funding has led to substantive change in key performance areas supported by PSP. A lack of synergy between central and local (provincial and district) agencies and improving management competencies remain challenges. Public service managers require techniques enabling them to enforce accountability and to implement laws, regulations, and processes while respecting cultural norms. They also need incentives to challenge the prevailing attitude toward public service of self-interest over the common good. A sufficient condition to achieve this is strong political leadership and support. However, recent changes by the Government suggest that public service will be subject to more political interference, not less (para. 58).

IV. OTHER ASSESSMENTS

A. Impact

52. As noted above (para. 6), the program DMF provided some macroeconomic indicators for the two key outcomes of improved service delivery and private sector-led growth, but the loan documents provide no analysis or linkages between the actions of the reform program and these expected outcomes and macroeconomic indicators. Neither details nor specific baseline conditions were provided for the three identified performance measures. Regular ADB program monitoring reports did not report on them, and the PCR presented no analysis of the impact of the PSP on either growth or poverty.

³³ As confirmed by the Secretary of Treasury, the OEM was unable to establish how these funds had been allocated.

53. Although the OEM has concluded that the reform program as a whole had some impact on the economy in stabilizing economic and fiscal policy since 2001 (see Appendix 7), economic activity and public expenditure were largely influenced by improved prices for PNG's exports. It is not possible to attribute any specific developments to specific reform actions, nor is it possible to attribute any impact on poverty reduction, as the service improvement delivery component has made limited progress to date. The program documents do not identify linkages between specific program actions and economic growth or poverty alleviation, and it was not possible for the OEM to identify any direct impacts of any of the program actions on these. Overall, the PSP has contributed along with other development partner programs towards economic stability, however, and in this way contributed toward growth. Nevertheless, no direct attribution can be made to private sector-led economic growth.

54. The IMF 2006 Article IV Report³⁴ noted PNG was enjoying its fourth year of recovery and macroeconomic stability, which was supported by broadly sound economic policies and record mineral revenue flows. It also noted, however, that fundamental constraints on investment and development, such as poor infrastructure and communications, had not been addressed; the performance gap relative to comparator countries was widening; downside risks had increased; and development needs remained high. The IMF 2007 Article IV Report³⁵ (March 2008) noted that PNG remained poor, with little improvement in development indicators and high urban unemployment. Significant underlying vulnerabilities and risks remained. High mineral revenues have added to pressures on expenditures, and the 2008 budget includes large expenditure increases. The unattractive investment climate, including poor infrastructure and weak governance, constrained growth of the non-mineral sector.

55. Further, the IMF 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. Constraints on private sector activity remained formidable, and the competitiveness of the non-mineral sector had not improved. The report recommended the Government accelerate progress on structural reform "without which the outlook for more rapid non-mineral sector growth, job creation and poverty alleviation is dim." It noted that non-mineral GDP growth rates needed to double over a sustained period to meet objectives of reduced poverty, significant job creation, and faster development.

56. IMF found that progress towards the Medium Term Development Strategy objectives and the Millennium Development Goals had been limited, and, despite successfully stabilizing the fiscal situation and promoting recovery since 2002, per capita income was little improved since independence in 1975. Public expenditure was still only marginally aligned with poverty reduction priorities. A poverty diagnosis undertaken by ADB had identified risk target groups, but there seemed limited acceptance of poverty's existing within PNG society. Consequently, other than those of civil society organizations, there are few specific strategies to assist the poor, the vulnerable, and those lacking access to services. Less targeted strategies and allocations are in place to improve long-overlooked public services and infrastructure across the country and in disadvantaged provinces and districts. These include support under the district support improvement program, but this is poorly overseen. As noted in this evaluation, however, there has been little progress in improving service delivery at provincial and district levels.

³⁴ IMF. 2007. *Papua New Guinea Staff Report for 2006 Article IV Consultations*. Washington DC. Available: <http://www.imf.org/external/pubs/ft/scr/2007/cr07111.pdf>

³⁵ IMF. 2008. *Papua New Guinea Staff Report for 2007 Article IV Consultations*. Washington DC. Available: <http://www.imf.org/external/pubs/ft/scr/2008/cr0898.pdf>

B. Institutional Development

57. There was a limited achievement in contributing to institutional development in terms of national capacity building for policy reforms and implementation. It is often observed that PNG does not lack legal instruments or institutions but rather the willingness to implement good governance practices respecting the rule of law. The PSP further contributed to PNG's legal and regulatory framework but was insufficiently resourced to address the key governance constraint of ineffective implementation. 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 further constrained implementation. Prior to independence, social services were provided by church-based civil society organizations. The establishment of a government displaced the role of these organizations in providing education, health, and other services, but without the ability to maintain a level of service commensurate with that being provided earlier. As PNG's human development indices suggest, development partners have struggled since independence to support effective social service delivery through either government or civil society organizations.

58. A key constraint on institutionalizing SIP was its conception as a project rather than the diagnostic tool it really is. The PNGIPA, in whose curriculum it could be expected SIP would be introduced, trained one staff member who subsequently left the institute as an SIP team member. The Institute's director informed the OEM that while he welcomed the opportunity to take over management of the SIP program from the PSRMU, funding was a constraint on incorporating SIP into the curriculum for new public servants. Reforms to corporate planning and institutionalizing performance assessment procedures of departments and their heads have not been sustained. Further, if recent media reports are correct that the Government is to abolish the Office of the Chief Secretary and the CACC in favor of creating ministerial sectoral committees, there is potential for growing politicization of the public service.³⁶

C. Asian Development Bank and Borrower Performance

59. ADB performance is rated as *less than satisfactory*. ADB was diligent in conducting dialogue with the Government on policy reforms prior to loan formulation and in preparing the PSP. As noted in paras. 6 and 51, however, the PSP failed to establish links between the reform actions and the outcomes and indicators in the DMF. Perhaps as a consequence, while policy dialogue continued during loan implementation, regular program monitoring missions did not report on outcome indicators. The PCR presented no analysis of PSP's impact on growth and poverty. The OEM was unable to find record of any official meeting with a PNG delegation sent by the Minister of Finance to address concerns regarding release of the second tranche in November 2002, nor do there appear to be records of meetings of the Vice President and Minister of Finance at ADB's Board of Governors meeting in 2003. Back-to-office reports in July and September 2003 record discussions with development partners, including AusAID and the World Bank, who supported ADB's stance on the non-release of funds, and their own broader concerns regarding the status of the economy and governance. Throughout 2003–2005, ADB seems to have been able to continue dialogue with the Government, remain on good terms, and process other loans and TA despite the adverse developments on the PSP. It also seems to have persuaded the Government not to pursue release of the second tranche and to eventually let the tranche lapse and the loan be closed.

³⁶ *The Nation*. 2008. Chief Secretary's post to be abolished. 30 May.

60. The Government's performance is rated as *less than satisfactory*. 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 independence of actions and incentives for implementing reforms.

V. ISSUES AND LESSONS IDENTIFIED

A. Issues

61. **Getting the Reform Context and Issues Right.** After resignation of the Prime Minister (footnote 2) in 1999, a newly formed coalition government, led by a reform-minded former senior bureaucrat, opened a 3-year window of opportunity before the next scheduled national elections for ADB and other development partners to support governance reforms. ADB TA supported the development of a public service reform agenda. There appeared to be an unstated assumption that this support would provide an impetus to reforms that would carry over to the next government. As noted in para. 69, coalition politics overwhelmed the reform agenda.

62. Although the RRP seemed to recognize this, the time frame allocated for the reform program was nevertheless unrealistic. Further, while the design recognized that national elections were scheduled during program implementation, it did not recognize the risks inherent in coalition governments and for a consistent commitment to reforms. In the event, political decisions were taken that undermined the Government's commitment to the reform process. Political expediency to maintain the coalition trumped the need to consistently implement reforms. *Design should include a more realistic assessment of political risks—not just of elections but also of the form of government.*

63. **Limited use of DMF.** The loan documents do not provide any analysis or linkages between the actions of the reform program and the expected outcomes and macroeconomic indicators set out in the DMF. Neither details nor specific baseline conditions were provided for the three performance measures identified. ADB program monitoring did not report on them, and the PCR presented no analysis of the PSP's impact on either of the anticipated growth or poverty outcomes. The RRP section on "Monitoring and Tranching" does not refer to the DMF or the specified outcomes. Rather, it focuses on broad policy discussions involving other multilateral and bilateral aid agencies and on tranche release conditions. *This suggests the DMF, including the monitoring and evaluation system, was provided mainly to meet an ADB Board document requirement.*

64. The design proposed that careful monitoring of the initial phase would enable appropriate follow-up support to be designed to further the reforms. The initial monitoring seemed deficient in not looking at the impact of the reforms. More importantly, cancellation of the second tranche seems to have ended ADB's engagement in the public sector reform program, and thus ADB's ability to contribute to and influence further reforms.

65. **Managing Reform Complexity.** Para. 38 notes that the basis for cancellation of the second tranche seemed to mark the first time that ADB had used an assurance in a program loan agreement relating to the development policy letter as a rationale for not releasing a tranche. ADB interpreted the broader definition of "departmental heads" in the development policy letter in invoking the assurance to delay release of the tranche. The Government

indicated to the OEM its concern that while it had met all the policy actions included in the loan agreement as conditions for the second-tranche release, the tranche was not released. *There should have been greater clarity and consistency in policy reform conditionalities included in the development policy letter, as well as in policy measures and Government assurances included in the loan agreement.*

66. **Institutional Capacity.** The TA provided was too short and had insufficient focus on embedding reforms to achieve program outputs. The limited commitment and funding for the SIP, compounded by poor management (including a period where there was no manager appointed) by the PSRMU, limited program effectiveness. The TA provided by ADB was intermittent, with many gains earned from each consultant visit 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.*

67. **Key Reform Steps Initiated.** Legislative and regulatory changes were enacted, a diagnostic tool was successfully piloted, and corporate planning processes were introduced. However, in all cases *a combination of insufficient resources, lack of ownership, and poor political oversight constrained effective implementation.*

68. **Reform Continuity.** *Public sector reform is a long-term and complex activity, and time is needed for reforms to be embedded in the public service culture and administrative practices.* PNG's electoral history suggested the electoral process would produce (i) high turnover of elected representatives after each election; and (ii) due to the large number of political parties, a new government that was a politically diverse coalition of the dominant party and several smaller ones. This creates a conundrum in undertaking public sector reforms, as these require iterative steps, considerable time, and sustained political commitment to change management and the impact on entrenched, sometimes culturally defined practices. The PSP was designed to support short-term, "initial phase" policy changes while focusing primarily on institutional (legal, regulatory, and procedural) reforms that were expected to be achieved within 15 months of loan effectiveness (i.e., before the next elections), but took 39 months to completion (without the release of the second tranche).

69. **Recognition of Social Structures in Policy Reforms.** Reform programs need to take full account of the social structure and systems that may influence the actions of politicians and public service staff. This is particularly true in PNG, which is heavily fragmented along ethnic, tribal, and linguistic lines, and which acquired its independence in 1975 without any strong countrywide sense of nationalism. The state-formation process had been greatly compressed. The first local representation in the national legislature had been allowed only in 1951, some 24 years prior to independence. "In the absence of any established culture and experience to promulgate the distinction between the state and society, the former in time was to find itself 'captured' and manipulated by forces of the latter."³⁷ Traditions such as the *wontok* system of obligations and patronage (para. 13) constrain the anticipated adoption and acceptance of western-oriented public sector behavior and standards.

B. Lessons

70. Based on the foregoing, the evaluation identified lessons and good practices that should be considered in formulating future programs to support reforms in PNG.

³⁷ Institute of National Affairs. 2004. *Understanding Reform in Papua New Guinea: an Analytical Evaluation*. Port Moresby.

71. There are areas of strengths which future assistance could build on. Legislation and regulations are in place, the challenge is to enforce the link between individual performance assessments and managing implementation; SIP has proven to be an effective diagnostic tool to analyze and reformulate business processes; and province-level officials (at least in the province visited by the OEM) appreciate the value of reformed systems and recognize the importance of central-level reforms being coordinated with provinces and districts. Program loan's implementation arrangements can use the Government's public sector reform institutions rather than establishing program-specific arrangements, which will keep transaction costs low.

72. In addition, agreement among public servants that public service reform remains a prerequisite for improved service delivery; central agencies can be encouraged to work directly with their provincial counterparts to analyze and address service delivery constraints; earmarking funds can ensure provincial officials receive the financial and operational support required to implement reforms in service delivery processes; and multi-year budgets will more effectively link multi-year plans (corporate plans) to the budget process. There can be a focus on developing public service management competence that is linked to performance assessments; and SIP can be adopted as a standard planning tool and institutionalized through PNGIPA training of public servants.

73. There are also areas of weaknesses which need attention in formulating future programs in PNG: (i) disengagement of implementers—by ensuring senior and widespread levels of participation in developing systems and processes; (ii) processes as projects—the penchant to define reform of operational processes as “projects” creates parallel systems and creates separate budget allocations, this also marginalizes and undermines the effectiveness and institutionalization of diagnostic tools such as SIP. Accountability is another weak area that could be addressed by providing managers with techniques enabling them to enforce accountability, as well as to implement laws, regulations, and processes, while respecting cultural norms and social values.

74. There is a need for greater clarity and consistency in policy measures (i.e, expected policy reform conditionalities) included in the development policy letter, as well as in the policy matrix and Government assurances included in the loan agreement. Borrowers and ADB should be clear as to what policy measures will prevail should there be any conflicting conditions.

75. No follow up actions are necessary.

PUBLIC SERVICE PROGRAM DESIGN AND MONITORING FRAMEWORK^a

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
A. Goal			
1. Improved living standards for population of Papua New Guinea (PNG)	1. Human development index score increased significantly, from 0.542 (1998 baseline) to 0.600 by 2010 2. Percentage of population below country-specific poverty line decreased by 10 percentage points by 2010	1. United Nations Development Programme reports 2. Poverty assessments	Assumptions Stable macroeconomic conditions
B. Purpose			
1. Improved public service delivery in key sectors—education, health, agriculture, and transport infrastructure 2. Increased private sector-led economic growth	Service delivery beginning to improve; consumer satisfaction levels increasing a. Private sector investment levels increased significantly by 2005 b. Non-mining output growth rates increased significantly by 2005 c. Gross domestic product increased significantly by 2005	Departmental performance reports; baseline client satisfaction surveys conducted by 2003 a. National accounts, business reports b. National accounts c. National accounts	Sustained political will No natural disasters No international economic disasters
C. Outputs			
1. Performance-Oriented Public Service Built	a. Medium-term public service reform plan b. Performance management system implemented by Dec 2003 c. Annual individual performance plans and related individual reports submitted to PMNEC by Dec 2003 d. 2002 budget submissions for central agencies, as well as for health and education, include summaries of targeted outputs and performance e. Staff performance monitoring and evaluation system, as well as implementation plan for central agencies, and departments of Health, Education, Agriculture, and Transport and Works available by Sep 2002	a. Public Sector Reform Management Unit report b. PMNEC report c. PMNEC report d. Budget submissions e. CACC report	Risks Frequent changes in top government political leadership with new leaders not honoring commitments or systems of prior administrations Traditional cultural work ethic, which leads to high rates of employee absenteeism Assumptions Top level policy commitment Institutional support

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
	f. Code of ethics and general order available by Sep 2002	f. PMNEC report	Administrative capacity Continued financial support
2. Personnel Management Systems and Processes Reoriented	<p>a. Action plan for DPM core activity capacity building endorsed by CACC by Dec 2001</p> <p>b. Integrated human resource and payroll information system for DPM and PMNEC staff operational by mid-2002</p> <p>c. Revised procedures for appointment, transfer, and dismissal of department heads approved by the NEC by Dec 2001</p> <p>d. All department heads appointed on merit, and at least 50% serving a full term by Dec 2003</p> <p>e. Revised public service general orders approved by Sep 2002</p> <p>f. Strengthening of Public Services Commission action plan (with legislative amendments by Parliament) passed by Sep 2002</p> <p>g. Case backlog of personnel grievances reduced by 75% from baseline of 780 at October 2001 by Dec 2003</p> <p>h. Action plan to make PNGIPA the main institution for public sector training approved by CACC by Sep 2002</p> <p>i. At least 25% of PNGIPA courses tailored towards expressed public service needs by Dec 2003</p>	<p>a. CACC report</p> <p>b. DPM report, Asian Development Bank (ADB) mission</p> <p>c. NEC report, copy of revised procedures</p> <p>d. PMNEC report</p> <p>e. PMNEC report, copy of revised orders</p> <p>f. PMNEC report, copy of action plan and legislative amendments</p> <p>g. PMNEC report</p> <p>h. PMNEC report, copy of action plan</p> <p>i. PMNEC report, copies of course offerings catalogue</p>	
3. Governance Probity and Oversight Agencies Strengthened	<p>a. Action plans to strengthen AGO and Ombudsman's Commission approved by CACC by Sep 2002</p> <p>b. Action plan to strengthen the Department of Justice and AGO approved by CACC by Dec 2003</p> <p>c. Independent audits of financial and control systems in departments of Health and</p>	<p>a. CACC report, copies of action plans</p> <p>b. CACC report, copies of action plan</p> <p>c. CACC report, copies of audit reports</p>	

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
	Education available by Sep 2002		
	d. Plan for timely completion of AGO audits of government accounts, government agencies, and statutory bodies agreed to by CACC and AGO by Sep 2002	d. CACC report	
4. Mechanisms to Deliver Public Services Improved	<p>a. Functional and expenditure reviews of central agencies and key national line departments (PMNEC, DPM, Treasury, Finance, Health, and Transport and Works) completed by Dec 2001</p> <p>b. Functional and expenditure reviews of central agencies and key national line departments (Planning, Education, and Justice and Attorney General) completed by Sep 2002</p> <p>c. Results-oriented 2002 budget submissions from at least two central agencies and at least two national line agencies by Sep 2002</p> <p>d. SIP for basic service delivery in health, education, agriculture, and transport infrastructure in Milne Bay, Morobe, Western Highlands, and West New Britain provinces approved for implementation and budgets submitted by Dec 2003</p> <p>e. National service improvement support group established and service improvement coordinators appointed for the four provinces (above) by mid-2002</p> <p>f. SIPs for national departments of Health, Education, Agriculture, and Transport and Works , as well as DPM, with appropriate 2002 budget allocations, approved by Dec 2001</p> <p>g. Performance indicators for basic health and education developed by September 2001, and for agriculture and transport infrastructure by end-2003</p>	<p>a. Review reports</p> <p>b. Review reports</p> <p>c. Budget submissions</p> <p>d. CACC report</p> <p>e. CACC report, copies of SIPs</p> <p>f. CACC report</p> <p>g. CACC report, copy of performance indicators</p>	

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
	h. Annual award program recognizing high performing department and staff, as well as public service award, approved by end-2002 i. Service charters for sectors covered by SIPs approved and disseminated by mid-2003 j. Terms of reference for a review of progress of SIPs completed by Sep 2002 k. SIP progress review initiated by mid-2003	h. NEC report, copy of program criteria i. CACC report, copies of charters j. CACC report, copy of terms of reference k. CACC report	
Activities	Schedule		
1. Performance-Oriented Public Service			
a. Policy commitment b. Establish Public Sector Reform Management Unit c. Vest responsibility for performance management and evaluation of department heads and departments in PMNEC d. Vest disciplinary powers for all department secretaries and provincial administrators in Chief Secretary e. Require annual updates of corporate plans and annual performance reports of all departments and agencies	a. Start: 2000. Complete: end program. Responsible: NEC. b. Start: 2000. Complete: end program. Responsible: NEC. c. Start: 2001. Complete: end program. Responsible: NEC. d. Start: 2001. Complete: end program. Responsible: NEC. e. Start: 2002. Complete: end program. Responsible: CACC.	Consultants reports and ADB supervision missions	Assumptions Adequate professional skills Implementation by line agencies will follow development of various action plans and programs utilizing the indicators and performance criteria.
2. Personnel Management Systems and Processes			
a. Develop action plan for DPM capacity building	a. Start: 2001. Complete: Dec 2001. Responsible: CACC.	Consultants reports and ADB supervision missions	
b. Establish integrated human resource and payroll information system in DPM	b. Start: 2001. Complete: 2004. Responsible: DPM.		
3. Governance Probity and Oversight Agencies			
a. Develop action plan to strengthen oversight institutions of Auditor General and Ombudsman Commission	a. Start: 2001. Complete: Sep 2002. Responsible: Public Sector Reform Management Unit.	Consultants reports and ADB supervision missions	

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
b. Conduct independent audit of the Department of Health's financial and control systems c. Conduct independent audit of the Department of Education's financial and control systems	b. Start: 2001. Complete: Dec 2001. Responsible: AGO. c. Start: 2001. Complete: Sep 2002. Responsible: AGO.		
4. Mechanisms to Deliver Public Services			
a. Develop annual awards program for high performing departments and staff, including a public service award b. Develop performance indicators for basic service delivery, covering health, education, agriculture, and transport and works c. Develop and disseminate service charters for sectors covered by SIPs	a. Start: 2001. Complete: end 2003. Responsible: PMNEC. b. Start: 2001. Complete: 2003. Responsible: CACC. c. Start: 2002. Complete: 2003. Responsible: CACC.	Consultants reports and ADB supervision missions	
Inputs 1. Tranche 1 2. Tranche 2	1. \$35 million 2. \$35 million	ADB finance documents	Assumptions Proceeds from the program loan are released as agreed in loan documents. Government provides the required budget support. Government provides the required human resources.

ADB = Asian Development Bank, AGO = Auditor General's Office, CACC = Central Agencies Coordinating Committee, DPM = Department of Personnel Management, NEC = National Executive Council, PMNEC = Department of the Prime Minister and National Executive Council, PNG = Papua New Guinea, PNGIPA = PNG Institute of Public Administration, SIP = service improvement plans.

^a This is the original design and monitoring framework in the RRP. Updates for the performance indicators/targets can be seen in under the item "Status at Operation Evaluation Mission" in Appendix 2.

Source: Operations Evaluation Mission.

UPDATED PUBLIC SERVICE PROGRAM POLICY MATRIX

POLICY ACTION	Action Expected By			Status in Project Completion Report	Status at Operations Evaluation Mission
	Board Consideration	September 2002	December 2003		
Component 1. Building a Performance-Oriented Public Service					
Primary Objective: Introduce a performance orientation in the public service					
Secondary Objective: Focus attention of policy makers and officials on delivery of results					
1a. NEC (i) policy commitment to build results-oriented culture in public service, and (ii) approval of a Medium Term Public Sector Reform Plan for improving performance and establishing systems and procedures to ensure that staff incentive systems are performance-sensitive	Policy commitment and approval of plan			Commitment to reform reaffirmed, as strategic plan for reform launched in 2004 and new performance-based staff appraisal system in October 2006.	Annual budget allocation to public sector reforms of K40 million provided since 2004.
1b. NEC to establish PSRMU for provision of centralized guidance and to support reform in the public service	Established			PSRMU operating.	PSRMU operating.
1c. NEC resolution to vest responsibility for performance management and evaluation of both department heads and departments in the PMNEC Tranche 1 Release Condition	NEC decision		Performance management system approved and implemented.	Performance management system operating. Performance management unit in PMNEC operating, though operations are still being improved.	Chief Secretary (CACC) initiates and conducts performance evaluation of department heads. Minister also provides assessment to CACC of department head. CACC puts two together and submits to Cabinet (i.e., NEC). (Note: This differs from DPM process for initial appointment).

POLICY ACTION	Action Expected By			Status in Project Completion Report	Status at Operations Evaluation Mission
	Board Consideration	September 2002	December 2003		
1d. NEC resolution to vest in the Chief Secretary disciplinary powers over all department secretaries and provincial administrators	NEC decision			NEC resolution still in place.	NEC resolution remains in place.
Secondary Objective: Promote transparency and accountability					
1e. CACC approval of requirement for department heads to submit to PMNEC, with respect to their own individual performance, annual individual performance plans and related individual annual reports Tranche 1 Release Condition	NEC approval		Plans and reports submitted for all departmental heads.	System of plans and reports continuing, albeit not systematically.	System of plans and reports continuing, albeit not systematically. As there is seldom feedback on reports, system is implemented mechanistically.
1f. Budget circular issued by CACC that (i) requires budgetary submissions for the 2002 budget to include summaries of targeted outputs and performance; and (ii) indicates that, for later years, budgetary submissions will be based on targeted outputs and performance detailed in the relevant corporate plans.	Circular issued.	Outputs specified for 2002 for central agencies and health and education.		Fully complied with. Targets also specified in 2003 budget. A strengthened process for budget preparation progressively introduced during 2004–2006, focusing on outputs and performance as detailed in corporate plans but not applied systematically across whole public service. Targets are not specified in budget documents.	Annual budgeting and expenditure reporting continues although Treasury Secretary keen to introduce multi-year budgeting.

POLICY ACTION	Action Expected By			Status in Project Completion Report	Status at Operations Evaluation Mission
	Board Consideration	September 2002	December 2003		
<p>1g. CACC approval of</p> <p>(i) departmental performance reports and initial updates of corporate plans of central and specified line agencies (health, education, and works and transport) for 2002;</p> <p>(ii) requirement to submit annual updates of corporate plans and annual performance reports (for previous year) from all departments and agencies beginning in 2003;</p> <p>(iii) requirement of public disclosure, in a manner acceptable to ADB, of all annual updates of corporate plans and annual performance reports</p> <p>Tranche 2 Release Condition</p>		CACC approvals	<p>Plan updates and performance reports for all departments</p> <p>Public disclosure</p>	System of corporate plans and reports continuing, but not systematic across whole public service. New guide for corporate plans for all public service are launched October 2006.	Multi-year corporate plans are prepared, but departments have varied capacity to link annual budgets to plan objectives and outputs.
1h. CACC approval of implementing strengthened performance monitoring and evaluation system for staff		CACC approval	New performance appraisal system to be in operation for central agencies and for health, education, agriculture, and works and transport	Performance monitoring and evaluation system for staff strengthened again in October 2006 for all public service.	DPM implementing performance management system for staff (see also 2a)
1i. NEC approval of the Code of Ethics and Business Conduct of the Public Service, and general order issued by DPM on application of Code to public service employees	NEC approval	Issuance of general order		Code of Ethics and Business Conduct still in place.	Code of Ethics and Business Conduct remains in place.

POLICY ACTION	Action Expected By			Status in Project Completion Report	Status at Operations Evaluation Mission
	Board Consideration	September 2002	December 2003		
Component 2. Reorienting Personnel Management Systems and Processes					
Primary Objective: To establish appropriate personnel management framework					
Secondary Objective: To reorient personnel systems to support public service objectives					
2a. CACC endorsement of action plan, acceptable to ADB, for DPM capacity building in its core activities: <ul style="list-style-type: none"> (i) formulating strategic human resources development policy; (ii) workforce planning; (iii) training; and (iv) provision of expert advice and consultancy services to departments, including industrial relations, pay policy, and organization development Tranche 1 Release Condition	CACC endorsement		Improved DPM performance	DPM capacity still weak, but being strengthened.	DPM has used SIP to analyze mechanisms for appointing department heads, discipline, record management, and selection and recruitment process. PSWDP being implemented, including training programs for graduates, new inductees, and senior executives; strengthening lead institutions; and human resource management networks.
					Devolution of DPM Secretary's powers to department heads and provincial administrators piloted in 2007 and 2008 with encouraging results, leading to discussions on implementing full devolution.

POLICY ACTION	Action Expected By			Status in Project Completion Report	Status at Operations Evaluation Mission
	Board Consideration	September 2002	December 2003		
Secondary Objective: To improve quality and integrity of knowledge of personnel and to control costs					
2b. CACC decision to establish in DPM, and commence implementation of, an integrated human resource and payroll information system		System functional for DPM personnel.	System functional for health and education staff.	Payroll system operational for all public service; improvements in implementation being introduced.	Payroll system remains operational for all public service.
Secondary Objective: To promote objectivity, professionalism, and performance					
2c. NEC approval of revised processes for selection, appointment, transfer, and termination of department heads, as well as endorsement of action plan, including submission of proposed legislative amendments as necessary, for implementing the revised processes Tranche 1 Release Condition	NEC approval		Departmental heads appointed on merit and more serving full term.	New system being implemented, albeit not consistently. Further improvements to the system are being prepared.	DPM conducted analysis of system with new mechanisms being introduced.
Secondary Objective: To ensure fairness, due process, and transparency					
2d. DPM to issue consolidated updated Public Service General Orders (by March 2002)	Draft circulated for consultation	Issuance		General orders still effective.	General orders remain effective.
Secondary Objective: To strengthen process to address personnel grievances					
2e. NEC decision to strengthen PSC, with action plan and performance targets, as well as endorsement of submission to Parliament of recommended legislative amendments to ensure that PSC decisions on appeals of personnel matters become legally binding Tranche 2 Release Condition	NEC decision		Case backlog reduced by 75%.	PSC stronger, although improvements still needed.	Legislative and regulatory framework in place, but PSC capacity constrained by difficulty in attracting suitably qualified key staff (e.g. lawyers and accountants) to perform mandates in a timely manner.

POLICY ACTION	Action Expected By			Status in Project Completion Report	Status at Operations Evaluation Mission
	Board Consideration	September 2002	December 2003		
2f. Parliamentary enactment of recommended amendments to PSC legislation to make PSC decisions on appeals of personnel matters legally binding Tranche 2 Release Condition		Approval and enactment by Parliament		PSC decisions still binding.	PSC decisions remain legally binding, but no powers to enforce decisions.
Secondary Objective: Promote transparency and accountability					
2g. CACC approval of PNGIPA Action Plan, acceptable to ADB, for making PNGIPA the main institution of public sector training		Approval by CACC	25% of PNGIPA courses tailored toward expressed needs of public service.	PNGIPA operations hampered by weak management and inadequate resources.	Implementing courses for public servants under the PSWDP. Over 50 instructors training up to 400 new entrants per year and over 500 participants in short courses. Lack of funds for upgrading instructors' skills. SIP not yet in the curriculum for public servants but open to including it if requested and funding available.
Component 3. Strengthening of Probity and Oversight Agencies					
Primary Objective: To promote good governance in the public sector					
Secondary Objective: To enhance accountability and probity					
3a. CACC approval of action plans, acceptable to ADB, (i) to strengthen the Auditor General's Office and the Ombudsman Commission, and (ii) to strengthen the Attorney General's Department Tranche 2 Release Condition		Approval of action plans for Auditor General and Ombudsman	Approval of action plan for Attorney General	Implementation of original action plans completed, with further strengthening work underway in both agencies.	Annual action plans continue to be prepared that are linked to budget submissions and reportedly useful in clarifying annual objectives of the agency.

POLICY ACTION	Action Expected By			Status in Project Completion Report	Status at Operations Evaluation Mission
	Board Consideration	September 2002	December 2003		
3b. CACC to recommend 2002 budget allocations for the Ombudsman Commission and Auditor General at not less than existing levels in real terms, reflecting as much as possible the requirements of the action plans approved under 3 (a) above		Recommendations made.		Budget allocations continue at higher levels.	Ombudsman Commission budget remained constant at around K9 million during 2002–2005, but increased to K12 million in 2006, mainly due to advice from AusAID advisors to enter into discussions with Treasury prior to submitting the budget to clarify proposed expenditures. Most were appreciative of this advice, which has since been followed.
3c. CACC to hold one or more minuted consultations with Auditor General's Office in respect of arrangements to improve the timeliness of completing the 2000 and 2001 annual accounts		Meetings held.		Strengthening of AGO continues.	Meetings not held for this purpose.
3d. CACC to hold one or more minuted consultations with Auditor General's Office in respect of arrangements to improve the timeliness of completing audits for statutory bodies and government agencies		Meetings held.		Strengthening of AGO continues.	Meetings not held for this purpose.
3e. Independent audit of the Department of Health's financial and control systems	Audit report accepted by CACC		Recommendations implemented.		AGO conducts audit. Not outsourced to private sector agency.
3f. Completion of independent audit of the Department of Education's financial and control systems	CACC approval of audit terms of reference	Audit completed.	Recommendations implemented.		AGO conducts audit. Not outsourced to private sector agency.

POLICY ACTION	Action Expected By			Status in Project Completion Report	Status at Operations Evaluation Mission
	Board Consideration	September 2002	December 2003		
Component 4. Improving Delivery of Major Services					
Primary Objective: To improve performance of the public service					
Secondary Objective: To improve efficiency and effectiveness					
4a. CACC to consider and take decisions on recommendations of the functional and expenditure reviews of central agencies and key national line department	Decisions on DPM, PMNEC, Treasury, Finance, Health, and Works and Transport	Decisions on Planning, Attorney General, and Education		Most approved review recommendations are being implemented.	Recommendations being implemented.
4b. CACC to frame 2002 (and later) budget recommendations to NEC based on its earlier decisions with respect to recommendations of the functional and expenditure reviews of the DPM, PMNEC, Treasury, Finance, Health, and Works and Transport	Completed.		2003 and 2004 budgets provisions		Government continues to provide around K40 million per year to support implementation of reforms.
Secondary Objective: Promote transparency and accountability					
4c. CACC to establish the Service Improvement Support Group at the national level and provincial service improvement coordinators in Milne Bay, Morobe, Western Highlands, and West New Britain provinces Tranche 2 Release Condition	Support group established; at least two provincial coordinators in place.	Support group and 4 provincial coordinators functioning.	Benchmarks for service improvements established and progress achieved.	Service Improvement Support Group and provincial coordinators operational but hampered by insufficient resources and excessive staff turnover.	Service Improvement Support Unit (SISU) continues to operate in PSRMU, with staff now contracted to PSRMU rather than being attached from home agency. Support groups established in 12 provinces (but see below). Staff turnover remains a problem.

POLICY ACTION	Action Expected By			Status in Project Completion Report	Status at Operations Evaluation Mission
	Board Consideration	September 2002	December 2003		
4d. CACC approval of the SIPs for basic services (from health, education, agriculture, and works) in each of the four pilot provinces (Milne Bay, Morobe, Western Highlands, and West New Britain) Tranche 2 Release Condition		Approval of SIPs for at least two basic services in each of at least two pilot provinces	All SIPs for basic services in four pilot provinces approved.	SIP activities continue in seven provinces and seven national departments.	SIP operational now in 12 provinces and 7 national departments, although with varied levels of commitment and resources. In most, SIP is seen as a project and is not integrated into regular operations. Limited actual implementation and impact of projects.
4e. NEC recommendations for 2002 budget to provide for costs of implementing SIPs in (i) at least two central agencies, namely, DPM and Finance; and (ii) at least two national line agencies, namely Health and Education		Budget appropriation			Budget allocations provided since 2005 from national funds for agencies, as noted above, but generally funds are insufficient. SIP remains outside regular operations, being treated as a project.
4f. CACC to approve the SIPs for the departments of Personnel Management and Finance		CACC approval		SIPs never completed.	DPM has recently used SIP as a management tool to review its own structure of operations.
4g. CACC to approve the terms of reference for review of the results and progress of the SIPs			CACC approval	Not complied with, and terms of reference never prepared.	Annual review now prepared by SISU and submitted to National Task Force and CACC. Task Force met once in 2007. CACC seemingly has taken no action as yet on annual review recommendations.

POLICY ACTION	Action Expected By			Status in Project Completion Report	Status at Operations Evaluation Mission
	Board Consideration	September 2002	December 2003		
Secondary Objective: To strengthen monitoring and evaluation of performance					
4h. CACC approval of performance indicators for basic service delivery covering health, education, agriculture, and works		Indicators approved for education and health.	Indicators approved for agriculture and works.	Performance indicators not completed.	No indicators prepared. Annual review noted above reports on progress of SIP projects and identifies issues and constraints.
4i. CACC to approve and disseminate service charters (for sectors covered by SIPs), stating performance standards to be expected by clients		Decision to prepare service charters	Service charters disseminated for health, education, and works.	Preparation of service charters not begun.	No action has yet been taken.
4j. CACC decision to require the preparation of reports on provincial service delivery performance against the service charters (see 4i) (including results of client satisfaction surveys)		CACC decision and circular for submission of reports		No decision, no service charters	No action has yet been taken.
Secondary Objective: To institutionalize recognition of performance					
4k. NEC approval of an annual reward program to recognize high performing departments and staff, including a public service award		Approval	System operating.	Although there have been initial discussions, a reward program has not been developed. The concept of incentives is being trialed with Australian support.	Award certificates displayed in a number of offices.
Secondary Objective: To improve specific services					
4l. CACC to approve: (i) improved mechanisms for (a) administrative and reporting arrangements		CACC approval		New implementation arrangements being implemented in most	While new arrangements have helped improve service

POLICY ACTION	Action Expected By			Status in Project Completion Report	Status at Operations Evaluation Mission
	Board Consideration	September 2002	December 2003		
<p>for health workers at district and local levels, and (b) financial arrangements to ensure timely funding for rural health services;</p> <p>(ii) action plans, including submission of proposed legislative amendments as necessary, for implementation of (i)(a) and (b) above; and</p> <p>(iii) signing of memoranda of understanding with at least 10 provinces concerned outlining immediate implementation of the arrangements approved by CACC under (i) (a) and (b) above</p> <p>Tranche 2 Release Condition</p>				provinces.	delivery at local levels in some provinces, inadequacies remain. Improved service delivery seems to be perceived as purely a provincial problem, although centrally controlled operations such as drug procurement and distribution have been neither reviewed nor improved.
4m. NEC to endorse establishment of a road fund (including a transitional mechanism) and the development of a road sector management strategy, by end 2004	NEC Decision	Establishment of trust account and strategy			National Transport Development Plan revised in 2005 and approved April 2006. National Road Authority established with intention of managing road fund for maintenance, but slow implementation with maintenance still being done by Transport and Works and Treasury reluctant to introduce full system of road maintenance cost recovery.

ADB = Asian Development Bank, AusAID = Australian Agency for International Development, CACC = Central Agencies Coordination Committee, DPM = Department of Personnel Management, NEC = National Executive Council, PMNEC = Department of the Prime Minister and NEC, PNG = Papua New Guinea, PNGIPA = PNG Institute of Public Administration, PSC = Public Service Commission, PSRMU = Public Sector Reform Management Unit, PSWDP = Public Service Workforce Development Program, SIP = service improvement plan, SISU = Service Improvement Support Unit.

Source: Operations Evaluation Mission.

DESIGN OF TECHNICAL ASSISTANCE SUPPORTING THE PUBLIC SERVICE PROGRAM LOAN

TA No.	Impact	Outcome	Outputs	Scope
TA 3280	Assist the Government, in collaboration with the other reform efforts, in undertaking an analytical and consultative process over a period of 8 months, resulting in preparation of the Governance and Public Sector Reform Program (the reform program)		<p>Performance-focused management systems in selected departments</p> <p>Restructured roles, responsibilities, processes, and staffing</p> <p>Civil service regulations and human resource management</p> <p>Strengthened key governance institutions and national provincial coordination</p>	<p>Help address: (i) the introduction of performance-focused management systems in selected departments and related restructuring of roles, responsibilities, processes, and staffing; (ii) budget and financial management; (iii) civil service regulations and human resource management; (iv) strengthening of key governance institutions; and (v) national provincial coordination</p>
TA 3812	Improve (i) overall public sector performance; and (ii) service delivery in key sectors: health, education, agriculture, and works	<p>Strengthening personnel management systems and processes</p> <p>Strengthening mechanisms to deliver public services</p>	<p>Action plan for DPM core activity capacity strengthening being implemented</p> <p>Action plan for the Public Service Commission capacity strengthening being implemented</p> <p>Action plan for PNG Institute of Public Administration capacity strengthening being implemented</p> <p>SIPs for basic service delivery in health, education, agriculture, and transport and works in Milne Bay, Morobe, Western Highlands, and West New Britain provinces developed and being implemented by Dec 2003</p> <p>National service improvement support group established and service improvement coordinators functioning for the four provinces by mid-2002</p> <p>SIPs for national departments of Health, Education, Agriculture, Transport and Works, and DPM developed and being implemented</p> <p>Terms of reference for a review of progress of SIPs completed by Sep 2002</p>	<p>Implement the action plans for capacity strengthening in:</p> <p>(i) DPM, which is responsible for public service human resource systems, management, and development;</p> <p>(ii) Public Service Commission, which is the independent body responsible for reviewing implementation of public service rules, including to decide on appeals and advise on senior appointments; and</p> <p>(iii) PNG Institute of Public Administration, which provides in-service training for public servants</p> <p>Institutionalize a process of continuous improvement in the provision of basic services (health, education, agriculture, works) starting in four pilot provinces (Milne Bay, Morobe, Western Highlands, and West New Britain)</p>

DPM = Department of Personnel Management, PNG = Papua New Guinea, SIP = service improvement plans, TA = technical assistance.
 Source: Operations Evaluation Mission.

THE SERVICE IMPROVEMENT PROGRAM

A. Introduction

1. Strategic planning for public sector reform began with development of the 2000–2003 Medium Term Plan of Action for Public Sector Reform. The plan gave the Central Agencies Coordination Committee (CACC) overall responsibility for designing and managing the public sector reform program. The CACC, located in the Office of the Prime Minister and National Executive Council (PMNEC), is chaired by the Chief Secretary. An independent Public Sector Reform Advisory Group was also created to provide a mechanism for stakeholder input to policy reform. It consists of representatives from national, provincial, and local-level administrations; the private sector; churches; the public sector union; the National Council of Women; and PNG research bodies.

2. The Public Sector Reform Management Unit (PSRMU) was created prior to Asian Development Bank (ADB) approving the Public Service Program (PSP) loan to support public sector reform, as well as to provide expert advice and support to the PMNEC, CACC, and government organizations. The PSRMU reports to the CACC. Its role is to support the work of departments, agencies, and provincial administrations (but not to implement reform), including to (i) provide advice and inputs to strategies and plans; (ii) coordinate implementation of reforms; (iii) ensure linkages are made between public sector reform and the budget, policy, and planning processes; and (iv) monitor and review implementation progress. The PSRMU manages (i) from 2002, the service improvement program (SIP); (ii) from 2003, the capacity building and structural improvement program; and (iii) from 2003, the functional and expenditure reviews.

3. Public expenditure and rationalization review reports focused on four key areas: (i) road map for fiscal sustainability, (ii) reprioritization of expenditures, (iii) actions to control civil service size and payroll, and (iv) restoring the integrity of budget institutions and systems. When a reform initiative is launched by the Government, then departments, agencies, and provincial administrations are expected to take actions necessary to implement the reform. The independent advisory group plays a vital role in contributing to the Government advice and feedback from stakeholders on (i) the focus and priorities of public sector reform, (ii) the design of public sector reform, (iii) the implementation process, and (iv) stakeholder concerns on public sector performance.

4. In summary, key agencies involved in implementing public sector reform have the following roles:

- (i) The PMNEC provides political leadership and direction.
- (ii) The CACC provides strategic oversight of the public sector reform process.
- (iii) Departments, agencies, and provincial administrations implement public sector reform, with central agency support.
- (iv) PSRMU provides expert technical advice to assist departments, agencies, and provincial administrations.
- (v) The Public Sector Reform Advisory Group provides a forum for external stakeholders' input to the public sector reform process.

5. In 2003, a revised Strategic Plan for Supporting Public Sector Reform 2003–2007 updated the reform implementation strategies to support the Government's broader recovery and development strategy. This was integrated into the Medium Term Development Strategy for

2003–2007, the key objectives of which were to achieve (i) a public sector with a clear sense of direction; (ii) affordable government; (iii) improved performance, accountability, and compliance; and (iv) improved service delivery.

B. The Service Improvement Program

6. In 2002, the Government introduced a service improvement program (SIP) with the aim of improving service delivery in four key basic service areas—agriculture, education, health, and transport infrastructure. This was a key reform tool highlighted in the RRP as being supported under the PSP. Working initially in four pilot provinces—Milne Bay, Morobe, Western Highlands, and West New Britain—the SIP was intended to bring together key decision makers at national and provincial levels in developing improvement plans with a focus on improved performance. SIP, in essence, is a process-oriented diagnostic planning tool to assist management (senior government officials and politicians) in identifying appropriate actions to reform procedures and practices to improve the efficiency and effectiveness of service delivery to the people. A Service Improvement Support Unit (SISU) with seconded staff was established in the PSRMU to guide and support SIP implementation. An SIP coordinator was appointed in each agency and province, and SIP teams were created in each agency to implement the program with support from the SISU. A national SIP task force was established to oversee implementation.

7. Consultants financed under the ADB technical assistance¹ (TA) supported the formulation of SIP guidelines and a training manual, and also trained SISU staff. Officials in four departments and four provinces plus a PNG Institute of Public Administration (PNGIPA) instructor were also trained in SIP. SIP is based on four principles: (i) focus on the customer, (ii) improve all processes that deliver to the customer, (iii) a team approach improves services, and (iv) measurement drives performance. SIP employs a DIATS method to reduce process complexity and waste:

D	=	Define the challenge
I	=	Investigate causes
A	=	Advance a solution
T	=	Test the proposed solution
S	=	Sustain the change

8. The training manual and course developed by the SISU with the assistance of TA consultants was divided into modules based on DIATS. In the first module (defining the challenge), key problems and issues in processes are identified. The method uses fishbone diagrams to articulate cause and effect processes. It then focuses on identifying and investigating possible root causes of problems, using the so-called “why-why” method. Processes are mapped, in order to understand how and why a process behaves the way it does, and a plan for performance measurement is defined.

9. In analyzing problems and proposing solutions, the SIP Manual proposes an 80:20 rule, based on the notion that 80% of observed effects result from 20% of the causes. This helps prioritize activities. Areas of complexity are identified in processes. Too many decision points in a process suggest that it needs simplifying. Actions and strategies are determined for each solution, with action plans being set out in simple Gantt charts. A solution matrix is prepared

¹ ADB. 2001. *Technical Assistance to Papua New Guinea for Strengthening Public Sector Management*. Manila (TA 3812-PNG, for \$850,000, approved on 18 December).

with a scoring process to select the preferred solution. The solution is tested, and based on results it is institutionalized.

C. Implementation Progress

10. Service improvement teams and associated support structures were established in each of the four pilot provinces, and a technical advisor was seconded to the SISU from each of the national departments of education, health, and transport, along with one from the Western Highlands province administration. After a positive start, however, a lack of operational funding prevented the SISU from travelling to provinces to support provincial teams. Consequently, a critical mass in terms of skills and experience was not achieved. Without this, support teams faltered and then required more attention over a longer period.

11. Although SIP initially had a strong national team leader, he was reassigned and the program was leaderless for 6 months from June 2003 to January 2004. A part-time team leader was then appointed. Consultant inputs were intermittent, and, with neither continued leadership within SISU nor budget support, implementation stalled when the consultants were away. The consultants completed their assignments in late 2003, and, as the TA had ended, funding effectively dried up in 2004. Some members of the seconded team were pulled back to their home departments, leaving the SISU in a virtual state of collapse. Despite that, by early 2005 the PSRMU reported that the SIP pilot projects had been completed and its involvement had been reduced to follow-on work by one person. PSRMU envisaged that further performance improvement projects would be implemented through the Department of Provincial and Local Government Affairs, supported by the PPII funded by the Australian Agency for International Development (AusAID).

12. Since 2005, SISU staff has been contracted to PSRMU with government funding. However, SIP trained staff in two of the provinces (Western Highlands and Morobe) were rotated to other work, impeding activities there. The PNGIPA instructor trained in SIP left the institute, and another instructor has not been trained in SIP. With renewed funding, SIP has since been extended to 12 provinces (the original four, plus Eastern Highlands, East New Britain, Madang, Manus, New Ireland, Oro, Simbu, and West Sepik, with plans to include Enga in 2008), six departments (Education, Health, Works, Transport, Agriculture, and Personnel Management), and the Teaching Service Commission. SIP coordinators and facilitators have been appointed and trained. A series of projects are being implemented, or have been planned, in provinces and national agencies. Funding for the projects remains a constraint, however, and many seem to be merely planning exercises as case studies for applying the SIP techniques and have not reached the implementation stage. Frustration was expressed in some agencies, including the CACC, at the seeming slow progress of implementation in SIP projects.

13. In some provinces, the PPII has supported SIP implementation, although PPII coordinators in those provinces noted that there seemed to be very limited buy-in at provincial level. PPII is targeted at strengthening provincial public administration and the integrity of provincial planning and budget systems. Located in the Department of Provincial and Local Government Affairs, PPII focused initially on three provinces (Central Province, Eastern Highlands, and East New Britain). It provided full-time budget advisors in October 2004 under AusAID's Enhanced Cooperation Program, together with a co-located AusAID staff development specialist and a locally contracted AusAID program officer under the PPII. It is now being expanded to other provinces as part of AusAID's Sub National Strategy program (footnote 25, main text). However, opportunities to integrate the two programs have been lost.

D. Issues

14. **Ownership.** Lack of sustained commitment by senior government officials and politicians to provide the necessary funding and institutional support, poor management of the SISU, and high turnover of staff trained in SIP have constrained implementation. Almost all the provinces and departments seem to treat SIP as a program of parallel projects, requiring funding and positions. Rather than recognizing SIP as a diagnostic planning tool, SIP has been treated as a project. That has had negative impacts on officials' perceptions as to its use and value—and consequently on its funding.

15. **National-Provincial Linkages.** The connection between SIP implementation at provincial and national levels has been lacking. Unfortunately, improved service delivery seems to be seen by too many central agencies as a provincial problem. As the experience from Milne Bay illustrates, however, addressing service delivery problems requires action at both levels. The provincial administration applied SIP in a case study analyzing the improvement in delivering drugs to health centers and aid posts. While they have been able to introduce some service improvements at provincial level, the main constraint remained in receiving timely supplies from the Department of Health in Port Moresby. Drugs are procured centrally, and the Department delivers them to the provinces based on “orders” sent by the provinces. Milne Bay's SIP analysis examined the whole process of drug delivery, from ordering by health centers to the Department of Health in Port Moresby, delivery to the province, and finally their arrival at rural health centers. Although the provincial administration was able to directly address bottlenecks at the province level, the major constraint remained untouched at central level. The SIP program had not actively created appropriate linkages between the two, which weakness seemed all too common across central level agencies.

16. **Conceptual Dissonance.** It is not uncommon for development interventions to be perceived in a project context, wherein they require dedicated staffing and special purpose financing (most often provided through a donor-funded grant or loan). Unfortunately, SIP has also been “projectized,” and, as a result, the tool (means) has been confused with the reform actions (ends) resulting from its application. In an environment where high-level ownership and commitment to reform is lacking, this confusion enables managers to avoid implementing the procedural reforms that result from applying the tool by shifting the focus onto the application of the tool as the critical reform action.

17. With regard to understanding SIP, there seemed to be considerable variation and a degree of confusion among a number of government officials met by the operations evaluation mission (OEM). This reflects the lack of clarity in official documents. For example, although much of PSRMU's 2007 Annual Review² was devoted to recording progress in SIP projects, SIP was presented as a reform program comprising a series of parallel projects. The Review referred to the need to harmonize SIP with other reform programs, such as the PPII. Although it also recognized that SIP is a “diagnostic training tool that can be used to improve performance in delivering services,” the impression that SIP was a program of projects to improve service delivery, mainly at the provincial level, seemed to be most commonly held.

18. This view was reinforced in the SIP training manual which defined SIP as “a Government initiative to improve basic service delivery to the people of PNG.”³ Further, the manual states

² Government of Papua New Guinea. 2007. *PNG SIP 2007 Annual Review* (unpublished report of SIP National Task Force Meeting). Kimbe, West New Britain Province, 18–22 February.

³ Public Sector Reform Management Unit. 2004. *Service Improvement Handbook* (unpublished report). Page 18.

that there is a need to train officers in “the tools and techniques of service improvement” and that trained “service improvement teams” would work together to analyze and fix problems. The manual describes SIP’s application to “projects,” noting as part of its implementation strategy that “cascading implementation of SIP projects progressively will develop participation and ownership” (footnote 3, p. 6). It presents SIP as an open-ended program in its own right, a process of continuous service improvement leading to activities that are either additional or parallel to regular activities requiring special funding allocations. It is perhaps unsurprising that officials not trained in SIP perceived it as a program comprising a collection of projects for improving service delivery. This is reinforced by the need to provide additional funding for SIP coordinators and projects, which has impeded implementation. On the other hand, a perverse effect of this perception is that it is the funding package that created a positive incentive to be involved rather than the value of the diagnostic tool as a means for reform. For example, the PNGIPA Director expressed interest in having the institute manage the SIP process, rather than how it could incorporate the diagnostic tool into the public administration curriculum for public servants.

19. Although a number of officials the OEM met viewed the SIP program as having a relatively low priority in their work programs, some agency staff saw the value in SIP as a diagnostic tool. The departments of personnel management and education, as well as the Milne Bay provincial administration, recognized SIP as a valuable process-oriented diagnostic tool enabling staff to address a range of problems, including internal structures and processes. The DPM and Milne Bay administration saw the value in having all staff trained in using the technique and then applying it to their regular operations. They did not view it as a separate activity. The Department of Education saw SIP as an activity that should be conducted by a specific group of staff dedicated to SIP with PSRMU technical support, rather than as a regular function of all staff.

20. **TA Consultant’s Assessment.** The ADB-funded consultants recommended in their December 2003 exit report that SIP should be institutionalized within the public service. In addition to establishing the National Task Force—which met but once in 5 years—the consultants recommended (i) embedding SIP within the normal curriculum for training public servants, (ii) linking SIP with the budget, (iii) developing understanding and ownership of SIP within senior ranks, and (iv) supporting provincial and agency efforts via SISU and local coordinators.

21. **Government Assessment.** The PSRMU’s 2007 Annual SIP Review noted that a general lack of ownership and commitment to implementing reform actions from top management inhibited the development and spread of SIP. Further, “[t]he influx of reform programs in provinces without prior notice has had a perplexing impact as officers lack the ability to coordinate and harmonize these reform programs to complement each other in achieving the government’s reform agenda” (footnote 2, p. 20). The Review highlighted the following as constraints and issues:

- (i) Lack of leadership and support from political leaders and departmental heads led to a decline in commitment to implementing SIP projects and other reform programs. The national SIP task force met only once (May 2007), and its members need to acquaint themselves with SIP.
- (ii) Institutionalizing the program within respective government agencies with annual appropriations was yet to materialize. The job roles and responsibilities of provincial and agency SIP coordinators take precedence over their SIP coordination responsibilities.

- (iii) Provinces have insufficient funding to implement SIP training and projects.
- (iv) Turnover of SIP trainers and staff is high.
- (v) There is no accreditation for SIP training. Although SIP is a diagnostic tool that can be effectively used to improve performance in delivering government services to the people, proper recognition is needed to appreciate its importance.
- (vi) Feedback is lacking. Monitoring and evaluation of SIP seems to be lacking, as there is minimum feedback from PSRMU in yearly reviews to improve dialogue with government agencies and provincial administrations in their endeavors to promote SIP.

22. Although the Review recommended SIP be institutionalized, it recognized that some provinces and agencies had attempted to integrate SIP into their corporate plans and annual activity plans. It argued this integration was required to sustain staff participation in the program. It suggested SIP be embedded in the Public Service Commission to give it the mandate to drive reforms forward. It is not clear to the OEM how this fits with the PSC mandate, as it is currently struggling even to meet its mandated responsibilities, let alone take on such a task. It recommended embedding SIP into University of PNG's School of Business Administration so that SIP participants could obtain Master's Degrees. However, no mention was made of institutionalizing it within the curriculum of public service courses offered by the PNGIPA. The Review also recommended that the National Task Force actively push the agenda with the CACC. Although a draft road map for PSRMU, including SIP and other reform activities, was said to be under preparation in early 2008, it was not made available to the OEM.

23. The Review also recommended that leadership be built into the SIP Manual, that SIP training be conducted continuously to sustain and retain the value and importance of SIP, and that awareness and advocacy be strengthened. The OEM notes that a monitoring and evaluation module was added in early 2008. The Review's recommendation that the SIP and PPII programs be harmonized in order to effectively bring changes and development to the districts and provinces reinforces the confusion over what SIP is.

24. Perhaps the most fundamental recommendation is that SIP coordinators should be re-titled as "reform coordinators." This reflects an important shift in the understanding of SIP as a diagnostic planning tool for generating change management solutions to procedures and practices rather than its being treated as a project. As a result, it is more likely that SIP will be able to be institutionalized into government planning and management practices.

**STATUS OF COMPLIANCE WITH LOAN COVENANTS
AT THE TIME OF THE PROGRAM COMPLETION REPORT AND AT EVALUATION**

Covenant	Reference in Loan Agreement	Status of Compliance	
		Completion	Evaluation
LA Schedule 3, paragraph 1	The Borrower shall cause the proceeds of the Loan to be applied to the financing of expenditures for the Program in accordance with the provisions of this Loan Agreement.	Satisfactory.	Satisfactory, but no longer applicable regarding the second tranche.
LA Schedule 4, paragraph 1	(a) The Borrower shall cause the Program to be carried out with due diligence and efficiency and in conformity with sound administrative, financial, engineering, environmental, and public sector practices. (b) In the carrying out of the Program, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Loan Agreement.	Satisfactory. See below, Schedule 5.	Satisfactory. See below, Schedule 5.
LA Schedule 4, paragraph 2	The Borrower shall make available, promptly as needed, the funds, facilities, services and other resources which are required, in addition to the proceeds of the Loan, for the carrying out of the Program.	Partially satisfactory; see Schedule 5, paragraph 4.	Partly satisfactory; see Schedule 5, paragraph 4.
LA Schedule 4, paragraph 3	The Borrower shall ensure that the activities of its departments and agencies with respect to the carrying out of the Program are conducted and coordinated in accordance with sound administrative policies and procedures.	Satisfactory.	Satisfactory.
LA Schedule 4, paragraph 4	(a) The Borrower shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and to indicate the progress of the Program.	Satisfactory.	Satisfactory, but no longer applicable regarding the second tranche.
LA Schedule 5, paragraph 1	<u>Program Implementation</u> The Borrower shall (a) ensure that the policies adopted and actions taken as described in the Policy Letter continue in effect for the duration of the program period, and (b) promptly adopt and carry out, or cause to be carried out, the other policies and actions set out in the Policy Letter and ensure that such policies and actions continue in effect for the duration of the Program period and subsequently unless otherwise agreed with ADB.	Partially satisfactory; Continued vigilance required.	Contravention of policies described in Policy Letter led to ADB refusing to release the second tranche and eventual loan closure
LA Schedule 5, paragraph 2	The Borrower shall ensure timely and effective implementation of: (a) the items and conditions of the Borrower's Medium Term public Sector Reform Plan; (b) the recommendations of the Functional and Expenditure Reviews for the relevant departments and agencies endorsed by CACC, including detailed subsequent review of the interrelationship among the central agencies; and (c) the process of improvement of delivery of basic public services. In particular, the Borrower shall inform ADB of measures taken to strengthen the institutional capacity of the Auditor General's Office, the Ombudsman Commission and the Department of Justice and Attorney General.	Ongoing.	Limited implementation of these assurances. May 2008 media reports the position of Chief Secretary and the CACC were to be abolished by legislation to be introduced in July 2008

Covenant	Reference in Loan Agreement	Status of Compliance	
		Completion	Evaluation
LA Schedule 5, paragraph 3	DOT shall be responsible for the execution of the program. PMNEC shall supervise implementation of the Program and the PSRMU shall be responsible for carrying out day-to-day implementation matters under the Program. CACC shall be responsible for overseeing and coordinating overall program implementation with departments and agencies concerned, including DPM, DOF, DOT and DNPM. The Borrower shall continue to maintain a Secretariat to support CACC activities and shall provide such Secretariat with necessary staff and resources, acceptable to ADB, throughout the period of Program implementation.	Satisfactory.	DoT continues to allocate budget resources to support reforms. However, the reported abolition of CACC will effect future reforms
LA Schedule 5, paragraph 4	<p><u>Use of Counterpart Funds</u></p> <p>The Borrower shall ensure that sufficient Counterpart Funds are made available to meet the costs associated with the implementation of the Program. Without limiting the generality of the foregoing, the Borrower shall ensure that Counterpart Funds shall be used, unless otherwise agreed with the ADB, to support <i>inter alia</i>:</p> <ul style="list-style-type: none"> (a) staff retrenchment, re-training and repatriation; (b) privatization activities and regulatory and competition policy reviews; (c) development and implementation of SIPs, functional and expenditure reviews, and costs of PSRMU and CACC Secretariat; (d) human resource management and payroll system implementation; (e) other structural adjustment expenditures (eg. awareness campaign, developing policy monitoring mechanisms, superannuation task force, employee relations consultancy, Integrity Act implementation, closure of overseas missions, forestry revenue regime review). <p>Except as ADB may otherwise agree, (a) no initial expenditure of Counterpart Funds for any specific category of activity shall be made until ADB has approved a schedule of disbursement submitted by the Borrower for each such category of activity; (b) Counterpart Funds shall be utilized not later than 31 December 2003 to meet the expenditures to be incurred pursuant to the terms of this paragraph. In the event the Borrower proposes to engage consultants for purposes of the Program financed through the use of Counterpart Funds, the Borrower shall obtain the concurrence of ADB with respect to the terms of reference and the competency and experience of such proposed consultants prior to engagement thereof.</p>	<p>Counterpart funds were provided as intended. However, program impacts could have been enhanced in some areas if provision of counterpart funds had been more timely.</p> <p>Some delays were experienced, but counterpart funds for the first tranche were fully utilized well before 31 December 2003.</p>	Counterpart funds from the first tranche were provided although there were complaints as to the timeliness of fund release and the effect on reform implementation.
LA Schedule 5, paragraph 5	Any Counterpart Funds not required for the Program shall be used, in such proportions as the Borrower and ADB shall agree, to finance the local currency costs of projects financed by ADB, expenditures for the general development purposes and to reduce the accounts	Satisfactory.	This covenant only applied for the first tranche

Covenant	Reference in Loan Agreement	Status of Compliance	
		Completion	Evaluation
	payable and domestic debt of the Borrower.		
LA Schedule 5, paragraph 6	The Borrower shall provide updates, as part of the quarterly reports provided under the Program, detailing the extent of application of Counterpart Funds for Program activities, particularly for those activities specified in paragraph 4 above.	Satisfactory.	After early 2003 Borrower updates were no longer provided
LA Schedule 5, paragraph 7	<u>Monitoring and Evaluation</u> The Borrower, ADB and representatives of other major donors for Program related activities shall formally meet at least semi-annually to review Program implementation. Prior to 30 September 2002, or such other date as the Borrower and ADB may agree, a joint review shall be carried out concerning the Borrower's progress in implementing the policy reforms set out in the Policy Letter, including, in particular, the fulfillment of second tranche loan fund release conditions. To facilitate such review, the Borrower shall provide ADB with relevant information in such detail as ADB shall reasonably request. This review shall be the basis for discussion between ADB and the Government on (i) further measures that may be considered necessary or desirable to promote continued reforms; and (ii) release of second tranche.	Completed; Compliance satisfactory.	Policy dialogue continued through to 2005 to seek resolution of issues delaying release of the second tranche, however loan closed without resolution being achieved
LA Schedule 5, paragraph 8	<u>Policy Dialogue</u> The Borrower shall keep ADB informed of, and from time to time exchange views on, the progress made in carrying out the Program. To this end, the Borrower shall continue timely policy dialogue with ADB on problems and constraints encountered during implementation of the Program and on desirable changes to overcome or mitigate such problems and constraints.	Compliance satisfactory and dialogue ongoing.	Compliance satisfactory and dialogue ongoing.
LA Schedule 5, paragraph 9	The Borrower shall keep ADB informed of policy discussions concerning the Program undertaken with other international and bilateral agencies and shall provide ADB with the opportunity to comment on any resulting policy proposals.	Compliance satisfactory and dialogue ongoing.	Compliance satisfactory and dialogue ongoing.

ADB = Asian Development Bank, CACC = Central Agencies Coordinating Committee, DNPM = Department of National Planning and Monitoring, DOF = Department of Finance, DOT = Department of Treasury, DPM = Department of Personnel Management, LA = Loan Agreement, PMNEC = Department of the Prime Minister and National Executive Council, PSRMU = Public Sector Reform Management Unit, SIP = service improvement program.

Source: Operations Evaluation Department.

**STATUS OF SECOND TRANCHE RELEASE CONDITIONS AS RECORDED IN
THE PROGRAM COMPLETION REPORT**

Second Tranche Condition	Status
1. Approved Budget papers for 2002 for the central agencies and two specified line agencies, namely Department of Health and Department of Education, shall include their respective targeted performance indicators.	Fully complied with. Targets also specified in 2003 Budget. Strengthened process for budget preparation introduced progressively in 2004–2006, focusing on outputs and performance as detailed in corporate plans, although not applied systematically across whole public service. Targets not specified in budget documents.
2. CACC approval of <ul style="list-style-type: none"> (i) departmental performance reports and initial updates of corporate plans of the central agencies and specified line agencies (departments of health, education, works and transport) for 2002; (ii) requirement of submission of annual updates of corporate plans and annual performance reports (for previous year) from all departments and agencies beginning in 2003 and subsequently; and (iii) requirement of public disclosure, in a manner acceptable to ADB, of all annual updates of corporate plans and annual performance reports. 	Substantially complied with. Corporate plans continue to be updated but not systematically by all agencies. System of corporate plans and reports continuing but not systematically across whole public service. New guide for corporate plans for all public service launched in October 2006.
3. Enactment of amendments to Public Service (Management) Act that make Public Service Commission decisions on appeals of personnel matters legally binding.	Fully complied with. Requirements being exceeded.
4. CACC shall have approved action plans acceptable to ADB to strengthen the Auditor General's Office and the Ombudsman Commission.	Fully complied with. Implementation of the original action plans completed, with further strengthening work underway in both agencies.
5. An independent audit of Department of Education financial and control systems shall have been completed.	Fully complied with. Recommendations continue to be implemented.
6. CACC shall have approved the service improvement programs for at least the four basic services, namely health, education, agriculture, and works and transport, in each of at least two pilot provinces.	Substantially complied with. Priority projects for four basic services approved in three pilot provinces, but full plans are not yet finalized. Service improvement efforts continue in seven provinces and seven national departments.
7. CACC shall have: <ul style="list-style-type: none"> (i) approved improved mechanisms for (a) administrative and reporting arrangements for health workers at district and local levels, and (b) expediting fund flows to ensure timely funding for rural health services; (ii) approved respective actions plans for implementation of each of i.a and i.b, including recommended legislative amendments as necessary; and (iii) executed memoranda of understanding with at least 10 provinces concerned outlining immediate implementation of the arrangements approved under i.a and i.b and their associated action plans approved under (ii). 	Fully complied with. The new implementation arrangements are being implemented in most provinces. Eleven memoranda signed.

ADB = Asian Development Bank, CACC = Central Agencies Coordinating Committee.

Source: Operations Evaluation Department.

RECENT ECONOMIC DEVELOPMENTS IN PAPUA NEW GUINEA 2002–2007

A. Economic Concerns and Prospects at Time of Loan Approval

1. At the time the Asian Development Bank's (ADB) Public Service Program (PSP) loan was approved,¹ the primary development challenge facing the Papua New Guinea (PNG) Government was poverty alleviation. Most of PNG's people were poor by regional and international standards. The human development index score for 1998 of 0.542 placed PNG in 133rd position on a list of 174 developing countries. Among Pacific island countries, PNG was last on the human development index scale. In 1996, 31% of the population lived below the international poverty line of \$1 per capita per day; 37% were below the country-specific poverty line in that same year. Around 17% of the population could not meet the basic requirement of 2,200 calories per day per adult equivalent, even if they spent all their income on food. These statistics placed PNG among the poorer countries in the world.
2. Income distribution was also a concern, with the richest 10% of the population accounting for 36% of consumption, while the poorest 50% accounting for only 20%. Growth, led by a capital-intensive minerals sector, supported increasing consumption by the urban elite, but the vast majority of the poor (93.5%) lived in rural areas. The urbanized National Capital District had a poverty rate of 25.8%, but accounted for just 3.8% of the poor.
3. In 1995, following a balance-of-payments crisis, the Government embarked on a comprehensive structural adjustment program. Until mid-1997, the tightening of macroeconomic policies achieved some success in bringing down inflation, rebuilding foreign exchange reserves, and fostering a recovery of output. However, there was little success in achieving the broad structural reform agenda. Beginning in late 1997, the economy was battered by a series of adverse exogenous shocks, including a prolonged drought that affected mining output as well as agricultural production, and the Asia regional financial crisis, which caused steep declines in the prices of, and demand for, PNG's principal export commodities. The macroeconomic effects of these shocks were exacerbated by weak monetary policy and deteriorating budget management. The deterioration of governance, marked by increasing political interference in implementation of public policy, further undermined private sector confidence. The situation was compounded by a breakdown in relations with the external development partners.
4. A broader legacy of the performance through the 1990s was a stagnating standard of living and social indicators for the population, with over 37% of the population below the poverty line. The situation of the poorest quartile had not improved since 1984, and developments since 1996 worsened the disparities. Low educational achievements, inadequate delivery of basic services, especially in rural areas, and inadequate infrastructure and institutional support exacerbated the situation.
5. A new government took office in July 1999 with a mandate to stabilize macroeconomic conditions, improve the governance of public institutions, and restore relations with international financial institutions and bilateral partners. The Government launched a reform program aimed at stabilizing the economy and creating the conditions for growth, to be led by the private sector. The Government took measures to rein in the growing fiscal deficit and tightened monetary policy during the second half of 1999. The Government adopted an adjustment program focused on sound fiscal management and reforms to improve the governance, transparency, and efficiency of the public sector.

¹ ADB. 2001. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Papua New Guinea for the Public Service Program*. Manila.

B. Expected Impact of PSP on Economic Performance and Prospects

6. The Government recognized that the root cause of PNG's weak economic performance was poor governance, characterized by a decline in public institutions' performance, poor transparency of policy making, and political interference in policy implementation. The public sector's capacity for designing and implementing sound policies and to manage its responsibilities had been eroded. With ADB technical assistance, the Government drew up a comprehensive plan of action to strengthen the public sector and restore the integrity of the public service, beginning in 2000. The PSP was designed to support this program.

7. The PSP was expected to help the Government's efforts to place the economy on a sound and sustainable path and to begin to establish an effective and efficient public service, capable of delivering basic services. The PSP would help achieve fiscal balance by trimming the size of the public service, including measures to mitigate harmful impacts by financing the compensation packages for retrenched public servants. Reduction in expensive public debt would reduce debt servicing. It was also expected to have an impact on poverty reduction. Access by the poor in four provinces to key public services would increase as a result of more focused public spending, while overall, the major positive impact on the poor would be increased access to basic public services.

8. In addition, the PSP was expected to have some indirect positive effects through the labor market. With public service and governance reforms, the private sector will be able to increase its activity. This in turn will help accelerate economic growth and consequently contribute to employment creation. Public spending was expected to increase, and increase the demand for labor indirectly. The increased demand is likely to primarily benefit people in formal employment, and may generate employment for people in the informal sector.

9. The PSP was expected to increase private sector-led economic growth, measured through increases by 2005 in: (i) private sector investment levels, (ii) non-mining growth rates, and (iii) gross domestic product (GDP). The loan document, however, does not provide any analysis or linkages between the actions of the reform program and these macroeconomic indicators. Neither details nor specific baseline conditions were provided for in the three identified performance measures. Regular ADB program monitoring reports did not report on them, and the PCR presented no analysis of the impact of the PSP on either growth or poverty.

10. While the PPER mission concluded that the reform program as a whole since 2001 had some impact on the economy in stabilising economic and fiscal policy, as noted further below, economic activity and public expenditure was largely influenced by improved prices for PNG's exports. It is not possible to attribute any specific developments to specific reform actions, and it is almost impossible to attribute any impact on poverty reduction, the service improvement delivery component having made limited progress to date. As noted above, the program document did not identify any linkages between specific program actions and economic growth or poverty alleviation, and it was difficult for the Operations Evaluation Mission to identify any direct impacts of any of the program actions on these. However, overall the PSP has contributed along with other development partner programs towards economic stability, and in this way contributed towards growth, but no direct attribution can be made to private sector-led economic growth. This PPER thus does not attempt to attribute any specific reform actions to growth or poverty alleviation. Rather, this appendix simply briefly describes developments in the economy from the period of loan approval through to 2008, the date of the PPER.

C. Economic Performance 2002–2006

11. A new Government came into power in July 2002 and pronounced its commitment to continue the reform program. Performance had slowed in the first half of 2002, leading up to the elections, with fiscal control being problematic (remuneration, election-related expenditures, revenue shortfalls). However, the new Government indicated its strong commitment to sound economic management, and this received International Monetary Fund (IMF) endorsement in the February 2003 Article IV consultations. It was forced to introduce a supplementary budget in 2002 following the budget blow-out, and this fiscal stringency was continued in the 2003 budget. At the time of the expected release of the second tranche in early 2003, there had been little change from the economic climate and circumstances existing the previous year at time of loan approval.

12. There was steady growth however, between 2002 and 2006, which can partly be attributed to sound economic policies of the Government. The IMF 2006 Article IV Report² noted PNG was enjoying its fourth year of recovery and macroeconomic stability, which was supported by broadly sound economic policies and record mineral revenue flows (Table 1 provides the most recent IMF economic indicators). However, the report notes that “the performance gap relative to comparator countries is widening, while downside risks have increased and development needs remain high.” Progress towards the Medium Term Development Strategy (MTDS) objectives and the Millennium Development Goals (MDG) had been limited (see para.16 below), and that, despite successfully stabilizing the fiscal situation and promoting recovery since 2002, per capita income is “little improved since independence in 1975”. Fundamental constraints to investment and development, such as poor infrastructure and communications, had not been addressed.

13. The report also expressed concern over increased uncertainty over economic management caused by frequent changes of senior Ministers (including economic Ministers) during 2006 and fears of loss of fiscal restraint in the lead up to the 2007 election (as had occurred in 2002). Nevertheless, the IMF concluded that the “macroeconomic outlook should remain positive, if fiscal and monetary policies are maintained....with real GDP growth of about 4% expected over the medium term, together with low inflation rates.

14. However, despite commitments to meeting the MDG, public expenditure was still only marginally aligned with poverty reduction priorities. A poverty diagnosis undertaken by ADB had identified at risk target groups, but there seemed to be limited acceptance of poverty existing within PNG society. Consequently there are few specific strategies to assist the poor, the vulnerable, and those lacking access to services, except by civil society organizations. Less targeted strategies and allocations are in place to improve long-overlooked public services and infrastructure (consistent with the MTDS) across the country and in disadvantaged provinces and districts, including support under the district support improvement program, though this is poorly overseen. However, as noted in this evaluation, there has been little progress in improving service delivery at provincial and district levels, a specific target of the reform program. Table 2, from the IMF 2007 Article IV consultation report, shows progress towards achieving the MDGs over the period 1990 to 2005 has been limited.

D. Current Economic Performance and Prospects and the 2008 Budget

15. The 2007 IMF Article IV consultations reported that macroeconomic performance in 2007 remained positive, with strong growth and low inflation, reflecting continued prudent

² IMF. 2007. *Papua New Guinea Staff Report for 2006 Article IV Consultations*. Washington D.C. Available: <http://www.imf.org/external/pubs/ft/scr/2007/cr07111.pdf>

fiscal and monetary policies, but importantly high world prices for key mineral exports.³ However, it noted PNG remains poor, with little improvement in development indicators and high urban unemployment. Significant underlying vulnerabilities and risks remained. High mineral revenues had increased pressures on expenditures, and the 2008 budget included large expenditure increases. The unattractive investment climate, including poor infrastructure and weak governance constrains growth of the non-mineral sector (Table 1).

16. The report noted that progress on the structural reform agenda, designed to improve growth prospects and the investment climate, had stalled in 2007, particularly with respect to public sector reform. Constraints to private sector activity remained formidable, and the competitiveness of the non-mineral sector had not improved. The report recommended the Government should accelerate progress on structural reform “without which the outlook for more rapid non-mineral sector growth, job creation and poverty alleviation is dim”. It noted non-mineral GDP growth rates needed to double over a sustained period to meet objectives of reduced poverty, significant job creation, and faster development.

17. Nevertheless the report projected GDP to grow at about 4% from 2008–2012, with moderate growth in the non-mineral sector, including agriculture. Several mining projects planned to come on stream would offset the steady decline in petroleum production. Over the long term, GDP was expected to average 2.6%.

18. The 2008 Budget Speech by the Minister for Treasury and Finance, delivered in November 2007, claimed that the Government’s economic policies had led to economic growth, although it recognised that economic growth had been assisted by soaring international prices for PNG’s main export commodities. It estimated real per capita GDP to have increased by 7.4% over the period 2002–2008, to \$US1,042 in 2008. The Minister reported that the economy was growing at its strongest rate in over a decade with:

- (i) Real GDP growth increased from negative 0.2% in 2002 to an average 2.7% over the 2003–2007 period.
- (ii) Real GDP growth expected to be 6.2% in 2007 and 6.6% in 2008. If realized, this would represent the strongest two years of consecutive economic growth in the last 15 years.
- (iii) Kina regained its value against other international currencies and was worth US\$0.35 in 2007 compared to US\$0.29 in 2002.
- (iv) Interest rates (treasury bills) dropped from a high of over 13.5% in 2002 to 3.3% in 2006. The Central Bank’s Kina Facility Rate declined from 13.5% in 2002 to only 6% in 2007.
- (v) Government’s debt expressed as a percentage of GDP had fallen by more than half from over 71% of GDP in 2002 to around 34.9% in 2007.
- (vi) Government’s budget position had turned around from a deficit of K450 million (3.9% of GDP) in 2002 to a budget surplus of K536 million in 2006 (3.1% of GDP); and
- (vii) Foreign exchange reserves had gone beyond US\$2.0 billion (equivalent to K6.0 billion) in early November 2007, a level never experienced in PNG before.

19. He noted in 2008, real GDP growth was expected to increase to 6.6%, with signs of growth strengthening across most sectors of the economy. The non-mining sector was expected to grow strongly at 6.5%, compared with 6.2% in 2007. This was largely due to strong growth in the communications sector as a result of competition and impressive

³ IMF. 2008. *Papua New Guinea Staff Report for 2007 Article IV Consultations*. Washington D.C. Available: <http://www.imf.org/external/pubs/ft/scr/2008/cr0898.pdf>

expansion in the mobile phone segment of the market, which was providing both social and economic benefits across the nation.

20. The faster growing sectors of the economy in 2008 were expected to be communications (by 27.4%), mining and quarrying (by 14.2%), building and construction (by 13.0%); and agriculture (by 4.9%). In particular, the significant expansion of the mobile telecommunications sector was estimated to add 0.7% to GDP growth in both 2007 and 2008, under the assumption that competition in the mobile telecommunication sector continued to flourish.

21. With the favourable economic outlook for 2008, government projected total revenue to remain at high levels. Total revenue was projected to be K6,000 million, slightly less than the 2007 total of K6,153 million. The slight decline in revenue was due to a projected decline in mining and petroleum taxes, but would be partly offset by an increase in non-mineral revenues, in line with higher wages, strong employment growth, and larger profits. The Minister noted that underlying the improved economic outlook was the assumption of continued fiscal discipline, political stability and prudent macroeconomic policies.

22. The economic report from the Treasury, accompanying the speech, indicated that in 2006, real GDP growth slowed to an estimated 2.6%, with non-mining GDP growing at 3.7%. Lower than expected growth in 2006 reflected temporary interruptions to oil exports and poor seasonal conditions that reduced agricultural production. In 2007, a rebound in mineral production, better seasonal conditions, high commodity prices and strong growth in the non-mining sector was expected. Strengthening across most sectors of the economy was expected. 2007 represented the fifth successive year of real GDP growth that was significantly above population growth, helping to gradually improve the average standard of living.

23. Formal private sector employment was growing strongly, reflecting positive developments in the economy. In 2006, employment grew by 7.3% in the non-mining sectors and by 9.5% in the mining sector. Over the year to June 2007, employment in the non-mining and the mining sectors grew by around 9.5%, with particularly strong growth coming from retail, building and construction, and agriculture, forestry and fisheries sectors.

24. Consumer prices increased by 2.3% in 2006 in year-average terms, slightly higher than the previous year's inflation outcome –largely reflecting higher fuel, transport, communication, and food prices. In 2007, the rise in inflation was expected to be 1.8%, largely reflecting lower food prices, continued prudent fiscal management and moderate public sector wage outcomes.

25. However, the report noted higher inflationary pressures had emerged, with underlying inflation increasing by 6.5% in 2007. The Government acknowledged the need to contain inflationary pressure by closely monitoring the impact of Government expenditure on demand pressures in the economy, and for the Central Bank to closely monitor monetary policy to ensure price stability.

26. Interest rates remained at historically low levels, reflecting subdued inflation outcomes. In 2006 and 2007, the Treasury Bill interest rate averaged around 5%, below the Bank of PNG's target rate (the Kina Facility Rate) of 6%. Yields on 3-year Inscribed Stock (Government Bonds) had been around 6%. The historically low interest rates was also influenced by the high levels of liquidity in the system.

27. The exchange rate was relatively stable throughout most of 2006, but depreciated significantly on an imported Trade Weighted Index basis against major trading partner currencies (especially against the Australian dollar) in 2007. This depreciation of the Kina

saw the price of many imported goods rise. The value of the Kina against the United States dollar appreciated slightly from 2006–2007.

28. Gross international reserves increased markedly in 2006 and increased further to be over US\$1,800 million by the end of September 2007. This reflected the impact of the commodity price boom and was the strongest international reserves position experienced since Independence. This relatively high level of reserves was more than sufficient to perform the role of appropriately managing short-term exchange rate volatility.

29. The strong terms of trade over recent years influenced the economy largely through increased revenue collections by the Government. While part of that higher revenue was being used on debt repayment, there had been a significant increase in Government spending allocations to trust funds for future spending and some allocations had actually been spent. Despite the commodity price boom, monetary policy remained largely unchanged, with interest rates remaining at low levels, the money supply and credit growing strongly, and the exchange rate depreciating against most major trading partner currencies.

30. The fiscal outcome for 2007 was projected to be a budget surplus of K321.1 million, or 1.7% of GDP, compared with the original deficit estimate of K35 million or 0.2% of GDP. Total Revenue and Grants for 2007 were estimated to be K7,199.6 million, an increase of K1,778 million or 32.8% from the 2007 Budget projection of K5,421.6 million. Tax revenue was expected to be K5,693.4 million in 2007, K1,563.5 million or 37.9% higher in 2007 than the Budget projection of K4,129.9 million. The increase in tax revenue largely reflects substantially higher than expected taxes on income and profits.

31. Total Expenditure and Net Lending in 2007 was projected to be K6,878.6 million, an increase of K1,422.0 million or 26% on the 2007 Budget estimate of K5,456.6 million. In 2007, the Government continued to deliver on its track record of restraining spending to limits in Budget Appropriation Acts. While expenditure in 2007 was substantially over the original budget appropriation, this reflected the Government's decision to apply stronger than expected revenue to priority expenditure areas through the 2007. The overall recurrent expenditure in 2007 was estimated to be K3,370.2 million, reflecting estimated low interest payments due to low interest rates.

Table A7.1: Papua New Guinea: Selection Economic Indicators, 2003–2008

Nominal GDP (2006):	US\$5.58 billion					
Population (2006):	5.9 million					
GDP per capita (2006):	US\$943					
Quota:	SDR 131.6 million					
	2003	2004	2005	2006	2007 Est.^a	2008 Proj.
Real sector (percent change)						
Real GDP growth ^b	2.2	2.7	3.4	2.6	6.2	5.8
Mineral	2.8	0.3	5.0	-5.9	4.1	4.9
Non-mineral	2.1	3.1	3.1	3.7	6.5	5.9
CPI (annual average)	14.7	2.1	1.7	2.3	1.7	5.0
CPI (end-period)	8.4	2.4	4.6	-1.0	4.5	5.5
Central government operations (percent of GDP)						
Revenue and grants	29.2	34.1	34.8	36.9	37.8	36.1
Expenditure and net lending	30.3	32.4	31.1	30.1	31.8	32.2

	2003	2004	2005	2006	2007 Est. ^a	2008 Proj.
Overall balance, cash basis (including grants) ^c	-1.2	1.7	3.7	6.8	6.0	3.9
Overall balance, cash basis (including grants) ^d	-1.8	0.0	3.8	5.7	6.0	3.9
Domestic financing, (net) ^e	4.0	1.8	-2.7	-4.3	-3.8	-2.5
External financing (net)	-2.1	-1.8	-1.1	-1.3	-2.1	-1.4
Non-mineral balance ^e	-6.4	-6.3	-4.7	-7.7	-7.5	-7.8
Central government debt (percent of GDP)	63.6	60.0	47.5	39.3	34.5	31.4
Money and credit (end-period percentage change)						
Domestic credit	-7.1	0.7	8.6	19.4	3.7	5.7
Credit to the private sector	-4.1	0.9	23.7	38.2	29.7	19.8
Broad money	-4.4	14.8	29.5	38.9	24.7	18.0
Interest rate (182-day T-bills; period average)	18.7	3.1	3.8	3.7	4.1	–
Balance of payments (millions of US dollars)						
Exports, f.o.b.	2,153	2,554	3,278	4,205	4,994	5,220
Of which: Mineral	1,635	1,863	2,467	3,391	3,977	4,162
Imports, c.i.f.	-1,435	-1,794	-2,462	-2,805	-3,346	-3,557
Current account (including grants)	159	88	207	163	262	209
(In percent of GDP)	4.5	2.2	4.2	2.9	4.3	3.3
Overall balance	187	206	161	662	673	345
Reserves and external debt (end-period; millions of US dollars)						
Net international reserves	399	599	765	1,427	2,100	2,445
(In months of non-mining imports, c.i.f.)	4.3	5.5	5.2	8.5	11.1	11.8
(In months of goods and services imports)	2.1	2.6	2.4	3.8	4.7	5.2
Public external debt-service-ratio (percent of exports) ^f	7.5	8.7	6.0	3.5	4.0	3.5
Public external debt-service-ratio (in percent) ^f	42.9	36.8	25.8	21.2	17.8	15.6
Exchange rates						
US \$/kina (period-average)	0.2814	0.3104	0.3224	0.3272	0.3332	–
US \$/kina (end-period)	0.3000	0.3200	0.3230	0.3300	0.3400	–
NEER (2000=100, end-period)	74.4	76.0	80.7	78.0	76.9	–
REER (2000=100, end-period)	96.2	97.1	104.0	100.4	98.5	–
Nominal GDP (millions of kina)	12,567	12,652	15,263	17,051	18,551	20,070

– = no data, CPI = Consumer Price Index, GDP = gross domestic product, NEER = Nominal Effective Exchange Rate, REER = Real Effective Exchange Rate, US = United States.

^a September figures for interest rate and exchange rates.

^b Based on new official national account estimates (1998 prices).

^c Measured from above the line in the fiscal accounts.

^d Measured from below the line in the fiscal accounts.

^e Includes changes in check float.

^f Includes central government, central bank external debt, and statutory authorities.

Sources: Data provided by the Papua New Guinea authorities; and Fund staff estimates and projections.

Table A7.2: Papua New Guinea: Millennium Development Goals Progress, 1990–2005

	1990	1995	1998	2000	2005
Goal 1: Eradicate extreme poverty and hunger					
Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than \$1 a day					
Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger					
Income share held by lowest 20%	–	5	–	–	–
Poverty headcount, national (% of population)	–	38	–	–	–
Prevalence of underweight in children (under five years of age)	–	–	15	–	13
Goal 2: Achieve universal primary education					
Target 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling					
Primary completion rate, total (% of relevant age group)	51.3	52	52.4	56	53.9
Persistence to grade 5, total (% of cohort)	69	–	–	51	–
Youth literacy rate (% ages 15–24)	69	–	–	–	67
Goal 3: Promote gender equality and empower women					
Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and in all levels of education no later than 2015					
Proportion of seats held by women in national parliament (%)	0	0	2	2	1
Ratio of girls to boys in primary and secondary education (%)	80.3	–	88.9	87	87
Ratio of young literate females to males (% ages 15–24)	83.9	–	–	–	92.7
Share of women employed in the non-agricultural sector (%)	20	25	30	32.1	35
Goal 4: Reduce child mortality					
Target 5: Reduce by two-thirds, between 1990 and 2015, the maternal mortality ratio					
Immunization, measles (% of children ages 12–23 months)	67	42	59	62	60
Infant mortality rate (per 1,000 live births)	69	64	–	60	55
Under 5 mortality rate (per 1,000)	94	87	–	80	74
Goal 5: Improve maternal health					
Target 6: Reduce by three-quarters, between 1990 and 2015, the under five mortality rate					
Births attended by skilled health staff (% of total)	–	53.2	–	41	–
Maternal mortality ratio (modelled estimate, per 100,000 live births)	–	–	–	300	–
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Target 7: Have halted by 2015 and begun to reverse the spread of HIV/AIDS					

	1990	1995	1998	2000	2005
Prevalence of HIV, total (% of population aged 15–49)	–	–	–	–	2
Target 8: Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases					
Contraceptive prevalence rate (% of women ages 15–49)	–	26	–	–	–
Incidence of tuberculosis (per 100,000 people)	267	250	–	250	250
Tuberculosis cases detected under DOTS (%)	–	1	7.4	7	21
Goal 7: Ensure environmental sustainability					
Target 9: Integrate the principles of sustainable development into country policies and program and reverse the loss of environmental resources					
Forest area (% of total land area)	70	–	–	67	65
Nationally protected areas (% of total land area)	–	–	–	–	1.6
Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation					
Access to an improved water source (% of population)	39	–	–	–	39
Target 11: Have achieved, by 2020, a significant improvement in the lives of at least 100 million slum dwellers					
Access to improved sanitation (% of population)	44	–	–	–	–
CO2 emissions (metric tons per capita)	0.6	0.5	0.5	0.5	0.4
Goal 8: Develop a global partnership for development					
Target 12: Various					
Aid per capita (current US\$)	100.4	79.2	71.5	52	45
Debt service (% of exports)	18	10	8	8.1	5.9
Fixed line and mobile phone subscribers (per 1,000 people)	7.3	9.3	12.4	14	15
Internet users (per 1,000 people)	0	0	2.4	8	23
Personal computers (per 1,000 people)	–	–	39.5	53	63.6

– = no data, CO2 = carbon dioxide, DOTS = directly observed treatment, short course, HIV/AIDS = human immunodeficiency virus/acquired immune deficiency syndrome, US = United States.

Note: Figures in italics refers to periods other than those specified.

Source: World Development Indicators database, April 2007.