



PACIFIC ISLANDS FORUM SECRETARIAT  
*Excelling together for the people of the Pacific*

# Forum Compact Peer Review Report Papua New Guinea

04 March 2013

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Papua New Guinea Parliament House, Waigani, PNG

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Approved by the Government of PNG, in consultation with it's development partners.



Papua New Guinean in traditional wear, Port Moresby, PNG

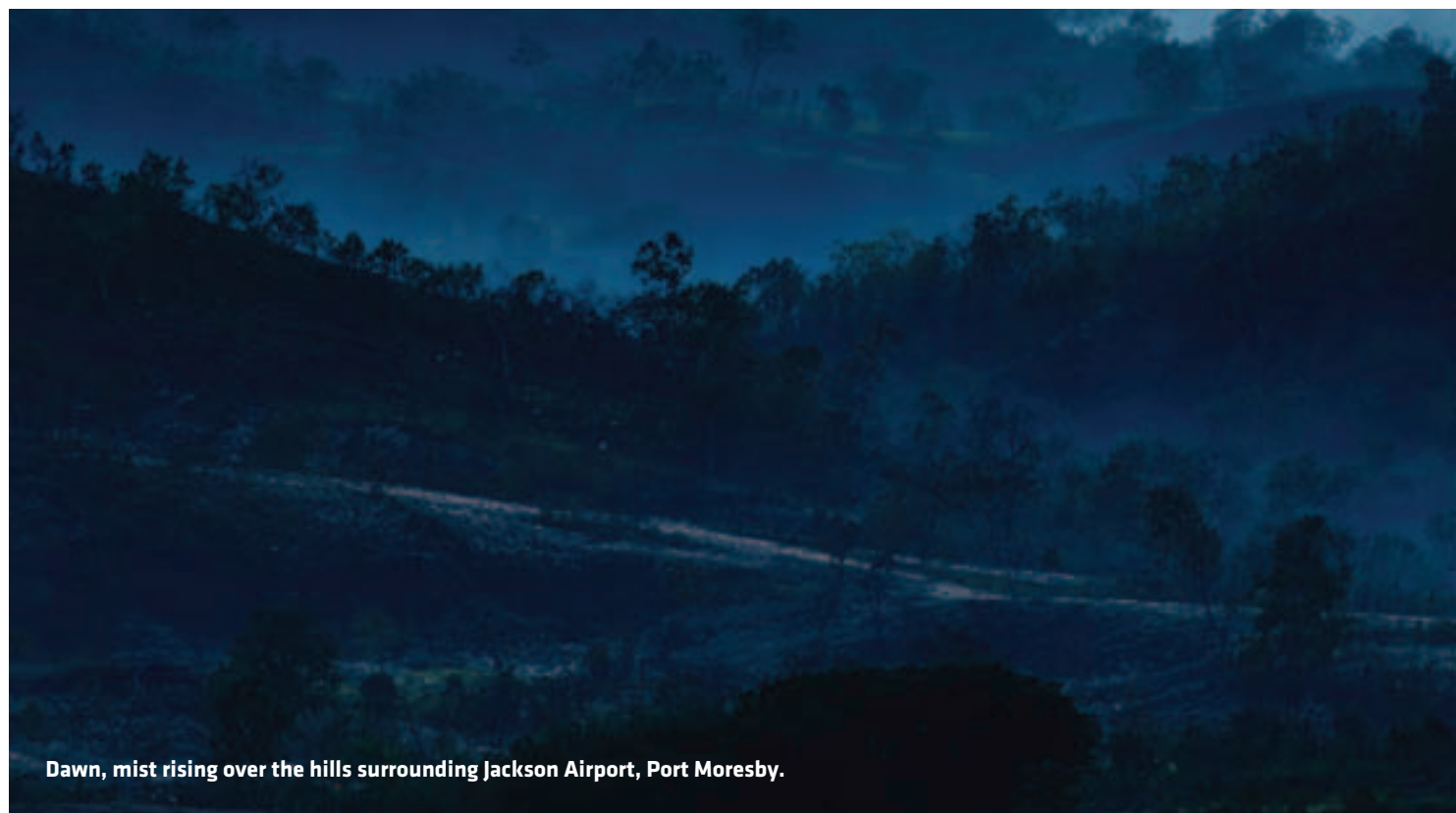
## Acknowledgements

At the invitation of the Government of Papua New Guinea (PNG), a peer review of PNG's national development planning, budgeting, public financial and aid management systems and processes was undertaken in PNG from 1 to 17 October 2012. The Government of PNG invited representatives from three Forum Island Countries, Samoa (Ms Noumea Simi), Vanuatu (Mr Johnson Naviti), and Solomon Islands (Mr Matthew Pitavato) and one development partner, New Zealand (Mr Richard Woodham), to make up their Peer Review Team. The Team was supported by personnel from the Pacific Islands Forum Secretariat.

The peer review would not have been possible without the efforts of a number of people and organisations to whom the peer review team would like to express their sincere gratitude:

- The Government of PNG for taking the initiative to invite a peer review;
- The Hon. Minister for National Planning, Mr Charles Abel, members of Parliament, senior staff of the Government of PNG, representatives of provincial governments, development partners, private sector and non-government organisations who shared freely their experience and insights;
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- The Governments of Samoa, Vanuatu, Solomon Islands and New Zealand, for agreeing to release us to serve on this Peer Review Team.

Financial figures are in PNG Kina.



**Dawn, mist rising over the hills surrounding Jackson Airport, Port Moresby.**

## Acronyms

<b>ADB</b>	Asian Development Bank
<b>ADR</b>	Annual Development Report
<b>CACC</b>	Central Agencies Coordinating Committee
<b>CIMC</b>	Consultative Implementation and Monitoring Council
<b>COM</b>	Council of Ministers
<b>DAD</b>	Development Assistance Database
<b>DSP</b>	Development Strategic Plan
<b>DSIP</b>	District Services Improvement Programme
<b>FICs</b>	Forum Island Countries
<b>FMIP</b>	Financial Management Improvement Programme
<b>IFMIS</b>	Integrated Financial Management Information System
<b>NDPM</b>	National Department of Planning and Monitoring
<b>NEFC</b>	National Economic and Fiscal Commission
<b>MTDP</b>	Medium Term Development Plan
<b>MTDS</b>	Medium Term Development Strategy
<b>PAA</b>	Priority Action Agenda
<b>PEFA</b>	Public Expenditure and Financial Accountability Assessment
<b>PERR</b>	Public Expenditure Review and Rationalisation Programme
<b>PERRIC</b>	Public Expenditure Review and Rationalisation Programme Implementation Committee
<b>PIP</b>	Public Investment Programme
<b>PLAS</b>	Planning Long Acting Short Programme
<b>SOE</b>	State Owned Enterprises
<b>WB</b>	World Bank
<b>UN</b>	United Nations



PNG boy walking in the foreground of Tavurvur Volcano, Rabaul, East New Britain Province, PNG.

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## Message from the Prime Minister of PNG



PRIME MINISTER  
PORT MORESBY

### KEY MESSAGE BY THE HON. PETER O'NEILL, CMG MP PRIME MINISTER OF PAPUA NEW GUINEA

The Government of Papua New Guinea is committed to the Cairns Compact (or Forum Compact) on Strengthening Development Coordination. Development partners, for decades, have played a critical role in our development efforts and for these partnerships, we are grateful. They include our bilateral and multilateral partners, civil society organizations, faith-based organizations and the private sector. Despite our collective efforts however, PNG is still off track in achieving the Millennium Development Goals by 2015.

We remain steadfast to the Cairns Compact to ensure there is effective coordination between Government and our development partners in bringing about development effectiveness for Papua New Guinea. The PNG Peer Review process has raised robust discussions and highlighted various issues that are relevant to our existing efforts in development planning, public finance management and aid management.

PNG has maintained a stable political environment with sound macro and micropolicy directions based on our long and medium term plans and these, we are confident, are key elements that guide our pursuit to achieving our Millennium Development Goals. Development coordination is a collaborative effort with our development partners, led by our Government. As the Government increases its resources and creates more strategic partnerships in the development arena, there is indeed, greater need for effective development cooperation and coordination.

Papua New Guinea is pleased to announce that we have progressed a number of the key recommendations put forth in the Peer Review Report. We are committed to ensuring that appropriate actions are taken to successfully implement the recommendations of this Report.

Through the review process, we acknowledge that there are lessons that PNG can share with our peers. Whilst our challenges may be seen to be more complex compared to other Forum Island Countries, given our relative size, and ethnical and geographical diversity, there are commonalities we can ride on and learn from.

The Government of Papua New Guinea would like to thank the Pacific Islands Forum Secretariat for a successful peer review process for Papua New Guinea and we are committed to work collaboratively to realise the full aspirations of the Forum Compact to strengthen development coordination in Papua New Guinea.

**Hon. Peter O'Neill, CMG MP**  
**Prime Minister**

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## Message from the Secretary General of the Pacific Islands Forum Secretariat

As the largest in geography, economy and accounting for 70% of the total inhabitants of our oceanic Pacific continent, Papua New Guinea (PNG) plays a vital role in our region's development. It is by far the richest in terms of natural resources, culture, biodiversity and languages. Over the past decade, PNG has experienced continuous impressive economic growth higher than the average growth in the Pacific. Yet by regional and by its own Millennium Development Goals' (MDGs) assessments, PNG is not going to achieve many of the global and it's own nationally tailored MDGs targets and goals.

By inviting its Pacific neighbours from Samoa, Solomon Islands, Vanuatu and a member of the development partners from New Zealand to relook at PNG's national planning, budgeting, public financial and aid management systems, the Government demonstrated its intentions to improve its systems and processes to better deliver improved outcomes for its people. It also demonstrated willingness to learn from its neighbours as well as to share its own good development practices with the region; and reflected strong regional leadership that the region expects and looks for from PNG.

Like other Forum island countries which had invited peer reviewing, the PNG peer review reaffirmed the value of many of the good intentioned assessments, plans, reforms and policies that PNG already has and intends to implement. The review confirmed that PNG by and large has most of the institutions, policies, plans, resources and people in place to ensure progress with their own nationally determined priorities and reforms, but this has not yet translated into tangible good development outcomes that PNG and its people aspire to. This is a view shared by the current political leadership of PNG that is determined and has already acted to make sure that PNG can do better. Already the Government is acting on making sure more resources reach the people that are intended to benefit from its development programmes, specifically by aggressively pushing its decentralisation initiative to the provinces and local governments.

Above all else, the peer review experience pointed to strong sustained and collective political will at all levels of government and PNG society as being a critical element that needs to be in place for PNG to realise its full potential not only nationally but within the region. With the Government moving quickly to restructure the National Planning and Monitoring Department to make it more effective and efficient, by the Government taking strong leadership of its partnership with its development partners and by allocating more resources to the provincial and local government levels, there is high prospect for positive outcomes of this process to the ultimate benefit of the people of PNG.

The peer review team identified twelve recommendations for the consideration of the PNG Government to strengthen its own and its collective efforts with all its development stakeholders to improve the use of domestic and external resources to improve the quality of lives of the people. I commend the recommendations and this report to the Government and people of PNG to take ownership of them and continue to take appropriate actions.

On behalf of the Forum Secretariat I reiterate our resolve to assist where we can to advance the achievement of the outcomes as provided in the peer review recommendations.



**Soifua  
Tuiloma Neroni Slade**



Bird of Paradise, Port Moresby Papua New Guinea

## Introduction

1. The Forum Compact on Strengthening Development Coordination in the Pacific is a development compact agreed by Forum Leaders and endorsed by key development partners at the Pacific Islands Forum Leaders' annual meeting in Cairns, in August 2009. The development compact sets out collective actions by Forum Island Countries (FICs) and development partners designed to strengthen coordination and use of development resources at the national and regional level. The actions taken are in line with international best practices as expressed in the Paris Declaration on Aid Effectiveness, the Accra Action Agenda, the Busan Partnership for Development Cooperation and the Pacific Principles on Aid Effectiveness.

2. Peer reviews are a key part of this package of development coordination initiatives. They review and focus action on ways that FICs, with support from development partners, use their domestic resources and the aid they receive to ensure a better life for their people and make progress towards achieving their national priorities, including the Millennium Development Goals.

3. The Peer Review Team's terms of reference form Annex 1. The Team looked at the processes for formulating national development priorities, integrating these into budgets, as well as implementing plans and monitoring and reporting on results. Just as importantly, the Team considered how the country's development partners can act collectively and individually to support national priorities, systems and processes.

4. As background to the review, the Team examined the comprehensive suite of national plans, including Vision 2050, the Development Strategic Plan 2010-2030, the Medium Term Development Plan 2011-2015, sector plans for education and health and the provincial plan for East New Britain. Also examined were budget documents for the 2012 financial year, provincial expenditure reports from the National Economic and Fiscal Commission, PNG data from the 2011 Paris Monitoring Survey, the 2008 Public Expenditure and Financial Accountability (PEFA) assessment, the PNG Commitment to Aid Effectiveness; and the incoming Government's Platform for Action (the "Alotau Accord"), which sets out plans for the first 18 months and for the remaining term of Government.

5. Substantive discussions were held with the Minister for National Planning and Monitoring, the Vice Minister for Provincial and Local Governance, the Auditor-General; officials of the Departments of the Prime Minister and the National Executive Council, National Planning, Treasury, Finance, Provincial and Local Government, Works, Health, Education, Implementation and Rural Development, Community Development, the National Statistics Office, the Central Supply and Tenders Board and Office for Climate Change and Development. Discussions were also held with staff of the Consultative Implementation and Monitoring Council, the resident representatives of development partners (Australia, New Zealand, Japan, the EU, the UN system, ADB and the World Bank), representatives of the private sector (Business Council, LNG Project) and non-governmental organisations. The Team made simultaneous visits to Madang and East New Britain and held discussions variously in each with elected

Members of Parliament and senior provincial and district officials, as well as representatives of the Catholic Church. A presentation of preliminary findings was made to the organisations consulted on 17 October. A full list of those consulted is found in Annex 2.

6. The Peer Review was held during the budget time for government. It was helpful to have held it at a time when the incoming Government was thinking about the planning, budget and performance issues that peer reviews cover, and to that extent the Team hopes that the recommendations will be timely. But, coming as it did in the weeks prior to finalisation of the budget, the Review made the sorts of demands on busy officials that previous peer review recommendations have sought to reduce. Despite the wide range of Departments consulted, the Team was not always able to meet the most appropriate informants or to spend the time with key informants that it would have liked. The Team met with elected Members in Madang, but had limited opportunity to discuss the role of Parliament in national planning, budgeting, and performance management. Civil society representatives, including the churches, were consulted in the provinces but not comprehensively at national level. The Team was also unable within the time available to do justice to PNG's diversity. The provincial visits were very helpful in understanding development challenges, but further visits would have led to even more lessons. The Peer Review therefore comes with more than the usual emphasis on the report being only a first step in a conversation between PNG and the rest of the region, and on the value of follow-up discussions with the countries represented on the Peer Review and more widely as well.

7. The Peer Review Team regrets that, as with other countries receiving development support from the People's Republic of China, it was not possible to arrange consultations with in-country representatives of this development partner.

8. For the peer review process – which envisages sharing of experiences across the Pacific – Papua New Guinea presents challenges. Not only is Papua New Guinea much bigger and more ethnically and geographically diverse than other Forum Island countries, it also has delegations of responsibility to sub-national levels which go well beyond anything seen in its neighbouring countries. The scale and energy of the country's private sector, higher education institutions, media and churches, the size of Government, substantial development partner presence and the interest taken by external institutions meant that the obstacles and challenges to development would have been well analysed and solutions long aired and vigorously contested. In short, insights from the rest of the Pacific can only help to some extent, and most potential recommendations will not be new. The Team has therefore tried to focus on areas where there is direct experience to offer from the countries represented in the Peer Review, as well as those where follow-up in PNG can support positive change.

9. This report is structured into five parts; i) Introduction; ii) Background; iii) Findings on the four areas of Planning, Budgeting and Performance Management, Public Financial Management and Aid Management; iv) Recommendations; and v) Next Steps.

## Background

**10.** It is accepted that despite strong GDP growth over the last 12 years, PNG has not been able to translate increased national wealth into higher living standards for the majority of its citizens, particularly the 85% who live in rural areas. The O'Neill Government, which took office in August following national elections, has committed itself to competent, efficient and inclusive service delivery. The focus is on economic growth, transport infrastructure, free education and basic health services. The difficulties are enormous. By its own and regional assessments, PNG is unlikely to meet any of the international Millennium Development Goals. However, PNG is one of the few countries in the Pacific to have tailored the majority of the MDGs to suit their local context. Using PNG's localised MDGs targets and indicators, PNG is making some progress towards these targets to reduce the proportion of people living below the poverty line, and increasing commercial and subsistence agricultural production. It is also making small progress in enrolment rates and the literacy ratio as well as on their target to achieve gender equality in primary and lower secondary school levels and to reduce infant and under 5 mortality rates.

**11.** PNG has seen severe stresses in between governments over the past year, and the Prime Minister has recognised the need to restore confidence in political leadership, respect for the National Constitution and the rule of law, and the public service machinery, inclusive of State Owned Enterprises (SOEs). Successive development plans, including current ones, have set out ambitious visions for change; but institutions, systems and processes for delivery need to be reappraised, strengthened and streamlined. Frustration with slow progress has led to the creation of parallel systems and shortcuts, both within PNG structures and within development partner programs, under-cutting pathways for both mutual and domestic accountability and inclusive development.

**12.** There are many well-qualified Papua New Guineans in the public service and a number of institutions that have good leadership with that elusive attitude of wanting to improve. Many aspects of managing development in PNG though are complex and not amenable to technical improvement. Most analyses of systems in PNG conclude that the legislative and procedural frameworks are adequate to good but that there is a problem with practice and compliance. What the Prime Minister has referred to as "the endemic culture of corruption" has under-mined development gains in the past. The commitment to reduce corruption and to increase accountability among elected representatives and performance in the public service is welcome and fundamental to the achievement of development outcomes.

**13.** The ambition set out in the Development Strategic Plan 2010-2030 is that PNG should become a prosperous middle-income country by 2030. Part of this vision is a reduction in reliance on aid and, in particular, on technical assistance and the forging of economic relationships widely within the Asia-Pacific region. PNG is already a development partner on a modest scale, providing scholarships to students from the Solomon Islands. Aid grants have financed less than half of the development budget for some years. The proportion of Aid for 2012 is 68.7% from Government (including external loans), and 31.3% from development partners. However, for the present PNG relies heavily on development partners to support expenditure in health, HIV/AIDS, education and transport. PNG receives a quarter of all reported aid to the region. One development partner, Australia, is providing over three times as much in grants as all other development partners combined and a tenth of total public expenditure. This aid relationship, while crucial to PNG, is multi-faceted and requires concentrated management.



Left to right: Floyd Lala, Senior Aid Coordinator-UN, PNG Department of National Planning and Monitoring; Rick Woodham, New Zealand Aid Programme; Johnson Naviti, Head of the Aid Co-ordination and Negotiation Unit, Vanuatu Prime Minister's Office; Noumea Simi, Assistant CEO, Aid Co-ordination and Debt Management Division, Samoa Ministry of Finance; Honorable Charles Abel, PNG Minister for National Planning and Monitoring; Dr Peter Kora, PNG Secretary for the Department of National Planning; Charmina Saili, Regional Planning Adviser, PIFS; Mue Bentley, Former Communications Officer, PIFS; Reichert Thanda, First Assistant Secretary - Foreign Aid Division Department of National Planning & Monitoring. Back: John Winter, PIFS Peer Review Consultant.



Port Moresby Central Business District, view from across the bay

# Findings

## Planning

**14.** PNG has gone further than any other Pacific country so far peer reviewed under the Forum Compact in implementing a hierarchy of vision, development strategy, medium term national plan, sector and provincial plans and plans at lower levels of government:

- Vision 2050, prepared in 2009 by a special task force with inputs from distinguished academics and with widespread consultation, deals with the challenge of turning expected consistent higher growth in the future into inclusive development through land reform, investment in human resource capacity and opening up employment and self-employment to the majority of PNG's people. It calls for stronger leadership, reduced corruption and better public administration.
- The Development Strategic Plan 2010-2030 (DSP) prepared by the National Department of Planning and Monitoring is intended to be the first of two long-term plans for the period up to 2050. It lays the basis for strategic expenditure choices on key enablers of growth and social welfare. It assigns important roles to the Department of National Planning and Monitoring in sector planning, coordination and monitoring.
- The Medium Term Development Plan 2011-2015 (MTDP), the first of four for the DSP period, sets out sectoral targets and expenditure proposals across the full range of Government responsibility. Departments consulted during the Peer Review confirmed that they recognised the MTDP as the key statement which mapped out their delivery responsibilities for the period, and which largely summarised their own plans. The MTDP is unusual in the Pacific in that it is a five year budget, which is an appropriate prelude to multi-year budgeting and

perhaps provides guidance for potential multi-year aid funding allocations. This approach is considered a best practice and is encouraged across the Pacific Forum Island Countries.

- There is also a strong set of sector plans, summarised in the budget documents and, in some cases, elaborated in provincial sector plans, with some provinces having overall provincial plans. Planning at sub-national levels is mixed and still in progress.

**15.** Taken together, these plans represent a formidable investment of time and money. Aspects of the plans represent good practice. The plans were also home grown. Sector plans which have been the subject of thorough preparation have well developed costing and monitoring frameworks and form the basis for engagement with development partners. Choices have been made about priority areas. PNG has the structures, and may have the capacity, to keep this hierarchy of interlocking plans relevant to policies and budgets. Experiences with planning in the Pacific suggest that plans need maintenance; they need an institutional home; they need, in different degrees, to be monitored; and their ownership needs to be regularly renewed through strong central oversight and participatory review. The way in which planning is approached and understanding developed about how well plans are working depends on how the value of planning is understood at each level. It may be difficult though to roll out planning systems down to the lowest levels in a mechanistic way (in which each plan adds up at the next level). For example, planning at the lowest levels may be more about community mobilisation around a set of realistic and manageable number of activities rather than choosing large numbers of new activities, while plans at national level are more about inspiration, policy coherence, guiding budgets and monitoring results. There was insufficient time to pursue this topic



PNG primary school boys walking on the road

in depth, but it will be important to monitor over time which plans are being prepared and, if not, why not and what level of planning is deemed to be most useful.

**16.** Despite the acknowledgement in Vision 2050 and the DSP of the important contribution of the private sector and of the churches, the national plans are very strongly focused on results to be achieved through central government expenditure. This is valuable to drive budgets but obscures the role of civil society, the private sector and sub-national governments and issues such as improved accountability and performance at all levels. It also appears to undervalue the substantial role played by the churches in delivering health and education services throughout the country. Without a clear understanding of the context in which expenditure is to take place and of the internal changes and external relationships that need to be fostered to make the expenditure effective, there is a risk that the extensive and impressive set of plans will not drive change to the extent that they could.

**17.** The new Government has set out its 18 month and longer term plans in its Platform for Action. These reaffirm the broad directions of existing national plans, and include proposals for improving systems and performance, as well as recognising the role of other contributors. This is a welcome step in accepting accountability and recognising the complexity of implementing national priorities. Experience elsewhere in the Pacific has been that the implementation of service delivery needs to be accompanied by equal attention to systems and processes for effective and transparent resource use and to build appropriate skills in the public service.

**18.** The tone of the national plans and of current political commitment is strongly focussed on the need to make up for lost time. This leads to a search for faster and less complex ways of doing business. The balance between immediate, visible service delivery and rules-based institutions and the need to make them sustainable and accountable is ultimately a matter for political judgement; however, in the PNG context impatience with existing systems and the “roadblocks” they cause is creating a lack of respect for the systems and a push for alternatives which are not always in the long term interests of efficient resource use. The use of parallel procurement procedures inconsistent with legislation by some Departments and development partners is only one example. Other examples mentioned in the 2012 budget include ad hoc housing arrangements for public servants and inappropriate hiring of consultants.

**19.** The drive for improved service delivery is leading to renewed interest for the new Government on pushing the responsibility for finance to lower levels of government, while raising the role of national government to “monitoring, supporting and guiding.” This was seen as being partly a reaction to empire building by national agencies, overall dissatisfaction with the poor results of development efforts and the misuse of development resources over the past decades. As noted above, PNG systems already place a high degree of responsibility for services on provincial and local level governments. The Team understands that the budget will

see this theme further developed. It is beyond the Team’s terms of reference to comment on appropriate levels of responsibility for sub-national governments in PNG. However, the following points are relevant to the overall issues of effective resource use:

- The emergence of the district as a key unit of development is a logical response to the extreme difficulty of providing services in rural areas which are often on the end of a long administrative chain. However, if it is driven by impatience with existing systems rather than a consensual re-structuring of local government responsibilities, it risks becoming another shortcut. The Team heard that “the provinces are not performing,” but equally there is evidence that where discretion on expenditure is exercised at the district level under the District Services Improvement Program (DSIP), it is not always done in accordance with implementation rules or a district plan, making the monitoring of expenditure inadequate. The district MP (the open member) chairs the Joint District Budgeting and Priorities Committee and in practice exercises a good deal of influence on the way the money is spent. This transformation from elected representative to development manager risks blurring the distinction between politics and the public service, however dedicated the member is.
- The Team was unable to pursue in any depth the question of economies of scale or other efficiencies affecting the level at which expenditure decisions were taken or to pursue the implications of greater devolution for other aspects of national policy, including the creation of economic corridors. On the face of it however, as an example there should be efficiencies from managing transport infrastructure at the provincial rather than the district level.

**20.** Experience from Vanuatu and Solomon Islands, which have provincial governments, is that debate between the national and sub-national levels about devolved responsibility needs to be accompanied by an objective look at the capacity of sub-national governments to implement activities competently and transparently. The Finance Department has staff in all of the 89 districts to support financial management at the district level. Until recently, the Department of National Planning and Monitoring had staff at the provincial level to support planning and monitoring. Given the acknowledged capacity issues at the provincial, district and local governance levels, seconding staff from the national level – and better performing provinces – to build capacity in less effective provinces, could be considered to help improve institutions and systems in all PNG provinces to improve service delivery.

**21.** In the case for Vanuatu, capacity issue is also a key constraint in the delivery of development programmes and services. The level of capacity at the provincial level is not up to par with the national level resulting in a mismatch in the way programs and activities are implemented. Resources at the provincial level are not adequate to ensure effective delivery and implementation

of policy priorities. This, coupled with other factors, has resulted in CSOs becoming more visible and favoured by government and development partners in the implementation of community projects and programs.

**22.** In accordance with its terms of reference, the Team looked at the involvement of civil society in the planning and reviewing of implementation. In the Consultative Implementation and Monitoring Council (CIMC) PNG has one of the best-developed mechanisms in the Pacific for structured consultation with civil society and the private sector\*. Consultation over national plans was acknowledged. Nevertheless, like elsewhere in the Pacific, the Team found that the private sector and civil society had reservations about the quality of the dialogue and their involvement in annual planning and budgeting processes. For the churches and civil society, this was particularly felt at provincial level.

**23.** Through co-financing arrangements with Government, the churches provide over 40% of health and education services throughout the country. However, the partnership is perceived by the churches to be operational rather than strategic. Church representatives in the provinces felt that they were providing complementary services but that their role was taken for granted and that they had little opportunity for dialogue on the policies under which those services were provided. They did not feel that there was a structure for genuinely collaborative planning around important questions such as reaching unreached communities.

**24.** Civil society has a potentially important role in community mobilisation. Localised NGOs, which have grown up around resource extraction issues or which have successfully tapped into provincial

or district identity, can help communities collaborate with lower level governments to match their own efforts with available public finance. The limited consultations in the two provinces suggested that this was not yet happening on a significant scale.

**\*The Consultative Implementation and Monitoring Council (CIMC)**

The Consultative Implementation and Monitoring Council was established by an Act of Parliament after the National Economic Summit of February 1998. The private sector and civil society representatives who attended the Summit called for a consultative mechanism to be put in place so that recommendations made by the community would be followed up within government circles and implemented through law and policy. The goal of the CIMC is to ensure that dialogue, through on-going consultation processes, is sustained between government, private sector and the community at large and that recommendations made to government are implemented. The Council runs a number of sectoral committees. One of these, the Family and Sexual Violence Action Committee, has become an active provider of services to women and families and is a strong advocate for changes in law and practice. Regional forums are held in each of the four regions annually, culminating in a national forum around a specific theme. Where Ministers have been supportive, the mechanism has shown potential for progressive outcomes. The new Government is taking steps to reinvigorate the Council, including holding the first meeting of the full Council since 2008. A test of the Government's commitment will be a provision in the forthcoming budget and the timely release of funds. In recent years Australia has provided half the operating expenses but it intends to concentrate support in the future on CIMC's social rather than economic programs.

Source: CIMC website and consultation with Peer Review Team



Downtown Port Moresby, PNG





Young PNG girl primary school student in class. Port Moresby, PNG

### **Budgets and performance management**

**25.** As would be expected from a country of its size, PNG's budget cycle is better developed than that of most Pacific island countries. It is based on a Medium Term Fiscal Strategy, which has recently been revised for the next four years and comes with plans to disseminate information throughout the country to help manage expectations about forthcoming flows from resource projects. There is an orderly and timely budget process, based on clear forward plans and budget ceilings. The budget itself comes with extensive supporting documentation to explain its implications and links to policy. Information in the budget on the operations of SOEs and trust funds is improving. Budget bids from national departments and provinces are subject to screening arrangements at both official and Ministerial level, which challenges budget holders on previous performance and alignment with national priorities. The Departments of Treasury and Finance review national and provincial expenditures quarterly. A number of sectors have medium term expenditure frameworks, which should form a basis for multi-year budgeting in the near future, if current plans are pursued.

**26.** PNG budgets regularly analyse expenditure on national plan priorities. The 2012 budget recorded an increase of 31% in allocations for the key "enabling" sectors of education, health, law and justice and transport infrastructure, resulting in these sectors taking a higher proportion of the budget than in 2011. The political commitment to provide tuition-free education was reflected in a higher provision for education.

**27.** The budget also provided for a 22% increase in functional grants to provinces. These are linked to a set of Minimum Priority Areas for service delivery designed to translate national policy into local expenditure. The allocations are based on equalisation principles developed by the National Economic and Fiscal Commission (NEFC). Figures published by the NEFC show that, although the grants have been increasing, they have not yet reached a level where all provinces have enough resources to cover their minimum service obligations.

**28.** The Government is moving to improve its treatment of resource revenues, which cannot be spent in a single year. Budget surpluses in recent years have led to extensive "parking" of money in trust funds, which continue to fund expenditure for specific purposes outside of budget channels. In the future the proposed Sovereign Wealth Fund will absorb windfall revenues and provide a mechanism for them to be spent through the budget.

**29.** Grant funding from the eight significant development partners is estimated in advance and recorded as revenue. The expenditure is appropriated through the Public Investment Program (PIP), where each item has its source of funding recorded (PNG Government or a specified development partner). Only funded activities are included. This arrangement represents greater integration of aid in the budget than is seen in some Pacific countries. However, it stops short of full alignment and predictability.

In the 2011 Paris monitoring survey, the amount of aid recorded in the budget was 86% of the aid recorded by development partners as having been disbursed in total for the country, and yet it was 143% of the aid recorded as having been disbursed by the government sector. This suggests that there is a lot of aid which is not for government, and which could not be expected to be on budget but which should still be recorded for information in budget documents. It also suggests that there are shortfalls in disbursement.

**30.** The split between the recurrent and development budget remains under consideration within the Government. The recurrent budget is prepared by the Department of Treasury while the PIP, which makes up the development budget, is handled by NDPM. This division reflected an earlier dominance in the plan of projects requiring investment appraisal and the fact that aid provided most of the money. The budget deals with the split by including tables showing total recurrent and development expenditure by department; and there is strong emphasis in the budget documents on the need for close alignment between the recurrent and development budgets and expenditure from trust funds. However, although departments and provinces are, in theory, responsible for



Waterfall just outside Port Moresby



providing maintenance for capital expenditure, the assurances of sustainability for individual items in the development budget lack detail.

**31.** With an increasing emphasis on results within sector programs in PNG, there is greater recognition that recurrent and investment funds need to be combined flexibly to achieve targets (some development partner funding in the development budget could be considered recurrent expenditure). For this reason, other Pacific island countries such as Samoa prefer a single accountability relationship between spending departments and the Ministry of Finance based on an integrated recurrent and development budget. These developments were a result of budgetary process reforms under the Public Finance Management Reform program.

**32.** The Team noted the difficulty of managing fragmented budgets at district level, where a variety of grants (including the DSIP) are directed from national agencies and development partners and received at different times. It is also clear from figures regularly published by the NEFC that there are systemic problems with the release of funds for sub-national levels. Six provinces received less than two thirds of their annual allocation for functional grants by the end of the third quarter, a point at which it is unlikely that any more could be effectively spent within the financial year, and none of the provinces received more than 74% of their allocation

**33.** In general, discussions with the Peer Review Team on monitoring of development plans were centred on financial monitoring. As noted above, this is relatively well developed. Outcome monitoring is also relatively well developed, at least in the four priority service delivery sectors at the national level with long-standing sectoral monitoring arrangements. Development partners, who are supporting program-based approaches, also rely on this monitoring as part of their own arrangements. Arrangements at the national strategic and medium term plan levels are less well developed. Monitoring of the last Medium Term Development Strategy 2006-2010 (MTDS) is generally accepted to have been weak, and lessons, particularly the importance of concrete indicators, have been carried forward into the MTDP 2011-2015. Each of the three levels of national development planning has targets/indicators and provides for regular monitoring, although there is no unified monitoring and reporting framework set out for doing so.

**34.** The challenge for monitoring is not a lack of information. PNG maintains stocks of information that would be well beyond the capacity of most Pacific island countries. While there may be inconsistencies within and between these sets, they still represent a rich source of data for performance reporting. The missing element has been drawing the data together into a form that is useful for policy makers at all levels of government.

**35.** There are already elements of accountability, which build on reporting and analysis within PNG systems. The Team has noted:

- Strong government interest in MDG data, and tracking of outcomes against localised targets;
- Annual sector reports;
- The enforcement of the requirement for provinces to report annually on financial and physical data (S119 reports);
- Financial performance assessment of provinces by the National Economic and Fiscal Commission; and

- The establishment of District Information Systems under the guidance of the Department for Implementation and Rural Development.

**36.** The Government is presently considering arrangements for monitoring the implementation of the MTDP 2011-2015. This responsibility currently rests with DNPM, although the Platform for Action suggests that it may be moved elsewhere. The targets and indicators in the MTDP cover a range of activity and outcome levels, reflecting the different stages of development planning frameworks among Departments. The intention is for the MTDP to be measured at input to output and output to outcome levels; however, the list of monitoring activities assigned to DNPM is heavily focused on the former. This may be a legacy from the role of project monitoring which DNPM has traditionally carried out. However, it would be more consistent with the Minister's vision of central agencies taking a strategic role for monitoring, wherever it is located, to concentrate on the output to outcome level rather than replacing or replicating activity monitoring, which is a function of departments or implementing agencies.

**37.** Experiences in the Pacific have shown that there is no perfect monitoring and evaluation framework for a national plan. The countries which are the most advanced on this front are those who have identified a clear point of responsibility for monitoring and who provide adequate resources to make a start on reporting using available sources of information, and refining as they go. Frameworks which have been put together largely by external consultants have been less successful. In Samoa and Vanuatu, the key elements in getting annual outcome reporting off the ground have been:

- Identifying clear responsibility for monitoring the national plan and provision of dedicated resources;
- Respecting and drawing on the existing roles and institutional capacities of agencies such as the Statistics Departments, and the monitoring functions of line agencies;
- Building a network of staff in line departments with an interest and responsibility for monitoring results; and
- A distinctive and strategic annual national report/product aimed at policy/decision makers.

Vanuatu's and Samoa's experiences are summarised below:

### The Vanuatu and Samoa National M&E policies

#### Vanuatu:

The policy recognises that there are already organisations monitoring development outcomes and impacts. The Reserve Bank monitors monetary and external sector developments and makes recommendations to government based on an evaluation of trends. The National Statistics Office produces data, which allows monitoring of economic and social trends. The Ministry of Finance and Economic Management monitors budget outturns and uses that information to better manage the budget. Many aid projects have monitoring indicators built in during the design stage of the project. Based on the role assigned to the M&E unit, the scope for monitoring and evaluation covers the development plans and policies of the government. Government's plans and policies cover not only the Priority Action Agenda

(PAA) and Planning Long Acting Short (PLAS), but also decisions by the Council of Ministers (COM). The annual budget funds programmes and projects to implement government’s plans and policies, including COM decisions. The Annual Development Report (ADR) is an annual series of reporting. It provides an annual assessment on progress made on the implementation of national development priorities within Government’s seven broad policy objectives. The report informs the Cabinet and Parliament on the progress, challenges and development outcomes.

**Samoa:**

The Economic Planning and Policy Division of the Ministry of Finance is responsible for the monitoring of the national development strategy through the ME framework and reports on this to Cabinet on a quarterly basis. This process is validated and complemented by lead sector ministries through sector plan monitoring on a quarterly basis, given the consistency of high level performance indicators. Annual sector reviews form the basis of annual reports, which are then presented to Parliament on the implementation of the sector plans linked to the National Development Strategy. All line ministries are required by law to work with the Samoa Bureau of Statistics on the validation of any data generated.

Source: Governments of Vanuatu and Samoa

**38.** The provincial visits underlined the well-recognised difference in performance between provinces. The reasons for these are deeply ingrained. However, for whichever monitoring system is put in place, the Team recognised the essential role of highlighting differences in performance across the country and putting the information in the hands of elected representatives and key government agencies.

**The Peer Review Team recommends:**

- **Recommendation 1:**  
That PNG clarify the mandate and resourcing of a unit to provide an annual report on MTDP 2011-2015 implementation, concentrating on the evidence of outcomes.
- **Recommendation 2:**  
That a timetable be set for producing the first annual report in 2013 based on 2012 data.
- **Recommendation 3:**  
That the monitoring unit share experiences with their counterparts in Samoa and Vanuatu.
- **Recommendation 4:**  
That annual reporting contain an element of comparative performance reporting across provinces.

**39.** The Government of PNG, with the support of AusAID, ADB and the World Bank, have collectively undertaken key initiatives to improve public financial management systems under the Public Expenditure Review and Rationalisation Programme (PERR), the Financial Management Improvement Programme (FMIP) and the revised PERR - the Framework for Improving Fiscal Management in PNG 2010. The PERR aimed to improve fiscal sustainability, financial management systems, build capacity for macro framework analysis and better manage fiscal aggregates and in-year monitoring. A Department of Treasury-chaired PERR Implementation Committee, consisting of central agencies, was to provide oversight of the PERR programme. A separate FMIP Steering Committee chaired by the Secretary of Finance was to provide oversight for the implementation of the FMIP. The FMIP programme has been institutionalised and is now a separate Division within the Department of Finance.



**PNG mother and children walking home after church.**

40. Successive government and development partner joint reviews of the PERR in 2007 and 2008 noted some progress in strengthening public financial management systems, especially in attaining budget stability and improving budget processes. The reviews also highlighted that multiple initiatives supported under the PERR had been too comprehensive, too ambitious and difficult to manage simultaneously. It also highlighted that the context of public financial management had changed since 2003 and that by and large overall public financial efforts had stalled in 2007 and 2008.

41. In its on-going efforts to strengthen its public financial management systems, the Government of PNG had undertaken two Public Expenditure and Financial Accountability Assessments (PEFA) in 2005 and in 2008/2009. The 2009 PEFA report noted slight improvements. PNG's PEFA scores since 2005 highlighted that PNG has sound legislative frameworks for managing its public finances which include the Fiscal Responsibility Act 2006 that requires the preparation of Mid-year Economic and Fiscal Outlook Reports and Final Budget Outcomes for the preceding fiscal year. Overall, progress was rated as good but uneven. Good progress was made on budget planning and preparation, strategic allocation of resources and instilling aggregate fiscal discipline. But limited progress was made on improving budget execution and efficiency of service delivery.

42. In 2009 and early 2010, learning from past experiences, the Government of PNG and its major partners in public financial management reforms – AusAID, ADB and the World Bank – collectively agreed on a new way forward through a Framework for Improving Fiscal Management in PNG. The Framework provided a prioritised list with a phased schedule of strategic initiatives within three broad themes (Managing Volatility, Strengthening Service Delivery, and Reinforcing the Integrity of Budget Systems and Processes) and ten action areas in keeping with PNG's existing public financial management capacity.

43. The Peer Review Team were not able to meet with relevant Central Agencies Coordinating Committee members nor the Treasury and Finance Officials that could have provided an update on the progress of the proposed Framework for Improving Fiscal Management and overall PNG public financial management reforms since 2010. Meetings with key officials in other central and line departments and with development partners indicated that there has not been much "strategic" and coordinated movement in this area since the exchange of letters between the Government of PNG and its three key development partners regarding revitalising efforts in strengthening public financial management in early 2010.

44. The Peer Review noted the following: i) A Financial Management Improvement Programme (FMIP) within the Department of Treasury is focusing on reviewing the 1995 Public Financial Management Act and revising the Chart of Accounts; and

ii) a sophisticated Integrated Financial Management Information System (IFMIS) has been installed to link the previously stand alone accounting and financial management systems and roll out to the provincial level. While it will take time and considerable resources to roll out fully to all line departments and provinces, the IFMIS could significantly improve the effectiveness and efficiency of the use of public funds if successfully rolled out and used effectively for financial accountability and performance management.

45. The commitment to undertake PFM reforms is apparent, however while systems and legislations are in place, it is the human resource and institutional capacity to ensure functioning and adherence to these systems that is lacking. Views have been expressed views that the PERR Implementing Committee's membership should expand to include all key service delivery departments and agencies to more effectively implement public financial management reforms across government and that the CACC and NEC could strengthen their oversight role in monitoring and directing efforts in public financial management.

46. The Review Team welcomes the work being done to update legislation, in particular the PFM Act, to improve financial information systems and it acknowledges the willingness of the development partners to continue to support the PNG Government in its public financial management reform efforts.

47. As noted in past PFM reports, including the PEFA 2008 report, the Government of PNG's ability to meet its PFM reform objectives must be underpinned by (i) Government leadership and ownership of the reforms, (ii) coordinated and appropriately sequenced reforms, and (iii) capacities to implement and sustain these reforms.

**The Peer Review recommends:**

- **Recommendation 5:**  
That the PNG government gives priority to progressing their agreed Framework for Improving Fiscal Management with the support of their development partners as well follow-up to the 2010 national procurement review.
- **Recommendation 6:**  
That the Government of PNG considers the most appropriate institutional arrangements to strengthen PFM implementation across government departments.
- **Recommendation 7:**  
That the CACC considers taking a more proactive role in progressing Public Financial Management reforms. It should provide an overall supervisory oversight of the implementation program through biannual reports from the Department of Finance and PERRIC on proposed key targets and outcomes of the PFM reform agenda as well as annual reviews, which should also involve key development partners and representatives of key stakeholders outside the government.



Orchids at the Port Moresby Botanical Gardens

## Aid Management

**48.** The 2008 PNG Commitment on Aid Effectiveness (PNGCAE) was a major step forward in developing a collective agreement between PNG and its development partners on steps to improve the effectiveness of aid delivery in PNG. It reflected a desire on both sides to cut transaction costs and use aid more in line with PNG's needs and systems. However, the lack of follow-up to the commitment, and concentration on other priorities within DNPM, has led to a loss of momentum in PNG's leadership of the aid management agenda.

**49.** PNG's relationships with its development partners are exercised through a variety of mechanisms, including the formal relationship with the Aid Management Division of DNPM and sectoral coordination discussions. Most development partners have annual aid discussions with PNG. AusAID has direct relationships with a number of provinces through its provincial representatives.

**50.** All development partners consulted were able to demonstrate a degree of alignment to the MTDP. Unsurprisingly, the strongest alignments, both in terms of areas of focus and aid delivery mechanisms, were in health, education, transport and law and justice sectors where there was a history of collaboration around what appeared to be well-developed and nationally-owned sector plans.

**51.** Because of its size and historical connections, the relationship with Australia is particularly important to PNG. The 2010 review of the Development Cooperation Treaty was a step forward in clearing concerns on both sides about the way that the Australian aid program had been operating, and reinforcing trends towards greater sectoral focus, reducing the use of advisers and providing more support for sub-national levels of service delivery. The annual partnership talks which took place while the Peer Review Team was in-country demonstrated that operational relationships were good and that the Partnership for Development provided both a structure for dialogue based on results and a clarification of what Australia does and does not do. On greater scale than other development partners, Australia faces the challenge of balancing the filling of gaps for immediate results with the long-term building of national systems. For example, Australia's decision at the invitation of the National Department of Health to directly manage national drug procurement, thus bypassing national systems, is accompanied by a long-term plan for rebuilding drug procurement capacity. However, this is not understood, accepted by or clearly defined for a number of officials consulted by the Review Team.

**52.** The inability of the Department of Finance to confirm which government agency was responsible for public finance management reforms, despite the existence of a PFM reform



PNG children playing in the East New Britain Province, PNG



program, most probably would have been the trigger that prompted Australia to directly execute procurement. Lost opportunities for capacity building in specialist areas such as procurement – as in this instance – should be avoided in the future.

**53.** Similarly, the large number of Australian-funded advisers often reflects the desire of senior officials to have somebody to get the job done while public administration reform continues. Nevertheless, despite the significant reduction in numbers over the last three years, and the high proportion (40%) of the remainder who are now Papua New Guineans, there were recurring references to the large number of “Australians” in the public service (although some officials believe the cut was too rapid). Australia may always have to live with some element of criticism, but the need to make a greater effort to explain itself are illustrated by:

- the insistence that 50% of all aid is technical assistance (with its implicit criticism of Australia) in the MTDP and by some senior officials with the Review Team;
- continued reference to Australia delivering aid through managing contractors (see for example the country report for the Paris monitoring survey), which suggests that PNG officials still perceive a large contractor presence and have not accepted the Australian view that aid is now being delivered through much closer policy engagement directly with GoPNG departments under the Partnership.

**54.** According to successive Paris monitoring surveys, the degree of use of national systems crept up between 2007 and 2010 (from 16% to 23% for the average of financial systems and from 21% to 30% for procurement) but is still low (the equivalent figures for Samoa are 62% and 55%). The Government recognises that there is a lack of trust among development partners in national financial management systems. There appears to be a strong feeling – at least among agencies who administer those systems – that more could be done to negotiate greater use of them by development partners. But there is no overall dialogue on what changes would be desirable in the use of national systems or what steps there are to get there.

**55.** The fundamental difficulty is the current lack of a mechanism for consistent PNG leadership over aid modalities, allocations and practices. Despite the early agreement between Government and development partners on aid effectiveness targets, including protocols for technical assistance and mission management, the PNGCAE has remained unmonitored and there is no agreement on priorities for implementing it. The use of national systems and routine recourse to parallel arrangements (including project implementation units) is low. There are also unresolved tensions between development partners and the Government of PNG on issues such as: whether aid to the country can be shown to be effective; the numbers and role of technical advisers; and the reporting of aid expenditure. Moreover, the Team gained a strong



sense that aid management policy was being developed by custom and practice between the Government of PNG departments and development partners in different ways across the main sectors, with little guidance from the centre. This observation was in regards to agreements on the mix of aid, appropriate technical interventions and institutional co-ordination and monitoring mechanisms. This is not a bad thing if it means that pragmatic responses to sector needs were being put in place. If this was the case, it could also mean that an opportunity was being missed to draw together good practice across government, as well as to develop political guidance from the new Government about its vision for the role of aid, and to assert PNG's preferences in a consistent way. In other Pacific island countries, which have well-developed aid management systems, this gap is being filled by an aid policy that goes beyond the mechanics of aid effectiveness (see box below).

**56.** Development partners would welcome the renewal of PNG-led collective dialogue. There are plans for renewed consultation on the PNGCAE at the official level (work is underway on updating it) and with the Minister for National Planning in the next few weeks. This dialogue needs to be broad based. For PNG, improving aid management means closer integration with:

- Support given by the central agencies for the way that sector plans and programs are structured (because there is value in greater sectoral coordination aimed at results set out in the MTDP, and development partners can also be persuaded to work in ways that better facilitate the development of sector approaches);
- Public financial management reform (because a discussion can be shaped on greater use of PNG systems around a reform agenda);
- National monitoring functions (because national monitoring encourages development partners to rely on national result information to inform their own monitoring and evaluation, and because it helps identify gaps in performance, which may be due to ineffective aid programs or to insufficient development partner attention);
- Provincial implementation and performance monitoring (because development partner engagement with provinces should be a part of Government's policy for enhancing capacity at sub-national level). NDPM had regional offices until recently, but these were abolished as a cost saving measure. Whatever system is used, structured contacts between NDPM and the provinces – in consultation with the Department of Local Government Affairs – remain essential for tracking progress and linking support to provinces in a systematic and standardised way for development funding;
- Human resource development policy (because decisions to ask for or accept technical assistance should be linked to an overall policy of capacity development in the public service through a full range of capacity building approaches, recognising the need for engagement but not becoming over reliant on advisers – foreign or local – filling line positions). One challenge is the fact that development partners can find talented Papua New Guineans, often within the public service, to work on their programs and as advisers but Government cannot seem to attract or retain them.

**57.** Successful aid management functions need to be well coordinated across Government and help integrate aid into national development activities (not just "align" or track them). Activities such as aid databases risk treating the tracking of aid as an end in itself, and the renewal of the Development Assistance Database (DAD), referred to several times in discussions with the Team, needs to be carefully reviewed to determine its added value in a strategic dialogue with partners. The Team noted that a recent completion report on New Zealand's contribution to the last DAD had raised questions over the management of the DAD and its usefulness to government or to development partners.

**58.** In Samoa, aid is managed within the Ministry of Finance through the Aid Coordination Debt Management division with direct links to planning and budgeting. This makes it easier to manage aid as part of the whole planning, resource allocation, expenditure and monitoring cycle. In Vanuatu, aid is managed by the Prime Minister's Office, which also deals with national and sector planning guidance and monitoring. Samoa has set out how it intends to use aid in a short aid policy (see box), which goes beyond the localisation of Paris principles. Discussions with development partners about how Samoa expects national systems to be used are linked to dialogue about Samoa's own public financial management reforms, which are closely monitored and reported to government and development partners on an annual basis. The discussions are firmly country-led so that they can be open and build trust without infringing on Samoa's national sovereignty.

**Partners in Development: Promoting Aid Effectiveness – the Samoa Development Coordination Policy**

This policy, completed in December 2010, lays out the ground rules for managing aid within the Government of Samoa and by development partners. It specifies the focal point and decision-making structures within government, and the roles and responsibilities of each part of the structure. It sets out expectations for development partners in the areas of alignment and respect for government priorities. The policy moves away from projects, the use of national financial and implementation systems, predictability and transparency, and the management of missions.

The policy commits the government to instituting performance monitoring, improving systems and procedures within the public service, and managing and open and collective dialogue with development partners over policy issues and resource frameworks. It also recognises the role of civil society and the private sector in the planning and implementation of national policy. The recent review of this policy gives recognition to the important role of parliamentarians in inclusive development.

The policy states that the government's preferred mode of aid delivery is budget support, and describes the institutional strengthening that Samoa will undertake to ensure that development partners who provide budget support can have confidence in national systems. The review also led to the development of a Joint Policy framework, which consulted widely with all development partners, and is the basis for the provision of budget support and is linked to PFM and governance reforms.

The policy concludes with a statement of action that will be undertaken within central agencies and line ministries to implement the policy and to review progress jointly with development partners.

Source: Government of Samoa <http://www.mof.gov.ws/Portals/195/Services/Aid/20Coordination/Development/20Cooperation/20Policy.pdf>

**The Peer Review Team recommends:**

- Recommendation 7:**  
 That a sustained and formalised mechanism for collective dialogue between PNG and development partners be revived as soon as possible, and that the Government of PNG demonstrates leadership and ownership of development coordination;
- Recommendation 8:**  
 That, in preparing and sustaining the dialogue, the Government ensure that the aid management function is adequately staffed and has the capacity to maintain engagement with development partners and GoPNG agencies over strategic issues such as sector management, public financial management reform and managing for results;
- Recommendation 9:**  
 That the Government consider developing and publishing an aid policy which sets out the principles of engagement with development partners and the scope and frequency of the dialogue recommended above;
- Recommendation 10:**  
 That development partners actively provide feedback to the proposed aid policy, including the establishment of a shared agenda with GoPNG for the dialogue process and negotiating agreed rules of engagement, which include the use of an incentive approach to reforms;
- Recommendation 11:**  
 That development partners, in connection with the proposed aid policy, negotiate an agreed framework for both mutual and domestic accountability.



**PNG woman watering her vegetable garden, Port Moresby**

## Recommendations

- **Recommendation 1:**  
That PNG clarify the mandate and resourcing of a unit to provide an annual report on the MTDP implementation, concentrating on the evidence of outcomes;
- **Recommendation 2:**  
That a timetable be set for producing the first Annual Report in 2013 based on 2012 data;
- **Recommendation 3:**  
That the monitoring unit discusses their experiences on national and sectoral monitoring with their counterparts in Samoa and Vanuatu;
- **Recommendation 4:**  
That annual reporting to Parliament contains an element of comparative performance reporting across the provinces;
- **Recommendation 5:**  
That the PNG government gives priority to progressing their agreed Framework for Improving Fiscal Management with the support of their development partners as well as a follow-up to the 2010 national procurement review;
- **Recommendation 6:**  
That the Government of PNG considers the most appropriate institutional arrangements to strengthen PFM implementation across government;
- **Recommendation 7:**  
That the CACC considers taking a more proactive role in progressing Public Financial Management reforms. It should provide an overall supervisory oversight of the implementation program through bi-annual reports from the Department of Finance and PERRIC on proposed key targets and outcomes of the PFM reform agenda as well as annual reviews, which should also involve key development partners and representatives of key stakeholders outside the government;
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That a sustained and formalised mechanism for collective dialogue between PNG and its development partners be revived as soon as possible, and that the PNG Government demonstrates leadership and ownership of development coordination;
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That, in preparing and sustaining the dialogue, the Government ensure that the aid management function is adequately staffed and has the capacity to maintain engagement with development partners and PNG Government agencies on strategic issues such as sector management, public financial management reform and managing for results;
- **Recommendation 10:**  
That the Government consider developing and publishing an aid policy, which sets out the principles of engagement with development partners and the scope and frequency of the dialogue recommended above;
- **Recommendation 11:**  
That development partners actively engage in providing feedback to the proposed aid policy. This includes setting a shared agenda with GoPNG for the dialogue process and negotiating agreed rules of engagement including the use of an incentive approach to reforms.
- **Recommendation 12:**  
That development partners, in connection with the proposed aid policy, negotiate an agreed framework for both mutual and domestic accountability.



Young PNG boy playing in Port Moresby with friends



PNG peacock bird, National Capital Botanical Garden, Port Moresby, PNG

## Next Steps

59. It is for the Government of PNG to determine which of the recommendations it wants to take forward with the support of its development partners. If the Government agrees, there should be a follow-up visit or discussion by PIFS to PNG to discuss concrete work plans, actions and resource framework and the division of labour for implementing the recommendations of the Peer Review Report. This visit is proposed to happen within six to twelve months after the completion of the Peer Review in-country to consider progress and further discuss additional support required. Key in-country development partners can consider supporting the implementation of the Peer Review recommendations in addition to other government-identified development coordination priorities.
60. It is proposed that a simple Monitoring and Evaluation Framework and indicators be agreed between Government, development partners and PIFS, which will be developed and used to track the implementation of the Peer Review Recommendations (recommendations to the Government, Development partners and PIFS).



Young boys at home in Port Moresby city, PNG



Local food market, Rabaul, East New Britain, PNG



## Annex 1: PNG Peer Review TOR

### 1.0 Purpose

This note sets out draft Terms of Reference for a peer review of the PNG's national development planning and related processes under the Forum/Cairns Compact on Strengthening Development Coordination in the Pacific.

These draft Terms of Reference draw on a concept note on the peer review process that was circulated by the Pacific Islands Forum Secretariat (PIFS) on 20 October 2009 and discussed at a regional workshop on 26-28 November 2009.

### 2.0 Background

Through the Forum Compact, Forum Leaders agreed in August 2009 that the Pacific Islands Forum Secretariat (PIFS) should establish and report annually to the Leaders and the Post Forum Dialogue on a process of regular peer review of Forum Island Countries' (FICs') national development plans to:

- a. promote international best practice in key sectors,
- b. improve effective budget allocation processes; and
- c. guide support from development partners.

Peer reviews are an opportunity for mutual learning between FICs on the one hand and their peers in other FICs and development partners (donors) on the other about how best to address development challenges.

The peer review process is intended to contribute to reinforcing country leadership over the establishment of national priorities, and enhance the capacity of countries to guide the use of development resources – both government and development partner funded resources.

### 3.0 Issues for review

The Peer Review process will consider the following issues in line with globally (Paris, Accra) and regionally (Pacific Principles of Aid Effectiveness) accepted principles for development effectiveness:

Ownership: Pacific Aid Effectiveness Principles 1, 3

- Processes for preparing and reviewing well developed and costed national and sectoral development plans/strategies
- Links between the national and sector development plan/strategies and budgets Alignment: Pacific Aid Effectiveness Principles, 2,5,6
- Alignment of development partners plans/programmes and funding to the national and sector development plans/strategies and national/sector budgets and financial management systems

Harmonisation: Pacific Aid Effectiveness Principle 4

- Harmonisation of and amongst development partners' development assistance, programming, monitoring processes to reduce transaction costs on government systems and resources Managing for Results: Pacific Aid Effectiveness Principle 7
- Mechanisms, processes and frameworks for monitoring the implementation of the national development plans/strategies focused on results and outcomes.

Mutual Accountability: Pacific Aid Effectiveness Principle 7

- Mechanisms, processes and systems for collective (government and development partners) assessment, monitoring and review of development programmes/resources to improve the effectiveness of development assistance.

Following are the detailed considerations for the Peer Review:

Ownership:

- Processes for preparing and reviewing national and sector development plans, including: - whether the national and sector plans define a clear set of development results and set realistic timeframes for achieving these
  - how domestic stakeholders are consulted in the preparation and review of national and sector plans

- the extent to which the Government has communicated national and sector plans within Government and to other domestic stakeholders
- the extent to which the Government has established and implemented an effective review process for national and sector plans
- how evidence (including statistics) was used to develop national and sector plans, set budgets and monitor progress.
- Links between the national plan, sector plans and budgets, including:
  - the extent to which the plans included above are supported by realistic and appropriately costed annual budgets and sector plans
  - whether the processes for developing and reviewing national plans, sector plans and annual budgets are integrated with each other

#### Alignment and Harmonisation

- Relationship of development partners to national and sector development plans, including
  - the extent to which development partners align their assistance to the priorities articulated in national and sector plans in a coordinated manner
  - the extent to which development partners harmonise among themselves to ensure coherent and collective assistance to the government. Eg. joint missions, joint assessments, joint country strategies, joint programmes.
  - the adequacy of national and sector plans to provide clear guidance to development partners on how aid can complement national resources
  - the extent to which development partners deploy aid resources through national (government and other domestic stakeholder) systems.

#### Managing for Results and Mutual Accountability

- Monitoring the implementation of national and sector development plans, including
- Processes and frameworks for tracking and reporting progress against outcomes in national and sector plans, and for drawing policy conclusions from progress reporting.

### 3.0 Outputs

The key output from the peer review process will be a report prepared by the review team and agreed by the Government that will summarise the available evidence, based on existing documents and in-country consultations, to draw conclusions on the above issues as the basis for:

- Recommendations to the Government on how it can improve:
  - processes for preparing and reviewing its national and sector plans, including consultation mechanisms with domestic stakeholders
  - processes for linking these plans to the annual budget
  - coordination of development partners assistance, including by providing appropriate guidance through national and sector plans
  - budget allocation and monitoring systems
- Recommendations for development partners on how they can improve:
  - processes for aligning their assistance to the priorities articulated in the national and sector plans
  - processes for coordinating assistance between development partners
  - efforts to support and strengthen Government monitoring and implementation systems.
- Broader lessons on the above issues for other FICs and development partners to consider through the Post Forum Dialogue and other regional meetings.

### 4.0 Peer Review Team

The review team will consist of one representative each from Samoa, Ms Noumea Simi, Vanuatu, Mr Johnson Naviti and one representative from a development partner, NZ, Mr Richard Woodham. PNG, drew its peer review team from the PIFS established Peer Reviewers Database consisting of government and development partner nominated officials. The Peer Review Team will be supported by the Regional Planning Adviser, an international consultant engaged by PIFS and a PIFS communications team.

## 5.0 Stages of review process

### 5.1 Pre-Analytical review

With support of the Regional Planning Adviser, the consultant engaged by PIFS will consider the Government's 2008 and 2011 PNG Paris Monitoring Survey Country Reports, and any reflections by, or commissioned by, the Government on the implications of the self assessment, as well as any other recent reporting on implementation of plans, progress against the MDGs, and the economic and financial situation. An Information Brief will be prepared for the review team and shared with the Government.

### 5.2 In-country review

The in-country peer review process will take no more than 15 working days.

Prior to the consultations, the Peer Review Team will hold an Initial Briefing with the Peer Review Focal Point/ Agency to confirm the objectives and focus of the Peer Review and the stakeholders to be consulted.

The peer review team would then meet with relevant stakeholders. A list of stakeholders will be agreed between the Government and the review team. It is anticipated that consultations will include:

- Ministers and officials in central planning and financial management agencies and key service delivery agencies (e.g. education and health).
- Representatives of key development partners
- Representatives of non-government organisations and the private sector.

The Peer Review Team will consult with the Government on the best way of getting a range of non-Governmental opinion and will if appropriate request that Government convene a consultative meeting with wide community representation.

A Peer Review Debrief will be held on the last week of the Peer Review in country where the Peer Review team will provide preliminary findings in the form of an Aid Memoire from the peer review consultations. Stakeholders from both government & non-government sectors and development partners will be invited to attend.

### 5.3 Post Peer Review Process

#### 1. Preliminary Report by Peer Review Team

Within two weeks of the completion of the in country peer review visit, the Peer Review Team with support of the PIFS and consultant will produce and submit a preliminary Peer Review Report to the government for review and comment.

#### 2. Government approval of the Peer Review Report

The host country will be asked to respond to the draft report within two weeks of receiving the draft and asked to approve a final Peer Review Report within six weeks of completion of the peer review visit.

#### 3. Dissemination of the Peer Review Report

Within three weeks of host country approval of final PNG peer review report, the report will be published and disseminated widely by the PIFS to all Forum members and development partners via PIFS Circular and on the PIFS website.

#### 4. Host Country and PIFS Report on Peer Reviews to PIC-Partners and PPAC meetings

The host country and the PIFS will present the peer review report and a consolidated report summarising the peer reviews undertaken in 2013 at the Pacific Island Countries – Development partners meeting and the Pacific Plan Action Committee (PPAC) meeting. The conclusions of the peer reviews will be reported to the Forum Leaders meeting as part of the PPAC Chair's Letter to the Chair of the Forum.

**5. Host Country and PIFS Report on Peer Reviews to Leaders and Post Forum Dialogue – August 2013**

PIFS will present [a summary of] the peer review report and a consolidated report summarising the peer reviews undertaken in 2013 to Forum Leaders and the Post-Forum Dialogue to inform discussions on development coordination.

The Host country can also consider a high level report potentially through their leader’s address to the Forum Leaders on their peer review process and follow up.

**6. Development Coordination Action Planning, Resourcing and Implementation:**

Based on the preference of the host Government, it is proposed that there be a follow up visit by the PIFS and development partners to the host country to discuss concrete work plan/actions and resource framework/division of labor for implementing the recommendations of the Peer Review Report. This visit is proposed to happen within and no more than three months after the completion of the Peer Review in country. Key development partners in country can consider a pooled fund to support the implementation of the peer review recommendations in addition to other government identified priority development coordination priorities.

Alternatively and/or additionally, and again based on the preference of the host Government, the government can integrate the Peer Review Recommendations into their ongoing national development planning, budgeting and aid coordination/management development strategy/plan and processes.

It is proposed that a simple Monitoring and Evaluation Framework/indicators agreed between the Government, development partners and PIFS will be developed and used to track the implementation of the Peer Review Recommendations (recommendations to both Government and Development partners). Attached is a Draft Work plan and Report Template for consideration.

**6.0 Administrative and funding arrangements**

In addition to the consultant, PIFS will provide logistical and administrative support to the peer review process coordinated by the Regional Planning Adviser.

The major costs of the peer review process will be met by PIFS. These costs include the consultant and administrative support provided by PIFS, travel by the peer review team and incidental costs incurred by the Government such as hiring meeting facilities and catering. The only significant costs to the Government will be the time of officials consulted. It is proposed that the development partner participating in the review team will cover their own costs.

The PNG Government will nominate designated focal points to set up and manage the consultation process in close coordination with PIFS.

## Annex 2: Peer Review and Support Teams

PNG Government Official focal point and contacts for the Peer Review:

- Mr Reichert Thanda, First Assistant Secretary, Department of National Planning and Monitoring
- Mr Joseph Turia, PNG Peer Review focal point
- Mr Floyd Lala, Acting Assistant Secretary - EU/UN Branch Foreign Aid Division, Department of National Planning and Monitoring
- Ms Linda Taman, Department of National Planning & Monitoring
- Mr Alex Ginet, Department of National Planning & Monitoring
- Ms Nicole Masta, Department of National Planning & Monitoring

PNG Peer Review Team:

- Ms Noumea Simi, Assistant CEO, Aid and Debt Management Division, Samoa Ministry of Finance
- Mr Johnson Naviti, Head, Aid Management Unit, Vanuatu Office of the Prime Minister
- Mr Matthew Pitavato, Acting Director, Financial and Economic Planning Unit, Solomon Islands Ministry of Finance and Treasury
- Mr Richard Woodham, Deputy Director Strategy & Performance Development Strategy and Effectiveness Division, NZ Ministry of Foreign Affairs and Trade

PIFS Peer Review Management & Support Team:

- Mr Feleti Teo, Deputy Secretary General, PIFS
- Ms Charmina Saili, Regional Planning Adviser, Pacific Islands Forum Secretariat
- Ms Mue Bentley-Fischer, Communications Officer, Pacific Islands Forum Secretariat
- Ms Portia Domonatani, Forum Compact Research Assistant
- Mr John Winter, PIFS consultant, Peer Review
- Mr Jason Chute, PIFS consultant, Communications







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