

# **‘Supporting the Public Sector in PNG – New Directions in the Australia – PNG Development Partnership’**

*Speech by Mr. Bill Costello, Minister Counsellor, AusAID*



## **Introduction**

Good morning and thank you for the warm welcome.

Let me start with an acknowledgement of the important work done here at the National Research Institute (NRI).

Research has a crucial role to play in a country's development. All governments need reliable information from which to make crucial policy decisions.

But it's not just governments who benefit, research is an important tool which can benefit a wide range of groups including civil society, bilateral partners, NGO's, donors, provincial administrations, communities and many others.

And that's what the NRI has been doing for over 40 years as PNG's leading think tank – generating and dispensing research results and providing expert advice on policy. The NRI has a long and proud tradition of excellence and I am proud to say that Australia has been a long-time supporter and friend.

AusAID continues that link today through a range of connections which include supporting NRI to implement its Corporate Plan 2005-2010, funding advisors in key research areas and, through our Incentive Fund, providing new and upgraded facilities.

The focus of today's discussion reinforces the relevance of the work done here at the NRI.

It's been three years since AusAID last presented in this forum and I would like to take some time to talk about some significant changes over time in the way the Australian Aid program does business in relation to the public sector in PNG.

I'll start by re-capping the context and history by which we have come to our position and approach today. I'll then explain to you the PNG-Australia Partnership for Development, signed by our two Prime Ministers in August 2008. In this Partnership approach, building the capacity of the public sector is both a specific objective and the key to delivering other targets relating to achievement of the Millennium Development Goals. I'll then describe for you some of the key programs through which we now deliver our assistance. I also plan to take a quick side-road in my presentation to comment on the perennial issue in PNG of the value of technical assistance.

Finally, on the basis that it might be another three years until my successor is asked to speak to you again, I would like to venture some comments on two key issues and risks that I see facing the PNG Public Sector in the near future: (i) the likely impact of the likely LNG project (or two); and (ii) the rapid aging of PNG's Public Sector workforce.

Let me begin this presentation by providing a bit of context and having a look at where we've come from in this most important of bilateral aid relationships – between Australia and Papua New Guinea.

## **History of the aid program**

At the time of PNG's independence, Australia committed to provide PNG untied budget support – that is money directly to PNG's Treasury to finance its budget – at a level of \$300 million per annum – then about 36 per cent of PNG's revenue.

The other key element of the bilateral aid program then was a large scholarship program, which each year sent more than 100 Papua New Guineans to study in Australia universities.

At the same time, the PNG Government retained a lot of expatriate personnel from the colonial administration, and I'm told that immediately post-independence approximately 3,000 expatriates remained employed in the PNG Government.

Over time, the quite hands-off approach began to be questioned in Australia, in terms of accountability for development results from taxpayers money, not least in a major review of the Australian aid program delivered in 1984 (the Jackson review).

By the end of the 1980s, it was agreed – admittedly reluctantly on the PNG side – that Australian assistance would shift progressively over the period of a decade to assistance tied to specific projects. This transition commenced in 1990-91 and was completed in 2000-01.

Australian assistance was delivered in a very visible form with significant infrastructure, school materials, medical supplies, health radio systems, training and other goods and services – some of the infrastructure, in particular, is still visible as you travel around PNG today.

However a number of problems became evident with the project approach which we adopted in the 1990s.

While a lot of infrastructure was built, it wasn't usually maintained and often not utilised effectively. In the language we use in development, the projects weren't sustainable and three to five years beyond completion there was very little left to see.

Part of the problem was that the phase-out of budget support in the 1990s was predicated on a growing PNG budget. For various reasons, this PNG budget growth did not eventuate. A key reason was the closure of the Panguna mine in Bougainville which never returned as a revenue source for the PNG Government. Ok Tedi was fully operational, but commodity prices were very low throughout the 1990s, so the PNG budget was effectively squeezed and the funds to maintain Government systems were not available.

There was also the problem that stand-alone projects, delivered by Managing Contractors, don't necessarily strengthen the PNG government (and non-government) systems which projects tend to support.

Indeed there is evidence in some cases that we may have undermined systems, by distracting attention – and sometimes poaching staff – from the core business of government: delivering goods and services to the people of PNG.

So the focus of the aid program evolved around the beginning of this decade, a change reinforced by a 2004 Joint Aid Review led on the PNG side by Charles Lepani, now the PNG High Commissioner in Canberra.

The key focus for change was working through and strengthening PNG government systems, as well as engaging more at the sub-national level - that is working within and with provinces, districts and LLGs.

We also decided that we needed to work with a range of stakeholders including the main line churches (programs like the incentive fund are a product of this approach), non-government organisations, communities and the private sector.

## The PNG-Australia Partnership for Development

If the preceding history can be characterised as having three phases, I would now like to talk about the Phase 4, which begins with the election of the Rudd Government in Australia in November 2007, and is exemplified in practical terms by the PNG-Australia Partnership for Development.

Prime Minister Rudd takes a close and personal interest in PNG – his first official bilateral visit was to PNG and the first Pacific Partnership for Development Mr Rudd signed was with PNG.

The Partnership sets out mutually agreed commitments to work towards the specific targets that Advance PNG's progress towards achieving the Millennium Development Goals. These targets relate to better access to markets and services through improved infrastructure; faster progress towards universal basic education; improved health outcomes; more effective delivery of public services; and better statistics, so that we will know whether we are getting results across PNG.

The Partnership takes a practical, is a common-sense approach geared to poverty alleviation in this country.

A good example is the agreement by Prime Ministers Rudd and Somare, during Mr Somare's trip to Australia earlier this year, to increase the primary education net enrolment rate from 53 per cent today to 70 per cent by 2015.

This means an extra 300,000 children into school over the next five years, no small undertaking but a great outcome if it can be achieved.

We worked closely with PNG Treasury and the department of Education to help the PNG Government map out the framework for this to occur. PNG's own Universal Basic Education Plan, launched last Friday by Prime Minister Somare (*I acknowledge Dr. Webster's leadership in the development of the UBE Plan.*)

And of course it's not just about getting more kids in school: we've needed to focus on teacher numbers, teacher training and curriculum. PNG needs, for example, to train 2,500 new teachers per year rather than 1,000 if it is to achieve the UBE Plan goals. This is a task we are proposing to help with under our Partnership for Development.

Similar concrete targets and commitments are planned for the transport and health sectors, and later for Law and Justice, HIV-AIDS and higher education (the latter addressing both PNG's university system and technical and vocational education and training - TVET).

### The role of public sector capacity building in the Partnership

Both Governments recognised when determining Partnership priorities that PNG cannot make headway on these major development challenges without an effective public sector. That is why Public Sector capacity building is a priority under the Partnership with its own implementation schedule (number 4) focusing on:

- improving public sector administration and capacity at national, provincial and district levels;
- improving public expenditure, procurement and accountability; and
- encouraging provinces to spend more on basic service delivery.

The public sector schedule to the Partnership was negotiated and agreed with the key central agencies of the PNG public sector and with some key partners who are working on public sector improvement programs that we wish to support. The former include the Departments of Prime Minister and NEC (including PSRMU), Personnel Management, Treasury, Finance and Provincial and Local Government Affairs. The latter include the Institute of Public Administration, Central Supply and Tenders Board and the multi-agency Public Sector Workforce Development Program.

Since the agreement of the Partnership schedule by Ministers this year, my team, led by David Chick and Warren Turner, has undertaken a round of consultations with the key partner agencies mentioned above in order to agree a specific set of agreed activities and results for year 1 of our work under Partnership Schedule 4.

Australia has committed \$75 million to these programs in 2009/10. Government of PNG funding for Partnership priorities will be determined through the 2010 PNG Budget. As with other sectors addressed under the new Partnership Schedules, the initial focus is on tangible results, for example:

- increasing the number of trainers and public servants receiving training in areas such as procurement or core competencies;
- improving the ratio of government spending on service delivery as opposed to administration; and
- increasing the number and frequency of meetings of internal audit committees to support higher standards of financial management.

Let me say at this point that the increased emphasis on targets does not mean that we think that there is a quick fix to strengthening the capacity and performance of the PNG public sector. Both Governments have committed to a long-term approach to public sector capacity building, recognising that improvements will be incremental and require sustained commitment and funding.

Australia's assistance to PNG under Schedule 4 of the Partnership for Development will be delivered through three key programs:

- the Strongim Gavman Program (SGP);
- the new Economic and Public Sector Program (EPSP) commencing in 2010; and
- our Sub-National Strategy.

The *Strongim Gavman Program* represents the strong partnership between our two Governments in economic and public sector governance in PNG. As you may know, the program places up to 50 senior Australian Government public servants in PNG departments and agencies, working in economic governance, law and justice, transport and border management sectors. Formerly the *Enhanced Cooperation Program*, the Strongim Gavman Program is working in new ways.

The focus of the program has changed since the days of the ECP.

- The placement of Australian Government advisers is now jointly decided through a newly created steering committee.
- The program puts PNG Agency Heads in the driver's seat in determining where and how the program works and in the review of adviser performance.
- It now also has a new strong focus on building the skills of PNG public servants through mentoring, modelling and on-the-job training.

The SGP has a special place in the type of support that Australia can bring to the PNG Government. It taps into and shares the highly relevant skills and experience from the Australian public service and helps build a strong relationship between the institutions of both of our countries.

At the moment, additional adviser support to the economic and public sector is provided through the **PNG Advisory Support Facility**. These advisers are not from the Australian Public Service. They support areas other than where the Australian Public Service has a comparative advantage – for example in relation to human resource management, IT and corporate planning.

Personnel under this program work with public officials in central agencies and select national line departments in support of priority public administration reforms, including the Financial Management Improvement Program and Public Sector Workforce Development Program.



The **Economic and Public Sector Program** will replace the **Advisory Support Facility** in 2010. The request for tender for this new program of support was advertised this month. It has been conceived and designed collaboratively by the Governments of PNG and Australia and provides an integrated framework for all Australian assistance to economic and public sector reform.

The EPSP will continue Australia's support to the Government of PNG's priorities such as the Public Sector Workforce Development Program, which trains junior officers, middle management and senior executives. However, it will do so in a manner that is more strategic and provides an analytical approach to the use of technical assistance.

For example, a key aspect of the new program is the preparation of an Annual Strategic Framework with each of the key partner PNG agencies – a tool by which to assess where prioritised support should be placed in the PNG Government.

Requests from individual agency heads will be able to be assessed against this strategic framework and prioritised accordingly. In addition, each agency will have its own complete agreement on Australian Government assistance, that ties in all relevant programs and also considers options to providing technical assistance.

This could come in the form of research, training, or co-financed grants for improvements to the workplace.

One area in which Australia has consciously strengthened its approach is engagement with PNG's provinces. We recognise that when you talk about improving service delivery in PNG you really must have a focus on the provincial, district and local levels of government.

The PNG Government does this through the **Provincial Performance Improvement Initiative** or PPII.

PPII is implemented by the Department of Provincial and Local Government Affairs in partnership with the Department of National Planning and Monitoring and AusAID. Other key partners include the NEFC, National Research Institute and provinces, districts and local level governments.

This program is the way forward in development for PNG and is an excellent example of what can be achieved when national agencies, politicians, provinces and development partners work together in a spirit of cooperation towards the shared goal of improving service delivery.

We also have a reinvigorated approach across the aid program to service delivery, and have supported PPII through our **Sub-National program**. In addition to its support for DPLGA's PPII, the work of the National Economic and Fiscal Commission and the Provincial and Local Level Service Monitoring Authority (PLLSMA), this program sees outposted AusAID officers living and working in the provinces in East New Britain, Bougainville, Milne Bay, Eastern Highlands and Central Province. And we are looking to expand this program.

It is the way forward for AusAID and provides a uniting theme, if you like, across all our programs and their delivery in the provinces.

The Sub-National program currently supports the strengthening of provincial, district and local systems of public administration – especially planning, budgeting and financial performance, and human resource management. Location with our counterparts in the provinces has enabled us to better understand the operational context and reform agendas of each province, and has given us an insight into challenges faced by provinces that we would not otherwise have gained.

This role is likely to evolve from this point where our staff will be a primary contact point for AusAID on all Australian assistance being delivered in the province. Recognising that provinces are very different in PNG, AusAID's challenge will be to adapt our approach so that it delivers in ways which meet the needs of different provinces. We also need to assist the PNG Government to do the same.

And finally on our programs being used to deliver Australian assistance to the Public sector, I have also been asked to briefly cover the PNG-Australia Policing Partnership, which was established by agreement of our Ministers at the PNG-Australia Ministerial Forum in April 2008. It is a police-to-police arrangement between the Royal PNG Constabulary (RPNGC) and the Australian Federal Police (AFP) that commenced in September 2008 and aims to establish a long-term relationship between the RPNGC and the AFP.

As you may remember, the AFP originally worked in Papua New Guinea as a key part of the Enhanced Cooperation Program. The focus in the new Partnership is not for the AFP to deliver front-line policing services, but rather to support the RPNGC in its delivery of front-line policing services, by strengthening its key systems, processes and leadership.

The current first phase of assistance has involved intensive work between the two police agencies to jointly plan a future phase of support. By working together in this way, the AFP aims to develop an appreciation of the long-term development needs of the RPNGC, drawing upon lessons learned about police capacity development in Papua New Guinea.

Over the past 12 months the AFP and RPNGC have developed a strategic framework outlining the development issues facing the RPNGC and a proposed way forward. The details of final support and joint commitments flowing from this framework will be agreed in the context of the new Law and Justice Partnership Schedule, to be considered at the Ministerial Forum in 2010.

Another new focus of Australian support goes beyond bureaucracies. Good governance is more than good government. Non-government, non-formal and traditional structures through which a society exercises decision-making and authority are also important, not least in Papua New Guinea.

The strength of any society rests on its ability to utilise the talents of all its people. A new program to commence in 2010, called **Strongim Pipol Strongim Nesen (SPSN)**, aims to help PNG make sure this is what happens.

Working with the PNG Government, through the Department for Community Development, the Department of Provincial and Local Provincial Government Affairs, and with District administrations and local level governments, SPSN will promote this idea of democratic governance, that is: citizens, civil society organisations, elected local government and business, together with the national government sharing in responsibility for public matters.

The focus will be on building local level capacity inside and outside government, and strengthening local linkages, so as to improve the quality of dialogue and decision-making and improve the ability of local level organisations to cooperate across society in the implementation of good public policy.

The Strongim Pipol Strongim Nesen program will also directly target poverty, by delivering tangible benefits from community-generated projects, as well as social and governance outcomes.

SPSN will provide: long-term support for selected civil society organisations; small, medium and large grants for community organisations; support for initiatives in select geographic locations; support for collaborative initiatives; and strengthening of human capital at local level.

### **The role of technical assistance**

Under the Partnership Schedule, Australia will report annually on the percentage of development assistance that is used for the provision of technical assistance. In its place the Partnership will increasingly support direct investments in Government of PNG public sector capacity development and performance initiatives, as well as greater training opportunities in PNG for PNG public servants.

Let me digress for a moment to discuss the recurring debate about the role and effectiveness of technical assistance in PNG. This subject achieved some notoriety a few months back with public debate about the numbers of people providing technical assistance in PNG.

One peculiar aspect of this debate is that AusAID is regularly criticised for focusing too much on technical assistance, but at the same time we are regularly asked by individual PNG Government agencies for more advisers.

For the record, currently there are generally around 250 long-term advisers and around 50 short-term advisers working under the PNG-Australia development program at any one time. Experts are drawn from PNG, Australia and internationally. There are in the order of 100 Papua New Guineans providing technical assistance through the Australian aid program at the moment, especially through our Sub-national program. We find the engagement of Papua New Guineans under the aid program generally very effective, although we are conscious of the problems associated with potentially poaching PNG Government staff.

Nevertheless, a key message about advisers provided to PNG agencies under the aid program is that they are not necessarily Australians. We provide expertise from wherever we can source the best people.

Advisors bring crucial skills to their development roles – skills that, by definition, should not exist in the agencies requesting their assistance. Advisors should work closely with agency counterparts, imparting their knowledge and experience with the ultimate aim of creating a skills base which ensures the advisor's presence is no longer required.

In terms of international comparison, AusAID's PNG program has higher levels of TA than in major Asian countries such as Indonesia and Vietnam, where a stronger skills base already exists. But we have in PNG a much lower level of TA in the program than many Pacific countries, such as Solomon Islands, and in East Timor. PNG is somewhere in the middle.

In the broad, I believe that recent years have demonstrated that capacity is often the binding constraint in so many areas of PNG's development. Funds have been more available for development, but the additional resources haven't yet delivered results on the ground. So, unblocking capacity bottlenecks must be a key development challenge to be addressed by the PNG Government and its development partners. Technical assistance should be one of the tools we use to confront that challenge.

Nevertheless, there are some issues surrounding technical assistance, and we can and must improve its effectiveness. Chief among these is what I perceive to be a "got-a-problem-get-an-advisor" reflex. This is something we need to address and something which is certainly on AusAID's radar. The design for our Economic and Public Sector program, which I briefly outlined earlier, seeks to address this challenge, by providing a menu of possible responses to identified agency-level challenges and objectives, rather than having technical assistance as the only item on the menu.

We also need to learn from differing experiences and outcomes from our provision of technical assistance in varying ways to different PNG Government agencies. AusAID's Office of Development Effectiveness has recently, for example, undertaken a study of what it considered to be highly effective provision of technical assistance for capacity building. One of the key examples it looked at was AusAID's support for PNG's National Economic and Fiscal Commission. Key ingredients in that case appear to be strong leadership from the NEFC, the provision of highly expert advice over a long period of time, and the existence of a clear organisational development plan to support.

The bottom line on technical assistance in PNG is that we are committed to supporting PNG-led programs and using and strengthening PNG systems and procedures wherever possible. Everything tells us that these are the approaches that are most likely to proceed.

### **Looking forward: Two key issues and challenges for PNG**

Before concluding, let me take a few moments to speculate on two issues that I think loom large in the operating environment for Papua New Guinea's public sector over the coming years. They are (i) managing the consequences of the LNG project, and (ii) the aging PNG public sector workforce.

It now appears very likely that the PNG LNG project will go ahead (and it is possible that a second project will follow). International experience tells us that major resource projects of this kind can bring enormous benefits and opportunities for a country. Some countries have used their natural resources to transform themselves.

But we have also seen negative consequences, including weakened governance, conflict and a decline in employment and productivity in other sectors of an economy due to what is known as the “Dutch Disease” – which occurs when the proceeds from the major resource project(s) cause the local currency to appreciate and makes other sectors, especially agriculture, uncompetitive as a result.

Indeed, we have seen examples of both the benefits and the risks of major resource projects in PNG’s short history. The Panguna mine in Bougainville largely financed the PNG budget after independence, but of course led to a civil conflict. As mentioned earlier, the absence of anticipated revenue from Panguna in the 1990s contributed to many of the problems with the weakening delivery of services in PNG in that decade. The Ok Tedi mine has provided very significant resources to Government, but at a cost to the Fly River environment. And the up-surge in conflict in Southern Highlands Province pretty much coincides with the flow of Kutubu oil.

It is probably also fair to say that the PNG economy has shown signs of Dutch Disease during its early history. The agriculture sector failed to accelerate in the years after independence, probably in part due to the strong Kina exchange rate. Since the Kina was floated and devalued in 1994 the sector has, at times, shown greater responsiveness when good prices are available.

The question of whether and to what extent the LNG project will benefit PNG and to what extent it causes negative side-effects will depend crucially on the quality of public policy making and on the effectiveness of policy implementation in PNG. This places great responsibility on the shoulders of the public sector, and on the country’s political leadership.

The public sector will need to be able to develop and recommend to government policies which manage the local, national and macroeconomic consequences and risks of the project. It will also need to be to implement government decisions soundly and effectively.

One central challenge will be to take the large revenues from the project and manage them through the national budget and the public administration at all levels, in order to deliver the basic goods and services, such as maintained roads, health services and education which promote opportunity and development for all Papua New Guineans.

If you accept the argument I put earlier that capacity in PNG’s public sector is already a binding constraint to PNG’s development, agree that the LNG project will present new challenges to the public sector, and also accept that building capacity in the public sector is a long term endeavour, then it seems to me that the task of building public sector capacity in PNG becomes an urgent one. As the saying goes, “If it takes 100 years for the tree to grow, I’d better plant the seed immediately!”

So I do hope, and expect, that the PNG Government will turn its attention in earnest to the public sector capacity building challenge as soon as the LNG project deal has been completed.

The second issue I wanted to raise further complicates the PNG public sector capacity building challenge. As you know, the Australian aid program works across a number of sectors in PNG. I am hearing a similar message across these sectors: that the public sector workforce is aging, that many people will be retiring over the next five years or so, and that there are not enough trained public servants to replace the retirees.

I have heard expressions of this concern in the health system, the teaching workforce, police and the legal system (eg: magistrates). This suggests that the aging of the PNG public sector workforce might in fact be a problem right across the board.

It appears that even replacing current numbers and bringing suitable people into middle and senior management is likely to be a challenge. However, given rapid population growth, PNG should be looking beyond replacement to increasing numbers of teachers, health workers and police. And PNG needs to look beyond just current coverage of these public sector workers. You will recall that I mentioned earlier that, in order to boost basic education enrolment rates from 53% to 70%, PNG needs to move from training 1,000 new teachers per year to training 2,500 new teachers per year. The capacity to train this many teachers doesn't exist right now, so boosting teacher training capacity is a key first step.

So it seems that PNG has a major public sector workforce planning and training task ahead of it. We have addressed this jointly with the PNG Department of Education as a priority in the basic education schedule to the Partnership for Development. We are also looking to increase our support to the Institute for Public Administration under schedule 4.

However, I am happy to see us further broaden and strengthen the attention given to this issue of workforce development, and especially of training more PNG public servants in PNG, as a greater priority right across the Australian aid program in PNG.

## **Conclusion**

In conclusion, I hope that I have demonstrated today that the Australian aid program in PNG continues to evolve and change, including in the ways we work with PNG Government agencies. The most recent of these changes brings a stronger focus on the results that the PNG public sector is tasked to deliver: improved quality of life for the majority of Papua New Guineans, through improved delivery of services, and also of policies that encourage people to take control of their lives and improve their own welfare.

We can confidently predict that the coming years in PNG will see significant change, including for the operating environment for the PNG public sector. There are very real opportunities, and some cause for excitement. As I have outlined above, there are also significant risks and challenges to be managed.

These and other changes have certainly been noted by the leaders of both our countries. During his visit to Australia in April 2009, Prime Minister Somare set out PNG Government thinking on the need to modify aid arrangements between our two countries.

Prime Ministers Somare and Rudd therefore agreed on a joint review of the Development Cooperation Treaty, which guides Australia's aid program with PNG.

The review will consider how Australia's aid can most effectively contribute to PNG's current, medium and long-term national development priorities, including the forthcoming National Strategic Vision to 2050. It will recommend appropriate balances for different forms of aid, including training and technical assistance, capital investments and direct support for service delivery and community development.

But, importantly, I am sure that the review will re-state what I have said earlier - that is that Australia cannot impose, it can only support, and Australian aid can only be effective when we work in a cooperative Partnership with clear PNG leadership.

Thank you.