

# Papua New Guinea – Australia Transport Sector Support Program (Phase 2)



Design and Implementation Framework

January 2013

### *Foreword*

This Design Document was initially prepared by a consultant commissioned by AusAID to undertake a TSSP Phase II Design Rework. This assignment built on the work and findings of a review and redesign mission in July-August 2011 and a subsequent Phase II Design workshop chaired by the Department of National Planning in November 2011. A draft produced by the consultant was peer reviewed in April 2012.

This draft addresses peer review feedback from the PNG Government, development partners and AusAID and further detailed consultations following the peer review.

The draft has been endorsed by both AusAID and the PNG Government to proceed to implementation.

#### **AusAID Child Protection Policy**

AusAID has assessed this activity as one that will not involve personnel in working with children. Personnel employed to work in positions funded in this activity will not need to engage with or be involved with children in order to fulfil the duties of the positions.

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## Acronyms

ABG	Autonomous Bougainville Government
AIC	Accident Investigation Commission
AusAID	Australian Agency for International Development
CACC	Central Agencies Coordination Committee
CSTB	Central Supply and Tenders Board
DNPM	Department of National Planning and Monitoring
DPM	Department of Personnel Management
DoW	Department of Works (PNG Government)
DSIP	District Services Improvement Program
EPSP	Economic and Public Sector Program
FIDIC	International Federation of Consulting Engineers
IRG	Independent Review Group
ISP	Implementing Service Provider
M&E	Monitoring and Evaluation
MEF	Monitoring and Evaluation Framework
MoU	PNG-Australia Transport Sector Memorandum of Understanding
MTDP	Medium Term Development Plan 2011-2015
MTTP	Medium Term Transport Plan
NAC	National Airports Corporation
NEC	National Executive Council
NMSA	National Maritime Safety Authority
NRA	National Roads Authority
NRSC	National Roads Safety Council
NTS	National Transport Strategy
PLGP	Provincial and Local Government Program
PLLSMA	Provincial and Lower Local Services Management Authority
PMC	Project Management Consultant (TSSP Phase 1)
PMSC	Project Management and Supervision Consultant (TSSP Phase 2)
PNG	Papua New Guinea
PNGASL	Papua New Guinea Air Services Limited
PNGCASA	Papua New Guinea Civil Aviation Authority
PWM	Department of Works Provincial Works Manager
SGP	Strongim Gavman Program
TAC	Independent Technical Audit Consultancy
TOR	Terms of Reference
TSCMIC	Transport Sector Coordinating, Monitoring and Implementation Committee
TSSP	Transport Sector Support Program

# 1 Executive Summary

Well maintained transport infrastructure has been long recognised as essential for the development of economies and communities. It is essential for the efficient flow of goods to market, providing people with access to social services, including schooling and health, and for social communication and interaction. Well-planned and maintained transport infrastructure underpins steady economic growth and supports resources development. Australia recognizes that it will take time to achieve PNG's transport related development goals and has made a long term commitment (15 to 20 years) to support the Government of Papua New Guinea in its endeavours to achieve a well maintained transport infrastructure network. This long term commitment is embodied in the PNG-Australia Transport Sector Support Program (TSSP) which was established in 2007. TSSP is nearing the end of its first phase and this design articulates how the program will evolve into the second phase, taking into account achievements, lessons learnt and a rapidly changing policy environment.

Australia supports the implementation of Papua New Guinea's *Medium Term Development Plan 2011-15* (MTDP) objective to deliver improved transport services to facilitate social development and economic growth. The MTDP's priorities in the sector are:

- maintenance and rehabilitation of priority transport infrastructure
- assessment of future transport needs
- building the capacity to implement Government of Papua New Guinea policies and physical works.

The PNG-Australia Partnership for Development Transport Infrastructure Schedule (the Partnership) supports the MTDP priorities and identifies two joint targets:

- 75 per cent of the 16 priority national roads in good condition by 2015
- aviation and maritime transport services have consistently moved towards full compliance with international safety and security standards.

These targets are reviewed annually as part of the Annual Partnership Dialogue process. This design builds in sufficient flexibility to respond as priorities develop over the life of the second phase of TSSP. It is envisaged that by end 2013 transport safety and security targets will be reviewed and adjusted to better reflect the scope and contribution of Australian support, if agreed by PNG Government.

The *National Transport Strategy* (NTS) and its supporting five-year *Medium Term Transport Plan 2011-15* (MTTP) will be the sector's specific policy frameworks which are expected to underpin the direction of TSSP. These documents are still under development, but will align with PNG's higher level national planning documents, specifically the MTDP and Development Strategic Plan 2010-2030.

The sector continues to face many constraints including: the availability and allocation of financial resources; a lack of clarity on reform priorities and uncertainty over appropriate institutional structures and responsibilities; weak organisational capacity and lack of key competencies in critical technical and management positions; and inefficient government procurement and financial management processes. All of which restrict the effectiveness of service delivery. This design aims to support the PNG Government address these constraints in a targeted manner and achieve service delivery improvements.

## TSSP1 to TSSP2

This design proposes to retain the three major elements of TSSP1 - public sector reform in line agencies; central agency engagement; and prioritised transport asset maintenance – with shifts in

emphasis and approach reflecting lessons from TSSP1 and changing priorities. Fundamentally, there will be continuity between TSSP1 and TSSP2. TSSP2 will:

- retain a whole of sector footprint covering maritime, aviation and land transport with oversight coordinated through the PNG Government Transport Sector Coordination Monitoring and Implementation Committee (TSCMIC)
- spend less than 20% of overall expenditure on adviser and capacity building support
- retain the major focus on land transport with the Department of Works being the principal implementing partner
- retain the outsourcing of road works and supervision to private sector contractors as the main civil works delivery mechanism
- retain Australian whole of government support through the Strongim Gavman Program (SGP) and PNG-Australia Transport Sector Memorandum of Understanding (MoU).

However, changes are required to respond to the implementation lessons of the five years of TSSP1, current PNG and Australian strategic priorities, and the opportunities and challenges that have emerged since TSSP commenced in 2007. There are a number of main changes aimed at building on and strengthening the current approach.

- Increase the emphasis on service delivery in addition to capacity building and organisational reform to meet Partnership targets and build a sustainable network.
- Focus on progressive and opportunistic engagement with agencies through clearly defined agreements that establish milestones and outcomes (performance indicators). The scope and scale of ongoing support for an agency will be dependent upon satisfactory progress and PNG Government commitment to change and reform. Where progress is not evident, the context changes or new opportunities arise, AusAID in consultation with PNG Government will rethink, redirect, scale back or if necessary withdraw assistance.
- Strengthen and improve support to the land transport sector to address service delivery bottlenecks and increase the pace of progress towards road sector targets. This will include a move to larger more complex rehabilitation activities, an increased focus on quality of works and more direct AusAID engagement on performance and implementation issues.
- Support an enhanced role and expectations for TSCMIC to oversight and direct the implementation of TSSP and address systemic problem issues such as PNG Government procurement processes.
- Include the Autonomous Bougainville Government's Division of Technical Services (DTS) and the National Roads Authority (NRA) as new partner agencies to build DTS capacity to manage its network and to improve the effectiveness of NRA's role in the sector.
- Strengthen mechanisms and processes supporting performance and accountability to drive improvements in productivity and value for money.
- Establish a new research, analysis and piloting regime to explore: 1) service delivery options, technologies and systemic constraints; 2) options to leverage opportunities through incentives; and 3) options for future direction as performance targets are met and priorities change.

In line with PNG strategic planning documents and Australia's priorities, the shared development outcome has been identified as: **a safe, reliable transport system in place enabling economic and social development in Papua New Guinea.**

Three strategic components have been identified in support of this:

1. Priority Land Transport Assets Maintained<sup>1</sup>
2. Critical Transport Safety and Security Systems Operating Effectively
3. Effective Agency and Sector Engagement, Performance and Accountability

The outcome statement for each strategic component is based on a long term strategy for TSSP built around a 15-20 year commitment of engagement in the sector. The higher-order development outcome and the three end-of-TSSP outcomes are summarised at Box 1.

**Box 1**

<b>Shared Development Outcome (long term):</b>		
A safe, reliable transport system in place enabling economic and social development in Papua New Guinea		
<b>End of Program Outcomes (2023)</b>		
<b>1. Priority Land Transport Assets Maintained</b>	<b>2. Critical Transport Safety and Security Systems Operating Effectively</b>	<b>3. Effective Agency and Sector Engagement, Performance and Accountability</b>
PNG agencies delivering a sustainable maintenance program with predictable PNG Government funding to maintain 75 per cent of priority national roads in good condition	Critical safety and security regulatory and service functions consistently demonstrate enhanced stability, competence and compliance to standards.	(i) Systems in place to achieve predictable multi-year government funding streams for transport asset maintenance; (ii) key reforms progressed through enhanced engagement, agency performance and analysis

During TSSP2 significant progress is expected to be made towards the end of program outcomes for each component. Specific TSSP2 outcomes (2018) are further defined for each component.

### Improving priority roads

**Component 1** will account for up to 75 per cent of program funding. Activities under this component will be implemented through three agencies. The end of TSSP2 (2018) outcomes for each are:

- Department of Works (DoW) is managing a prioritised program of maintenance and upgrading for priority national roads in line with Partnership for Development and MTDP targets
- NRA has increased capability to deliver its mandate and, should increased funding be available, maintain significantly increased kilometres of national roads
- a prioritised program of road maintenance in Bougainville is being delivered, with increased ABG DTS capacity to plan and manage the program.

Building on the implementation lessons of TSSP1, the AusAID contracted implementing service provider (ISP) will provide capacity development support to the road maintenance agencies to improve their capacity in corporate governance, accountability and quality asset management. AusAID will also

<sup>1</sup> In general, the term maintenance is used throughout the document to encompass routine and periodic maintenance, as well as rehabilitation and reconstruction activities. On occasion reference will be made to specific types of activities for emphasis purposes.



fund a project management and supervision consultancy (PMSC) contracted by DoW. The PMSC will be resourced and mandated to provide additional capacity to DoW to generate a multiyear pipeline of works contracts to achieve improved expenditure and planned scale-up, as well as better supervision of works, quality control and performance management. This is intended to address key constraints in the roads sector. The PMSC will also deliver a more structured program of mentoring and on-the-job training of counterpart Provincial Works Managers (PWMs), supervisors, young engineers and contractors at the ground level of service delivery.

DoW has indicated that it will seek to introduce FIDIC Conditions of Contract as a PNG Government contracting standard for use in PNG Government funded works during 2013. A key feature of TSSP2 will be supporting DoW to achieve this as well as requiring the use of FIDIC based contracts for AusAID funded major works.

The integration of ISP and PMSC inputs will be improved and DoW supported to manage the PMSC contract more effectively than was the case in TSSP1. To ensure this, AusAID will increase its direct engagement and scrutiny in this area. Additional performance management levers will also be established including the roll out of an independent technical audit consultancy to assess the implementation of major works and make recommendations to improve quality control, work methods and value for money.

A staged engagement with the National Roads Authority will commence under Component 1. NRA will be supported to improve its capacity to deliver its maintenance mandate potentially providing an additional funding partner for TSSP in the future. Support in Bougainville will continue with a modified approach. Considering the severe capacity constraints there, during TSSP2 all road maintenance services are likely to be outsourced, but under an agreed plan local capacity will be increased with support to 'buy in' human resources, improve systems and focus on building sustainability.

### **Improving transport safety and security**

**Component 2** will provide targeted support to safety and security regulators, oversight agencies and sector service providers across all modes of transport. This will include aspects of regulation, compliance, accident investigation and response as they apply to the Department of Transport, the Civil Aviation and Safety Authority, PNG Airservices Limited, the National Airports Corporation, Accident Investigation Commission, the National Maritime Safety Authority, PNG Ports Corporation Ltd, the National Road Safety Council, DoW and NRA. Limited support could also be provided for key asset maintenance and upgrade where there is a clear mutual interest in terms of safety and security and the Government of Australia is best placed to provide that support. An important part of Component 2 will be improved coordination and integration of TSSP, SGP and MoU inputs to maximise the impact of the various investments.

The end of TSSP2 outcomes (2018) are:

- safety and security regulators and oversight agencies demonstrate improved organisational capacity to deliver core functions through a managerial and technical staff with increased competencies and productivity
- aviation, maritime and land transport agencies demonstrate improved capacity to deliver safety and security related services

### **Improving performance and accountability and researching for innovation**

**Component 3** will improve PNG Government agency performance reporting and accountability; increase whole of government engagement and facilitate higher level AusAID policy dialogue on key

reform issues; and improve the sector's capacity to conduct better and more research and analysis. Component 3 supports the success of the program as a whole. It is aimed at shoring up the establishment of a cohesive sector led by TSCMIC and ensuring an integrated approach to support. The component will support the sector to determine and achieve reforms through focused analysis, the use of incentives, advocacy and dialogue.

The end of TSSP2 outcomes (2018) are:

- TSCMIC and member agencies demonstrate increased capacity to coordinate, monitor, advocate for and report on the sector and its activities
- PNG and Australian Government engagement results in a set of targeted institutional and policy reforms achieved and Partnership Funding levels met
- applied research and policy analysis completed and used to strengthen road maintenance delivery and civil aviation, land transport and maritime safety and security.

### Improving sustainability and program management

A major objective of AusAID's long term commitment to the sector is addressing sustainability. Sustainability should be considered against two criteria – one, the PNG Government's capacity to fund transport asset maintenance and rehabilitation; and two, the technical and organisational capacity of transport sector institutions to deliver mandated transport infrastructure services. TSSP since its inception, and TSSP2 under this design, aims to support PNG address both these criteria.

During TSSP2 the long term strategy of the program will progress to a new stage. The aim will be to consolidate current positive trends in terms of budget allocations and the prioritisation of maintenance. As the PNG Government takes up more of its responsibility to maintain their core road network, TSSP2 will increase its focus on larger rehabilitation activities and shift dialogue to reforms targeting the quality, efficiency and value for money of expenditure against allocations. The sustainability of the sector hinges on PNG adequately and consistently funding the basic maintenance of its transport assets freeing up donors to invest in other areas. AusAID's strategy is to support and encourage through TSSP2 the PNG Government achieve this.

TSSP1 established effective financial management and procurement oversight processes, while working through select parts of PNG Government systems. The approach to working through PNG systems will be continued in TSSP2, but with additional controls to further mitigate risk such as strengthened funding agreements with agencies and additional audit processes to monitor procurement outcomes. The TSSP2 design also reaffirms the role of TSSP in addressing cross-cutting issues. The program will pay particular attention to supporting activities that promote gender equality and women's empowerment, appropriate and sustainable HIV/AIDS responses, environment and climate change impact management and disability inclusiveness. It will also pay much closer attention to the need to incorporate road safety issues into program planning and delivery.

TSSP2 will start in mid 2013 and end in mid 2018. Subject to performance, the intention is to increase funding to an average of \$100 million per year over five years based on a balance between the huge financing needs in the sector, the sector's capacity to absorb additional expenditure, and the aid program's scale-up planning.

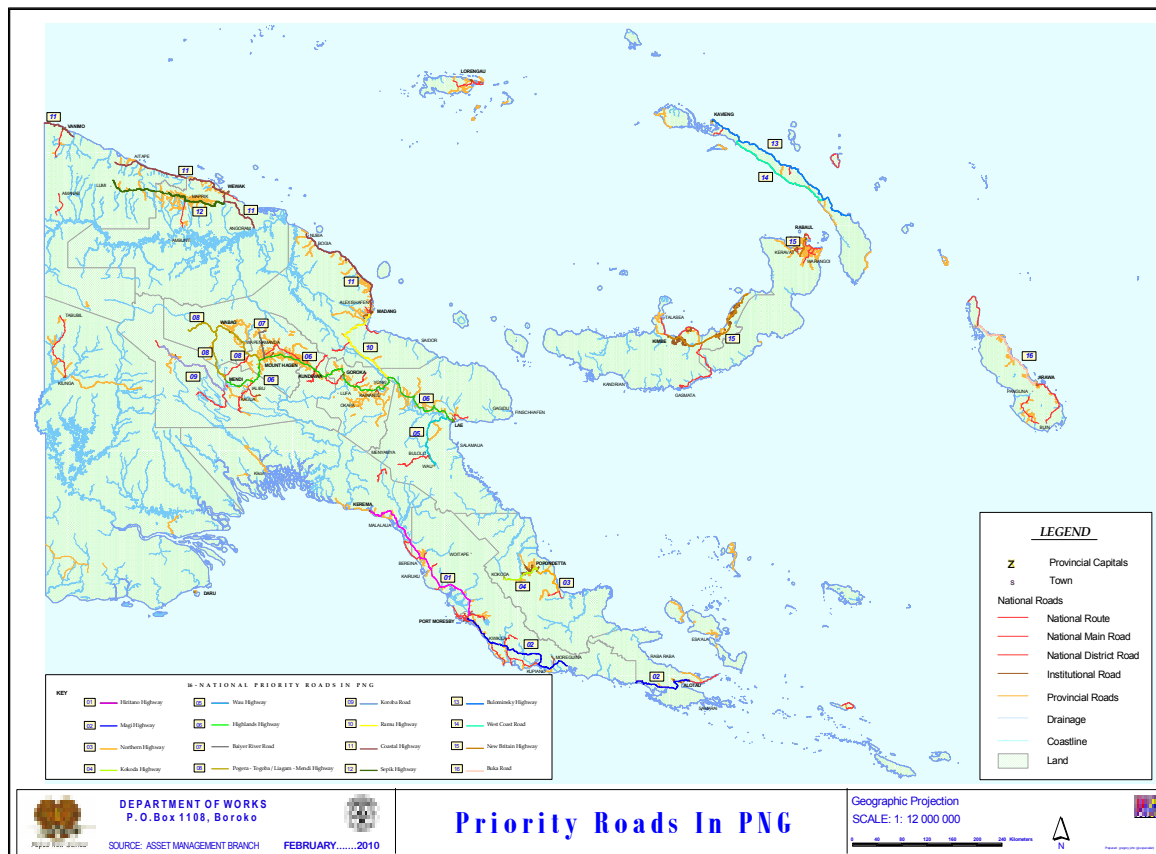
## 1.1 TSSP Phase 1 and Phase 2 Comparison of Key Elements

TSSP (Phase 1)	TSSP (Phase 2)
<b>Guiding Principles</b> Donor support for the transport sector should: <ul style="list-style-type: none"> <li>• be policy driven</li> <li>• support PNG Government leadership of the sector</li> <li>• operate within PNG Government systems and processes and assist to build capacity within them</li> <li>• focus on prioritised maintenance</li> <li>• be based on the identification of the entire resource envelope required</li> <li>• support PNG Government funding to the sector in line with the policy framework</li> </ul>	<b>Guiding Principles</b> Retained <p><i><b>New or strengthened</b></i></p> <ul style="list-style-type: none"> <li>• in line with Partnership for Development and with PNG and Australian Government principles. Tighter focus on effectiveness, productivity and value for money</li> <li>• linked to PNG Government MTDP and NTS</li> <li>• outcomes and AusAID engagement linked to these principles</li> </ul>
<b>Component 1 - Line Agency Public Sector Reform and Governance</b> <ul style="list-style-type: none"> <li>• comprehensive &amp; sector wide</li> </ul>	<ul style="list-style-type: none"> <li>• integrated into Components as described below and based on principles of progressive and opportunistic engagement</li> <li>• more targeted and focussed on organisational capacity and capabilities needed for core operational service delivery</li> <li>• scope and scale of support defined in Agency Support Agreements with clear performance benchmarks linked to results to enable ongoing review of progress</li> </ul>
<b>Component 2: Strengthening Central Agency Support</b> <ul style="list-style-type: none"> <li>• largely process focussed including improved dialogue, budget performance and coordination</li> <li>• very good foundation with good commitment and participation by central agencies and improved cross-agency understanding and appreciation</li> </ul>	<b>New Component 3: Agency and Sector Performance &amp; Accountability</b> <ul style="list-style-type: none"> <li>• move beyond processes and use current base to achieve specific service delivery outcomes</li> <li>• increase sector performance capacity development resources</li> </ul> <p><i><b>New or strengthened</b></i></p> <ul style="list-style-type: none"> <li>• outcome based around agreed Partnership for Development - funding targets; maintenance; and safety and security as priorities</li> <li>• move beyond the budget to focus on performance and accountability for use of resources</li> <li>• further strengthening of TSCMIC</li> <li>• revitalise development partner coordination through TSCMIC</li> <li>• AusAID lead high level policy dialogue followed by support for resolution of key reforms and new initiatives that resolve institutional conflicts</li> <li>• increase analysis and research on policy, performance &amp; impact</li> </ul>
<b>Component 3: Provincial Transport Services - discontinued in TSSP1</b>	<ul style="list-style-type: none"> <li>• see Component 1 for improved provincial level support</li> </ul>
<b>Component 4: Priority Asset Maintenance</b> <ul style="list-style-type: none"> <li>• ISP capacity building in DoW to deliver road maintenance with multiple project management consultants (PMC) to support implementation and supervision</li> <li>• delivery performance not optimal</li> <li>• no support for NRA</li> <li>• outsourced 'project' maintenance delivery in Bougainville working well; ABG has limited capacity and DTS received no direct assistance from TSSP</li> </ul>	<b>New Component 1: Priority Land Transport Assets Maintained</b> <ul style="list-style-type: none"> <li>• retained in full and expanded as up to 75% of AusAID resourcing</li> <li>• very clear targets defined in Partnership for Development</li> <li>• DoW maintained as main delivery partner; with NRA and ABG DTS new partners.</li> <li>• New single project management and supervision consultancy (PMSC) with significantly stronger role including more structured approach to training, mentoring and technical assistance at the provincial level</li> <li>• Support to introduce FIDIC based contracting framework across board and requirement to use FIDIC based contracts for major AusAID financed contracts</li> <li>• Program Director resourced to support and oversight DoW/PMSC arrangement</li> <li>• ISP capacity development for DoW and NRA around key people, systems and; and capacity development for ABG to establish DTS as effective organisation</li> <li>• enhance engagement with provinces by encouraging collaboration between DoW's provincial staff and provincial technical services based on lessons learned in Bougainville.</li> </ul>
<b>Safety and Security</b> No specific component in TSSP1	<b>New Component 2: Critical Safety and Security Systems Operating Effectively</b> <ul style="list-style-type: none"> <li>• focus on enhancing the effective operation of the safety and security regulators and oversight agencies</li> <li>• focus on strengthening the capacity of service providers to deliver their safety and security mandates.</li> <li>• focus on improved coordination and integration between TSSP, SGP and the MoU</li> </ul>

## 1.2 PNG Transport Sector Assets

Nationally, there are estimated to be 30,000 km of roads in PNG. Designated national roads total 8,460 km with 4,256 km designated as priority national roads. These are shown at Figure 1. The roads are listed in detail by province in Annex 5 of this document. There are around 22,000 km of provincial, district and private road assets. Road condition data is generally poor, but improving gradually. A summary of road condition is in Table 1 below.

**Figure 1: Priority Roads in PNG**



**Table 1: DoW RAMS 2011 Road Condition Status<sup>2</sup>**

	Length (kms)		Total Length (kms)	Condition			
	Sealed	Gravel		Good	Fair	Poor	Not known
National Priority	2,252	2004	4256	46%	47%	7%	0%
All National	3,318	5255	8573	36%	48%	14%	2%

There are 46 airports and hundreds of airstrips. Twenty two of the 46 airports are designated as national airports, of which 16 are currently certified to international standards and service regular internal commercial traffic. The airstrips are variously the responsibility of provinces, churches and the private sector with many in poor condition. There are 23 declared public ports, with numerous wharves, jetties, and landings, many of which are privately operated.

<sup>2</sup> Based upon DoW data as at December 2011.

## 2 Sector Analysis and Strategic Context

### 2.1 Why Australia Supports Transport Infrastructure in PNG

Sustainable economic development is one of the five strategic goals of the Australian aid program. Infrastructure development contributes to poverty reduction by spurring economic growth, stimulating enterprise opportunities, generating employment and providing poor people with access to basic services.<sup>3</sup> Properly planned and prioritised maintenance and rehabilitation of Papua New Guinea's existing transport infrastructure will underpin economic and social development. Specifically, improved transport infrastructure will help address the Millennium Development Goals (MDGs) for poverty alleviation and improved education and health outcomes.

The Government of Papua New Guinea, the private sector and Papua New Guinea's development partners have, over many years, identified the poor state of Papua New Guinea's transport infrastructure network as one of the major constraints to economic growth, poverty alleviation and service delivery. Poor transport infrastructure greatly increases the costs of moving produce (e.g. coffee, cocoa and palm oil) to markets, and of delivering consumer goods (e.g. rice, tinned fish and sugar) to villages. Similarly, it adds to the cost of delivering essential services such as school materials and medical supplies. In the worst affected regions of the country, transport costs can prove prohibitive to economic activity and enterprise generation.

Australia has provided over \$800 million in aid to the transport sector since 1995 and continues to be the major grant donor in the sector. Over time the focus of Australian assistance has shifted from direct construction and rehabilitation projects to a more holistic emphasis on capacity building and institutional strengthening for improved asset maintenance, as well as direct financing of maintenance works through PNG systems. This shift is aimed at improving the sustainability of investments.

Australia supports all of the transport sectors, but is focused heavily on roads. Roads form the backbone through which the majority of goods and services are delivered. In addition, as a grant aid donor a clear public good argument exists in the road sector in PNG. National aviation and maritime assets by contrast are operated by government owned commercialised entities which should predominately source their funding from user charges and through commercial funding arrangements, i.e., banks and public private partnerships. However, Australia does have a role and its support continues to be sought in the area of safety and security, where there is a clear mutual interest for both countries because of the shared PNG and Australian border and where Australian agencies are global industry leaders. This basic strategic position was developed by PNG and Australia in response to the Development Cooperation Treaty (DCT) Review in late 2010.

### 2.2 PNG and Australia's Strategic Commitments

The PNG Government's Development Strategic Plan (DSP) 2010-2030 reaffirms that transport is a key enabler for social development and economic growth. The DSP sets a national goal to "establish a

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<sup>3</sup> AusAID, Sustainable Economic Development – Transport, Water, Urban, Energy and Communications Infrastructure, November 2011, p.1

transportation network that links all of PNG<sup>4</sup> and an ambitious target of 25,000km of national roads in good condition by 2030. By doing so PNG hopes to accelerate economic development and thereby address its poor MDG performance.

The PNG Government, with Asian Development Bank (ADB) assistance, is also preparing a 20-year National Transport Strategy (NTS) to replace the National Transport Development Plan 2006-2010. As the major long term planning document for the sector, the NTS is expected to map the sector's implementation of the DSP as well as key reform priorities. Development of the NTS is ongoing. A final draft is expected to be presented to the new PNG Government following in 2013.

The Medium Term Development Plan 2011-2015 (MTDP) is the most important short to medium term planning document. The MTDP sets specific 2015 targets against multiple deliverables across the transport sector. The MTDP aligns with and supports the longer term DSP<sup>5</sup>:

- Rehabilitate and upgrade the 16 national priority roads (4,216km) – 2,500km sealed and in good condition by 2015
- Rehabilitate and upgrade the remainder of the national road network (4,244km) – 1000km sealed and in good condition by 2015
- Construct the 16 missing links – survey and feasibility studies completed and one road constructed by 2015
- Construct 4 economic corridor national roads – survey and feasibility studies completed and one road constructed by 2015
- Rehabilitate and upgrade of 4 national ports and 10 jetties by 2015
- Restore 47 small navigation aids by 2015
- Upgrade to certification standard of 22 national airports
- Rehabilitate 10 rural airstrips.

Five year Medium Term Transport Plans (MTTP) are expected to be developed to correspond with the five-year planning periods of the current and future MTDPs and will follow the yet to be developed NTS.

In 2011, following the DCT Review, Australia and PNG agreed to a new strategic direction for the aid program that narrows the focus to a few key sectors and identifies specific areas where tangible results can be demonstrated. Australian assistance will, as a result focus on delivering better health and education outcomes and will continue to fund the transport infrastructure and law and justice sectors. Support for economic and sub-national governance will also be provided to assist central agencies and sub-national governments to better budget, target, deliver and account for expenditure on core services. Civil society support will encourage local approaches to service delivery through community based interventions.

Following agreement of this new strategic direction Australian and Papua New Guinea (PNG) Ministers approved in October 2011 four revised schedules under the PNG-Australia Partnership for Development (the Partnership). Transport Infrastructure was identified as Priority Outcome Three.

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<sup>4</sup> PNG Government, Papua New Guinea Development Strategic Plan 2010-2030, p.65

<sup>5</sup> PNG Government, Medium Term Development Plan 2011-2015, pp.46-52

Under the Transport Infrastructure Schedule to the Partnership (the Transport Schedule), which was updated again in December 2012, Australia and PNG are aiming to achieve by 2015 the following:

- 75 per cent of national priority roads in good condition
- aviation and maritime transport services consistently moved towards full compliance with international safety and security standards.<sup>6</sup>

These targets respond to the high level strategic direction outlined following the DCT review, align with the MTDP, build on the foundation established through TSSP Phase 1 and recognise Australia's comparative advantages in the transport infrastructure sector. The targets will be reviewed in late 2012.

## 2.3 The Transport Sector's Structure<sup>7</sup>

The key central agencies (Departments of Treasury and Finance, National Planning and Monitoring, Prime Minister and National Executive Council) have the primary role leading development and strategic planning and are responsible for budget allocation and accounting of public finances. The Department of National Planning and Monitoring is specifically responsible for cross-sectoral policy coordination.

The **Department of Works (DoW)** is the primary agency responsible for the management, maintenance and development of the national road network. DoW maintains a limited capacity to undertake works itself. However, for more than 15 years the majority of works have been implemented through outsourcing to private sector contractors. The **National Roads Authority (NRA)** was established to provide a dedicated road fund and to oversee the maintenance of national road assets once they have been brought into good condition and transferred from DoW. The NRA outsources all civil works and supervision to the private sector. At present, NRA only receives finances (primarily from a fuel levy) sufficient to manage one third of the network currently gazetted to it. Over the last two years the NRA has become fully operational, but its institutional relationship with DoW and other stakeholders is still evolving. The **National Road Safety Council (NRSC)** is responsible for determining measures which will improve road safety and control and coordinate their implementation, to promote road safety research and analysis and to deliver education and awareness campaigns. The NRSC receives limited funding from government and is increasingly seeking private sector sponsorship.

Under the 1995 Organic Law which established the decentralisation of services, provincial government, districts and local level governments are responsible for all roads that are not designated as national roads. These are funded through a variety of decentralised financing mechanisms that are poorly coordinated and ineffectively monitored. Confusion on responsibilities between the DoW, NRA, and the provincial governments exists around issues of financing arrangements, planning, implementation and monitoring. In each province there is typically a Provincial office of the National Department of Works as well as the Provincial Government's Division of Technical Services. The relationships and coordination between these bodies varies from province to province and depend largely on personal

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<sup>6</sup> The appropriateness of performance targets are under continual review. The last revision which concluded in December 2012 responded to the outcomes of the PNG-Australia Development Cooperation Treaty Review and aligned the document with the MTDP. The aviation and maritime targets require further revision and are expected to be revised in 2013 to better articulate the safety and security intent of Partnership for Development support.

<sup>7</sup> see Annex 1 for detailed description of agencies and functions



relationships rather than established policy and process. The technical capacity of the provincial government offices is generally weaker than national agencies based in the provinces and their resourcing is poor and erratic.

The **Department of Transport (DoT)** holds a policy, planning and reporting mandate. With the sector statutory bodies it is responsible for national and international obligations in civil aviation and maritime transport. DoT has relinquished aviation regulatory functions to the **Civil Aviation and Safety Authority (CASA)** but it retains oversight of International Ship and Port Security (ISPS). The statutory agencies within the sector are – **the PNG National Airports Corporation (NAC); PNG Airservices Ltd (PNGASL); the Accident Investigation Commission (AIC); PNG Ports Corporation Ltd (PNGPCL); and the National Maritime Safety Authority (NMSA)**. NAC is responsible for the management and operation of all national aerodromes while PNGASL provides air traffic management services. PNGPCL is responsible for national ports. The numerous rural airstrips and jetties are owned and managed by provincial or district government, private operators or not at all.

The **Transport Sector Coordination Monitoring and Implementation Committee (TSCMIC)** was established by the PNG Government in 2006 to oversight and monitor implementation of PNG transport sector plans. Its members include all sector agencies and relevant central agencies. AusAID is the sole development partner member. A Subcommittee on Aid Effectiveness is largely inactive, but efforts are underway to revitalise it. A Subcommittee on Transport Security was revitalised in 2011.

PNG is expected at some point to establish an Independent Infrastructure Authority to manage revenues earmarked for infrastructure in accordance with the passed Sovereign Wealth Fund legislation. The establishment of the authority is dependent on the successful conclusion of further legislative processes that may be impacted by the outcome of the 2012 elections. The final shape of this Authority and impact on the sector's structure is not yet known.

The private sector also contributes to the sector primarily through the PNG Government's Tax Credit Scheme. This is typically in the form of transport infrastructure to support the companies' business, for instance access roads to a mining or logging area. Infrastructure projects from the tax credit scheme in most cases are not managed, accounted for or quality assured by transport sector agencies and are off-budget.

## 2.4 What are the Development Partners Doing

The international donor community has played a pivotal role in supporting transport infrastructure through financing, policy development and policy influence and providing vital technical assistance in areas of weakness and shortfall.

Australia maintains a whole of sector presence in the transport sector. The majority of assistance (\$60 million annually) is delivered through TSSP which supports agencies improve their capacity to deliver their mandates and provides direct financing of asset maintenance. Activities that link Australian and PNG Government transport agencies and provide technical assistance focusing on safety and security (\$1-2 million annually) are also delivered through the Strongim Gavman Program (SGP) and through the PNG-Australia Memorandum of Understanding in the Transport Sector (MoU).

The ADB, the World Bank and the Japan International Cooperation Agency (JICA) are, other than Australia, the major development partners in the PNG transport sector. ADB has a robust presence in the roads, aviation and maritime sectors through its extensive loan programs. It focuses on capital



development, upgrading and rehabilitation as opposed to maintenance in most cases. The ADB portfolio features a significant road improvement program in the Highlands (loan USD600 million), a major airports improvement program (loan US\$565 million) and a major project to redevelop and extend the Lae Port (US\$154 million loan). The ADB Board has also recently approved a bridge replacement activity (loan US\$95m). The World Bank's current focus is on road maintenance on national and provincial roads, including transport links to its investments that support opportunities for smallholders to earn greater returns from cash crops. The World Bank has a US\$64 million loan program focused on road maintenance and rehabilitation in specific provinces which ended in 2012 and has signed a new loan agreement of US\$49 million to deliver a second phase of this program. JICA's transport program recently completed a large bridge construction activity in Bougainville and is considering options for future support.

There is limited capacity for other donors to make significant new commitments over the next five year phase of TSSP. The World Bank has some scope to provide additional financing in the order of US\$40-50 million. However, even if fully realised this would only add another US\$10 million annually to the sector over the next five years. Similarly, the ADB is unlikely to increase its loan portfolio beyond its current significant suite of activities. See Annex 2 for a more detailed summary of all development partner activities in the sector.

## 2.5 The Major Constraints and Challenges in PNG's Transport Sector

The sector continues to face many challenges that constrain the government's capacity to effectively manage the multi-modal transport network it is responsible for.

### Ability to consistently mobilise and efficiently allocate adequate financial resources

Unsustained political commitment and competing national budget demands have in the past constrained the prioritisation of funding for the maintenance and rehabilitation of existing transport infrastructure assets. While overall budgets to the sector have increased significantly since 2005 the inclusion of lower economic priority projects is an ongoing concern. In 2012 although PNG Government funded development budget allocations to the transport increased by almost 100%, more than a quarter of projects were not initiated by sector agencies. Even with increases in recent years, partly a result of a stronger government revenue position, funding is still a fraction of what is required to maintain and rehabilitate existing assets in reasonable condition. The 2012 budget represented just over one third of MTDP estimated required funding. Annex 3 shows forecast financing requirements for the road sector based on MTDP targets and recent budgets and allocations across Government agencies and loan and grant donors.

There has been much speculation in recent years about the potential for PNG to source soft loans (with varying degrees of concession) in the order of many billions of kina to deliver some of the urgent upgrading activities the sector requires, for instance upgrading and expanding the capacity of the Highlands Highway. A loan of this magnitude from China was discussed in the lead up to the 2012 elections. As Annex 3 indicates these loans could potentially address part of the sector's huge financing needs and play an important role upgrading key assets. However, they will not remove the other significant constraints in the sector. In fact if not carefully managed such a loan could potentially exacerbate some issues. Should such loans eventuate they will dramatically alter the sector financing picture and will impact decision making about the appropriate use of grant aid in the sector and where to best direct AusAID resources, which will still be required. Access to the multilateral banks concessional financing could potentially be restricted as well should PNG take on such a loan.

### Ability to spend available resources

Although there is a significant funding gap in the sector, current annual rates of expenditure do not meet available funding. This is linked to public and private sector capacity constraints as well as cumbersome government procurement and financial management processes. Recent spending performance for TSSP financed activities has improved with expenditure in 2011 approximately 30% higher than in 2010. However, accurate data across the whole resource envelope is not available. Even at the improved rates there still exists a significant annual underspend against annual workplans.

### Public sector capacity

A public sector workforce that is aging and under resourced, within a wider national environment of skills shortages coupled with younger management cadres with limited public service and managerial experience, has resulted in severe technical capability shortages within the transport sector. All transport sector agencies suffer from the problem of being unable to attract and retain appropriate skilled staff given the relatively poor remuneration, but this is particularly acute in the line agencies when compared to the state-owned enterprises and the private sector. Engineering, finance and IT are areas of significant competition. The public sector is further constrained by cumbersome and outdated procurement processes that require significant reform.

### Policy environment and institutional structures

Although the DSP and MTDP have articulated the high level expectations of government over the next 20 years, there remains a lack of clarity on the reform priorities to achieve these targets and there remains confusion over the roles and responsibilities in some key transport agencies. This is impacting upon transport sector asset maintenance and improvement. Finalisation of the NTS and MTTP must be a high priority for the sector therefore. These policy documents are expected to define a whole of sector reform agenda that government and donors can support to address current constraints in the sector.

The legislation relating to the development of a Sovereign Wealth Fund requires the establishment of an Independent Infrastructure Authority to manage funds earmarked for infrastructure. The establishment of a new Independent Infrastructure Authority may result in poor governance arrangements, duplication or overlap with existing infrastructure agencies, pose a distraction to other institutional reform priorities, especially with the national budget process, and therefore exacerbate existing issues.

### Governance and leadership including accountability and reporting

Improvement is required to address the inability to mobilise resources, consistently adhere to policy and to deliver on transport asset management plans. Further work is required to establish better financial and fiscal management and policy formulation, implementation and monitoring. Linked to this is a general lack of accountability for performance in part a consequence of poor information and reporting flows.

### Private sector capacity

Within the pool of contractors willing to work for the public sector, there is limited capacity to deliver the required quantity and quality of transport improvement, maintenance and rehabilitation works, facilities and other services. Over the last 4-5 years the issue of low capacity has likely been exacerbated by the increased activity in the mining and petroleum sector, and particularly the demand for

engineering skills from the very large liquefied natural gas (LNG) project. However, the impacts of the PNG LNG project are not seen as critical considering the ongoing successful award of AusAID financed road maintenance contracts. In fact the effects may be beneficial for the road contracting industry in the medium term as expanded capacity is redeployed outside the mining and petroleum sector (i.e. as work on the PNG LNG Project winds down and experienced contractors look for opportunities in other sectors, including in the public sector). This is already beginning to occur in some cases.

### Procurement framework

The PNG Government procurement framework has not been substantially updated since 2005 and is in need of urgent reform. As already indicated and identified by sector agencies, Government procurement processes are a significant constraint to the effective delivery of transport infrastructure services. For instance, all PNG Government contracts above PGK 300,000 in value must be approved for award by the Central Supply and Tenders Board (CSTB) and the contract subsequently cleared by the PNG Solicitor-General. All tenders over PGK 10 million in value have to be further approved by the National Executive Council before the contract can be awarded. This in itself can add six to nine months to the overall procurement process. The often long delays by these supervisory bodies in approving contracts leads to loss of progress and momentum for sector agencies, an inability to spend their entire annual budgets and additional risk-related costs levied by the bidding contractors.

### Culture of maintenance and rehabilitation of transport infrastructure assets

After many years of development partner intervention, the need to adequately fund maintenance of existing priority assets is now recognised in major PNG Government policy documents and is demonstrated by improving budgetary allocations. The Medium Term Development Plan 2011-2015, building on the previous Medium Term Development Strategy, includes clear statements and targets around the need to prioritise maintenance of existing assets. However, political imperatives have resulted in inadequate resourcing and over-time a weak capability to plan for, budget, and program maintenance of the transport network which is weak and starting from a low base. The impact of lack of attention to maintenance on longer term costs cannot be overstated<sup>8</sup>.

### Difficult topography and soil conditions

Land transport is constrained by the mountainous terrain in the north and east which divides the country and extensive coastal swamps that dominate the southwest. This makes it difficult and expensive to develop and maintain road infrastructure and effectively precludes building road links between most major cities. There are severe costs inflicted by the combined impact of high rainfall and a lack of basic local road maintenance (e.g. clearing drains and culverts).

### Other factors

Factors such as compensation demands by landowners, parochialism and the growing risks to infrastructure from climate change can exacerbate the challenges cited above.

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<sup>8</sup> The South African National Road Agency Ltd. (SANRAL) estimates that repair costs rise to six times maintenance costs after three years of neglect and to 18 times after five years of neglect. World Bank, "Why road maintenance is important and how to get it done" Transport Note Trn-04, June 2005

## 2.6 TSSP Phase 1 – Progress to Date

With the establishment of the whole of sector TSSP in 2007 Australia committed to a 15 to 20 year program of asset maintenance investment as well as whole of sector governance strengthening and capacity development.

TSSP Phase 1 was designed following decades of project aid. Its guiding principles were:

- donor support for the transport sector should be policy driven
- it should support PNG Government leadership of the sector
- it should operate within PNG Government systems and processes and assist to build capacity within them
- it should focus on prioritised maintenance
- it should be based on the identification of the entire resource envelope required
- the PNG Government should have committed funding
- PNG Government funding to the sector should be in line with the policy framework.

The **goal** for TSSP was *to contribute to improved governance and performance in the PNG Government's delivery of transport infrastructure services in support of broad based economic growth through a flexible and responsive program of activities in a manner that fosters transition from external to internal funding.*

The goal was to be achieved through four components.

- **Line Agency Public Sector Reform and Governance** - to support operational reform in the transport sector agencies through improved public administration and sector coordination.
- **Strengthening Central Agency Support** - to strengthen linkages between the transport sector agencies and central agencies so that service delivery and reform programs are actively supported.
- **Provincial Transport Services** - to support improved performance of provincial, district and local level governments to deliver transport services in selected locations. This component was suspended in 2009 by agreement between AusAID, Department of Transport and the Department of Provincial and Local Government Affairs recognising that the program did not have the resources or capability to address issues beyond the national transport network and in light of the higher economic priority of national asset maintenance.
- **Prioritised Transport Asset Maintenance** - to support delivery of an affordable, contestable and prioritised national transport network.

It was central to TSSP's approach that it worked to bring together the agencies that have responsibilities for land, maritime and air transport infrastructure into a coherent sector, which was achieved. It was intended to support the sector:

- to develop common approaches to key areas of public sector reform that affect the sector including expenditure management, rightsizing and human resource capacity development and rationalisation of institutional functions; in short to assist agencies in the sector to meet stated PNG Government aims for public sector reform
- to plan, budget for and implement transport sector initiatives (particularly focusing on maintenance of existing assets) that recognise key economic advantages of links between land,

marine and aviation infrastructure and encourage investment in the highest priority transport sector initiatives

- to encourage synergies and contestability within the sector and to promote investment at an affordable level for PNG
- to assist sector leaders to build the leadership and management capacity in their agencies through commonly developed measures and to provide a channel through which leadership development and appropriate innovation can be rewarded
- to develop a more coherent leadership and policy framework for the transport sector under the guidance of the Department of Transport
- to establish policy for the sector as a mandate for decision making, a basis for measurable implementation and for the choice of infrastructure maintenance priorities
- to develop common methods and practices for data management and sharing and performance assessment and monitoring in the sector
- to provide an efficient way in which technical and other assistance can be channelled to agencies to the best advantage
- to offer donors and other funders the best opportunity to leverage PNG Government resources to match their own and to build all stakeholder confidence towards the agencies involved in the sector.

TSSP has provided PNG transport agencies with predictable access to funds for infrastructure maintenance, particularly in the roads sector, and helped to build organisational capacity and improve the planning and management of service delivery. It has helped improve accountability and leadership by strengthening TSCMIC, and achieved significant gains in embedding a “maintenance first culture” in national policies and budgeting processes. It has also promoted better planning and improved coordination between transport agencies and stakeholder’s alike. TSSP has undertaken foundational work and contributed to the development of policies on cross cutting issues and embedded these within the sector by assisting with the development of agency specific strategies.<sup>9</sup>

Program monitoring and evaluation has indicated that a solid foundation has been built, that governance is improving within transport agencies and key relationships and understanding has been built between central and line agencies. In addition the program has financed maintenance and rehabilitation works on around 2,000km of national roads annually as well as supporting the upgrade of key aviation and maritime systems and processes. Specific achievements highlighted in program monitoring include:

- corporate plan development and application in key counterpart agencies
- alignment of national priorities, corporate priorities and budget preparation
- improvements in financial reporting
- coordinated implementation of the transport sector legislative drafting plan
- collaborative whole of sector preparation of the Transport Sector Development Budget bid
- improvements in the timeliness and quality of asset maintenance work plans

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<sup>9</sup> See TSSP Mid Term Review, TSSP Annual Sector Performance Reports 2009 , 2010 and 2011. [www.pngtssp.com](http://www.pngtssp.com)

- strengthened procurement processes including establishing mechanisms to improve contractor performance.

However, as indicated earlier there remain significant constraints in the sector despite these achievements supported by the first five year phase of TSSP.

Specific areas where success was limited include:

- inconsistent improvement across the sector, with Government departments in particular unable to realise the ambition of the PNG Government public sector reform agenda
- improvements generally quality of process and system focused. Limited impact on quantity of service delivery output
- value for money of asset maintenance works not measured and not used as a management tool
- lack of direct input to technical supervision of works and limited understanding of quality of works completed
- limited impact on donor harmonisation
- insufficient integration of all Australian funded programs operating in the sector
- lack of transparent monitoring of budget allocation and expenditure performance
- inadequate progress developing and operationalising whole of network multiyear planning and budgeting processes including pipeline planning and development
- inadequate progress achieving fit for purpose delivery agency structures
- inadequate data collection and information management processes.

The original guiding principles of the TSSP remain valid and relevant to supporting the sector respond to the challenges it faces. However, there is a need to more explicitly acknowledge that this foundation, while necessary, is not sufficient to achieve the challenging service delivery results expected and outlined in PNG Government planning documents and the Partnership.

## 3 TSSP Phase 2 – Building on Lessons Learned

### 3.1 Overarching Principles

The MTDP and the Partnership have set the priorities through to 2015. TSSP2 will need to support achievement of these priorities as well as position the program to determine appropriate priorities beyond 2015.

Four general issues will be key to the successful delivery of TSSP2 and strengthening of the program building on TSSP1.

**Coherence:** the program will need to be coherent with the overall PNG–Australia development cooperation agenda as defined in the Partnership. The transport program will support economic growth and health and education service delivery and reduce AusAID and donor fragmentation. All support will be coordinated and strategically directed through one whole of sector program. TSSP2 will more effectively and more comprehensively address the range of cross-cutting issues including gender equality, environmental management, HIV/AIDS and road safety/disability.

**Asset Maintenance:** the program will focus on agreed priorities and achieve tangible results in line with Australia and PNG’s commitments under the Partnership. An appropriate balance between hard and soft infrastructure investment will be maintained. As a guide and based on past experience, 80% of expenditure will be on infrastructure and capital works and no more than 20% will be on governance and capacity building.

**Productivity:** the program will aim to maximise the productivity of the whole resource envelope (PNG Government, AusAID, other donor). Productivity improvements will be supported by encouraging accountability, innovation, effective performance management and facilitating necessary public sector reforms.

**Value for Money:** the program will aim to maximise the efficiency of resource allocation. It will support better monitoring and reporting of real costs as an information resource for the sector and encourage sustainable and fit-for-purpose infrastructure design and institutional structures.

In line with these general principles, the original concept of TSSP and the sector context outlined in Section 2, the second phase of TSSP2 will focus on:

- increased service delivery results and improved expenditure performance by strengthening road asset maintenance contracting models, procurement processes, project pipeline development and project supervision
- better targeted technical assistance linked to service delivery performance and adopting a wider variety of approaches – that is, focus where there is a commitment for meaningful change, support will have an impact and where change is linked to service delivery results
- a strong analytical and research component to consider, for instance, options beyond current priorities as national road network performance targets are approached
- the flexibility to respond to changing priorities and potentially changing institutional arrangements such as the establishment of a new Independent Infrastructure Authority

- meaningful PNG Government commitment to increase funding to priorities and pursue key reforms.

This will be achieved by:

- providing funding for transport asset maintenance and rehabilitation and strengthening and rebuilding processes and systems that manage that maintenance program
- funding technical assistance including training of senior technical safety and regulatory staff and rebuilding and enhancing the essential business systems and processes of the safety and security regulators and service delivery organisations
- engaging more deeply with the government to influence and leverage solutions to some of the intractable problems that exist in the sector, improve the consistency of funding flows, address procurement blockages and create a demand for accountability and better performance
- strengthening approaches to program management and monitoring for results, including understanding and communicating how Australian aid has led to positive change
- maintaining flexibility to change approaches when aid is not achieving expected results, including withholding support where the environment is not conducive to positive change
- basing decisions to support governance reform, institutional strengthening and capacity building at the national levels of government on evidence of political and executive commitment to action targeted reforms and specific diagnostics of need to address accountability, impact, productivity and value for money in service delivery.
- working through TSCMIC to strongly support sector coherence and coordination and to improve aid effectiveness, including strong donor coordination
- building ownership and accountability to manage expectations and monitor performance
- strengthening the integration of Australia's support mechanisms (TSSP, SGP, MoU) to deliver cost effective and appropriate levels of support to the sector.

### 3.1.1 A new component structure

For the second phase of TSSP a new component structure is proposed that is better aligned to current strategic priorities and responds to the implementation lessons of TSSP1. The structure captures and retains the key elements from TSSP1, but shapes them to the new context. TSSP2 will be structured around three strategic components with specific objectives for each component:

1. Priority Land Transport Assets Maintained
2. Critical Transport Safety and Security Systems Operating Effectively
3. Effective Agency and Sector Engagement, Performance and Accountability.

Continuity from TSSP Phase 1 as a process of engagement is critical for all three new components proposed for the second phase. TSSP has credibility. PNG Government stakeholders are committed to the program; they participate and value AusAID's engagement through a holistic approach.

The following describes in detail the implementation lessons from TSSP1 relevant to each strategic component and based on this outlines an approach for TSSP2.



## 3.2 Component 1 - Priority Land Transport Assets Maintained

Land transport asset maintenance has been and will continue to be the big spending element of the proposed program. If successful, Australian expenditure on road maintenance and rehabilitation could increase to about \$75 million per annum from its TSSP1 peak of \$42 million in 2011/12. Australia has agreed in the Partnership Schedule that the joint PNG–Australia target **is 75 percent of the priority national roads in good condition by 2015**. This strategic component will replace TSSP1 Component 4. Capital development and asset maintenance in the aviation and maritime sectors will be limited to areas of safety and security (under Component 2) and where a comparative advantage of Australian grant aid funding can be demonstrated.

### 3.2.1 The context at the end of TSSP1 and lessons learned

#### Department of Works

In TSSP1, DoW was the primary beneficiary of Australia's support. Funding and technical assistance was provided to DoW to support the maintenance and rehabilitation of national priority road assets. TSSP1 directly funded road maintenance contracts through a trust account mechanism using DoW systems. To support delivery of the TSSP funded road maintenance contracts, four Project Management Consultancies (PMCs) contracted to DoW, but funded by TSSP, assisted DoW plan, scope and deliver provincial maintenance programs and build DoW capacity at the provincial level. The four PMCs covered the 10 provinces in which TSSP funded road maintenance activities. TSSP1 also provided technical assistance, primarily long term advisers managed by an Implementing Service Provider (ISP), to improve the systems, processes and competencies at the national headquarters level. Through the ISP a number of engineering advisers based in DoW Port Moresby, but travelling regularly to the provinces, provided additional oversight and further support for better communication, work plan development and implementation between provinces and headquarters.

It is evident that the considerable technical assistance that has been provided under TSSP1 has led to potentially sustainable capacity building in areas such as strategic/corporate planning, HR management and development, annual work planning and budgeting and financial and operational reporting to management and externally. That said, the overall capacity of DoW in these and other areas remains relatively weak.<sup>10</sup> Although DoW now has some improved systems and processes at a corporate and operational level, the significant improvement in capacity required to deliver the quantum of road maintenance and rehabilitation needed to achieve road condition targets has not been reached. Capacity building in the sector is recognised as requiring a long term commitment.

TSSP1 funding was weighted heavily towards ongoing routine maintenance. In 2011 for instance, almost 50% of expenditure went to routine maintenance compared with 22% for rehabilitation and 8% on construction. This has been justified on the basis that while PNG budget allocations are improving (see Annex 3 showing recent appropriations) the PNG Government has not provided sufficient or predictable funding for basic maintenance and TSSP funding was therefore necessary to ensure effective ongoing asset management. The focus of the program was rightly on embedding the priority of ongoing maintenance and supporting that through funding and technical assistance. However, in

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<sup>10</sup> AusAID Assessment of Financial Management Capability and Capacity and Associated Risks and Benefits for Assistance to PNG through the Transport Sector Support Program, September 2011, p.5

order to achieve the Partnership and MTDP road condition targets there will need to be significantly increased expenditure on larger rehabilitation and upgrading projects. Furthermore, it is not appropriate for donors to continue funding what is a recurrent responsibility of the PNG Government over the long term.

Under or delayed expenditure against workplans was common place in TSSP1. In 2011, only 78% of the agreed TSSP work plan was achieved. Achieving significantly higher expenditure against work plans will also be necessary to achieve road condition targets. Box 2 highlights some of the contributing factors to under expenditure.

## Box 2

Causes of under expenditure against work plans in the roads sector
<p>A major concern during TSSP1 has been under expenditure against annual work plans. The failure to achieve full expenditure slows progress towards road condition targets. There are various causes, including:</p> <ul style="list-style-type: none"> <li>• single year budgeting and planning cycles</li> <li>• limited use of multiyear maintenance contracts</li> <li>• a drift towards smaller value contracts in order to circumvent procurement delays experienced on larger contracts</li> <li>• delays in the preparation and submission of initial workplans (often lost or misplaced between the Province and DoW HQ)</li> <li>• delays in the scoping of works and preparation of contract documents</li> <li>• documentation not prepared using current DoW contract documentation</li> <li>• inclusion of items in contracts that are not eligible for AusAID funding (like overheads)</li> <li>• engineer's estimates exceed the approved value and need to be returned to the Province for re-scoping or for additional funding to be sought</li> <li>• procurement process delays such as: <ul style="list-style-type: none"> <li>○ delays in the evaluation of tenders by DoW</li> <li>○ after tenders are opened, the documents are held up at CSTB for registration</li> <li>○ following evaluation, CSTB rejects or queries the recommended contractor, and tender is sent back to the Technical Evaluation Committee for further consideration</li> <li>○ delays in receiving clearance from the Solicitor-General</li> <li>○ delays in approvals for high value contracts by the National Executive Council (required to approve all contracts over 10 million kina).</li> </ul> </li> </ul>

## Use of project management consultancies (PMCs)

Inconsistent and at times poor performance by the PMC contractors engaged to support the work program planning, procurement and implementation process contributed to the weakness in general service delivery performance and failure to achieve higher expenditure rates. Specific PMC performance concerns and constraints during TSSP1 include:

- inconsistencies in quality and performance across PMC contracts
- inflexibilities resulting from multiple small PMC contracts
- poorly articulated and misunderstood roles and responsibilities of the implementing partners
- no linkage between workplan delivery or quality and PMC basis of payments
- conflict and overlap in the roles between the PMC Team Leaders and ISP engineering advisers
- Terms of Reference that do not facilitate the enforcement of contract provisions (e.g. wording is “support” and “encourage” rather than “deliver” and “achieve”)
- poor PMC contract management and enforcement by DoW and the ISP
- poor coordination, communication and engagement between executive and provincial levels of DoW, the PMCs, the ISP and AusAID
- limited competition in the market place for PMC contractors.

During TSSP1, the PMC contractors did not have delegated authority. However, the PMCs were authorised to instruct road contractors on quality issues on site. This frustrated the contract management relationship between the DoW Provincial Works Manager (PWM) and the contractor, which at times was further frustrated by the tendency for contractors to seek redress directly with DoW Headquarters on disputes. The PMC did have some *de facto* authority through the power to refuse to certify claims for payment. This power was rarely used. This leads to the assumption that either all work done by the road contractors was meeting quality specifications, or, that the PMC was reluctant to take responsibility for quality issues and exercise the power to withhold payments.

A key issue therefore is the need to improve the clarification of roles and contracting relationships with the contractors. More widespread use of FIDIC based contracts – where independent supervision consultants supervise and verify works as the Engineer (the Employers Representative) – would assist in addressing some of the operational relationship issues that emerged during TSSP1. FIDIC based contracts are already used on ADB loan financed activities and will be on the second phase of the World Bank roads program.

DoW has indicated that it will seek to introduce FIDIC Conditions of Contract as the contracting standard for use in PNG Government funded works during 2013. There is an opportunity to support this move and facilitate and assist DoW achieve this significant reform.

### The quality of civil works

TSSP1’s deliverables and associated performance indicators focussed almost entirely on capacity building objectives. This is despite the program spending over \$40 million annually on maintaining the PNG national road network and where expenditure effectiveness, or “value for money,” was an overarching objective. Under TSSP1 there did not exist any formal contractual obligations on the ISP or DoW to provide assurance that road works contracted had been delivered accordingly.<sup>11</sup>

Across the sector, there is currently limited detailed knowledge (except perhaps JICA who supervise their own works) about the standard of completed works – i.e. are they being delivered strictly to

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<sup>11</sup> AusAID, Assessment of Financial Management Capability and Capacity and Associated Risks and Benefits for Assistance to PNG through the Transport Sector Support Program, September 2011, p.2

contract specifications. Neither PNG Government nor donors currently engage technical audit consultants to provide assurances on the quality of works delivered.

However, it is known that road rehabilitation and betterment works are expensive in PNG by world standards and many roads fail long before their expected lifespan. In some cases this is due to very difficult terrain and soil conditions combined with inadequate routine maintenance. In many other instances though, premature road failure is believed to be the result of poor base preparation, drainage and associated work by the contractors. This has been confirmed to be the case in detailed investigations of specific road failings, e.g. the Wabag to Wapenamanda Road in Enga Province and East Cape Road in Milne Bay.

This circumstance can only arise if the works supervision arrangements are ineffective and contractors are being paid for work that is sub specification and not completed according to the standards set out in the contracts. It is a significant cost to government budgets (National and Provincial) if major roads require reconstruction after only 3-4 years instead of 15-20 years.

It will be necessary to strengthen the levers to address this by, amongst other things, supporting the establishment of independent technical audit processes to check, report on and make recommendations to improve the quality of works.

### NRA – A need to engage

TSSP1 did not provide support to NRA.

NRA combines both the functions of a road fund (that receives revenue from a fuel levy) and a roads authority that oversees management of the road network. Typically these functions are separated. To date, over 2,124km of the national priority road network has been gazetted to the NRA.

NRA is a young organisation that lacks tested systems. It has a limited revenue stream totalling some K16-18 million per year; only enough to undertake basic maintenance on about one third of the network gazetted to it. There are concerns that the NRA's atypical governance arrangements - whereby the management and oversight of the off-budget road fund and road asset management functions are held within a single organisation - create risks to the judicious and transparent management of funding. This situation is compounded by the organisation operating under outdated and incomplete policies and legislation.<sup>12</sup> Reform is required to clarify the expected long term role and mandate of the NRA vis-à-vis DoW and to ensure potential governance risks are mitigated. Duplication and overlap of roles with DoW is already occurring.

TSSP needs to engage with NRA as it takes up its maintenance mandate and support the Government to clarify roles and responsibilities, including support to strengthen NRA governance arrangements.

There are a number other factors which will shape any support to NRA including:

- lack of significant government funding support
- limited but improving capacity to deliver maintenance using a total out-sourcing approach
- uncertainty over the establishment of the Independent Infrastructure Authority. The outcome of on-going discussions may impact on the organisational structure and governance of the sector

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<sup>12</sup> See Kennard, ADB TA 7420(PNG) Improved Road User Charges and Private Sector Participation in Road Development, December 2011. The analysis confirms that NRA is operating under legislation and organisational structures that need updating. The ADB TA identified a pathway for the further development of the NRA, but the NRA does not have the technical skills and experience to undertake such a reform program unassisted at this time.

and the manner in which it plans and delivers services. The future of the NRA is linked to this discussion.

### Bougainville – still a special case

Australia has provided significant transport sector support to Bougainville for over ten years. During TSSP1 this support was delivered through a PMC subcontracted to the TSSP ISP that was directly responsible and accountable for planning and implementing the works program. The arrangement was largely external to either PNG or Bougainville Government systems. This assistance has been critical to the reestablishment and maintenance of the bulk of Bougainville's road network and was crucial to peace and stabilisation following the conflict there. However, while entirely effective ensuring the trafficability of over 500km of Bougainville roads the approach is not sustainable over the longer term. Direct delivery also increases the security risks of those working on the program.

There is a need to review the delivery mechanism in Bougainville to engender greater ownership by the Bougainville Government and build their capacity to deliver services. This will help both the sustainability of AusAID's investments and to reduce the program's exposure to a perception of direct responsibility for the road network.

Investing in the transport sector in Bougainville will continue to be a major part of the Australian transport program in line with Australia's national and strategic interests and Australian Government priorities in PNG. The direction TSSP takes to improve the sustainability of this investment will need to align with the Autonomous Bougainville Government's draw down of power arrangements under the Bougainville Peace Agreement and AusAID's general approach to engagement in Bougainville.

### Other lessons

Additional road sector implementation lessons from TSSP1 include:

- TSSP needs more resources for regular independent review of performance particularly to assist in holding the PMCs accountable
- tender bids, contract prices and completed contract costings need to be actively monitored and used in tender evaluations and contract negotiations to increase value for money. Design concepts need to be more accurately reflected in contracts, e.g. building small contractor skills through community contracting of minor works
- more voice for and engagement with users not just on technical, planning and programming matters but also the opportunities and constraints that exist is required
- road safety assessment and planning needs to be better built into the maintenance pipeline
- private sector capacity constraints in terms of the numbers of good quality contractors capable of delivering and interested in public sector work remain significant
- the sector requires ongoing support to improve prioritisation processes
- detailed engineering designs are a necessary requirement for major rehabilitation projects.

### 3.2.2 Options for TSSP2

It is proposed that DoW will continue to be the major and primary beneficiary of Australia's support through TSSP2. However, TSSP2 should also commence a staged engagement with the NRA. In addition, TSSP2 should continue to deliver significant support to the roads sector in Bougainville in

line with Australian priorities, but with a modified approach. There will need to be a concerted focus, over time, to build the capacity of the ABG Division of Technical Services (DTS) into the implementing agency on Bougainville. The starting point for TSSP 2 and the approach adopted will be the five years of implementation lessons from TSSP1, current PNG Government policy and practice and Australian strategic priorities.

Three overarching issues are central to determining an appropriate delivery approach for the land transport sector in TSSP2 considering the lessons learned and context described above. There is a:

- need to increase the quantum of works and develop a better understanding of the quality of works. To achieve the jointly agreed road condition targets under the Partnership and MTDP this will need to include a greater focus on larger rehabilitation and upgrade works as well as routine maintenance
- need to clarify and strengthen performance management and accountability arrangements between DoW, PMCs and Road Maintenance Contractors to improve productivity, quality control and value-for-money
- need to continue to support the sector's delivery agents (DoW, NRA and ABG DTS) strengthen their technical capacity and systems to fulfil their respective roles as asset managers to efficiently deliver a reliably trafficable road network.

### Department of Works

Various delivery options have been considered to improve support to DoW.

- Continue the TSSP1 approach.
- Consolidate the ISP and PMCs into a single multipurpose service provider (essentially the Managing Contractor Model).
- Adopt a Project Implementation Unit implementation and oversight model (i.e. the ADB and World Bank delivery model).
- Improve the current model by:
  - strengthening the PMCs and their performance management,
  - introducing an independent technical audit consultancy
  - focusing ISP support on corporate governance, accountability and systems capacity building to enhance sustainability
  - improving PMC mentoring, training and staff development at the provincial level
  - introducing a more robust contracting framework (e.g. FIDIC Multilateral Development Bank (MDB) Harmonised Edition).

The options and assessments of their feasibility are summarised in Table 2.

**Table 2**

Option	Description	Assessment of viability
Continue TSSP1 approach.	<p>PMC approach with 4 PMCs in DoW remains the same.</p> <p>PNG Government home grown contract documentation used</p> <p>ISP/PMC relationship and support levels remains the same</p> <p>All civil works outsourced to private sector contractors.</p>	<p>Rate of improvement in capacity and expenditure will not be sufficient to address implementation lessons cited above and therefore the Partnership targets will be unachievable.</p> <p>Does not address quality of works or value-for-money issues.</p> <p><b>Not recommended.</b></p>
Consolidate the ISP and PMCs into a single multi-purpose service provider (essentially Managing Contractor Model)	<p>ISP role and responsibilities expanded to include PMCs</p> <p>Contracted by AusAID</p> <p>Support levels remain the same</p> <p>All civil works outsourced to private sector contractors.</p>	<p>Conflict of interest issues between service delivery, capacity building and quality control drivers are intensified – therefore limited opportunity to have effective checks and balances</p> <p>Option risks a significant loss in ownership and accountability by DoW on civil works delivery, acquittal and accountability</p> <p>Limited or no consultant management skills transferred to DoW</p> <p>Limited pool of firms able to offer full spectrum of technical, financial and administrative services required.</p> <p>Does not model any sustainable future service delivery scenario.</p> <p><b>Not Recommended</b></p>
PIU implementation and oversight model adopted using FIDIC MDB Harmonised Edition. (i.e. the ADB/WB delivery model)	<p>Creates standalone implementation unit within DoW to deliver and supervise the civil works component of TSSP, with staff seconded from DoW supplemented with international consultants.</p> <p>Vast majority of civil works contracts outsourced to private sector contractors.</p> <p>FIDIC based contracts used</p> <p>Strong international supervision consultant in place</p>	<p>Drains DoW resources for managing their own program.</p> <p>Limited transfer of skills or capacity building</p> <p>Does not use PNG Government systems</p> <p>Is not sustainable</p> <p>Good control of service delivery outputs, but not demonstrated to improve quality or rates of expenditure</p> <p>Not appropriate for smaller AusAID financed road maintenance contracts</p> <p><b>Not Recommended</b></p>
<p>Improve current model by:</p> <ul style="list-style-type: none"> <li>strengthening PMC contract and its performance management</li> <li>introducing independent technical audit capacity</li> <li>focusing ISP on corporate governance, accountability and systems capacity building to enhance impact sustainability</li> <li>better delivery and better monitoring of PMC capacity building at province level.</li> <li>introducing a more robust contracting framework (FIDIC MDB Harmonised Edition)</li> </ul>	<p>A single Project Management and Supervision Consultancy (PMSC), contracted by DoW, with ToR/mandate based on FIDIC supervision model and lessons from current PMCs</p> <p>Independent Technical Audit Consultancy (TAC) funded by AusAID to report on quality of works</p> <p>ISP contracted by AusAID to provide corporate governance, accountability and systems capacity building</p> <p>More significant capacity strengthening support to DoW provincial staff through PMSC and active monitoring by AusAID and ISP.</p> <p>FIDIC contracting framework adopted by DoW and TSSP</p>	<p>Responds to current organisational structure of DoW. Does not reduce DoW ownership and accountability.</p> <p>In line with DoW Senior Management visions and DoW Corporate Plan</p> <p>Introduction (and training) of FIDIC arrangements will engender greater private sector confidence in DoW contracting.</p> <p>Technical Audit Consultancy (TAC) will shine a spotlight on quality issues and support DoW achieve improved contractor performance</p> <p>Greater quality and quantity of works expected and improved service delivery performance</p> <p><b>Recommended</b></p>

The recommended model is aimed at sustainably strengthening DoW capacity for contract management and supervision by establishing a new PMC model – a single Project Management and Supervision Consultancy (PMSC) replacing the multiple contracts that were used in TSSP1. The PMSC will provide more direct and rigorous monitoring and supervision of works. The PMSC will work with a more structured program of mentoring and on-the-job training of counterpart Provincial Works Managers (PWMs), supervisors, young engineers and contractors at the ground level of service delivery; as well as improving the capacity of DoW as an organisation in corporate governance, accountability and quality asset management.

Under the proposed option, the PMSC will be resourced and mandated to provide additional capacity to DoW to generate a multi-year pipeline of works contracts to achieve improved expenditure and planned scale-up along with improved processes of quality control and performance management.

Over the five year life of the phase, TSSP2 will need also to consciously move the focus of expenditure and technical assistance from routine maintenance towards larger rehabilitation projects. This is necessary to reduce dependence on TSSP funding for routine maintenance, address the fungibility risks this presents and increase pace towards road sector targets. Critical to the successful achievement of this will be advocating adequate PNG Government funding to routine maintenance through high level dialogue and incentives (see Component 3).

TSSP2 should also support improving the processes and tools to assess priorities to ensure investment is directed towards areas where the greatest socioeconomic impact can be achieved. This will need to involve support through the PMSC to strengthen the data collection for and application of DoW's Road Asset Management System (RAMS) and also build on the existing transport infrastructure prioritisation model being developed by DoT.

The proposed DoW move to FIDIC Conditions of Contract, where independent engineers supervise and verify works as the Engineers Representative will assist in addressing some of the issues that have emerged during TSSP1. As already indicated, DoW will introduce FIDIC contracts for use in PNG Government funded works where appropriate from 2013. TSSP2 can play a useful role supporting the necessary changes. This notwithstanding it is for DoW to instigate and lead, with donor support.

There are sound development reasons to use FIDIC contracts including: that it is a more professional approach to project management for quality outcomes; the extensive body of practice and law behind it; the benefit of training DoW and contractors in an international standard that has wide acceptance; and the consistency it will introduce across donor financed activities. The FIDIC MDB Harmonised Edition also makes provision for defining and dealing with fraud and corruption, environmental safeguards, health and safety and workers welfare, and HIV/AIDS education. Use of FIDIC based contracts will also support the strengthening of the independent engineer consultancy industry by creating more demand. Its adoption would be a substantial and important reform and a significant achievement for the sector.

It is proposed also to gather accurate information about the quality of TSSP2 funded road works through the application of a Technical Audit Consultancy (TAC) based upon the Eastern Indonesia National Road Improvement Program (EINRIP) model currently used by AusAID's Indonesia program. This technical audit consultancy will provide quality assurance and documented insight into the quality, appropriateness and application of DoW systems. It will also provide real information, on a sample audit basis, of whether TSSP funded works are being delivered to specifications, and where process improvements could be introduced. Hence it will provide support to both TSSP performance management and DoW systems development by providing hard data and recommendations to DoW



and AusAID. The independent TAC will be funded by AusAID and contracted by the ISP. The Secretary of DoW has expressed enthusiasm for this initiative, as have the World Bank and ADB. In latter stages of TSSP2 there should be consideration of building DoW capacity to contract out its own independent technical audit team.

### National Roads Authority

It is necessary to begin to engage more actively with NRA because of its position in the sector and increasing role. TSSP2 presents an opportunity to do this. Support options include:

- assisting clarification of roles and relationships between the road sector agencies
- strengthening NRA's strategy to fully deliver its mandate
- assisting NRA to communicate its role and effectiveness to stakeholders
- synchronising the transfer of sections of road from DoW once good condition achieved
- harmonising contract and procurement processes and documentation
- synchronising contractor development initiatives.

Initially, support should be limited to technical assistance such as a long term adviser to address immediate coordination issues with DoW. Over the next two to three years, and subject to careful risk assessment and demonstrated improvements in governance and accountability, TSSP2 could also consider providing financing to the NRA in proportion with the transfer of assets noting that NRA's mandate is routine maintenance and this should increasingly be the sole responsibility of the PNG Government. Any engagement and subsequent support will need to be well coordinated with the ADB in particular, but also the World Bank. TSSP2 could also support AusAID to use its leverage through the Partnership dialogue process to encourage increased PNG Government funding to NRA (current funding is only about one third of annual routine maintenance requirements) if necessary governance reforms are achieved. A mechanism to benchmark and monitor this process will need to be developed in order to frame TSSP2's engagement with the organisation.

### Bougainville

The PNG Government, ABG and AusAID agree that there is a need to build the capacity of ABG's Division of Technical Services (DTS) to eventually be responsible for road asset management and maintenance in Bougainville. In determining an appropriate approach to support this through TSSP2, the following must be considered:

- the ABG is severely resource and capacity constrained generally
- the ABG is establishing its own Public Service, with support from the Department of Personnel Management
- the ABG is developing an ABG capacity development strategy with a short and medium term view to the development of the ABG Administration overall
- the ABG, with AusAID support, has prepared a Transport Plan
- DTS's mandate is broader than just transport assets. The task of developing DTS as a credible department within the ABG is therefore outside of TSSP's area of concern
- the ABG is planning to establish within the office of Chief Administrator a projects management unit (PMU) to coordinate all major projects and development partner initiatives under the ABG's Medium Term Development Plan and Corporate Plan.

A modified version of the TSSP1 approach is therefore proposed for TSSP2. Direct delivery of the maintenance program will be maintained. However, the contract is proposed to be integrated within the single PMSC arrangements for DoW.

TSSP2 will need to aggressively pursue opportunities to build DTS capacity and support the effective implementation of the drawdown of power arrangements from DoW to DTS. Key draw down transition initiatives include the secondment of DoW staff to DTS. TSSP2 support in this area will be strengthened through the shared PMSC arrangement.

Assistance will need to be integrated into the ABG's wider plans for the PMU and capacity development of the Administration, with TSSP contributing only for the development of DTS's transport related responsibilities (i.e. not its other asset management responsibilities in buildings and other services to the ABG Administration).

Whilst pursuing all opportunities to build DTS capacity, it must be acknowledged that this is a long term objective and capacity substitution will continue to be a reality in Bougainville in the short to medium term. While the objective is to gradually increase DTS's responsibilities during the term of TSSP2, there needs to be a realistic assessment of what is likely to be possible within the next five years. DTS requires a major infusion of financial resources and staff to become a functioning implementing organisation, and only then after an extended and intensive capacity building program.

### 3.3 Component 2 - Critical Transport Safety and Security Systems Operating Effectively

A new component covering transport safety and security will be included in TSSP2 to respond to the strategic priority of this area under the Partnership following the DCT Review, to better facilitate and deliver improved integration and coherence across all Australian funded support to the sector and recognising Australia's clear national interests and comparative advantage in this area. The component directly supports the Partnership target: **transport services have consistently moved towards full compliance with international safety and security standards**. Partnership targets relating to transport safety and security will be updated during 2013.

#### 3.3.1 The context at the end of TSSP1 and lessons learned

When TSSP1 began Australia and PNG had not yet decided to focus on strengthening safety and security systems and outcomes. In addition, many of the relevant agencies had not yet been established. For instance, the amended Civil Aviation Act only became operational during 2009 and 2010. There was not therefore a clear framework for engagement with the commercialised aviation and maritime safety and security service providers or the regulators. While Australia and PNG have begun to address this through the DCT Review process and Partnership dialogue over 2010 and 2011, institutional weaknesses and perceptions of poor governance at board and senior management level led to uncertainty around the value of investing in some areas. Nonetheless, assistance has been provided during TSSP1 through a small range of investments in systems upgrade and limited technical assistance. As a result though, support has tended to be ad hoc and unsystematic, lacking a clear strategic focus.

During TSSP1 a number of Strongim Gavman Program (SGP)<sup>13</sup> adviser positions in PNG transport agencies were established and a Memorandum of Understanding in the Transport Sector (MoU)<sup>14</sup> was signed. Both the SGP adviser inputs and MoU activities provide technical support to aviation and maritime agencies focusing on safety and security issues and the general operations of the relevant agencies.

In the area of land transport, AusAID decided during the course of TSSP1 to support road safety– both in terms of the management of road safety (primarily through technical advisory support to the NRSC) and to a lesser extent ensuring road safety engineering issues are considered for implementation as part of DoW’s road maintenance activities.

Constraints in the areas of safety and security are principally related to problems in recruiting and retaining qualified staff, lack of succession planning, lack of regular high quality training, inconsistent application of rules and processes and an unreliable stream of resources to do key tasks competently. Recent experience has shown that the Civil Aviation Safety Authority, the Accident Investigation Commission, National Maritime Safety Authority and National Road Safety Council are in need of significant support. In addition, both DoW and NRA require support and resources to improve their awareness of and incorporation of practical measures to improve road safety.

The state providers of safety and security services are in general expected to meet their investment and revenue needs from user charges, fees, retained capital and loans. Historically, their effective operation has been plagued by a set of foundational issues that have not to date been satisfactorily addressed by the PNG Government:

- inadequate capitalisation
- poor historic investment decisions acquiring assets that have high maintenance costs and were in poor quality when inherited
- limited and at times ineffective management capacity
- state users not paying full user charges e.g. in the case of airports and air navigation services the government being unwilling to have the national carrier and others pay the true cost of regulatory mandated services at the provincial airports
- unidentified and unfunded community service obligations
- over-staffing in non-essential areas and low remuneration in the high skill areas.

### 3.3.2 Options for TSSP2

It is proposed that TSSP2 focus on enhancing the effective operation of the safety and security regulators and oversight agencies as well as strengthening the capacity of service providers to deliver their safety and security mandates. An important part of TSSP2 will be improved coordination and integration between TSSP, SGP and the MoU.

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<sup>13</sup> SGP is discussed in more detail in Section 5.

<sup>14</sup> The MoU is discussed in more detail in Section 5.

## Aviation and maritime

In the maritime sub sector a state of structural change and uncertainty continues to exist. The sub sector is dominated by government owned enterprises that originated as national government agencies and have evolved into commercial entities that retain oversight of assets across the country.

Organisational and functional roles are sometimes confused and commercial orientation is at times in conflict with regulatory and community service obligations (CSOs). The aviation sector similarly is comprised of a mixture of partly commercialised and regulatory entities. It continues to be difficult for Australia to support asset management initiatives as in some cases that may result in service delivery improvements that directly compete with the private sector. Until there is clarity on the true costs of CSOs the aid program should therefore limit its support to improving the agencies capacity to meet its institutional mandate and improve the aviation safety and security environment.

Where national aviation and maritime assets are owned and operated by government owned commercialised entities funding should predominantly be sourced from user charges and through commercial funding arrangements, i.e. banks and public private partnerships. Australia's grant aid should not be used for significant investments in the capital development of assets, technologies and facilities that the service providers need. However, there will be occasion where it is in the shared strategic interests of the PNG and Australian Governments for Australia through its grant aid program to support asset purchase or maintenance activities where there is an immediate and urgent need, where other funding mechanisms are not available, where it directly supports the joint objectives of both Governments and where a public safety or public good argument is justified. Any such circumstance will need to be carefully considered.

## Land transport

In the land transport sector, the current functions of the NRSC may be merged with the Land Transport Division of DOT and Land Transport Board to form a new Road Transport Authority with a new purpose, role and function. In the absence of clear direction in this area from Government, it is appropriate that the NRSC continue to be supported. Further work will also be required with the road controlling agencies, specifically DoW and NRA, to better implement engineering treatments on the road network. This should build on the advisory support currently being provided to the NRSC and should strengthen links between that organisation and DoW and NRA. TSSP is already supporting PNG through a visual road condition survey scheduled for 2013 to develop an investment plan to improve road safety through the International Road Assessment Programme (IRAP). TSSP2 should build on this and increase support to ensure road safety engineering is incorporated into maintenance and rehabilitation works.

The ADB is in the process of assisting PNG Government to address some of the structural issues relevant to the transport safety and security context through its technical assistance support to develop the NTS, to establish a CSO policy and to consider appropriate structures to manage road safety functions. The results of this technical assistance will also inform TSSP2's support in these areas.

Further diagnostic work needs to be undertaken to update knowledge and identify precisely what is needed. There are opportunities for Australia to target assistance that contributes to PNG's transport safety regulators and essential service providers operating competently, levying, collecting and retaining revenues, developing and implementing capital investment and maintenance plans that are appropriate and affordable, recruiting competent professionals in key positions, training staff, establishing systems and processes, and providing services.

### 3.4 Component 3 - Effective Agency and Sector Engagement, Performance and Accountability

This component will combine two of the components under TSSP1 (Line Agency Public Sector Reform and Governance and Strengthening Central Agency Support). It does not correspond directly to a specific Partnership target, but supports the achievement of all targets and captures the desire to establish a cohesive sector and integrated approach to support. The aim is to:

- improve systems and processes directly relevant to better implementation and efficiency through improved technical service delivery and operational reform
- continue to support sector coordination
- enhance accountability, reporting and performance
- support achievement of better and consistent PNG Government funding flows.

#### 3.4.1 The context at the end of TSSP1 and lessons learned

TSSP1 supported the PNG Government to initiate the development of the following approaches:

- aid delivered through a sector program under PNG Government leadership
- sector cooperation and coordination
- central agency engagement with the sector
- advocacy for the sector, including increased and consistent government funding of maintenance.

These areas have had their successes. TSCMIC is highly regarded by the sector and central agencies as a vehicle to progress these strategies. Participation rates are high. It has made excellent progress as a forum for specific issues and activities. It has coordinated the delivery of quality whole of sector budget submissions for three consecutive years. Overall the recent evaluation of TSCMIC's performance is positive.<sup>15</sup> However, TSCMIC is not yet acting as a decision making body. Rather it is a discussion body. TSCMIC does not yet have an effective communications strategy and is still largely dependent on services provided by the TSSP ISP and TSSP Program Director to function.

Opportunities exist for TSCMIC to be stronger by focussing on strategy, advocacy, decision making and reporting. PNG Government ownership could be further strengthened by embedding it within a Government agency. AusAID remains the only formal donor member and the Aid Effectiveness Sub Committee remains inactive. TSCMIC's role in the sector and effectiveness over the period covered by TSSP2 will in large part depend on the leadership of the committee and the ability of the committee to demonstrate its value to the new Government following the 2012 election.

Enhanced demand for, and use of, performance information by key national agencies has emerged as a priority for the Government through the MTDP and in government announcements on what is expected in service delivery. Little progress has been made in this area to date, particularly in terms of linking performance information to accountabilities. The issue requires more explicit, concerted and systematic attention than it has received in the past. While reporting at the sector level is improving,

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<sup>15</sup> TSSP, TSCMIC Strategic Framework Review, November 2011

that information is not used effectively to communicate with central agencies and the political parts of Government. Reporting at the agency level is still very weak and inconsistent. International experience has shown that increased capacity does not necessarily lead to better service delivery unless there is a clear demand for better performance and mechanisms are in place to hold service providers to account.

The continuing absence of an agreed NTS and MTTP means the sector does not have a clear reform agenda that is sector owned and politically supported. As a result new institutional arrangements and funding streams are being discussed at political levels. Nonetheless, during TSSP1 a good understanding has developed at the agency and sector level of the variety of constraints and blockages to improving service delivery. Should the NTS continue to be delayed there is therefore still an opportunity to better target ongoing technical assistance in support of specific reforms where there is a clear commitment and drive to see change, and where the impact of the reform is clearly linked to service delivery improvements. The finalisation of the NTS when it occurs will support this and provide an appropriate framework for TSSP2 (and the broader donor group) to target support and prioritise assistance.

In terms of funding to the sector, there has been significant progress made by establishing a whole of sector budget bid process with TSSP support. This is having results and budgets have been increasing. However, planning and project development processes remain focused on the one year budget cycle. Allocations continue to be inconsistently appropriated across agencies. In addition, lower economic priority projects continue to make it into the final budget. Opportunities exist to build on the foundation established and move to multiyear planning and project development processes to engender a longer term strategy for the sector and a clearer understanding within Government of what can or cannot be achieved over the medium term.

Linked to funding, limited progress has been made improving the timeliness, credibility and transparency of expenditure reporting. Improvements in this area are essential to build on the gains made over the last five years and move to focus on reforms targeting the quality, efficiency and value for money of expenditure. Timely reporting and acquittal processes are essential reforms if the sector is to have transparency and credibility with central agencies and politicians.

### 3.4.2 Options for TSSP2

Considering the above, two elements are central under this third component:

- supporting the achievement of consistent and predictable PNG Government funding for priority road maintenance and rehabilitation and supporting improved reporting against that funding
- contributing to the resolution of a targeted set of key institutional constraints that are holding back the development of the sector and service delivery.

Through TSCMIC and at the higher Partnership level, AusAID will need to increase its policy engagement with PNG Government. AusAID can support the sector to better track, monitor and engage on the policy, financing, institutional and other constraints and issues that impact on the sector's performance in service delivery. Key to this will be the establishment of clear performance benchmarks to monitor progress, regular and robust dialogue processes and pursuit of opportunities to incentivise and facilitate change through financing and/or technical assistance.

Under this component, TSSP2 will need to:

- support AusAID to engage with PNG Government at various levels under the Partnership
- support AusAID use its investment in the sector and the measurement of mutual performance as a mechanism to leverage, stimulate and facilitate enhanced PNG Government performance on key constraints
- conduct research and analysis, particularly around issues of effectiveness and service delivery output
- support PNG Government consideration of strategic issues in the sector through research and analysis to determine reform priorities and appropriate activities to influence change
- enhance the accountability and compliance of agencies to central government reporting requirements, e.g. completing annual reports with audited accounts and tabling them in Parliament
- strengthen TSCMIC in its role to monitor, coordinate and advocate for the sector to enhance the demand for and use of agency and sector performance information by government
- support chief executives and ministers to develop systems to establish and access performance information to hold their staff to account, to make strategic resource allocation decisions and for agencies and their managers to be held accountable
- support users groups interested in the transport system, including civil society, women, youth and the disabled, to engage in leadership roles, contracting, local planning, implementation and monitoring
- increase donor harmonisation and coordination and engaging with development partners on the use of resources to leverage results
- initiate with DoW, NRA, the ABG and the PMSC, improved communication with road maintenance stakeholders (contractors, provinces, road users, communities) built on a base of credible data on planned and current road maintenance
- support agencies to engage the political leadership in the development of policy, planning, budgeting and reviewing of performance
- develop improved diagnostic processes to define technical assistance support based on clear political economy analysis targeting key institutional constraints. Linked to this define clearer performance expectations and agency commitment to support reform and change.

### Civil works private sector capacity

Civil works contractor capacity and the willingness of good contractors to take public sector jobs continues to be a constraint. TSSP2's major impact in this area (as in TSSP1) will be providing through Component 1 a reliable funding stream and works pipeline to encourage private sector capacity development and increase interest amongst contractors in undertaking public sector works. However, there is potential under Component 3 to research and consider options to promote better skills, competencies and capabilities in the private sector. Both the ADB and World Bank are considering options in this area including support to strengthen small and medium sized enterprise development and the establishment of contractor associations. Subject to further research TSSP2 may be able to

support these efforts or initiate additional ones.<sup>16</sup> Coordinated approaches will be critical. Areas to consider include:

- developing an integrated vision of what an efficient road construction sector would look like based upon differing funding scenarios and leading the donor community in coordinating efforts to develop and implement strategies to achieve the vision
- building links with provincial authorities to encourage a more integrated approach to contractor development, accreditation and performance monitoring
- mobilising coalitions of committed individuals (leaders) and companies to become involved in organisational and contracting planning
- considering supporting the strengthening of an industry representative body
- through the research and monitoring of contracting costs and risks conduct seminars, workshops and develop documentation to improve the quality of management, biddings and implementation.

TSSP2 can also support TSCMIC, DoW, NRA, the ABG and the wider donor community to ‘market’ the portfolio of available projects, their likely timing and potential funding streams.

Increased publicity and transparency could also encourage the building of new coalitions among the private sector and strengthen current associations. Local private contractors do emerge and are successful given the opportunity as is demonstrated through the trucking companies that have emerged to service the Porgera Joint Venture and PNG LNG Project.

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<sup>16</sup> The paper *Enterprise Diagnostic, Technical Paper 3* produced as part of design processes describes the PNG private civil works contracting sector. It proposes a number of interventions including a very large institutional component of standards development and formal training. This design concludes that it is inappropriate for TSSP to initiate this activity in the absence of further research and significant PNG Government political, funding and higher education sector commitment.



## 4 The TSSP2 Design Framework

### 4.1 High Level Program Logic

The program logic is structured around three *end-of-TSSP outcomes* that contribute to the achievement of the higher level *shared development outcome* (the ultimate state of affairs that the program aims to contribute towards achieving).

In line with current PNG strategic planning documents and Australia's strategic priorities, the shared development outcome has been identified as: **a safe, reliable transport system in place enabling economic and social development in Papua New Guinea.**

Three strategic components have been identified in support of this:

1. Priority Land Transport Assets Maintained
2. Critical Transport Safety and Security Systems Operating Effectively
3. Effective Agency and Sector Engagement, Performance and Accountability

The outcome statement for each strategic component is based on a long term strategy for TSSP built around a 15-20 year commitment of engagement in the sector. The higher-order development outcome and the three end-of-program outcomes are summarised at Box 3.

#### Box 3

Shared Development Outcome (long term):		
A safe, reliable transport system in place enabling economic and social development in Papua New Guinea		
End of Program Outcomes (2023)		
1. Priority Land Transport Assets Maintained	2. Critical Transport Safety and Security Systems Operating Effectively	3. Effective Agency and Sector Engagement, Performance and Accountability
PNG agencies delivering a sustainable maintenance program with predictable PNG Government funding to maintain 75 per cent of priority national roads in good condition	Critical safety and security regulatory and service functions consistently demonstrate enhanced stability, competence and compliance to standards	(i) Systems in place to achieve predictable multi-year government funding streams for transport asset maintenance; (ii) key reforms progressed through enhanced engagement, agency performance and analysis

The achievement of each of these end-of-program outcomes is supported by a series of *outcomes* that are expected to be achieved during TSSP Phase 2. This section discusses each program component separately and explains the theory of change for that component. This is summarized in Annex 9.

## 4.2 Component 1: Priority Land Transport Assets Maintained

The end-of-TSSP outcome for Component 1 is **PNG agencies delivering a sustainable maintenance program to maintain 75 per cent of priority national roads in good condition.**

The outcomes expected to be achieved during TSSP2 are shown in Box 4.

**Box 4**

End-of-Program Outcome (2023)	Priority Land Transport Assets Maintained	
<b>1.1 Department of Works delivering road maintenance effectively</b>  <b>TSSP2 Outcome (2018):</b> DoW is managing a prioritised program of maintenance and upgrading for priority national roads in line with Partnership for Development and MTDP targets	<b>1.2 National Roads Authority delivering road maintenance effectively</b>  <b>TSSP2 Outcome (2018):</b> NRA has increased capability to deliver its mandate and, should increased funding be available, maintain significantly increased kilometres of national roads	<b>1.3 Roads maintenance delivered effectively in Bougainville</b>  <b>TSSP2 Outcome (2018):</b> A prioritised program of road maintenance in Bougainville is being delivered, with increased ABG DTS capacity to plan and manage the program

The design will apply differentiated structural support under Component 1 around DoW, NRA and ABG DTS because:

- each agency is different: DoW is a large government department with multiple functions other than maintenance of the priority national roads; NRA is small, under-resourced statutory authority with some potential to expand its coverage and the mandate to do so; ABG DTS is a part of the Autonomous Government of Bougainville with its own constitutional arrangements that need to be recognised and respected
- the capabilities and needs of DoW, NRA and ABG DTS are each significantly different
- each agency will have visibility in the design.

### 4.2.1 Sub-Component 1.1: Department of Works

The following outlines the logic to achieve the outcome for Sub-Component 1.1. Box 5 summarises the intermediate outcomes that will contribute to that result.

## Box 5

<b>Sub-Component 1.1 Department of Works Delivering Road Maintenance</b>
<b>TSSP2 Outcome (2018):</b> DoW is managing a prioritised program of maintenance and upgrading for priority national roads in line with Partnership for Development and MTDP targets.
<b>Intermediate Outcomes</b>
<ul style="list-style-type: none"><li>• Annual increases in the volume of priority roads routinely maintained, and priority roads assessed as in “Good or Fair” condition, in line with progress targets agreed in the Partnership.</li><li>• All PMSC assisted provinces have a detailed 3-5 year rolling work program (pipeline) in place.</li><li>• Technical audits are providing valuable information on the quality and value for money of TSSP projects and recommendations are being implemented.</li><li>• TSSP is able to consolidate the PNG Government’s commitment to routine maintenance and increase focus of expenditure and technical assistance towards larger rehabilitation projects, to progress more rapidly towards the 75% target.</li><li>• Demonstrable evidence that cross-cutting interventions are included in road maintenance contract standard conditions and are monitored and enforced.</li><li>• Equal employment opportunity policy operational; HIV and AIDS workplace policy operational with the organisation and individuals demonstrating appropriate HIV &amp; AIDS and gender equality behaviours.</li><li>• Agencies and contractors comply with environmental laws and minimise negative environmental impacts.</li><li>• Road safety audits and assessments are informing maintenance pipeline planning and road designs</li></ul>

## Influencing activities

- Financing of road asset maintenance and rehabilitation activities.
- Working through TSCMIC to promote sector coordination and increasing budget allocations.
- Working with DoW to improve capacity of headquarters governance, planning, allocation, HR, IT and admin systems and staff through ISP and PMSC.
- PMSC deployed to work at Province levels to assist and support DOW staff across their program with project preparation pipelines, tendering, contract supervision, quality issues and reporting.
- Direct assistance through PMSC to DoW to achieve TSSP2 annual workplan outcomes.
- Structured on-the-job training and mentoring of DoW staff at central and provincial levels to improve agency productivity through improved business processes.
- Structured on-the-job training and mentoring of DoW field staff in project management and appropriate relationships with civil works contractors, including of identified junior staff.

- More direct monitoring of PMSC performance, in partnership with DoW, through joint quarterly roads program coordination meetings including a focus on training and mentoring.
- Support to improve the DoW information base (Road Asset Management System).
- Working with DoW, and other road sector stakeholders (e.g. DoT, NRA and Provincial Administrations), to agree the highest socioeconomic priority for investment of TSSP2 funding for road maintenance and rehabilitation.
- Establishment of an independent technical audit consultancy to provide senior management and sector stakeholders data on quality & value for money, and identify systemic performance problems.

## Inputs

TSSP2 will structure its inputs under Subcomponent 1.1 around two areas: delivery of road asset maintenance and organisational capacity development and sustainability.

### Delivery of road asset maintenance

- DOW will receive the bulk of the financing under TSSP2 and be the major implementing partner for the program. All relevant technical and operational divisions and branches (headquarters and provincial) will be involved in programming, design, documentation, tendering, supervision, testing, contract administration, project supervision and monitoring on PNG Government and AusAID funded civil works.
- AusAID will provide funding to DoW to contract civil works. Works will be a mixture of maintenance activities including major road rehabilitation and periodic maintenance using FIDIC based documentation. All contracts will be procured through PNG Government systems with some amendments to address specific risks and align with Commonwealth Procurement Rules (see Section 5). TSSP2 will support DoW to transition to the use of FIDIC based contracts through training and systems development to DoW and contractors alike.
- DoW will contract a PMSC to support effective and efficient planning and delivery of the road maintenance contracts at the provincial level. The PMSC will be funded by AusAID. The PMSC will:
  - be the Engineer on behalf of the Employer (DoW) for the large FIDIC based contracts that are funded by AusAID. DoW will formally delegate authority to the Engineer setting out in detail what powers and responsibilities are delegated to the Engineer. This delegated authority will include valuation and certification of payments to be made by DoW and acceptance or rejection of works. The exact powers and duties that DoW shall delegate to the PMSC will be articulated in TSSP2's overarching Agency Support Agreement with DoW (see Section 5) and be mandated in the PMSC contract with the DoW
  - ensure that DoW, as the Employer, are guided by the Engineer to follow the Contract and fulfill all contractual obligations and responsibilities
  - provide assistance and support to the Provincial Works Manager (PWM) as the Engineer for smaller pro forma and non FIDIC contracts including assist the PWM to scope, procure and enforce quality standards and timely completion of the contracts

- assist the PWM and staff to organise, scope and deliver works through Force Account operations where pre-determined criteria for the use of Force Account have been met. (These predetermined criteria have yet to be defined but are expected to articulate approval for force account use: 1) where it does not inhibit private contractor development; 2) in remote circumstances where a viable private contracting capacity does not exist; or 3) in circumstances of national emergency or calamity. Due to the potential risks inherent in the use of Force Account, this approach will be introduced cautiously with the criteria being developed and agreed in TSSP2 year one and made effective in subsequent years)
- provide supplementary technical assistance to DoW in the areas of programming, design, documentation, scoping, tendering, supervision, materials testing and contract administration
- use DoW systems and processes (financial management, quality control, contracts, specifications) in a manner that strengthens those systems and which does not create parallel or additional systems unless absolutely necessary and provides better value for money. The objective is capacity development through action and learning at the operational (provincial) level
- provide mentoring and coaching of individuals in provinces and headquarters in areas directly related to the programming (the maintenance works pipeline), project definition, contracting and supervision elements of the project management cycle for actual maintenance works. Named counterparts will be identified, particularly younger less experienced engineers, and feedback on progress built into reporting regimes and quarterly roads program coordination meetings
- certify all payments to contractors in addition to the PWM who, as the Employer's Representative, has prime responsibility. AusAID funds will not be used to pay any claims in the absence of the PMSC certification
- participate in and contribute to sector development dialogue and TSSP program professional networks
- support the work of the TAC and assist DoW to implement any resulting recommendations.

### **Organisational capacity development and sustainability**

The TSSP ISP will be responsible for working with DoW Headquarters to:

- increase its organisational capacity and enhance its sustainability
- remain technically relevant and organizationally fit-for-purpose
- source and manage resources from PNG Government and development partners for the national transport assets under its control and mandate.

This will build in large part on foundations established as a result of TSSP 1 assistance, but will be recalibrated with greater clarity and focus on improving governance performance, accountability and value-for-money. Specific areas of support will be agreed based on a well-defined need and agreed objective; where the strategic and value-for-money case can be made for AusAID grant based support;

and where there is verifiable senior management support for the implementation of meaningful reform.

Assistance from the ISP will support DoW to:

- provide leadership and strategic management to the government's infrastructure development agenda
- mobilize, communicate and coordinate with stakeholders, including development partners
- advocate for and seek resources through the Recurrent and Development Budgets, including engaging with TSCMIC on sector budget submissions
- achieve key corporate governance improvements in areas including financial management, procurement, human resources and ICT; specialist staff recruitment; organisational reform; industry dialogue and awareness; monitoring and reporting of DoW achievements and performance manage the PMSC contract
- strengthen monitoring systems to record and report on the delivery and effectiveness of DoW's Corporate Strategic Plan and TSSP's mentoring and capacity building support provided at HQ through the ISP and provincial level through the PMSC
- strengthen DoW's internal monitoring and evaluation capacities and capabilities in impact assessment.

The technical assistance for DoW under this element will consist of a team of long-term advisers mixed with other technical assistance delivery models as appropriate. Support will also be provided through the proposed ISP Core Specialists Team (see Section 6).

The scope of institutional development and the technical assistance to be provided, including performance expectations and agency commitments, will be confirmed through joint DoW/TSSP diagnostic analysis. This analysis will form the basis of an Agency Support Agreement that articulates the nature, objective and scope of TSSP engagement with the agency, and forms the focus of annual performance review and revision (see Section 5 for detail on this process and approach).

### Critical assumptions

Through the support provided it is assumed that DoW will develop the competencies and organizational capabilities outlined in Box 6. As such, the inputs and influencing activities will lead to the achievement of the intermediate outcomes under this sub component.

However, in addition to the successful delivery of TSSP2 support it is assumed the PNG Government will uphold its commitments including:

- meet Transport Schedule funding targets and deliver on reform priorities as agreed through Agency Support Agreements
- base Agency asset maintenance workplans on a whole of life approach to prioritised asset management and are developed and implemented annually using improved planning tools.

**Box 6**

DoW Competencies and Organisational Capabilities
<p><b>Provincial DoW</b></p> <ul style="list-style-type: none"> <li>• Provincial DoW offices maintain road asset condition registers and costed scopes of works for rolling programs of road and bridge maintenance and upgrading.</li> <li>• Skilled staff in key positions at provincial or national levels or capacity substituted if not available.</li> <li>• Provincial DoW offices improve core financial, technical, procurement and contract administration processes and are using accepted policies and procedures.</li> </ul> <p><b>Headquarters DoW</b></p> <ul style="list-style-type: none"> <li>• Strengthened DoW competencies and organisational capabilities (and technologies) in areas directly related to the contracting of outsourced road maintenance.</li> <li>• DoW systems able to track program implementation, record expenditure, track costs and achievements which are then reported to TSCMIC, government, local and industry stakeholders.</li> <li>• DoW able to competently and professionally manage the PMSC contract.</li> </ul>

**Budget and financial management arrangements.**

TSSP1 expenditure through DoW on road maintenance peaked at \$42m. It is intended to scale-up expenditure in DoW during TSSP2 to \$65m by adding resources to the service delivery aspects of support to DoW and developing a more robust pipeline of civil works. This is based on existing Partnership commitments and sector needs. The scale-up will be staged and will be dependent on the responsiveness of the private sector and success of the strengthened service delivery approach outlined above.

The PMSC contract will be financed from within this funding envelope. While the final cost of the contract is not known, based on aggregate TSSP1 PMC costs it is expected the PMSC contract will be in the order of K15 million (\$6 million) annually. Costings for additional support provided through the ISP are outlined at the end of Section 4.

The expected pipeline for asset maintenance financed through DoW is at Table 4. Because of an expected slowing of expenditure during the transition from TSSP1 to TSSP2, it is assumed Year 1 expenditure will be lower than the TSSP1 peak.

**Table 4**

<b>Year</b>	<b>Civil Works</b>	<b>PMSC</b>	<b>Total</b>
1 - 2013/2014			
2 - 2014/2015			
3 - 2015/2016			
4 - 2016/2017			
5 - 2017/18			
<b>Total TSSP2</b>			

Actual allocations will also depend on the development of new activities, see Component 3, and decision making around providing funding to the National Roads Authority or Independent Infrastructure Authority (should it be established). Annual planning will be oversighted by TSCMIC (see Section 6).

Road maintenance activities through DoW will be financed through a PNG Government trust account operated by DoW under the PNG Public Financial Management Act. This is a continuation of the approach under TSSP1 which was reviewed as part of a Public Financial Management assessment in 2011 and assessed as appropriate.<sup>17</sup>

The ISP will oversight and verify the trust account processes through a small finance cell located in DoW, while the PMSC will continue to certify that the works have been satisfactorily delivered. The ISP will include this trust account in its audit arrangements. More detail around the approach to financial management arrangements and working through PNG systems is provided in Section 5.

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<sup>17</sup> AusAID, Assessment of Financial Management Capability and Capacity, and Associated Risks and Benefits for Assistance to PNG through the Transport Sector Support Program, September 2011



## 4.2.2 Sub-Component 1.2 National Roads Authority

The following outlines the logic to achieve the outcome for Sub-Component 1.2. Box 7 summarises the intermediate outcomes that will contribute to that result.

### Box 7

<b>Sub-Component 1.2: NRA Delivering Road Maintenance</b>
<b>TSSP2 Outcome (2018):</b> NRA has increased capability to deliver its mandate and, should increased funding be available, maintain significantly increased kilometres of national roads.
<b>Intermediate Outcomes</b>
<ul style="list-style-type: none"><li>• The role and function of NRA are clearly understood by stakeholders. Planning and project pipeline processes are fully integrated with DoW, with clear delineation of responsibility based on whole of network prioritisation to achieve MTDP and Partnership targets.</li><li>• Performance benchmarks established through diagnostic processes are successfully met and NRA is accessing and utilising funding efficiently for road maintenance.</li><li>• Transfer of assets from DoW to NRA is being effectively managed.</li><li>• Demonstrable evidence that cross-cutting interventions included in road maintenance contracts standard conditions are monitored and enforced.</li></ul>

### Influencing activities

- Working through TSCMIC to promote sector coordination and supporting NRA establish more sustainable financing mechanisms.
- Integrate support provided to NRA with that provided to DoW to support improved organisational relationships and harmonisation of approaches.
- Technical assistance for specific capacity development and governance activities based upon a diagnostic assessment of the competencies and capabilities needed by NRA to undertake its role.
- Support to improve information database (RAMS) that informs NRA planning and pipeline development.
- Support for engagement with external stakeholders on the PNG Government's transport asset maintenance program.
- Subject to careful assessment of appropriate financing options, governance arrangements and financial management systems, consideration of funding for NRA road maintenance contracts.

### Inputs

TSSP2 will structure its inputs under Sub Component 1.2 based on a staged engagement with NRA. The first element of this (Organisation Capacity Development and Sustainability) is to work with NRA and other donors to increase its governance and accountability capacity and to clarify roles and responsibilities; and secure a more sustainable and predictable funding stream to take up its full gazetted road network maintenance responsibilities. The second element (Delivery of Road Asset

Maintenance), subject to positive assessment of NRA governance and operational capacity to carry out efficient, effective and transparent road asset maintenance, could be a modified program of asset maintenance delivery support similar to DoW above.

#### **Organisation capacity development and sustainability**

This is a new engagement which will be specifically directed at enhancing NRA's capacity to outsource maintenance rather than build in-house technical capacity to deliver or manage works contracts. This package of assistance would be based upon a diagnostic process that will be undertaken jointly with the NRA, World Bank and ADB, based on work already done by the ADB.

The ISP will be responsible for working with NRA to increase its organisational capacity to seek and manage resources. The PMSC will be responsible for working with NRA to improve its technical capabilities to plan and manage the maintenance of the road network in coordination with DoW.

The likely areas of assistance from the ISP to NRA are mentoring of senior management and key functions particularly around increasing its capacity to:

- provide leadership and strategic management to the government's road maintenance development agenda, although that could be widened if government policy changes and NRA is absorbed into a proposed and broader infrastructure authority
- engage with government and implement government priorities and plans
- advocate for and seek resources through the Recurrent and Development Budgets, including engaging with TSCMIC
- mobilize and coordinate with partners, including development partners – linked to the TSCMIC objective of improved donor coordination
- report to government and partners on performance.

The technical assistance for NRA under this element may consist of a small team of long-term advisers (i.e. one or two) in NRA and support as required from the proposed ISP Core Specialist Team.

#### **Delivery of road asset maintenance**

If and when NRA is assessed jointly by PNG Government and AusAID to have appropriate governance and organisational capacity, some tailored AusAID funding arrangements could be considered to support NRA to deliver additional road maintenance. However, any decision will need to consider that the core mandate of NRA is routine maintenance and AusAID's long term strategy is to move away from what is the basic role of the PNG Government. AusAID funding could best be used for research and piloting of road maintenance technological advancements and trial initiatives, such as performance based contracting or alternative pavement treatments, which would not otherwise be readily funded by PNG Government.

NRA is today delivering an outsourced program of road maintenance and championing small and medium enterprise development in the transport sector. This can be expanded if and when DoW transfers portions of the national roads to the NRA in good condition. TSSP2 aims to facilitate this transfer in an orderly and sustainable manner.

## Critical assumptions

In moving forward with this subcomponent, it is assumed that NRA is able to respond to the changing institutional structure in the sector and maintains a similar mandate as currently under the NRA Act.

It is further assumed that the support provided through TSSP2 as well as that provided by other donors will enable NRA to achieve various competencies and organizational capabilities. The competencies and capabilities critical to success are outlined at Box 8.

### Box 8

<b>NRA Competencies and Organisational Capabilities</b>
<ul style="list-style-type: none"><li>• Strengthened NRA individual competencies and key organisational capabilities (and technologies) in areas directly related to the contracting of outsourced road maintenance.</li><li>• NRA systems track program implementation, record expenditure and track costs and achievements which are then reported to its Board, TSCMIC, government, local and industry stakeholders.</li><li>• NRA is working and coordinating effectively with DoW.</li></ul>

## Budget and financial management arrangements.

TSSP2 expenditure on NRA activities will initially be through the PMSC and ISP contracts, which is costed elsewhere.

Should funding for asset maintenance contracts be provided to NRA during TSSP2 there will need to be careful assessment of an appropriate mechanism to deliver that funding.

The scale of funding would also need to be considered in the context of the MTDP and Partnership targets as well as sector funding needs, but could be sourced from within the general road sector allocation of \$75m per year.

### 4.2.3 Sub-Component 1.3: Bougainville

The following outlines the logic to achieve the outcome for Sub-Component 1.2. Box 9 summarises the intermediate outcomes that will contribute to that result.

#### Box 9

<b>Sub-Component 1.3: Road Maintenance Delivered in Bougainville</b>
<b>TSSP2 Outcome (2018):</b> A prioritised program of maintenance for roads in Bougainville is being delivered, with increased ABG DTS capacity to plan and manage the program
<b>Intermediate Outcomes</b>
<ul style="list-style-type: none"><li>• ABG is implementing a joint plan (with DoW and AusAID support) to rebuild the capacity of DTS relating to management of transport infrastructure.</li><li>• Effective prioritisation and allocation of resources informed by a credible Bougainville Transport Plan</li><li>• DTS has improved systems in place and increased local inputs into the transport assets maintenance program in the planning, design, procurement and supervision of maintenance works.</li><li>• Community contracting is being used widely</li><li>• ABG systems are monitoring program implementation and achievements, then reporting these to the Bougainville Executive Council, the House of Representatives, TSCMIC, local and industry stakeholders.</li><li>• ABG is working with DoW to effectively implement the draw down of powers.</li></ul>

#### Influencing activities

- Technical assistance based on a formal diagnostic process and recorded in a capacity development agreement for building competencies of individuals, providing supplementary capacity and increased capability with DTS's systems and processes to carry out technical and managerial tasks in line with agreed draw down of powers.
- Support for the promotion and acceptance of the Bougainville Transport Plan at all levels of Bougainville administration.
- Funding for civil works transport asset maintenance contracts, based on Bougainville Transport Plan and in line with broader TSSP2 principles and objectives including the Partnership.
- PMSC developing, tendering and delivering maintenance program with DTS.
- Funding for essential project management systems and their upgrades.
- Support for engagement with external stakeholders on the ABG's transport asset maintenance programs.

## Inputs

In TSSP2, a modified version of the TSSP1 approach is proposed. Under the new approach support to DTS will be integrated within the PMSC arrangements for the broader DoW program through a single contract.

TSSP2 will structure its inputs under Sub-Component 1.3 around two areas: Delivery of Road Asset Maintenance and Organisational Capacity Development and Sustainability.

### Delivery of road asset maintenance

- DTS will be the implementer for the spending under this component. DTS and the ABG's PMU will be engaged to the extent that ABG has capacity and expertise in programming, design, documentation, tendering, supervision, testing, and contract administration.
- AusAID will provide funding for DTS to contract road maintenance contractors with assistance from the PMSC under the PNG Government (DoW) head contract. The PMSC will:
  - be the Engineer under the contracts, where DTS is the Employer
  - provide full technical assistance (arms and legs) with gradually increasing DTS support and engagement in the areas of programming, design, documentation, tendering, supervision, testing, and contract administration
  - use ABG systems and processes, to the extent they exist, in a manner that strengthens those systems and which does not create parallel or additional systems unless absolutely necessary and providing value for money.

### Organisational capacity development and sustainability

The PMSC will be responsible for working with DTS to increase its organisational capacity to seek, coordinate and manage resources from PNG Government and development partners for transport asset maintenance. Given the small size of the ABG and the presence in Bougainville of public sector advisers and other technical assistance through the AusAID Provincial and Local Government Program, the TSSP mandate is solely transport asset maintenance.

For road maintenance specifically, the desired sustainable outcome is a capability to out-source maintenance rather than build in-house technical capacity to deliver civil works. The assistance will be based upon the ABG's Transport Plan, a diagnostic process as described at Section 5, and other studies e.g. the procurement capacity assessment and Governance and Implementation Fund (GIF) review.

The weaknesses in the ABG and DTS are significant. They are easily under-estimated and will take a long time to remedy. This assistance must be carried out in close association with the support to and engagement with the ABG Administration as a whole.

The likely areas of assistance from the PMSC to DTS are mentoring of senior management and key functions particularly around increasing its capacity to:

- provide leadership and strategic management to Bougainville's transport infrastructure and road maintenance
- manage outsourced design, project management and service delivery contracts
- report to the Bougainville Executive Council and partners on performance.

Additional short term specific support may be provided by the ISP on an as needed basis. Technical assistance for ABG under this element may also consist of a small team of long-term in-line advisers in

DTS, to both manage the delivery of maintenance services, and guide and facilitate the DTS capacity building process, with additional support as required from the ISP Core Specialist Team. A full diagnostic assessment will be required once the focus and magnitude of support have been determined with the ABG following completion of the Bougainville Transport Plan.

### Critical assumptions

The major assumption relating to TSSP2 support in Bougainville is that the new PMSC contracted to DoW is able to effectively take up the maintenance program currently being delivered and that the gradual shift to DTS ownership and delivery will not have a significant negative impact on the quality and quantum of works that are delivered.

Other major assumptions are that:

- Australia continues to be the dominant donor in the Bougainville
- the Bougainville Transport Plan is a realistic and credible document that gains acceptance and traction with the ABG
- ABG accepts internationally accepted procurement and tendering practices
- ABG accepts outsourcing to firms procured through open and competitive tendering for all major contracts

It is further assumed that the support provided through TSSP2 as well as that provided by other AusAID programs will enable ABG DTS to achieve various competencies and organizational capabilities. The competencies and capabilities critical to success are outlined at Box 10.

### Box 10

<b>DTS Competencies and Organisational Capabilities</b>
<ul style="list-style-type: none"> <li>• Key positions filled with permanent staff or contracted officers.</li> <li>• DTS functioning more efficiently with core financial, technical, procurement and contract administration compliant with ABG and public service practice.</li> <li>• DTS hold an updated portfolio of road asset maintenance plans, road asset condition reports and costed scopes of works for a rolling program of maintenance.</li> <li>• DTS is supported by the ABG administration to be part of an effective and efficient administration.</li> <li>• Works and achievements are monitored and reported on effectively.</li> </ul>

### Budget and financial management arrangements.

It is estimated that around K20-25 million annually (\$10 million) will be allocated to ABG under TSSP2 based on current expenditure. The exact focus of AusAID funding support to road transport from 2013 onwards is subject to the outcome of the AusAID supported Bougainville Transport Plan. This ABG plan aims to articulate the ABG's immediate transport investment priorities and rationalise where AusAID and other development partners might contribute. The development of the plan and subsequent resourcing discussions are due to be concluded during Quarter 1 2013.

The activity will be financed under a reimbursable arrangement. The PMSC will make payments to contractors and seek reimbursement through the DoW Trust Account processes. The ISP will oversight the payment process and financial management arrangements.

Subject to capacity assessment, a separate Trust Account operated by ABG DTS could potentially be established, but this will be dependent upon the ABG and DTS achieving pre-agreed standards in governance and organisational capacity.

#### 4.2.4 Addressing cross-cutting issues in Component 1

The practical elements of the approach to cross-cutting issues are dealt with under this component with additional support under the other components. Section 8 and Annex 4 provide more detailed discussion of cross-cutting issues in the transport sector.

##### Gender

TSSP has a focus on gender equality, with appropriate frameworks, reporting systems and specialist technical support all fully integrated. However, there are opportunities to build on the work of TSSP1 which was mainly active in standardising activities internal to sector agencies. TSSP2 will look at:

- taking affirmative action on gender equality in seeking to increase women's participation in the program, including providing a transparent direct budget for cross-cutting activities rather than relying on funding from agency budgets
- recognising that gender awareness/sensitivity training is a beginning but is not in itself sufficient to produce a cadre of public servants, leaders and advisers who are able and willing to plan and implement gender responsive programs. Sustained technical assistance on gender equality, and leadership of these programs, is therefore essential to counteract the tendency to revert to the status quo
- continuing to sensitise and involve men (co-workers as well as partners) in supporting increased involvement and decision making for women
- obtaining the opinions of recognised women's representatives, whose views may not be the same as those of the (predominantly male) official and local clan leaders
- continuing the provision of dedicated full-time gender advisory assistance to the partners through the program
- researching and reporting on the differing impacts of program activities on men and women.

Specifically in this component gender equality will be advanced by:

- assisting agencies implement their Gender Strategies
- creating awareness, understanding and action in DoW, NRA, DTS and with contractors by supporting the implementation of the PNG Government's National Gender Strategy and the sector's relevant strategies
- developing capacity and good practice around the agencies corporate plan key result areas including the equal employment opportunity policies and domestic violence policies
- requiring through the PMSC contracts monitoring and reporting on cross-cutting contract obligations in road maintenance contracts and contributing lessons to improve subsequent contractor responses and contracting documents

- based upon experience contribute ideas for future research, and analysis to TSCMIC to guide action arising out of commissioned research
- continue support for the sector to engage in national events, coordination activities and policy forums.

## HIV and AIDS

All the components of the program will adopt a mainstreaming approach to address HIV and AIDS. Mainstreaming in this context means ‘adapting core business to respond to HIV’. Applied to TSSP this means firstly analysing the different areas of ‘core business’ and secondly ensuring that work delivered through the program does not exacerbate the HIV situation. TSSP’s extensive support through Component 1 for private sector contracting of road maintenance across the country places on the program particular responsibility for prevention activities where people and risks converge in construction sites and teams. The concept of the 3Ms (men, mobility and money) is very relevant here. Mainstreaming recognises and utilises opportunities to contribute to the national HIV response according to its core business.

TSSP2 has opportunities to support sector agencies and the private sector address four key interventions from PNG’s *National HIV Strategy*.

- Develop and scale-up prevention programs.
- Develop and scale-up targeted HIV and sexually transmitted infections combination prevention interventions for more-at-risk populations which include contractor’s staff in camps, public servants that travel extensively etc.
- Significantly improve the availability and accessibility of male and female condoms through condom social marketing and distribution. This must include addressing stigma, myths and misinformation around condom use.
- Develop specific interventions to reduce HIV vulnerability associated with gender-based violence and sexual violence against women and girls.

The program will engage closely with AusAID’s HIV program and other stakeholders to ensure opportunities to leverage existing resources and programs are taken advantage of through for instance conducting joint monitoring of the effectiveness of HIV activities conducted as part of road maintenance contracts. Specific HIV/AIDS activities through TSSP2 will include:

- updating and implementing the sector’s HIV and AIDS Strategy
- introducing health, education and awareness programs for agency staff and contractors: not necessarily using TSSP funding but by establishing links with existing PNG HIV awareness networks and service providers
- completing individual agency work place plans and supporting the implementation and monitoring of those plans
- working with contractors to cost effectively implement the Standard Contract provisions on HIV/AIDS<sup>18</sup>

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<sup>18</sup> Experience in early projects found that contractor uncertainty and misinformation resulted in excessive cost loadings in bid prices to meet cross-cutting activities.



- monitoring and evaluating contractor compliance with contractual conditions and proposing remedial action
- based upon experience contribute ideas for future small scale research (coordinated with National AIDS Council research activities), and provide analysis to TSCMIC to guide future action
- continue support for the sector to engage in national events, coordination activities and policy forums.

## Road Safety / Disability

Road safety and disability is a high priority for the Australian aid program. TSSP2 will focus on these issues with counterpart agencies building on the work done already during TSSP1 to support the establishment of the National Road Safety Council and with DoW on engineering and design solutions. Under Component 1 support will focus on:

- supporting appropriate incorporation of disability perspectives into road maintenance planning, road and bridge design and road maintenance activity impact assessments
- considering options to fund specific road safety engineering solutions
- continuing to support the National Road Safety Council (or its successor) in the analysis of road accidents with a view to reducing the causes of serious injury
- supporting NRSC to advocate for additional PNG Government funding to promote road safety, reduce passenger overloading and improve road design through, for example, supporting the use of International Road Assessment Programme (IRAP) assessments by road agencies to plan necessary road safety improvements
- supporting with other AusAID sector programs the development of appropriate road safety education programs
- supporting the development of an appropriate mitigation strategy following the visual condition survey that will include an IRAP assessment.

Additional support in the area of road safety is discussed under Component 2.

## Environment and Climate Change

TSSP2 as an umbrella program does not in its own right impact on the physical environment. However, some of the activities financed through the program will have potential impacts.

TSSP2 will manage risks by ensuring compliance with the PNG Environment Act through which the requirements of Australia's Environment Protection and Biodiversity Conservation Act will be met. The maintenance, rehabilitation, sealing or resealing of roads in poor condition could involve activities which have potential to negatively impact on the environment. However, impacts are unlikely to be as significant as new build. TSSP2 activities will only operate in road reserves that have been transformed from their natural condition when the road was initially constructed. The potential negative impacts from maintenance and rehabilitation can be effectively managed by using appropriate construction techniques.

The main negative environmental impacts that can arise from road maintenance are:

- pollution of streams by contaminated runoff
- redirected runoff affecting road side communities

- noise, vibration and dust
- road safety
- bituminous material contamination
- quarrying operations
- dumping of fill and waste material.

These impacts are very minor on routine maintenance activities and can be managed through Environmental Management Plans on rehabilitation and periodic maintenance activities. TSSP2 is not expected to lead to increased exploitation of vulnerable habitats and harvesting of wildlife as maintenance is targeted towards priority national roads that are well-established. There are significant opportunities to reduce potential negative environmental impacts in the road maintenance sector through TSSP capacity building support to road sector agencies' capacities in this area.

It is not planned to perform a strategic environmental assessment of the initiative. The PNG Environment Act requires notification of any activity likely to cause serious environmental harm. Activities are classified as Level 1, 2 (Categories A or B), or 3, of which Level 3 activities require full formal environmental assessment including public consultation.<sup>19</sup> Road maintenance that does not include re-alignment, construction in previously undisturbed areas, or removal of people or built structures under the Environment Act is classified as a Level 2A or Level 1 activity and is unlikely to require environmental assessment. TSSP2 will need to ensure that environmental impact assessments and environmental management plans for all AusAID financed activities comply with these requirements and in so doing comply with Australia's Environment Protection and Biodiversity Conservation Act.

Climate change may impact on activities. Assessments may need to be done as each maintenance activity is planned, if the relevant climate models are available.

All roads under TSSP2 funded maintenance could be subject to impacts from natural disasters. TSSP2 will have scope to assist the PNG government to consider the value of commissioning studies into the level and locations that are most vulnerable and to identify mitigating strategies or emergency responses. The ADB and World Bank are already funding work in this area.

It is unlikely that TSSP2 will impact on ecosystems that sustain livelihoods. National roads are links between trading centres and social services and have potential to enhance livelihoods. Some communities may from time to time lose access to small amounts of land where they have encroached on to the side of roads which are to be widened. This land is not usually used for livelihoods, except for small informal trading stations, which are readily able to be located back a few meters. Any such events are subject to PNG Government legislation on compensation and mediation by counterpart agencies. No TSSP2 action is required.

Opportunities to build resilience for people's livelihoods through TSSP2 activities will arise. The main opportunities are:

- develop capacity within agencies to comply with PNG Government environmental legislation. The Environmental Act contains a system to manage environmental risks by performing

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<sup>19</sup> Level 1 activities do not require environmental impact assessment (EIA) since they are perceived to do no harm. Level 2 activities are those projected to have some negative impacts and require that an EIA be undertaken and environmental management and monitoring plans be developed.

environmental impact assessments, developing environmental management plans and monitoring environmental impact

- continue to implement and develop further contracting models to utilise community groups to perform road maintenance. This will lead to reduced poverty and improved road maintenance sustainability. This has worked in Bougainville, although not without issues from time to time.

## 4.3 Component 2: Critical Transport Safety and Security Systems Operating Effectively

The end-of-program outcome for Component 2 is **critical safety and security regulatory and service functions consistently demonstrate enhanced stability, competence and compliance to standards.**

The end of TSSP2 outcomes are shown in Box 11. The component addresses separately the responsibility for regulation and oversight in Component 2.1 and the responsibility for service provision under Component 2.2. There are different partner agencies across the two components from the land, aviation and maritime sectors. These are also shown in Box 11.

**Box 11**

<b>End-of-Program Outcome (2023)</b>	<b>Critical safety and security regulatory and service functions consistently demonstrate enhanced stability, competence and compliance to standards.</b>	
<b>2.1 Safety and security regulation and oversight</b>	<b>2.2 Service providers delivering safe and secure services</b>	
<b>TSSP2 Outcome (2018):</b> Safety and security regulators and oversight agencies demonstrate improved organisational capacity to deliver core functions through a managerial and technical staff with increased competencies and productivity	<b>TSSP2 Outcome (2018):</b> Aviation, maritime and land transport agencies demonstrate improved capacity to deliver safety and security related services	
<b>Partner Agencies</b>	<b>Partner Agencies</b>	
Accident Investigation Commission Civil Aviation Safety Authority National Maritime Safety Authority National Road Safety Council Department of Transport	National Airports Corporation PNG Air Services Ltd PNG Ports Corporation Ltd Department of Works National Roads Authority	

Sub-Component 2.1 is about contributing to building the resilience and stability of regulatory organisations to enable them to carry out their technical tasks to the required international and domestic standards. Sub-Component 2.2, is about building capacity within the commercialised government-owned aviation and maritime providers and land transport agencies to carry out safety and security services effectively.

TSSP2 will also take further steps to integrate all Australian funded support in these areas, specifically MoU and SGP technical assistance. It is proposed that the SGP Transport Team Leader provides formal oversight and strategic advice for inputs against this Component. This is based on their technical knowledge of regulatory and service provider requirements, relationships and access to relevant Australian agencies and unique position to understand the comparative advantage of different technical assistance options. The overarching objective of this approach is to achieve the effective integration of planning, monitoring and reporting.

#### 4.3.1 Sub-Component 2.1: Safety and Security Regulation and Oversight

The following outlines the logic to achieve the outcome for Sub-Component 2.1. Box 12 summarises the intermediate outcomes that will contribute to that result.

##### Box 12

Sub-Component 2.1: Safety and Security Regulation and Oversight
<p><b>TSSP2 Outcome (2018):</b> Safety and security regulators and oversight agencies demonstrate improved organisational capacity to deliver core functions through a managerial and technical staff with increased competencies and productivity</p>
Intermediate Outcomes
<ul style="list-style-type: none"> <li>• Demonstrably strengthened organisation capabilities to control industry entry, plan surveillance programs, monitor performance and enforce standards.</li> <li>• Safety and security critical positions are filled with competent individuals exercising their duties professionally and competently.</li> <li>• Regulators participate in regional cooperation arrangements and demonstrate competence to regional partners through enhanced local capacity, operational effectiveness and mutual recognition arrangements.</li> <li>• Road safety awareness and accident data analysis is being effectively delivered to implement road safety policies and measures.</li> <li>• Greater compliance with international obligations.</li> </ul>

##### Influencing activities

- Supporting the effective functioning of the TSCMIC Sub Committee on Transport Security.
- Working with the regulators to build their capabilities to manage their finances and user fees, make budget submissions, install and maintain operational systems and processes to implement legislation competently.
- Providing advice on employment and training and fit-for-purpose delivery structures.
- Supporting professional stakeholder engagement including with international bodies to ensure awareness of international standards and requirements to support their reflection in domestic legislation as appropriate.
- Supporting ongoing institutional relationships and partnerships with key Australian counterpart agencies including the Department of Infrastructure, Airservices Australia,

Australian Transport Safety Bureau, Australian Maritime Safety Authority, Civil Aviation Safety Authority and Australian Road Research Bureau.

### Inputs

- Diagnostics to determine appropriate capacity building strategies to meet safety and security requirements and target technical assistance.
- Based on diagnostic assessments technical assistance provided through the ISP, through the MoU and through SGP. Technical assistance may include in line placements, secondments and attachments as well as long term advisory assistance and short term consultancies and will support improvements in core regulatory and oversight procedures and systems.
- Funding of in-country training of key regulatory staff.
- Provision of goods and services to support efficient regulatory systems and processes.
- Limited capital investment support for the acquisition and upgrade of key equipment and technologies required to achieve compliance and compatibility regionally where there is a clear mutual interest in terms of safety and security, where Australia is best placed to provide that support, and where other financing such as commercial loans or public–private partnerships are not available or not appropriate.
- Support to develop systems and benchmarks to report on and measure performance, both internally and independently. These benchmarks will be used to refine and adjust Partnership Schedule targets.

### Critical assumptions

A diagnostic process is needed to ensure future assistance is well targeted. All assistance has to target key constraints in the local context of law and practice. It is assumed through the diagnostic process that effective targeting of assistance will ensure the highest priorities to improve the safety and security environment are supported. TSSP2 will need to carefully monitor sector dynamics also to ensure that where the context changes assistance can be bolstered or redirected as necessary.

Critical to the success of all support provided will be the appropriate resourcing by PNG Government of agencies where they are government funded and the establishment of appropriate asset ownership regimes to ensure agencies can seek out commercial loans where necessary to finance key capital investments.

It is further assumed that the support provided through TSSP2 the MoU and SGP as well as other donor programs will enable the relevant agencies to achieve the competencies and organizational capabilities required. The competencies and capabilities critical to success are outlined at Box 13.

**Box 13**

<b>Oversight and Regulatory Competencies and Organisational Capabilities</b>
<ul style="list-style-type: none"> <li>• Competent staff deliver industry entry control, surveillance and monitoring of performance and enforcement of standards.</li> <li>• Appropriate safety and security laws, rules and regulations in place with appropriate systems and processes and staff trained to use them.</li> <li>• Regulatory organisations are able respond promptly to corrective actions recommended by periodic international auditing and performance review.</li> </ul>

### 4.3.2 Sub-Component 2.2: Services Providers Delivering Safe and Secure Services

The following outlines the logic to achieve the outcome for Sub-Component 2.2. Box 14 summarises the intermediate outcomes that will contribute to that result.

**Box 14**

<b>Sub-Component 2.2: Service providers delivering safe and secure services</b>
<b>TSSP2 Outcome (2018):</b> Aviation, maritime and land transport agencies demonstrate improved capacity to deliver safety and security related services
<b>Intermediate Outcomes</b>
<ul style="list-style-type: none"> <li>• Service providers demonstrate improvements in their capacity to plan, procure, finance, operate and manage fit-for-purpose critical safety and security processes and systems, which increase organisation income by enabling increased user charges.</li> <li>• Strengthened capabilities enable service providers to seek funding from government, private sector, manufacturers, foreign governments and other development partners for their major capital investment programs as well as effectively prioritise investments.</li> <li>• Improved reporting on performance by service providers enhances their accountability to their boards, ministers and government.</li> <li>• ICAO and domestic compliance achieved in areas of safety and security, and regional compatibility enhanced in equipment and technologies.</li> <li>• IMO compliance, coastguard and SPC audit findings feeding into stronger compliance outcomes.</li> <li>• IRAP assessment adopted as an investment decision making tool by DoW and NRA.</li> </ul>

### Influencing activities

- Support capacity building that directly contributes to improved safety and security service delivery by building skills in key positions and organisational units and the organisational systems needed.

- Supporting investment decisions to ensure regional compliance and context appropriate systems and processes including providing independent technical assessments and project management support on the introduction of new technologies and investment.
- Supporting improved procurement processes and financial and corporate governance arrangements.
- Support to the chief executive, senior management and boards of service providers to implement business plans, particularly in areas that strengthen commercial viability such as revenue raising, user charges, financing strategies and building core management competencies.
- Support to government on policy options and future institutional arrangements.
- Assisting development of capacity to manage incidents and assist establishment of recovery practices and processes following accidents and serious incidents.
- Supporting PNG to align security plans to risk assessments and build capacity to develop and act upon aviation and maritime threat assessments.
- Leverage Australian technical assistance and whole of government inputs to ensure PNG achieves maximum productive gain from the significant aviation and maritime ADB loan programs.
- Limited financing for safety and security related asset maintenance in aviation and maritime sectors where there is a clear Australian national interest, a public good argument is available and other funding sources are not accessible.
- Support the embedding of road safety audit practices including financing International Road Assessment Programme analysis.

### Inputs

- Diagnostics to establish priorities to target technical assistance through the ISP the MoU and SGP, which may include long term advisers, short term consultancies, in line placements, research and analysis.
- Funding of technical assessments of appropriate key equipment and technologies required to achieve compliance and compatibility regionally and with international and domestic regulations.
- Limited funding of systems and process upgrade where Australia is best placed to provide that support and other funding options are not available.
- Support to establish systems and benchmarks to report on and measure performance, both internally and independently.

### Critical assumptions

TSSP2's approach in this part of the sector is to avoid any engagement in or commitment to the investment or capital works activities of these enterprises other than providing advice on what may be appropriate technology. AusAID's grant financing is inappropriate to:

- fund new capital investment in productive operating assets and technologies, except where there is clear mutual interest in terms of safety and security, and the Government of Australia is best placed to provide that support
- support capitalising the state-owned enterprises and statutory authorities



- support activities where the state-owned enterprises or statutory authorities are engaged in a competitive market.

It is assumed that without providing significant capital resources in these areas TSSP2 will still be able to develop a position as the major development partner providing advice on safety and security issues in the sector.

It is assumed that the diagnostic process and Agency Support Agreements (see Section 5) will be able to outline targeted support that will have an impact on the safety and security environment and that meaningful performance benchmarks will be established.

It is also assumed that the support provided through TSSP2 as well as that provided through the MoU and SGP and other development partners, particularly the ADB's Civil Aviation Development and Improvement Program will enable the relevant agencies to achieve the various competencies and organizational capabilities required (see Box 15).

#### **Box 15**

<b>Safety and Security Service Provider Competencies and Organisational Capabilities</b>
<ul style="list-style-type: none"> <li>• Agencies demonstrate improved functioning of finance, human resource and commercial operations.</li> <li>• Agencies produce reports of improving quality with comparative data and audited accounts, and demonstrate a move from data collection to use of data for performance management.</li> <li>• Individuals in safety and security critical areas receive regular training and supervision in carrying out their duties.</li> <li>• Key safety and security critical managerial operational positions are filled with competent individuals.</li> </ul>

### **4.3.3 Addressing cross-cutting issues in Component 2**

The approaches and activities recommended under Component 1 are appropriate for this component. During TSSP1, PNG Ports Ltd because of strong executive leadership lead the sector in gender equality and HIV and AIDS responses and activities. It has been innovative with activities that implement plans and is a model for other agencies in the sector.

### **4.3.4 Budget and financial management arrangements**

Up to \$10 million annually is targeted for safety and security technical assistance and systems and equipment maintenance and upgrade. Subject to fiduciary risk assessment, trust accounts will be established for individual agencies. However, the ISP contract will contain provision for reimbursable mechanisms to be used if there are delays with the assessments or the establishment of accounts is considered too high risk (see Section 5).

Funding through the MoU is currently at \$1 million annually. Funding for the period 2013 to 2015 is expected to increase to \$2-3 million annually. Funding will continue to be provided through a funding agreement between AusAID and the Department of Infrastructure and Transport.

## 4.4 Component 3: Effective Agency and Sector Engagement, Performance and Accountability

Two end-of-program outcomes have been identified for Component 3 under the broad heading of **Effective Agency and Sector Engagement and Performance: (i) systems in place to achieve predictable multi-year government funding streams for transport asset maintenance; (ii) key reforms progressed through enhanced engagement, agency performance and analysis.**

Three end of TSSP2 outcomes are shown in Box 16.

**Box 16**

<b>End-of-Program Outcome (2023)</b>	<b>Effective Agency and Sector Engagement, Performance and Accountability</b>		
<b>3.1: Sector and Agency Performance</b>  <b>TSSP2 Outcome (2018):</b> TSCMIC and member agencies demonstrate increased capacity to coordinate, monitor, advocate for and report on the sector and its activities.	<b>3.2 Partnership Engagement Delivers Results</b>  <b>TSSP2 Outcome (2018):</b> PNG and Australian Government engagement results in a set of targeted institutional and policy reforms achieved and Partnership Funding levels achieved	<b>3.3 Research &amp; Analysis</b>  <b>TSSP2 Outcome (2018):</b> Applied research and policy analysis completed and used to strengthen road maintenance delivery and aviation, land transport and maritime safety and security.	

This Component proposes that three specific initiatives combine to contribute to achieving two objectives: first, that consistent multiyear PNG Government funding for road and asset maintenance is in place, and second that progress is made resolving a small number of the deeper policy and institutional constraints. The Component builds heavily in each of the Sub-Components on current activities and will contribute directly to the success of Components 1 and 2.

### 4.4.1 Sub-Component 3.1: Sector and agency performance

The following outlines the logic to achieve the outcome for Sub-Component 3.1. Box 17 summarises the intermediate outcomes that will contribute to that result.

**Box 17**

<b>Sub-Component 3.1: Sector and Agency Performance and Accountability</b>
<b>TSSP2 Outcome (2018):</b> TSCMIC and the agencies achieve demonstrably increased capacity to coordinate, monitor, advocate for and report on the sector and its activities.
<b>Intermediate Outcomes</b>
<ul style="list-style-type: none"> <li>• TSCMIC, through DoT, coordinates, monitors and reports to government and PLLSMA on the implementation of the NTS, MTDP, MTTP and NEC decisions.</li> <li>• TSCMIC Secretariat is operating effectively within DoT.</li> <li>• Sector agencies have a clear understanding of their roles and responsibilities.</li> <li>• The sector and agencies submit to government timely quality reports, performance information and analysis through the framework of a credible Medium Term Transport Plan</li> <li>• Ministers, central agencies and users engage on policy change, financing, service delivery and sector development informed by accurate information provided by the sector.</li> <li>• The sector and agencies maintain productive relationships with the central agencies.</li> <li>• National cross-cutting policies (HIV/AIDS, gender equality, disability, climate change) integrated throughout transport sector policies and programs and resources being applied for the implementation.</li> <li>• High quality whole of sector budget submissions are being delivered annually with effective advocacy by Ministers.</li> <li>• TSCMIC, through DNPM, contributes to increased development partner coordination and harmonisation.</li> </ul>

**Influencing activities**

- Support for the effective functioning of TSCMIC.
- Supporting DNPM to coordinate and monitor and report on the sector under the framework of the MTDP.
- Supporting new processes to strengthen demand for performance and accountability including through users conferences and forums.
- Supporting increased engagement with provincial administrations and civil society groups.
- Supporting increased transparency of data collection and analysis.
- Support to strengthen systems for performance management and accountability.
- Supporting improved aid effectiveness in the sector, including through the revitalisation of the TSCMIC Sub Committee on Aid Effectiveness and by encouraging the mainstreaming of best practice across donor programs and projects.
- Practicing joint monitoring and closer coordination with other donors.

## Inputs

- TSSP Program Director to mentor and guide TSCMIC.
- Technical assistance focusing on accountability and performance and effective use of resources.
- Administrative services from the ISP and goods and services for TSCMIC and its Secretariat.
- Specific specialists from the TSSP core team including Sector Performance Specialist, Agency M&E and Reporting Specialist, Public Finance Management Specialist, Human Resource Specialist, Sector Analyst and Policy Specialist (DNPM), Procurement Specialist, HIV/AIDS and Gender Specialists and other short- and long-term advisers as required, including a Legal Policy/Institutions Adviser.
- Funding for data collection in agencies and by the sector.
- Support for continued integration of MoU and SGP monitoring and reporting with broader sector reporting.
- Funding and technical assistance to establish an effective communications strategy for the sector including maintenance of the TSSP website, engagement and communication with stakeholders and the publication of reports and reviews.
- Funding the establishment of an Independent Review Group (IRG) to advise TSCMIC and AusAID on strategic and program performance, including the implementation of the NTS, and provide strategic advice, analysis and insight into issues affecting the sector, its regulation and development.
- Support to improve the flow of critical planning data to central agencies and politicians including funding impact studies to demonstrate the value of investments and inform policy decision making.

## Critical assumptions

Progress under this Component is particularly dependent on PNG Government leadership. Meaningful change will only be achieved if there is genuine will across agency senior management and at the political level.

It is assumed also that an NTS, that clearly articulates an appropriate structure for the transport sector and provides a road map for key sector reforms, is delivered and that TSCMIC continues to maintain its leadership position in the sector with a similar mandate and responsibilities. In addition that:

- budget resources are available for implementation of the NTS and MTTP
- PNG Government national and transport sector policy documents set a realistic and integrated agenda
- a well prepared, coordinated and promoted transport sector development budget submission will result in an increased level of funding to the appropriate agencies for projects prioritised by the sector
- development budget allocations across sectors relate to priorities in PNG Government national policy documents
- central agencies use transport agency reports to inform future budget allocations.

It is further assumed that the support provided through TSSP2 and other development partners will achieve competencies and organizational capabilities required (see Box 18).

**Box 18**

Competencies and Organisational Capabilities
<ul style="list-style-type: none"> <li>• TSCMIC provides robust and effective sector oversight and advocacy.</li> <li>• DoT accepts responsibility to provide the TSCMIC Secretariat with an institutional home.</li> <li>• TSCMIC and agencies demonstrate capacity to implement government policy.</li> <li>• National indicators from the NTS are tracked with appropriate data sources and reporting taking place.</li> </ul>

**4.4.2 Sub-Component 3.2: Partnership engagement delivers results**

The following outlines the logic to achieve the outcome for Sub-Component 3.2. Box 19 summarises the intermediate outcomes that will contribute to that result.

**Box 19**

Sub-Component 3.2: Partnership Engagement Delivers Results
<b>TSSP2 Outcome (2018):</b> PNG Government and Australian Government engagement results in a set of targeted institutional and policy reforms achieved and Partnership Funding levels achieved.
Intermediate Outcomes
<ul style="list-style-type: none"> <li>• “Maintenance First!” sufficiently embedded in policy, planning and budgets to enable increased expenditure on rehabilitation and consideration of other economic priorities for TSSP2 support.</li> <li>• PNG Government and Australian Government engagement results in road maintenance being funded for national and other roads at Partnership Schedule levels to maintain a reliable rolling program of contracts.</li> <li>• Policy and operational advice and dialogue contribute to resolving key reform priorities including institutional inconsistencies on roles, responsibilities and funding strategies.</li> <li>• Advice is contributing to the development of strengthened institutional and organisational arrangements.</li> </ul>

**Influencing activities**

- Flexible engagement able to respond, facilitate and support reform opportunities as and when they emerge.
- Strengthen political and bureaucratic leadership and commitment to mobilise resources and deliver on sector priorities. This will include generating political awareness and political commitment for key transport sector priorities through forums such as Prime Ministerial bilateral meetings and visits, the Annual Ministerial Forum, the Annual Partnership Dialogue, senior AusAID Executive visits, other senior Australian agency visits, ongoing engagement through the High Commissioner and Head of Aid, and ongoing engagement through AusAID Transport team.
- Through Partnership dialogue consolidate current positive trends in terms of budget allocations and increase PNG Government share of the basic maintenance burden. Shift dialogue to

reforms targeting the quality, efficiency and value for money of the spend against allocations. Reflect reform priorities in Partnership Schedule to support dialogue.

- Contribute independent analysis on agreed priorities and constraints to influence, stimulate and broker coordinated PNG and Australian Government action in key areas.
- Proactive relationship building – personal and organizational at senior levels of both governments.
- Analysis and dialogue on performance against reform priorities.
- Regular dialogue on mutual expectations, the pace of reform and the size of the Australian footprint.
- Ongoing dialogue and coordination with sector development partners on reform priorities and deployment of resources and support.

### Inputs

- Fully and adequately staffed AusAID Transport team.
- Head of Aid and Senior AusAID Management supported to engage in policy dialogue and performance review through in particular the Annual Partnership Dialogue and TSCMIC meetings.
- Program Director and Component 3 Manager to provide strategic advice and support.
- Funding of research and analysis to provide independent advice on reform priorities.
- Technical assistance through SGP and other Australian whole-of-government partners.
- Use of performance linked funding to facilitate and incentivise progress in key reform areas.

### Critical assumptions

Sub-Component 3.2 is designed to apply resources to appreciating, understanding and influencing the sector to make it more efficient and effective. In this Sub-Component AusAID carries significant implementation responsibility with support from the Program Director, Core Specialists, the ISP and IRG. It is assumed that AusAID is able to deploy sufficient resources at Post to achieve the depth of policy dialogue required.

AusAID, through TSSP2, can help connect key people and put in place more productive relationships; make more information and knowledge available to promote reform; and encourage and support learning and engagement. However, meaningful change in major reform areas will only be achieved where there is the political will to champion that change.

The agreement by PNG Government of a credible and widely supported NTS that defines a reform agenda for the sector will greatly improve the likelihood of success under this Sub-Component. However, even in the absence of an NTS or if TSCMIC collapses, success under this component could be achieved by focusing relationship building and reform dialogue on specific sector agencies.

The success of the component will also be determined by whether:

- AusAID-led dialogue with PNG Government politicians and senior public servants is taking place on a small set of targeted institutional and systematic reform priorities, informed by performance information and analysis, resulting in efficiency improvements.
- AusAID staffed to support effective dialogue and engagement at all levels and to participate in joint sector performance reviews with PNG Government, discussing priorities and funding, institutional blockages and new developments.
- performance-linked funds can be mobilised to support improvements in the sector.

#### 4.4.3 Sub-Component 3.3: Research and Analysis

The following outlines the logic to achieve the outcome for Sub-Component 3.3. Box 20 summarises the intermediate outcomes that will contribute to that result.

##### Box 20

Sub-Component 3.3: Research and Analysis
<b>TSSP2 Outcome (2018):</b> Applied research and policy analysis completed and being used to strengthen road maintenance delivery and civil aviation, land transport and maritime safety and security
Lower Level Outcomes
<ul style="list-style-type: none"> <li>• Targeted applied research and analysis is being used to inform policy, funding and operational decision-making related to (a) achievement of program outcomes (b) informed policy engagement and (c) remedying service delivery constraints.</li> <li>• Expenditure tracking analysis on transport assets incorporating all sources of expenditure benchmarked by province across subsectors.</li> <li>• Technical audit consultancy is operating effectively in the land transport sector.</li> <li>• Monitoring of transport asset tenders, contracts and performance reports is used to develop a reference of costs to contribute to reducing risks and increasing value for money.</li> <li>• Research and analysis on gender, HIV and disability impacts are used to guide the allocation of resources and transport asset maintenance and system safety and security.</li> <li>• Public dialogue promoted on the volume and quality of spending on transport infrastructure assets in all provinces from all sources of funding.</li> <li>• Research into transport priorities outside the national transport network and delivery models to address these priorities proposed.</li> </ul>

##### Influencing activities

- Delivery of high quality research and analysis.
- Effective dissemination of research findings to all stakeholders including sub-national and user groups.
- Translation of research and analysis into realistic and achievable reform proposals.
- Advocacy to ensure research findings are picked up by decision makers and implemented.

- Piloting and/or developing new support activities including in areas beyond the current national priority roads.

## Inputs

- Funding for research and analysis using local and international capability.
- Technical assistance through the ISP to design, contract and manage research activities.
- Contributions from members of the TSSP core set of specialists and short-term advisers.
- Funding for the publication (written and electronic) of research findings and production of information and advocacy materials.
- Possible research areas include:
  - research and analysis on the specific impacts of poor transport services on women, children and men
  - a comparative expenditure tracking analysis of total transport spending by province in association with the NEFC
  - research and analysis of road asset maintenance costs and risks that escalate costs with the perspective of improving value for money
  - dependent upon the outcome of broader structural changes options to assist in the non-commercial CSO spectrum of maritime and aviation asset management, specifically rural airstrips and jetties
  - developing the evidence base to inform decision making around national and local socioeconomic connectivity priorities
  - achieving greater understanding of the links and power relationships between national and local transport infrastructure stakeholders
  - research into how to target resources considering different needs and institutional relationships across PNG
  - performance-linked approaches (to support, for instance, procurement reforms or provincial engagement)
  - feasibility of discrete “development” projects in the manner of the current Oro Bridges Reconstruction activity
  - feasibility of joint funding of initiatives with multilateral organisations, including considering opportunities to pursue co-financing of rural roads programs with the World Bank.

## Critical assumptions

Research and analysis must be Papua New Guinea appropriate, relevant to immediate issues, reflect PNG sector practice and culture, and seek to access relevant international research practice. It is assumed that through the commissioning of research activities TSSP2 will support the development of local researching capacity and expertise in the transport sector and that this capacity will be able to deliver research of adequate quality and insight.

It is assumed that TSSP2 will effectively build on the existing body of research globally and learn from the experiences of other AusAID programs and donors in the sector to ensure best practice approaches.



It is further assumed that the support provided through TSSP2 as well as that provided through the other development partners will achieve competencies and organizational capabilities required (see Box 21).

**Box 21**

<b>Individual competencies and organisational capabilities</b>
<ul style="list-style-type: none"> <li>• TSCMIC commissioning appropriate and relevant research that is used.</li> <li>• Local research organisations, communities, women and men participating in research activities.</li> <li>• Skills to supervise and oversight sector research work established in sector agencies.</li> <li>• Managers and professionals use research analysis to shape policy an decision making.</li> </ul>

#### 4.4.4 Addressing cross-cutting issues in Component 3

##### Gender

Specific gender equality mainstreaming activities within this Component will include:

- supporting agencies to include sex disaggregated data and the results of gender equality interventions in their reports
- using research, analysis and monitoring, including sex disaggregated data, to understand differing impacts for women, men, girls and boys in service delivery e.g. road maintenance
- ensuring that the terms of reference for commissioned research include the need for a gender analysis
- ensuring that policy submissions and reports include a gender perspective whenever possible
- ensuring that researchers have appropriate gender analysis skills or support from the gender advisors to conduct the analysis
- initiating or contributing to M&E of contractor performance in gender equality activities
- supporting agencies to report on gender equality activity spending

##### HIV/AIDS

- supporting the agencies and TSCMIC to improve coordination of HIV and AIDS responses at the national level with the National AIDS Council Secretariat
- initiating and contributing to M&E of contractor performance in HIV prevention activities
- supporting agencies to report on HIV spending.

#### 4.4.5 Budget and financial management arrangements

Up to \$14 million annually for Sector Capacity Development delivered through the ISP.

Up to \$25m across five year phase for piloting and development of new activities and for research and analysis.

Funding will be delivered through reimbursable mechanisms under the ISP contract (see Section 5).

## 4.5 TSSP2 Program Duration and Budget

### 4.5.1 Duration

TSSP2 is an evolution of TSSP, which was envisaged as a 15 to 20 year investment. TSSP2 will be the second five year phase running from July 2013 to June 2018, subject to the recommendations of any mid-term review.

During 2012/13 a set of transitional activities will take place to ensure rapid implementation of the new program from July 2013. See Annex 10 for the detailed transition plan.

### 4.5.2 Budget

## 5 Implementation Approach

Fundamentally, changes to the implementation approach are minimal between TSSP1 and TSSP 2. TSSP2 will:

- retain a whole of sector footprint covering maritime, aviation and land transport with oversight coordinated through TSCMIC
- spend no more than 20% of overall expenditure on adviser and capacity building support
- retain the major focus on land transport with the Department of Works being the principle implementing agency
- retain the outsourcing of road works and supervision to private sector contractors as the main works delivery mechanism
- retain (but strengthen and expand upon) the same range of support service providers – ISP, PMSC, long term technical advisers, in line advisers, short term consultants, and support through arrangements like twinning and mentoring
- retain (and expand upon including improved integration) Australian whole of government support through SGP and MoU.

However, changes are required to respond to the implementation lessons of TSSP1 and the TSSP2 approach described in the previous sections. In summary these are:

- an increased emphasis on service delivery in addition to capacity building and organisational reform to meet Partnership targets and build a sustainable network
- revised fund flow mechanisms to cater for changes in AusAID policy in relation to imprest accounts
- a focus on progressive and opportunistic engagement with agencies through clearly defined agreements that establish milestones and outcomes (performance indicators). The scope and scale of ongoing support for an agency will be dependent upon satisfactory progress and PNG Government commitment to change and reform. Where progress is not evident, the context changes or new opportunities arise, AusAID in consultation with PNG Government will rethink, redirect, scale back or if necessary withdraw assistance
- strengthened and improved support to the land transport sector to address service delivery bottlenecks and increase the pace of progress towards road sector targets including more direct AusAID engagement on performance and implementation issues and a more proactive role for PMSC in training and mentoring at the Provincial level
- support to achieve an enhanced role and expectations for TSCMIC to oversight and direct the implementation of TSSP and address systemic issues such as PNG Government procurement processes
- inclusion of the ABG's Division of Technical Services (DTS) and the National Roads Authority (NRA) as new stakeholders in the implementation of TSSP
- strengthened mechanisms and processes to focusing on performance and accountability to drive improvements in productivity and value for money. This includes the introduction of technical audit processes and the introduction of an IRG to improve program and agency M&E

- a new research, analysis and piloting regime to explore: 1) service delivery options, technologies and systemic constraints; 2) options to leverage opportunities through incentives; and 3) options for future direction as performance targets are met and priorities change.

The following section describes in more detail the implementation approach for each major input area. Governance arrangements and detailed roles and responsibilities are outlined in Section 6.

## 5.1 Program Inputs

### 5.1.1 Implementing Service Provider (ISP)

The ISP will deliver Governance and Capacity Development technical assistance, establish and manage the IRG, establish and manage the TAC and provide support services for TSCMIC and the TSCMIC Secretariat.

#### Governance and capacity development technical assistance<sup>20</sup>

A mix of indicative inputs has been listed after each of the Sub-Components outlined in Section 4.

Governance and Capacity Development technical assistance will consist of:

- a Core Specialists Team who will have a peripatetic role across sector agencies developing and supporting good practice in public finance management, human resource management, sector performance, agency reporting and performance, policy and planning, procurement, legal policy and institutional arrangements and gender/HIV
- a team of agency specific advisers with skills specifically relevant to the other components who will be identified following the diagnostic process described below. This will be a mix of long and short term advisers and is also expected to include some in line positions
- additional technical, capacity building and governance assistance inputs that may follow from the diagnostic process described below.

#### Capacity diagnostics and Agency Support Agreements

TSSP2 will adopt a diagnostic process to build on the foundation established through TSSP1. The TSSP2 approach to identifying the target areas for capacity development and to monitor and manage performance is based on the outcomes of the joint PNG-Australia Technical Adviser Review and recent lessons emerging from AusAID's Economic and Public Sector Program and Health Program, which have adopted similar processes. This process will commence during TSSP1 as part of transition activities leading to the commencement of TSSP2 (see Annex 10 for the detailed transition plan) with the new ISP taking over responsibility for updating and overseeing implementation of the Agency Support Agreements.

The capacity diagnostic and Agency Support Agreement process is intended to emphasise that support through TSSP2 is based on a principle of progressive engagement. Ongoing support for an agency over the duration of TSSP2 is dependent upon satisfactory progress and PNG Government commitment to the changes and reforms identified in the Agency Support Agreement. Where progress is not evident,

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<sup>20</sup> See Annex 7 for detailed discussion of approaches to capacity development and principles flowing out of the PNG-Australia Technical Adviser Review and other analysis that form the basis for the implementation approach outlined here.

AusAID is prepared to withdraw, scale back or redirect assistance. The diagnostics and Agency Support Agreements will therefore identify milestones and outcomes (performance indicators) to inform accurate assessment of progress through annual review processes.

The capacity diagnostics and Agency Support Agreements will:

- establish an organisational performance benchmark for each agency at the beginning of TSSP2 and construct an outline development roadmap to 2018
- identify current areas of organisational and service delivery weakness and focus areas for TSSP2 support
- develop coherent approaches to the delivery of support and its performance management
- develop and articulate mutual understanding and commitments by both the Agency executives and TSSP on:
  - the actions required by both parties to create and sustain an enabling environment in which the support is delivered
  - the financial management, procurement process, progress reporting and acquittal responsibilities of both parties
  - the process of annual performance review and updating of support commitments and expectations.
- articulate and document how the three modalities of support (TSSP, SGP and MoU) will be integrated, interact and account for its contribution to the development of the sector.

While the exact scope of diagnostics and associated Agency Support Agreements will vary on a case by case basis, a number of principles will inform the approach.

- **Joint approach:** all capacity diagnostics will be led jointly by the PNG Government and AusAID (with the recipient agency taking the leadership role), and include representation from relevant TSCMIC stakeholders and where appropriate counterpart Australian agencies. Where ever possible the diagnostics should include representation from non-state actors, particular users or key stakeholders.
- **Independence and technical expertise:** to ensure that all support is based on robust analysis, diagnostics will be contracted to independent individuals with the appropriate technical expertise to undertake diagnostics and/or design work. They will work in partnership with the stakeholders to undertake the relevant work jointly.
- **Methodology:** a detailed methodology for each capacity diagnostic will be developed (building on lessons from AusAID's health program and EPSP). This will employ a 'mixed methods' approach – i.e. a mix of quantitative and qualitative data collection methods. This will be adapted as needed for future diagnostics based on individual circumstances.
- **Plans and priorities:** the starting point for capacity diagnostics are the relevant PNG Government sector and agency legal obligations, plans and priorities.
- **Capacity availability and utilisation:** the assessment of existing capacity availability and utilisation will:
  - assess existing capacity (resources and incentives for change), through a problem-based analysis as well as recognising strength-based approaches

- utilise the existing information base, build on effective approaches and past lessons learned, and identify selected areas where in-depth analysis can best add value
- identify opportunities to promote program coherence between PNG stakeholders, development partners, and across AusAID programs
- address political economy issues which effect service delivery implementation.
- **Strategies for change:** diagnostics will identify how to most effectively implement PNG strategies for change (or identify where strategies need to be developed if they are absent), including identifying an appropriate theory of change and program logic – i.e. resources, activities outputs, intermediate outcomes and end-of-program outcomes. They will identify opportunities to promote gender equality in the analysis and design of plans, strategies and activities and M&E. In cases where diagnostic approaches identify the need for the development of long-term and broad institutional changes (e.g. comprehensive approach to human resource training) which are beyond the scope of TSSP to support, AusAID and PNG Government will investigate alternative options.
- **Monitoring & Evaluation:** based on agreed strategies for change, M&E data will be drawn primarily from PNG Government systems and supplemented through TSSP as required (particularly to determine the latter's contribution to capacity development changes). A baseline assessment will be conducted as part of the diagnostic process, including collection of sex-disaggregated data where appropriate.
- **Agency Support Agreements:** outcomes of the diagnostic process will include agreements of up to five years of support (reviewed on at least an annual basis) being negotiated between relevant parties at the end of the diagnostic process and including these components:
  - i) summary findings of diagnostic assessment
  - ii) PNG Government and AusAID financial management and procurement process arrangements and commitments
  - iii) agreed strategies and proposed interventions to accelerate progress (including policy, operational, resource etc. commitments)
  - iv) agreed joint result areas to be monitored, including bench marks, milestones and performance indicators for assessment of progress
  - v) agreed scope, type, role, reporting, succession planning, and cost sharing of technical assistance
  - vi) processes for regular engagement and performance review.

### Independent Review Group

The ISP will contract an Independent Review Group and manage their inputs under direction of TSCMIC, AusAID and the Program Director (where the Program Director is not the subject of the review).

The Independent Review Group will be mobilised on routine and/or an ad-hoc basis to advise TSCMIC and AusAID on strategic and program performance, particularly the implementation of the NTS and other PNG Government planning documents, the PMSC and the ISP. The Independent Review Group will also provide strategic advice, analysis and insight into issues affecting the sector, its regulation and development. Detail on the Independent Review Group's role and responsibilities is at Section 6.

The ISP's role is to administer the contract.

### Technical Audit Consultancy

Initially, the Technical Audit Consultancy will be contracted and managed by the ISP.

The advantage of introducing a technical audit consultant to sample, test and report on the larger and more complex TSSP maintenance activities is the valuable information yielded on the work processes used by contractors and the nature and extent of systemic problems arising.

During the first year of TSSP2, it is intended to establish the capacity to undertake technical audits of major TSSP funded civil works, both during their implementation and after works are completed. The independent consultancy will be tendered and contracted to the ISP, but AusAID and the Program Director will provide significant guidance in relation to its planned work programs. It will be an important management tool for monitoring and verifying, by the quality of its output, the effective implementation of the TSSP funded works program.

### 5.1.2 Strongim Gavman Program and Transport Sector MoU

Technical assistance provided through SGP and the MoU will focus on transport safety and security. These inputs will operate under separate governance and managerial arrangements, but will be coordinated and integrated with the inputs managed by the ISP. All inputs under Component 2, including those managed by the TSSP ISP will be overseen by the SGP Transport Team Leader who will act as Component 2 Manager and be part of the TSSP2 Senior Management Team.

#### Strongim Gavman Program (SGP)

SGP forms part of Australia's development cooperation assistance to Papua New Guinea and also reflects and contributes, where appropriate, to objectives and milestones identified in the *PNG-Australia Partnership for Development*.

The transport sector component of SGP is currently focused on issues of mutual interest between Australia and PNG Governments, these focus on transport safety and security. It is delivered through three adviser positions across the Department of Transport and the Civil Aviation and Safety Authority. These adviser positions currently are:

- a Transport Strategy and Policy Adviser and SGP Transport Team Leader (embedded within DoT)
- Aviation Security Adviser (embedded within CASA)
- Maritime Security Adviser (embedded within the DoT).

TSSP2 will aim to build on the progress already made to integrate SGP support with the broader Australian transport program in PNG. In line with the findings of the SGP Mid Term Review, TSSP2 proposes that the scoping, management and reporting mechanisms of TSSP, SGP and MoU be integrated and coordinated. This will enable PNG Government to more effectively utilise the available resources where they will have greatest impact and comparative advantage. Under TSSP2, it is intended to consolidate the progress already made by aiming to ensure:

- all forms of capacity development assistance, including those sourced through SGP are accessed and scoped under the leadership of the relevant PNG Government sector agency and TSCMIC

- all assistance is incorporated into the Agency Support Agreements described above (noting the distinct governance arrangements for SGP) with agreed inputs, outputs and outcomes documented
- there is close coordination and cooperation within the Australian effort and with TSCMIC so that the Australian Government can strengthen its unique and valued presence in the sector
- planning and reporting to AusAID and PNG Government through TSCMIC and other relevant forums is in a consolidated format and consistent and against agreed objectives and outcomes
- higher level M&E and impact assessment will be integrated and guided by PNG Government planning documents and the Partnership.

TSSP2 proposes that the SGP Transport Team Leader, working with the Program Director, undertakes the role of Component 2 (Safety and Security) Manager, overseeing and providing strategic management of the activities of the Component, including TSSP ISP inputs.

### PNG-Australia Transport Sector Memorandum of Understanding

A Memorandum of Understanding (MoU) was signed between the Australian Government (by the Department of Infrastructure and Transport and PNG Government (by the Department of Transport) to:

- encourage cooperation between the participants in relation to the safety and security of the transport network including air, maritime and road;
- develop relations between transport portfolio agencies and relevant industry participants and other organisations concerned with safety and security of the transport network.

The MoU has established possible areas of cooperation including:

- transport safety investigation
- transport security policy
- education and training
- data and information management
- strengthening institutional linkages
- compliance with international arrangements and requirements.

The MoU budget is currently \$1 million per annum. Funding is expected to increase to \$2-3 million annually for the period 2013-2015. The funding is designed to meet the costs of the participating Australian Government agencies and typically involves training, secondments, mentoring, twinning, analysis and feasibility studies. Activities are funded through a separate financing agreement between AusAID and the Department of Infrastructure and Transport.

Building on existing processes, assistance under the MoU, as with SGP and TSSP ISP inputs, should be based upon a diagnostic process and a written plan with outcomes. The integration of these processes to ensure complementarity, appropriate sequencing and coordination is an explicit aim of TSSP2 that will be addressed through the Agency Support Agreement process.

Details of cooperation are set out in annexes to the MoU which are then developed into work plans by the designated implementing authority. To date, seventeen joint work plans have been developed and actioned under the MoU, and a further five were approved for action in 2012. These workplans have been developed by PNG Air Services Limited, the Civil Aviation Safety Authority, the PNG Accident Investigation Commission, the PNG National Maritime Safety Authority and PNG Department of



Transport with their Australian counterparts the Civil Aviation Safety Authority (Aust), the Australian Transport Safety Bureau, Airservices Australia, Australian Maritime Safety Authority and the Department of Infrastructure and Transport.

The role of the SGP Transport Team Leader will be critical in providing strategic oversight of the various inputs delivered through MoU and in ensuring effective integration.

### 5.1.3 Project Management and Supervision Consultancy (PMSC)

The PMSC's inputs in supporting the three land transport delivery agencies is described at Section 4.

The implementation approach for TSSP2 builds directly on current arrangements for TSSP1 and is informed by lessons learnt. Key issues are improving performance by: broadening the mandate of the PMSC to specifically include targeted capacity building at the provincial level; strengthening performance criteria; making the PMSC more accountable for results and providing increased support to DoW to manage the contract. The number of performance management levers will also be increased through the introduction of independent technical audits of major contracts. TSSP2 also aims to clarify the respective roles and responsibilities of the PMSC and DoW in the management of road maintenance contracts by introducing a more robust contracting framework (i.e. FIDIC MDB Harmonised Edition) as well strengthening the links and complementarity of support provided through the ISP.

AusAID will also be more directly involved in monitoring the performance of the PMSC contract than was the case for TSSP1.

### 5.1.4 Other AusAID Programs

Opportunities exist to link to:

- Economic and Public Sector Program (EPSP) which works with PNG Government central agencies to remove government process bottlenecks and constraints particularly to improve internal audit and procurement through the CSTB
- Provincial and Local Government Program (PLGP) in supporting reporting to the Provincial and Local Level Service Monitoring Authority (a statutory committee of high level officials) which has the statutory role of monitoring government service delivery and also coordinating Bougainville activities with the Governance and Implementation Fund
- Health and HIV/AIDS program in monitoring the effectiveness of contractor HIV activities.

## 5.2 Use of PNG Systems

AusAID is committed to increasing the use of PNG Government systems when it is feasible and sensible to do so and those systems are working, transparent and fit-for-purpose. A public financial management assessment in 2011 to inform this design assessed the risks and benefits of use of various parts of PNG systems. Table 7 summarises the findings of that assessment indicating the current approach and where necessary making recommendations for changes. No wholesale changes are proposed for TSSP2. However, the recommendations will be adopted in TSSP2. More detailed discussion on necessary changes is under the specific sections below on procurement and financial management arrangements.

**Table 7: Summary of Use of Partner Government Systems**

System or process	TSSP1 approach and recommendations for TSSP2
<p><b>On Planning</b></p> <p>‘On plan’ means that the TSSP support is reflected in the relevant (multi annual) development plan, which can be on national level or sector level. Support can be ‘on plan’ in different ways: the support activities itself are part of the plan or the financial support is part of the resource envelope. In the ideal case PNG Government has decided which activities the donors should support in the context of the total development objective.</p>	<p>TSSP is “on plan”:</p> <ul style="list-style-type: none"> <li>• Vision 2050</li> <li>• Development Strategic Plan</li> <li>• MTDP</li> <li>• PNG Government Commitment on Aid Effectiveness</li> <li>• Partnership for Development</li> <li>• Agency corporate and business plans</li> <li>• TSCMIC approved sector workplan</li> </ul>
<p><b>On Budgeting</b></p> <p>‘On budget’ implies that the support activities are reflected in the annual budget. Ideally the activities are broken down in line with the PNG Government’s budget classification, or, if that is not possible, reflected as a line item.</p>	<p>Reflected in National Budget at global level and in DoT budget. Should be disaggregated by agency.</p> <p>Not reflected in ABG budget or those of the public bodies</p> <p>Sector budget submission is part of budget process</p> <p>This should be addressed through TSSP2</p>
<p><b>On Treasury</b></p> <p>‘On treasury’ refers to funding the donor supported activities through the treasury’s account(s). (National) Treasury is responsible for managing and distributing the donor funds to the relevant spending units (for example sector departments or sub national governments). On Treasury implies that donor funds are ‘joined’ with national funding.</p>	<p>TSSP is not on treasury. AusAID distributes funds to various agency based accounts</p> <p>This issue can only be addressed at the whole of Aid Program level and is beyond the scope of TSSP2</p> <p>Current processes to continue with some exceptions</p>
<p><b>On Accounting</b></p> <p>‘On accounting’ refers to the practice of having the supported activities captured in the accounts of the partners’ country, in line with the Chart of Accounts. This mostly implies that expenditure is executed by the partner country.</p>	<p>TSSP uses a trust instrument with numerous support bank accounts with trust instruments under the PNG Government’s <i>Public Finance Management Act</i> and hence is a PNG Government system. Funding through trusts accounts should all reflect PNG Government’s charts of accounts</p> <p>TSSP spending is not reported in the national accounts</p> <p>TSSP maintains its own supplementary accounting system, reconciled to DoW’s ORACLE systems. Similar arrangements are needed for ABG and the public bodies if trust bank accounts are opened</p>

	Improving reporting through national accounts should be supported through TSSP2
<p><b>On Procurement</b></p> <p>“On procurement” refers to the practice of using partner government systems to procure goods and services using development partner funding.</p>	<p>TSSP follows PNG Government (i.e. CSTB) or the public bodies’ processes for procurement funded through those agencies, with some documented exceptions. Australian Government’s CPG applies in cases of doubt</p> <p>TSSP follows Australian Government procurement for procurement of advisers and goods and services and will be reimbursed for this expenditure</p> <p>See Separate section discussing procurement for more detail</p>
<p><b>On Reporting and Monitoring</b></p> <p>‘On reporting’ means that the donor activities are included in the in-year and annual reports. Ideally, the activities are reflected in the reports in accordance with the Chart of Accounts, or, if that is not possible, at least part of the annual report (for example as an extra Chapter, but part of the summary tables).</p>	<p>TSSP reports often and in detail to AusAID. Reporting to PNG is weak</p> <p>DoW’s systems are effective in recording TSSP expenditures but internal and external reporting of key financial information to management is poor</p> <p>This is a weak area across the sector hence the strong emphasis on improving reporting in Sub-Component 3.1 for TSSP2</p> <p>The PFM review assessed the benefits of TSSP 2 engagement as medium to high</p>
<p><b>On Audit</b></p> <p>‘On audit’ refers to the practice that donor supported activities are audited by the same entity that also audits the partner country’s activities.</p>	<p>This is a weak area for PNG Government. TSSP independent external auditing provides reassurance to AusAID with risks assessed as low</p> <p>Internal auditing in all recipient stakeholder agencies of TSSP expenditure is weak reflective of the overall endemic poor performance across government. Undertaking audits without management having an appetite to respond to the management letter is of limited value</p>

## 5.3 Financial Management

In September 2011 AusAID undertook a review of financial management capability and capacity, and the associated risks and benefits for the program to inform the design of TSSP2. The overall conclusion was:

“The general assessment of the Review Team is that **overall financial management of the Transport Sector Support Program (TSSP) is very good**. Stringent controls have been instituted to ensure that Australian aid funds are applied exclusively to the project and other expenditures intended under the Program. These have to date prevented any loss of funds to

fraudulent or unapproved activities and reflect, among other things: i) clear statements of policies in regard to financial and risk management; ii) comprehensive financial procedures manuals for each specific area of TSSP operations; iii) establishment of a standalone financial management system for oversight of AusAID funds, while making use of key Government of PNG systems to deliver funding; iv) employment of a cadre of expert Technical Advisers to provide support and guidance to counterpart staff in critical areas of finance, IT, human resource management, planning, contract management and engineering; v) development of annual work programs for each Technical Adviser setting out activities to support the TSSP and its entity capacity building objectives.

For the most part, **the financial management controls currently in place remain appropriate and should continue** under Phase II. That said, financial management of the TSSP could be enhanced in a number of respects.”<sup>21</sup>

Recommended areas of improvement include:

- capturing all TSSP expenditure in the PNG Government public accounts
- less complexity and more user friendliness in financial reporting to AusAID
- supporting the investigating and planning of the migration of DoW to the new government Integrated Financial Management System when the IFMS is able to meet DoW’s needs
- a new committed expenditure system to improve internal reporting and link it to PNG Government requirements
- strengthening of internal audit capacity across the sector
- improvements to PMSC financial systems and inventory control in Bougainville.

TSSP2 will need to consider options to address these recommended improvements, while ensuring the strengths and controls of the current approach are maintained.

AusAID’s updated Imprest Account policy and guidance released in 2011 has been considered to determine appropriate fund flow mechanisms for TSSP2. The AusAID guidance states that Imprest Accounts may be the most appropriate payment mechanism only where:

- it is the most efficient, effective and ethical use of Commonwealth funds based on a value for money assessment incorporating risk considerations within the requirements of the Commonwealth’s financial framework and policies
- AusAID does not want or need to make every day decisions regarding expenditure or purchasing decisions (i.e. maintain effective control of expenditure)
- the scope of the activities and agreed use of imprest funds, can be clearly established up front and detailed in the tendered contract
- the contractor is anticipated to be of the size or type that would normally not have the capacity to carry or ability to access funds (working capital) to ensure the effective management of the activity
- access to the funds by the contractor is often required with shorter lead times (i.e. less than 30 day payment terms) and other practical alternatives have been considered and are discounted for sound reasons

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<sup>21</sup> AusAID, Assessment of Financial Management Capability and Capacity and Associated Risks and benefits for Assistance to PNG through the Transport Sector Support Program, Final Report September 2011.

- decisions on the use of the funds in the Imprest Account will be controlled by an entity or body not subject to routine direction (direct or indirect) from AusAID and/or the Commonwealth Government.<sup>22</sup>

In determining the approach for TSSP2 the key issue is what approach provides appropriate financial stewardship and control, but also the flexibility to deliver the outcomes required. Considering the AusAID guidance and policy on Imprest Accounts, current arrangements will need to be adjusted. The following is proposed for TSSP2.

### Imprest Accounts

Under TSSP1, the ISP owned and managed three Imprest Accounts to: fund asset maintenance activities for public bodies (which fall outside PNG's PFMA); to fund technical adviser costs; and to fund the subcontracted maintenance program in Bougainville. It is proposed that these Imprest Accounts be closed at the completion of TSSP1. Current imprest account mechanisms that deliver funding to public bodies should be replaced with a reimbursable mechanism under the ISP contract except where necessary fiduciary risk assessments allow the establishment of agency trust accounts (see new funding facilities below). All technical adviser and other reimbursable goods and services provided by the ISP should be reimbursed monthly in arrears. Proposed Bougainville arrangements are discussed in more detail below.

### The DoW Trust Account

Under TSSP1, a Trust Account under the PNG PFMA was established to manage funding for road asset maintenance. The Trust Account is managed by DoW using DoW financial management systems and processes with extensive oversight and controls provided by the TSSP ISP. Under TSSP1 AusAID transfers funds, usually in quarterly tranches, into the DoW Trust Account based on projected cash flow needs against annual workplans. Funds from the Trust Account are then transferred to drawing accounts maintained in each of the Provinces in which TSSP operates, as needed to pay contractors subject to contractor invoices having been received, verified and approved by the provincial DoW staff, the PMC in the province and the TSSP ISP Financial Control Cell based in DoW headquarters. It is proposed to continue this arrangement under TSSP2 based on the 2011 financial management assessment that the controls in place were adequate to effectively manage the funding and supported the strengthening of DoW systems.

### Bougainville

Funding for the Bougainville maintenance program under TSSP1 was delivered through an Imprest Account owned and managed by the ISP.

It is not proposed to continue this arrangement under TSSP2. In TSSP2 the Bougainville program will be financed under a reimbursable arrangement. The PMSC will make payments to contractors and seek reimbursement through the aforementioned DoW Trust Account processes. The ISP will oversee the payment process and financial management arrangements.

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<sup>22</sup> AusAID, Guideline 235: Use of Imprest accounts in AusAID, 14 January 2012, p. 4

Subject to capacity assessment, a separate Trust Account operated by ABG DTS could potentially be established, but this will be dependent upon the ABG and DTS achieving pre-agreed standards in governance and organisational capacity.

### New funding facilities

It will be useful to establish trust accounts for other sector agencies including the public bodies. The establishment of these accounts will be subject to fiduciary risk assessment and the relevant provisions of the PNG Government's Public Finance (Management) Act 1995 and of the relevant Acts under which the public bodies were incorporated or established. Funding agreements between AusAID and the agencies will be required outlining the operations of the accounts, oversight arrangements and audit processes. As part of transition activities preparatory work (e.g. fiduciary risk assessments) for the establishment of new funding facilities for agencies is planned (see Annex 10). However, because of potential delays with these processes and to manage circumstances where the risks around establishment of accounts is considered too high, the ISP contract will need to be structured to allow reimbursable mechanisms where necessary.

### Annual independent audits

All TSSP2 funding accounts as well as the financial management processes of the ISP and the PMSC will undergo annual independent audit.

## 5.4 Procurement

AusAID completed in April 2011 a procurement capacity assessment of the transport sector focusing on DoW, NAC and Bougainville DTS<sup>23</sup>. The assessment highlighted significant challenges and risks to using PNG procurement systems, including major constraints resulting from the national procurement legislative and operational framework and agency specific capacity weaknesses. In the case of DoW, which will receive the bulk of funding during TSSP2, the report concluded however that "with the assistance provided by TSSP funded Advisers and the verification processes that are in place, the recommended way forward is to continue the close relationship with DoW and support its vision for a transparent and efficient procurement system".

The assessment recognised that in comparison with other PNG Government procurement entities, the agencies assessed (except DTS) conduct procurement to a higher standard. However, the report made clear that transport sector agencies have significant weaknesses and are further constrained by the inconsistencies and incompleteness of the national procurement framework. Country ownership and leadership are required to implement sustainable reforms at the national level. It is not possible to determine whether any progress will be made during the course of TSSP2 and it is assumed that the national framework will by and large remain the same. TSSP2 should consider what options exist to support the activities of other AusAID programs in this area (in particular EPSP and SGP) and other donors (in particular ADB), but whole of PNG Government systemic reform will be beyond the scope of TSSP2 to directly influence.

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<sup>23</sup> Charles Kendall and Partners, Assessment of Government Partner Procurement Capability and Capacity, and Associated Procurement Risk – PNG-Australia Transport Sector Support Program, April 2011

Despite the lack of substantial procurement reform progress expected during TSSP2 at the national level, TSSP1 has shown that, although there remain significant weaknesses, agency specific procurement capacity improvements can be achieved (e.g. improvements to contracting documents, evaluation processes, planning and contract administration). The approach under TSSP2 will therefore be to continue using PNG procurement systems maintaining significant oversight and controls and providing additional support to strengthen agency capacity. This approach is aimed at improving sector capacity to operate better within existing systems working towards the longer term objective of the sustainability of the sector.

During TSSP1, AusAID was required to object to the outcome of procurement processes on a number of occasions and projects were retendered or postponed as a result. The failure rate of procurements by value of the program will be monitored during TSSP2. If during TSSP2 the PNG Government procurement system proves to be an insurmountable constraint to the achievement of the productivity expectations of TSSP2 consideration will need to be given to discontinuing procurement through PNG systems.

### Subsidiary arrangement and agency specific funding agreements

The procurement assessment highlighted some specific aspects of the PNG procurement framework that did not align with AusAID's obligations under the Australian Financial Management and Accountability Act and Commonwealth Procurement Guidelines (now Commonwealth Procurement Rules) and are in conflict with internationally accepted good procurement practice. The assessment recommended ensuring the subsidiary arrangement and any agency specific funding agreements for TSSP2 prohibited application of the relevant aspects of the PNG framework for TSSP funded procurements.

The specific provisions proposed to be prohibited are: Section 41 of the Public Finances (Management) Act 1995 which states that contracts below PGK 1 million may be restricted to national bidders; and sections of the Financial Management Manual that require public bodies and subsidiary corporations to restrict invitations to tenders up to the value of PGK5 million only to businesses that are completely nationally owned or to certain categories of resident companies which have demonstrated a long-term commitment to supporting national subcontractors and the training of local staff (Part 24, Division 2, Paragraph 6.3) and for contracts between PGK 5 million and PGK 10 million, the relaxation that joint venture companies or consortia with up to 50% overseas participation may also be invited to tender (Part 24, Division 2, Paragraph 6.5).

The effect of the prohibitions will be that no procurements may be restricted to national sources only, and that all procurements will be open for international companies to tender if they so wish. This will stimulate competition and assist in the search for value for money. It will be necessary through the negotiations around the subsidiary arrangement for TSSP2 to ensure these issues are addressed by reference to the procurement assessment report which has been validated by PNG and Australian Government stakeholders and which aligns with Australia's Assessment of National Systems for PNG.

Specific funding agreements will be informed by individual agency fiduciary risk assessments (building on the procurement and financial management assessments already completed) and will be attached as Annexes to the Agency Support Agreements.

### Procurement oversight and verification

Under TSSP1, a letter of no objection process was in place to provide assurances of adherence to good procurement practice and to provide AusAID the option to intervene and object should agreed

standards not be met. In addition advisers through the ISP provided significant support to agencies, particularly DoW, at all points of the procurement cycle.

The 2011 Procurement Capacity Assessment highlighted some areas in the current TSSP approach to procurement oversight and verification that required strengthening. In line with the recommendations of the 2011 Procurement Assessment the key issues to be addressed in the approach agreed with PNG Government for TSSP2 are to:

- ensure responsibility for procurement and proof of due process and good practice remains with sector agencies
- agree on an independent verification process that is efficient, timely and allows sufficient opportunity for early correction or intervention by appropriate parties (including AusAID)
- ensure that support to develop procurement capacity is sufficiently resourced and skilled
- ensure a formal stop / go point (i.e. Letter of No Objection) is available to AusAID.

As part of transition activities TSSP has engaged a procurement specialist to implement the recommendations of the procurement assessment and consider approaches for TSSP2. The approach taken under TSSP2 will need to address the issues outlined above, build on lessons learnt during the transition period and be reflected as appropriate in subsidiary arrangements and agency specific financing agreements.

At minimum, specialist procurement expertise and resources will need to be available to the program to advise on procurement issues, support procurement capacity strengthening activities, and verify adherence to good procurement practice.

Under TSSP2, procurement audits will be included in the program's annual audit regime. The feasibility, scope and access for procurement audits will need to be confirmed with partner agencies through negotiations around the Subsidiary Arrangement and agency specific funding agreements. It is proposed these audits would focus not only on adherence to appropriate process and practice, but also the quality of procurement outcomes and provide information and recommendations relating to the full procurement cycle.



## 6 Program Roles and Responsibilities

The significant parties in the implementation arrangement for TSSP2 are:

- PNG Government agencies engaged in the program and TSCMIC
- Australian Government agencies, specifically AusAID as PNG's development partner and Australian transport and infrastructure agencies through SGP and under the MoU
- the Implementing Service Provider (ISP) contracted by AusAID to provide administrative and management support services for the program and be responsible for the majority of capacity development aspects of the program
- the Project Management and Supervision Consultancy (PMS) contracted by DoW, but funded by AusAID to provide project preparation, supervision, technical and contractual advice, on-the-job training./mentoring and other services to implement road maintenance
- an IRG to provide independent advice on program performance and strategic issues
- a TAC to support improved quality and value for money of civil works.

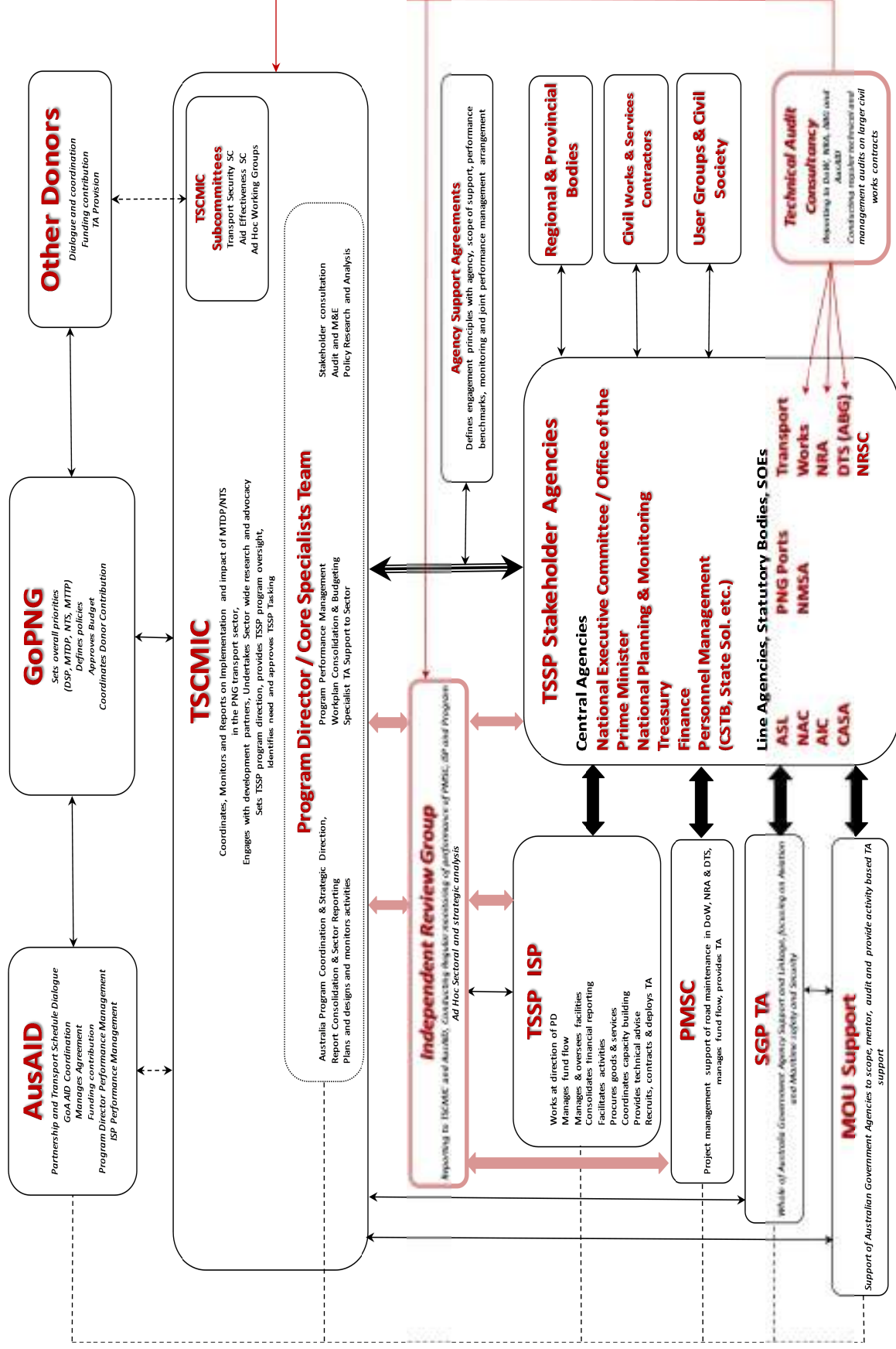
This section details roles and responsibilities for each actor in the program. Figure 2 summaries the proposed institutional arrangements.

### 6.1 Government of Papua New Guinea

The Government of Papua New Guinea is responsible for delivering the program through the stakeholder agencies participating in it. Specific responsibilities include:

- TSCMIC prioritising the development agenda, plans, and budgets for the sector; it coordinates and approves work plans; it advocates on behalf of the sector; it engages with central agencies and development partners, and reviews sector performance
- the Secretary of DoT chairing TSCMIC with the Secretary of DNPM as Deputy Chair
- the recipient stakeholder agencies participating in TSCMIC, providing the staffing and other resources as specified in the plans for each activity under Agency Support Agreements and annual plans. Agency heads will be responsible for the effective delivery of activities particularly around performance management
- the recipient stakeholder agencies reporting on and being accountable for their use of TSSP resources from all sources.

Figure 2: TSSP2 Institutional Arrangements



## 6.2 Government of Australia

AusAID is Papua New Guinea's development partner and leads Australia's engagement in the sector. It will work with the PNG partners to influence strategic direction and performance. AusAID is providing significant finance for the program's activities. It will coordinate Australia's 'whole of government' partners to contribute appropriately to TSSP working under the PNG leadership of TSCMIC. While AusAID has a strong interest in the successful delivery of the program; it is not the implementer except in Sub-Component 3.2. Specifically AusAID will:

- work with TSCMIC to implement Sub-Component 3.2 (Engagement & Dialogue). AusAID will draw on expertise in other sectors in the PNG AusAID team, and SGP, to enhance its engagement with PNG Government on issues central to the achievement of the Partnership's objectives
- work with TSCMIC and recipient stakeholders to facilitate quality diagnostic and designs of all activities
- work with TSCMIC and DNPM to facilitate the coordination of the development effort in the transport sector
- lead Australia's whole of government partners working with the sector
- contract and manage a Program Director (.75 FTE)<sup>24</sup> and Policy Adviser (.25 FTE). The Program Director will be supported by Component Managers in technical matters and policy
- engage an Implementing Service Provider (ISP) to provide the management support services described in this design, the contract and the Scope of Services
- jointly with PNG Agencies and TSCMIC participate in annual Agency Support Agreement review processes.

The Program Director and the ISP report to AusAID's Transport Infrastructure team. AusAID is responsible for overseeing the quality of the Program Director's and ISP's contributions.

The AusAID PNG Infrastructure team needs to be sufficiently resourced to meaningfully engage with and support this large multiagency program and dynamic sector. It is recommended the Team be led by a full time EL2 position on two grounds: to support the more active senior official and political engagement on sector issues under Sub-Component 3.2; and to lead dialogue with PNG Government and other donor partners in the event that the Australian Government wishes to pursue scale-up opportunities, leverage and other infrastructure initiatives that may arise in the dynamic PNG development environment. This is essential if AusAID is to leverage Australia's significant grant aid contribution to achieve policy reform and consistency by PNG Government.

## 6.3 TSCMIC

TSCMIC is the primary governance and decision-making body and will:

- provide oversight and strategic program guidance to all stakeholders

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<sup>24</sup> Full Time Equivalent

- receive the draft annual plans from recipient stakeholders and with support from DoT, the Program Director and the ISP consolidate them into the program's annual plan
- approve the overall annual plan and those activities that arise outside of that process
- prepare, prioritise and publish the TSSP annual budget as part of the sector Development Budget submission based around the PNG Government Budget Cycle
- review technical assistance inputs on a quarterly basis
- monitor agency progress, review reports from and provide guidance to the recipient stakeholders
- establish best practice and norms and coordinate the technical activities of donors in the transport sector
- lead donor dialogue and coordination across the transport sector
- act as spokesperson for the sector
- report to government and the user public on the sector's performance under the NTS and MTDP
- jointly with AusAID and PNG Agencies participate in annual Agency Support Agreement review processes.

## 6.4 Program Director

The Program Director (PD) is employed by AusAID, and accountable to it. The PD has two concurrent roles.

### **TSSP Program Director (.75 FTE)**

- Counterpart to the Secretary of Transport, the Chairman of TSCMIC.
- Provide strategic oversight of the implementation of TSSP including review performance.
- Provide policy and program performance advice to TSCMIC and AusAID and directly contribute to public sector reform dialogue.
- Lead the scoping of activities with agencies supported by the ISP.
- Oversight TSSP engagement with agencies.
- Give directions to the ISP on the implementation of the annual plan and Agency Support Agreements.
- Provide advice to AusAID on the implementation and performance of TSSP, the ISP, advisers and other program inputs.
- Manage with relevant sector leadership and AusAID, the planning, scoping and responses to the missions of the IRG and TAC.
- Facilitate the effective working of the TSCMIC secretariat.
- Oversight Agency Support Agreement development and review processes.

The PD does not performance manage the ISP, but will support AusAID in that role. On a day-to-day basis the PD can direct the ISP on program matters under the mandate provided by the PNG Government and AusAID through annual plans and Agency Support Agreements.

The PD should not be involved directly in managing the administration of activities or the services provided by the ISP. However, the PD will need a keen understanding of the issues impacting on the

sector and implementation of the approved workplans in order to provide overall strategic direction for the program.

#### **AusAID Policy Adviser (0.25 FTE)**

- Provide advice to AusAID on transport infrastructure matters.
- Access and coordinate program data and information to prepare for sector briefs and analysis on program effectiveness.
- Participate in AusAID's engagement with PNG Government under the Partnership.
- Participate in and contribute to wider AusAID dialogue in infrastructure development across the region to Canberra and other AusAID programs as required
- Provide regular advice and recommendations on the performance of TSSP.

This design increases the nominated time the PD spends on TSSP to 75 per cent from 50 per cent. The successful implementation of TSSP should be the prime role of this position. The position is established at the highest strategic level. It requires a person with 15 to 20 years work experience in facilities and infrastructure management with a deep understanding of development and project cycle management. The person has to be able to work with, and at times subtly lead, the most senior public servants and ministers and gain their trust and respect. The role provides opportunities to influence the PNG Government's K1 billion sector budget and Australia's A\$100 million contribution. Under the Adviser Remuneration Framework<sup>25</sup> the position should be established at the D4 level.

Three Component Managers will support the strategic oversight and performance management of the program.

#### **Component 1 Manager (Land Transport)**

This position will be contracted by the ISP and report to the PD. The position is for a senior person with wide experience in land transport, project management cycle including procurement, contracting, performance management of contractors and maintaining relationships with counterparts in sensitive policy areas. Reporting to the PD this position will:

- provide the day-to-day oversight of the implementation of Component 1
- counterpart the Secretary of Works and the Senior Executive of the Department
- directly support DoW in the oversight and management of the PMSC contract
- maintain day-to-day operational communications with NRA and ABG on the implementation of road maintenance activities
- provide technical advice to AusAID through the PD on reports and recommendations of the PMSC as well as general development and technical best practice issues affecting the land transport sector
- accessing and coordinating program data and information to prepare for AusAID and TSCMIC briefs and analysis on program effectiveness
- provide analysis and advice on the content and support implementation of the recommendation of the Technical Audit Consultancy

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<sup>25</sup> See <http://www.ausaid.gov.au/makediff/ode/pages/advisers.aspx> for further information.

- be established at ARF C4.

### Component 2 Manager (Safety and Security)

This position is proposed to be filled by the SGP Transport Team Leader through SGP recruitment arrangements. The position will be managed under SGP governance arrangements, but will work closely with the PD and be fully integrated into the TSSP2 senior management team. Placing the SGP Team Leader in this role is intended to achieve a comprehensive integration of Government of Australia support to the transport sector. This a position for a senior person with senior level experience in the Australian Government administration and detailed knowledge in transport safety and security issues.

In addition to addressing specific SGP outcomes, this person will work with the PD on Component 2 implementation. Specifically this person will:

- provide the day-to-day strategic oversight of the implementation of Component 2
- support AusAID at the program level with SGP and MoU engagement in the agencies particularly on performance and reporting activities
- counterpart the Secretary for Transport and senior executive in regard to all Component 2 matters
- maintain day-to-day operational communications and counterpart the Chief Executives of agencies addressing transport safety and security issues in PNG including CASA, ASL, NAC, AIC, PNG Ports, NMSA and NRSC
- provide facilitation, secretariat support and technical advice to the TSCMIC sub-committee on Transport Security
- provide technical advice to AusAID including through the PD on reports and recommendations of Australian Government MoU partner agencies as well as general development and technical best practice issues affecting the sector
- access and coordinate program data and information to prepare for sector briefs and analysis on program effectiveness

Arrangements will need to be trialled during the first year of implementation and adjustments made if necessary and in line with broader SGP management approaches.

### Component 3 Manager (Performance and Accountability)

This position will be contracted by the ISP and report to the PD. The position will ideally be filled by a PNG national with a view to long term sustainability and localisation of the secretariat. The position will:

- oversight and manage the delivery of activities under Component 3
- assist the PD by acting as counterpart to the TSCMIC Secretariat
- work with the agencies and ISP's Core Specialist Team of advisers to extract high level performance data from program and sector activities
- prepare analysis on policy issues as requested by TSCMIC or AusAID
- provide facilitation, secretariat support and technical advice to the TSCMIC Sub Committee on Aid Effectiveness
- be established at ARF C3.

## 6.5 Implementing Service Provider

The ISP will be responsible for administering the program, delivering capacity building and technical assistance for governance, providing support services for TSCMIC and its Secretariat and providing financial and procurement oversight for the program.

The ISP will:

- be contracted to AusAID and report directly to AusAID
- support the implementation of the program under the direction of TSCMIC, AusAID and the Program Director
- be a responsive and innovative contractor through provision of capacity building assistance in areas agreed to between AusAID and the PNG Government
- oversee and ensure the effective delivery of the diagnostic processes detailed in Section 5
- provide a wide range of services to support the various capacity building approaches deployed under Agency Support Agreements
- be responsible for the quality of the services it contracts and manages, including financial management and procurement oversight
- not be responsible for the delivery of road maintenance<sup>26</sup>, but ensure capacity development approaches it oversees are effectively integrated with the PMSC under the direction of the Component 1 Manager and PD
- establish and administer the Independent Review Group
- establish and administer the Technical Audit Consultancy
- establish and administer the Core Specialists Team
- provide a program management team of full-time personnel. Indicative positions include:
  - Team Leader – ARF C4
  - Program Coordinator – ARF C2
  - Recruitment & Program Procurement Manager – ARF C4
  - M&E Manager – ARF C3
  - Communications Manager – ARF A3
  - Program Finance Manager – ARF C3
  - Program Administrative Staff
  - Finance Cell in DoW to oversee trust account

The Team Leader is responsible for performance of ISP and all personnel.

AusAID will conduct an annual contractor performance assessment of the ISP in line with internal AusAID requirements.

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<sup>26</sup> An exception to this may be an ISP managed sub-contract with an interim Project Management Supervision Consultant (PMSC) for up to 12 months duration during transition arrangements.

### 6.5.1 Core Specialists Team

The ISP will contract and support a team of key specialists. TSCMIC as the coordinating body of the sector is the counterpart for these specialists. Individual chief executives and departmental heads will be the counterparts for particular assignments within agencies. The Core Specialists are advisers providing support to agencies but will generally focus on whole of sector issues (policy issues, national budget and annual reporting). The positions are distinguished from and in addition to agency specific advisers who will be established and deployed in line with the Agency Support Agreements.

The Core Specialists' roles will be to:

- deliver core tasks as described in their respective Terms of Reference
- collectively work on major sector drivers (e.g. policy positions, the budget and annual reporting)
- assist in the monitoring and diagnostic process to determine specific capacity development and performance management needs in the recipient agencies and ensure the capacity development approaches are appropriate to the diagnosed needs
- undertake specific capacity development assignments defined through the Agency Support Agreements
- assist TSCMIC by monitoring international best practice and development and producing issues papers for TSCMIC consideration and wider stakeholder dissemination as required
- advise agency management to ensure planning is consistent with PNG and Australian Government strategic priorities
- monitor performance and consolidating agency implementation reports for the sector on behalf of TSCMIC, PNG Government agencies and AusAID.

The initial Core Specialists Team is proposed as:

- **Public Finance Management Specialist** – working with all agencies and the sector on all steps of the budget cycle guiding all public revenues and expenditure processes contributing to the annual budget cycle (the priority task), budget execution (revenue collection, procurement), internal control (including internal audit), monitoring, accounting & reporting, and external audit. This position is at ARF C4.
- **Human Resources Specialist** – to work with all agencies and the sector on HR issues particularly identification and implementation of training program (with PNG Government recurrent funding), development of HRD plans, recruitment and payroll/remuneration. This position is at ARF D3.
- **Sector Performance Specialist** –working with TSCMIC, DoT and all agencies to support reporting on the national planning and strategy documents with particular emphasis on the production of the sector annual report by DoT. This position is at ARF C3.
- **Agency M&E and Reporting Specialist** – working with the eight agencies to strengthen and enhance their ability to report on their individual performance against corporate, business plan and statutory requirements particularly to publish annual reports with performance information and audited accounts. This position is at ARF C3.
- **Sector Analyst and Policy Specialist** – working in DNPM, with Treasury and Finance, this position provides analysis and advice at the macro-level of sector financing and policy; supports DNPM and the agencies to capture relevant data and report against the MTDP to the Central



Agencies Coordination Committee (CACC) and NEC; supports TSCMIC in its sector coordination and advocacy roles for improved financing and institutional reform in the sector. This position is at ARF C3.

- **Procurement Specialist** – will work across the sector to advise on procurement issues, support procurement capacity strengthening activities, and verify adherence to good procurement practice. Additional procurement resources will be required by the program to ensure oversight and verification responsibilities are sufficiently resourced. The position is at ARF C4.
- **Gender and HIV/AIDS Specialists (2)** – to continue the work of TSSP in mainstreaming cross-cutting issues but also to implement with this Core Support Team a more aggressive program of positive interventions as recommended by this design. These positions are at ARF C3.

## 6.6 Project Management and Supervision Consultancy (PMSC)

The PMSC will be contracted by DoW through PNG Government systems, but funded by AusAID through the DoW Trust Account.

The PMSC could be a joint venture of a local and an international engineering consulting firm(s) or an international or local firm. The firm will have a substantial proven record of effective and efficient delivery of road maintenance management services. The PMSC will employ suitably qualified and experienced professional and other staff to deliver the services.

In order to achieve the higher developmental goal of a sustainable transport infrastructure management capacity in PNG that is delivered through the outsourcing of civil works, it will be necessary to build a vibrant private sector to deliver these services. The development of a national project management and supervision capacity will, by necessity, also need to be developed. The PMSC's approach to this aspect of development should therefore be included as an evaluation criteria in their selection and local capacity content and innovative development will be encouraged.

The design defines some additional roles and responsibilities for the PMSC across DoW, DTS and to a limited extent NRA, and greater accountability for delivery over that operating under the current phase (as discussed in detail in Section 4). DoW's oversight and management of the contract will be directly supported by the Component 1 Manager.

The PMSC will be responsible for working with the relevant branches of DoW, DTS and NRA to ensure that there is in place:

- rolling three to five year plans of roads and bridge maintenance to be produced within the first 12 months and regularly updated to maintain the necessary project pipeline
- a robust pipeline of small, medium and large civil works and maintenance contracts that ensures a constant and predictable cash flow that utilises all available funding resources
- improved standard bidding documents and engineers estimates
- a system for reporting civil works progress in a concise, accurate and timely fashion
- a system for supervising works which includes assessing supervision staff performance through the setting of performance indicators for supervision related to reporting and contract administration (e.g. issue of instructions, approvals, etc.)

- arrangements to mentor counterpart agency staff in contract administration and supervision, contract pipeline and support systems
- adequate systems for certifying payments to contractors
- a quality assurance plan and supervision manual that ensures contractual obligations are met, specifications and drawings are adhered to and records are properly prepared and filed

An indicative PMSC team could consist of a team of international and national staff that includes:

- Team Leader: A senior role, with the overall responsibility of ensuring that the contract objectives are achieved, that team members deliver and that reporting is compliant
- Financial Controller, qualified in accountancy, but with experience in construction
- DoW Road Asset Management and Maintenance/Design Engineer
- Procurement Specialist
- Contract Administration Engineer
- NRA Road Asset Management and Maintenance/Design Engineer
- ABG DTS Senior Organisational Development Specialist (and DTS Team Leader)
- ABG DTS Road Asset Management and Maintenance/Design Engineer
- ABG DTS Works Supervisor
- ABG DTS supervisory/community liaison staff
- 12 Provincial Engineers, based on 10 provinces TSSP currently funds activities in; plus two in PMSC Head Office. Actual resourcing for individual provinces will depend on the scale and complexity of the maintenance program. The contract will need to provide the flexibility to increase or reduce resources as required.

More detail on the Governance and Performance Management arrangements for Component 1 (and the PMSC) is provided below at Section 6.9

## 6.7 Independent Review Group

The IRG, reporting directly to TSCMIC and AusAID, will assess the overall performance and development impacts of the program every 18 months to two years, and on an *ad hoc* basis as required. The IRG will include specialists with expertise to:

- assess the performance of Component 1 progress, activity progress, partner contributions and performance of the PMSC (and the contributions of DoW, NRA, ABG)
- assess the performance of all other components of TSSP
- assess and comment on the contribution of TSSP to the Partnership Schedule and once developed the relevant parts of the *National Transport Strategy* and *Medium Term Transport Plan*
- assess the capacity development and human resource development outcomes of both ISP and PMSC activities
- provide advice, analysis and insight into issues affecting the sector, its regulation and development
- assess the performance of the PD and ISP

- consider the effectiveness of AusAID's advocacy and the integration of Australian funded inputs.

The ISP will contract the individual group members but will not be responsible for their performance. The team members will be selected by AusAID. Their missions will be managed by the PD except where not appropriate and a nominated team leader. The group will have the capability of supplying a single adviser/sector specialist or a team of people depending upon the assignment

AusAID in consultation with the TSCMIC Chair and through the PD if appropriate will be responsible for preparing the terms of reference for each mission based upon the need at the time.

The group should consist of a panel of international experts from the following disciplines who can be mobilised individually or together over the life of the program:

- Assets maintenance – technical engineering
- Procurement
- Project cycle management: systems and processes
- Regulatory systems and practice, particularly civil aviation and maritime sub sector
- Organisational development, capacity development and human resource development
- Performance Management
- Social and Environmental Impact
- Transport Economics.

## 6.8 Technical Audit Consultancy

The TAC will carry out a series of audits of selected civil works contracts, with an emphasis on the larger and more complex rehabilitation projects, during a scheduled program of visits in-country. The audit team would comprise experienced road/bridge construction engineers and pavement specialists that would go on-site to both works in progress and completed projects for inspection and testing purposes. All materials testing would be undertaken in independent professional laboratories overseas if deemed necessary. The audit team would provide reports and recommendations directly to the Secretary of Works and AusAID Port Moresby, to be tabled and discussed at the TSSP Road Program Coordination Committee (see Section 6.9). Responsibility for follow-up action to implement agreed recommendations would lie with DoW with direct supervision and support from the PMSC.

## 6.9 Component 1 Governance and Oversight Arrangements

As the biggest spending component of the program, this section explains in greater detail the proposed governance and oversight arrangements, as well as performance management approach for Component 1. These are summarised at Annex 11.

A key implementation lesson from TSSP1 has been the limited management levers available to AusAID to work with DoW to improve PMSC performance. TSSP2 therefore contains a strengthened oversight arrangement. The ISP will contract an individual with significant road maintenance experience as the Component 1 Manager (see above). On a day-to-day basis the Component 1 Manager, who will be based in DoW with the PMSC Team Leader and DoW counterparts will be responsible for ensuring coordination and integration of the elements of the Component. The manager will be expected to regularly meet with executive in the three agencies to review progress, visit field works and brief the team leader, the TSSP Program Director and AusAID on progress, issues and risks. The Component

Manager will need additional resources (provided through the ISP) to ensure sufficient coverage of the widespread distribution of works and stakeholders.

It is further proposed to establish a TSSP Roads Program Coordinating Committee to oversight progress and implementation issues for Component 1. It will meet quarterly and include:

- Secretary of Works or delegates being the two Deputy Secretaries – Joint Chair
- CEO NRA or delegate
- CEO ABG DTS or delegates
- Secretary of Transport or delegates
- AusAID Counsellor or First Secretary – Joint Chair
- TSSP Program Director
- TSSP Component 1 Manager
- PMSC Team Leader
- ISP Team Leader.

The Committee is intended to provide the key stakeholders with a direct forum for discussion of policy, constraints, implementation issues and progress. Such a direct forum for interaction of key stakeholders at the operational level has been missing during TSSP1. It will be essential to improving interaction and coordination and overcoming delays in project pipeline development and implementation.

The ISP, through the Component 1 Manager, will provide secretariat services for this Committee. This arrangement is the extension and elevation of existing monthly Coordination Committee meetings that take place at the provincial level.

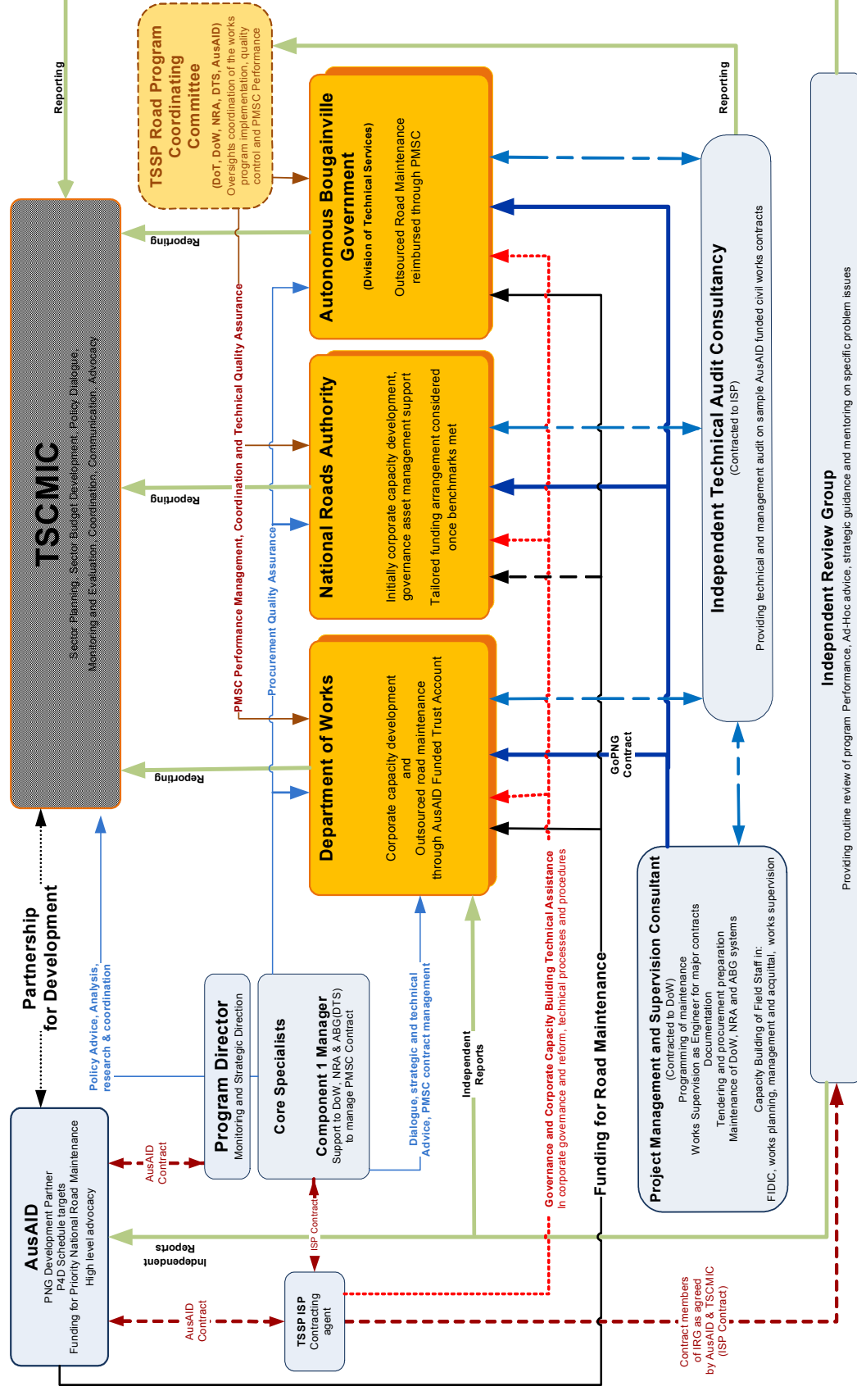
### 6.9.1 Component 1 performance management

Various levels of performance management will support effective delivery for Component 1:

- DoW will supervise the PMSC with assistance from the ISP through Component 1 Manager
- the quarterly TSSP Roads Program Coordinating Committee will provide oversight of the works program and PMSC capacity building and address workplan implementation and performance issues as they arise (including PMSC performance issues)
- the Independent Review Group will conduct periodic and ad hoc reviews of Component progress, sector level progress, governance and policy reform issues, partner contributions and performance (including DoW, NRA, ABG, PMSC, ISP and AusAID) reporting to PNG Government/TSCMIC and AusAID
- the TAC will report to the TSSP Roads Program Coordinating Committee or directly to AusAID and DoW senior management on quality and value for money issues and make recommendations for improvements
- the ISP will oversee the financial management and procurement arrangements, including managing the technical audit program
- the TSSP Program Director provides day-to-day oversight of the program for TSCMIC and AusAID reporting on performance issues and emerging risk and recommends design and resourcing changes.

Figure 3 illustrates the institutional arrangements for Component 1.

**Figure 3: Component 1 Institutional Arrangements**



## 6.10 Annual Program Planning

Annual planning will be based on a multiyear planning and resourcing framework developed based on individual Agency Support Agreements that are reviewed annually.

All program planning is based on the PNG Government's annual budget cycle and will aim to be on budget. The recipient agencies will prepare their budget submissions, generally in the form of work plans. These will be consolidated by TSCMIC (with the help of the appropriate specialists and the ISP) and a joint development Budget submission will be lodged with DNPM. After the Budget is handed down TSCMIC approves the final work plan for the AusAID funded part of the transport sector's Development Budget. AusAID issues its formal approval of the plan through its membership of TSCMIC.

The sector has been discussing with the central agencies multiyear budgeting and project cycles. If achievable this will bring further stability to activity management, provided resources are spent on building the capacity of agencies and individuals to work in that context. An annual plan would still be required but agencies could submit multiyear projects. Annual funding of those projects will always need to be subject to assessments of performance and the annual budget appropriations of both governments.

## 7 Monitoring and Evaluation

### 7.1 TSSP Phase 1 M&E

TSSP1 developed a comprehensive set of monitoring and evaluation (M&E) elements that can readily be evolved to meet the needs of TSSP2. Given that the three suggested components in the second phase will transition from the first phase (with some amendments), most elements of the current Monitoring and Evaluation Framework (MEF) can be retained and refined to suit the TSSP2 Program Logic and qualitative and quantitative reporting requirements. An indicative MEF for Phase 2 is at Annex 9.

M&E outcomes reporting throughout TSSP1 has been undertaken by an M&E Specialist, with activity reporting being prepared against the Annual Plan by various advisers and program personnel. Support has been provided to some transport sector agencies in developing performance measures for corporate plans. Information collection from and within transport sector agencies has been largely supported through advisers. TSSP2 provides an opportunity to further assist agencies in robustly and transparently collecting their own information to support emerging PNG Government requirements for agencies to develop performance frameworks and indicators and strengthen internal M&E capacity.

### 7.2 Evolution into TSSP2 M&E

#### 7.2.1 Program logic

The Program Logic at Annex 9 and discussed in Section 4 will form the basis of the M&E Framework (MEF) and reporting **on service delivery** and **capacity development outcomes**. This design recommends that the current 'governance' element of the TSSP1 MEF is incorporated into reporting on capacity outcomes, and that the second element is focussed directly on service delivery.

Under the MEF each component and sub-component outcome is broken down into the following series of headings:

- Service delivery outcomes or, where appropriate, capacity development outcomes
- Assumptions
- Performance questions
- Performance indicators: each by year with targets
- Responsibility
- Process
- Tools.

Reporting on cross-cutting issues and aid effectiveness should be incorporated into the reporting on components but is separated for better visibility in the MEF.

#### 7.2.2 Issues influencing M&E in TSSP2

A number of specific issues will inform the M&E arrangements proposed for the next phase of TSSP. The indicative MEF at Annex 9 responds to these issues.



## Moving sector reporting to the National Transport Strategy

To date, the Annual Transport Sector Performance Report has focused on reporting TSSP's outcomes. However, program stakeholders are keen to move sector reporting to focus on PNG Government's primary plans for the sector, of which the National Transport Strategy (NTS) and Medium Term Transport Plan (MTTP) once finalised will be the most critical. In the absence of the NTS, reporting on TSSP's outcomes has been the most logical substitute. The NTS is due to be finalised in 2013. Developing the systems and processes to support monitoring and reporting on the NTS once it is finalised will be a priority for TSCMIC, DNPM and the agencies with support from TSSP and other development partners.

## Data and information capture

TSSP2 will require the careful articulation of a refined set of performance questions and indicators to answer those questions, before the specification of information and evidence collection methods.

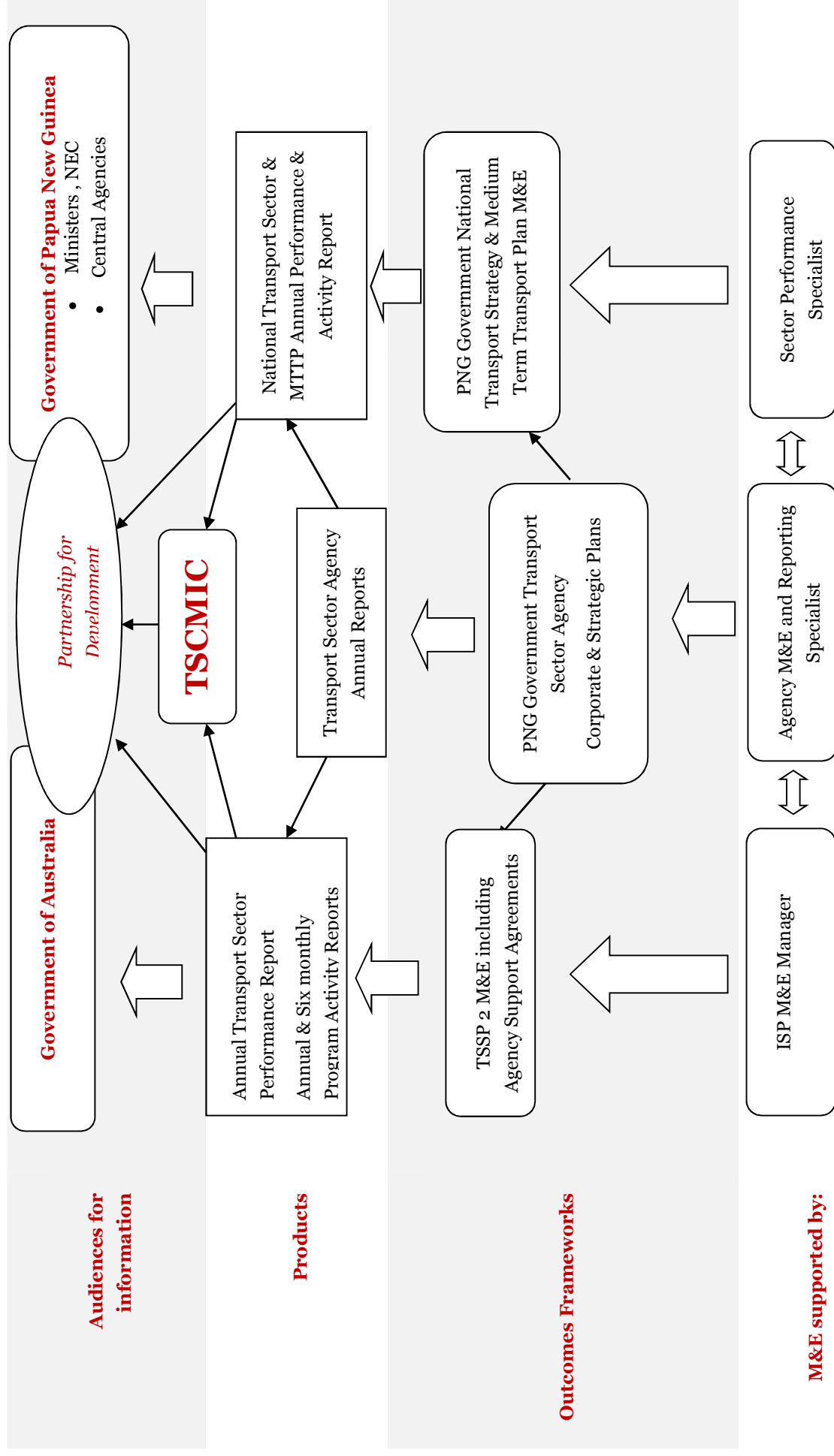
Evidence to support reporting is currently being drawn from multiple sources of primary and secondary data using a range of qualitative and quantitative methods. It is likely that most of the methods currently applied will be appropriate into the future, whilst the refinement of existing and development of new indicators for TSSP 2 may require the introduction of further methods. To the extent possible, PNG Government and sector data sources should be used, but where these are insufficient or unreliable, additional information will need to be collected.

A key task will be to make sense of available information and to draw conclusions that can answer key performance questions. This type of meta-analysis, including triangulation of qualitative and quantitative data and cross-checking between data sources, will be the task of the sector M&E specialist contracted by the ISP. It will also be important to expand use of transport sector M&E reporting to meet the needs of a broader range of stakeholders, and to better inform PNG Government and the public of the work being done towards improving transport infrastructure, policy and regulation.

To enable tracking of change over time, it will be important to establish a set of baseline information relating to key performance areas. Many baselines already exist and therefore as far as possible indicators will be continued from TSSP1. It will also be important to create baseline information on agency capacity, so that changes can be monitored over time. The diagnostic processes and the Agency Support Agreements will establish this baseline at the agency level. Many of these agreements will be prepared during the transition from TSSP1 to TSSP2 as outlined in the transition plan at Annex 10.

**Figure 4** shows the proposed M&E process and data sources for TSSP2, building on the processes already in place for TSSP1.

Figure 4: TSSP 2 – Conceptual Framework – Overall Transport Sector Monitoring and Evaluation



## Socio-economic impact analysis

AusAID with DoW has commenced a process of regular socio economic impact studies in the land transport sector. A baseline was undertaken in 2008 with the first follow-up study completed in 2010. These are expected to be continued periodically. However, work is required to improve the survey questions and causal linkages between investments in maintenance and observable socio-economic impact trends. More detailed qualitative studies that probe deeper into specific trends at the community level should be considered as appropriate. The first of these studies was completed in the first half of 2012 and lessons learnt will inform possible approaches in TSSP2. For example, the study highlighted community concerns about road safety when roads are improved and vehicle speeds increase.

AusAID is in discussions with other donors active in the sector, in particular the ADB and World Bank, to develop a standardised and best practice approach for socioeconomic impact studies in the PNG context. These discussions will be continued with DNPM and TSCMIC members so that donors can support developing this capacity within PNG Government systems and so the studies meet the needs and expectations of PNG Government.

## PNG Government M&E requirements

A major objective of TSSP2 is to support PNG agencies to improve performance and accountability through better data collection and reporting (see sections discussing Component 3).

The conceptual framework (Figure 4.) describing overall Transport Sector Monitoring and Evaluation depicts the likely PNG Government information and reporting needs. Additionally a focus on maintaining and improving transport sector agency financial and annual reporting will be needed. The production of quality annual reports need particular attention in TSSP2 to increase the accountability and performance orientation of the sector.

An important consideration will be the lack in many cases of PNG Government counterparts focusing on M&E within individual restricting the immediate training and capacity development opportunities at that level.

## AusAID M&E Requirements

In 2012 AusAID released Australia's Comprehensive Aid Policy Framework to 2015-16 (CAPF). The CAPF includes indicative budget allocations for aid recipients, headline results that will be achieved and new standards for the efficient and effective delivery of Australian aid.

### **TSSP2 aligns with and responds to the CAPF.**

The M&E processes for TSSP2 will need to provide the data and analysis necessary to monitor progress and compliance with the CAPF. This will require ensuring that program monitoring can assess TSSP2's contribution to the AusAID strategic goal of Sustainable Economic Development, by calculating the number of kilometres of roads constructed, rehabilitated or maintained.

AusAID is currently also working on sector specific performance frameworks. By end 2012 these were not finalised. Out of these frameworks additional results focused indicators may be required to be reported against. TSSP2 M&E systems will need to reflect these as necessary.

As far as possible all data required and systems strengthening to produce that data should align with internal PNG Government M&E systems development. However, there may be instances where additional processes are required to meet AusAID needs.

The AusAID PNG program is currently also working on a whole-of-program MEF that will aim to explain the aggregate contribution of all programs to service delivery improvement. This will align with the CAPF and sector frameworks and remains under development.

The proposed TSSP2 MEF described here is intended to fit into the evolving AusAID and PNG frameworks.

### Retention of current form and documentation

Wherever possible, current documentation, practice, data sources and performance indicators should be retained across the three components. Many in the sector are familiar with this approach and change should not be introduced unless necessary.

### Transition

The enhanced M&E architecture will be prepared as much as possible as part of transition activities. See Annex 10 for the transition plan. This is necessary to ensure reporting in Year 1 of implementation meets immediate requirements. The ISP and M&E specialists will make further improvements once in place.

## 7.3 TSSP2 M&E Resourcing

This design proposes that TSSP2 M&E resourcing include a number of key aspects.

- A dedicated specialist for sector reporting (Sector Performance Specialist), to concentrate on supporting the sector to monitor and report on NTS targets once developed, and within that to monitor and report on AusAID and other development partner contributions. (Other development partners will be invited to contribute to this task.) This is a hands-on transaction role where the specialist will do a lot of the work in the next five years. Efforts should be made and supported to build DoT and other agency capacity to take over this task.
- A full-time adviser to build internal M&E capacity in the agencies themselves (Agency M&E and Reporting Specialist) to: a) contribute data and information to monitoring and reporting; and b) fulfil their legal and policy reporting obligations within their specific institutional environment. Few of the agencies are producing annual reports or other forms of performance reporting.
- An M&E Manager who is responsible for reporting on the TSSP programmatic elements including progress on activities completed, outputs and financial elements
- An expansion of the role of the current advisory position in DNPM (Sector Analyst and Policy Specialist) to include supporting DNPM coordinate and manage sector reporting requirements and agency analysis and reporting.
- The three Component Managers to be responsible for ensuring necessary systems and processes are in place to access and coordinate program data and information under each Component.
- An Independent Review Group tasked to look at not only TSSP's contribution but eventually the whole of the NTS. The HIV/AIDS program in PNG has a good practice model, with local and international experts contributing regularly to an assessment of the implementation of the PNG plan to which Australia makes a substantial contribution. In the transport sector a similar arrangement could be put into place. It would have extra benefits if other significant donors agreed to participate.

- The responsibility for the preparation of program reports continue to rest with the ISP, with inputs from the agencies and advisers. If sufficient internal agency M&E capacity emerges TSSP2 reporting should adopt PNG Government reporting processes. Given current capacity constraints, this is unlikely in the first 2-3 years of TSSP2.

## 7.4 Communications and Advocacy

There is a need for TSSP2 to develop a communications strategy to ensure stakeholders in PNG and Australia are familiar with, understand and are aware of the program's successes and where lessons can be learnt or improvements made the stakeholder group receives this information.

Key to the strategy will be ensuring a range of products and approaches are developed to target various audiences. Options will include technical notes, media releases, stakeholder forums and conferences and visual and audio communications.

Developing the strategy will support TSSP2 shore up the program's position as the major partner supporting the strengthening and reform of the sector in PNG and highlight Australia's significant and important investment. Similarly, the strategy will need to ensure Australian Government and other Australia based stakeholders are aware of the strategic positioning and impact of the investment.

Recognising this important aspect of the program the design proposes a full time Communications Manager make up part of the ISP team.

## 8 Risk, Feasibility and Sustainability

### 8.1 Risks

The PNG Transport Infrastructure sector is inherently high risk. This was recognised in the original TSSP design. Annex 8 provides a detailed assessment of risks specific to TSSP2 grouped in five sets:

- Overall strategy
- Improving service delivery performance, productivity and value for money
- Capacity development
- Program management.
- Social and other impacts from the transport sector

A summary of key TSSP2 risks is below.

#### **Loss of political commitment to maintenance and weakened commitment to Transport Schedule funding targets**

This risk is heightened because of ongoing leadership changes following the 2012 election and continuing discussions around possible large loans for the sector. This is a real risk and roads are an undeniably political issue in PNG. AusAID will need to maintain consistent and strong dialogue to shore up commitment focusing in particular on any new Ministerial or bureaucratic leadership. TSSP2 will also mitigate this risk by supporting the sector to improve delivery performance and reporting and by coordinating with other donors to advocate on the issue. AusAID needs to be prepared to consider withholding funding if the situation is unable to be addressed and to ensure fungibility risks related to continued Australian Government funding of routine maintenance can be managed.

#### **Limited commitment to key reform priorities**

TSSP2 through Agency Support Agreements will establish clear expectations on agency reform priorities and commitments. The Agency Support Agreements will enable the ongoing and effective monitoring of progress and will provide an agreed framework for dialogue where commitment is lacking. In circumstances where lack of commitment or support continues resources should be withheld and allocated where a commitment to reform exists. This is key to the progressive engagement which will be central to the approach under TSSP2.

#### **Slow or delayed expenditure**

Under expenditure will continue to be a significant risk for the program. This will be mitigated by planned improvements to the delivery approach in particular around pipeline planning, contracting models and the improvements to the PMSC approach. Private sector capacity constraints may be a contributing factor. TSSP2 Component 3 provides resources for more research and to encourage linkages with Australian contractor associations and professional bodies in this area. In addition, the ADB is also providing support in this area and the World Bank is looking at whether it can add value in small and medium sized enterprise development. However, it is recognised that slow expenditure is likely to continue to be an issue that will need to be monitored carefully during TSSP2.

#### **Weaknesses in procurement processes**

Use of PNG procurements systems presents significant risk and challenges. Approaches to procurement and financial management oversight in TSSP2 will build on and strengthen the TSSP1 approach providing increased assurance that this risk will be adequately controlled for, in

particular through the establishment of agency specific funding agreements that will articulate additional provisions to ensure alignment with the Australian Commonwealth Procurement Rules. TSSP2 will establish additional audit processes covering the technical quality of works and procurement outcomes. These additional audit processes will improve the program's ability to monitor procurement performance and detect potential fraud. TSSP2 will also appropriately advocate changes to PNG Government procurement policy (for instance increasing procurement thresholds) that constrain effective budget disbursement.

Slow or delayed expenditure as a result of procurement blockages presents a very high risk and will need to be closely monitored with a plan developed by the program to monitor failure rates and consider when alternative approaches should be pursued.

#### **Delays finalising NTS creates uncertainty on reform agenda**

Even in the absence of an agreed NTS it will be possible for TSSP2 to agree specific reform priorities with individual agencies and target support on that basis. Meaningful high level dialogue on reform priorities can also be pursued in the absence of an NTS. However, the NTS will provide a clearer framework and support that dialogue and its finalisation should be encouraged as much as possible.

#### **Third party contractual risks**

In TSSP2 (as in TSSP1) AusAID will fund a number of PNG Government contracts (e.g. the PMSC and civil works contracts). Because AusAID does not directly manage the procurement or administration of these contracts risks emerge. Disagreements over procurement outcomes could lead to tensions between AusAID and the PNG Government. In addition, relations could be further tested in circumstances where the PNG Government agency does not address contract failure, slow progress or ineffective management.

Specific mitigation steps will include comprehensive procurement oversight processes, increased high level dialogue to prevent external influence in procurement outcomes and increased direct engagement and monitoring with PNG agencies and the ISP of these contracts. In addition, the subsidiary arrangement for the program will need to ensure that AusAID is able to withhold funding if issues are not able to be addressed through other mechanisms.

#### **Decline in governance arrangements and/or weakened institutional architecture**

This risk is potentially heightened if the PNG Government chooses to pursue a significant loans program or if the establishment of an Independent Infrastructure Authority is not carefully managed. TSSP2 will support the sector manage, respond to and influence institutional change. It is important TSSP2 provides credible and useful technical advice and assistance to the PNG Government on key reform issues. TSSP2 as a flexible whole of sector program will be able to respond and adjust support as the transport sector changes over the life of Phase 2 and beyond.

#### **TSCMIC collapses and/or loses credibility in the sector**

TSSP2 support is aimed at ensuring TSCMIC maintains credibility and is able to deliver on its mandate. However, if TSCMIC collapses TSSP2 will be able to continue to engage with the sector on an agency by agency basis on the agreed areas of support. Sector coherence will be supported in this instance through the Core Specialist Team working across the sector as a whole. TSCMIC could also be strengthened by including other key donors in the sector and TSSP2 will advocate for that outcome.

#### **Bougainville delivery approach fails**

The new approach in Bougainville entails risk. The current contractor is well-known in the region and by the contracting industry there. TSSP2 will need to monitor the situation closely and

proactively ensure all stakeholders understand the changes and why they are taking place. There are also security and community liaison risks involved for contractors not aware of local tension and dynamics. This will be addressed in part by ensuring comprehensive hand over arrangements between the current contractor and the new one.

#### **Transition plan is not successfully achieved**

A lot of preparatory work is required (see detailed plan at Annex 10). It will require a concerted effort from all stakeholders to ensure transition activities are successful. Key activities are the recruitment of the ISP and Program Director. Contingency plans are in place if the PMSC is not ready in time with current PMC contracts containing a one year extension option.

### **8.1.1 Ongoing risk management**

In TSSP2 risk will be actively monitored and managed on a day-to-day basis building on the processes established and shown to be effective during TSSP1. For instance, the Program Director will continue to work out of the TSSP2 office and maintain close relations with the ISP including through monthly progress meetings involving AusAID. In TSSP2 the PMSC will also be brought much closer into the risk management loop via regular meetings with DoW, AusAID and other stakeholders at the Headquarters level

## **8.2 Feasibility**

Overall feasibility of the program is ranked as high. TSSP has been operating successfully since 2007. TSSP2 builds on the foundation already established and strengthens the implementation approach.

Poor infrastructure is one of the main factors preventing communities from escaping from poverty. As was the case with the original TSSP, TSSP2 directly promotes broad based growth by supporting infrastructure development in PNG and also specifically to maintain and improve transport links that are of most economic importance to PNG.

The need for additional economic analysis to confirm the priority of specific activities supported during TSSP2 should be considered in the context of ongoing work to improve PNG Government prioritisation tools. Australia provided funding to DoT to conduct a Transport Infrastructure Prioritisation Study (TIPS) in 2010/11. This study used a cost benefit methodology different to the multi criteria analysis of 2006 which identified the current 16 National Priority Roads. The final TIPS report was released in mid 2012. While DoT continues to refine the modelling with stakeholders, this study reconfirms that continued investment in the current national priority road network will achieve the greatest socioeconomic benefits across PNG as a whole. With continued use and improvements in data collection, the model will support the ongoing evaluation of priorities for investment. TSSP2 will actively support continuing reassessment of priorities to ensure investment is directed towards areas where the greatest impact can be achieved. TSSP2 support is aimed at strengthening PNG systems and processes to make decisions on economic priority based on credible analysis, good asset management practice and reliable data. The model is an important part of the decision-making process. However, activities of other donors and the private sector will also influence decision-making as well as mechanisms such as the AusAID funded Visual Road Condition Survey of the entire national road network expected to be undertaken in 2013.

The proposed governance and management arrangements are considered feasible and appropriate. TSSP1 provides significant implementation lessons that this design addresses. This includes adjustments to the PMSC contractor model, ISP roles and responsibilities and the



approach to the delivery of technical assistance. TSSP2 will continue to use existing PNG Government systems and processes, as far as possible, to support their longer term development. In addition, working under the strategic direction of TSCMIC and supporting its development directly also strengthens sector leadership and policy development capacity.

The technical feasibility of activities will be tested during the annual program planning process and through the development of Agency Support Agreements. TSSP2 will directly support agencies strengthen their capacity to plan, scope and implement activities. TSSP2 will also increase agencies technical capability to monitor and report on performance against all sources of funding and directly strengthen the government systems to plan, deliver and monitor.

## 8.3 Fraud and Corruption

In February 2012 Australia and PNG signed a joint statement documenting the agreement reached at the 2011 bilateral Ministerial Forum to a ‘zero tolerance’ approach to fraud and corruption in Australia’s aid program in PNG. Specifically, both PNG and Australia agreed that:

- “any suspected fraud within the Australian aid program in PNG be thoroughly and comprehensively investigated with perpetrators prosecuted to the full extent of PNGs laws;
- PNG’s investigative bodies will provide progress updates to AusAID on investigations within one month of receiving reports of suspected fraud;
- every effort is accorded by PNG authorities to recover any funds lost due to fraud or corruption;
- jointly commit to improving PNG procurement and financial systems to ensure that aid funds are disbursed effectively and efficiently providing the greatest possible value for money and improve the lives of people in PNG, including the poorest; and
- Australia will provide assistance to PNG agencies to fight corruption.”<sup>27</sup>

As part of design processes the checks and controls in TSSP1’s financial management systems were assessed as fundamentally appropriate.<sup>28</sup> During TSSP2, steps will be taken to further improve the existing systems to prevent fraud.

Fraud and corruption will be addressed at a number of levels in the program:

- Application of stringent procurement oversight and verification processes including:
  - Oversight of government led procurement by ISP
  - Verification of adherence to good procurement practice
  - Application of a formal AusAID stop / go point
  - Use of procurement and technical quality audit processes
- Application of stringent financial management oversight and verification processes including:
  - Payments will be certified by the PMSC and verified by the ISP and financial control cell.

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<sup>27</sup> PNG Government and Australian Government, “Joint statement on zero tolerance to fraud in Australia’s aid program to PNG”, 21 February 2012, Port Moresby

<sup>28</sup> AusAID, Assessment of Financial Management Capability and Capacity and Associated Risks and benefits for Assistance to PNG through the Transport Sector Support Program Final Report, September 2011

- The ISP will be responsible and accountable for overseeing the operation of the trust account mechanisms and the management of funds. Apart from the specific trust account documentation, the ISP will be required to prepare and implement an overall fraud control plan that provides the processes to follow-up, to AusAID's satisfaction, on any fraud or suspected fraud that occurs
- Each agency participating in the program will have agreed financial and procurement procedures and responsibilities detailed in Agency Support Agreements.
- Development of a TSSP Anti-Corruption Action Plan that will explain the program's approach to preventing fraud and corruption and addressing it should it occur.

## 8.4 Sustainability

In the context of TSSP, sustainability should be considered against two criteria – one, the PNG Government's capacity to fund transport asset maintenance and rehabilitation; and two, the technical and organisational capacity of transport sector institutions to deliver mandated transport infrastructure services.

TSSP since its inception, and TSSP2 under this design, aims to support PNG address both these criteria.

### Sector financing

In terms of sector financing, as Annex 3 clearly shows, there is a significant gap between the costs required to fulfil the ambition of PNG's medium term plans and the funding that is available. However, as Annex 3 also shows, there are significant funds available to PNG through its own internal revenues, through commercial and concessional loans and through grant donors. The key issue regarding the sustainable financing of the sector therefore is continuing to increase the resources available to the sector while concurrently improving the allocative efficiency of expenditure decisions. TSSP2 supports achievement of this by working to strengthen decision-making and prioritisation processes and leveraging the grant aid resources it has available to ensure national budget processes reflect PNG's own stated priorities.

At the same time TSSP2 aims to improve the efficiency with which allocated resources are translated into services by increasing the programs focus on value for money decision-making, effective performance management and quality assurance through independent technical audit.

Over the five year phase of TSSP2, it is possible that PNG will take on a significant loan, which will add a major boost to the sector financing picture. Should this eventuate, TSSP2 will play an important role supporting the PNG Government to maintain focus on key reform priorities and ensuring that maintenance funding remains sufficient and that other sector priorities not benefiting from the loan are supported.

TSSP funding has increasingly been used for ongoing routine maintenance, rather than more complex and expensive rehabilitation and upgrade activities. This has been justified on the basis that the PNG Government did not provide sufficient or predictable funding for routine maintenance. This situation has been changing as evidenced by recent budgets. AusAID must carefully consider the impacts its approach has on the PNG Government's budget, policy and reform choices. With TSSP filling some of the routine maintenance funding gap there are real fungibility risks. This must be managed through the Partnership dialogue and budget engagement processes.

Considering PNG's fiscal outlook, it is expected that at the end of TSSP2 the majority of routine maintenance funding for PNG's priority national road network will be provided through the PNG

Government's own resources and that the majority of AusAID funding through TSSP will be directed to more complex rehabilitation and upgrade activities and / or on transport assets beyond the currently defined 16 national priority roads. There will continue to be a need for external financial support, including AusAID grant aid, to the sector beyond the end of TSSP2. However, the focus of external support will have shifted. By the end of TSSP3 (10 years from the commencement of TSSP2) no external support should be required for routine maintenance of the national road network and all external support should be directed to other priorities. On this basis, TSSP2 is assessed sustainable.

In the aviation and maritime sector achieving commercial viability is the key issue impacting the statutory authorities longer term financial sustainability. Major factors impacting commercial viability include the lack of a transparent PNG Government community service obligation policy and agencies not achieving high service standards. The targeted capacity building support provided by TSSP2, focused on improving safety and security capacity, will contribute to the agencies credibility with users and with Government which will support the development of appropriate financing mechanisms through higher user fees and commercial loans.

### Institutional capacity

In terms of institutional capacity, as the sector analysis at Section 2 shows, despite the significant progress made over the first five year phase of TSSP there exist major organisational capacity constraints in the sector. Addressing these issues is a long term objective that sits at the core of TSSP's original conception and is continued into TSSP2. TSSP2 builds on the foundation established and aims to address capacity building objectives more directly and in a more targeted manner that will be articulated in Agency Support Agreements. These agreements are intended to promote PNG Government agency senior management ownership and accountability.

In the roads sector, for DoW to continue delivering an expanding program of routine and periodic maintenance works, while undertaking their own road betterment projects and working on large scale donor and loan programs, is a very big task given the limited number of experienced staff they can mobilise. This will be addressed through a more integrated program of support through both the ISP and PMSC. TSSP2 will also support DoW introduce FIDIC based contracts as the standard contract model for all their larger more complex activities. The structured form of FIDIC contracts enable a common understanding to be developed among DoW staff, contractors and supervision consultants in relation to their respective roles and responsibilities. This will foster a more professional and productive approach to contract management throughout the sector, directly supporting the sustainability of DoW's organisational capacity.

Performance measures of increased capacity will be annual expenditure against work plans and improving quality of works. The capacity to measure and report on this will be increased through the establishment of an independent technical audit program. At the end of TSSP2 expenditure in the order of 90% of annual work plans should be achievable. In addition, quality of work should have improved with unit costs for construction works showing increased value for money. It is clear though that support will be required beyond TSSP2 to consolidate the improvements achieved during the phase and ensure the sustainability of AusAID's investments through the program, and over many years previously to the sector

Capacity within the safety and security regulators and service providers should increase more rapidly during TSSP2 than road agencies. In the aviation and maritime statutory authorities in particular because of their more flexible employment arrangements, it is reasonable to expect that through clearly defined agreements targeting specific capacity gaps or weaknesses sustainable capacity can be developed. During TSSP1, the progress made building core governance functions in PNG Ports is evidence of what can be achieved. For the National Road Safety Council the

picture is less certain and will depend on their ability to shore up long term financing and on the possible impacts of any sector restructure.

Human resource challenges will always be a significant constraint to sustainability. Component 3 will assist the sector to research and understand the nature and quantum of this constraint and explore opportunities to address the issues in a more holistic and long term manner.

By supporting the sector to develop its capacity to communicate more effectively with transport sector stakeholders TSSP2 will also assist the sector to be more effective in mobilising resources and support from the donor community and user public alike.