

Chapter 3

Public Sector Reform Since 2001¹

R. J. May

The later years of the 1990s saw a period of deteriorating governance, economic decline, and rising tensions in relations between the Papua New Guinea government and the World Bank and other donors. This culminated in a vote of no confidence against the prime minister, Bill Skate, and in 1999 Sir Mekere Morauta replaced Skate as prime minister. As documented in Chapter 2, Morauta promptly moved to initiate policies designed to achieve reconstruction and development.

The Morauta government set itself six objectives: to stabilize the economy; to stabilize the budget; to rebuild the institutions of state; to remove impediments to investment and growth; to reach a peaceful political settlement on Bougainville; and to create political stability and integrity. A number of fiscal and broader economic measures were introduced with respect to the first two objectives and a Medium Term Plan of Action for Public Sector Reform was drawn up for the period 2000–2003; steps were taken to safeguard the independence of, and to strengthen, the Bank of Papua New Guinea (see Kamit 2000), the Ombudsman Commission, the auditor general, and the public service; an Organic Law on the Integrity of Political Parties and Candidates was passed and changes made to the electoral system, and a long-running peace process culminated in the *Bougainville Peace Agreement* of 2003. Notwithstanding these reforms, economic and political stability proved hard to achieve.

Following the national elections of 2002 (which were generally conceded to have been marked by greater irregularities and violence than any previous national election), a new coalition government, headed by Sir Michael Somare, came into office. The Somare government quickly made clear its intention to maintain the previous government's commitment to policies of recovery and public sector reform. With respect to the former, and in the context of a substantial deterioration in the fiscal situation, in August 2002 the government announced a Program for Recovery and Development, which identified as its three main objectives, 'good governance; export-driven economic growth; and rural development, poverty reduction and empowerment through human resource development'.²

As a framework within which to pursue these objectives, the government presented, after a lengthy process of consultation, a revised Medium Term Development Strategy (MTDS) for 2003–2007, which replaced the previous MTDS for 1997–2002.³ The MTDS 2003–2007 has subsequently been replaced by the MTDS 2005–2010. With regard to its public sector reform agenda, the Somare government also presented, in November 2003, a *Strategic Plan for Supporting Public Sector Reform in Papua New Guinea 2003–2007*, which superseded the Morauta government's *Medium Term Plan of Action for Public Sector Reform*.

These documents define the broad framework for government policies. Within this framework, however, there has been a proliferation of new systems, programs and initiatives addressing particular aspects of the reform process. For example, in presenting the 2004 budget, the then Minister for Finance and Treasury, Bart Philemon, announced that the government's reform agenda would be supplemented...by a new focus on improving the management of public sector employment and the control of personnel expenditures; restoring the integrity of budget institutions and systems to improve budgetary discipline; and to review the role, functions, and outputs of each spending agency in order to identify ways of improving the allocative and technical efficiencies of public expenditure (Papua New Guinea 2003, 23).

Several new measures were described by the minister, including a Performance Management System for Department Heads, a Medium-term Budget Framework, an Integrated Financial Management System (IFMS), and the creation of a Budget Screening Committee (BSC). (Also see Kua 2006).

The following overview provides a rough guide to recent public sector reforms.

The MTDS 2005–2010

In a foreword to the MTDS, the acting minister for National Planning and Monitoring, Sir Moi Avei, noted that, 'Since independence, successive governments have prepared many worthy development plans and strategies that have promised to realize our national vision', but that, while such plans and strategies 'were often soundly based, they have not been translated into results on the ground' (MTDS, iv). The MTDS 2005–2010, prepared by the Department of National Planning and Rural Development (DNPRD), seeks to reverse this trend.

The role of the MTDS is defined:

First, to articulate an overarching development strategy that will provide the guiding framework for prioritizing the Government's expenditure program.

Second, to identify in broad terms, the wider policy framework that will help strengthen the enabling environment for the Program for Recovery and Development.

Third, to improve fiscal governance by strengthening PNG's Public Expenditure Management (PEM) system (MTDS iii, chapter 1).

The key objectives of the government's development policies, its expenditure priorities, and the principal elements of a 'supporting policy environment' are spelled out in the MTDS (chapters 2, 3), which also lists ten broad 'guiding principles' (i–ii). Also noted are some of the constraints upon, and threats to, development; among these, along with poor infrastructure, HIV/AIDS, high population growth, unplanned urbanization and impediments to land utilization, is listed 'dysfunctional service delivery systems' (see MTDS, 9–10).⁴

The ability of the government to give effect to the MTDS will depend in part upon whether the programs identified are affordable and sustainable. To this end the MTDS is complemented by a Medium Term Resource Framework (MTRF), designed 'to integrate the "top-down" resource envelope with the "bottom-up" sector programs' (MTDS, 52). The "'top-down" resource envelope' is defined by a Medium Term Fiscal Strategy (MTFS) formulated by Treasury for the period 2003–2007.

The implementation of the MTDS also depends on having an effective administrative structure, and the MTDS explicitly recognizes the importance of good governance and credible and stable policies. It devotes some attention to the government's Public Sector Reform (PSR) program, which, in broad terms, seeks to 'reduce the cost of government, abolish waste and non-priority activities, improve service delivery and strengthen accountability and other systems of good governance' (MTDS 2005–2010, v, chapter 5). The PSR program is spelled out in fairly general terms in the *Strategic Plan for Supporting Public Sector Reform in Papua New Guinea 2003–2007*, and addressed in more detail in the Public Expenditure Review and Rationalisation (PERR) program (both of which are discussed below).

In his foreword to the MTDS, Sir Moi Avei commented: '...we can no longer ignore the dysfunctional system of service delivery that has arisen following the 1995 reforms to our system of decentralised government'. Since a large part of governance, including delivery of basic services, is carried out at sub-national level, the performance of government at provincial, district and local level is critical for any program of recovery and development — though it must be observed that problems of service delivery were well in evidence before 1995. With regard to decentralization, the MTDS states: 'Improving the relationship between the three levels of government will be crucial for the effective implementation of the new MTDS', and it notes that a number of activities are in place 'that are designed to identify practical solutions to the functioning of

the decentralized system of government' (MTDS 2005–2010, IV, chapter 4). These are discussed below.

A final chapter of the MTDS discusses the issues of monitoring and evaluation. The MTRF, quarterly budget reviews, and the annual budget documents will form part of the financial monitoring process, but in addition, national departments and agencies, provincial and local-level governments, NGOs and community-based organizations, and other stakeholders 'will be required to participate' in monitoring and evaluation. Specific performance indicators (for both the MTDS and the Millennium Development Goals [MDGs] (to which Papua New Guinea is committed as a signatory to the UN Millennium Declaration)⁵ were to be prepared by the end of 2005. In a few key sectors (including health and education) performance indicators have already been prepared and incorporated into sectoral plans. Overall responsibility for monitoring and evaluation rests with the DNPRD, which will report through the Central Agencies Coordinating Committee (see below) to the National Executive Council (NEC).

A Strategic Plan for Supporting Public Sector Reform in Papua New Guinea 2003–2007

'Good governance' was listed first amongst the objectives of the Somare government's Program for Recovery and Development. In an address to the National Parliament in August 2002, the prime minister elaborated the goals for good governance:

- Strengthening the democratic process;
- Political stability at all levels of government;
- Efficient and effective delivery of government services;
- A sound regulatory framework; and
- Transparency and accountability.

These were to be achieved through an all-encompassing program of public sector reform (MTDS 2005–2010, 53–57).

A Strategic Plan for Supporting Public Sector Reform in Papua New Guinea 2003–2007 (hereafter Strategic Plan) was presented in November 2003.

In an introductory statement to the Strategic Plan, Prime Minister Somare commented that on taking office in 2002 his government found that progress had been made on many aspects of the reform program initiated by the previous government, but 'felt it was essential to reframe and to more sharply focus what had, by then, proved to be an overly ambitious reform agenda'.

The key objectives of public sector reform for 2003–7 were listed as:

- A public sector with a clear sense of direction;
- Affordable government;

- Improving performance, accountability and compliance; and
- Improving service delivery.

The *Strategic Plan* lists a series of strategies and ‘broadly stated’ indicators under each of these headings.

The structure for public sector reform

With the introduction of the *Medium Term Plan of Action for Public Sector Reform 2000–2003*, the Morauta government also created a new administrative structure to facilitate and coordinate the reform process. This structure has been broadly maintained by the Somare government.

At the apex of this new structure, a Central Agencies Coordinating Committee (CACC), chaired by the chief secretary to the government, was given overall responsibility for designing and managing the public sector reform program (*Strategic Plan*, 16). The position of the CACC was formalized by provisions of the *Prime Minister and National Executive Council Act, 2002*.

A Public Sector Reform Management Unit (PSRMU) was also created, ‘to support public sector reform by providing professional capacity and support to the CACC and government organizations’ (*ibid.*). And an independent Public Sector Reform Advisory Group (PSRAG), representative of national, provincial and local-level administrations, the private sector, churches, the public sector union, the National Council of Women, and research organizations, was established to provide stakeholder input.

The *Strategic Plan* (17) outlines the reform implementation process in the following terms:

- The NEC will provide political leadership and direction.
- The CACC will provide strategic oversight of the public sector reform process.
- Departments, agencies and provincial administrations are responsible for implementing public sector reform, with central agency support.
- PSRMU is an expert resource available to assist central and line agencies and provincial administrations.
- PSRAG provides input from external stakeholders to the public sector reform process.

The PSRMU has probably taken a more proactive role than simply ‘assisting’ agencies, at times putting gentle pressure on them to meet their obligations and commitments.

Though not part of this formal structure, a Consultative Implementation and Monitoring Council (CIMC) provides a private sector input to the policy making process, in part through public national development forums. In 2005 the CIMC was working with government to ‘open up the budget process’.

The Public Expenditure Review and Rationalisation (PERR) program

The PERR is a joint initiative of the Papua New Guinea government, World Bank, Asian Development Bank (ADB) and AusAID, initiated in 2002, aimed broadly at improving fiscal management. It is described in the MTDS 2005–2010 (57–58) as ‘a key vehicle for generating the savings and cost-efficiencies necessary for the successful implementation of the MTDS’. A PERR Implementing Committee is chaired by Treasury.

In 2003 the PERR produced six discussion papers: ‘Road map to fiscal sustainability’, ‘Civil service size and payroll’, ‘Restoring the integrity of budget institutions and systems’, ‘Expenditure adjustment and prioritization’, ‘Improving health spending’, and ‘Improving education spending’.

On the subject of fiscal sustainability, the authors of the PERR paper suggested in 2003 that:

The root causes of PNG’s fiscal malaise lie in poor governance in public finance management. Although most of PNG’s budget systems are sound, and by some accounts even sophisticated, poor governance over the years has led to an erosion of budgetary discipline, weakening of accountability and proliferation of waste, leakage, irregularities and malpractices across the board....tinkering with budget numbers and mandating ad-hoc expenditure cuts, as the Government has tried in the past, can hardly be expected to be effective in such a flawed system.

Several areas were identified for attention in the subsequent papers.

With regard to civil service size and payroll, it was argued that ‘public sector employment in PNG is larger than the country needs or can afford’, and that ‘the payroll system is flush with waste, leakage and irregularities’. A DPM audit suggested that there were some 2000 unproductive public servants on the unattached list (1200 of them in provincial administrations) in 2002, and ‘a large number of ghosts on the payroll’. Departments were said to recruit and make payments with no regard to budget ceilings, and Treasury was accused of ‘unrealistic appropriations’.

On the topic of restoring the integrity of budget institutions and systems, it was argued that ‘poor governance over the years has allowed [budget systems and processes] to be ignored, neglected, misused and abused’ while ‘watchdog bodies have been rendered ineffective because of absence of follow-up action on the irregularities they uncover’, with cases ‘delayed, blocked or even abrogated because of political pressures and vested interests’. There was ‘no sense of collective responsibility for the overall budget strategy’. Decentralization was said to have ‘led to an erosion of budgetary control’.

In relation to expenditure adjustment and prioritization, the PERR authors proposed an agency-by-agency review of functions (apparently going beyond existing Functional Expenditure Reviews), expenditure patterns and staffing levels, outputs and results, and whether certain functions might be privatized. They also supported the development of a Medium-term Expenditure Framework.

Actions on several of these fronts were detailed by the Minister for Finance and Treasury in his 2004 budget speech. As part of improved management of public sector employment and control of personnel expenditure, measures had been taken to remove ghost names from the payroll, implement a Concept Payroll System, reduce the pool of unattached officers by reassigning them or scheduling their redundancy, reduce the number of casual employees, and improve budget estimates and expenditure controls. In 2003 the *Public Service (Management) Act* was amended to facilitate merit-based appointments at senior levels; this is to be complemented by measures to extend merit-based appointment procedures to statutory authorities, and supported by a system of performance-based contracts (the appointment of senior public servants has, however, remained a point of controversy⁶). A review of government procurement was undertaken in 2001, and subsequently measures have been taken to strengthen the Central Supply and Tenders Board (CSTB), reduce discretionary powers to create lower-level supply and tenders boards, and improve information, reporting and disclosure systems (though not all departments have subscribed to the new measures). A Budget Screening Committee, comprising deputy secretaries of the central agencies, was created in 2003 to evaluate spending programs, assist prioritization of spending, and establish expenditure ceilings in the preparation of the 2004 budget. The government also announced its intention to develop a Medium-term Budget Framework within which to consider adjustments to public expenditure in the light of changes in available funding. And the Financial Management Improvement Program (FMIP), 'an integrated reform program of financial management at all levels of the government', was described as 'the most significant single reform of financial management ever undertaken by the Government'. (Papua New Guinea 2003, 27. Also see FMIP 2003).

Further measures within the context of the PERR have addressed budget stability, budget processes, expenditure controls (including an embargo on out-of-court settlements of claims against the state⁷), payroll processes, salary administration, appointments procedures, expenditure prioritization and adjustment, non-tax revenue, oversight of statutory corporations, and inter-government relations.⁸

'Rightsizing'

Reduction in the size of the public sector has been a recurring theme in reviews of the public sector, particularly reviews by the World Bank, in Papua New Guinea and elsewhere. In 1990 (coinciding with Papua New Guinea's first

application for a structural adjustment loan) the World Bank called for a downsizing of the public sector, while at the same time noting the need for improved health and education services (World Bank 2000; also see Curtin 2000). Retrenchment exercises were carried out in 1990, 1994 and 1996, but were generally judged to have had little effect, with retrenched public servants either remaining on unattached lists, being reemployed, and/or being replaced by new recruits. In 1999 the Skate government announced plans to reduce the public service from 60,000 to 52,500, with costs to be met from privatization of public enterprises. But the proposal was not based on any review of functional requirements and substantially underestimated the costs of the retrenchment, with the result that many 'retrenched' personnel remained on the payroll. When the Morauta government came to office, the retrenchment program was suspended, pending further study.⁹ As noted, the issue was raised again in the PERR, and is referred to in the MTDS 2005–2010 (54) as a core objective of public sector reform.

In 2005, an independent committee, headed by the late Mike Manning, then director of the Institute of National Affairs, was asked to undertake a study and make recommendations on public sector rightsizing, in the context of a government policy of reducing the public sector by 10 per cent, primarily in 'non-key service areas' (though it does not seem to be clear whether the 10 per cent referred to wage and salary costs or workforce numbers). The committee reported in September 2005. It recommended the abolition or merger of several government departments and agencies (including DPM, DNPRD, DPLGA and the National Research Institute), reduction in the number of ministries and ministerial advisers, closure of several overseas missions, and the outsourcing of some services to public providers (Public Sector Rightsizing Working Group 2005. Also see *Papua New Guinea Post-Courier*, 23, 24, 28 February 2006), but Manning was reported as saying that the committee was unable to achieve the desired reduction of 10 per cent and maintain the essential services of government (*Papua New Guinea Post-Courier*, 24 February 2006). By the end of 2006 few of the committee's recommendations had been implemented.

Separately, retrenchment within the Papua New Guinea Defence Force (PNGDF), as part of a recommended Force restructuring, seeks to reduce troop numbers from around 4200 to less than 2000.¹⁰ But despite external funding for the retrenchment, poor handling of the exercise resulted in early 2001 in a near mutiny, during which soldiers broke into the PNGDF armory. The Morauta government agreed to rescind a cabinet decision on Force size reduction, though in fact numbers continue to decline, primarily through a Voluntary Release Scheme.

The Public Sector Workforce Development Initiative (PSWDI)

The PSWDI was created in 2004 with the aim of providing a ‘comprehensive framework...which guides all activities related to public sector workforce development’, with emphasis on workforce development rather than ‘traditional training’, local ownership, use of existing linkages and networks, and incentives to improved performance. It envisages two phases — 2005–2007 focusing on the public service, and 2008–2010 to include the wider public sector — each with a framework and annual implementation plans. The PSWDI is described as a ‘cross-agency partnership across the three tiers of government’. It is led by a ‘think tank’ comprising senior executives of key national institutions, chaired by the deputy secretary of the Department of Personnel Management (DPM). Initially it has identified eight ‘action areas’: engaging all stakeholders, strengthening lead institutions (listing DPM, CACC, DPLGA, PNG Institute of Public Administration (PNGIPA), and National Training Council (NTC)), executive development, providing the ‘new basics’, developing the ‘next generation’, aligning supply with demand, building and sharing knowledge, and coordination and management.¹¹

Decentralization

As reflected in comments of the MTDS and *Strategic Plan*, there is a widespread feeling that the reforms embodied in the 1995 Organic Law on Provincial Governments and Local-level Governments (OLPGLLG) have not solved the problems of the decentralized system. In the words of the MTDS (9–10):

...in the years since the passage of the Organic Law, service delivery has deteriorated. On the whole service delivery systems are dysfunctional and there remains widespread confusion over functional (who does what) and financial (who pays for what) responsibilities across the three levels of government. As well, institutional capacity to deliver services is best described as grossly inadequate.

These problems, and the policy measures directed at their solution are discussed in Chapter 12 and in somewhat more detail in May forthcoming).

Overview

The post-1999 reforms have given rise to a plethora of ‘programs’ and ‘initiatives’, mostly designed to achieve what one might expect to be part of the normal day-to-day activities of departments, agencies and sub-national governments (but which clearly have not been). Inevitably perhaps, much of what is listed in the goals and guiding principles of these programs and initiatives consists of broad, uncontroversial statements of intention; nevertheless experience suggests that it is sometimes useful to spell out what might seem obvious, especially if in

spelling out objectives and strategies one can provide a framework within which specific problems may be identified, addressed and monitored. As several people, including Prime Minister Somare, have observed, what has been lacking in public sector reform in Papua New Guinea in the past has been not so much sound policies as a commitment to implement them at all levels of government.

In the proliferation of new initiatives, some of them largely donor-driven, there is a danger that overall coordination becomes more difficult. It is clear that many public servants (and advisers), including some senior officers, have an incomplete knowledge of the range of new activities being introduced. This is exacerbated by the facts that key documents are often almost impossible to obtain,¹² that increasing demands on the time of senior officers means that they frequently delegate or miss attendance at joint committee meetings, and that rapid turnover of staff (not to mention the retrenchment of a generation of middle managers with extensive field experience) shortens collective departmental memories. It is also clear that there is a significant knowledge gap between Waigani and the provincial capitals, district headquarters, and local-level government wards.

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Endnotes

- ¹ This paper draws on material in May (2006). I am grateful to Kathy Whimp for her comments on a draft of that paper.
- ² In the 2004 Budget Speech, these are restated as ‘(a) promotion of good governance; (b) improving economic management; (c) improving public sector performance; and (d) removing barriers to investment and economic growth’ (Papua New Guinea 2003, 23).
- ³ Referring back to the MTDS 1997–2002, the MTDS 2005–2010 (pp.5–6) says, ‘Although the policies and priorities contained in the MTDS 1997–2002 were soundly based, they were not rigorously applied or followed in practice’, partly because there was ‘very little ownership of the MTDS, across all levels of government’. Specifically, the earlier MTDS ‘was poorly integrated with the policies and programs of the provincial and local level governments’.
- ⁴ For a review of the MTDS 2005–2010, and a summary of its predecessors, see Mawuli *et al.* (2005).
- ⁵ The eight MDGs, to be achieved by 2015, broadly, are: eradicate extreme poverty and hunger; achieve universal primary education for all children; promote gender equality and empower women; reduce child mortality; improve maternal health; combat HIV/AIDS, TB and other diseases; ensure environmental sustainability; and develop a global partnership for development. Papua New Guinea is currently behind schedule in achieving the targets (see *Millennium Development Goals: Progress Report for Papua New Guinea 2004*, and *The National* 26 September 2005).
- ⁶ See, for example Michael Unage in *The National* 18 August 2005, and Prime Minister Somare’s earlier statement to parliament, printed in the *Papua New Guinea Post-Courier* 12 July 2005. Also see the

comments of Chief Secretary Joshua Kalinoe, who accused politicians of bypassing formal procedures required under the *Public Service Management Act* to remove departmental heads who had not 'cooperated' with them (*Papua New Guinea Post-Courier* 30 January 2007, *National* 30 January 2007).

⁷ In August 2005 it was reported that successful compensation claims against the state over the past ten years (mostly arising from police actions) had amounted to K500 million (*The National* 16 August 2005); the following month it was further reported that the National Court had ordered the state to pay K266,000 to a victim of a police shooting in 1995 (*The National* 21 September 2005).

⁸ Chief Secretary, Joshua Kalinoe, presentation to National Research Institute, 24 September 2005.

⁹ Notwithstanding this, in an article in *Papua New Guinea Yearbook 2002*, Morauta stated that retrenchment had cut K27.6 million from the public service wage bill and that in the National Fisheries Agency and the Government Printer alone staff had been reduced by 235 (Morauta 2002, 8-9).

¹⁰ Numbers vary: at the end of 1998 Force size was 4600; in 2000 there was talk of reducing numbers from 4200 to around 3000 at the end of 2000 and 1500 by mid 2001; in January 2001 a Commonwealth Eminent Persons Group recommended a cut from what was then 4150 to 1900 within six months; in June 2001 Force size was quoted as 3340 and the aim was to reduce this to 2000 over three years. At the end of 2006 Force size was around 2300.

¹¹ See PSWDI, *Framework 2005-2007*, 1 March 2005.

¹² In 2004, incoming Inter-Government Relations minister, Sir Peter Barter commented that the Department of Provincial and Local Government Affairs had been unable to locate a copy of the National Development Charter, which embodied a major policy initiative for the joint funding of programs by the national and provincial and local-level governments (see Barter 2004, 145). Donors are not always innocent on this account: for example, an expenditure tracking exercise for education, undertaken by the National Research Institute for the World Bank in 2003 as part of a Public Expenditure and Service Delivery study, and involving an extensive collection of data, has never been released by the World Bank. The data is now more than five years old.