

**STUDY INTO THE  
DISTRIBUTION OF RESPONSIBILITIES  
ACROSS DIFFERENT LEVELS  
OF GOVERNMENT & ADMINISTRATION  
IN PAPUA NEW GUINEA**

**A Working Paper**  
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**LISTING OF ATTACHMENTS**

**ATTACHMENT (1)**                      **Sample Interview Schedule**

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## EXECUTIVE SUMMARY

### 1. INTRODUCTION

#### 1.1 The Study.

The National Economic and Fiscal Commission (NEFC) is conducting a **Review of Inter-government Financial Arrangements (RIGFA)** at the request of the National Government. As part of that Review the NEFC commissioned this Study to develop a clearer understanding of the current situation regarding the distribution of responsibilities across the various levels of government and administration in Papua New Guinea (PNG).

The Working Paper reports on the Study's background, approach and findings. This Executive Summary to the Paper is presented in three parts. The Introduction provides an overview, and includes a brief outline of the Paper to assist the reader identify and locate any matters covered that may be of particular interest. The second and third sections summarize the main findings in respect of two main areas of interest, as described below.

- Note on Terms Used. The Study's original title referred to *function* rather than *responsibility*. One of the Study's earliest findings was that the term 'function' can mean different things to different people. For instance, when a central agency official uses the term it might be to refer to, say, *Health*. Whereas a Health sector official may use it to refer to, say, *Primary Health Care*, or some other 'sub-set' within the sector. For the sake of consistency and clarity, the term responsibility has been adopted. Its use is premised on the understanding that for any course of action what has to be specified is *who makes the decision, who carries it out, and who pays*. That is, responsibility for: Legislation & Policy Formulation; Implementation & Operations; and Resourcing. In practice for any particular area of activity responsibilities can be 'split' between levels.

#### 1.2 Decentralization & The Provincial Government Reforms.

A decentralized system of provincial government was established in PNG with the passing of the original *Organic Law on Provincial Government (OLPG)* in 1977. Since then there have been many legislative and other changes that have had an effect on the responsibilities of different levels of government and administration.

The *Organic Law on Provincial Governments and Local Level Governments (OLPGLLG)* was enacted in July 1995. The new Organic Law ushered in a raft of changes to the systems, structures and processes of government and administration at every level – these changes are commonly referred to as the *Provincial Government Reforms* (the 'Reforms'). Although other events may arguably have had more impact in specific sectors, it's fair to say that 'across the board' the Reforms have been the most significant factor shaping the current notional distribution of responsibilities and stakeholder understandings.

In this respect, another of the Study's early findings was that the significance of the Reforms lies not only in the scope of the changes to previous system called for, but also in

the way the Reforms have been developed, introduced and installed. What is most apparent is that the Reforms are shrouded in a persisting mist of confusion and uncertainty - there is still a lack of clarity among stakeholders about the precise, practical objectives of the Reforms, producing confusion and disillusionment significantly compounded by the unplanned and seemingly ad hoc way implementation of the Reforms has been approached over the years.

### **1.3 Purpose of this Working Paper**

The Working Paper has three separate - though interwoven - purposes.

- i. In line with the main brief for the Study, the primary purpose of the Paper is to outline the current situation relating to the distribution of responsibilities - considering both notional distribution and stakeholder understanding.
- ii. In examining how the current situation has evolved, a great deal of information relating to the Reforms was gathered during the Study. This information and the analysis it allowed should not be lost. For that reason, the text of the Working Paper presents more on the Reforms than would strictly be required for the Study. The Study Team hope that this – together with the additional references given in the Paper – will be useful to NEFC personnel as an initial reference on the Reforms.
- iii. The experience with the development and implementation of the Reforms provides valuable insights and lessons that could usefully and practically inform the planning and management of future major change processes in PNG. The Working Paper seeks to capture some of those lessons.

In respect of the last point, it might be noted that some lessons have already been practically applied in refining the NEFC's approach to the RIGFA, and informing the changes to intergovernmental arrangements being recommended.

### **1.4 Outline**

The first chapter of the Paper describes the background to the Study, and chapter 2 outlines the approach to data collection and analysis.

- The data strategy was founded on stakeholder consultation and document review. To canvas a full range of views from representatives of key stakeholder groups, and to ensure an adequate number of different information sources for the purposes of corroboration, a large number of people were consulted (see: Attachment 2). Consultations were conducted at the national-level and in provinces using a variety of formal and informal methods (see: section 2.2.2 & Attachments 1, 3).
- A wide range of documents was also reviewed (see: References). In this respect another early Study finding relates to the significant gaps in the public sector *institutional memory*. Despite best efforts, a number of reports that were referred to in other documents could not be located – some produced as recently as the late 1990s. The failure to properly store and catalogue documents is compounded by high staff

turnover at senior levels. As a result information and insights are lost, and there is a constant *reinventing of the wheel* - or worse, a repetition of past errors. The problem is symptomatic of systemic issues with organization and strategic management within the public sector, and should be addressed as a priority. It is however outside this Study's brief and - other than highlighting the issue - no specific action has been taken or is suggested herein.

Chapter 3 provides a brief summary of the background to the Reforms and chapter 4 outlines available information relating to the intent.

- From the outset the system of provincial government introduced with the 1977 OLPG (section 3.1) was the subject of criticism from various sources (section 3.2). After numerous previous reviews, in 1992 the National Parliament established a Bi-Partisan Committee to once again review the system. The Committee's recommendations were to be implemented by the Constitutional Reform Commission (CRC) established in 1993 (section 3.3) – although there appears to be some question as to how closely the OLPGLLG developed by the CRC followed the Committee's recommendations (section 4.1).
- The passing of the new OLPGLLG in 1995 marked the beginning of a designated interim period. Some elements of the new Organic Law were implemented on a temporary basis (e.g. interim provincial governments were established), and some of the new arrangements were put in place (e.g. some key elements of the new funding arrangements were introduced in the 1996 National Budget). At the same time various structures and systems were established, including a new system of local-level government (LLG). The interim period ended with the completion of LLG elections in October 1997, which marked the start-proper of the new system (section 3.4).
- The Study Team found that the broad thrust of the Reforms is clear enough in various - though limited - documentation (section 4.1, 4.6), and the key structural elements are outlined in the OLPGLLG and elsewhere (section 4.2). However it appears that – despite the relatively long lead time – in the end, the design and development process was somewhat rushed (section 4.1), and that from the outset there was confusion among stakeholders about the precise intent and practical objectives of the Reforms. Moreover, there is no evidence of any strategic or implementation planning having been done at time the OLPGLLG was passed, or prior to implementation and the first financial elements being introduced (section 4.1, 5.2). There were some planning documents produced afterwards by various agencies - notably, including the National Monitoring Authority (section 5.4). But documents produced by different parties appear not to be always consistent with each other and, in any event, none seem to have been practically applied to any great extent (section 5.5, 5.6). As a result, there are significant 'grey areas' in several areas. (For instance, re: specific desired outcomes; how the various structural and other system elements were intended to interact, at strategic and practical levels, to achieve the specified broad goals; the approach and timing of implementation, and specific milestones.)

- For the Study, the main principles and key structural elements were noted, and are outlined in the Paper (sections 4.2-4.5). The mechanisms available – though, ultimately, hardly used - to assign responsibilities (section 4.6) and the new funding arrangements are also described (section 4.7).

Chapters 5 to 8 consider the application of the Reforms in practice. In chapter 5 the way responsibility transfers have been approached is examined, and chapter 6 considers how the new financial arrangements have been applied and the outcome to date. The fundamental issue of capacity is discussed in chapter 7, and the particular situation with LLGs is highlighted in chapter 8. The final chapter, chapter 9, presents some general concluding remarks based on observations made during the course of the Study relating to the design and implementation of the Reforms.

- Issues related to responsibility transfer and capacity are discussed at some length in the next section of this Summary (refer purpose #i above). Similarly the insights and lessons that the observations allow are summarized in the final section below (refer purpose #iii).
- *Re. financial arrangements.* Among other things, chapter 6 examines how and why the objectives of the financial aspects of the Reforms package have failed to be achieved – as they relate to both provincial governments (section 6.2), and LLGs (section 6.4). Other key issues highlighted include the scant data available, and the consequent limitations this imposes on the analysis of provincial government expenditure (section 6.3.2), and the difficulty of assessing appropriate expenditure levels for different programs (section 6.3.3, 6.3.4). The data limitations are even more severe in respect of LLGs (section 6.5).
- *Re. Local-level Government.* The Reforms introduced enormous change at the local government level (section 8.1). Yet little was done before their introduction – or since - to prepare LLGs to assume increased powers and responsibilities (section 8.1), or to ensure that national agencies (section 7.3.1) and, particularly, provincial administrations (section 7.3.2) had the capacity and resources to play the support role envisaged (section 4.5). Trying to assess the current situation with local government presents particular challenges. Availability of data was an issue in every aspect of the Study, but nowhere more so than in relation to local government. There is currently no regular data collection or monitoring being undertaken, nor has there been any recent work done to assess LLG activities and performance. Indeed, there is effectively no ‘solid’, systemic-based data on what LLGs are actually doing, or how well they are performing (section 8.2). The work undertaken for the Study (sections 6.4, 6.5, 7.3.2) and anecdotal information suggest that: the performance of LLGs varies a great deal from one to another, as do the resources they have available; and, in general, although some are performing well, many LLGs lack the capacity to effectively undertake all that is expected of them. The lack of a sound information base for decision-making would be problematic at any time. It is particularly worrying now because there is a lot of discussion in government circles regarding the future of LLGs (section 8.3). Notwithstanding the scant information available, there are very strong and widely differing views being expressed (covering the full spectrum from doing away with local government altogether, to giving them more power and resources). The wide

range of opinion further highlights the lack of solid information. In the view of the Study Team, it would be irresponsible to make any major change without first better understanding the operation, performance and variations within the local government system as a whole. A study is urgently required to collect basic information on LLGs and undertake fundamental analysis (e.g. role and functions actually undertaken, level and variation in performance, problems and constraints, factors that make for effective government, etc.), and gather stakeholders' views on what key responsibilities should be undertaken at the local level. A possible approach to such a Study is outlined in the Paper (section 8.4).

## **2. DISTRIBUTION OF RESPONSIBILITIES: SUMMARY OF KEY FINDINGS**

### **2.1 Current Situation – Identifying The Issues**

*Responsibility Confusion.* There is a striking lack of clarity among stakeholders at all levels in relation to the responsibilities of each level of government and administration. This is widely recognized and readily acknowledged - the issue was raised in almost every consultation with stakeholders conducted for the Study, has been noted in several reports, and has been the subject of frequent public statements by politicians and others (section 5.7.1).

*Responsibility Disagreement.* Where some responsibilities best 'belong' is the subject of disagreement between different levels of government, particularly - but not only - in regard to funding responsibilities. Perhaps the most striking examples relate to the responsibility transfers undertaken as part of the 1999 National Budget, which included transfer to provincial governments of some funding responsibilities for operations in provinces of some national functions (section 5.5). Provincial governments do acknowledge the importance of these services operating effectively in their provinces, but are reluctant to fund functions that they see as national responsibilities (e.g. police, fire services, CIS), and over which they have no policy or operational control or input - particularly in times of significant funding shortfalls from National Government (section 6.2.1). Some provinces also have concerns about accountability in that they receive no feedback and all reporting is done to the agencies' headquarters.

*Differing Priorities.* National, provincial and local governments don't necessarily always share the same priorities in all areas. So, even where responsibility for a particular function may be known and accepted by all stakeholders, not all may consider the level of funding provided by the government responsible to be adequate. For instance, the National Government has 're-centralized' funding of some provincial programmes because it considered some provincial governments (section 6.2.2c) were providing insufficient funding. At the same time, it must be understood that there are many competing demands on the resources provincial governments have available (section 6.3). Moreover, as provincial governments quickly point out, and as noted above, provincial governments have not been receiving their full funding entitlements and this limits their funding ability.

*Capacity Constraints.* In addition to funding constraints, there are other capacity limitations at every level of government and administration, and even between different

governments, administrations and agencies at the same level. These limitations can impact on the ability of some national agencies, provincial governments/administrations, and LLGs to effectively carry out their responsibilities (chapters 7 & 8). This is discussed further below.

As a result of all of the above -

- Some responsibilities are not being properly or fully carried out (i.e. variously, because, the government/administration may not be aware of their responsibility, may not agree that it's legitimately theirs, and/or do not have the capacity).
- Resource allocation is not always as efficient as it could be (e.g. some functions are not being carried out whereas others are duplicated, personnel resources don't always 'match' funding for operations).
- There is ongoing disagreement between some national agencies and some provinces on the level of funding provided to some 'core' services.

## **2.2 Causes: How Did The Current Situation Come About?**

Re. Confusion. At a general level, the most significant single cause of confusion has been the lack of clarity regarding the intent of the Reforms (section 4.1) and the poorly planned way they have been implemented (sections 5.2–5.6). At the same time, not all the confusion in every sector can be attributed to the Reforms alone. The Study identified various other events/factors relating to particular sectors and responsibilities that have also contributed to confusion in respect of those responsibilities (section 5.7.1). Some of which also have broader relevance (section 5.7.2). So, in general, it's fair to say that for any particular sector the clarity or otherwise of responsibility distribution is likely to be the product of the Reforms or a combination of factors – including the Reforms.

Re. Disagreement. There may also be a variety of different reasons for disagreement over where a particular responsibility belongs. Again the Reforms are very likely to be a significant contributing factor because of the poor way the transfer of responsibilities have generally been handled (sections 5.2 - 5.6) and in particular the failure to develop and apply a:

- consultative means of defining appropriate responsibility distribution and so, from that, agreeing on which responsibilities should be transferred; and
- systematic, understood and agreed means of transfer.

In this regard it might be noted that problems resulting from the first responsibility transfers did prompt the NMA to attempt to specify an appropriate function identification/transfer process during 1996/1997. However - though a very worthwhile effort – the process was never finalized and has never been applied (section 5.4).

Re. Differing Priorities. Some degree of variation in priority setting between different levels of governments is not unusual. A system of decentralization should anticipate, and

be able to accommodate, this. Indeed, the Reforms were designed to allow provincial and local-level governments a large degree of freedom in setting priorities for expenditure. Under the Reforms funding has been ‘delinked’ from functions – National Government grants to provincial governments are not related to any specific function, nor are the amounts of the grants linked to the cost of carrying out functions (section 4.7). In fact, other than some very general ‘conditionalities’ for the use of the grants (section 4.7.1) National Government has few ways of ensuring its priorities are reflected in the expenditure allocations made by provincial governments (section 6.2.2c)

It might be noted that differing priorities have not always been identified as such because of responsibility confusion or disagreement discussed above. Where identified, they’ve been difficult to resolve because of the related issues of, the:

- lack of a fundamental and understood agreement between the National Government and provincial governments regarding funding responsibilities (sections 5.2, 5.4, 5.5);
- failure to properly ensure the funding (and other) capacity of recipients prior to transferring responsibilities (chapter 7); and
- absence of reasonable estimates of what appropriate levels of funding should be for programs and activities in different provinces – making any an objective assessment of the adequacy of funding very difficult (section 6.3.3, 6.3.4).

In relation to the last point, in 1997 the NMA did attempt to specify minimum standards and unit costs (section 6.3.3). However - as with other potentially worthwhile NMA work - the initiative was never completed or applied.

### **2.3 Capacity: A Fundamental Issue Warranting Particular Mention**

During the Study this issue came up in one way or another in almost every consultation with every stakeholder group (chapter 7). The main themes are summarized below.

*Not considered.* The capacity of recipients was not taken into account in the transfer of responsibilities. Neither those transfers undertaken as part of the 1996 National Budget, nor those carried out subsequently, had proper feasibility assessment done to determine whether, among other things, each of the recipients could effectively carry out transferred responsibilities, as well as all existing responsibilities (sections 5.3, 7.3.2).

*‘One size does not fit all’.* Linked to the above, transfers to date have not recognized the fundamental fact that capacity varies from provincial government to provincial government, and from LLG to LLG. Even within any particular provincial government/administration or LLG, capacity may vary from sector to sector. Differing capacities should be recognized and accommodated (section 7.2.1).

*Multiple elements.* Capacity can have various elements – such as personnel (numbers, skills and competencies, location), funding resources, systems and support structures, infrastructure (communication/access, office and residential accommodation) and support

services. Before transferring a responsibility, each relevant element of capacity should be identified, and the adequacy of each tested to ensure a responsibility can be effectively carried out once transferred (section 7.2.2).

*Frequently lacking.* Linked to all the above, some provincial governments and LLGs don't have the capacity to effectively undertake all that appears to be expected of them. This means not only that transferred responsibilities may not be properly carried out, but in some cases the added demand on energy and resources may also lead to a lessening of performance in other responsibilities as well (section 7.3.2).

*An issue at every level.* It's not just the recipients of responsibility transfers that suffer capacity constraints. As noted earlier, under the Reforms, national agencies were expected to provide policy advice, and play a significant role in supporting and strengthening lower levels (section 4.5). There is a broad consensus among stakeholders at all levels (including the national) that this has not happened – mainly because national agencies have faced their own very significant capacity constraints (section 7.3.1).

## **2.4 What To Do - Addressing Responsibility Confusion As The First Step**

*How the confusion persists.* Though there may be a variety of reasons for the responsibility confusion in different sectors, in addressing the issue the key point to understand is that all the confusion - whether due to the Reforms, some sector-specific or other cause, or a combination - is able to persist because of the lack of a definitive and agreed specification of responsibilities of each level of government and administration.

In this regard it's worth noting that the NMA did attempt to specify responsibilities several years ago, but the work was never completed (section 5.7.4a). There are also some other documents of relevance, including planning documents produced by some national agencies that (implicitly) outline a responsibility distribution for their sectors (section 5.7.4b), and specifications done by some provinces for their own use (section 5.7.4c). These various documents do have significant shortcomings and limitations, and were prepared independently with no 'validation' to crosscheck contents. Nonetheless they do provide insights into the thinking of the respective authors and some useful resource material.

*A collaborative specification.* In the first instance a clear, current, complete, accurate, understood and - as far as possible - *agreed* specification of legislative/policy, implementation/operations, and funding responsibility of each level of government and administration should be produced as a priority (section 5.8.1). To act to increase the quality and accuracy of the contents, and to maximize the likelihood of the specification being both useful and used, the exercise should be the product of a genuinely collaborative and consultative process involving representatives of all key stakeholder groups. It's important that every stakeholder know what is expected of them and what they can expect of others. Based on the specification produced, a manual or handbook could be produced to serve as a practical reference at every level. It might be useful to produce different versions pitched at different audiences, using language and format appropriate to the target audience. This should act to remove, or at least significantly lessen, confusion and misunderstanding.

*Opportunity to address disagreement.* A collaborative process involving all the different stakeholders will bring responsibility disagreements out in the open. This should allow at least some to be resolved at a technical level. Whatever cannot be resolved in this way may require further political input and negotiation (say, at a Governors' Council conference) and failing that, as a last resort, an 'executive decision' from Government. Hopefully most areas of dispute will be able to be resolved through discussion and negotiation. At the very least, the process should allow the various concerned stakeholders the opportunity to make their case.

## **2.5 Specification As The Foundation To Address Other Issues**

The specification of responsibilities will allow identification of those responsibilities that have to be shifted from one level to another. So as to not repeat the mistakes of the past, it's important to understand that it would not be realistic or practical to expect that prospective recipients could immediately take on all that they might – notionally – be responsible for as a result of the specification exercise. Indeed, the specification should best be seen as a statement of the 'final state' of responsibility distribution, to be arrived at through an appropriate transfer process, and only after necessary prerequisites have been identified and put in place.

*Linking capacity building and responsibility transfers.* The responsibility specification should be the basis for identifying and addressing capacity constraints. For each responsibility, the applicable elements of capacity could be identified, and the required 'standard' to effectively perform that responsibility determined. At the same time, a recipient's existing capacity could be assessed and 'capacity gaps' identified. An individualized transfer schedule linked to a targeted capacity-building programme could then be developed for each recipient, based on the recipient's specific needs and capacities.

It will be understood that such an approach is ambitious and poses significant resourcing and commitment issues. It would require a high level of analysis, consultation, negotiation and agreement, culminating in tailoring capacity building programs and transfer schedules to the individual circumstances of recipients. It would also require a lengthy period to bring about, and so, on-going political commitment. These requirements present sizable challenges – of course, it is these very characteristics of the approach that make it comprehensive and so worthwhile. The Study Team believes the matter to be of such fundamental importance that it does warrant the political, bureaucratic and resource commitment necessary to do it properly. In the long-term, the cost of allowing the continuing 'drift' over responsibilities, and the complete failure to address capacity shortcomings at every level, may well be significantly greater than anything such an exercise might cost now.

*Towards a Prioritization Framework.* There are many demands on provincial government resources. A general prioritisation framework should be developed that can be adapted for use by each provincial government to assist them identify and balance local and national priorities. Though such a framework is some way off, a clear specification of responsibilities will provide one essential pre-requisite. The specification will also serve

as an input into a minimum standard/unit costings determination exercise, which, in turn, should also form a key input into a prioritisation framework (section 6.3.4).

## **2.6 Next Step**

To identify and address stakeholders concerns, and seek to produce an outcome that is acceptable to all, it's important that all key stakeholder groups are actively involved in such a specification exercise from the outset. The Study Team recommend that, in the first instance, the NEFC convene an ad hoc committee of key national agencies and regional/provincial representatives to consider the issues raised in the Paper, and further develop the suggestions made regarding a collaborative specification of responsibilities (section 5.8).

## **3. PROVINCIAL GOVERNMENT REFORMS – SOME OBSERVATIONS**

As noted in the Introduction, the Study Team believe there are some observations on the development and application of the Reforms that are worth noting as the basis for identifying the lessons that the experience provides. However it will be understood that what the Study Team see as worthwhile lessons, others may see as negative or unfair criticism made with benefit of *20-20 hindsight*. It's therefore important to note that nothing in the text, or in this Summary, is intended as direct or implied criticism of those involved in the design or implementation of the Reforms. Experience suggests that major change is never easy. There was a great deal going on around the time, and in the period after, the Reforms were introduced. It might simply be that - with the best of intentions - too much was attempted, too quickly.

Having said that, if PNG is to benefit from experience then it must be acknowledged that some things could have been done differently and - in some areas – should have been done better. When identified and analysed, those areas can provide practical lessons that can usefully guide future initiatives. It is in that spirit that the following observations are made.

*Need for better explication.* The Reforms were not sufficiently well defined (sections 1.3.2, 4.1, 4.6.3). Explication of the precise intent of the overall package and of some elements was limited. Implementers and other stakeholders did not have sufficient guidance either in the documentation available, or from the architects of the Reforms (who appear not to have had much of an active role after the *OLPGLL* was passed).

*Lack of adequate understanding & commitment.* Related to the above, there was no overall statement of intent and clear strategy 'signed-off' by stakeholders. Preparation of such a statement and securing the imprimatur of stakeholders would have increased the likelihood of understanding and on-going commitment – even, if not always, agreement (sections 1.3.2, 4.1, 4.6.3, 5.4, 5.6, 7.3.1, 9.1).

*Inadequate feasibility analysis as part of the design process.* The Reforms were not subjected to adequate feasibility analysis to 'test' the viability and sustainability of the package as a whole, and of its component parts. An analysis should have considered the proposed intervention from relevant perspectives including: financial, institutional,

technical and social. The results would have been useful in strengthening the design, and in informing the preparation of an appropriate implementation strategy (including identification of pre-implementation requirements). For instance, among other things -

- Financial feasibility analysis might have highlighted financial sustainability issues associated with the funding elements of the Reforms being introduced at a time when an economic downturn was already apparent, and the increasing trend in salary costs was already clearly established (section 6.2.2).
- Institutional feasibility analysis would have had to consider the very institutionally ambitious and expensive nature of the Reforms (sections 4.5, 7.3), and would have certainly identified the significant capacity issues at every level (chapter 7). It may have also highlighted the failure of the design to take adequate account of the wide variations in the resources and performance of local government, and the enormous information gaps regarding their actual operation (which have since become even more pronounced - chapter 8).
- Technical feasibility analysis would have highlighted a range of issue in several areas. For instance, the lack of clear mechanisms for specifying responsibility distribution and making the required transfers (section 5.2 & 5.5), and the features which have served to act against the objectives of the financial elements being achieved (section 6.2, 6.3.3).
- Social feasibility analysis may have identified the lack of common acceptance and understanding among stakeholders and highlighted the increased risk of later commitment problems (section 5.6) and, with that, the need for additional efforts in that regard.

*Poor preparation for implementation.* As noted, there was little preparation for implementation and significant elements were not sufficiently well defined or understood. Implementation was also rushed and caught many stakeholders unprepared (section 5.3). This led first to confusion, and over time increasing disillusionment and distrust among some of those affected (sections 5.5, 5.6).

*No agreed implementation strategy.* Further to the above, there was no commonly known and accepted implementation strategy prepared prior to the first implementation (sections 1.3.2, 5.2, 5.4). Efforts to prepare an appropriate implementation strategy were in response to the problems of - not in preparation for - implementation. Although these efforts could potentially have been very worthwhile, they were never fully developed or applied (section 5.6).

*No effective review process.* Although some of these problems have been long recognized (section 5.2), there has been failure to develop an agreed strategy to address them. Instead the situation has been allowed to “drift”, further compounding the problems and causing additional confusion and further disillusionment (section 5.7, 5.8).

**The general lessons suggested by the above include the following -**

1. An intervention should be clearly and fully defined such that all stakeholders understand and can endorse - or, at least, agree to proceed with - what is being sought, and how this is to be achieved. As far as possible, all stakeholders groups – including those who will be responsible for implementation - should be involved in design. Similarly, those involved in design should have an on-going role in, or at least a ‘connection’ during, implementation.
2. An important part of the design process is feasibility analysis where the viability and sustainability of the overall package and key components are tested from all relevant perspectives (e.g. economic, financial, technical, institutional, social/cultural). The results should be used to refine and strengthen design, and inform the approach to implementation.
3. Preparation of an implementation strategy should be part of the design process, not something ‘tacked-on’ after design - and certainly not after implementation has already commenced. (It should be understood that the design and targets might well require modification after the realities of implementation have been identified, and factored in, with the preparation of an implementation strategy.)
4. As far as possible, preparation of the strategy should be a collaborative process. It should produce a result that is understood and accepted, takes a ‘whole of government’ approach and is, at least, medium-term in its outlook. It should specify:
  - the components and phases of implementation;
  - the roles and responsibilities of all stakeholders and the relationship between them;
  - an indicative programme (tasks, action agency, resources, timing and a completion indicators);
  - the monitoring and evaluation regime; and, very importantly,
  - a specified review process (i.e. how changes identified as necessary through monitoring and evaluation can be actioned).
5. As part of the implementation strategy/programme specification, resourcing levels and sources should be specified, and required funding ‘locked-in’ for the medium-term – subject to the review process. The authority and resourcing of the implementing/ managing/co-coordinating body should be commensurate with its role and responsibilities, and also ‘locked-in’ (again, subject to the review process). It is important that the management and review processes enable emerging issues to be identified and addressed in a timely way (and that ‘drift’ cannot occur).

## **ACRONYMS**

CEO	Chief Executive Officer
CIMC	Consultative Implementation Monitoring Committee
CPI	Consumer Price Index
CRC	Constitutional Reform Commission
CRC	Consolidated Revenue Fund
DoF	Department of Finance
DPLGA	Department of Provincial & Local Government Affairs
DPM	Department of Personnel Management
ENB	East New Britain Province
JDPBPC	Joint District Planning & Budget Priority Committee
JPPBPC	Joint Provincial Planning & Budget Priority Committee
LLG	Local-level Government
MoU	Memorandum of Understanding
MP	Member of Parliament
MTDS	Medium Term Development Strategy
MUG	Minimum Unconditional Grant
NBC	National Broadcasting Corporation
NCD	National Capital District
NDF	National Development Forum
NDoE	National Department of Education
NDoH	National Department of Health
NEC	National Executive Council
NEFC	National Economic & Fiscal Commission
NGO	Non-government Organization
NMA	National Monitoring Authority
NPO	National Planning Office
NSO	National Statistical Office
OLPG	Organic Law on Provincial Government
OLPGLLG	Organic Law on Provincial Government & Local-Level Governments
PEC	Provincial Executive Council
PGAS	Provincial Government Accounting System
PNG	Papua New Guinea
RIGFA	Review of Inter-Governmental Financing
VAT	Value-Added Tax

## **1. INTRODUCTION**

### **1.1 The Study**

The National Economic and Fiscal Commission (NEFC) is conducting a Review of Inter-government Financial Arrangements (RIGFA) at the request of the National Government. As part of that Review this study has been undertaken to develop a clearer understanding of the notional distribution of responsibilities across the various levels of government and administration in Papua New Guinea (PNG) and stakeholders' understanding of that distribution.

### **1.2 The Provincial Government Reforms**

The most important recent event in this regard has been the National Parliament's enactment of the *Organic Law on Provincial Governments and Local Level Government* (OLPGLLG) in July 1995.<sup>1</sup> The OLPGLLG ushered in a raft of changes to the system, structures and processes of government and administration in PNG. Collectively these are commonly referred to as the Provincial Government Reforms ('the Reforms').

At a general level, the design of the Reforms, and the way they've been implemented, have been very significant in shaping the current notional distribution of powers and responsibilities, and stakeholders' understanding of these. The impact of the Reforms and the way they have been accommodated has varied from sector to sector, depending on a range of factors. These include the specific changes called for under the Reforms for that sector (e.g. the power, function and activity transfers required), and the previous level of decentralization in the sector.<sup>2</sup>

### **1.3 This Working Paper: Purpose & Use**

#### **1.3.1 A Foundation for the Study**

This paper presents the information and analysis that form the foundation for the study's findings. The paper describes the Reforms, and examines the 'across-the-board' impact on the distribution of responsibilities and stakeholder understandings. Reference is also made to individual sectors and the role of sector-specific factors. More information on the responsibility distribution in key sectors is stored in the NEFC and will be available for any further work, including - but not necessarily restricted to - the follow-up work suggested herein.

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<sup>1</sup> There have been very significant changes in particular sectors that have, arguably, had more impact in those specific sectors – e.g. in the Education sector, the Education Reforms implemented after piloting in 1993, or in relation to the Forest sector - the outcomes of the Commission of Inquiry of the late 1980s and the subsequent new Forestry Act (1991). However no other single event has had the 'across the board' impact of the Reforms - at least, not since the original *Organic Law on Provincial Government* (1977) was passed soon after Independence.

<sup>2</sup> For instance, for the Education Sector, the progressively greater level of decentralization that had characterized the sector since Independence was reinforced under the Reforms, but with the added dimension of the need to formally incorporate local level governments more substantially into the system. A similar situation applied to the Health sector.

### **1.3.2 Learning from Experience**

The paper also has another purpose. From early in the data collection phase of the study we became aware of the lack of clarity surrounding the intent and application of the Reforms, and the level of misunderstanding and confusion among stakeholders. As we continued with the study we came to understand why.

We've been unable to locate evidence of any strategic or implementation planning done at the time the OLPGLLG was passed, or prior to implementation and the first significant financial elements being introduced as part of the 1996 budget. There were planning documents produced afterwards by various parties. But these documents were not always consistent with each other and, in any event, seem not to have been applied to any great extent. Reference materials in general are not plentiful and some are of limited value. Moreover, although we've had extremely valuable discussion with a number of informants, many of the 'insiders' involved in the design and the early days of implementation have moved on, or are otherwise unavailable.

Notwithstanding the difficulties, after extensive document review and with the generous assistance of numerous informants, we've gathered a lot of useful information that should not be lost; for instance, the Reforms' design and implementation experiences provide valuable lessons for the management of future change processes in PNG. We wanted to capture the information, insights and lessons. For that reason, more information and analysis related to the Reforms is presented here than is strictly required for our study. Additional references are also provided.

We should also note that through our work with other NEFC personnel, some of the insights we developed into the Reforms design process have already been incorporated in the approach taken in preparation of the proposal for new inter-government financial arrangements. Similarly the lessons of implementation have 'informed' the suggested approach to the implementation of the arrangements being recommended.<sup>3</sup>

### **1.3.3 Use of this Paper**

We hope this working paper will be useful to NEFC personnel in three ways. By:

- ? providing an outline of the situation with regard to the distribution of responsibilities (re. notional distribution and stakeholder understanding);

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<sup>3</sup> The proposed package of new financial arrangements is described in a recent NEFC report: "Review of Intergovernmental Financing Arrangements: Interim Report & Proposals for a new Framework" May 2003. Chapter 3 outlines the design of the package. Some of the key implementation principals are noted in section 3.13.

- ? serving as a general reference on the Provincial Government Reforms; and
- ? providing insights and lessons that might help inform the planning and management of major change processes in the future.

The next chapter outlines the data collection and analysis undertaken for the study. Chapter 3 provides a brief summary of the background to the Provincial Government Reforms. Chapter 4 presents the available information on the intent of the Reforms. Chapters 5 to 8 consider the reality of the Reforms in practice and, in particular, highlight the design elements and implementation efforts of particular relevance to the study and to the broader issue of change management. In chapter 5 the way the responsibility transfers have been approached is examined, and chapter 6 considers how the financial arrangements have been applied. The fundamental issue of capacity is discussed in chapter 7, and the situation with local level governments is highlighted in chapter 8. The final chapter presents some general concluding remarks relating to the design and implementation of the Reforms.

## **2. DATA COLLECTION & ANALYSIS**

### **2.1 Data Strategy**

After analysis of the Terms of Reference, review of likely data sources, and assessment of the resources available for the study, a data strategy was developed. The strategy was founded on:

- document review; and
- consultation with informants.

### **2.2 Data Sources**

#### **2.2.1 Review of Documents**

A large number, and wide-range of documents have been reviewed - including legislation, budget documents, departmental reports, consultants' reports and corporate plans. Copies of many of these have been obtained and are to be included in the NEFC Resource Centre, which is currently being established by NEFC personnel.

- **“Gaps” in the Institutional Memory**

It's worth noting the difficulty we had in locating a number of relatively recent documents. We checked departmental libraries and the National Library and Archives, and spoke to many officers in an effort to locate various reports that were referred to in other documents – some produced as recently as the mid to late 1990s. Our difficulty highlights an important issue regarding Public Sector 'institutional memory' in PNG: the failure to properly store and catalogue important documents produced by, or for, national agencies. This problem is compounded by the high staff turnover at senior levels. As a result, information and insights are lost, and there is a constant *reinventing of the wheel*, or worse, repetition of past errors. This is not any individual's fault – and we're not certainly blaming individual officers we approached who, without exception, were sympathetic and did all they could to help. Rather, the problem is symptomatic of systemic issues – issues that are beyond the brief of this study to consider. We are aware that there are a number of current initiatives directed at strengthening Public Sector performance. The issue of institutional memory is a priority matter. We hope that it is being, or will be, addressed within an appropriate strategic context.

#### **2.2.2 Stakeholder Consultations**

In order to canvas a full range of views from representatives of key stakeholder groups, and to ensure an adequate number of different information sources for corroboration purposes, we consulted a large number of practitioners, stakeholders and other informants at the national-level and in

provinces. These consultations ranged from informal chats to formal, structured interviews, with individual informants or with groups - depending on what was most appropriate to the circumstances and most convenient for informants.

For the formal interviews, questionnaire schedules were designed to serve as a guide. These were adapted for use with different target groups. A summary point form version was used as a checklist during the informal consultations.

See: Attachment (1) Interview Schedule – Sample.

We consulted with a large number of people, including members of most key stakeholder groups.

See: Attachment (2) Listing of People Consulted.

A pro-forma was developed to assist with, and standardize data extraction from the interview schedules. This also served to generate a summary of interview.

See: Attachment (3) Data Extraction Pro-forma.

### **2.3 Outstanding Data Collection**

The data collection for this study is finished. However some specific data sought during the study did not become available in time for consideration in this report - including important data relating to changes in the deployment of public servants.<sup>4</sup> When these data do become available they will complement the data collected during the study, and allow NEFC personnel to extend the analysis done in this paper. The personnel data will also strengthen NEFC's database.

### **2.4 Provincial Visits - Limited but Useful**

For reasons beyond our control, just two provinces were visited for the study: East New Britain (ENB) and Morobe. The data collected has been complemented and supplemented by consultations conducted in Port Moresby with provincial personnel and others with a provincial perspective.

In regard to the provincial visits, ENB and Morobe are commonly considered to be among the best performing provinces - at both the provincial and local levels. If issues and problems are identified in those provinces, and if the causes can be established as being systemic (rather than due to circumstances peculiar to those provinces), then it can be reasonably argued that the same problems and issues are also very likely to exist and, indeed be more significant, in other provinces. Consequently we believe that the ENB and Morobe visits, together with the other

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<sup>4</sup> For reasons beyond our control, we have only recently been able to meet with Department of Personnel Management personnel and begin the process of gathering information on public service personnel changes e.g. regarding overall numbers, and 'location' both in terms of where they are posted and in which sectors.

consultations,<sup>5</sup> provide an adequate (if not perfect) provincial perspective for the study.

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<sup>5</sup> These consultations include National Development Forum (NDF) regional meetings organized by the Consultative Implementation Monitoring Committee (CIMC). A Study Team member attended two of this year's regional meetings.

### **3. BACKGROUND TO THE PROVINCIAL GOVERNMENT REFORMS**

#### **3.1 Decentralized Government in PNG**

Some form of decentralized government has been in place in PNG since soon after Independence was gained in 1975. A provincial government system was established with the passing of the first *Organic Law on Provincial Government (OLPG)* in 1977. In large part, the push for decentralization stemmed from the threatened secession of Bougainville, the location of the rich Panguna gold and copper mine that many considered essential to the economic viability of the new nation of PNG.<sup>6</sup> Several commentators have noted that although the OLPG was shaped by the needs and demands of one province, the system was generalized, and a uniform system of provincial government was established in every province.<sup>7</sup>

#### **3.2 Criticism of the Original Provincial Government System**

Criticism was levelled at the provincial government system almost from the outset. Among others things, this concerned the political competition between national and provincial politicians<sup>8</sup> and what some saw as the excessive interference of provincial governments in the activities and financial affairs of local governments.<sup>9</sup> A Constitutional Reform Commission (CRC) report noted that by the early 1990s there had been many reviews of the provincial government system. The report contended that the system of provincial government established under the 1977 OLPG had “.... failed to serve the majority of our people who live in rural areas”.<sup>10</sup>

#### **3.3 Development of the Provincial Government Reforms**

In 1992 the National Parliament established a Bi-partisan Committee to review the system of provincial government. It conducted nation-wide consultation and in its report to Parliament recommended significant changes to the system.<sup>11</sup> The report noted that, among other things, the system had created political competition among leaders – again referring to the competition between provincial and national politicians.

The CRC was established by Parliament in November 1993 to implement the changes proposed by the Bi-partisan Committee. The CRC conducted nation-wide

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<sup>6</sup> The general background and the key events following Independence and leading up to the passing of the OLPG are well summarized in the first Chapter of “The Law, Politics and Administration of Decentralization in Papua New Guinea”, Ghai Y.P. and A.J. Regan, Monograph 30, National Research Institute, 1992.

<sup>7</sup> See for example: (a) op. cit. Ghai and Regan (1992); and (b) “Governance in Papua New Guinea: Approaches to Institutional Reform”, W. Andrew Axline, July 1993, INA Discussion Paper 58, page 93.

<sup>8</sup> See op. cit. Axline (1993), pp. 77 – 78.

<sup>9</sup> See: “A Report on the Provincial Government Reforms: Issues and Challenges” Short-term Technical Assistance to the Department of Provincial and Local Government Affairs, Port Moresby, December 1997.

<sup>10</sup> “Why the Reforms?” Constitutional Reform Commission, 1995, page 2. See also op. cit. Axline (1993), pp. 3 – 18, for a listing of the numerous reviews conducted into the provincial government system.

<sup>11</sup> See: “Report of the Bi-Partisan Select Committee on Provincial Government” PNG National Parliament, March 1993.

consultation and - through the use of consultants – developed the new OLPGLLG that was subsequently passed by the National Parliament and certified on July 19, 1995.

### **3.4 Installation of the New System**

The new Organic Law's enactment marked the beginning of a designated interim period. Some elements of the new Law were implemented on a temporary basis (e.g. interim provincial governments were established, under OLPGLLG Section 123), and some of the new arrangements were put in place (e.g. key elements of the new funding arrangements were first applied in the 1996 national budget). At the same time various structures and systems were established, including a new system of local-level government (LLG). The interim period ended with the completion of LLG elections in October 1997, which marked the start-proper of the new system.

Because of their unique situations, Bougainville and the National Capital District (NCD) were exempted from application of the OLPGLLG.<sup>12</sup> Bougainville has since been brought in under the Reforms, which will apply until the autonomous government is installed. The NCD continues to operate under a different set of administrative and legal arrangements outside the application of the OLPGLLG.

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<sup>12</sup> The exemptions were provided for through amendments to the OLPGLLG passed in February 1997; these were Amendment Law No. 4 (operational from June 1997) and Amendment Law No. 5 (operational from January 1998).

## **4. INTENT OF THE REFORMS: AN OUTLINE**

### **4.1 Introduction: We Can't be Sure of Precise Intent**

As noted in the Introduction, we had some difficulty coming to a definitive understanding of precisely what the intentions of the Reforms were at the time the first elements were implemented as part of the 1996 budget. The broad thrust is clear enough from the Bi-Partisan Committee and CRC Reports, and the major elements are outlined in the OLPGLLG. There are also several other documents – mostly produced after the first implementation – that consider the Reforms' goals in a general way and describe structures and system elements.<sup>13</sup> However there is scant detail and, as a result, significant 'grey areas' in relation to –

- ? the specific desired outcomes (e.g. in relation to the distribution of responsibilities between different levels of government and administration);
- ? how the various structural and other system elements were intended to interact – strategically and operationally - to achieve the Reform goals; and
- ? the approach and timing of implementation, and specific milestones.

We've not found significant discussion of these matters in any of the documents produced at the time. A number of people we consulted suggest that implementation was done in something of a rush and caught many national agencies and provinces unprepared.

In fact, there is some evidence that the entire design and development process was somewhat rushed. Others have noted that in many instances it's not clear what the intentions of the architects of the Reforms were,<sup>14</sup> and that the work of the CRC, on which the formulation of the OLPGLLG was based, was not the subject of a public report.<sup>15</sup> There is also some issue as to how closely the CRC's formulation of the OLPGLLG followed the recommendations of the Bi-Partisan Committee.<sup>16</sup>

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<sup>13</sup> For example, various brochures produced in 1996 by the National Information Service of the Department of Prime Minister and NEC, such as "Summary of the Institutional Structure of the Administrative System of Provincial Governments and Local Level Governments", "Summary of the Provincial Treasury", & "Constitutional Supervision, Control and Accountability".

<sup>14</sup> See: (a) "Background Paper on Provincial Financial Management & Accountability Systems - Draft" a report prepared for the NEFC RIGFA, 2002, which at page 3 notes that there are several amendments to the OLPGLLG required but that these are subject to debate because the actual intention is unclear. (b) op. cit. "A Report on the Provincial Government Reforms: Issues and Challenges" (1997) which at page 4, notes the lack of definitive purpose statements.

<sup>15</sup> op. cit. "A Report on the Provincial Government Reforms: Issues and Challenges" (1997), page 4.

<sup>16</sup> This issue, and the nature of the CRC outputs in general were raised a number of times in our consultations with people involved and observers at the time. In addition, in his presentation at the NEFC seminar held in Port Moresby in November 2002, the acting Deputy Secretary of the Department of Provincial and Local Government Affairs, said that the CRC appeared to have changed the Committee's recommendation without providing documented justification. This, he said, had led to 'gaps' in the paper trail and in understanding. He also said that some of the OLPGLLG appeared to be the result of "last minute crisis management".

The body established to co-ordinate the reform process is the National Monitoring Authority (NMA).<sup>17</sup> A NMA draft Handbook notes the existence of “inconsistencies”<sup>18</sup> in the OLPGLLG and that when the Law came into effect in 1995 “..... *there were some imperfections and even contradictions within the Law itself*”.<sup>19</sup> The Handbook notes that there had been several amendments to the Law and that more were expected. In fact by January 1998 there had been seven sets of amendments,<sup>20</sup> and more are required.

Returning to implementation, we’ve found no evidence of any implementation planning done before the first implementation of the Reforms. It appears that it was not until after the first transfer of responsibilities took place as part of the 1996 national budget did the need for proper strategic and implementation planning become recognized. As discussed later, this was probably in response to the problems that arose with the first set of transfers. During 1996 the NMA and others did outline a more strategic approach to implementation though, for reasons discussed in the next chapter, this has never been applied.

Given the above, we can’t - and don’t - claim to understand the precise intentions of the architects of the Reforms, or of those initially charged with implementation, at the time the Organic Law was passed or when the Reforms were first implemented. What we’ve sought to do is lay out what we do know about the aims and main design elements in order that this can serve as a frame of reference for discussion and analysis.

#### **4.2 Aims of the Provincial Government Reforms**

According to the NMA draft Handbook,<sup>21</sup> the perceived problems that the Reforms sought to address related to –

- Goods and services not reaching the people, particularly in rural areas.
- Government services concentrated in provincial centres, forcing people to travel too far.
- Politicians and public servants based in capitals and isolated from rural populations.
- Weak community and local-level government decision-making power.
- Misuse and uneven distribution of public funds.

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<sup>17</sup> Established under OLPGLLG Section (110), the Authority is formally called the Provincial and Local-level Service Monitoring Authority.

<sup>18</sup> “Handbook on the Roles & Responsibilities of Different Levels of Government under the Reforms: Volume 1, Understanding & Managing the New Roles & Responsibilities” National Monitoring Authority, March 1998, Corrigendum.

<sup>19</sup> *ibid.* pp. 1-2.

<sup>20</sup> See “Organic Law on Provincial Government and Local Level Government” (as amended January 1998).

<sup>21</sup> Summarized from *op. cit.* NMA draft Handbook, Volume 1, (1998), page 2.

The draft Handbook notes the stated aims<sup>22</sup> of the Reforms as being to -

- Improve the delivery of services, particularly in rural areas.
- Decrease the number of elected politicians.
- Increase participation in government at the community and local levels.
- Decentralize powers and responsibilities to local levels.
- Increase funding to local governments.
- Relocate public servants from urban centres to districts and outstations.
- Reduce misuse and mismanagement of funds.

### **4.3 Policy-Making & Political Structure**

#### **4.3.1 Elections at Two Levels**

Previously elections were held at three levels of government. To reduce the number of elected politicians, separate elections for provincial governments were done away with and there are now two levels of elected politician:<sup>23</sup>

? at national-level, for 89 open electorate members, and 20 provincial members<sup>24</sup> representing the 20 provincial electorates (i.e. one from each of the 19 provinces and one from NCD); and

? LLG councillors elected from wards.

#### **4.3.2 Formation of Provincial & Local-level Governments**

The elected members of provincial governments are the province's national Members of Parliament (MPs) and the heads of LLGs. The elected Member representing the provincial electorate becomes the Governor - unless that Member assumes another office in the National Parliament.<sup>25</sup> The Governor chairs the Provincial Assembly. The Assembly is made up of national MPs from the province, LLG heads, a representative of urban LLGs in the province and specified community representatives.<sup>26</sup> The local government and community representation in the Assembly was probably seen as a way of increasing their participation in government.

Some boundaries were redrawn to make district and local-level area boundaries coincide with the open electorate boundaries. There are to be no more than three rural LLGs and one urban LLG in each electorate, except

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<sup>22</sup> Ibid, page 2. In fact, these are really more a mixture of objectives and strategies, but we have used the Handbook's terminology for consistency and ease of reference.

<sup>23</sup> Op. cit. CRC Report (1995). The CRC noted that the cost of maintaining the provincial government system was some K17.5 M/year – which, from the context, we've taken to refer to the cost of provincial politicians salaries and allowances. The CRC report notes savings that would result from removal. There are no estimates of any additional costs of the new system. Page 9.

<sup>24</sup> Known under the previous system as the 'Regional Members'.

<sup>25</sup> See OLPGLLG Section (19).

<sup>26</sup> See OLPGLLG Section 10 (3). The 'community representatives' may include paramount chiefs from a province (where the chieftaincy system exists and is accepted), one women representative, and up to three other members the Assembly may appoint, from time to time.

where special circumstances can be demonstrated and National Executive Council (NEC) authorizes additional LLGs.<sup>27</sup> Each LLG is made up of wards. In 1997, 284 LLGs (260 rural and 24 urban) were officially proclaimed and there were 5,747 wards.<sup>28</sup> Additional LLGs have since been proclaimed and, as of mid-2002, there were 296 LLGs (270 rural and 26 urban), and 5,873 wards. The number of wards varies a great deal from LLG to LLG depending on area and population, and ranges from as few as four to as many as 40.

Each ward elects a councillor to represent it on the LLG Assembly. The LLG Assembly is comprised of each ward councillor and prescribed community representatives. In most provinces the Assembly elects one of their number as the head, who then becomes the LLG's member in the Provincial Assembly. The exception is Manus Province where LLG Presidents are directly elected.

Provincial governments no longer have ministries as such. The work of the Assembly is done through committees, each of which has a specific task or area of focus.<sup>29</sup> The number and work of committees established in different provinces varies from province to province, though typically provincial governments have committees on finance, law and order, health and education.<sup>30</sup>

The executive arm of the provincial government is the Provincial Executive Council (PEC), which is made up of the Governor, Deputy Governor and the chairperson of each of the Assembly permanent committees.

#### **4.3.3 Four-Tier Decision-Making Hierarchy**

One of the Assembly Committees that is common to all provincial governments is the Joint Provincial Planning and Budget Priorities Committee (JPPBPC) established under the new Organic Law.<sup>31</sup> Its role is to co-ordinate the overall planning process in the province and approve budgets.

A similar committee is established at district-level:<sup>32</sup> the Joint District Planning and Budget Priority Committee (JDPBPC). The MP for the Open electorate chairs the JDPBPC, and membership includes LLG heads from the district/electorate, and up to three members appointed by the Open MP, in consultation with LLG heads. The JDPBPC oversees planning and controls budget allocation priorities for the district. In this sense it has a significant decision-making role and we've included in this section for that reason. In

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<sup>27</sup> OLPGLL Section (26).

<sup>28</sup> Most of the LLGs were based on the local governments that existed previously. Of the 313 community-level governments under the previous system, 191 were reconstituted and others were merged. Just 21 entirely new LLGs were constituted. Source: Finance Instruction 2/97, Department of Finance, PNG, October 16, 1997.

<sup>29</sup> See OLPGLL Sections (16A) and (25).

<sup>30</sup> Op. cit. NMA draft Handbook, Volume 1, (1998), page 9.

<sup>31</sup> OLPGLL Section (25)(2).

<sup>32</sup> OLPGLL Section (33A).

effect, it changes the district-level from what would otherwise be an administrative-level to an additional (and fourth) political-level.<sup>33</sup>

#### **4.4 Service-Delivery**

##### **4.4.1 Provincial & Local-level Administrative System**

The Reforms established a new provincial and local-level administrative system consisting of administrative institutions<sup>34</sup> and staff.<sup>35</sup>

Each province, and each district within each province, has its own administrative headquarters.<sup>36</sup> In each province, a Provincial Administrator heads the Provincial Administration, and is the Chief Executive Officer (CEO) of the Provincial Government and the administrative head of the staff in the province. Among other things, the Provincial Administrator's duties are:<sup>37</sup>

- ? as CEO, to co-ordinate policy formulation, planning and implementation; and,
- ? as administrative head, to supervise and direct all staff assigned or otherwise employed, in accordance with the *Public Services (Management) Act 1995*.<sup>38</sup>

District Administrator positions are also established.<sup>39</sup> The District Administrator follows the policy directives of the provincial government and reports to the Provincial Administrator. Duties are similar to those of the Provincial Administrator and include, to:

- ? act as the administrative head of staff in the district;
- ? oversee development and implementation of district plans/budgets; and
- ? support LLGs in the district.

The unified, single public service is retained, but there are changes to the public service structure. There are three categories of public service personnel<sup>40</sup> -

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<sup>33</sup> It is not clear to us whether this was the original intention of the CRC or something that came about as an unintended consequence of some other change. Indeed it might be suggested that the fact that the OLPGLLG section under which the JDPBPC is established is (33A) indicates something of 're-think' may have taken place late in the process.

<sup>34</sup> OLPGLLG Section (72)(1) establishes this, and S (72)(2) specifies its constituent parts.

<sup>35</sup> See OLPGLLG Section (75) and Section (72)(2)(a).

<sup>36</sup> See OLPGLLG Section (72)(3).

<sup>37</sup> The duties are more fully listed in the NMA draft Handbook, Volume 1, page 10, based on the specification contained in the OLPGLLG, sections (73) and (74).

<sup>38</sup> The Provincial Administrator is deemed Departmental Head for the purposes of the Public Services (Management) Act. See Special General Order 7A, July 19, 1996, Department of Personnel Management.

<sup>39</sup> See OLPGLLG Section (73) establishes these positions and Section (74) lays out the functions and responsibilities.

<sup>40</sup> See OLPGLLG Sections (75) & (76) for description of staffing arrangements, and Section (79) for general duties.

- Assigned staff (i.e. officers whose functions have been identified for transfer, or national department officers who perform certain tasks within the province and district, or public servants who were in the province before the OLPGLLG).
- Transferred staff (i.e. have won their positions, or are transferred on the same level to a different location).
- Delegated staff (i.e. national department staff relocated to perform a function delegated to a province or district).

In addition, the Provincial Administrator may engage other persons.<sup>41</sup>

In line with the stated aims of improving service delivery to rural areas and relocating staff closer to rural people, the Reforms call for the transfer of personnel from the national and provincial levels, to the district and LLG levels, such that eventually the majority of public servants should be stationed within districts. A Department of Personnel Management (DPM) Special General Order issued in mid-1996 noted that no new positions could be created at provincial headquarter level (except for new/transferred functions), and required that the ratio of district staff to provincial headquarters staff be increased.<sup>42</sup>

#### **4.4.2 Contracting-out Service Delivery**

A key initiative of the Reforms – consistent with the *Medium Term Development Strategy*<sup>43</sup> - is the ‘contracting out’ of more services to reliable and effective partner organizations, such as churches, non-government organizations (NGO), community, youth and women’s groups. This was seen as a way to both improve the quality of service delivery and reduce the public service salary bill.

The approach appears to be premised on the understanding that although governments at every level are responsible for ensuring that services are provided, not all services need be - or are best - provided by government. Under the Reforms, governments are required to make proper assessment of who is best able to provide any particular service in their area. Provincial governments, districts and LLGs are also given greater flexibility to engage the services of non-governmental partners.<sup>44</sup>

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<sup>41</sup> See OLPGLLG Section (78).

<sup>42</sup> See Department of Personnel Management, Special General Order 7A, July 1996, page 3. Also discussed in the NMA draft Handbook, Volume 2, (1998) pp. 49-52.

<sup>43</sup> “Medium Term Development Strategy: 1997 – 2002” National Planning Office, Government of Papua New Guinea, 1996.

<sup>44</sup> This is discussed in the NMA draft Handbook, Volume 1, (1998). Chapter 8 lays out the steps in promoting ‘partnerships’ with community organizations and establishing contracts for service delivery.

## **4.5 National-level Agencies Support**

Under the Reforms the role of national line agencies is focused on policy development and providing advisory and institutional strengthening support to provinces. A number of central agencies were seen as having particular roles in the initial implementation of the Reforms, as well as in supporting on-going operation in provinces. These included the Departments of Finance, Personnel Management, Provincial and Local Government Affairs, and Attorney General.<sup>45</sup>

The Reforms also call for the establishment of new institutions, and the modification and extension of some existing national-level organizations in support of the Reforms.

### **4.5.1 Co-ordination**

As noted earlier, overall responsibility for the co-ordination of the implementation and monitoring of the Reforms is vested in the National Monitoring Authority (NMA). The NMA is established under the Organic Law,<sup>46</sup> within the Department of Provincial and Local Government Affairs (DPLGA). Membership is drawn from the public sector and civil society.<sup>47</sup> The key central agencies are represented. The NMA chair is the Secretary, DPLGA<sup>48</sup> and the Department provides the NMA Secretariat. The Organic Law<sup>49</sup> notes that an Act of the National Parliament may make provisions for the NMA. No such Act has yet been enacted.

### **4.5.2 Accountability & Performance Monitoring**

A stated aim of the Reforms is greater accountability and better control of funds. In line with this aim, the Reforms call for the establishment of Provincial and District Treasuries, Provincial Audit Units and Provincial Inspectorates. The last having a broader monitoring role as well.

- A Provincial and District Treasury is established in each province under the Organic Law<sup>50</sup> and the *Public Finances (Management) Act 1995*, as an extended service of the Department of Finance. The Finance Secretary appoints and oversees the Treasurer, whose role is to ensure that public monies are managed and released according to the law. This was thought to provide some independence from politicians.<sup>51</sup>

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<sup>45</sup> The names of various national departments change from time to time. Nonetheless, their identity should be clear enough.

<sup>46</sup> OLPGLLG Section (110). Membership is described in OLPGLLG Section (110)(2) & functions in S (110)(4). Re. functions see also NMA Handbook, Volume 1, (1998), pp. 6 & 7.

<sup>47</sup> As per OLPGLLG Section (110), a representative of the Chairman of the Teaching Services Commission, Director of the National Training Council, and up to three non-public servants appointed by the NEC.

<sup>48</sup> As we understand it the Department is still called the Department of Provincial and Local Government Affairs, although the Ministry's name was changed to Inter-government Relations when the Somare-Marat Government took office after the National Elections in 2002.

<sup>49</sup> OLPGLLG Section (110)(5).

<sup>50</sup> OLPGLLG Section (112).

<sup>51</sup> Noted in NMA draft Handbook, Volume 1, (1998), page 47.

- The Organic Law<sup>52</sup> calls on the Auditor-General to establish a Provincial Audit service in each province, in accordance with the *Audit Act 1989*. The head of the Service in each province is the Provincial Auditor who is appointed by the Auditor-General. The Provincial Audit service is to maintain an effective and efficient audit service within the province. Among other things, it is to annually audit the accounts of the provincial government and all LLGs in the province.
- As per the Organic Law, the NMA is to establish an Inspectorate in each province to monitor the (financial and other) performance of provincial and district administrations.<sup>53</sup> The main function of the Inspectorate is to determine how well provincial and district administrations are performing.

#### **4.5.3 Administration & Planning**

- The Organic Law<sup>54</sup> calls for the Public Services Commission to establish and administer a Provincial and Local-level Administrative Appeal System as a further administrative control mechanism. The Law requires that an Act of Parliament prescribe all matters relating to such a System. No such Act has yet been enacted.
- To support planning at provincial and local levels, the Organic Law<sup>55</sup> calls on the Department responsible for planning and the National Statistical Office to establish an extended service in each province. The role of this service is to establish and maintain an effective and efficient provincial and local-level planning and data system. The Law requires that an Act of the National Parliament prescribe details of the system. No such Act has yet been enacted.

#### **4.5.4 Inter-Government Relations**

- Establishment of a NEFC is called for in the Constitution and it is established under the OLPGLLG.<sup>56</sup> Broadly, the NEFC's role is to assess and monitor the economic and fiscal policies of the National Government, provincial governments and LLGs, provide policy advice to the National Government, and make recommendation on financial arrangements and the allocation of grants. In accordance with the Organic Law, the *National Economic and Fiscal Commission Act 1996*, has been enacted.
- The Organic Law calls for the establishment of a Mediation and Arbitration Tribunal to consider disputes between different levels of government, and between governments at the same level. An Act of

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<sup>52</sup> OLPGLLG Section (113).

<sup>53</sup> OLPGLLG Section 110(3).

<sup>54</sup> OLPGLLG Section (111).

<sup>55</sup> OLPGLLG Section (106).

<sup>56</sup> Respectively, The PNG Constitution Section (187)(H) and OLPGLLG Section (117).

Parliament is to make provision for the composition, powers, functions and responsibilities of the Tribunal. No such Act has yet been enacted.

#### **4.6 Assignment of Responsibilities**

##### **4.6.1 Broad Thrust of the Reforms**

Review of a range of documents, together with stakeholder consultations suggest that, at the core, the Reforms are about maintaining National Government law-making and policy powers, and bringing about greater ‘decentralization’ of administrative and implementation responsibilities to lower levels of government and administration.

The OLPGLLG defines the respective legislative powers of the three levels of government. It specifies the law-making powers of provincial governments and LLGs,<sup>57</sup> with any power not specified remaining with the National Government.<sup>58</sup> Provincial and local-level governments can pass legislation in their respective areas, to the extent that such legislation is not inconsistent with national laws.<sup>59</sup> The National Parliament can pass legislation in the areas specified for provincial and local-level governments only if in the national interest and, in most cases, only after consultation with the provincial government or LLG concerned.<sup>60</sup> The new Organic Law does away with the provision for principally provincial legislative competence in some areas that existed under the original 1977 Organic Law.<sup>61</sup>

Some functions of national importance (e.g. defence, foreign affairs) remain with the National Government and are administered at a national-level by the appropriate national department. However, under the Reforms, national departments are not to have an implementation role at the local-level. The programme implementation and service delivery role of provincial and local level governments is to be strengthened and, as noted above, the main role of national departments becomes to formulate policy, monitor performance, and provide advice and institutional strengthening support to provinces.

Provincial governments’ service delivery responsibilities are implemented through provincial administrations. District administrations are part of provincial administrations and have a fundamental role in implementation of provincial responsibilities. They also form the main link to the LLG political structure and are responsible for supporting LLGs in the district and for ensuring implementation of LLG functions – whether directly or through partner organizations.

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<sup>57</sup> OLPGLLG Sections (42) and (44), respectively.

<sup>58</sup> OLPGLLG Section (41)(1).

<sup>59</sup> OLPGLLG (Section (41)(6).

<sup>60</sup> OLPGLLG S(41)(2). The exceptions relate to emergencies and matters of urgent national importance – Section (41)(4). In the latter, the National Minister responsible for provincial and local government matters is to advise the government concerned as soon as practicable of the National Act and the reason for its urgency – Section (41)(5).

<sup>61</sup> It might be argued that as the National Parliament can pass legislation in the provincial government and LLG specified areas, in effect, all provincial and LLG powers might be seen to be “concurrent”.

So, based on our interpretation, to bring about the kind of responsibility distribution desired, the Reforms require responsibility transfers - particularly of operational responsibilities from national departments to provincial and local levels. This is to be accompanied by increased funding through formula-based grants to provinces (the basis of funding is discussed in section 4.7). Coincident with the greater responsibilities and funding for provinces, there is also to be reduced funding to the national agencies from which the functions are transferred.

#### **4.6.2 Responsibility Transfers: Provisions of the OLPGLLG**

The OLPGLLG contains various provisions for the definition of responsibilities at different levels of government and administration.

(a) Law-Making Powers Specified in the Law.

As noted above, the OLPGLLG specifies the law-making powers of the three levels of government. Having specified these in the first instance, any change is difficult and requires the full set of measures coincident with changing any Organic Law. This makes the original specification of particular importance.

In this regard, other commentators have noted that the rationale for providing certain legislative powers to certain levels is not clear. For instance, relating to the need to have local government legislation covering the provision of water and electricity, and what such legislation might cover given national legislation in these areas.<sup>62</sup> During our sectoral consultations we also became aware of potential for legislative overlap and confusion in the areas of forestry and fisheries, both areas in which provincial governments can enact legislation and for which there is national legislation.<sup>63</sup> There is also potential for legislative overlap between provincial governments and LLGs;<sup>64</sup> for instance, in the provincial government area of *community, urban and rural development* [OLPGLLG Section (42)(j)] as compared with the LLG area of *improvement of villages, towns, cities and communities* [OLPGLLG Section (44)(j)].

Proposals to amend the Organic Law to remove areas of duplication in the functions assigned to the local and provincial levels have been

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<sup>62</sup> See: "Provincial Government and Local-level Government Reforms – Strengths and Weaknesses in the Law and its Application", a paper presented by the acting Deputy Secretary of the Department of Provincial and Local Government Affairs at the Second Annual Legal Officers Conference, October, 2002, Port Moresby, pp 1 -2. The paper also queries the need to have provincial governments legislate in the areas of primary, secondary, technical and vocational education when there is adequate national legislation in these areas, or provincial laws on commissions of enquiry and registration of vehicles.

<sup>63</sup> For both areas provincial government can pass laws under the OLPGLLG (Forestry, Section 42(s) and Fisheries, Section 42(s)), and there is national legislation (the National Forestry Act, 1991 and the Fisheries Management Act, 1998)

<sup>64</sup> Op. cit. "Provincial Government and Local-level Government Reforms – Strengths and Weaknesses in the Law and its Application" (2002), page 1, suggests this might lead to confusion in relation to what each level of government should and should not deal with.

considered for some time. We understand that the current Minister for Inter-government Relations is intending to make a range of Organic Law amendments.<sup>65</sup>

(b) Delegation of Powers & Functions

The Organic Law provides for delegation of powers and functions between different levels of government.<sup>66</sup> The National Government may delegate almost<sup>67</sup> any of its legislative or other powers or functions to a provincial government or LLG. Similarly, a provincial government may delegate to the National Government or to a LLG, through a provincial law, and a LLG may delegate its powers and functions to the National Government or a provincial government, through a LLG law.

In practice, not all powers relating to any particular function need be delegated. For instance, legislative power can remain with the National Government, and implementation can be delegated to a provincial or local government. Such arrangements are not permanent and the provision for the exercise of the delegated power can be made temporary or can be withdrawn.

The Organic Law requires that an Act of Parliament make provision for delegation from the National Government to provincial governments and LLGs. This requirement has been met. Section (17) of the *Provincial Government Administration Act* (1997) and Section (39) of the *Local-level Government Administration Act* (1997), make provision for delegation. However in neither case do the Acts provide guidance as to what the delegated functions are, or should be.

(c) Administrative Functions of Provincial & Local-level Governments

The OLPGLLG calls for the principal administrative functions of provincial governments and LLGs to be provided for in Acts of Parliament.<sup>68</sup> These requirements have now been met. Section (16) of the *Provincial Government Administration Act* (1997) lays out the principal administrative functions of provincial governments, and Section (38) of the *Local-level Government Administration Act* (1997), the principal administrative functions of LLGs. In both, the description is at the broadest level only.

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<sup>65</sup> Ibid. page 8.

<sup>66</sup> OLPGLLG S(50).

<sup>67</sup> The exceptions are judicial powers and functions, and matters affecting Section (209) of the Constitution – Parliamentary Responsibility.

<sup>68</sup> OLPGLLG Sections (43) and (45) re. Provincial Governments and LLG, respectively.

(d) National Government Functions in Provinces.

The Provincial Administrator and District Administrators head the extended services of national departments established in provinces and districts to carry out national government functions under the Reforms.<sup>69</sup> The role of each national department with an extended service in a province is to provide policy advice and support (planning, professional services, research, training, capacity-building) to the Provincial Administrators and District Administrators. The Organic Law requires that an Act of Parliament make provision for the details of administrative arrangements, and the respective split of functions and responsibilities between the national agencies and the Provincial and District Administrators.<sup>70</sup> No such Act has yet been passed.

**4.6.3 Bringing About a Desired Distribution of Responsibilities**

There would appear to be various mechanisms available to bring about a particular distribution of responsibilities across various levels of government and administration. The appropriate ‘mix’ of mechanisms used would depend on the outcome desired and on the nature of the ‘transfers’ required to bring that about.

We note that ‘responsibilities’ is an all-embracing term. It is used in a variety of ways that can sometimes lead to confusion. What we mean when we use the term is based on the premise that, in essence, what has to be defined is: who makes decisions, who implements and who pays. That is, responsibility for –

- Formulating policy.
- Operations and implementation.
- Resourcing.

In practice, there are many instances where these responsibilities are ‘split’ between levels; for instance, where legislative and policy power resides with one level of government, and implementation and resourcing with another, or where policy and operations are with one level, and funding is shared.

As discussed above, we lack the information and insights to discuss the precise intention of the Reforms. In chapter 5, we consider the implementation of the Reforms – that is, what mechanisms have been applied in practice and generally how things have been approached. As will be discussed, the approach taken has been a significant factor in shaping stakeholder understandings of the distribution of responsibilities.

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<sup>69</sup> OLPGLLG Section (80).

<sup>70</sup> OLPGLLG Section (80)(3).

## **4.7 New Funding Arrangements**

### **4.7.1 National Grants to Provincial & Local Level Governments**

Of the many changes ushered in with the Reforms, changes to funding arrangements are amongst the most significant. Whereas previously funding for provinces was related to the cost of carrying out transferred and delegated functions, the Reforms *delinked* the level of funding from the cost of functions.

The OLPGLLG lays out the different types of intergovernmental funding transfers introduced, including a number of grants. Some of these grants are formula-based, others relate to personnel costs, and another is based on the value of exports from a province. The key point of difference from the earlier system is that the grants are not related directly to any specific function, or to the cost of carrying out functions. This was considered a fairer and more equitable system of funding than the previous. Under that system, the basis of calculating the Minimum Unconditional Grant (MUG) was the cost of carrying out functions at the time of transfer in the mid-70s.<sup>71</sup> A major criticism was that the arrangements had the effect of entrenching development levels, because those provinces that had higher service levels at the time of transfer, received more thereafter to maintain those services.<sup>72</sup>

Another significant change under the Reforms is that LLGs are to receive direct, 'guaranteed' formula-based funding from the National Government. This is in keeping with other significant changes at the LLG-level – including National Government's direct supervision, and the additional responsibilities of LLGs. The nature and impact of changes at the LLG-level are discussed at greater length later (see: chapter 8).

The OLPGLLG funding formulae specify annual minimum amounts for the grants. The variables are population,<sup>73</sup> land area and, for lowly-populated specified Maritime Provinces, effective sea area.<sup>74</sup> The land and sea area variables in the formulae were presumably to allow for the higher service-delivery costs associated with a population spread over a large area.

The formulae allow various adjustments to be made to -

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<sup>71</sup> See op. cit. Ghai & Regan (1992), Chapter 7, for a discussion of funding arrangements under the previous system, including a description of how these differed for Fully Financially Responsible (FFR) and non-FFR provinces; pp. 240 - 241.

<sup>72</sup> There were also some who considered the original calculations of costs incorrect. Op. cit. Ghai & Regan (1992), page 241.

<sup>73</sup> (a) Op. cit. CRC Report (1993), page 4 - The first section of the report notes the inequity in per capita funding under the previous system, in that Manus province with a population of 33,000 "got millions" while Kimbe district with a 32,000 population "got only thousands", op. cit. CRC Report (1993). (b) Op. cit. Ghai & Regan (1992), page 241, note the wide range of per capita funding for the base amounts under the previous system, ranging from K23.66/person in Eastern Highlands to K86.57/person in Manus province. They argue that, in fact, these figures did not necessarily represent the level of existing provincial services as was intended, but resulted, in part, from allocations in the 1976-77 fiscal year for special development projects. They suggest that the use of an average of costs over a period of years, rather than just one year, would have lessened this anomaly.

<sup>74</sup> As per Schedule (1) OLPGLLG – Maritime Provinces are Manus, New Ireland, East New Britain, West New Britain, Milne Bay and Bougainville. This part of the formula only applies to provinces that have a population of fewer than 100,000 – for which the 'effective sea area' is taken as 25,000 square kilometres.

- The overall amount of a grant, proportionate to the decrease or increase in the Cost of Living Index (CPI) or the Consolidated Revenue Fund (CRF).<sup>75</sup>
- Total funding for a particular provincial government or LLG to support any specific need or contingency as a Conditional Complementary Support Grant.<sup>76</sup>

In addition, the OLPGLLG allows other adjustments to both the overall total funding to provinces when there is a downturn in the economy,<sup>77</sup> or funding for individual provincial and local-level governments when they are overly advantaged or severely disadvantaged by the rigorous application of the formulae.<sup>78</sup>

The major grants and their bases are outlined below. References to the relevant Sections and schedules of the OLPGLLG are also noted.

#### Administration Support Grants

There are two Administration Support Grants.

- Provincial and Local Level Administration Grant.<sup>79</sup> Determination of the minimum annual amount of the Grant is formula-based and a function of a province's population (K15/head) and land area (K20/square kilometre) and, if applicable, sea area (K20/square kilometre). The Grant is only to be applied to the cost of provincial and district administration (excluding staff salaries).
- Provincial and Local Level Staffing Grant. Intended to meet actual staff costs, including those of teachers.

#### Development Grants

The Organic Law specifies various types of Development Grants.

- Provincial Infrastructure Development Grant.<sup>80</sup> Minimum annual amount is formula-based, and a function of a province's population (K20/head) and land area (K20/square kilometre) and, if applicable,

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<sup>75</sup> As per OLPGLLG Schedule 1.1 and 1.7, the figures for cost of living and consolidated revenue used are for two years before the year of the grant - this necessary because these would be the most recent figures available. The OLPGLLG does not state which of the two adjusters is to be used, but notes that this should be done only after consultation with the NEFC.

<sup>76</sup> As per OLPGLLG Section (95), in considering the amount of the grant various factors must be considered including development status and physical infrastructure, total funding and internal revenues of the recipient government. The NEFC shall determine the amount of the grant, in consultation with Department of Finance.

<sup>77</sup> OLPGLLG Schedule 1.2 allows the NEC in consultation with the NEFC, to determine the adjustments to the level of overall funding for provincial governments and LLGs when there is a serious downturn in the national economy.

<sup>78</sup> OLPGLLG, Section 96 describes the Equitable Factor that allows for an adjustment to be made to the funding of a particular provincial or a local-level government.

<sup>79</sup> OLPGLLG Section (95) and Schedule 2.

<sup>80</sup> OLPGLLG Section (93) (1) and Schedule (3).

sea area (K20/square kilometre). Half the Grant is to be applied to social services and administrative infrastructure, and the other half to land and other physical infrastructure.

- Local Level Government Grants -
  - ⇒ Town and Urban Service Grant. Minimum annual amount is formula-based,<sup>81</sup> and a function of an urban area's total population (K20/head). The grant is to be paid directly to the urban LLG by the Provincial and District Treasury. Half the Grant is to be applied to social services infrastructure development and the other half to improvement of general city services.
  - ⇒ Local-Level Government and Village Service Grants.<sup>82</sup> Minimum annual amount is formula-based,<sup>83</sup> and a function of a province's total population (K20/head) and land area (K20/square kilometre) and, if applicable, sea area (K20/square kilometre). The Grants are to be paid directly to LLGs by the Provincial and District Treasury. Half the Grant is to be applied to development of village and social services, and the other half to land and other physical infrastructure.
- District Support Grant<sup>84</sup> and Provincial Support Grant.<sup>85</sup> These are paid for each Open Electorate and each Provincial Electorate, respectively. They are not formula-based, but a minimum amount is specified for each grant. Each grant is to be paid in two parts -
  - ⇒ For the District Support Grant, half to the JDPBPC for the funding of the rural action programme and the urban rehabilitation programme, and half to the Open Member.
  - ⇒ For the Provincial Support Grant, half to the JPPBPC and half to the Open Member.

### Economic Grants

- Derivation Grant.<sup>86</sup> This is payable at a rate of up to 5% of the value of exports from a province (calculated at the Free on Board

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<sup>81</sup> OLPGLLG Section (94) and Schedule (4). The OLPGLLG does not actually categorize this grant under 'Development Grants' but we present it here for convenience.

<sup>82</sup> OLPGLLG Section (93) and Schedule (5).

<sup>83</sup> The formula variable is total provincial population. This gives the total grant for the entire province. Presumably in practice the total grant is intended to be apportioned to individual rural LLGs in the province according to LLG population. One point we're not clear about is that with a separate Town and Urban Grant based on applicable urban population, it would appear that the urban population is counted twice.

<sup>84</sup> OLPGLLG Section (95A).

<sup>85</sup> OLPGLLG Section (95B).

<sup>86</sup> OLPGLLG Section (97) and Schedule 6. The Schedule also explains how 'value-adding' in different provinces is handled through apportionment of export value.

price and excluding products for which royalties or development levies are paid). A derivation grant was also paid under the previous system, though at a fixed rate of 1.25%. The grant is to be used by provinces for the promotion of the primary and secondary industry exports.

- Special Support Grants.<sup>87</sup> These are to be paid as provided for in existing natural resource development agreements.

It was expected that under these new arrangements, funding for provincial governments and LLGs would increase significantly - both in absolute terms<sup>88</sup> and as a proportion of total national revenues.<sup>89</sup> The new arrangements also provided provinces – provincial governments and LLGs - greater decision-making power over the use of grant funds, although at the same time strengthening accountability provisions.

The formulae were intended to provide provinces with certainty in terms of their annual allocations allowing them to plan with confidence knowing the level of funding they would receive each year.

The way these funding arrangements have been applied in practice is discussed in chapter 6.

#### **4.7.2 Other Revenue Sources**

Under the Reforms, a provincial government or LLG can impose taxes as provided for in the OLPGLLG, or under delegation from the National Government.<sup>90</sup>

Provincial governments may pass provincial laws to impose taxes and fees in a range of exclusive areas and, until recently, one concurrent area - that is, sales and services tax.<sup>91</sup> After the Reforms were introduced, the National Government passed the *Value Added Tax Act* (1998) to streamline and standardize the indirect tax system throughout the country.<sup>92</sup> This was based on the premise that sales and services tax was a concurrent area. Under the Value Added Tax (VAT) arrangements, provinces were no longer to collect retail sales tax. Instead they were to receive a proportion of the VAT

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<sup>87</sup> OLPGLLG Section (97)(1b).

<sup>88</sup> The CRC Report (1995) notes this point at page 6 of the Brief. Later it compares 1994 funding levels for provinces (under the old system) with funding for 1996 under the new system and concludes that there would be an increase of K116 M. See also "1996 National Budget – Volume 1 Economic and Development Policies", Section 3.2 The 1996 Budget Strategy, which makes frequent reference to the additional resources to be available to provinces.

<sup>89</sup> CRC (1995), at Brief, page 9, using 1994 figures, estimates that under the new system provinces would have received 27% of the total budget (or 38% of the CRF), as compared with 20% (or 25% of the CRF) under the old system.

<sup>90</sup> OLPGLLG Section (83).

<sup>91</sup> OLPGLLG Section (95) & (96) - a provincial government can impose taxes and fees for the following: sales and service tax, liquor licensing, gambling, developed property tax, motor vehicle registration, provincial road users tax.

<sup>92</sup> The 'Value Added Tax' replaced not only provinces' retail sales taxes, but also a range of Nationally imposed import duties. As the name implies, the tax due is based on the 'value-added' component at each point in production/supply chain, not on the price at the final point of sale.

collected. Late last year the Supreme Court ruled that, as things stood, the National Government was not constitutionally entitled to collect VAT. An interim arrangement was put in place to allow ongoing collection while options were considered.

A LLG is also able to impose a range of taxes and fees.<sup>93</sup> Acts of the National Parliament are to provide for the manner and details of collection, and arrangements between governments. These Acts have yet to be enacted.

Provincial and LLGs can also raise revenue through court fees and fines,<sup>94</sup> and impose other taxes and charges, subject to approval from the Internal Revenue Commission.<sup>95</sup>

Provinces can also receive benefits as a result of natural resources development in the province.<sup>96</sup> Natural resources include minerals, gas and petroleum, and renewable resources. For the so-called 'resource-rich' provinces, revenues from mining and petroleum royalties, and 'in-kind' benefits through the Tax Credit Scheme, can actually be more than grant revenue from the National Government. As per the Organic Law, an Act of Parliament is to make provision for the rates, management, sharing arrangement and application of the development levies.<sup>97</sup> This has yet to be enacted.

Lastly, Provincial and LLGs are able to borrow funds and give loan guarantees - subject to the provisions of *Public Finances (Management) Act 1995*.<sup>98</sup>

Some provinces are almost entirely dependent on the National Government grants whereas others receive a great deal more through internal revenue. The scale of the various other revenue sources for different provinces, and the impact on provincial funding is discussed in chapter 6.

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<sup>93</sup> See OLPGLL S(87). A LLG has the power to impose taxes and fees for: community services; public entertainment; general trading licences; domestic animal licence; and, corporation and personal head tax. A LLG can also receive delegation from the National government or its provincial government to impose other taxes and fees.

<sup>94</sup> OLPGLL Section (88) re. court fees and fines under provincial or local-level legislation.

<sup>95</sup> OLPGLL Section (89) re. other taxes and charges.

<sup>96</sup> OLPGLL Section (98). This Section defines 'development levies' that are to be paid by the developer to the provincial government and LLG of the area in which a development is situated, as: infrastructure development levies; economic development and land use follow-up levies; community and social development levies; and others, determined by national law or agreement.

<sup>97</sup> OLPGLL Section (98)(2).

<sup>98</sup> OLPGLL S(101).

## **5. DECENTRALIZATION & THE REFORMS IN PRACTICE**

### **5.1 Introduction**

#### **5.1.1 Framework for Responsibility Assignment**

In section 4.6 we described a number of mechanisms available under the Reforms that could be used to bring about a particular distribution of responsibilities across the various levels of government and administration. We noted that the appropriate mix of mechanisms used would depend on the distribution outcome desired.

In summary, these are as follows –

- Legislative and policy-making powers are assigned by defining in the OLPGLLG, the matters on which provincial and local government can make laws - whatever is not specified remains with National Government. Amendments to an Organic Law are difficult and so the initial specification is important. The rationale for some elements of the legislative powers provided for in the OLPGLLG is not clear and there appears to be potential for legislative overlap (section 4.6.2a).
- Legislative powers and other powers and functions can be ‘transferred’ between different levels of government through a full, restricted or temporary delegation from one government to another. The OLPGLLG requires that such delegations be provided for in Acts of Parliament. These provisions have been complied with but provide little guidance as to what the delegated powers are, or should be (section 4.6.2b).
- The OLPGLLG also requires that the principal administrative functions of provincial and local-level government be defined in Acts of Parliament. This provision has also been met but the description of the functions provides only general guidance (section 4.6.2c).
- For national functions details of the administrative arrangements and distribution between levels is to be specified in an Act of the Parliament. No such Act has yet been enacted (section 4.6.2d).

In addition to the specific provisions of the OLPGLLG, administrative and operational responsibilities can be delegated or transferred at an administration level - that is, without transfer of legislative or policy power. Funding responsibility need not be – and often is not - coincident with policy powers or operational responsibilities.

### **5.1.2 The Practice**

In fact, in practice most transfers to date have been at an administrative level and haven't required legislative change. Nor, for the most part, have they required Ministerial delegations of policy powers.<sup>99</sup> Some provincial governments have expressed concern about the on-going absence of the Act required in relation to the transfer of national functions to provinces.<sup>100</sup>

Although the transfers have been mainly at an administrative level, and might therefore have been expected to be relatively straight forward, it's fair to say that the transfers have not been easy and are not universally understood.

### **5.2 The First Transfers under the Reforms - 1996 National Budget**

After the OLPGLLG was passed in July 1995, there appears to have been limited discussion regarding functions to be transferred. In late 1995, the Department of Finance (DoF) called a meeting with senior bureaucrats from provinces where a listing of possible programmes and activities to be transferred from national agencies to provinces was presented.<sup>101</sup> We don't know how the listing was generated, or whether there was input from the national agencies concerned, or from provinces prior to the meeting. We were also told of a later meeting with the Governors of the Interim Provincial Governments.<sup>102</sup> These meetings appear to have been more about informing provinces than seeking input.

In relation to identification of functions for transfer, in a DPM Circular Instruction issued in December 1995, national departments were instructed to review their mission statements and functions, and identify which functions should be retained, which could be transferred or delegated, and which could be abolished.<sup>103</sup> However, given the advanced stage of the budget cycle at the time the Instruction was issued it is most unlikely that this exercise could have produced anything in time for the 1996 budget.

Some transfers were put through as part of the 1996 National Budget.<sup>104</sup> The Budget document notes that a number of previously nationally-funded recurrent and development programs were to be taken over by provinces and that “... *the extent such programs continue to exist in the future they will now be funded out of*

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<sup>99</sup> There have been a few Ministerial delegations as part of Reforms transfers. For instance, part of the package of Lands responsibilities transferred to provinces includes delegations done under the *Ministers' (Delegation) Act (Chapter 35)*. These delegations from the Minister for Lands under sections of the *Lands Act 1996* are specified in a Schedule. They go together with a range of administrative delegations from the Department.

<sup>100</sup> See: “Partnership in Development: Trust and Good Governance” Hosea Turburat, Provincial Administrator, East New Britain Province, a paper presented at New Guinea Islands Regional Development Forum, Kokopo, April, 1999.

<sup>101</sup> “1996 Financial Year Proposed Functions/Activities/Projects to be taken over by Provincial Government”, Department of Finance, October 20, 1995. Distributed at meeting between Department of Finance personnel and Provincial Administrators, Vulupindi Haus, 1995. Although dated October we are not certain when the meeting was actually held – some people we've spoken with suggest it was actually later than this, in late November.

<sup>102</sup> The interim arrangements were in place from when the OLPGLLG was passed.

<sup>103</sup> Noted in op. cit. NMA draft Handbook, Volume 1, (1998) page 34.

<sup>104</sup> The programmes transferred included: church health programs, free education subsidies, urban and village service grants, environmental monitoring, agricultural extension, land planning, local road maintenance, vocational education, local health services, village courts and local policing. See: “Economic & Development Policies, National Budget – 1996 Volume 1”, GoPNG, page 38.

*additional resources now available to the provinces.*”<sup>105</sup> The functions and programs were ‘de-funded’ in relevant national agency budget allocations for that year.<sup>106</sup>

Most of the ‘transferred’ functions were not adequately funded in 1996 provincial budgets. From what we’ve been told, there may have been various reasons for this -

- Some provinces were still not aware of the ‘transfer’, or were unable to recast their budgets in time.
- Other provinces may have simply not wanted to fund functions that they saw as national responsibilities – as they had up to that time been.
- Some provinces did not yet fully appreciate that the transferred functions were to be funded from the grants paid to provincial governments under the new funding arrangements, and were waiting on additional funding from the National Government to accompany the functions transferred (as noted in section 4.7.1, under the previous funding arrangements there was a link between functions and funding).
- All provinces received the transferred functions at the same time. Some provincial governments may have felt that they were not able to effectively take-over the functions, particularly given such little preparation and assistance.

### **5.3 Inadequate Feasibility Assessment**

It appears there was little done to assess the capacity of the recipient provinces, or the overall feasibility of all the provinces taking-on the additional functions all at once from the start of 1996.

For instance, although in aggregate terms provinces did receive more funding in 1996 than in 1995, there was no assessment of the situation of individual provinces. Given the changes, comparatively, some provinces would have done less well than others under the new funding arrangements. Given that the cost of carrying out functions was not the basis of funding, it could not be assumed that all provinces would have sufficient funding to carry out all their existing and the transferred functions - even assuming they knew they were to, and had the personnel and other resources and systems in place.<sup>107</sup> (The critical issue of capacity is discussed at greater length in chapter 7 below.)

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<sup>105</sup> *Ibid.* page 38.

<sup>106</sup> For instance, for National Broadcasting Corporation, salaries continued to be paid from Waigani but operational expenses were to be met by provinces. The NBC HQ 1996 budget appropriation was slashed by K4.5 M from 1995 (although ‘Actual’ payments were just K2.8 M less).

<sup>107</sup> *op. cit.* NMA draft Handbook, Volume 1, (1998), Corrigendum, appears to acknowledge the lack of such capacity assessment when it notes that it “.. *does not pretend that the available grants are sufficient to fund all the functions to be assumed by the lower levels of government*”. Although in this instance, it was referring to later transfers.

The impact on some functions was particularly severe with funding ceasing and, in many cases, services at the local-level effectively ending overnight.<sup>108</sup> Several informants commented on the poor preparation and on how everything seemed to be rushed. Various documents produced soon after the transfers reinforce this sentiment. For instance, the NMA draft Handbook notes that the transfer led to “*confusion at all levels*”.<sup>109</sup> A report prepared for the DPLGA in late 1997 notes that the wide-ranging changes led to misunderstandings over the purposes of the new grants, delays in disbursement and a general confusion.<sup>110</sup> The report contends that “*.....the uncoordinated way in which the decentralization objectives have been pursued makes it virtually impossible to make any clear judgement about the ..... extent to which functions have been decentralized under the reforms.*”<sup>111</sup>

We don't know why such significant and wide-ranging changes were attempted with so little preparation. Clearly, once the decision had been made to introduce the new funding arrangements – and so decrease total funding to national departments and increase total funding to the provinces - there was a need to bring about some cost shifting from the national to provincial levels. However, this does not explain why the entire exercise – including the new funding arrangements - was not delayed, and the time used to make proper preparations.<sup>112</sup>

#### **5.4 Attempt to Specify a Model Transfer Process**

The problems experienced with the initial transfer appear to have prompted a response during 1996. Significant among various measures taken was the convening of the NMA.<sup>113</sup> The Authority appears to have been very active during 1996. A Provincial Reforms Technical Working Group was established made up of representatives of National Planning Office (NPO), and the Departments of Finance, Provincial and Local Government Affairs, Personnel Management, Transport and Works, Health, and Education. Five sub-committees focused on particular aspects of the Reforms were also established; these were: Finance, Planning, Personnel, Legislation, and Provincial Affairs. The NMA produced a large amount of information and awareness materials, some in *tok pisin* and *Motu*, directed at various target groups.<sup>114</sup>

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<sup>108</sup> One of the functions to be hit hard was Village Courts. Two provinces – Morobe and East New Britain – already had the function prior to the 1996 transfer. According to the Deputy Secretary, Department of Justice & Attorney General, most of the other provinces did not provide funding in 1996. Not all provinces were aware of the transfer, and some others were not happy about it being forced upon them. The impact of the failure to properly prepare is still being felt today. Although most provinces do now budget some funding for Village Courts, mainly to meet inspectors and trainers costs, most are not budgeting for the allowances of Village Court officials. In general, the funding be provided is not adequate to run the system as established.

<sup>109</sup> op. cit. NMA draft Handbook, Volume 1, (1998), page (iii).

<sup>110</sup> See: op. cit. “A Report on the Provincial Government Reforms: Issues and Challenges” (1997). The report at page 14 notes that the transfer took place against a background of poor communications, and different patterns of responsibilities and capabilities in different provinces.

<sup>111</sup> Ibid. pp. 14 – 15.

<sup>112</sup> The Minister for Inter-government Relations expressed a similar sentiment at the NEFC Seminar in November 2002, where he said it would have been better for the Reforms to have been introduced after the 1997 National Elections and for the time to have been used to build capacity and properly prepare.

<sup>113</sup> This is noted in the NMA draft Handbook, Volume 1, (1998) at page 6. Although called for in the OLPGLLG passed in 1995, it is interesting to note that the NMA was not active until 1996, after, not before, the first transfer.

<sup>114</sup> In addition to its draft Handbook, the NMA also produced: “Want to Know More about the Reforms on Provincial and Local-level Government” a brochure targeting women's and community groups, NGOs and the private sector; an information booklet in English

A well thought out process for the transfer of functions and activities was developed during 1996 – something that was lacking before. The process proposed was to be based on negotiation between individual provinces and national agencies and geared to the capacity of the recipient government or administration to effectively take on additional responsibilities. Very sensibly, the transfer process was to be gradual and progressive, allowing strengthening of the recipients' capacity where this was required.<sup>115</sup> The process is described in the NMA draft Handbook<sup>116</sup> and summarized below.

- The starting point was analysis and rationalization of national agency functions (as per the DPM Circular referred to above). This was to lead to the identification and listing of functions and activities that national agencies considered could be transferred or delegated to provinces.
- This listing was to be reviewed by provinces and LLGs, with a view to assessing their capacity to take on the functions and activities identified.
- Each province was then to identify potential partners and assess specific areas requiring strengthening (e.g. skills and training needs, infrastructure requirements), and develop a prioritised function listing for a staged take-up, based on local priorities and capability.
- Each Provincial Administration, also representing each District Administration and LLG in the province, was then to meet with each relevant national department with a view to agreeing on a specific approach for function transfer, tailored to the needs and capacity of each province. This process was to produce agreement as to which functions were to be adopted by the province, and each district and LLG, each year to 2002, and to highlight staffing, training and infrastructure needs over the period.
- Once agreement had been reached with every relevant national department, each province was to prepare an annual management plan, indicating the transfer schedule and how capacity needs were to be addressed. A Memorandum of Understanding (MoU) could then be used to capture agreements reached, including how the funding and/or staff were to be shared.

Resource sharing is difficult at the best of times. It would be particularly so under the new arrangements where funding is not linked with the cost of particular functions. Some means of adjusting the grants to a provincial government would be required until that provincial government assumed its full responsibilities. Although the NMA Handbook makes little mention of this point, it will be understood that one advantage of the approach outlined is that the preparation of individual agreements

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and *tok pisin*, "The Provincial and Local-level Government Reforms: Some Commonly Asked Questions"; and a video on the role of local government under the Reforms, in English, *tok pisin* and Motu.

<sup>115</sup> Op. cit NMA draft Handbook, Volume 1, (1998), p. (iv).

<sup>116</sup> Ibid. pp. 33 – 38.

would allow specific circumstances to be taken into account, and ensure the issue was addressed with all the others, and agreed in advance.

The lessons provided by the first transfer in 1996 seem to have been well heeded by the NMA, and the suggested process is thorough. It is also ambitious requiring a significant level of analysis, consultation, agreement and tailoring to individual requirements. Indeed it is these very elements that make the process worthwhile. We don't know whether all national departments and all members of the NMA fully and genuinely embraced the process, but the key central agencies were NMA members and the process does appear to be broadly consistent with the thinking of the DPM and NPO at the time.<sup>117</sup> Nevertheless it is clear from what followed that the process was never broadly applied in practice. We have identified a few cases where elements have been applied,<sup>118</sup> but these are very much the exception and, for the most part, the process appears to have been largely ignored.

During 1997 the NMA conducted regional workshops to help provinces plan for the Reforms. The workshops were useful in raising awareness but there was little formal discussion on which functions, or kinds of functions, should be transferred. Some provinces did prepare Reforms implementation plans<sup>119</sup> but there appears to have been little national agency involvement in the planning subsequent to the workshops. The plans were not based on individual one-on-one consultation with each national agency, nor did they present agreed schedules for function transfers. It was this one-on-one consultation and agreement between each province and each national agency that was at the core of the NMA transfer process and which, we believe, was its strength.

## **5.5 Transfers in 1999 National Budget**

The next major function transfer was not the product of consultation, was not tailored to the individual capacities of recipient governments, and was not done according to any systematic process. Rather - like the 1996 transfer - it came through the 1999 National Budget.<sup>120</sup> Our consultations suggest that this again caught some by surprise at both the national and provincial levels.

The Budget documents note that 'additional' functions were being transferred to provincial governments with no corresponding additional funding. The functions noted for transfer include two that were 'transferred' previously through the 1996 Budget. *Village Courts* and *Agriculture and Livestock Extension Services*. We presume these were mentioned again because most provincial governments had not

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<sup>117</sup>Op. cit. "Report on the Provincial Government Reforms: Issues and Challenges" (1997), page 14, describes a similar process for the progressive transfer of functions and credits it to the DPM. The report also notes that the NPO wanted to gear the pace of transfer to institutional capacity and have bridging funds made available for the transition period.

<sup>118</sup> For instance, the transfer of the Personnel and Payroll Management function from the Department of Education to provinces has been done on a province-by-province basis, preceded in each case by a tailored capacity building programme. The Department of Lands and provinces do go through an agreement process and a pro-forma MoU is signed covering functions delegated and transferred, but there is no defined capacity building programme.

<sup>119</sup> For instance, this was the case with the two provinces we visited, East New Britain and Morobe. Informants did tell us that the plans were nonetheless useful in getting the political and administrative structures required under the Reforms in place.

<sup>120</sup> See "1999 Estimates of Revenue and Recurrent Expenditure of National Government, Statutory Authorities, Provincial Governments, Debt Services and Trust Accounts", 1999 National Budget, Volume 2, GoPNG, page 14.

actually taken up the functions. In addition provincial governments were required to meet (part or all of the) operational costs of more of the national functions carried out in provinces by national agencies, these were -

- Fire Services – provincial government to meet all operational costs in the province, National Government to meet costs of salaries.<sup>121</sup>
- Correctional Institute Services (CIS) – 50% of regional administration costs to be met by provincial governments.
- Police – 25% of operational costs in provinces to be met by provincial governments.

This was, and remains, a particularly controversial area. Provinces acknowledge the importance of these services operating effectively in their provinces, but have been reluctant to fund functions that they see as national responsibilities, and over which they have no policy or operational control - particularly in times of significant shortfalls in grant funding from National Government (see section 6.2.1).

During our consultations, provincial personnel also raised concerns about accountability in that they may provide funding for the provincial operations of national agencies, but don't receive reports on the use of those funds, as all reporting is done to the agencies' headquarters.<sup>122</sup>

In the main, most provincial governments have not provided enough budget funding to meet actual costs for these services. It should be noted that some provinces say they do provide some level of ex-budget support (e.g. camping allowances for police on patrol) or 'in-kind' (e.g. food supplies, fuel) support on an "as required" basis. This does not appear in the provincial budgets as such. In any event, the kind of budget support that was sought from provincial governments has not been forthcoming. Funding to these services at the national level was severely cutback in the 1999 budget - presumably in anticipation of provincial support. For some of these agencies national funding was reinstated during the year, and in subsequent years (e.g. Police and CIS), but not for all (e.g. Fire Services).<sup>123</sup>

We don't know how the functions for transfer were identified. Some informants have suggested that it may have simply been a cost-shifting exercise at a time of severe fiscal constraint at the national level.

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<sup>121</sup> There are *Fire Services* in ten provinces.

<sup>122</sup> The concern came up in discussions with provincial personnel during our field visits to East New Britain and Morobe. There are also other areas in which provincial governments are asked - or obliged - to provide informal support (e.g. teacher inspectors) but have no control and receive no reports.

<sup>123</sup> According to Budget documents, the appropriation for Police fell from K96 M in 1998 to K82 M in 1999 – but the Actual payment for 1999 was K94 M. For 2000, the appropriation was a little more than the 1998 level. For CIS, the 1999 appropriation fell to K13 M from K25.8 M in 1998, but the Actual paid in 1999 was K26.1 M. The 2000 appropriation was K23.4 M (and the Actual, K26 M).

## **5.6 Model Process not Applied**

The identification of functions and methods of transfer did not reflect the proposed process outlined by the NMA. Indeed, there appears to have been little consultation. The transfer resulted not only in more confusion, but also ill feeling and an added sense of mistrust on among some stakeholders. We can't be sure why the transfer process wasn't applied. The fact that it was so comprehensive made it very worthwhile, but this also made it time-consuming, expensive and challenging to apply. This may have acted against its ready application, particularly in times of fiscal hardship and cutbacks in the public service.

However the failure to apply the process is probably best seen as part of a larger problem with the implementation of the reforms in general. There appear to be a combination of reasons for this.

Some of the people we consulted argued that some line agencies were not fully committed to the Reforms, being concerned about the transfer of their functions and the corresponding loss of funding.<sup>124</sup> Some identify the major problem as the inability of the NMA to properly co-ordinate and support the implementation process. This, in turn, has been attributed to a general decline in the authority, resources and activities of the NMA, and the more prominent roles taken by individual national agencies, without necessarily co-ordinating their efforts through, or with, the NMA.

The decline of the NMA can be traced back to 1997. Although the NMA was very active to mid-1997, by late 1997 problems were already emerging. A report prepared for the DPLGA notes that by late 1997, the NMA had not met for the previous six months, three of its sub-committees were inactive and the Technical Working Group had not been meeting regularly. At the same time, various central agencies were issuing circulars and instructions without reference to the NMA, and conducting their own regional workshops.<sup>125</sup> The paradox, of course, is that the central agencies involved are members of the NMA.

The situation has progressively worsened since that time. Meetings have been infrequent - for instance, as of the time of writing there has not been an NMA meeting since August 2001. We are told that over the last several years, member agencies have often failed to attend NMA meetings. Agencies that have attended have sent relatively junior officers who, often times attend only once to be replaced by a different junior officer next time. This lack of senior representation and continuity has been a major problem. The situation is circular: senior officers with the necessary background and authority do not attend meetings because little is

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<sup>124</sup> This was evident early on. For instance, op. cit. "Report on the Provincial Government Reforms: Issues and Challenges" (1997), notes that some national agencies were less than enthusiastic about the Reforms and that by late 1997 there had been little progress overall. The report notes that the Departments of Health and Education had made more progress than the national agencies responsible for infrastructure and economic sector programs. In fact, the performance of the Departments of Health and Education may have stemmed, at least partly, from the long-established decentralized approach in those sectors.

<sup>125</sup> Ibid. pp. 18, 19.

accomplished; little is accomplished because senior officers do not attend meetings. The challenge is to break the cycle.

It would however be misleading to attribute the Reforms' implementation problems to the performance of one organization. Indeed, the NMA's perceived shortcomings are more the result, than the cause, of the fundamental problem – a failure to properly prepare and plan strategically.

## **5.7 Where are we now?**

### **5.7.1 Introduction: A General State of Confusion**

The lack of clarity in relation to the responsibilities at different levels of government and administration is widely recognized. It was mentioned in almost every consultation we conducted<sup>126</sup> and has been noted in several recent reports.<sup>127</sup> Most recently the issue was prominently featured in a statement to Parliament made by the Governor of Eastern Highlands Province who argued, among other things, that there was a duplication of public service functions.<sup>128</sup>

It should be clear from the above that the Reforms are responsible for a good deal of this confusion. At the same time it should also be acknowledged that not all the confusion in every sector can be attributed to the Reforms alone. During our sectoral analyses we identified various other factors relating to individual sectors that have also contributed to confusion in those sectors.<sup>129</sup> Some may have broader relevance also. To illustrate the type of factors at play, the situation in the Education sector is considered below.

### **5.7.2 Other Sources of Confusion**

In general, all sectors have experienced some level of difficulty in relation to the clarity of responsibility distribution. In the case of the Education sector, Reforms-related problems have been more pronounced at the local-level where some LLGs appear not to have yet fully appreciated their roles under the Reforms. At the provincial-level, the transition has arguably been smoother than in some other sectors because of the high degree of decentralization to the

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<sup>126</sup> The duplication of roles and responsibilities across the Public Service has also been mentioned at the NDF regional meetings organized by the CIMC.

<sup>127</sup> For instance (a) "Recommendations of the National Monitoring Authority for Strengthening Financial and Technical Capacity of Local-level Governments", Meniga, L., Secretary, Department of Provincial and Local Government Affairs, presented at the National Development Forum, July 2000, page 3, notes that some national departments appear not to be fully aware of their responsibilities regarding LLGs and do not provide proper support; (b) See also "Report to the National Parliament on the Status of Implementation of the Provincial Government and Local-level Government Reforms" August 2002, page 4, a report prepared for presentation to the National Parliament by the Minister for Inter-government Relations.

<sup>128</sup> Reported in Post Courier of March 3, 2003.

<sup>129</sup> There have also been attempts to transfer responsibilities before the Reforms that were unsuccessful. For instance, according to the Office of Conservation & Environment, in 1993/94, the Office attempted to transfer *Collection of Hydrological Data* and *Environmental Monitoring* functions to provinces but, in general, provinces were not interested and the transfer did not eventuate. Subsequently this was one of the functions notionally "transferred" under the Reforms in the 1996 Budget – but, according to the Office, has mostly not been taken up by provinces. This is an example of a function that would have been 'confused' even without the Reforms.

provincial-level that has characterized the sector for some time. Nonetheless confusion does certainly exist – due both to the Reforms and to some other causes, as discussed below.

(a) Temporary Funding from ‘Other’ Sources

When funding is provided for a period by a source *other* than the source notionally ‘responsible’, expectations can be established. It can be any source – another level of government, another agency at the same or different level, or a project with a finite life. Over time, responsibilities can become confused. Problems arise when that other source no longer provides funding.

One provincial informant noted that national agencies sometimes ‘cut across’ responsibility lines using donor funding. He said this has happened previously in respect of the maintenance of buildings that are a LLG responsibility. He said that this could lead to confusion. He also said that some LLGs take advantage by failing to provide funding in future budgets in the expectation that when things get bad enough some other source will come in to provide additional funding. He emphasised that he was not saying that this outside funding was not welcomed – simply that it must not become relied upon, and should be used with caution and only if the temporary nature is clearly understood and accepted.

Interestingly, this issue also arose in a different context during our discussions with National Department of Education (NDoE) officials. One area that they felt was being very poorly done was maintenance of school facilities, particularly those that are the responsibility of LLGs. They said that part of the problem is the limited funding most LLGs have available. They also felt that some LLGs may not be aware of their responsibility in this area and that this may be exacerbated further by the fact that the Education subsidy for 2003 is to be applied only to maintenance of primary school facilities. Though this is certainly a necessary and worthwhile initiative, they were concerned that some LLGs may come to think of maintenance as a national activity and not budget for it in the future.

This again highlights the need to ensure all stakeholders are aware of, and agree on, what is being done. Of course, this may not always be easy to do.<sup>130</sup>

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<sup>130</sup> Another recent example was provided by the Deputy Secretary, Department of Justice & Attorney General. Because of the failure of most provincial governments to pay all Village Courts Officials’ allowances over many years, in 2001 the National Government made a one-off payment to meet some of the backlog of these allowances. It was clearly noted at the time that this was a one-off only. Nonetheless, some informants used this as evidence that VCs were to be re-centralized. We are assured that they are not.

(b) Only an Issue when the ‘Crunch’ Comes

A current responsibility issue that came up in our consultations relates to elementary school teacher training. For the last few years the training of elementary school teachers has been funded from the national-level, with the support of an AusAID aid project. That funding is no longer available<sup>131</sup> and for this year provinces have been advised that any further expansion of the system will have to be funded by provinces. In relation to the costs of teacher training, a ‘user-pays’ principle has been suggested.

One of the Provincial Education Advisers we spoke with felt that provinces had not been given sufficient time to prepare for these changed circumstances.<sup>132</sup> Another agreed that the rapid expansion of the system had been strongly encouraged by the NDoE, and now provinces have been left with a system that will be a ‘huge drain on resources’.

While funding was provided from ‘outside’ sources, the matter of which level was responsible for funding did not arise. It was only after that funding was no longer available did responsibility become an issue, and the differences in understandings become apparent.

The references do not provide a definitive answer in this case. There is no argument that teacher training is a national function. However the Education Plan notes that, in respect of elementary education, provinces are responsible for “*Implementing all approved teacher training courses ...*”<sup>133</sup>. Could this also mean ‘fund’ here?

Without going into the details - or rights and wrongs - of this particular case, it does serve to highlight just how responsibility confusion might come about. Of course, this is most likely to become evident in times of resource constraint and when savings are being sought. It highlights the need to develop an agreed, common understanding of responsibilities from the outset.

(c) Sharing Responsibilities

The splitting or sharing of responsibilities for certain functions or activities might also increase the likelihood of confusion.

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<sup>131</sup> As we understand it, AusAID has limited its support for the further expansion of the elementary school system pending the results of an ‘Affordability Study’ being conducted by NDoE, AusAID and the World Bank. The study will assess the financial costs of meeting the objectives of the 1995 – 2004 National Education Plan. As an interim measure, AusAID is continuing to fund teacher trainees who have already commenced the three-year course (i.e. second and third year trainees). Elementary schools typically have three teachers, one of whom is recruited each year with each annual intake until the full complement has been reached. Funding only the continuing trainees may limit the ability of schools that are still in establishment (i.e. commenced in 2001 and 2002, and still need first year trainees), to get new trainees and become fully established.

<sup>132</sup> This does suggest a communication problem because given the nature of aid projects, the funding was always going to be temporary even if, as in this case, it was extended from the original finish date.

<sup>133</sup> “National Education Plan, 1995 – 2004: Update 1” National Department of Education, PNG, 1999, page 12.

For instance, in relation to the provision of teaching and curriculum materials, the initial provision is a national responsibility, whereas the on-going provision is a provincial responsibility. The NDoE officials we met with noted that the provision of school materials was something that was generally particularly poorly done in provinces. Although both provinces we visited were clear on responsibility for this activity, it is possible that some provinces are not.

(d) Responsibility Take-up Deferred - not Formally Specified

Under the OLPGLLG, technical education is now a provincial responsibility. However, the NDoE is continuing to administer the six technical and business colleges around the country.

The ENB Provincial Education Adviser told us that the Provincial Government would probably be interested in taking over the Kokopo Business College, but only if additional funding were provided. As things stand with funding, it's unlikely that the provincial governments of the provinces in which the other five colleges are located<sup>134</sup> would wish to have the responsibility transferred unless additional funding were provided.

As far as we are aware, this is not the subject of any formal agreement – more a result of inertia, that is, simply no action has been taken. If all agree and continue to do so, there is no problem. However problems might arise when there is any kind of change to the current circumstances (e.g. changes in personnel, or additional requirements to 'cost-shift' at the national level), and the apparent contradiction may lead to confusion or ill feeling. A more formal understanding might avoid confusion arising in the future.

Although these causes of confusion were identified in the Education sector, these – or similar factors - may also be at play in other sectors.

**5.7.3 How the Confusion can Persist**

As a result of our sectoral analysis we can conclude that for any particular sector there will probably be a number of factors that impact upon the understanding of responsibilities. Certainly a large part of the confusion will be the product of the lack of clarity regarding the intent of the Reforms and the poorly planned way they have been implemented. But for some sectors the Reforms will not be the only source.

The key point that must be understood is that all the confusion - whether due to the Reforms, some other sector-specific cause, or a combination - is able to

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<sup>134</sup> In addition to Kokopo in East New Britain, colleges in Mt. Hagen, Goroka, Lae and two in Port Moresby.

persist because of the lack of a current, definitive and agreed specification of all responsibilities (law-making and policy, operational and funding) of each level. This must be addressed as a priority.

#### **5.7.4 Some Information Resources**

The NMA did make some attempt to prepare a specification of respective responsibilities several years ago, and we've found that there are also some other documents of relevance. These are considered below.

##### **(a) NMA Handbook**

Following the problems with the initial function transfer, the NMA attempted to produce a specification of the responsibilities of different levels of government under the Reforms. This was presented as Volume 2 of the NMA draft Handbook.<sup>135</sup>

The NMA's Provincial Reforms Working Group took the lead in preparation of the Handbook and began the task after meetings with national agencies in November and December 1996. An internal draft was produced by June 1997 and distributed to line agencies for comment. These were incorporated into a September 1997 draft. The drafts were in two volumes - Volume 2 presented tables laying out respective responsibilities. There was also a December 1997 draft that was similar in content to Volume 1, but very different in format and did away entirely with Volume 2. The most recent version, dated March 1998, reverted to the earlier two-volume format and, according to the Handbook, includes typographical and factual corrections of the September 1997 version. The December version is not referred to at all in March 1998 draft.<sup>136</sup>

The March 1998 Volume 2 document presents tables for individual sectors which outline a draft division of responsibilities between National, provincial, district and local levels of government and administration. The Handbook notes that provincial government responsibilities "imply" the responsibilities of the provincial administration. The Handbook also presents unit costs for some services.

The divisions of responsibilities presented were prepared by national agencies, for comment and input from provinces and others. The March 1998 version was the last draft, and no refinement incorporating

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<sup>135</sup> "Handbook on the Roles and Responsibilities of Different Levels of Government under the Reforms: Volume 2, Tables, Unit Costs and Contact Persons for each Department" draft, National Monitoring Authority, March 2002.

<sup>136</sup> It appears that a consultant to the Department of Provincial and Local Government Affairs prepared the December 1997 version. We understand this is the same consultant who also prepared a separate report on the status of the Reforms. The consultant's suggested re-formatting was apparently rejected, but there is no discussion of this in the Handbook or elsewhere. The variations might be further evidence of the problems the NMA was experiencing at the time.

provincial input has yet been produced. To the best of our knowledge, to date, there has been no systematic attempt to draw input from provinces.

Like NMA's other work of the time, the attempt to produce a manual-type reference laying out respective responsibilities was very worthwhile. Unfortunately, it was never finished. Though a 'good start' the specification was not the product of a collaborative process involving all stakeholders (that was to come next), is not complete and, now, is also out of date. A brief overview of the Handbook is provided below.

- Not all sectors are included.<sup>137</sup> Among the important sectors missing are: Lands, Works, Transport, Fisheries, Forestry, Environment & Conservation. Of those included, just four have unit costs.<sup>138</sup>
- There are some factual errors<sup>139</sup> - these would probably have been identified and corrected had further comment and provincial input been incorporated, as was intended.
- Some of the entries are very general and provide little real guidance,<sup>140</sup> and some of the language used is ambiguous and so open to different interpretations.<sup>141</sup>
- The draft Handbook is now dated. There have been structural and other changes since the March 1998 draft was produced.<sup>142</sup>

The draft Handbook is not widely used or even known about. During our consultations we found that none of the national departments we consulted had used the Handbook in recent times. Some of our informants did not know the Handbook even existed, others knew of it, but had not seen it, or not used it. Given personnel turnover, and the fact the Handbook was never finalized this is probably to be expected.

Notwithstanding its shortcomings, conceptually the Handbook is worthwhile, and the March 1998 draft would have been much stronger had provincial input been incorporated, as was intended. There has been

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<sup>137</sup> Included are: Health, Education & Literacy, Social Development (including Home Affairs, Women and NGOs, Youth, Welfare, Civil Registration), Agriculture, Commerce, Attorney-General (re. Village Courts), NBC, Personnel Management, Planning and NSO.

<sup>138</sup> Unit costs provided only for: Education & Literacy, Civil Registration, and Police (no responsibility distribution provided).

<sup>139</sup> See: "Provincial Government and Local-level Government law-making powers and administrative functions", G. Tuck, Department of Provincial and Local Government Affairs, November 2000, page 1, suggests the Handbook is deficient as it is not accurately based on the legislative provisions. As we noted elsewhere, part of the problem may have been the lack of clarity relating to some of the OLPGLLG provisions. There are also inconsistencies with the notional responsibility distribution understood by some national departments.

<sup>140</sup> For instance, the entry under Health for LLGs simply lists the areas in which LLGs have law-making powers.

<sup>141</sup> For instance, it is not always clear which level is responsible for actual funding. There are also apparent overlaps, which are not explained, or evident from context.

<sup>142</sup> For example, the Department of Transport and Department of Works are, once again, separate entities. There is a new Fisheries Act (1998) and a restructure of the National Fisheries Authority (2001). A new reporting structure for the Health sector has just been introduced.

no attempt made since to produce a total ‘across the board’ specification of responsibilities.

(b) Sectoral/National Agency Documents

During our consultations we learned that some national departments have produced documents that (implicitly) outline a function distribution.<sup>143</sup> We’ve been able to use these documents to generate a notional responsibility distribution for some sectors.

For example, for Education, references to responsibilities at different levels are contained in the updated National Education Plan.<sup>144</sup> The Plan document covers four sub-sectors of the general education sector: Elementary; Primary; Secondary; and Technical and Vocational. The levels considered in the Plan vary from sub-sector to sub-sector, depending on the levels that have a defined role in that sub-sector. The different levels are: Community; Institution; LLG; District; Provincial; and, National.

There are some ambiguities in the Education Plan’s explanation of responsibilities that we could not resolve, and some entries are very general. The use of certain words can be confusing. For instance, it is not always clear who actually funds activities, as opposed to ‘implements’ or ‘budgets for’ (e.g. training of elementary teachers), or ‘produces’ (e.g. elementary school curriculum materials). This is sometimes evident from context, but should be absolutely clear. The same kind of ambiguity also applies to the NMA draft Handbook’s specification.

Comparing the two, the NMA Handbook and the Education Plan outlines are both very general, and open to different interpretations. Both also include ‘overlaps’ between levels, which are not explained. Although the different formats<sup>145</sup> make direct comparison difficult, there also appear to be inconsistencies between the two in the assignment of responsibilities.

NDoE officials we spoke with were not involved in preparation of the NMA outline in 1997. They said they were aware of the NMA Handbook but had not used or seen it. After a quick review they felt the outline was incomplete and too general to be of use as a practical guide. They said they were not aware of provinces using the Handbook. In relation to the Plan, they felt that it did provide a clear description of

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<sup>143</sup> For instance, an outline of the Education function distribution can be extracted from the National Education Plan. Likewise, for the Health sector from the National Health Plan. For the Lands sector, a distribution is presented as part of a MoU pro-forma, which is used in transferring functions from the national level to provinces.

<sup>144</sup> Op. cit. “National Education Plan: Update 1” (1999).

<sup>145</sup> The Plan outline combines the responsibilities of two or more levels or different sub-sectors. The Handbook does not include the ‘Community level’ in its own right, and has additional columns including one on the role of partner organizations.

responsibilities, but that they had not used it as a specification tool in dealings with other stakeholders.

Neither of the two Provincial Education Advisers we spoke with was in the position at the time the Reforms were introduced. They were not aware of the NMA Handbook. Both were aware of the Plan but neither had referred to it to clarify responsibilities.

(c) Provinces' Specifications

We are told that some provinces have also produced responsibility specifications for use within their own provinces.<sup>146</sup> We have not sighted these. From what we were told, neither the NMA Handbook nor the national departments' documents referred to above, were used in the preparation of these.

In summary, the various specification documents have been prepared independently. There has been no 'validation' exercise to crosscheck the responsibility distribution of the different documents produced, that is, the NMA Handbook, the national departments' documents, and the specification produced by provinces. Based on our sectoral work, we suspect that in the present state of confusion it is highly likely that there are discrepancies between documents and that these will continue to emerge as resourcing or other problems arise (e.g. such as greater efforts to 'cost-shift' in light of increasing resource constraints at all levels).

## **5.8 Need to Clearly Specify Responsibilities**

The confusion that followed the initial 1996 transfer under the Reforms has been compounded in subsequent years by the failure to fully develop and apply:

- a consultative means of defining an appropriate responsibility distribution and, from that, identifying responsibilities for transfer; and
- a systematic, understood and agreed means of transfer.

### **5.8.1 Specification through a Collaborative Process**

This failure must be addressed as a priority. In the first instance, we suggest a serious attempt be made to produce a clear, accurate and complete specification of the powers and responsibilities of each level of government and administration. This can only be done through a collaborative, consultative process involving representatives of all key stakeholder groups.

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<sup>146</sup> We visited East New Britain and Morobe, and learned that both provinces had produced such documents. In separate discussions in Port Moresby with the Provincial Administrators of Enga and Simbu, we were told that they also had produced their own specifications.

The objective should be to produce a document that can be used as a practical reference at every level; this means that it might be useful to produce different versions pitched at different audiences, using language and format appropriate to the target group. It's important that stakeholders know what is expected of them and what they can expect from others.

It should also be recognized that responsibility distribution has to be varied from time to time and so there should be a way of reviewing and incorporating changes in the specifications as these come about.<sup>147</sup>

### **5.8.2 An Opportunity to Consider Where Responsibilities Belong**

An agreed specification will not emerge without some of the more fundamental issues being addressed. It became clear during stakeholder consultations that, in some cases, the failure of a provincial government to take on a particular responsibility is because they don't agree that it should be their responsibility. The clarification process will also be an opportunity for stakeholder discussion of which functions and activities belong - and are best carried out - at each level. This should bring responsibility disagreements out into the open and allow at least some to be resolved, in the first instance, at a technical level. Whatever cannot be resolved in this way may require political input and negotiation. Failing all other avenues, as a last resort, an 'executive decision' may be required by the National Government. At the very least, the process should allow different stakeholders the opportunity to make their case. However done, by the end of the process, all stakeholders should be clear on responsibilities.

### **5.8.3 Capacity and Responsibility Transfers**

The specification of responsibilities will allow identification of those responsibilities that have to be shifted from one level to another. However, so as not to repeat past mistakes, it's important to understand that it would not be practical to expect that all provincial governments and all LLGs could immediately take on all that they might – notionally – be responsible for as a result of the specification. Indeed, the specification would best be seen as a statement of the 'final state' of responsibility distribution, to be arrived at through an appropriate transfer process, and only once necessary prerequisites have been identified and put in place.

Fundamental to this would be identifying and addressing capacity constraints. For each responsibility to be transferred, the applicable elements of capacity could be identified, and the required 'standard' to effectively perform that responsibility assessed. A recipient's existing capacity could be assessed, and the 'capacity gaps' identified. An individualized transfer schedule linked to a

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<sup>147</sup> There may be changes within the next 12 or so months. For instance, the Minister for Mines has stated that he would like to see provinces take on a larger role in small-scale mining (Post Courier, March 26, 2003). During our consultations we also heard that the functions of some national departments might be given over to new authorities – two that have subsequently been reported in the media are 'Mines' and 'Roads'.

targeted capacity-building programme could be developed for each recipient, for each responsibility, based on the recipient's specific needs and capacities. This is further discussed later (see: section 7.2.2).

#### **5.8.4 Elements of an Approach**

##### Organizational Options.

A collaborative approach is essential. Such an approach might be facilitated through the establishment of a small working group of stakeholder representatives to take the lead in the exercise. It is suggested that -

- Membership of the group might, at a minimum, include: NEFC, Department of Provincial and Local Government Affairs, Department of Personnel Management, Department of Finance, and representatives from each region.
- Two senior-level officers from each should be nominated (say, Deputy Secretary or FAS) - one representative and one alternate.
- At least one of these two representatives should attend every meeting, and then formally brief the other.
- NEFC could provide secretariat and technical assistance, at least initially.

As a variation on this model, the NMA might be reactivated to give overall direction to the exercise, allowing the working group focus on day-to-day management of the exercise.

It's also important that whatever is done is also endorsed at a political level and, ideally, carried out under the auspice of the appropriate Minister(s).

Other options and variations should also be considered and the selected model properly developed.

##### A Phased Programme

A phased approach might be considered.

- Phase (I) would focus on the current situation, and the problems and issues associated with the notional distribution and current stakeholder understandings of responsibility for decision-making, implementation and funding. Issues identified might relate to different understandings, or disagreements as to where particular responsibilities belong (there would probably be particular focus on funding responsibilities). The key output would be a specification of the areas where there is broad

agreement, and of areas where views differ and the basis of those differences.

- Phase (II) would build on that work and consider the factors that should be taken into account in determining an appropriate distribution (e.g. capacity, scale, efficiency/cost-effectiveness, ‘national interest’, consistency and standardization, proximity to the beneficiaries, ‘cross-border’ issues, willingness, etc.). The key output would be a listing of such factors.
- Phase (III) would take the output of the first phase and apply the set of factors produced in the second to generate a model distribution for broad stakeholder consideration.
- Phase (IV) would focus on the transfer process and seek to develop an agreed means of progressive transfer, - that is, having the ‘final state’ in mind what responsibilities need to be transferred and how this should be done.

#### Operation.

For each phase, the working group should lay out an appropriate methodology and do as much as it can do directly, before seeking broader stakeholder input. For instance, in Phase I, the core group might begin by putting together whatever is available on notional distribution of functions - including, but not limited to, the listings this study has generated from various sectoral documents we’ve reviewed.

In this, and subsequent, phases stakeholder input could be drawn through different methods, including, for instance -

- Consultations with national agencies individually (e.g. to refine specific listings and identify key issues).
- Case studies of selected provinces to assess current practice and further specify key issues.
- Establishment of individual ‘sectoral’ and specific issues committees to thoroughly consider issues related to particular sectors (e.g. in sectors where there is significant interaction or resources involved, or to address the most problematic areas, such as ‘responsibility sharing’ and funding).
- Broader consultation with provinces through selected provincial visits and regional workshops.

#### The Next Step

The study team has begun working on issues paper, and developing different strategy options, for consideration. More thought and consultation with stakeholders

is required to fully develop the concept. As an immediate, first step, we suggest that the NEFC convene an ad hoc committee of key national agencies and provincial representatives, to consider the proposal and begin a more rigorous and collaborative development of the approach. This might form the basis for the formation of the working group. The working group should formulate the strategy and identify resource requirements and sources, with a view to commencing work as soon as possible.

We began thinking about an exercise of this sort during the latter stages of the data collection phase. So in the later consultations we were able to broach the proposal with informants. All the people we spoke with enthusiastically endorsed it. Most indicated that they would be willing to be involved. The provincial informants were - not surprisingly - particularly keen that there be provincial (or, at least, regional) involvement from the outset.

## **6. RESOURCING & RESOURCE USE IN PROVINCES**

### **6.1 Introduction: Sources of Data**

This chapter examines the funding available to provincial and local level governments, and their expenditure patterns.

Much of the data on provincial government funding and expenditure on which the analysis is based have been generated by other NEFC studies undertaken for the RIGFA.

In relation to LLGs, there is very little information available on either funding levels or expenditure patterns. Consequently for this study we undertook a review of the 2001 budgets of some 37 rural LLGs, and that forms the basis of the analysis presented.<sup>148</sup>

### **6.2 Funding Available to Provincial Governments**

#### **6.2.1 National Government Grants**

##### **(a) Funding Levels**

The grant formulae were intended to provide a ‘guaranteed’ minimum funding level and, with that, a degree of certainty so that provincial governments could plan with confidence knowing what they’d receive in National Government grants.

In fact, the Reforms were implemented at the start of a period of severe downturn in the PNG economy and unprecedented fiscal difficulty for the National Government. For that, and other reasons, the National Government has been unable to pay the formulae-calculated amount of the grants.

In the summary that follows, the level of funding provinces are entitled to under the Organic Law is compared with the Budget appropriations made, and with the actual funding received, each year since the first elements of the new funding arrangements were introduced with the 1996 Budget. We consider only the provincial grants that are formulae-based and, for the sake of simplicity, do not take account of the indexing provisions of the Organic Law (as described in section 4.7.1).<sup>149</sup>

There was an increase in provincial funding in 1996 compared with 1995 as a result of the new funding arrangements. There was a corresponding fall in funding for national departments. In 1996, 75% of the Development Grants (Provincial Infrastructure, Local Government and Village Services, Town

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<sup>148</sup> The sample was based on the 2001 Annual Budgets, and consisted of 37 rural LLGs, covering all four regions (Papua = 10 LLGs, Islands = 6, Highlands = 12, Momase = 9) and every province other than Bougainville and West New Britain.

<sup>149</sup> The NEFC is currently in the process of calculating the effect of indexation on the grants to provincial governments to illustrate the demands full compliance with OLPGLLG requirements would place on the national budget.

Services), and the full amount of the Administration Grant were appropriated. In 1997 essentially the entire calculated amount was appropriated for provinces. The appropriated amount fell to some 86% of the calculated amount in the 1998 Budget. From 1999 it became increasingly difficult for the National Government to pay anything approaching the full amount of the grants. For the 1999 and 2000 budgets, less than half the calculated amount was appropriated (about 47% each year).<sup>150</sup>

The amounts appropriated for 2001 and 2002 were almost the same as for the 2000 budget year.<sup>151</sup> However under the provisions of the Organic Law, the new base year became 2001, that is, “the year immediately following” the 2000 National Census.<sup>152</sup> As a result the minimum base amounts should have been recalculated using the population figures from the 2000 Census. The larger population figures increase the formulae-calculated amounts.<sup>153</sup> So although the notional amounts appropriated were more or less the same, the appropriations fell to about 36% of the new calculated minima for both 2001 and 2002.

Over the entire 1997 – 2002 period, the appropriated amount for the formulae-based grants fell from K246 M to K117 M, a reduction in nominal terms of some 52%.<sup>154</sup>

These figures and analyses are based on appropriated amounts noted in the relevant National Budgets documents. Review of the actual payment figures in these documents for the period 1996 to 2001<sup>155</sup> indicates that provinces did not always actually receive all the appropriation. For 1996, 2000 and 2001, provinces did receive effectively all of the appropriated amounts. For 1997 - 1999, actual funding was between about 86% and 93% of the appropriated amounts.<sup>156</sup> We’ve not undertaken analysis on an individual province-by-province basis, and can’t say whether particular provinces were more disadvantaged than others.

Provincial governments have complained bitterly about the funding shortfall. In fact, recent years have seen two provincial governments<sup>157</sup> take legal action against the National Government, successfully arguing that the Law provides for minimum allocations that had not been paid. Although judgements were

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<sup>150</sup> For the years 1997- 2000, the application of the indexing provisions would have made the funding shortfall even more pronounced.

<sup>151</sup> For the formulae-based grants, K116.6 M in 1999, compared with K117.9 in 2000 and K117.7 M in 2001.

<sup>152</sup> As per Schedule 1.1, OLPGLLG.

<sup>153</sup> For the Administration, Infrastructure, Local Government & Town Services Grants, from about K247 M to about K327 M. It is interesting to note that some work undertaken by the NEFC for other RIGFA studies indicates that the base amount using 2000 Census figures would actually have reduced the calculated minima if the indexation provision had been applied as stipulated each year from the earlier base year. We suspect this was an unintended outcome of the way the funding formulae and adjustments mechanisms are structured.

<sup>154</sup> In real terms the reduction would be significantly greater given the falling ‘buying power’ of the Kina over that period.

<sup>155</sup> As at the time of writing, the 2001 budget year is the most recent for which ‘actual’ figures are available in budget documents.

<sup>156</sup> In terms of actual funds received compared with the formulae-calculated amounts, the greatest shortfall was for 2001 when provinces received about 37% of the amount they were entitled to under the Organic Law formulae. This was not due to underpayment of the appropriation – but to the low amount appropriated compared to the calculated amount based on the new base population figures.

<sup>157</sup> The Morobe Provincial Government and the Eastern Highlands Provincial Government.

made in their favour, it is illustrative of the extent of the fiscal problem<sup>158</sup> that these provincial governments have not yet received the full amount of the judgements made, and that the Prime Minister at the time argued that there was simply no more money to give.

The inability to pay the grants in full has meant that the certainty, which the new funding arrangements sought, has not eventuated.

(b) Issues of Timeliness

Two issues related to timeliness were raised during our consultations. These are worth noting as they impact on the ability of provinces to properly plan and implement.

First, the budget cycle is structured such that provinces do not have their budget ceilings confirmed until towards the end of the previous year, giving them little time to finalize their budgets. This would be less an issue if the formulae-based grants were paid in full because the grant amounts, at least, would be known. But, as indicated above, the appropriated amounts can differ markedly from the calculated amounts, and from year to year.

The second issue relates to timeliness of funds release. This was mentioned frequently in discussions with provincial representatives, and acknowledged as an issue at the national level. There are two main reasons for this. It has been noted in another NEFC report done for the RIGFA, that the *Public Finances (Management) Act* requirements involve a number of steps before cash can be released to provinces, and these provide opportunities for delay.<sup>159</sup> However in recent years the more significant problem appears to have simply been that cash flow constraints at the national level have meant that funds could not be released to provinces (or to national departments) in a timely manner.<sup>160</sup>

We have no ‘hard’ data on the extent or impact of the cash flow problem. However, anecdotally, it appears this is a major problem for provinces, making the programming of service-delivery extremely difficult. We’re told this is particularly problematic at the start and end of the budget year, and often means that little happens for the first and last several months of the year. Of particular concern is that there have also been cases of warrants being received in provinces without cash being deposited into the provincial bank account.<sup>161</sup>

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<sup>158</sup> The fiscal constraint is also evident in respect of the Derivation Grant. This Grant is not formula-based, but to be paid at a rate of up to 5% of export value. The amount appropriated has consistently fallen short of the 5% maximum. According to figures provided by the NEFC, the appropriated total derivation grant for the period 2000 – 2002 was about 29.4% of the calculated amount – based on the value of eligible exports; (for 2000 exports, a calculated derivation grant of about K 43.6 M compared with an appropriation of K14.6 M, for 2001 K51.3 M c/w K 15.4 M, and for 2002 K 59.2 M c/w K15.3 M).

<sup>159</sup> “Background Paper on Provincial Financial Management and Accountability Systems – draft” (2002), page 20.

<sup>160</sup> See op. cit. “Report to the National Parliament” (2000), page 11.

<sup>161</sup> Op. cit. “Background Paper on Provincial Financial Management and Accountability Systems –draft” (2002), page 21. Several provincial personnel we spoke with also verified that this does happen.

When actual funds arrive too late in the year to be probably expended on budgeted activities, these funds are ‘held-over’ and treated as internal revenue in the next budget year. In addition to the obvious service-delivery and implementation problems, this makes financial tracking more problematic.

These issues of timing have further reduced the certainty of funding for provinces that the new arrangements were meant to bring about.

### **6.2.2 Reasons for Grant Funding Shortfalls**

There are three main reasons why the National Government has been unable to meet its grant funding commitments as per the formulae in the OLPGLLG.

#### **(a) Economic Down-turn and Fiscal Constraints**

Firstly, as we have noted, the introduction of the Reforms coincided with the beginnings of a severe economic downturn in PNG, which together with the debt-burden legacies of the past, brought about the most difficult fiscal environment that the Government of PNG has faced. This restricted the amount of funding the National Government had for the formulae-based (and other) provincial grants.

But this doesn’t tell the whole story. Also impacting on the ability of the National Government to fund the calculated grants have been other demands on the funding available for provincial services.

#### **(b) Increasing Salary Costs**

Total costs of public sector salaries have continued to increase - and increase at a greater rate - each year, over many years. The increase has been most significant for teacher salaries. According to a NEFC estimate,<sup>162</sup> over the six-year period from 1996 – 2001, teacher-staffing grants increased 98%, and other staffing grants increased 47%. Over the same period, the Administration Grants decreased 59%.

An NEFC report prepared for the RIGFA<sup>163</sup> argues that there are inadequate controls over payroll spending and that positions are approved without regard to the impact on budget outcomes. As salaries increase year-to-year, funds available for spending on Goods and Services reduce. Others<sup>164</sup> have noted that current trends in the growth of expenditure will likely continue in provinces as personnel costs are managed centrally at the national-level and over-runs are borne by the National Government.

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<sup>162</sup> Ibid. page 15. These figures are based on Actual funding received each year.

<sup>163</sup> Ibid. page 15.

<sup>164</sup> Ibid page 18. See also op. cit. RIGFA Interim Report – draft, NEFC (2003), pp. 36, 37.

Some provinces have suggested that provincial governments would have greater incentive to manage their personnel costs if savings were passed back to them individually in the form of, say, increased Administration Grants. In the first instance this would require a proper assessment of reasonable staffing levels to provide a ‘benchmark’ as a point of comparison. This in turn would depend on the assigned responsibilities of provincial governments being absolutely clear and understood.

(c) National Funding of Some Provincial Services

The National Government’s ability to fully fund the grants has also been limited by the fact that it has been obliged to fund some basic services in provinces – in particular, services that provincial governments were expected to fund under the Reforms but did not provide adequately for. For instance, included in the 1996 transfers to provincial governments were responsibility for funding *Education Subsidies* and *Church Health Services*<sup>165</sup> but not all provincial governments provided enough funding, and Health and Education services in provinces suffered. National Government now provides direct funding for these programmes in provinces through the National Budget.<sup>166</sup>

This is certainly contrary to the spirit of the Reforms. At the same time it also serves to illustrate an unusual design feature of the Reforms. Under the Reforms, national departments are to have no operational role at the local-level. Moreover, beyond the very general ‘conditionalities’ of the grants (see section 4.7.1), provincial governments have a great deal of freedom in determining funding allocations. Consequently, other than keeping funding back from provinces, and funding services directly, National Government has few ways of ensuring its priorities are reflected in expenditure allocations in provinces. This highlights the importance - and current absence – of a fundamental agreement between the National Government and provincial governments regarding the intent and operation of the Reforms (including the respective funding responsibilities).

**6.2.3 Other Funding Sources**

We noted earlier that previous funding arrangements were criticized for entrenching development levels, and that the more ‘objective’ funding criteria (population, land/sea area) were intended to provide a fairer and more equitable means of distributing National Government funding to provinces.

We also noted (section 4.7.2) that in addition to the National Government grants, provincial governments have a range of internal revenue sources. In fact, in aggregate terms total internal revenue for all provinces is a very

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<sup>165</sup> See: 1996 National Budget, Volume 1, Economic & Development Policies, page 38.

<sup>166</sup> See: 2001 National Budget, Volume 1, Economic & Development Policies, page 16. In 2001 this funding was K 21M for Education subsidies and K 12.9M for Church Health Services.

significant amount, approaching that provided to provinces through National Government grants. For instance, for the 2001 budget year, some 36% of total provincial funding was sourced from internal revenue. More significantly, this constituted some 64% of the funding available for non-salary purposes.<sup>167</sup>

Internal revenue for provinces is significantly influenced by the level of commercial activity (e.g. VAT) and non-renewable natural resource revenue (i.e. from mineral and oil extraction). Consequently it's not evenly distributed across all provinces. Again considering the 2001 budget year, total mining and oil related revenues (including Special Support Grant, Royalties, equity distributions, and Tax Credits) amounted to some K 115M, but this was distributed to just six provinces (New Ireland, Southern Highlands, Enga, Milne Bay, Gulf, Western). Of the VAT distributions of K145.7 M, about two-thirds went to NCD and Morobe.<sup>168</sup>

Internal revenue is a major funding source for some provinces, whereas it is next to nothing for others. The range is very large. It makes up over 90% of total revenue for NCD (i.e. mainly VAT) and over 60% for Western (i.e. mining-related), but is less than 5% of total revenue for Simbu. It is less than 10% of total revenue for six provinces, and more than 40% for six others.

The variation is best illustrated by per capita analysis. Based on the 2001 internal revenue figures and population figures from the 2000 National Population Census, and omitting NCD, the internal revenue/head figures vary from a high of K284/head (for Western Province) to a low of K4.50/head (for Simbu); that is, the per capita internal revenue of the highest province is 63 times that of the lowest.<sup>169</sup> This variation is much greater than that resulting from the national government grants - for 2001, omitting NCD, national government grants/head varied from a high of K274 (for Manus) to a low of K80 (for Southern Highlands); that is a factor of 3.4. The large variation in per capita internal revenue is reflected in the variation in total revenue per capita for provinces, which range from a high of K464 (for Western) to a low of K115 (for Madang), with five provinces receiving more than K300/head and eight less than K150/head.

The key point to note is that the architects of the Reforms sought a more equitable funding distribution across all provinces, but failed to consider the funding system as a whole. The use of formulae-based grants may have acted to address inequity resulting from National government grants but did nothing to address the huge province-to-province variation in internal revenue. This significantly skews the total revenue per capita towards well-developed

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<sup>167</sup> For 2001, National Government grants to provinces totalled some K597 M as compared to some K337 M in internal revenue. A large proportion of National Government grants were for public service salaries.

<sup>168</sup> With ENB, these three provinces accounted for 72% of the total VAT distribution to provinces. Seventeen provinces shared the remaining K40.7 M.

<sup>169</sup> If NCD is considered, the variation is even starker. For NCD, 2001 internal revenue/head = K428. This makes the multiple of highest to lowest 95 times.

(through VAT) and non-renewable resource-rich (through mining/oil revenues) provinces.

### **6.3 Provincial Government Priorities & Expenditure**

#### **6.3.1 Introduction: The Key Issues**

There is a widely held view at the national level that spending priorities of provincial governments are not appropriate, and that too little is being directed towards basic services. As noted above, some provincial governments didn't adequately fund particular services in provinces and that resulted in National Government funding them directly (e.g. Church Health Services).

Provincial governments point out that the Reforms were intended to allow a large degree of provincial priority setting. They also note that they would spend more on basic services if they received the funding they are entitled to.

#### **6.3.2 Provincial Governments Expenditure Patterns**

There is little data available on how provincial governments actually spend their funds. To provide background information, NEFC commissioned a provincial budgeting study<sup>170</sup> for the RIGFA, which reviewed provincial budgets for 2001.<sup>171</sup> Some key findings of that study relating to overall expenditure patterns are summarized below.

- For the 2001 budget year, provinces allocated a total of some K 1.001 Billion - K643 M being sourced from National Government grants (i.e. '200 series') and K358 M from internal revenue (i.e. '700 series').<sup>172</sup> This represented a significant proportion of the total Government of PNG expenditure for the year.
- A very large proportion of the total, about K478.7 M, or almost 48%, was allocated to public service and teaching service salaries. About 60%<sup>173</sup> (K284 M) of this was allocated for teacher salaries, and about 10% (K46 M) for health workers' salaries.
- Some K156.7 M (15.6%) was allocated in 'Transfers' to third parties for provincial services delivery. A further K173.3 M (17.3%) was capital allocation which, the report suggests, was probably also mostly allocated

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<sup>170</sup> "Review of Intergovernmental Financial Arrangements: Background Study on Provincial Budgeting" Draft Report, August 2002.

<sup>171</sup> Ibid. chapter 2. The report emphasises the fact that for the study actual expenditure was not analysed, simply intent. It also notes the importance of assessing the extent to which budget intent matches the actual expenditure. Department of Finance, Budgets Division historically conducted quarterly reviews of budgets against actual revenue and expenditure, but that this had ceased for several years and has only been recently revived. The report strongly argues the need to reinstate and properly resource quarterly budget reviews.

<sup>172</sup> Ibid. section 2. In fact, this is the allocation figure, and the study report points out that there is a difference of K 53.6M between the total allocations and the revenue figure of K948,081.9 M. The report suggests several possible causes of this difference.

<sup>173</sup> Ibid. Section 6.2, the study points out that this does not take account of the fact that some provinces exceed their TSC salaries allocation by a further 5 to 10%. The study notes that this is because teachers are placed on the payroll by the Teaching Service Commission and paid by the Payroll division of the Department of Finance irrespective of the salaries allocation.

to sub-contractors (because most provinces do not have functioning provincial works divisions). The remaining K244 M, about 24%, being managed directly by provincial personnel.

- Allocations to Routine Maintenance were K22.16 M - or just 2.2% of total expenditure. This, the report suggests, was very low (based on the convention that annual maintenance should be 5% of asset value, which would value all existing assets in provinces at just K443.2 M, whereas total asset value must certainly be much greater than that).
- The study disaggregated expenditure into nine categories.<sup>174</sup> The largest allocation was to Administration, almost K354 M - that is, 35.3%, or over one-third<sup>175</sup> of the total provincial allocations. When Salaries & Wages are omitted, Administration still received the largest proportion of non-salary funding at 35.7%. The report considered this too great a proportion of available funding.<sup>176</sup> The allocations to Administration were generally consistent across all provinces.
- The next largest allocation was to Education, which received approximately 32% of the total amount. This was consistent across most provinces. The greater proportion was directed to Salaries & Wages (83%), and less than 5% was for Goods & Services. When Salaries & Wages are not considered, the average provincial allocation to Education was 10.5%.
- For other sectors, the proportions were as follows: Infrastructure 11.7%; Health 5.9%; and, Community Services 4.7%. Considering only non-Salaries expenditure, Infrastructure received the second largest proportion, 22%.
- Other than Administration and Education, the study found that provincial allocations to the other sectors varied significantly from province to province.

In summary, the NEFC's provincial budgeting study's key findings indicate that a large proportion of available funding is being consumed in public sector salaries and the operation of the system itself, and relatively little on maintenance and basic services.

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<sup>174</sup> The Study referred to these as "Functions". These were: Administration, Health, Economics, Education, Law & Order, Infrastructure, Community Service, Reserves, and Other.

<sup>175</sup> Based on total budget figures, Administration represented 35.3% (K353.7 M of the K1.001 B), and as a proportion of non-salary funding, it represented 35.7% (K186.6 M of K522.9M).

<sup>176</sup> Though the Study's broad conclusion seems reasonable enough, we would like to see further work done to assess just what provinces include under Administration. Informal discussions with provincial personnel suggest that some expenditure allocations – particularly in the areas of Health, Education and Law & Order – are included under the Administration head for convenience (e.g. medical evacuations, 'in-kind' support for Police, and CIS, such as fuel and food). The report also makes reference to this point in its section 6.3.

Moreover, findings also suggest that not only do provincial spending priorities differ from those of National Government, but that they also differ from provincial government to provincial government.

### **6.3.3 What would be Appropriate Expenditure Levels?**

Comparison of allocated amounts to different sectors is clearly useful in indicating relative priority. However a particular allocation to an individual sector only has real meaning when compared with some measure of an appropriate level of allocation for that sector – that is, what the sector should receive based on the cost of providing an ‘appropriate’ standard of service. In general, data relating to appropriate standards and actual costs are very limited.

The NMA did make some attempt in 1997 to obtain unit costs estimates from national agencies as part of the specification process referred to earlier. Indeed the specification of minimum standards and unit costs was to be one of the main activities of the NMA and its Provincial Inspectorates.<sup>177</sup> However - as with other worthwhile NMA ideas - little was achieved, few sectors provided information<sup>178</sup> and the initiative died.

Unrelated to the NMA initiative, recently the National Department of Health (NDoH) has developed a set of minimum service standards and general unit costs.<sup>179</sup> These are based on national experience and analysis, and international standards, and apply to the provision of basic health services for rural populations. The Department has estimated the cost of achieving the minimum standards for district health services based on the minimum set of activities, supplies, skills and equipment necessary to provide cost-effective health services at provincial and local-levels. The Department puts the non-salary Health costs that should be met by provinces<sup>180</sup> at K51.06 M.

The Department has also used Provincial Accounts data to estimate that for the 2001 budget year, provincial governments spent just K12.6 M<sup>181</sup> on Health - of this Morobe Provincial Government alone spent more than half, K6.8 M, and the remaining 18 provincial governments just K5.8 M. Compared to the estimate required for minimum standards, this represents a shortfall of K38.43 M for 2001. Or, put another way, just 25% of what was needed to meet minimum standards in those areas that NDoH see as provincial responsibility. According to the same NDoH analysis, the situation worsened in the 2002 budget year, with a decrease in the Goods & Services allocation such that just

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<sup>177</sup> See: op. cit. NMA draft Handbook, Volume 1 (1998), page 7, discusses the intention, and Chapter (3) makes reference to the approach.

<sup>178</sup> As per op. cit. NMA draft Handbook, Volume 2, (1998) only Education, Literacy, Police and Civil Registration sectors/sub-sectors made some attempt.

<sup>179</sup> see “Expenditure on Health Services by Provincial Governments” Presentation to Provincial Management Teams, NDoH, 2002.

<sup>180</sup> This does not include costs met from the national-level, including: salaries, costs of drugs and equipment (met by NDoH), cost of church facilities (covered separately). NCD is not included.

<sup>181</sup> Ibid. page 13. In fact, according to the NDoH, the total Goods & Services provincial appropriation to Health amounted to K19.97 M, but just K12.63 M was actually spent - that is, just 63% of what was appropriated. It’s also worth noting that the NEFC’s Provincial Budgets Study’s figure on appropriation differs considerably from the NDOH figure – which the study report attributed to coding issues, see op. cit. “Background Study on Provincial Budgeting” (2002), section 6.3.

15.8% of provincial governments' minimum standards funding requirements were met.

It should be noted that these should be considered *ballpark* estimates only. They are based on particular minimum standards of service-delivery, which may not be universally applicable or practical, and the unit costs are standard for the country as a whole with no allowance for local situations. Nonetheless, given the amount of shortfall, it would be fair to say that provincial funding allocations for Health appear to be, on average, very low.

#### **6.3.4 Multiple Demands on Provincial Funding: Need for Prioritization Framework**

The findings above must be seen in the context of the overall demand on provincial funding. It's not just Health officials who feel not enough is being spent in their sector. Almost every national agency we spoke with argued that provincial governments were not spending enough on their particular sector (e.g. NDoE felt that not enough was being spent on the Education sector, etc.).

Under the Reforms there are many demands on the funds available to provincial governments. As noted earlier, the cost of functions was removed as a basis for funding and there was little assessment done of whether every provincial government could fund all their existing and new functions.

The situation is messy and getting messier - some fundamental questions need to be addressed: who sets priorities, in what areas, who is responsible for funding what, to what level, what would this cost, can all provinces afford it, what assistance for core services can be provided for those that need it?

A prioritisation framework for provincial government resource allocation is necessary. This must be able to be adapted for use by each provincial government and allow local and national priorities to be identified and properly balanced. It is beyond the scope of this study to attempt to specify such a framework. Where the notion of such a framework does strongly link to our work is that it would first require a clear and agreed specification of responsibilities, particularly in respect of funding. In this regard the specification exercise suggested in chapter 5 would form an essential pre-requisite.

Another essential input would be estimates of the costs of carrying out functions to an appropriate and agreed standard. In this regard the minimum standards and unit costings initiative should be reactivated. From our sectoral consultations we understand that, in addition to the reasonably well-developed Health sector standards and unit costings –

- For the Education sector, a study currently being undertaken by the NDoE, in conjunction with donors, should provide reasonable estimates of costs

of achieving the standards specified in the current National Education Plan.<sup>182</sup>

- For road transport, the Department of Works advised us of a Roads Asset Maintenance System (RAMS) being developed which will provide cost estimates of maintaining roads to specified standards. Base data for the System is being collected, and will ultimately cover both National and provincial road networks.

As we understand it, no other national agency is currently developing minimum standards or unit costs. Some agencies have average cost estimates of provincial operations – such as Fire Services and the National Broadcasting Corporation. For other areas, the only estimates of costs are those that could be derived based on pre-1996 figures – though the accuracy of those figures as a representation of actual costs cannot be assumed and there have been many changes since then<sup>183</sup> which would have to be allowed for.

## **6.4 Funding Available to Local-level Governments**

### **6.4.1 National Government Grants**

The Local-level Government and Village Services grant has never been paid in full. As for the other National Government formulae-based grants, the appropriation came closest to the Organic Law mandated amount in 1997 and 1998, when it was respectively about 98% and 84% of the calculated amount. There was a significant fall in the 1999 budget year, when the amount appropriated was just 35% of the formula calculated amount. A similar percentage - about 37% - was appropriated in 2000. The amounts appropriated increased a little in 2001 and 2002 but, as for the other grants, the amount appropriated as a percentage of the calculated amount actually fell (to around 30% for each year), because of the use of the 2000 Census population figures in the new base year calculation.

For all but one year from 1997 to 2001, the actual amount received has been close to the appropriated amount (from about 93% to 100%). The one exception was 1998 when just 62% of the appropriation was actually paid.

The Town and Urban Services Grant has followed a similar pattern. The appropriation in 1997 was as calculated, and in 1998 it was 93% of the calculated amount. Since then, the appropriation as a proportion of the calculated amount has fallen to between 45% and 48%. The notional appropriation actually increased in the 2000 Budget, but fell as a proportion of the calculated amount because of the use of the 2000 Census population figures in the new base year calculation. Each year from 1997 to 2001, the actual amount received has been close to the appropriated amount.

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<sup>182</sup> "PNG Education Sector Affordability Study" being undertaken by the NDoE in conjunction with AusAID and the World Bank.

<sup>183</sup> For instance, to cost structures - salaries and wages have gone up at a greater rate than other expenditure areas, and kina devaluation has increased the costs of imported inputs such as medicines, fuel, machinery etc.

According to the OLPGLLG, these grants were to be paid directly to the LLGs by the Provincial and District Treasury.<sup>184</sup> Not all provinces have operational Treasuries in all districts. We were told during consultations - and it has been reported by others<sup>185</sup> - that funds have not always been fully passed on to the LLGs. We have not attempted to verify this claim or to investigate how wide spread the practice might be.

In conclusion, as for provincial governments, the guaranteed funding levels and the certainty that the new funding arrangements were intended to provide have not come about because the grants have not been paid according to the formulae. In addition, the same timing issues that impact on provincial governments (see: section 6.2.1b) also apply to LLGs.

A key objective of the Reforms was the *empowerment* of LLGs through, among other things, the (guaranteed minimum) direct funding from National Government. The underpayment of the grants, together with claims that some funding is 'held-back' at the provincial level, suggests that this objective has not been met.

#### **6.4.2 Other Funding Sources**

Local-level Governments have access to other funding sources – including the ability to raise revenue through a range of taxes and fees. Although, as noted in section 4.7.2, the required Act of Parliament providing for the manner and detail of collection has yet to be enacted, and so LLGs collecting funds in this way might be considered to be doing so illegally.<sup>186</sup>

Nonetheless these, and other funding sources, are providing some limited additional revenue for LLGs. Again any 'hard' data relating to levels of revenue is scarce and our review of a sample of rural LLG budgets is our only source of information. As the source documents are budgets, the revenue figures are projections only and we've not checked whether the projected revenue did actually eventuate.<sup>187</sup>

In relation to sources of LLG revenue, six of the 37 LLGs sampled – or 16% - expected to receive funding through the Member's District Support Grant. Eight – 22% - projected additional grant funding from their provincial government. The most common sources of locally raised revenue were Court fees and fines (65% of the LLGs sampled) and Trading licence fees (46%). Seven LLGs (19%) expected to raise revenue from Head Tax.

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<sup>184</sup> OLPGLLG Section 93(3) and 94(3).

<sup>185</sup> See for instance: (a) "Report to National Parliament" (2002), page 13; & (b) Meninga (2000), page 3.

<sup>186</sup> This is the view of the current Minister for Inter-government Relations, see: op. cit. "Report to National Parliament" (2002), page 13.

<sup>187</sup> This could in fact be a significant issue. For instance, we were told during our trip to one province that one rural LLG projected revenue at close to K300,000 but received just K100,000.

Over half the LLGs in the sample had ‘Former Years Appropriation’. As discussed in section 6.2.1 in relation to provincial governments, these are funds carried over from the previous year that arrive too late to be expended in that budget year.

Overall, for most LLGs, locally raised revenue projections constituted a relatively small proportion of the projected funding available. When former years appropriations are not considered, most LLGs projected to receive most of their funding from the two National Government grants. For over half (19 of 37) of the LLGs, these grants made up more than 90% of the total revenue. About 19% of LLGs (7 of 37) generate no internal at all, and 41% (15 LLGs) less than 5%.

Just four LLGs (11%) projected generating more than 25% of their total funding from internal revenue, with the highest proportion being 60%. These few LLGs did expect to generate reasonably large internal revenue income. The largest amount was some K278,000 – and the average of the top five was some K223,000. We have not attempted to relate these figures to population.

The main conclusion to be drawn from the analysis is that most rural LLGs are able to raise relatively little of their total funding themselves and are reliant on funding from National Government and, in a few cases, funding from the District Support Grant and/or provincial government. There is however quite some variation and a very few LLGs are able to raise substantial sums.

## **6.5 Local-level Governments Expenditure Patterns**

As noted earlier, under the Reforms LLGs are expected to take on more substantial responsibilities – particularly in areas such as primary health care and elementary and primary education – and are also expected to make funding contributions in these areas. The NDoE and NDoH officials we spoke with expressed concern that, in general, these sectors were getting little support from LLGs.

The only information we have to assess LLGs’ expenditure patterns is the analysis of the 2001 LLG budgets sample – of course, this indicates the expenditure intentions, not actual expenditure. Key findings are summarized below.

- The most significant area of expenditure is Administration -
  - ⇒ The total of Salaries & Wages, Officials’ Allowances, Meeting Allowances and General Administration averaged about 58% of total expenditure for LLGs in the sample.
  - ⇒ For 86% of the LLGs, this was the largest single area of expenditure.
  - ⇒ All LLGs made significant allocation to Administration – with the allocation of the five LLGs that allocated least averaging 28%, and the five that allocated most averaging 99.7%.

- ⇒ Eight LLGs (22%) allocated over 85% to Administration.
- The remaining allocations were distributed across various sectors. Because of the way most of the budgets are presented it was not possible to distinguish ‘recurrent’ from ‘development’ expenditure. The analysis below is based on total expenditure. The main sectors and their average relative allocations as a percentage of the total are: Infrastructure 14.8%; Community Service 7.8%; Education 7.0%; and, Health 4.8%.
- Of the sector allocations, 57% of LLGs - (21 of the 37) - made their biggest allocation to Infrastructure. Of the others, 16% made their largest allocation to Education, 16% to Community Service, and 11% to Health.
- Most LLGs made some allocation to these four sectors:
  - ⇒ 78% (or 29 of the 37) made an allocation to Infrastructure;
  - ⇒ 73% to Education;
  - ⇒ 73% to Community Service; &
  - ⇒ 62% to Health.
- The average allocation to the different sectors was: Infrastructure K45,700; Education K21,800; Community Service K21,100; and, Health K11,800. However the amount varied widely –
  - ⇒ For Infrastructure, the allocation of the five LLGs that allocated most averaged about K167,000 (the highest allocation was K285,000), compared with ‘nil’ for the five LLGs that allocated least.
  - ⇒ For Community Service, from K76,100 to nil.
  - ⇒ For Education, from K43,000 to nil.
  - ⇒ For Health, from K40,000 to nil.

We acknowledge that as an assessment of LLG expenditure, this analysis has limitations, including:

- incomplete coverage;
- no urban LLGs covered;
- no distinction between developmental and recurrent funding;
- no *per capita* analysis;
- based on revenue projections, not actual revenue;
- reliance on allocation rather than actual expenditure; and,
- single year only.

Nonetheless, we believe some broad conclusions can be drawn.

There is a wide variation in the revenue and, so, also in the expenditure levels of rural LLGs. All LLGs spend on Administration. For most, this is their largest area of expenditure and, for about one in five, effectively their only area of expenditure. This suggests that some LLGs were in breach of the conditionality on the application of the National Government Grants. Notwithstanding this, it appears that the Minister for Finance passed the budgets, and that the DPLGA did not comment.<sup>188</sup>

Some of our informants suggested that the operational costs of LLGs were far too high. Part of this they attributed to the current Salaries and Remuneration Commission ruling<sup>189</sup> which, they believe, is excessive providing a monthly allowance of K250 for LLG Deputy Heads, and of between K50 and K200 for Councillors, as determined by each LLG.<sup>190</sup> We are told that nearly all LLGs have opted to pay Councillors at the upper end of the range.<sup>191</sup>

There was a wide range in sectoral allocations. Overall, Infrastructure received the greatest share – both in terms of the proportion of LLGs making an allocation (78%) and magnitude (an average of 14.1% of total LLG allocation, compared with the next largest of 7.6%). This is likely to be for new construction rather than for the maintenance of existing assets, and means greater recurrent costs in the future.

The average allocation for Education was about K21, 800. For Health, about K11, 800. However this conceals the large variation. About 27% (i.e. 10 of the 37) made no allocation at all for Education, and about 38% (14 LLGs) made no allocation for Health.

Put another way, this means that there are many LLGs – over one in four - that are unable, or do not wish, to allocate funds towards their responsibilities in Education. Similarly, there are almost two in five LLGs that are unable or unwilling to allocate funds to meet their responsibilities in Health.

## **6.6 Resourcing Related Areas Requiring Further Work**

### **6.6.1 Role of ‘Others’ in Funding**

By ‘others’ here we mean ‘other than PNG government’. We’re not speaking of the kind of formal and on-going ‘partnership’ arrangements that were meant to be an integral part of the Reforms and MTDS (as discussed in section 4.4.2). Rather we’re referring to organizations such as donors (bi-lateral

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<sup>188</sup> The third amendment to the OLPGLLG changed Section (141) such that the Minister for Finance must approve the LLG budgets. Previously, under the original provision, (what is now) the Ministry for Inter-government Relations had approval power. Now copies of the budgets must be sent to the Department of Provincial and Local Government Affairs, but approval powers reside with the Finance Minister.

<sup>189</sup> Eighteenth Report of the Salaries and Remuneration Commission, Determinations. Dated March 25, 1997, updated January 1, 2000. The relevant schedule is G97-01(b), which commenced on February 10, 2000.

<sup>190</sup> Most Presidents of LLGs are members of the Provincial Assembly and are covered by a different award, and receive an annual salary of K12,885. Those LLGs Heads who are not members of the Provincial Assembly, are covered by this award and receive a monthly allowance of K350.

<sup>191</sup> A simple calculation, based on the LLG Presidents being Assembly members, and assuming a K200/month allowance for the remaining 5,577 Councillors and some 618 appointed members (3 per urban LLG and 2 per rural LLG), puts the total cost at almost K15 M annually.

government and multi-laterals, NGOs, community-based organizations) and resource development companies that provide temporary funding or other support. This presents obvious, inherent sustainability issues - of particular concern is funding for those areas that would normally be considered to be recurrent activities.

This is an area we had hoped to investigate but, unfortunately, the difficulties we faced in the study (as noted in the Introduction) together with the time and resource constraints within which we were obliged to operate, have meant that we've been unable to do anything substantial. We note our concerns here for the sake of completeness and in the hope that NEFC personnel will be able to do some of the basic work needed in the near future. We also know from the brief discussions we've had with various informants that others also share our concerns.

- Development Funding

Development or capital investment projects - such as construction projects – will, by their nature, fund initial construction. But a new school or health centre will also have significant recurrent costs including staff salaries, supplies, and maintenance. A new road will have significant on-going maintenance costs. Though the theory would have it that 'capital investment' generates benefits for the economy as a whole that should exceed additional recurrent costs, past experience in PNG suggests that this is not always the case, at least not in an appropriate timeframe (particularly for social service infrastructure). If the total resource cake does not grow then either the additional on-going costs are not met (e.g. maintenance is not done), or less funding is available for other recurrent functions.

The solution appears simple: the recurrent costs to government of any capital expenditure must be properly considered in the light of an overall (development and recurrent) expenditure programme and long-term revenue projections, before any new capital venture goes ahead. But, is such assessment always done as rigorously as it should be, and if so, are the results heeded?

- Recurrent Funding

When 'others' fund recurrent activities the issues may be more pronounced and immediate. While the funding is provided, the governments concerned are able to use their own funds for other (worthwhile) purposes. But when the funding ceases, and if nothing else changes, governments will have no option but to cut back on services - whether in the area previously funded by others, or in the area they funded themselves. Either way, services drop and expectations that have been raised are not met.

This is not intended as a blanket argument against ‘recurrent’ support (- we wouldn’t dare!). Such support may sometimes be needed and, if used properly, should reduce future on-going costs to government (e.g. by putting in place appropriate routine maintenance strategies, by lessening on-going requirements through appropriate design/modification, etc.). However, it’s important that all involved are clear on the arrangements and make adequate preparations for the time when outside funding ceases – as it must eventually do.

In general discussions we’ve been told of some specific instances of resource companies and donors funding recurrent activities. However we’ve not had an opportunity to speak with the companies or the donors concerned, or corroborate the information in any other way, and so we won’t note these here.

Finally, it will be understood that if external funding for either developmental or recurrent activities is based on loans - rather than grant funds - the problems are compounded by the need to pay back borrowed funds (and any related interest), and the consequent added calls on the PNG Government’s future revenue flows.

#### **6.6.2 Personnel Deployment - Waiting on Data**

As noted in the chapter 2, we don’t yet have information we’ve requested from DPM regarding changes in:

- overall staffing numbers - and the impact of the Reforms, and of the various retrenchment exercises; and,
- deployment of personnel - from national agencies (consistent with responsibility transfers), between sectors, and to lower levels (e.g. from provincial headquarters to districts and local levels).

Although these data are not available for this study, when they do become available they will be analysed by NEFC personnel and further add to the understanding of the operation of the Reforms, as well as strengthening NEFC’s overall database.

#### **Some Points for Further Consideration**

Some points relating to personnel matters were mentioned during our consultations and are worth noting here.

- ? We were told of cases where a function may have been transferred from a national department to provinces, but personnel have not – so the national

agency may fund staff salaries but cannot provide an operational budget for the function.<sup>192</sup>

- ? Some provinces note that they've reduced the size of the public service and decentralized staff to district and local levels.<sup>193</sup> However, from what we been told, in general staff re-deployment to districts and LLGs is lagging.<sup>194</sup> Moreover, the organizational structures put in place in provinces are not consistent across all provincial and district administrations.<sup>195</sup>
- ? In regard organizational structures and Establishment Registers, there is another point that should be noted. One informant told us that even though his province's Establishment Register might show some 70% of the personnel establishment located in districts, the real figure is closer to 20%. He said the reality is that staff have not taken-up, or have returned from, their district postings because of law and order problems, and a lack of suitable accommodation. This further highlights the need to corroborate DPM data.

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<sup>192</sup> For example, we were told that in non Water Board areas, *Water & Sewerage* was a National Works function. It was transferred to provinces and operational funding was taken away from the Department. However, the staff are still to be transferred and are still being paid through the National Works Department. We were also told that most provinces have not provided operational support for the function. There may be differing reasons for this – as discussed in chapter 5.

<sup>193</sup> Op. cit. Turburat (1999), page 87.

<sup>194</sup> This was mentioned by several provincial representatives at the November 2002 NEFC Seminar.

<sup>195</sup> Op. cit. "Report to National Parliament" (2002) page 10, notes that the 'pyramid structure' of the Reforms is not being applied and there is no consistency in the structures of provincial and district administrations in relation to classification of positions, levels and designations.

## **7. THE FUNDAMENTAL ISSUE OF CAPACITY**

### **7.1 Introduction: Key Themes Emerging from Consultation**

An issue that came up consistently in consultations with every stakeholder group was the need to properly consider *capacity*. The main themes to emerge were as follows -

- The capacity of recipients was not taken into consideration at the time of the first transfers in the 1996 Budget, or in subsequent transfers. The transfers were done without proper feasibility analysis to determine, among other things, whether recipients could effectively carry out the transferred functions, as well as all their existing functions.
- Some provincial governments and LLGs don't have the capacity to effectively undertake all that is expected of them. This means not only that a new transferred responsibility may not be properly carried out, but that the added demand on energy and resources might also lead to a lessening of performance in other responsibility areas as well. These provincial governments and LLGs need assistance to strengthen capacity, not additional challenges.
- Capacity has many elements to it (e.g. skills and competencies of personnel, supports system, infrastructure, funding, etc.), and the adequacy in each area has to be tested to ensure a function can be effectively carried out once transferred.
- For the most part, the Reforms transfer process does not recognize the fundamental fact that capacity varies from provincial government to provincial government, and from LLG to LLG. Even within any particular provincial government/administration or LLG, capacity may vary from sector to sector. The differing capacities should be recognized and accommodated in a commonly understood, agreed and planned approach to transfers.

These themes are discussed below.

### **7.2 Accommodating Differential Capacity: One Size Does Not Fit All**

#### **7.2.1 An Issue Recognized but Not Addressed**

It's interesting to note that the Bi-Partisan Committee report proposed that powers be exercised by the provincial authorities<sup>196</sup> according to their capability and need to do so.<sup>197</sup> Moreover, after the first transfers of 1996, the NMA did outline a transfer process based on an individually negotiated and

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<sup>196</sup> Under the Bi-Partisan Committee recommendations, provincial authorities were to replace provincial governments.

<sup>197</sup> Noted in op. cit. Axline (1993). This paper also noted that the Committee intended to deal with the issue of how to determine capacity in a subsequent report.

progressive transfer of functions based on capacity – but, as noted above, this did not become established (see Section 5.6).

So although there appears to have been recognition of the need and worth of such an approach, it has never been applied and, with a few exceptions, transfers have been “across-the-board”.

### **7.2.2 Elements of a Systematic Approach to Responsibility Transfer**

Part of the reason for this failure may be the difficulty and cost of accommodating differing capacities. This would require tailoring an individual transfer schedule and capacity-building programme, based on the specific needs and capacities of recipients.

#### Pre-requisites/Inputs.

Such an individualized schedule/programme would have to be built-on:

- An understood and agreed notional distribution of responsibilities - that is, the ‘desired’ final state that all parties would work towards. This is something currently lacking and that we propose should be developed as an urgent priority (see: section 5.8).
- From the above, a clear listing of the responsibilities that have to be shifted from one level to another.
- An understood, agreed and systematic transfer mechanism. This should be able to be tailored to the individual needs and capacities of recipients and of those transferring.

#### Tailoring an Individualized Programme.

To identify capacity issues, and work to address them, for any particular responsibility stakeholders should first specify and agree on -

- The elements of capacity of relevance for that responsibility - including, for instance –
  - ? Personnel –
    - numbers,
    - skills and competencies, &
    - location.
  - ? Funding.
  - ? Infrastructure -
    - communication, &
    - office and residential accommodation.

? Systems and support structures.

- The ‘performance standard’ (i.e. what the recipient needs to be able to do, to what level, to be judged able to adequately undertake the responsibility).
- Indicators of capacity for each element that are –
  - understood and agreed,
  - objectively verifiable,
  - measurable, &
  - practical (e.g. based on information available, and/or easily and cheaply collected).
- A means of collecting and processing the information, and generating the indicators to ‘check’ on capacity.

For each recipient (e.g. provincial government or LLG), the above could be used to negotiate a graduated plan for transfer with the national department transferring the responsibility (or provincial administration for transfer to LLG). This would need to include an agreed approach to the ‘sharing’ of funding and other resources while the function concerned was in the ‘transfer process’.

Obviously, all this would come to nought without a tailored capacity-building programme to address shortcomings identified, and lead to a situation where the recipient could properly assume the responsibility.

The approach is, of course, ambitious. It requires a significant level of analysis, consultation, negotiation and agreement, culminating in capacity building programs and transfer schedules tailored to the individual circumstances of recipients. It poses significant resourcing issues and, as it would require a lengthy period to bring about, would require on-going political commitment. Although all this presents sizable challenges, it is these very characteristics that make such an approach worthwhile. The matter is of such fundamental importance that it warrants the political, bureaucratic and resource commitment necessary to do it properly. Indeed, in the long-term, the cost of not addressing responsibility confusion and capacity shortcomings may well be significantly greater than anything such an exercise might cost now.

### **7.3 Capacity - An Issue at Every Level**

It would be wrong to conclude from the preceding that capacity is an issue only for the recipients of transfers, that is, provincial and local level governments. In fact, it is clear that capacity shortcomings exist at every level.

#### **7.3.1 At National-Level**

Under the Reforms, national agencies are expected to provide policy advice, and have a significant role to play in supporting and strengthening lower levels. Provincial stakeholders have noted that they have not received the support they need from national agencies.<sup>198</sup> Similarly, during our stakeholder consultations, a number of national agencies expressed concern that they were not able to fully meet their responsibilities. Other commentators have also previously noted a lack of adequate support for the Reforms from national agencies<sup>199</sup> – some cite this as the biggest constraint to the successful implementation of the Reforms.<sup>200</sup>

##### **(a) Department of Provincial and Local Government Affairs**

The DPLGA's budget and personnel resources have been cut over recent years and all the Department's activities have been affected. According to the Department, as at the time of writing there are some 84 positions, of which just 59 are filled, and the total travel budget for 2002 was less than K50, 000. There are two areas within the DPLGA that are of particular relevance to this study.

##### **Provincial Reforms Secretariat.**

This is the Secretariat to the NMA. The effectiveness of the NMA depends to a significant degree on the performance of its Secretariat. As in other organizations of this type, the Authority is made up of community representatives and senior officers of national agencies. They are expected to perform a policy setting, advisory and overseeing role. The full-time officers of the Secretariat would normally be expected to do the substantive work. The Director indicated that for the last several years the Secretariat has lacked the necessary personnel and financial resources to adequately perform its role. It has not been able to effectively co-ordinate the implementation of the Reforms or monitor performance. Nor has it been able to establish Inspectorates in each province, as called for in the Organic Law.<sup>201</sup>

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<sup>198</sup> See: (a) op. cit. Turburat (1999), page 87; & (b) "Report to National Parliament" (2002) page 5 and page 18.

The same point was also made by a number of provincial representatives during the November 2002 NEFC Seminar.

<sup>199</sup> op. cit. "Report to National Parliament" (2002), page 14, notes a lack of commitment from national agencies.

<sup>200</sup> op. cit. Meniga (2000), page 5.

<sup>201</sup> OLPGLLG Section (110)(3).

It appears that the Secretariat was well supported in its early years through both the Government of PNG budget and significant donor assistance – the latter providing operational support and specialist expertise. Since late 1997, when the initial donor support ended, the Secretariat has faced very significant resource – personnel and funding - constraints.

It is worth noting that the NMA's capacity shortcomings have been recognized for some time. A report to the DPLGA prepared in late 1997 noted the decline of the NMA as early as the second half of 1997 (as discussed in section 5.6). A report to the National Parliament from the Minister for Inter-governmental Relations, first prepared in 1998 (and revised in 2002), noted that the NMA's staff and other resources were inadequate to meet its responsibilities.<sup>202</sup> Notwithstanding the longstanding awareness of the problem, it has yet to be addressed.

#### Local Level Government Advisory & Support Services Division

After Independence, local government initially came under the jurisdiction of the National Government. In 1982, under the previous system of decentralization, provincial governments assumed responsibility for the supervision and control of local government. By the time the Reforms brought local government back under the control of National Government in the mid-1990s, DPLGA had lost most of its specialist staff with expertise in the area.<sup>203</sup> The Local Level Government Advisory and Support Services Division was established to support LLGs. It has a staff establishment of less than a dozen positions, some of which are vacant. Given the number of urban and rural LLGs across PNG (i.e. 296), the resources available to the Division appear very thinly spread. Particularly so considering that the last few years have seen a number of significant changes brought in at local level. There have also been a number of additional LLGs established since the first were proclaimed in 1997, and a lot of 'tweaking' of boundaries and so forth. According to the Division Director, all LLGs have required some level of assistance to become established under the new system, and this has had to be the Division's primary focus. Moreover as LLGs now report directly to the national-level, the Division has been the 'first port of call' for LLG members and others wishing to lobby or to express concern over issues (e.g. such as the funding shortfalls discussed in chapter 6). The Director says that with the resources available it has been extremely difficult for the Division to even keep up with the daily demands placed on it, much less tackle the capacity-building challenges facing the local government system.<sup>204</sup> Nor has it yet been able to

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<sup>202</sup> Op. cit. "Report to the National Parliament" (2002), page 3.

<sup>203</sup> Op.cit. Meniga (2000), page 2.

<sup>204</sup> By way of comparison, in the early 1970s there was a Commissioner of Local Government, with a sizeable budget and some 30 staff to look after about 159 local level governments.

establish any kind of systematic data collection and monitoring regime, having to rely on anecdotal and ad hoc reports.

It would be too simplistic to merely propose increasing resourcing to these divisions – the reality is that times are tough financially, and likely to get tougher. At the same time, the current situation cannot be permitted to continue. There is a clear need to review the role and operation of the NMA and its Secretariat, and LLG Advisory and Support Services. However, we don't feel this should be done in isolation. Rather it should be part of an overall strategic review of the Reforms' goals, structure and systems, and implementation approach.

The same section of the OLPGLLG that established the NMA also calls for it to have its own Act.<sup>205</sup> Eight years on, this has yet to be enacted.<sup>206</sup> Whatever the outcomes of a strategic review of the Reforms, those matters relevant to the NMA might be captured in such an Act – for instance, the authority and power, membership, support arrangements, relationships with stakeholders (including its particular relationship with DPLGA), are all areas that could be reconsidered in light of the experiences to date, and the role that a NMA-type organization might best play in the future.

(b) Other National Agencies.

As noted earlier, the Reforms called for the extension of some national agencies to support provinces (see: section 4.5). Little progress has been made. For instance (re. section 4.5.2), Provincial audit cells were established, but disbanded in 1999 because of a lack of resources. The Auditor General's Office is required to undertake annual audits of all LLGs (i.e. 296), but is well behind.<sup>207</sup> The establishment of District Treasuries has been hampered by the (related) problems of resource constraints, lack of infrastructure (including housing and reliable power supplies), and difficulties securing experienced personnel to post to districts. It appears that few District Treasuries are operating in districts (we were also told that some District Treasuries noted as being established are actually located in provincial headquarters). As noted previously, the NMA Provincial Inspectorates have not yet been established. Similarly (re. section 4.5.3), the Provincial Planning and Data System in provinces has not been established.

(c) Legislation Still Outstanding.

The OLPGLLG calls for a number of pieces of legislation in support of the Reforms. Capacity issues are reflected in the fact that some eight years after the enactment of the Organic Law there are 13 references to legislation that are

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<sup>205</sup> OLPGLLG S(110)(5).

<sup>206</sup> In this regard, it should be noted that we understand from the NMA Secretariat Director that drafting instructions, first prepared several years ago, have been reconsidered recently.

<sup>207</sup> Op. cit. "Report to National Parliament" (2002), page 14, estimates that the AG resources would not permit more than about 50 LLGs to be audited on an annual basis – this being less than 20% of the total number that should be audited.

still outstanding. These include several pieces of legislation mentioned previously in this paper.

### **7.3.2 In Provinces**

In chapter 6, we considered issues related to the financial capacity of provincial and local-level governments. In this section we consider some of the other elements of capacity.

As discussed, the Reforms have seen the transfer of additional responsibilities to provincial and local government levels. Operational and service-delivery responsibilities of provincial governments/administrations are, in the main, undertaken at the district-level. District administrations are also intended to provide support to LLGs in meeting the LLG responsibilities. This puts enormous demands on district administrations. Moreover the Reforms came in at a time when capacity at a district-level had been in decline for many years, and few trained and experienced administration and extension officers remained in districts.<sup>208</sup> It's clear from the OLPGLLG, and various other documents, that it was intended that district administrations would be significantly strengthened to meet the increased demands – this strengthening was to be through administrative restructures, staff re-deployment and infrastructure programs.<sup>209</sup> However it appears that, in general, many districts still lack the capacity to effectively do all that is required of them. In addition to funding difficulties, major deficiencies relate to:

- Infrastructure - office and residential accommodation, physical access, postal and telecommunications, support services (e.g. banking services);
- Personnel – lack of experienced and capable staff; and
- Administrative Systems - e.g. accounting systems.

These constraints are inter-related. Attracting, accommodating and retaining experienced staff is difficult when housing and other infrastructure are lacking,<sup>210</sup> and any system will – or can be made to - work better if operated by quality personnel. The important link between infrastructure and systems is illustrated by the observation - made in 2000 by the then DPLGA Secretary - that accounting systems require computers and power, and that many districts do not have regular power supplies.

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<sup>208</sup> This is something that was said to us several times during consultations and was noted by provincial participants at the NEFC Seminar in November 2002. It is also referred to in a paper presented in 2000 by the then Secretary of the DPLGA to the National Development Forum – See op. cit. Meninga (2000), page 2.

<sup>209</sup> These general statements of intent were given substance in the NMA's proposed approach presented in its draft Handbook. See: op cit. NMA draft Handbook, Volume 1, (1998), pp. 37, 51, 52.

<sup>210</sup> Op. cit. "Report to National Parliament" (2002), page 10.

Severe funding constraints – and other priorities – have meant that infrastructure is still lacking.<sup>211</sup> In relation to personnel issues, as discussed in section 6.6.2, although organizational structures may be in place in some provinces, staff re-deployment to districts and LLGs is lagging. In relation to systems, the clearest examples relate to the on-going problems with accounting systems. A background report on provincial financial management and accountability prepared late last year for NEFC's RIGFA notes that the provincial government accounting system, PGAS, is not a budget management and reporting system and does not provide summary information on spending against budget. To generate these data Provincial Administrations would need to develop their own systems, and not all are able to do this.<sup>212</sup> More generally, the same report suggests that the Re forms accountability framework did not take enough account of provincial and local level capacity limitations, and that the responsible national agencies (NMA, Department of Finance), have never been properly resourced to assist provincial governments, districts, and LLGs.<sup>213</sup>

At the LLG-level, long-standing problems with accounts management include the continuing failure of many LLGs to carry out bank reconciliations, maintain proper accounts and submit annual financial statements. In response, in April 2002, the Department of Finance withdrew the self-accounting status of all LLGs.<sup>214</sup>

Another significant issue at LLG-level relates to their capacity to draft legislation.<sup>215</sup> Even urban LLGs have very limited access to legal advice and drafting expertise, and most rural LLGs have no access at all. It's not surprising therefore that the draft bills that LLGs have submitted for approval by the Minister for Inter-government Relations<sup>216</sup> have been found to be poorly drafted and to contain provisions outside their powers (e.g. including in relation to the imposition of penalties and the levying of taxes and fees).

During our consultations there were some particularly interesting - and widely differing - views expressed on the capacity of LLGs, and on broader issues relating to roles and current activities. This is discussed in the next chapter.

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<sup>211</sup> This was mentioned by several provincial representatives at the November 2002 NEFC Seminar, and is even a constraint in the 'wealthy' provinces of East New Britain and Morobe, which we visited.

<sup>212</sup> Op. cit. "Background Paper on Provincial Financial Management and Accountability Systems – draft", (2002), page 23.

<sup>213</sup> Ibid. page 24

<sup>214</sup> Ibid. page 25, citing Finance Instruction 1/2002. The report also points out that the alternative procedures layed out in the Instruction required LLGs to work through their District Treasury and so assumed that there are functioning district treasuries in place and that they are adequately resourced, funded and skilled.

<sup>215</sup> Op. cit. "Report to National Parliament" (2002), page 14, argues that no LLG has the capacity to enact laws – and that the Department of Justice and Attorney General is unable to provide the necessary technical support.

<sup>216</sup> As required under OLPGLLG (141).

## **8. CAPACITY & LOCAL-LEVEL GOVERNMENTS**

### **8.1 Significant Expectations of LLGs**

Although the changes introduced through the OLPGLLG are commonly referred to as the Provincial Government Reforms, the Reforms are intended to be much more about *empowering* local government. It is certainly at that level that the most significant changes were called for. For instance, under the Reforms LLGs are –

- Separate legal entities, and come under the direct responsibility of the National Government (rather than under provincial governments as was the case).
- Given law-making powers in defined areas, and greater responsibility for planning and budgeting for service-delivery in a range of areas (particularly primary health, basic education and infrastructure).
- To receive formula-based ‘guaranteed’ annual funding directly from the National Government, and are able to raise revenue through the imposition of a range of taxes and fees, to borrow funds and give loan guarantees.

That some – many – LLGs have capacity problems should not be unexpected given the magnitude of the changes, together with the other factors discussed elsewhere in this paper, most notably the –

- ? generally poor preparation for introduction of the Reforms (see: section 4.1, 5.2, 5.3), and unsystematic approach to transfers (see: sections 5.4 – 5.7);
- ? difficulty that most national agencies have had in providing assistance and support to lower levels (section 7.3.1); and
- ? importance of support from the provincial administrations, and the difficulties that most have providing this (section 7.3.2).

### **8.2 What are LLGs Actually Doing?**

During our consultations there was broad consensus that –

- ? the performance of LLGs varies a great deal from one to another – as do the resources they have available (see: section 6.4, 6.5); and
- ? in general, although some are performing well, many LLGs currently lack the capacity to effectively undertake all that is expected of them.

Though there is some result-based evidence that LLGs are facing capacity-related problems (e.g. the accounts and legislative drafting issues noted in section 7.3.2 above), and ample anecdotal evidence, there is surprising little ‘solid’ information

on what LLGs are actually doing. There is no regular or systematic data collection and on-going monitoring and evaluation being undertaken and, to the best of our knowledge, there is no recent rigorous study assessing LLG activities and performance. This may sound odd given that nearly everyone we spoke with had an opinion on LLGs. Indeed the difficulty we faced was reconciling widely differing, anecdotally based, accounts of what LLGs are doing and the perceived worth of their efforts. The wide range of performance in different LLGs, and people's own differing experiences with particular LLGs can explain part of this - but without the necessary data an objective assessment of the LLG system as a whole is not possible. Extensive primary data collection of the sort and scale necessary was well beyond the scope of this study.

As discussed in sections 6.4 and 6.5, from our analysis of the 2001 budgets of some rural LLGs, we did get some sense of funding levels and sources, and of what LLGs spend – or intend to spend – their money on. That did highlight some significant issues – not least, the wide variation in funding available and expenditure possible. Some LLGs do appear to be spending significant sums on basic health and education services and infrastructure. However, it also appears that many LLGs are able to do very little more than to meet their own running expenses (i.e. salaries, allowances, administration). But, that doesn't tell the whole story. There may well be very worthwhile activities being undertaken by those LLGs that do not require specific funding and so are not reflected in their budgets;<sup>217</sup> for instance, dispute resolution, community cohesion, sanitation activities, etc.

We have heard a number of specific cases of both good and poor LLG performance. But we certainly don't know enough to generalize to the system as a whole – and neither, it seems to us, does anybody else.

### **8.3 Differing Views & the Way Ahead**

Given the lack of solid 'generalizable' information we were a little surprised by the strength of the opinions expressed as to what should be done to the LLG system. There is a wide range of views. Opinions vary on the nature and extent of the problems, their causes and, not surprisingly, their solutions. We have heard it suggested that all that LLGs need is more funding – or, at least, to receive their full funding entitlements – for performance to improve. This may well apply to some LLGs. Of course, if for some LLGs there are more fundamental systemic problems (related to, for instance, skills and systems), as other commentators believe, then more money will not improve performance and, overall, in fact possibly exacerbate service-delivery problems by removing scarce resources from where they might be better applied.

As regards the way ahead, the different suggestions reflect the range of opinion. At one extreme there is the view that the third level of government should be done away with entirely - which has sometimes been accompanied by the notion of forming a level of government at district-level (i.e. the argument goes that these

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<sup>217</sup> If there is expenditure it might perhaps be covered under the catchall of 'Administration'.

would be easier to control, more cost-effective, etc.). At the other extreme, leaving things as they are and simply giving LLGs more funding and allowing them to get on with their work (i.e. the argument goes that LLGs know the issues and are more accountable because they are ‘closer to the people’, etc.).<sup>218</sup>

#### **8.4 Getting the Basics Right: A Suggested Next Step**

Notwithstanding the strength and range of views, we must return to what, for us, is the basic issue: there is currently a lack of solid information regarding the role and functions actually being undertaken by LLGs, the level and variation in performance, the problems and constraints they face, the factors that make for effective government, and so forth. This makes solid decision-making problematic. Basic information of this sort is needed before any decision is made on the way ahead – without that, the outcome would become simply a matter of luck.

We propose that a study should be undertaken to collect basic information on LLGs and, at the same time, gather stakeholders’ views on what functions should be undertaken at the local level.

The study might be undertaken in three broad phases -

- Phase (I) would focus on review of available literature and whatever LLG documentation can be located, including budgets and financial statements. The work done for this study can be used as a starting point.
- Phase (II) would be based on broad-ranging consultation with representatives of all stakeholder groups, to ensure that all relevant views are adequately canvassed, and available to guide and inform decision-makers. This could be done through individual and group interviews, focus groups, standard questionnaires, and workshops. The key output would be a more precise definition of the key issues, any further questions that need to be explored and possible interventions that might be worthy of further consideration. Another important outcome would be the identification of the parameters allowing a grouping of LLGs, which could be used to structure a stratified sample and select representative LLGs for closer study.
- Phase (III) would be a series of in-depth case studies of representative LLGs in each of the strata identified in Phase II. The number of groupings and number of case studies in each would be determined by the balance between the need for complete coverage on the one hand and the resources available for the exercise on the other.

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<sup>218</sup> It appears to us that the views of many of our informants were, at least partly, ideologically driven. At one end of a spectrum of views, some people seem to believe that local government is inherently inefficient and that everything should be run from the ‘centre’. In contrast, some talk of ‘people power’, and others recall the ‘glory days’ pre-Independence when local administrations drove social and economic development – for possibly quite different reasons, these people feel that local government should be the prime focus. Many people take a position somewhere in between the extremes. The issue is that we need a practical system that works today, and no-one appears to be doing the work to understand what such a system would/could do and - based on that - what it would look like.

We suggest that the first step would be to convene an ad hoc group of key national agencies to consider the issues raised and plan out a course of action – including preparing terms of reference, identifying (and sourcing) resource requirements and outlining an indicative work programme. The ad hoc group should include DPLGA, DPM, Department of National Planning and Rural Development. The group could then be expanded to include other stakeholders, including provincial and local representatives, to form the core of a working group to oversee the exercise.

## **9. CONCLUDING REMARKS: THE DESIGN & IMPLEMENTATION OF THE REFORMS**

### **9.1 Some Observations**

There are some observations on the design of the Reforms and the way they've been implemented that we feel may be worth noting as the basis for identifying the possible broader lessons that the experience provides.

At this point we should note that none of what follows is intended as direct or implied criticism of those involved in the design or implementation of the Reforms. We all know how much better the view is with the benefit of *20-20 hindsight*. There was a great deal going on at the time and it might simply be that - with the best of intentions - too much was attempted, too quickly. But if PNG is to benefit from those experiences then we must acknowledge that some things could have been done differently, and could have been done better. We must identify those things and try to ensure they provide lessons that can inform and guide future initiatives. It is in that spirit that the following observations are made.

1. The Reforms were not sufficiently well defined. Explication of the precise overall intent, and of some individual design elements, was limited and implementers and stakeholders did not have sufficient guidance either –
  - in the documentation available, or
  - from the architects of the Reforms, who appear not to have had an active role after the new Organic Law was passed.
2. There was no overall statement of intent and defined strategy that all stakeholders understood and had 'signed-off'.
3. Linked to #2 above, not enough was done to secure the understanding and genuine support of all stakeholders, and so increase the likelihood of on-going co-operation.
  - Although both the Bi-Partisan Committee and the CRC conducted nationwide consultation, and the necessary majority was secured in the National Parliament to pass the Organic Law, it appears not all stakeholders fully endorsed the Reforms (or had, at the least, agreed to them proceeding). Possibly, in part, because of the lack of awareness and understanding, not all appear to have been genuinely committed to the Reforms - as evidenced by the response of some provinces,<sup>219</sup> and later by the apparent reluctance of some national

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<sup>219</sup> Op. cit. Turburat (1999), page 87 - this was the case with ENB, which was not originally supportive of the Reforms. Although it has done more than most provinces to properly implement them.

departments to implement the Reforms (possibly because of the loss of functions and funding).

- It seems - from a distance - that there may have been a general loss of interest at senior levels during the second half of 1997 – possibly as a result of the change of National Government, changes at senior levels of the public sector (and donor) bureaucracy, and/or the focus on other initiatives that took centre-stage. It appears possibly that when the Reforms ceased to be ‘flavour of the month’, the lack of genuine support became more apparent.
4. The Reforms were not subjected to adequate feasibility analysis to ‘test’ the viability and sustainability of the package as a whole, and of its individual component parts. A proper analysis would have considered the proposed intervention from all relevant perspectives including: financial, economic, institutional, technical, social/ cultural. The results would have been useful in strengthening the design, and in informing the preparation of an appropriate implementation strategy (including the identification of pre-implementation requirements).
  5. For instance, among other things -
    - Financial feasibility analysis might have highlighted financial sustainability issues associated with the Reforms being introduced at a time when an economic downturn was already apparent, and the increasing trend in salaries costs was clearly established.
    - Institutional feasibility analysis would have considered the very institutionally ambitious and expensive nature of the Reforms, and identified the significant capacity issues at every level.
    - Technical feasibility analysis would have highlighted design issues related to the lack of specified mechanisms for specifying responsibility distribution and systematic transfers.
    - Social feasibility analysis may have identified the lack of common acceptance and understanding among all stakeholders, and the increased risk of later commitment problems associated with that.
  6. There was no commonly known and accepted implementation strategy prepared prior to the first implementation. A strategy taking a ‘whole of government’ approach and an, at least, medium-term outlook should have been prepared in collaboration with all stakeholders. This would have specified –
    - ? approach,
    - ? roles, responsibilities and relationships of all stakeholders,
    - ? resource requirements and sources,
    - ? an indicative programme,

- ? a monitoring & evaluation regime, and
  - ? a review process.
7. Linked to #6 above, implementation was rushed and caught many stakeholders unprepared. There was little preparation (e.g. capacity issues not identified and addressed), and significant elements were not sufficiently well defined or understood (e.g. function identification/transfer mechanisms), to allow effective implementation. This led not only to confusion, but also disillusionment and distrust among some of those affected.
  8. Efforts made to prepare an appropriate implementation strategy were in response to the problems of - not in preparation for - implementation. These efforts (particularly those of the NMA), were worthwhile but were never fully developed or applied. There were probably many reasons for this and it's not possible for us at this time to determine which were the most critical. Possible reasons include -
    - minimal role of the NMA in planning before initial implementation,
    - failure to properly define roles and relationships, particularly of the NMA itself and of other central agencies,
    - inability to secure broad agreement on the implementation approach that was prepared after the 1996 transfers, and to ensure that the responsible co-ordinating agency had sufficient on-going support and authority to see it through, &
    - failure to take an, at least, medium-term perspective to implementation, and identify and 'lock-in' resources requirements within an agreed implementation strategy (subject, of course, to an appropriate review process).
  9. Having long-recognized the problems with the Reforms' implementation - from the first transfer in the 1996 - there has been failure to develop an agreed strategy. Instead the situation has been allowed to "drift", further compounding the problems and causing additional confusion and further disillusionment.

## **9.2 Some Possible Lessons**

1. As far as possible, all stakeholders groups – including those who will be responsible for implementation - should be involved in design. Similarly, as far as possible, designers should have an on-going role, or at least a 'connection'.

2. An intervention must be clearly and fully defined such that all stakeholders understand and can sign-off what is being sought, and how this is to be achieved.
3. An important part of the design process is feasibility analysis wherein the viability and sustainability of the overall package and individual component parts are tested from various perspectives, including: economic, financial, technical, institutional, social/cultural. The results should be used to refine and strengthen design and ‘inform’ the approach to implementation.
4. Preparation of an implementation strategy should be part of the design process – not something ‘tacked-on’ after design (and certainly, not after implementation has already started). The intervention design and implementation targets might well require modification after the realities of implementation have been identified, and factored in, during the preparation of the implementation strategy.
5. To the greatest extent possible, the preparation of the strategy should be a collaborative process. It should produce a result that is understood and accepted, takes a ‘whole of government’ approach and is, at least, medium-term in its outlook. It should specify the components and phases of implementation, and the roles and responsibilities of all stakeholders and the relationship between them, an indicative programme, a monitoring and evaluation regime, and a review process.
6. As part of the strategy and programme, resourcing levels and sources should be specified, and required funding ‘locked-in’ for the medium-term – subject to the review process.
7. Further to #5 and #6 above, the authority and resourcing of the implementing/managing/co-coordinating body should be commensurate with its defined and agreed role and responsibilities, and also ‘locked-in’ – subject to the review process.

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<b>ATTACHMENT (1)</b>
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**Interview Schedule - Sample**

Consultations for this study ranged from formal, structured interviews to informal chats, with individual informants or in groups - depending on what was most appropriate to the circumstances and most convenient for the informants.

For the formal interviews questionnaire schedules were designed to serve as a guide. These were adapted for use with different target groups. A summary point form version was used as a checklist during the informal consultations.

As a sample, the schedule used for interviews with Provincial Administrators and Senior Provincial Personnel is presented herein.

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**For interviewer guidance only.**

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Interview Schedule guide for -  
**PROVINCIAL ADMINISTRATORS/SENIOR PROVINCIAL STAFF**

**Name of informant:**

.....

**Position:**

.....

**Date of interview:**

.....

**Place of interview:**

.....

**Interviewer:** .....

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*This should be used as a guide only. Keep the interview open and the discussion informal. Allow the informant to raise and discuss other matters he/she feels are relevant (even if not noted on schedule). Use the back of this schedule for additional notes if necessary.*

*Preamble – use as a guide, as appropriate, to explain what we are trying to do.*

“The NEFC is conducting a Review of Inter-governmental Financial Arrangements at the request of the National Government. As part of the preparation of background material, the Commission is undertaking a study into the distribution of functions and activities between national agencies, provincial administrations and local level governments (LLGs). We hope to develop an understanding of the current situation relating to the distribution of functions. This is important because proposals for future arrangements should be informed by a solid understanding of what is in place now and how it is working. We are also hoping to be able to help develop an understanding of the level of government at which different functions are best undertaken.

I’ll start by asking a few general questions about the distribution of functions under the new Organic Law, before talking more specifically about those functions that you, the provincial administration, are responsible for, as opposed to those carried out by central agencies and local level governments, and others. When we talk about who is carrying out functions and activities, it’s useful to be clear about whether we are talking of a legislative responsibility, an administrative function, or just a role in funding; for instance, is the level of government carrying out the function, also the level where the decisions are made?”

Transfer of functions & activities under the Reforms

“The intention of the Provincial Government Reforms was to transfer functions/activities to provinces – provincial administrations and LLGs. National agencies prepared a draft listing of functions/activities to be transferred. For some agencies, this is presented in the NMA handbook. According to the handbook, this listing was an initial draft only, and was to be refined. As I





*draft, version #3 – for piloting*

9. As you understand it then, what new functions/activities are provincial administrations expected to carry out under the new Organic Law? *(Can use lists from OLPGLL and other sources, as 'jog', and/or, for comparison).*
  
  
  
  
  
  
  
  
  
  
10. What about LLGs. What functions/activities are LLGs expected to carry out? How does this compare with the previous arrangements?

Functions/activities actually carried out

11. Are all provincial administration functions/activities actually being carried out by your government? Which are/not? Why? *(Explore - if not all undertaken, how choose. Links with national agencies which previously carried-out the function.)*
  
  
  
  
  
  
  
  
  
  
12. Are there some functions/activities that provincial administration is expected to carry out that you don't think it should? Explain. If not provincial administration, who?
  
  
  
  
  
  
  
  
  
  
13. What about LLGs? Are all the functions/activities actually carried out? Which are/not? Why?



19. Are there other issues related to structures or reporting that you would like to mention?

Resourcing of functions

*[Note: can explore these areas in depth if have some analysis of provincial funding (from budgets, expenditure reports, etc.), and personnel (establishment tables, organization charts). Otherwise can keep it qualitative.]*

20. I'd like to talk now about resourcing of functions carried out in provinces. I'm sure you feel that you don't have all the resources you need, or would like to have. But what particular functional areas are most effected or of most concern? In what way? Why?
21. What kind of process do you use in the province to decide which functions/activities are to be carried out and to what extent?
22. What about funding for LLGs. Where do they get their funding from and in what proportions (*national government grant, internal revenue, provincial government grant*)?
23. How do they determine funding priorities?



*draft, version #3 – for piloting*

28. *If necessary, ask* - What kind of factors affect the cost of carrying out functions in the provinces?

29. Are you doing any work in this area and/or are you aware of others doing work? What kind of additional work or study might be done to determine the cost of carrying out functions?

Where different functions/activities belong

30. I'd like to ask you what you think the key factors are in determining at what level a function should be carried out?

31. Do you think the present arrangements take adequate account of these factors?



## ATTACHMENT (2)

### LISTING OF PEOPLE CONSULTED

(in no particular order)

*The positions are as held by informants at the time of consultation in November 2002 and March/April 2003.*

#### National Agencies

##### Department of Education

Luke Taita	Deputy Secretary
Joe Pagelio	FAS, Policy & Planning
Pala Wari	AS, Planning & Monitoring
Jeff Thompson	Adviser

##### Department of Health

Pascoe Kase	FAS, Policy & Planning
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##### Department of Provincial & Local Government Affairs

Gei Ilagi	Secretary
Tau Vali	Deputy Secretary – Technical & Monitoring
Graham Tuck	Deputy Secretary – Support Services
Simon Kunai	Director, LLG Advisory & Support Services
Ray Karla	Director, Reform Secretariat

##### Department of Lands & Physical Planning

Romily Kilapat	Deputy Secretary, Corporate & Regulatory
Fred Morove	Monitoring Officer

##### Department of Social Development

Joe Klapat	Deputy Secretary
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##### Department of Justice & Attorney General

Kepas Paon	Deputy Secretary
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##### Department of Mining

Kuma Aua	Secretary
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##### Department of Works

Alphonse Niggins	Secretary
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Roy Mumu Deputy Secretary

**Department of Personnel Management**

Andol Sione ag./Deputy Secretary  
Barnabas Tukamas AS, Organizations & Systems

**Department of Environment & Conservation**

Kay Kalim Head, Conservation Division

**Department of Agriculture & Livestock**

Philip Pondiko Acting Secretary  
Sam Lahis Project Co-ordinator, Smallholder Support

**Department of Police**

Tom Kulunga Deputy Commissioner  
Jim Wan ACP Management Services

**Department of Trade & Industry**

Jonathan Soten Secretary  
Ronald Maru Assistant Director, Trade & Investment

**National Broadcasting Authority**

Kristoffa Ninkama Managing Director  
Posa Kera Deputy Managing Director  
Muli Isaac Director, Human Resources & Administration  
Bennie Lolamb Director, Finance

**Tourism Promotion Authority**

Nathan Kumin Policy & Development Officer

**Fire Services**

Isaac Silas Chief Fire Officer

**National Fisheries Authority**

Anthony Lewis Managing Director

**National Forestry Authority**

Dambis Kaip Acting Director, Policy Secretariat

**PSRMU**

Bill Kua Director-General  
Tony Keket Manager – Service Improvement Programme  
Joe Narob Project Officer – SIP

**Office of Rural Development**

Iamo Ila Deputy Director

### **National Agricultural Quarantine Inspection Service**

Elijah Philemon	Director-General
David Kanawi	GM Operations
Stephen Rambe	GM Corporate Services

### **Provincial Administrations**

#### **East New Britain Provincial Administration**

Akuila Tubal	Provincial Administrator
Clement Irasusa	Deputy Administrator, Field Services
Isimel Puipui	a/Deputy Administrator, Technical & Support
Levi Mano	Principal Planning Adviser
Bedde Jubilee	a/Adviser, Community Development
Pius Gawi	Adviser, Education
Nicholas Laeme	a/Co-ordinator, Admin. & Support Services
John Waula	a/Adviser, Works
Herman Valvalu	Adviser, Primary Industry
Dickson Kondaul	Fisheries Officer
Wilson Matava	a/Adviser, Finance

#### **Morobe Provincial Administration**

Manasupe Zurenoc	Provincial Administrator
Patilias Gourato	Deputy Administrator, Field Service
Shiela Harou	Provincial LLG Officer
Murika Bihoro	Adviser, Education
Micah Yawig	Deputy Adviser, Health
Dick Dicori	Provincial Village Courts Officer

#### **Enga Provincial Administration**

A Macsaene	a/Provincial Administrator
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#### **Simbu Provincial Administration**

Joseph Dorpar	Provincial Administrator
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### **Local-level Government**

#### **Urban LLG Association**

Kaminel Warika	Executive Director
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#### **Central Gazelle LLG**

Phillip Kameng	President
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#### **Toma/Vunadidir LLG**

David Piamia	President
Enos Tamtu	Vice-President
Alan Balbal	Manager

**Kokopo/Vunamami Urban LLG**

John Timot	a/Deputy Town Mayor
Bonnie Talele	CEO
Mitmit Pucinen	A/Town Manager
George Kurapa	Accountant
John Koaik	Assistant Accountant

<b>Others</b>
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Kila Ai	Formerly Director, National Planning Office, & Member, National Monitoring Authority
Kanawi Pouru	Formerly, National Forestry Service

## **ATTACHMENT 3**

### **Data Extraction Pro-forma**

A pro-forma was developed to standardize and assist with for data extraction from the interview schedules. This also served to generate a summary of interview.

## **A FRAMEWORK**

### **Issue 1. Notional distribution of functions/activities & key change events**

- *important change events (for sector, agency, etc.) –*
  - *PGR –*
    - *design/nature of change*
    - *significance*
    - *key areas re. -*
      - *NG*
      - *PG*
      - *LLG*
  - *other ‘change’ events-*
    - *relationship/links*
- *change process(PGR & other)-*
  - *consultation/involvement of stakeholders –*
  - *decision-making*
  - *implementation of change (e.g. planned, progressive, tailored)*
  - *clarity/confusion*
  - *relationship between change events*
- *stakeholders’ understanding & awareness of change events*
- *respondents’ understanding of notional distribution –*
  - *nature - function/activity/responsibility*
  - *general & specific to sector*
  - *references -*
    - *Handbook & Other*
      - *aware of*
      - *available*
      - *used*
    - *own references*

### **Issue 2. Actual situation**

- *distribution: who actually does what –*
  - *national/central agencies*
  - *provincial*
  - *district*
  - *LLG*

- *Others (e.g. donors, resource companies, NGOs, etc).*
- *views re. deviation from notional –*
  - *nature of*
  - *reasons for*
- *performance –*
  - *how well functions performed –*
    - *NG*
    - *PG*
    - *LLG*
    - *'others'*
      - ? *sustainability issues*
  - *linkages*
  - *impact of design and implementation issues on –*
    - *actual distribution*
    - *performance*
  - *function 'gaps' –*
    - *nature*
    - *significance*
    - *reasons*
  - *other performance issues/problems*

### **Issue 3. Current Resourcing & Available Information on Resources Requirements**

- *resource issues –*
  - *funding sources & levels –*
    - *national government transfers*
    - *provincial government 'internal'*
    - *LLG 'internal'*
    - *other (donors, resources developers, etc)*
  - *views on –*
    - *adequacy*
    - *timing*
    - *consistency/reliability.*
  - *use of funds/differing priorities of levels of government*
  - *other resources –*

- personnel (skills/competencies, numbers, location),
  - infrastructure
  - systems
- *other resource issues*
- *information on resource requirements (e.g. defined performance standards, 'benchmarking', unit costs) –*
  - *availability*
  - *basis of*
  - *use*
  - *studies underway/planned*

#### **Issue 4. Views on where functions/activities are best be carried out**

- *views on 'natural home' –*
  - *'ideal' overall function distribution at each level -*
    - *NG*
    - *PG*
    - *LLG*
    - *Other*
  - *particular functions/activities –*
    - *where*
    - *reasoning*
- *factors to consider in deciding*
- *account taken of these currently*

#### **Other Matters/Issues Raised**