Papua New Guinea:
Public Financial Management and Sub-National Service Delivery
Scoping Activity
(P167558)

Political Economy and Institutional Context of Sub-National Public Financial Management and Service Delivery in PNG

May 2021
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<tbody>
<tr>
<td>CLRC</td>
<td>Constitutional and Law Reform Commission</td>
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<td>DDA</td>
<td>District Development Authority</td>
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<td>DIRD</td>
<td>Department of Implementation and Rural Development</td>
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<td>DNPM</td>
<td>Department of National Planning and Monitoring</td>
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<td>DPLGA</td>
<td>Department of Provincial and Local Government Affairs</td>
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<td>DSIP</td>
<td>District Services Improvement Program</td>
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<td>GST</td>
<td>Goods and Services Tax</td>
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<td>IFMS</td>
<td>Integrated Financial Management System</td>
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<td>K$</td>
<td>Papua New Guinea Kina</td>
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<td>LLG</td>
<td>Local-Level Government</td>
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<tr>
<td>MP</td>
<td>Member of Parliament</td>
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<td>NCD</td>
<td>National Capital District</td>
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<td>NEC</td>
<td>National Executive Council</td>
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<td>NEFC</td>
<td>National Economic and Fiscal Commission</td>
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<td>PEC</td>
<td>Provincial Executive Council</td>
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<td>PFM</td>
<td>Public Financial Management</td>
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<td>PHA</td>
<td>Provincial Health Authority</td>
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<td>PIP</td>
<td>Public Investment Program</td>
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<tr>
<td>PLLSMA</td>
<td>Provincial and Local Level Services Monitoring Authority</td>
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<tr>
<td>PMU</td>
<td>Project Management Unit</td>
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<td>PNG</td>
<td>Papua New Guinea</td>
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<td>PSIP</td>
<td>Provincial Services Improvement Program</td>
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<td>RIGFA</td>
<td>Reforms of Intergovernmental Financing Arrangements</td>
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Executive Summary

What is the purpose of this paper?

This paper has been prepared as part of the Papua New Guinea: Public Financial Management and Sub-National Service Delivery Scoping Activity. The activity seeks to engage with the government on an exploratory phase of work, building a dialogue on public financial management (PFM) reforms and sub-national service delivery. The work envisaged under this activity includes analytic notes prepared to inform the dialogue.

The purpose of this paper is to articulate the understanding that the team has built up of the political economy and institutional context for sub-national PFM and service delivery in PNG, from the research, field visits and dialogue with state and non-state actors that has been undertaken as part of this activity. In so doing, the paper is expected to:

- Inform the dialogue on sub-national PFM and service delivery, through the contribution of the analytical framing developed in this paper to understand the political economy and institutional context of sub-national PFM and service delivery in PNG.
- Inform the design of a substantive engagement to follow on from this exploratory phase of work, given what the analysis in this paper suggests about the likely feasibility that alternative reform options will yield positive change in sub-national PFM and service delivery over time.
- Inform relevant aspects of the wider program of World Bank engagement in PNG going forward, by providing a reference piece on how to understand the complex reality of the political economy and institutional context of sub-national governance in PNG.

What does the paper cover?

The coverage of the paper stems from its original motivation: to understand what scope there is to utilise current reforms to PFM and sub-national governance in PNG, in order to support better service delivery at sub-national level. On the PFM front, an array of reforms are underway, including to the PFM legislative and regulatory framework, the procurement legislative and institutional framework, the management of non-tax revenues, the rollout of the Integrated Financial Management System (IFMS) at national and sub-national levels, sub-national PFM assessments and reform plans, and measures to increase own-source revenue at sub-national level. On the broader governance front, there are moves toward greater provincial autonomy, and consideration of broader reform of sub-national government structures, functions and funding. Collectively, these reforms signal a degree of desire for change, though it is as yet unclear how they will affect actual service delivery on the ground.

PFM systems, processes and norms are not the only factors affecting service delivery at sub-national level, of course. There are many others, perhaps the most important of which is the current set of institutional arrangements and incentives facing political leaders and officials. These institutional arrangements and incentives affect the allocation and use of financial and human resources, the strategy for developing infrastructure for service delivery, the holding to account of service providers, and – indeed – the design and implementation of the regulatory framework for PFM itself. To identify the scope for current PFM reforms to support better service delivery, then, this broader political economy context needs to be understood, especially for what it can tell us about how PFM – and wider sub-national
governance – reforms are likely to affect the behaviour of the relevant actors. Understanding that broader political economy and institutional context for service delivery, in practice, is the focus of this paper.

The political economy and institutional context for service delivery in PNG is not given or unchanging – it is dynamic. As will be explored in detail in the paper, at the same time as dominant trends in the political economy and institutional context are being reinforced, there are numerous instances where people exercise leadership in ways that vary from the systemic incentives they face, where teams have been built that operate effectively despite the constraints they face in their broader institutional environments, and where people are otherwise trying to reshape some of the dominant trends. What this paper does, then, is to delineate the most important features of the current set of institutional arrangements and incentives, to make sense of the longer-term trends observed, while not losing sight of the scope and will of some people to operate differently and to reshape those trends. In so doing, the paper attempts to weigh the possibilities for whether and how particular reform options being pursued at present might make a positive difference in the practice of sub-national service delivery.

What are the key features and dynamics of the wider context in which sub-national governments operate in PNG?

The political economy and institutional context of sub-national governments in PNG is powerfully influenced by the wider political economy context in which they operate. Thus, before the paper examines specific sub-national levels of government, it attempts to identify the key features and dynamics of that wider context. At the outset, it is important to emphasize that the evolution of PNG’s political economy and institutional arrangements since independence has been complex and is ongoing. No single factor explains the way these arrangements have evolved, nor have things moved in only one direction. The trends and outcomes that can be observed vary between places and sectors, and the state capabilities and challenges that have resulted appear in different configurations across the country. That said, it is possible to identify the most important features and dynamics of what has emerged so far, and to show how they link together in a set of overall national-to-local drivers, incentives and institutional forms. These are summarized here, and substantiated in the main paper.

Dominance of a personalized form of political leadership based on competitive patron-client relationships

A competitive, personalized form of political leadership has become prevalent at all levels of government in PNG. This has helped to consolidate particular kinds of ‘pacting’ to achieve office and form national governments, and has a pervasive influence on the nature of governance from the central level down to local levels. A unique combination of factors has underpinned this development, including PNG’s extreme geographic and ethnic diversity, its rich natural resource endowment, the ways resource-based revenues have been managed, its post-colonial inheritance of a highly centralized administration, its Westminster political system wherein government formation depends on being able to forge durable pacts between locally-elected Members of Parliament, and particular aspects of Melanesian political practice and personalized leadership that have evolved over time and also become more consistent across PNG. The latter include electorally-focused reworkings of Melanesian ‘bigman’ leadership styles, especially what can be referred to as ‘bossman’ leadership, which supports tiers of competitive patron-client relationships with exclusively-defined client bases at each level, and often involves both patrons and clients in gathering and distributing financial resources. These are not the only leadership styles to be found, however, with different ‘trupela lida’ (true leader) styles of leadership providing important alternatives, which can also be seen as an evolution of bigman traditions, and wherein authority is more dependent on human and social capital than financial capital, and client bases are less exclusive.
**Fiercely contested and costly elections with many candidates in ethnically-fragmented constituencies**

PNG’s District (‘Open’) Members of Parliament and Provincial Governors are elected in increasingly fiercely contested elections typically involving large numbers of candidates and costly campaigns in ethnically fragmented constituencies. In such a context, it is typical to be elected by a small fragment of the electorate, often defined along clan lines. Once elected, MPs and Governors must align and pact with others, typically in small and fluid political party groups, in order to form a national government (and to preserve it during confidence votes). These competitive alignments with others are crucial not only to government formation and longevity, but also to the allocation of ministerial portfolios among members of the governing coalition, and in turn to their access to resources to return to their constituencies and in particular to their support bases. Some MPs and Governors have been able to build a stable position, whereby their influence at the central level enables high and relatively secure resource flows from the centre to their District or Province, which they can use to deliver benefits – such as infrastructure – to their support bases over a reasonably lengthy time horizon, underpinning future electoral success. Others, however, face serious challenges getting re-elected and must act with a view to a much shorter time horizon to obtain resources to provide to their support bases, especially where voters have themselves contributed to the electoral expenses of the successful candidate. With lower, less stable resource flows, a shorter time horizon, and what are effectively debts to repay, patronage tends to be more monetized and less likely to yield lasting or tangible results (in terms of infrastructure or service provision). Either way, in such a context policy commitment is necessarily a less significant political pactung factor than competitive patronage. Rather than PNG having broad programmatic political parties that facilitate the alignment of overarching government programs with aggregate voter preferences across constituencies, what has developed are mainly narrower political parties that revolve around relationships of reciprocal, personal loyalty between party members and leaders, which in turn facilitate competitive patronage of MPs in order to meet the preferences of narrow support bases within each constituency.

**What does this tend to mean for voters?** The overwhelming majority of Papua New Guineans live in rural villages dominated by clan and tribal affiliation, with a semi-subsistence/smallholder cash-cropping base to livelihoods. The combination of PNG’s mountainous and archipelagic geography and its extremely low level of urbanization yields extraordinary population dispersion and fragmentation. This makes extending the reach of state service delivery a formidable challenge, the impact of which is evident in the varied but typically poor availability and quality of public services in rural areas. However many clan or tribal groupings are covered by an electoral unit, each unit is represented by only a single person, typically supported by their clan or tribal grouping. Linking this back to rural livelihoods, these livelihoods tend to be highly vulnerable to economic and social shocks which – with limited accumulated reserves, cash economic opportunities, or likelihood that the support needed will be available through public services – make being in a clan or tribe linked with a political patron critical to being able to access resources at times of need. Voters have generally come to expect candidates to reward their specific supporters (rather than their constituents more broadly); with limited scope for most elected representatives to influence state service delivery to serve this purpose, they have instead focused largely on securing discretionary political funds for capital projects to meet these expectations. In turn, constituents effectively compete to become the clients of would-be patrons and to help them succeed in elections, in order to benefit from the resulting patronage flows. Increased violence in successive elections provides an indication of the rising costs to would-be clients of not succeeding in securing the election of their would-be patrons.

**Competition concentrated at the central level to control resources and distribute them sub-nationally**

As in many resource-rich states, competition to control resources derived from extractive industries is concentrated at the central level in PNG. While this is by no means uncontested, particularly by Provinces,
the central government holds the key regulatory powers over resource-based industries, and is thereby the main national powerholder in negotiations with typically international resource companies. The situation is similar for the negotiation of aid arrangements. Over time, competition at central level has come to focus not only on accessing rents from natural resource-based industries for patron-client systems that run parallel to the public administration, but also on controlling key state agencies and state-owned enterprises (SOEs) in order to direct the investment, services, procurement opportunities, employment opportunities and other resources they offer in ways that augment the ability of patrons to support clients. Interrelationships between political elites and the private sector actors that secure public contracts for supplies, services and infrastructure, are critical to the effectiveness of these processes for resourcing competitive political patron-client relationships. Centralized control over financial management and procurement systems is also critical to the effectiveness of these processes. (These contemporary trends of increasingly centralized power, resources and administrative controls are of course not new, but build on longer-term trends of centralization dating back well into the colonial era.)

What is critical to recognize in PNG is that the intensified competition at central level to control these resources is not directed towards investing these resources in central government capability, resulting in a form centralization with fragmentation or centralization without coordination. Linking back to the discussion of political leadership and electoral competition above, the pacting that occurs in government formation at central level depends on the provision of resources to support bases in local constituencies. Competition for resources at central level is thus not so much to invest in central government capability or to implement a coordinated national program, but to distribute the resources at local level. The combined effect of negotiating arrangements with private sector entities that mean adequate resources do not flow into the public administration, distributing resources from the central level to the local level through parallel systems, and controlling key state agencies and programs at all levels to further resource political patron-client relationships, is to limit the development of public administrative capability at both central and sub-national levels. The local reach of the state was anyway limited, but its capacity to extend that has been further curtailed by these processes. At the same time, many resource-based industries have used the proceeds of their operations to invest in public infrastructure and services, with the unfavourable comparison between public and private-sector capability used to further justify limiting corporate tax payments (even though the limited resources available to the state have contributed to its limited capability). Similarly, limited capability at both central and sub-national levels of government has underpinned the political and popular critique of ‘Waigani’ and provincial government capabilities to deliver services to people, which has been used to justify the allocation of an increasing proportion of public resources to local levels through discretionary systems running parallel to the public administration (in turn further limiting the potential for public administrative capacity).

Dominance of intergovernmental financing arrangements by vertical transfers

The implication of the above trends for intergovernmental financing arrangements has been their dominance by vertical transfers. As we have seen, the main revenues from resource-based industries and aid – as well as the parts of the private sector that derive income from central government expenditure – are available at the central level. Intensified competition over these resources has supported the further centralization of power, resources and administrative controls. As a consequence, vertical fiscal transfers from central to sub-national levels have tended to become more important over time. These vertical transfers take a variety of forms, are accompanied by different accountability arrangements, and offer different incentives and prospects for strengthening public administrative capacity to deliver services at sub-national level. In some cases, these transfer systems are not coordinated with each other and offer mutually inconsistent incentives, thereby contributing to government fragmentation and state service
delivery capability limitations. A further consequence of sub-national government reliance on vertical transfers is – obviously – that most of them are not reliant on own-source revenue. Where vertical accountability arrangements associated with the vertical transfers are weak, this limits possibilities for sub-national government accountability overall, because of the limited material basis for horizontal accountability to taxpayers. A number of sub-national governments are, however, showing increased interest in own-source revenue (including taxes levied nationally but where sub-national governments receive derivation-based shares), as their potential importance and in particular their reliability relative to some of the other vertical transfers, has been recognised. This could have important implications for horizontal accountability, through the way sub-national political leaders work in relation to their (tax-paying) constituencies, and sub-national governments work in relation to their (tax-paying) populations.

Merging of policymaking and policy implementing roles

The above trends contribute to incentives for elected representatives to be policy implementers, as well as policymakers. This is clear in the roles that District MPs and Provincial Governors have in directing the execution of the funds they are granted to improve service delivery in their constituencies. It is also an important element of the value offered by control over central government agencies and SOEs for resourcing patron-client relationships within political parties and, in turn, between members and their support bases. Over time, this has contributed to the fragmentation of the state, through the incentives to it provides to sub-divide central government agencies and create new statutory authorities. It has also contributed to the weakening of key state capabilities, through the incentives it provides to weaken the coordinating, oversight and associated law enforcement functions of the state, which might otherwise limit opportunities for resources to be secured for patron-client relationships from public agencies. A number of Papua New Guinean leaders and officials (as well as some development partners) have sought to strengthen coordination, oversight and law enforcement capabilities, both at central and sub-national level. While there have been successes, the reforms made and capabilities built have been under constant pressure from actors seeking to weaken them and undermine their ability to carry out their mandates, through underfunding or the appointment of clients to key offices in these agencies.

Emergence of capability in ‘pockets of effectiveness’

As stated at the outset, in the evolution of PNG’s political economy and institutional arrangements, things have not moved in only one direction, and the trends and outcomes that can be observed vary between places and across sectors. In some central agencies, sub-national governments and other agencies (including a number of Provincial Health Authorities (PHAs)), considerable public administrative capability is being built. The Bank’s analysis suggests that where such ‘pockets of effectiveness’ occur, there tends to be a conjunction of factors involved, including particular types of leadership, reliable resources, and particular types of teams in the public administration.

Against the dominance of bossman leadership, there has also been an emergence of individuals popularly dubbed ‘trupela lidaman’ (true leaders), who drive development in more progressive directions. Such leaders can be found at all levels of government and in non-state forms of authority – including down to the very local level, in the form of locally appointed ‘komitis’ (committees) that provide social order and regulation in informal urban settlements. The authority of trupela lidaman tends to derive from the human and social capital they have accumulated, rather than from financial resources, and the benefits of their leadership/authority tend to be available to reasonably wide, non-exclusive groups. In political spheres, such leaders tend to be distinguished by being motivated by values, against the grain of the dominant patronimial style of bossman patron-client relationships. Trupela lidaman leadership still represents a form of patron-client relationship, involving a strong leader who secures the allegiance of
others and whose behaviour is the critical determinant of the eventual outcomes. But as mentioned, the reciprocal obligations it entails are based more on human/social capital and respect than on financial exchanges, and the potential client base is reasonably wide and non-exclusive. A key question is whether and how such alternative notions of leadership are able to become not just sufficiently electorally popular, but also translated into institutional norms and practices so they can have a sustained impact on the way funds are secured and used, and the way services are delivered.

**Stable, timely and reasonably adequate resources are a prerequisite for capability to emerge and endure over time.** Such resources are not determinative (capability does not necessarily emerge with them), but it certainly does not emerge and endure without them. Function grants, which have been relatively reliable, have been critical to allowing a degree of predictability in budget planning and execution at provincial level (and now also in PHAs), upon which basis public administrative capacity can emerge and indeed has done in some provincial contexts. Own-source revenues from natural-resource based industries offer stable, timely and relatively high levels of resources in some contexts. Where resource-curse propensities are avoided, they too can underpin the emergence and endurance of state capability. Non-resource own-source revenue (particularly GST revenue) can also lay a foundation for capability in some provincial, City Authority and Urban Local-Level Government (LLG) contexts that have reasonable levels of such revenue, and are a matter of increasing focus to a number of sub-national governments. Their rise would certainly expand – though not necessarily guarantee – opportunities for the development and institutionalization of capability at sub-national levels, which in most instances is currently constrained by their resource levels and cashflow reliability.

**A third feature typically found in sub-national governments (and PHAs) where public administrative capability has been built is strong, team-based work practices and a strong team ethos.** These combine personal leadership and relationships with technical expertise and a strong sense of mutual respect and accountability among team members. Such teams are sometimes able to articulate a strong ethos of public service in their relationships with provincial leaders, aligning with progressive Governors and/or counterbalancing potential intrusions of Governors into policy implementation. They can also be seen in some PHAs, whose leadership and management teams are dominated by medical experts, typically without significant links to political leaders. Where close alignment between Governors and Provincial Administrators results in the building of public administrative capacity (rather than the undermining of it), it tends to be in contexts where Governors are successful in securing financial resources for their Provinces at central government level and/or from natural resource-based industries within their Provinces, and are pursuing sufficiently long term and wide reaching development programs in their Provinces that they really require – and can fund – strong public administrative capacity to implement it, including through reaching down to local levels through District Administrations and LLGs.

**What are the key features and dynamics of each level of sub-national government?**

**Within that broader context, the paper examines the political economy and institutional context of sub-national government at LLG, District and Provincial levels.** (The District level includes both District Administrations, which are deconcentrated parts of Provincial Government, and District Development Authorities (DDAs), which are statutory authorities chaired by District MPs.) The paper describes their structures, mandates and resources, together with the incentives facing political leaders and officials at each level, and any counter-trends observed from the norms at each level. Very brief summary information on each level is presented here, with the substantiation of the summary in the main paper.
Local Level Governments

In law, LLGs are important and substantial local government entities, yet more than two decades after their creation in 1995, most LLGs struggle to perform even a fraction of what was intended. LLGs are made up of Councilors elected from the Wards that constitute the LLG, with extensive lawmaking powers and delegated responsibility for an array of local service delivery and development functions. LLGs may host a few staff responsible for education and health services who are deconcentrated from Provincial Administrations and PHAs, but they have a very limited role in directing those staff and the staff may not have the complementary inputs required to do their jobs. Since most LLGs raise little revenue locally, their resources for recurrent functions depend on the formula-based grants passed down to them through Provincial Administrations. These are fairly small, relative to the possible scope of LLG functions, and cannot be relied on to arrive on time. (This is not to suggest, however, that LLGs are a suitable level for own-source revenue raising, despite the reemergence of support for local head taxes in political discourse – the rural populations of most LLGs would be particularly susceptible to tax coercion by local authorities.)

In the case of the overwhelming majority of rural LLGs, the result is only a shell of local government, with a narrow and fraught relation to local people. Since their creation, LLGs have had to compete with Districts and Provinces for a share of the sub-national resources coming from central government, with LLGs obviously the weakest parties in this contest. In their relations with Provincial Administrations, LLGs are typically the weak dependents of Provinces, which have themselves been weakened and under-resourced. In relation to both District MPs and Provincial Governors, Ward Councilors are often potential or failed clients of these patrons, and their ability to secure funds or capital projects largely depends on whether their Ward is part of the support base of the District MP or Provincial Governor. Ward Councilors typically depend on one of several competing clan or village support bases within their Ward for their election, with limited electoral incentives to direct benefits to or engage with representatives of other clan/village groups in their Ward, giving them a fairly narrow and fraught relation to their constituencies. Horizontal accountability to voters tends to be confined to patron-client obligations, with the Ward Councilor as patron, and vertical accountability tends similarly to centre on patron-client relationships, this time with the Ward Councilor as client of the District MP or Provincial Governor. Demands for public service delivery, either by citizens of LLGs, or by LLGs of Provinces or Districts on behalf of citizens, are not what these mechanisms amplify. Though the stakes appear small – the power to allocate a tiny Ward Grant or compete for a project from the MP or Governor – these are the main resource flows available at this level, and LLG electoral contests over them tend to be intense and not infrequently violent. Arguably, the net result is the ongoing undermining of the legitimacy of the state at the local level.

District Administrations and District Development Authorities

Officially, the District is not a level of government – yet in practice, there are important government entities at the District level, which in some ways are coming to function more like a level of government. Since independence, Provincial governments have maintained District Administrations as deconcentrated units of their own administrations, to provide proximate support for service delivery, regular maintenance activity, and local governments. But Districts are also the electoral divisions of the national parliament and, as explained in the discussion of the wider context above, over time District MPs have used their power at central level to secure the transfer of large volumes of public resources to their control, and to build institutional structures around that. The DDA is one institutional outcome of that longer political process. Created and funded by central government, DDAs operate locally alongside (but largely independent of) District Administrations. DDAs execute activities financed by MPs’ constituency funds, as well as by an array of other transfers from central government, without much accountability or scrutiny and with the MP – as Chair of the DDA – leading that implementation work. DDAs have a wide mandate,
encompassing anything pertaining to the development of the District (thereby overlapping with the mandated functions of LLGs and Provinces). In recent years, there has been discussion of consolidating subnational government at the District level.

To date, District Administration and District MPs/DDAs have tended to operate with different focuses, without much coordination between them. District Administrations have operated as branch offices of Provincial Administrations, focused on supporting recurrent service delivery. District MPs and DDAs, on the other hand, have mainly focused their attention and resources on capital projects. There has been little coordination between these programs within the District, and indeed little incentive to coordinate, given that frequently District MPs and Provincial Governors are political rivals, and the large volume of resources available to District MPs has enabled them to – as it is frequently described – ‘do their own thing’. The creation of DDAs has further complicated the situation, because the District Administrator (the head of the District Administration, who answers to the Provincial Administrator) is also now the CEO of the DDA (answerable to the District MP, who now therefore has a strong interest in their selection). This has yielded an uneasy fusing of the two different domains, through the District Administrator/DDA CEO, who faces two different authorities whose interests are frequently at odds with each other. In theory, District MPs could cooperate with Provincial Governors and Provincial Administrations to coordinate the planning, budgeting and execution of an interrelated set of capital and recurrent activities from the resources at the disposal of each. But to do that, they would not only have to overcome operational challenges related to PFM systems and typically irregular cash flows (which make co-funding difficult), they would also have to act against the incentives of the political systems in which they operate, which are to maximise discretion over the use of funds in order to resource patron-client relationships. It seems wishful to depend – for outcomes in the public interest – on people rising above the incentives of the systems they operate within. Indeed, the only places where Governors and District MPs do cooperate are rare instances where a Provincial Administration/City Authority that a Governor controls has such large resources that it significantly augments the capabilities of District MPs to partner with them.

**Provincial Government**

As they now stand, Provinces still have the appearance of being a decentralized level of government, but the core of their political accountability mechanism was removed with the 1995 Organic Law on Provincial Governments and Local Level Governments. Provinces have considerable mandated functions, and – since their institution in 2008 – formula-based function grants that provide (just) adequate levels of resources for those functions. They have (reasonably) substantial complements of public servants mapped to provincial departments, under the overall direction of Provincial Administrators (although achieving effective control over these staff at the provincial level can be challenging, because they are part of the national public service and major employment, posting, and disciplinary functions are handled at central level). The critical change with the 1995 Organic Law was to Provincial Assemblies. In some Provinces, these had previously comprised representatives elected from constituencies within the Province, in turn electing a Premier who led a Provincial Executive Council (PEC) – or Cabinet – to govern the Province. The 1995 Organic Law retained the form of Provincial Assemblies, but they are now comprised of LLG Presidents, District MPs and a few additional appointed members. A Provincial Governor, elected from the Province-wide constituency, chooses the PEC from among LLG Presidents. In effect, the changes have concentrated political accountability at the provincial level in the Governor.

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1 Elected governments such as described here were not the case in all Provinces, PNG having adopted a ‘gradative’ approach to decentralization at independence. Also, in four Provinces, the Premiers were directly elected.
In most instances, these changes have diminished political accountability at provincial level and—interrelatedly—reduced the capabilities of Provincial Administrations. In a similar way as at Ward and District level, it is typical for Governors to be elected by fairly narrow support-bases, concentrated in particular parts of their Provinces. Their focus tends to be on using the discretionary political funds at their disposal, together with resources available within the Provincial Administration that they can direct or extract, to fulfill patron-client obligations attaching to their electoral bases. In such contexts, the capability of the Provincial Administration usually declines as it loses resources and is subject to political interference in policy implementation—particularly if the Governor is able to secure the appointment of an allied or weak Provincial Administrator. In theory, through their numerical superiority in the Provincial Assembly, LLG Presidents could band together to control provincial budgets and hold the Provincial Administration to account. This has not happened to date, however, perhaps because LLG Presidents tend operate as clients of Governors (or rival District MPs), with the Governor’s power to appoint LLG Presidents to PEC just one means at the Governor’s disposal to reward allies.\(^2\) In some provincial contexts, however, the situation is very different. Whether driven by values or by electoral strategy, some Governors require their Provincial Administrations to have strong capabilities to deliver services across wide areas of their Provinces, can obtain the resources to fund this capability (through influence at central level or through own-source revenue), and hold the Provincial Administration to account for its performance.

As the paper lays out, such instances of positive dynamics in provincial capability and accountability tend to occur not as a result of systemic structures and incentives, but as a result of exceptional circumstances: particular types of leadership, reliable resources, and particular types of teams in the public administration. Though state capability and accountability are not particularly likely to be built at provincial level, the paper argues that they are more likely to be built there than at other sub-national levels. This is due to the conjunction of a number of factors at provincial level, including a critical mass of public servants, technical capacity, public financial management systems and infrastructure, reasonably reliable and adequate resources for public service delivery (function grants and potentially also own-source revenue), and relatively mild resource and power asymmetries between political leaders and the public administration. Such capability at provincial level has the potential to reach down to Districts and LLGs to actually enable public service delivery to occur there. Depending on the context, strong, well-led teams of public servants at provincial level can work effectively with Governors who have some commitment to public service delivery/public administrative capacity, or counterbalance Governors who would otherwise reach too far into policy implementation.

What opportunities are there to improve sub-national service delivery?

The last chapter of the paper briefly examines current reform processes concerning sub-national government, indicates their potential to achieve positive change given the existing political economy and institutional context, and suggests priority areas for Bank engagement. The focus is on the potential of these reform processes to tackle the core issue of sub-national government accountability for service delivery, which is so important to the development and sustainability of service delivery capability. The reform of the 1995 Organic Law, and greater provincial autonomy, would likely have profound effects on sub-national accountability arrangements. At the same time, they are reforms that the Bank is unlikely to influence, suggesting the Bank should concentrate primarily on working within existing frameworks.

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\(^2\) District MPs tend to be notable by their absence in Provincial Assemblies—the relativities between the resources they already control and those they could benefit from through the provincial budget make engagement in the provincial budget process and the holding to account of the Provincial Administration of minimal interest to them.
As the paper makes clear, even within existing frameworks there are places where public administrative capability is being built and sustained, within some reinforcing accountability mechanisms. Focusing on these places, to support further enhancements in service delivery capability and further reinforcement through accountability mechanisms, would be valuable both to help institutionalize such positive cycles of return and to provide concrete examples of positive change that might help influence wider reform processes. As above, the conjunction of factors that allows such public administrative capability to be built sub-nationally is most likely to be found at provincial level, not as isolated provincial entities but as a locus of capability that can reach down to Districts and LLGs to actually enable public service delivery to occur there. Provinces would thus be the primary entry point for engagement, not its exclusive object.

The focus would thus be to offer support to the underpinnings of service delivery capability and the associated accountability mechanisms, in Provinces where capable public administration is being built. Depending on the needs of the particular government, this could involve enhancing the capability of the Provincial Administration to control provincially-budgeted expenditure and achieve outputs aligned with budget priorities (including where that expenditure is executed by District Administrations and LLGs). This could utilize the expenditure control and tracking capabilities of the new IFMS, and build on the existing expenditure tracking work of the National Economic and Fiscal Commission (NEFC). Depending on needs, the engagement could also involve strengthening the ability of the Provincial Administration to raise or secure the resources needed to fund its programs. The analysis of this paper, together with stakeholder consultations, suggests that sub-national own-source revenue could be particularly important here, not only as a reliable source of financing for service delivery, but also as a material base to underpin horizontal accountability loops with the public (as beneficiaries of public services and providers of tax revenue). If a more tax-based, bottom-up approach to revenue is pursued by provincial governments, there would be a reasonable prospect that it would increase the extent to which local voices and demand for public services are expressed and responded to. A number of Provinces are already investing in own-source revenue raising, including in conjunction with the Inland Revenue Commission (IRC), and its relevance is likely to grow with provincial autonomy moves. Equally important would be support for horizontal accountability mechanisms themselves, to strengthen effective demand for service delivery and help institutionalize the gains over time. This could include tax bargain-based accountability mechanisms and broader demand-side measures (including leveraging existing open budget/social accountability initiatives in PNG).

A note on how the paper was prepared

The paper was prepared through a combination of desk research, field visits and dialogue with state and non-state actors. The field visits were to East Sepik, Enga, Jiwaka, Morobe, New Ireland and Simbu from late 2018 to early 2020, and included dialogue with provincial authorities as well as district and/or local government authorities. These visits were complemented by information from field experience with sub-national government in the context of other sectors and for other programs over the past five years, especially in Morobe, Eastern Highlands, West New Britain, the Autonomous Region of Bougainville, and Western Highlands. As the research and fieldwork progressed, regular updates were provided to national government counterparts on the progress of the work. During the research, the team also consulted with non-state experts on sub-national governance in PNG, both individually and through working groups to discuss the analytical framing arrived at in the first complete draft of this paper. The final draft of the paper accounts for those discussions, whose overarching tenor was that the paper, though at times confronting in its depiction, captures the realities of what is happening at the local level and thereby offers a valuable basis from which to identify feasible ways forward.
1 Introduction and Context

1.1 What is the purpose of this paper?

This paper has been prepared as part of the *Papua New Guinea: Public Financial Management and Sub-National Service Delivery Scoping Activity*. The activity seeks to engage with the government on an exploratory phase of work, building a dialogue on public financial management (PFM) reforms and sub-national service delivery. The work envisaged under this activity includes analytic notes prepared to inform the dialogue.

The purpose of this paper is to articulate the understanding that the team has built up of the political economy and institutional context for sub-national PFM and service delivery in PNG, from the research, field visits and dialogue with state and non-state actors that has been undertaken as part of this activity. In so doing, the paper is expected to:

- Inform the dialogue on sub-national PFM and service delivery, through the contribution of the analytical framing developed in this paper to understand the political economy and institutional context of sub-national PFM and service delivery in PNG.
- Inform the design of a substantive engagement to follow on from this exploratory phase of work, given what the analysis in this paper suggests about the likely feasibility that alternative reform options will yield positive change in sub-national PFM and service delivery over time.
- Inform relevant aspects of the wider program of World Bank engagement in PNG going forward, by providing a reference piece on how to understand the complex reality of the political economy and institutional context of sub-national governance in PNG.

1.2 What does the paper cover?

The coverage of the paper stems from its original motivation: to understand what scope there is to use and support current reforms to PFM and sub-national governance in PNG, in order to support better service delivery at sub-national level. On the PFM front, current reforms include the new legislative and regulatory framework for PFM, new legislative and institutional framework for procurement, new arrangements for managing non-tax revenues collected by statutory authorities and line departments (and potentially also sub-national governments), national and now sub-national rollout of the Integrated Financial Management System (IFMS) with its potential to achieve a degree of visibility and control of funds that has not been possible previously (which could be used to underpin greater accountability for the use of funds), development of PFM reform plans for sub-national governments based on assessments of their current PFM performance, and different schemes for increasing own-source revenue at sub-national level. On the broader governance front, consideration is currently being given to reforming sub-national government structures, functions and funding, and there are also emerging possibilities for moving towards greater sub-national autonomy. Together, these reforms signal some degree of desire for change, and the progress on at least some of them signals a degree of reform momentum. What is less clear at present is how these reforms can and will affect actual service delivery on the ground.
It is clear that PFM systems, processes and norms are not the only factors affecting service delivery at sub-national level. There are many others, perhaps the most important of which is the current set of incentives and institutional arrangements facing political leaders and officials, and the ways these are linked to existing institutions and ‘rules of the game’. These incentives and arrangements affect the securing and provision of funding for service delivery, the creation and allocation of skilled human resources, the strategy for developing infrastructure for service delivery, the holding to account of service providers, and — indeed — the design, implementation and enforcement of the regulatory framework for PFM itself. To identify the scope for PFM reforms to support better service delivery, then, this broader political economy and institutional framework needs to be understood in practice, especially for what it can tell us about how PFM reforms are likely to affect the behaviour of the relevant actors and whether the reforms are likely to be enforced. Thus, the paper is intended to try to understand what that broader political economy and institutional context for service delivery is, in practice.

At the same time, that political economy and institutional context is itself not given or unchanging — on the contrary, it is dynamic. As will be explored in detail in the paper, longer-term trends surrounding competitive patron-client relationships, centralization, non-coordination and the merging of policymaking and policy implementing roles are in the process of being reinforced, even where there are at the same time some real attempts to govern through public administrative systems rather than personalized relationships, and to cooperate across agencies and levels of government. While the incentives of the current institutional context may reinforce and further entrench particular ways of operating, there are also numerous instances where people exercise leadership in ways that vary from the systemic incentives, where teams have been formed that operate effectively despite the constraints they face in their broader institutional environments, or where people are otherwise trying to reshape some of the damaging aspects of the longer-term trends in the political economy and institutional context.

What this paper does, then, is to delineate the most important features and consequences of the current set of incentives and institutional arrangements, to make sense of the longer-term trends, while not losing sight of the scope and will of some people to operate differently and to reshape those trends. In so doing, the paper attempts to weigh the possibilities for whether and how particular reform options being pursued at present might make a positive difference in the practice of sub-national service delivery.

1.3 What are the key features and dynamics of the wider context in which sub-national governments operate in PNG?

The political economy and institutional context of sub-national governments is of course powerfully influenced by the wider political economy and institutional context in which they operate in PNG. Before examining specific sub-national levels of government, therefore, it is important to understand that wider context. This section attempts to identify the key features and dynamics of that wider context. The understanding presented here of those key features and dynamics has come, in part, from the team’s examination of sub-national government in PNG, so is substantiated further in the chapters on sub-national levels of government that follow. It has also come from specific analysis of the wider context, references to the sources of which are provided as far as possible here.

At the outset, it is important to emphasize that the evolution of PNG’s political economy and institutional arrangements since independence has been complex and is ongoing. No single factor
explains the way these arrangements have evolved, nor have things moved in only one direction. The
trends and outcomes that can be observed vary between places and sectors, and the state capabilities
and challenges that have resulted appear in different configurations across the country. That said, it is
possible to identify the most important features and dynamics of what has emerged so far, and to show
how they link together in a set of overall national-to-local drivers, incentives and institutional forms.

Dominance of a personalized form of political leadership based on competitive patron-client relationships

A competitive, personalized form of political leadership has become prevalent at all levels of
government in PNG, and this has helped to consolidate particular kinds of ‘pacting’\(^\text{3}\) to achieve office
and form national governments. Political leadership at all levels is now dominated by competitive patron-
client relationships,\(^\text{4}\) and this in turn has a pervasive influence on the nature of governance from the
central level down to local levels. This dominance of clientelist relations is a common outcome in countries
where democratic development preceded the formation of a strong central state.\(^\text{5}\) As with the formation
of governing institutions anywhere in the world, no single factor has determined this. Rather, a unique
combination of factors – some deriving more from PNG geography’s and cultural mores, others from
inherited institutions of government – has underpinned this development, as explored in the sections
below. These factors include PNG’s extreme geographic and ethnic diversity, its segmented, clan-based
society and politics, its rich natural resource endowment, and the ways resource-based revenues have
been managed. They also include PNG’s post-colonial inheritance of a highly centralized administration
(in terms of both resources and controls), and this administration’s challenges in reliably delegating
resources and control to effective lower levels of government.\(^\text{6}\) They include PNG’s Westminster political
system, wherein government formation depends on being able to forge durable pacts between locally-
elected Members of Parliament (independent individuals affiliated to different political parties). And they
include particular aspects of Melanesian political practice and personalized leadership that have both
evolved over time and become more consistent across PNG in places with quite different cultural systems.
These include electorally-focused reworkings of Melanesian ‘bigman’ leadership styles, especially what
can be referred to as ‘bossman’ leadership, which supports tiers of competitive patron-client relationships
with exclusively-defined entourages and client bases at each level, and often involves both patrons and
clients in gathering and distributing financial resources.\(^\text{7}\) As discussed below, these are not the only
leadership style to be found, with different ‘trupela lida’ (true leader) styles of leadership providing
important alternatives, which can also be seen as an evolution of bigman traditions, and wherein authority
is more dependent on human and social capital than financial capital, and client bases are less exclusive.

Fiercely contested and costly elections with many candidates in ethnically-fragmented constituencies

PNG’s 89 District (‘Open’) MPs and 22 Provincial Governors are elected in increasingly fiercely contested
elections typically involving large numbers of candidates, ethnically fragmented constituencies, and
costly electoral campaigns. In such a context, it has been typical for elected members to have sought
allegiance from and to owe allegiance to a relatively small part (as little as 10-20%) of their voting

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\(^{3}\) See, in particular, Slater (2010).
\(^{4}\) See Allen and Hasnain (2010).
\(^{5}\) See Fukuyama (2014), especially chapters 6 and 7.
\(^{6}\) Fukuyama (2008).
\(^{7}\) See Harris (2008: 24).
electorate, often defined along clan lines. Once elected, MPs must align and pact with other members, typically in small and fluid political parties, in order to form a national government (and to preserve it during confidence votes). These competitive alignments with other members are crucial not only to government formation and longevity, but also to the allocation of ministerial portfolios among members of the governing coalition. Being part of a party that is part of the governing coalition, and that has one or more ministerial portfolios among its members, in turn influences the access an MP has to resources to return to their constituencies and in particular to their support-bases. Historically, relatively few MPs have sat outside of these pacts, to form a strong parliamentary opposition. These competitive alignments are also crucial to political stability and instability. Some MPs and Governors have been able to build a stable position, whereby their influence at the central level enables high and relatively stable resource flows from the centre to their District or Province, which they can use to deliver benefits to their supporters over a reasonably lengthy time horizon, reinforcing their support bases and underpinning their electoral success. Others, however, face serious re-election challenges (turnover at elections is extreme, typically with less than 50% returned) and must act with a view to a much shorter time horizon, to obtain resources to provide to their support bases in accordance with the expectations of the patron-client relationships in which they stand. This is especially the case where voters have themselves contributed to the electoral expenses of the successful candidate. With lower, less stable resource flows, a shorter time horizon, and what are effectively debts to repay, patronage tends to be more monetized and less likely to yield lasting or tangible results (in terms of infrastructure or service provision). Either way, in such a context policy commitment is necessarily a less significant political pacting factor than competitive patronage. Thus, rather than PNG having broad programmatic political parties that facilitate the alignment of overarching government programs with aggregate voter preferences across constituencies, what has developed are mainly narrower political parties that revolve around relationships of reciprocal, personal loyalty between party members and leaders, which in turn facilitate competitive patronage of MPs in order to meet the preferences of narrow support bases within each constituency.

What does this personalized form of political leadership based on competitive patron-client relationships, and the associated narrow support bases and fiercely contested elections, mean for voters? The overwhelming majority of Papua New Guineans live in rural areas, with a semi-subsistence/smallholder cash-cropping base to livelihoods. The combination of PNG’s mountainous and archipelagic geography and its extremely low level of urbanization yields extraordinary population dispersion and fragmentation. This makes extending the reach of state authority and service delivery through effective delegation of authority to sub-national levels a formidable challenge, the impact of which is evident in the varied but typically poor availability and quality of public services in rural areas. While rural people tend to live in villages dominated by clan and tribal affiliation, traditional boundaries were not necessarily well reflected in electoral boundaries, with Wards — let alone Local Level Governments (LLGs) and Districts — often encompassing several different groups. Each electoral unit is, however, represented by only a single person. With voting typically occurring along clan or tribal lines (including ‘block’ voting where family votes are sold by a senior man to a candidate), and candidates often elected by a narrow fragment

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8 See Harris (2008: 23).
9 See Harris (2008).
10 Harris (2008).
11 Harris (2008).
13 On the prevalence of block voting, see Haley and Zubrinich (2018, 44).
of the constituency, the remainder of the constituency is effectively not represented in the winning candidate. Linking this back to rural livelihoods, while these livelihoods have a subsistence base, they are highly vulnerable to economic and social shocks. Without accumulated reserves, with limited cash economic opportunities, and with little likelihood that the support needed will be available through public services, being in a clan or tribe linked with a political patron becomes critical to being able to access resources at times of need. Of course, entrusting resources and loyalty to a leader who is able to further accumulate and distribute resources to followers has roots in Melanesian leadership traditions, but these have evolved in particular ways in relation to the electoral system, economic conditions and state capability in post-colonial PNG. Candidates are expected to reward their specific supporters rather than their constituents. State service delivery via the public administration is limited in rural areas anyway; its capabilities are beyond the direct influence of most elected representatives. Such services are harder to skew to narrow supporter bases, while discretionary funds for capital projects are easier to direct, so the latter is what most elected representatives have focused on. Constituents, in turn, compete to become the clients of would-be patrons and to help them succeed in elections. If they succeed, they can expect benefits to flow back to their group. Increased violence in successive elections provides an indication of the rising costs to would-be clients of not succeeding in securing the election of their would-be patrons.

**Competition concentrated at the central level to control resources and distribute them sub-nationally**

As in many resource-rich states, competition to control resources derived from extractive industries is concentrated at the central level in PNG. While this is by no means uncontested, particularly by Provinces, the central government holds the key regulatory powers over resource-based industries, and is thereby the main national powerholder in negotiations with typically international resource companies. As resource-based industries became an increasingly important source of revenue in PNG, political and institutional arrangements were increasingly shaped by the centralized competition over the rents from these industries. The same is true of aid funds. Over time, competition at central level has not only come to focus on accessing rents from natural resource-based industries for patron-client systems that operate parallel to the public administration (rents that could otherwise flow into the public administration through appropriate regimes for royalties, taxation, and so forth). It has also come to focus on controlling the executive, and especially key state agencies and state-owned enterprises (SOEs) in order to direct the investment, services, procurement opportunities, employment opportunities and other resources they offer in ways that augment the ability of patrons to support clients. Interrelationships between political elites and the private sector actors that secure public contracts for supplies, services and infrastructure, are critical to the effectiveness of these processes for supporting competitive political patron-client relationships through control over key state agencies and SOEs. Centralized control over financial management and procurement systems is also critical to the effectiveness of these processes. These contemporary trends of increasingly centralized power, resources and administrative controls are not new, but build on longer-term trends of centralization dating back well into the colonial era.

**What is critical to recognize in PNG is that the intensified competition at central level to control these resources is not directed towards investing these resources in central government capability, but results in a form centralization with fragmentation or centralization without coordination.** Linking back to the

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14 On patron-client relations in PNG, see Allen and Hasnain (2010).
15 On electoral violence in PNG, see Haley and Zubrinich (2018).
17 See Morgan (2005), Harris (2007).
discussion of political leadership and electoral competition above, the pacting that occurs in government formation at central level depends on the provision of resources to support bases in local constituencies. Competition for resources at central level is not to invest in central government capability or to implement a coordinated national program therefore, but to distribute the resources at local level. Also as above, that distribution is not primarily focused on investing in sub-national public administrative capability to deliver benefits at the local level. A significant focus is on distributing the resources through systems outside the public administration (including but not limited to discretionary constituency funds), directing the procurement of state agencies and SOEs in ways that generate additional resources for patron-client relationships, and controlling the investment programs of central state agencies to benefit specific constituencies and narrower support bases therein. The combined effect of negotiating arrangements with private sector entities that prevent resources flowing into the public administration through appropriate royalty and tax regimes, distributing resources from the central level to the local level through parallel systems, and using top leadership appointments to state agencies and programs at all levels to further enable, resource or protect political patron-client relationships, is often to further undermine public administrative capability at both central and sub-national levels. The local reach of the state was anyway limited, but its capacity to extend that has been curtailed by these processes. Many resource-based industries have used the proceeds of their operations to invest in roads, hospitals and clinics, and schools in their areas of operation; some have expanded into other infrastructure and services nationally. The limited capacity of the state to provide basic infrastructure and services has been used to justify private provision and the associated limited extent of corporate tax receipts by the state, but the limited resources available to the state of course limit its capacity to extend its reach. Similarly, limited capability at both central and sub-national levels of government has underpinned the political and popular critique of the incapacity of ‘Waigani’ and of provincial governments to effectively deliver services to people, which has been used to justify the allocation of an increasing proportion of public resources to local levels through discretionary systems running parallel to the public administration – in turn further undermining the potential for public administrative capacity.18

Dominance of intergovernmental financing arrangements by vertical transfers

The implication of the above trends for intergovernmental financing arrangements has been their dominance by vertical transfers. As we have seen, the main revenues from resource-based industries and aid – as well as the parts of the private sector that derive their income directly or indirectly from central government expenditure – are available at the central level. The narrowness of the tax base (extractives plus formal sector activity in the main urban areas), itself contributes to the centralization of revenue. Intensified competition over these resources has supported the further centralization of power, resources and administrative controls, at the cost – particularly – of provincial governments. As a consequence of these factors – reinforced by donors in some instances, as in the creation of Provincial Health Authorities (PHAs) – vertical fiscal transfers from central to sub-national levels have become more important.19 These take a variety of forms, from discretionary constituency funds for District MPs and Provincial Governors,20 to in-kind flows like the allocation of the central government’s Public Investment Program (PIP), to formula-based grants for particular functions assigned to sub-national governments (or, in the case of

18 As will be discussed in detail in the sub-national chapters that follow, the 1995 Organic Law reforms created LLGs which were to improve local state reach and service delivery, in the process considerably reducing the powers of provincial governments and increasing the powers of central government.
20 See Ketan (2007).
health now, to separate statutory authorities), to formula-based shares of particular revenue streams collected at the central level. These different types of vertical transfers flow through different structures and offer different incentives and different possibilities for strengthening public administrative capacity to deliver services at sub-national level. In general, the shares of public resources allocated to discretionary constituency funds and the PIP (and more broadly to capital investments relative to recurrent budgets) have tended to rise over time, indicating strong political interest in them. The share of public resources allocated to formula-based grants for recurrent service provision has risen slightly over time, but the constitution prevents it from falling and – after the extraordinary achievement of instituting this system of function grants in 2008 – there does not appear to have been much political interest in it or in making its associated vertical accountability arrangements effective. If the declining share of tax revenue to GDP over at least the last decade is anything to go by, the tax revenue streams collected at the central level and shared sub-nationally have not tended to attract much political interest centrally, but have been attracting increasing political interest sub-nationally, as their potential importance and in particular their reliability relative to some of the other vertical transfers – has been recognized.

Two particularly important consequences of this dominance by vertical transfers should be noted. First, the reliance of most sub-national governments on vertical transfers means – obviously – that most of them are not reliant on own-source revenue. Where vertical accountability arrangements associated with the vertical transfers are weak, this limits possibilities for sub-national government accountability at all, because of the limited material basis for horizontal accountability to taxpayers. Second, these vertical transfers contribute to the fragmentation of government in PNG, because they operate through different systems that are not coordinated with each other and provide different incentives which can be mutually inconsistent. Capital spending occurs mainly through discretionary constituency funds (the vast majority for District MPs, the minority for Provincial Governors) and the PIP, while recurrent spending occurs mainly through function grants (predominantly for Provincial Administrations and also now PHAs, with a small share for LLGs). Own-source revenue can fund either. In practice, the capital spending at sub-national level by District MPs, Provincial Governors and the PIP does not have to be coordinated or consistent with the recurrent spending priorities, resources, or capabilities of Provincial Administrations, PHAs or LLGs. This potential for lack of coordination in the use of the public resources further undermines the state service delivery capability.

Merging of policymaking and policy implementing roles

All of the above trends contribute to incentives for elected representatives to be policy implementers, as well as policymakers. Most obviously, the provision of discretionary constituency funds to District MPs and Provincial Governors, which they can execute, means that they not only sit in the national legislature and potentially in government to make policy, they also have authority to control investment, ‘service delivery’ and other spending from their constituency funds at the local level. They may do this directly, through the District Development Authorities (DDAs) they control, or they may do so through the provision of these constituency funds to allied LLG Presidents or Ward Councillors. Either way, they are likely to have considerable control over execution, at least on the capital side. In addition, to exercise significant influence at central level, District MPs or Provincial Governors need to be able to lead a bloc of MPs in government formation and confidence votes, and to do this they need to be able to provide their party members with access to additional resources to return to their constituencies or supporter groups therein. Close involvement in the negotiation of regulatory arrangements for natural-resource based industries can facilitate such resource flows, but so also can direct or proxy control over state agencies
and SOEs. The value of that control, from the perspective of fulfilling patron-client obligations to party members so they can fulfill patron-client obligations to supporters, lies both in policymaking (control over priorities and allocative decisions) and in policy implementation (control over procurement decisions, employment opportunities and so forth). Thus at both central and sub-national levels, in order to be influential and effective within current systems, District MPs and Provincial Governors tend to need to be policy implementers as well as policymakers.

The merging of policymaking and policy implementing roles in elected representatives at central and sub-national level has contributed to the further fragmentation of the state and weakening of key capabilities. This is evident in the proliferation of central agencies to control (both through the division of departments and the separation of particular functions into new statutory authorities). It is also evident in the weakening of coordinating functions, oversight functions and associated law enforcement functions, which would otherwise limit opportunities for resources to be secured for patron-client relationships from public agencies. A number of Papua New Guinean leaders and international agencies have sought to strengthen coordination, oversight and law enforcement capabilities, not just at central level but also at sub-national level. But while there have been successes, the reforms made and capabilities built have been under constant pressure from actors seeking to weaken them and undermine their ability to enact carry out their mandates, through underfunding or the appointment of clients to key offices in these agencies (with the debilitating associated internal factionalization this often causes), or through measures that effectively counteract them through other agencies with overlapping mandates.

**Emergence of capability in ‘pockets of effectiveness’**

As stated at the outset, in the evolution of PNG’s political economy and institutional arrangements, things have not moved in only one direction, and the trends and outcomes that can be observed vary between places and across sectors. The prevailing trend may have been the rise of bossman leadership styles, with their competitive patron-client relationships and merged policymaking and implementation roles, which tend to contribute to the further fragmentation of the state and weakening of key state capabilities. But that same fragmentation and broader weakening of state capability also provides scope for other types of leadership to develop and have considerable influence in particular fragments of the state. With some ingenuity, blurred, overlapping and unclear assignments of formal mandates, powers and resources, and relative freedom from what may not be impartial oversight, can be utilized for beneficial ends too. What can be observed, then, in some central agencies, sub-national governments and other agencies (including a number of PHAs), is the development of considerable public administrative capability – that is, pockets of effectiveness. This should not be construed as suggesting that the broader political economy and institutional context engenders public administrative capability – as above, it does not – but in some places and agencies public administrative capability is being built ‘against the odds’, so to speak. The Bank’s analysis – referred to in more detail in the subsequent chapter on provincial government – suggests that where this occurs, there tends to be a conjunction of factors involved, including particular types of leadership, reliable resources, and particular types of teams in the public administration, as summarized below.

Against the dominance of bossman leadership, there has also been an emergence of individuals popularly dubbed ‘trupela lidaman’ (true leaders), who drive development in more progressive directions. Such leaders can be found at all levels of government and in non-state forms of authority – including down to the very local level, in the form of locally appointed ‘komitis’ (committees) that provide social order and regulation in informal urban settlements. Their authority tends to derive from the human
and social capital they have accumulated, rather than from financial resources, and the benefits of their leadership/authority tend to be available to wider, non-exclusive groups, in contrast to the narrow, exclusive, often clan-based client groups of bossman leaders. In political spheres, such leaders tend to be distinguished by being motivated by values, against the grain of the dominant patrimonial style of bossman patron-client relationships. Trupela lidaman leadership still represents a form of patron-client relationship, involving a strong leader who secures the allegiance of others and whose behaviour is the critical determinant of the eventual outcomes. But the reciprocal obligations it entails are based more on human/social capital and respect than on financial exchanges, and the wider, non-exclusive nature of the potential client base also contrasts with that of bossman leadership. Leaders do not necessarily have characteristics of only one type of leadership or another: some combine the leadership styles and characteristics. Somewhere between trupela lidaman and bossman style leaders, are the so-called ‘Action Governors’, a number of long-term MPs, and some capable public administrators, who combine elements of patronage and other, often ‘team’, leadership, to produce both public goods and more personalized patronage. The key point is that the dominant form of bossman leadership is not the only one, and that at least one other more progressive form of leadership is evident and popularly recognized.

Stable, timely and reasonably adequate resources are a prerequisite for capability to emerge and endure over time. Such resources are not determinative (capability does not necessarily emerge with them), but it certainly does not emerge and endure without them. Function grants, which have been relatively reliable, have been critical to allowing a degree of predictability in budget planning and execution at provincial level (or now also in PHAs), upon which basis public administrative capacity can emerge and indeed has done so in some provincial contexts. Own-source revenues from natural-resource based industries offer stable, timely and relatively high levels of resources in some contexts. Where resource-curse propensities are avoided, they too can underpin the emergence and endurance of state capability. Non-resource own-source revenue (particularly GST revenue) can also lay a foundation for capability in some provincial, City Authority and Urban LLG contexts that have reasonable levels of such revenue, and are a matter of increasing focus to a number of sub-national governments. Their rise would certainly expand – though not necessarily guarantee – opportunities for the development and institutionalization of capability at sub-national levels, which in most instances is currently constrained by their resource levels and cashflow reliability.22

A third feature typically found in sub-national governments (and PHAs) where public administrative capability has been built is strong, team-based work practices and a strong team ethos. These combine personal leadership and relationships with technical expertise drawn from different quarters both within and outside government, and a strong sense of mutual respect and accountability among team members. They may align effectively with experienced Provincial Administrators, or strong directors of particular functions (for instance monitoring and evaluation, budget, audit) or sectors (for instance education) in Provincial Administrations. Such teams are sometimes able to articulate a strong ethos of public service

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21 These so-called ‘Action Governors’ pull in resources to drive development through the executive, and through administrative leaders who create teams of effective state action and accountability.

22 That discretionary constituency funds have become an essential component of PNG’s political economy could mean that DDAs could likewise have a reliable, timely and generous level of resources, enabling predictability in budget planning and execution upon which public administrative capability could be built. As is explored in the subsequent chapter on the District level however, while these funds are usually paid, the amounts and timing of tranches is highly uncertain, a lack of reliability that would impede the development of public administrative capability even in a DDA whose MP wants to build and sustain infrastructure and services over a long time horizon.
in their relationships with provincial leaders, counterbalancing potential intrusions of leaders into policy implementation. They can also be seen in some PHAs, whose leadership and management teams are dominated by medical experts. In some contexts (within some Provincial Administrations, for instance, and in PHAs), these teams are led by senior public administrators, without significant links to political leaders. In other contexts (within some other Provincial Administrations, for instance) there is very close alignment between Governors and the Provincial Administrator. Where these close alignments between Governors and Provincial Administrators result in the building of public administrative capacity, it tends to be in contexts where Governors are successful in securing financial resources for their Provinces at central government level and/or from extractive industries within their Provinces, and are pursuing sufficiently long term and wide reaching development programs in their Provinces that they really require – and can fund – strong public administrative capacity to implement it, including through reaching down to local levels through District Administrations and LLGs. In such contexts, there is usually a reasonably effective division of roles between the Governor and Provincial Administrator. These contexts illustrate the different impacts on public administrative capability of the rising power of political leaders to control the appointment of key staff (such as Provincial Governors or District MPs securing their preferred candidates as Provincial Administrators or District Administrators/DDA CEOs): depending on a leader’s objectives and strategy, it can result in capable public administration, or it can debilitate it.

1.4 How is the paper structured?

The main body of this paper is structured in three parts, covering Local Level Governments, Districts (District Administrations and District Development Authorities), and Provincial Governments. For each sub-national level, the paper describes the structure, mandate and resources of government, together with the incentives facing political leaders and officials. This provides an understanding of sub-national government at a systemic level. Even if in many instances what is observed is very much what would be expected given the underlying system, as has been emphasized already there is always the possibility that the people and institutions in a particular context will go against the grain of the system and incentives in which they operate. In the discussion of each sub-national level, therefore, the paper also draws attention to such variations and counter-trends.

Within each part of the paper, the discussion and analysis is organized around five questions, as follows:

1. **What are these entities?** What are the basic structures of territory and population they represent? What institutions do they contain? What elected representatives, appointed representatives and public servants do they contain?

2. **What are they meant to do?** How did their current form come about historically? What is their purpose and function? What formal mandates exist?

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23 In some places or sectors where the state does not have adequate reach, such as in large parts of rural PNG with respect to health services, and in urban settlements, similar types of strong teams are likewise managing to provide services relatively effectively (church facility health services, and mediation and conflict resolution services by local leaders, respectively).

24 For reasons that will be explored in the subsequent chapters, even in these Provinces, it still tends not to be possible for Governors and Provincial Administrations to work closely with District MPs and DDAs.
3. **What resources do they actually have, where do they get them from, and what do they use them for?** How are these administered? What function do they actually enable? What accountability actually exists?

4. **What incentives do the institutional structure, funds flow and electoral system give political leaders at each level, and what are the outcomes of that?**

5. **What counter-trends can be observed, and what explains these?** What are their outcomes? What potential is there for such counter-trends to occur in other places?

Thus, the first three questions offer a basic description of what is there at each level, what its purpose is, and how it routinely functions, while the fourth question around incentives attempts to incorporate a political economy perspective into the depictions of what are already complex contexts, and the fifth question attempts to counterbalance the presentation of systemic norms with instances of variation and innovation.

The paper concludes with a summary of the key overarching observations brought forward in the paper on the political economy and institutional context of sub-national government in PNG, and a brief discussion of current reform processes and how these might engage with or alter the key features of that context. This latter discussion is provided with a view to offering preliminary thoughts on the feasibility and value of alternative possible areas of engagement to improve PFM for service delivery at sub-national level.

### 1.5 How was the paper prepared?

The paper was prepared through a combination of desk research, field visits and dialogue with state and non-state actors. The field visits were to East Sepik, Enga, Jiwaka, Morobe, New Ireland and Simbu, and included dialogue with provincial authorities as well as district authorities and/or local government authorities. These field visits occurred from late 2018 to early 2020. Some of the Provinces were visited more than once (particularly those visited first, when the analytical framing was in its very early stages of development). These visits were complemented by information from field experience with sub-national government in the context of other sectors and for other programs over the past five years, especially in Morobe, Eastern Highlands, West New Britain, the Autonomous Region of Bougainville, and Western Highlands. The analysis of the provincial cases has been written up separately (and fairly informally, given that their purpose was primarily to inform the overall analytical framing which is articulated in this paper, rather than to be stand-alone outputs).

During the research, the team has consulted with non-state experts on governance – especially sub-national governance – in PNG. These experts include former state officials (from national and sub-national government levels), academics and people working in civil society organizations. As well as engaging with them individually during the field visits, the team held two working groups with them in order to discuss, in detail, the analytical framing arrived at in the first complete draft of this paper. The final draft of the paper accounts for those discussions, whose overarching tenor was that the paper, though at times confronting in its depiction, captures the realities of what is happening at the local level and thereby offers a valuable basis from which to identify feasible ways forward.
2 Local Level Governments

Summary

In law, LLGs are important and substantial local government entities. They are made up of independent, local Ward-based elected representatives, who in turn elect an LLG President. Those representatives have extensive lawmaking and revenue gathering powers. They also have delegated responsibility for overseeing and supporting an array of local service delivery and development functions. The resources to carry out these functions are passed down to LLGs through Provincial Administrations, in the form of regularized ‘function grants’ dedicated to LLGs, and ostensibly enabling them to perform assigned functions. The Ward Councilors elected to LLGs have stipends and responsibilities linking Wards to higher levels of government. These linkages may be through a semi-established Ward Development Committee or Peace and Good Order Committee/‘Komiti’, which intersects with other local church, clan or urban ethnic leadership. In this way, such committees/komitis can play important local order and stability roles.

Yet more than two decades after their creation in 1995, most LLGs struggle to perform even a fraction of what was intended. Since their creation, LLGs’ resourcing has been minimal and inconsistent. LLGs have tended to be the loser in a wider struggle between Districts, Provinces and some Statutory Authorities for a share of the sub-national resources coming from central government, with LLGs being the weakest and least well-represented parties in this contest. In their relations with Provinces, LLGs are typically the weak dependents of Provincial Administrations, which have themselves been weakened and under-resourced over time (and the would-be clients of Provincial Governors, with no formal obligation to include them in the distribution of resources the Provincial Governor controls). In relation to Districts, they are often potential or failed clients of District MPs, likewise with no formal obligation to include them in the distribution of the resources that District MPs control. In their relations to local clans or villages, individual Ward Councilors typically depend on one of several competing factions for support and re-election, and lack electoral incentives to engage with the representative structures of competing factions.

In the case of the overwhelming majority of rural LLGs, the result is only a shell of local government, with a narrow and fraught political relation to local people. LLGs may host a few staff responsible for education and health services who are deconcentrated from Provincial Administrations and PHAs, but they usually have a very limited role in directing those staff. Moreover, those staff may not have the complementary inputs required to do their jobs. Most LLGs raise little or no revenue locally, so core administrative functions as well as vital maintenance functions for local health and education facilities and housing are dependent on the grant transfers they receive via Provinces. These transfers are small relative to the possible scope of LLG functions, and cannot be relied on to arrive on time. On the development/capital side of the budget, if LLG Presidents and Ward Councilors are politically aligned to their District MP or Provincial Governor, they can ask them for resources or projects. If they are successful, the resources or projects will almost inevitably favour one clan or village over the others.

Whether in their recurrent programs or in their development spending, then, LLGs have little fiscal or executive accountability to locals, whether as public service users or as taxpayers. Any political accountability (or potential to secure development projects) depends on whether that village supported the Ward Councilor or that Ward supported the District MP or Provincial Governor in the last election. In consequence of this winner-takes-all situation, Ward/LLG electoral contests are intense and not
infrequently violent, even if the stakes are just the power to allocate a K$10,000 grant, or the chance to compete for a project from the District MP or Provincial Governor. (This is not to suggest – despite the recent reemergence of support for local head taxes in political discourse – that LLGs are a suitable level for significant own-source revenue raising, given that most are rural, supervision and oversight of tax collection would be minimal and the power of taxpayers weak, so local tax regimes could readily become coercive and extractive, feeding the revenue demands of local political leaders and their supporters.)

As at all other levels of PNG government, such competitive patronage relationships reflect and contribute to the centralization of power, and greatly limit both accountability to citizens and incentives to manage funds to deliver services effectively or equitably. These competitive patronage relationships do not tend to support local service delivery by LLGs, nor do they make it likely that LLGs or citizens will effectively demand service delivery from others. Arguably, the net result is the ongoing undermining of the legitimacy of the state at the local level, as well – with the violence associated with local elections – as the extent to which the presence of the state contributes to public order and security.

2.1 What are LLGs?

The lowest tier of government is Local Level Government (LLG). There are 336 LLGs (317 Rural LLGs and 19 Urban LLGs, which represent substantial towns), typically with two to four LLGs per District. On average, there are about 25,000 people per LLG, but their populations vary considerably from over 100,000 in the Anglimp Rural LLG, Jiwaka Province, to around 1,500 people in the Aua Wuvulu Rural LLG, Manus Province. The populations of Urban LLGs also vary, from just under 30,000 in Madang Urban LLG, to just over 5,000 in Ialibu Urban LLG, Southern Highlands Province.

The territory of each LLG is divided into electoral divisions called Wards, with a Ward Councillor elected from each Ward to constitute the LLG. At last count, there were 6,375 Wards in PNG, so an average of 19 Ward Councillors per LLG. Ward Councillors are widely recognized as the most accessible governmental officials in PNG, and are expected to represent the government at local events. They also usually play leading roles in activities connected with Ward Development Committees, where these exist.

Each LLG is headed by a President. In the past, some LLG Presidents were directly elected, but from the 2019 election onwards, all are elected by and from among the Ward Councillors. LLG Presidents represent the LLG in higher level forums, including the District Development Authority (of which they are board members), the Provincial Assembly and, if appointed, the Provincial Executive Council.

According to the 1995 Organic Law, LLGs must meet at least four times per year to frame LLG rules over their legislated mandates (described below). While many do meet this regularly, many others do not. Each LLG has standing orders governing meetings, and LLG members receive meeting fees and have other expenses awarded according to the number of meetings held. LLG Presidents and Ward Councillors also receive salaries (‘stipends’) from central government.

Rural LLG headquarters are often fairly remote, and vary in their relation to major villages or areas of economic activity in their LLGs. It is not the case, for instance, that Rural LLG headquarters are usually in the largest villages in LLGs or located near schools or health posts, though they may be in some LLGs.

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26 Population data are from the 2011 Census.
Many are located along a main road (with adjacent local shops or a roadside market). Some are clustered together in the District headquarters or Provincial capital, remote from the LLG itself. Still others do not have functioning offices at all.27

Within the territories of LLGs, there would typically be several schools, a health clinic and some aid posts, and some transport infrastructure (e.g. local roads). LLG headquarters are in some places locations where public servants deconcentrated from the Provincial government (or in the case of health now, the Provincial Health Authority (PHA)) are located to carry out their functions. LLGs themselves also typically have some casual staff, such as a gardener, cleaner, toilet keeper and security (because LLGs are the most accessible site of government, they attract local complainants and claims-makers, which carries the risk of violence).

Neither LLGs nor their Wards are the most important level of local social and political organization. In rural areas, where the vast majority of Papua New Guineans live, the most important local-level entity is the village and its association with clans and tribes. Social and economic life tend to be regulated through extensive institutions at this level, covering kin and other relations, land and inheritance, dispute resolution, and political representation (discussed below). At village level, there will be a ‘Village Book’ and a respected person tasked with keeping its basic civil registration and demographic data up to date. Many locations also have Village Courts, with members selected by a mix of local and higher-level processes, but gazetted and paid by central government.

2.2 What are LLGs meant to do?

While local or community governments existed prior to and in the early years of independence, today’s LLGs were (re-)created by the 1995 Organic Law, and further defined in subsequent LLG-specific legislation. They replaced Local Government Councils which had been in some tension and competition with the system of constituency MPs elected to provincial legislatures since independence (see Box 2.1). Those elected provincial legislatures (and the constituency MPs) were abolished by the 1995 Organic Law, leaving the new LLGs to institutionalize themselves in the vacated local government and local representational space. The new LLGs held both electoral and lawmaking powers on the one hand,28 and executive functions on the other.

LLGs were created with the promise of extensive, independent funding in order to be able to play both a governance and developmental role. They Local Councils they replaced had often been able – in the pre- and immediate post-independence era – to engage local clan leadership, raise their own revenues (through the head tax), and make their own decisions about resourcing infrastructure and services. The form of Ward Councilor politics that developed in the new system (see below), tended to be less closely representative and deliberative, and the LLGs have never had access to the kind of resources needed to fulfil their mandates.

27 Where there is no staff housing at LLG headquarters, it can be the case that staff reside at District headquarters or Provincial capital, even where they have no transport to the LLG headquarters so cannot actually attend work.
28 These lawmaking powers covered community records, the barter system, consumption controls over alcohol and betel nuts, health clinics and aid posts, hygiene and sanitation, local trading, fines, etc. (Handbook 1, p.26)
Box 2.1: Where did LLGs come from and what did they replace?

In the earlier Australian colonial period, local government mostly consisted of the usual structures of British colonial ‘indirect rule’. Patrol officers or kiais (who sat under District Commissioners, who presided over areas equivalent to those now covered by Provinces) exercised control through mobile patrols of villages. Indirect rule recognized and co-opted local leaders (Luluais (chiefs) and tutuls (assistants to the luluai) to be the local point of contact, representing the colonial administration, upholding law and order/resolving small disputes, collecting head tax, and promoting communal harmony.29 After World War 2, Indirect Rule was dropped as a formal policy, and Local Government Councils were gradually set up to replace luluais and tutuls. But luluais were still being appointed in many places through the 1950s.30 By 1951 there were four Local Government Councils, and by 1963, 50: but not all places had them.

These chiefs, assistants and councils tend to be remembered for their ability to raise their own revenues from their own populations (via head taxes) and make their own decisions about resourcing infrastructure and services. In some places in PNG there were also pre-independence Area Authorities comprising local leaders focused on Rural Improvement Programs.31

From independence in 1975, Provincial government was the main focus of sub-national institutional development. While local government councils still operated in many contexts, Provincial legislatures had their own constituency MPs who were elected from areas similar in size to those now covered by LLGs. This wider Provincial structure overlapped with and in many places came to dominate various kinds of local governments. Both were radically reconstituted by the 1995 Organic Law.

The 1995 Organic Law formalized the inclusion of LLG Presidents within the mechanism of the Joint District Planning and Budgeting Priority Committees (JDPBPCs), which distributed development funds, but were almost completely controlled by District MPs. As Kalinoe notes, “The creation of the 89 JDPBPCs has now had the effect of rendering the existing 305 LLGs redundant in any meaningful service delivery programs and projects.”32 Since 2013, DDAs have further institutionalized their dominance. Effectively, LLGs have been the losers in the struggle for funds between central agencies, Provinces and Districts.

The 1995 Organic Law provided LLGs with a very wide range of law making powers, but did not realistically specify how these areas would be translated into functions of LLGs or, beyond very basic administrative grants, how they would be funded. Their legislative mandate includes, for instance, town planning, the environment, provision of water supply, provision of electricity, hygiene and sanitation, labour and employment, general licensing, cottage industries, tourist facilities, housing, vernacular language schools, local aid posts and clinics, social services, social order/dispute resolution, alcohol/betel nut consumption, census and village or community records, and the imposition of fines for breaches of any of its laws.33 Following the 2009 Intergovernmental Relations (Functions and Funding) Act (which adopted the principal of ‘funding follows function’), a more modest set of functions was specified in the

32 Kalinoe (2009) \
33 These lawmaking powers are subject to the Constitution, 1995 Organic Law, and a provincial government law.
2009 LLG Act, for which the costs of provision were also estimated.\(^{34}\) The functions prescribed in the LLG Act include: inspecting the condition of and maintaining elementary and primary schools, teaching housing, and ancillary facilities; maintaining aid posts and health worker housing; maintaining aid post medical equipment. Legislation also mandates the existence of Ward Development Committees for each Ward, to act as the principal community development advisory unit to the LLG.\(^{35}\)

There are several interrelationships between LLGs and higher tiers of government. As already mentioned, LLGs serve as a location for health and education activities, and in a limited way as a base for public servants deconcentrated from Provinces to the local level. In this they provide some connection between deconcentrated service delivery by provincial departments/national line ministries and local political authority (in the form of LLGs). In the other direction, some LLG Presidents are appointed as Chairs of Provincial Executive Council (PEC) Committees, for example of finance, health, education, agriculture, or law and justice. Each LLG President is also a member of the District Development Authority board (discussed below).

Ward- and LLG-level activity planning is meant to connect with higher government tiers, via a ‘bottom up’ planning process. Ward Councilors and Ward Development Committees are meant to prepare annual development plans for their Wards following community consultation (though the extent of this varies widely). LLG Presidents and Ward Councilors are then meant to complete an LLG plan that reflects these annual development plans. These are then meant to be compiled at District and Provincial level. Typically, Ward and LLG annual development plans are not strongly linked to budgets, intended activities, or outcomes, and are often not aligned in any real way with higher-level government plans (particularly in Districts). They are very often not even included in District and Province plans, budgets, and activities.

LLGs are empowered to set up committees of any kind. Many LLGs will sanction or support Ward, or further down ‘zone’, ‘area’, ‘village’ (rural) or ‘blok’ (urban) committees and their chairmen, who typically play dispute resolution roles (which are formally unpaid), linked to local ethnic configurations.\(^{36}\) These committees and their chairmen in practice function subordinate to the formally recognised Village Court system.

Reflecting the importance of relations between Ward Councilors and tribal/clan and other community authority structures, Ward Councilors are expected to attend and contribute to many local events and ceremonies, and help with access to funds and/or higher-level participation in these. If it is available, Ward Councilors obtain cash advances in order to make such contributions, which must be made against an allocated budget (e.g. transport) and be fully acquitted with receipts. Depending on the event, contributions may be for food, transport, decorations, gifts to grieving relatives, payment for the repatriation of a body, medical expenses, and so forth. Ingenuity is often required to match the expenditure to the budget category. Irregularities related procurement and acquittal processes are legion, and regularly lead to Ward Councilors being absent or afraid to appear in public contexts.

\(^{34}\) See PLLSMA (2009). It is not clear that this later specification of a narrow set of functions nullify the earlier-established wider lawmaking powers of LLGs.

\(^{35}\) See the 1997 LLG Administration Act.

\(^{36}\) See Craig and Porter (2018).
Box 2.2: Recurrent criticism of LLGs

LLGs have consistently disappointed many observers, some of whom have been sharply critical, usually along performance/behaviour rather than institutional lines: ‘LLGs have not worked well nor gained much traction as effective instruments of administration and service delivery within the communities they were established to serve.’\(^{37}\) ‘Local government councils (with honourable exceptions) have lacked financial discipline. Much of their external income has disappeared into councillors’ salaries and allowances. Much of their internal revenue, derived from fees and rentals, has been siphoned off by councillors and public servants.’\(^{38}\) In 2005, May suggested that perhaps 80–85 percent [of LLG funding] was ‘either ‘wasted’ or ‘not used for its intended purpose, through lack of proper planning or corruption.’ [LLGs were ineffective], ‘if indeed they met at all.’\(^{39}\)

More structural analyses note that this has happened because provincial governments had ‘hijacked the due processes of planning, budgeting, accounting and reporting...and derailed the proper constituted procedures and mechanisms to ensure that all stakeholders participate, ...[leading to] ‘dysfunctionalities in local administration, insufficient funding for local projects, politised appointments of staff, and lack of either upwards or downwards accountability.’\(^{40}\) The new LLGs, under revised legislation, had to be built from scratch, both politically and physically, often with offices located in the strongholds of the then sitting members of parliament (MPs), but away from the social, economic and infrastructure nodes of the provinces, and completely detached from the district office.\(^{41}\) But, as explored below, the main sources of LLG weakness have been lack of legitimacy in relation to local clan structures, and lack of resources, either top-down or own-source.

### 2.3 What resources do LLGs actually have, where do they get them from, and what do they use them for?

Most LLGs struggle to fulfill their extensive mandate. While urban LLGs often function as effective town councils, rural LLGs rarely fulfill their core function of being a local council that meets to deliberate over local laws and guide local service delivery. Their resourcing (relative to their mandate) and the incentives facing their stakeholders both contribute to this predicament. This section focuses on resources, while the next focuses on incentives. The table below summarizes these resources, grouping potential resources into staff, recurrent transfers and capital transfers/projects and own-source revenue.

<table>
<thead>
<tr>
<th>Resource</th>
<th>Remarks</th>
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<tbody>
<tr>
<td>Staff</td>
<td>Different LLGs have different establishment sizes agreed by central government, which in turn determines the maximum number of permanent staff they can have. But an LLG with an official establishment 10 or 12 public servants might in practice have just two or three.</td>
</tr>
<tr>
<td>LLGs have an LLG President, Ward Councilors and an LLG Manager, with modest salaries paid by the Provincial government (for LLG Presidents, as members of the Provincial Assembly) or DPLGA (for Ward Councilors, LLG Managers and any other permanent staff the LLG may have obtained, like a</td>
<td></td>
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\(^{37}\) Hegarty (2009).
\(^{38}\) Barter (2004, 146).
\(^{39}\) May (2005).
\(^{40}\) Moya (2007, 166).
\(^{41}\) Ketan (2013, 6).
Council Clerk, Ward Coordinator, or project officer. DPLGA also pays meeting fees for Ward Councillors. LLGs often have casual staff (drivers, security, cleaners).

Provinces tend to control expenditures and staffing from their central position, and often relatively few staff are deconcentrated to District, let alone LLG level (and even they may not live in the LLG and thus be able to work effectively). Some Provinces are trying to deconcentrate but it is challenging, especially in terms of housing and logistics for deconcentrated staff. A relatively well-resourced LLG would have no more than a handful of fulltime staff, and many have fewer than that. Actual reporting and supervision links between deconcentrated staff, District Administrators and Provincial Administrators vary considerably.

**Recurrent transfers**

LLGs receive an administration grant for basic operations and maintenance from central government, paid via Provinces. It is calculated according to a cost of services formula maintained by NEFC, reflecting in part the size of the population to be served, and is usually between K$50-250,000. It is supposed to cover casual wages, transport and fuel, routine maintenance, other operational expenses, and pensions.

The reliability of function grant flow of funds is good in the long term, but year by year this grant is subject to the wider cashflow difficulties facing Provinces government, which see such funding delivered late and executed in arrears. Where this is the case, there is more scope for the funds to go missing altogether (in some reported cases, due to collusion between District Finance Officers and LLG Presidents).

LLGs might have regular budget allocations for primary school maintenance or health worker housing maintenance (which may or may not be spent on maintenance), and may also receive supplementary administrative or program grants from the provincial budget (including a share of District Support Grants).

LLG budget allocations’ level and reliability depend on both the resources at the disposal of the particular Province and the relationships or political alignment between Provinces and LLGs. In practice actual maintenance tends to be sporadic, and often only progresses with extra resources from the Province or perhaps the DDA (for major classroom refurbishment).

**Capital transfers/projects**

Formally, LLGs propose projects to the DDA and LLG Presidents attend DDA meetings (though this can be difficult, where DDAs meet in the Provincial capital or Port Moresby rather than in their Districts – which is by no means unusual).

Whether an LLG secures a project from the DDA depends heavily on the political alignment between the LLG President and District MP. Even if an LLG secures a project, the LLG unlikely to have any control over the resources involved.

In some cases, LLGs may secure resources – or more likely projects – from Provinces, whether from the Governor’s PSIP funds or through annual provincial planning and budgeting processes. In

Morobe provides an example of a Province providing capital resources to LLGs (currently K$150,000 per LLG per annum). Most LLG project funding is controlled/executed by the province.
<table>
<thead>
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<th>Resource</th>
<th>Remarks</th>
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<tr>
<td>rare cases, Provinces may provide Ward-level grants, significantly expanding what Ward Councilors and Development Committees can do.</td>
<td>In reality, few Wards have active Ward Development Committees, largely because few committees actually have access to any funds.</td>
</tr>
<tr>
<td>In 2013-2016 LLGs had access to LLG Services Improvement Program (SIP) funding from central government, for capital projects. If LLG SIP funds are received, they are allocated by the Ward Councilors, sometimes with Ward Development Committee input.</td>
<td>These appropriations have been highly variable, from zero to K$500,000 per annum in 2013, to K$100,000 per annum 2014-16, and in 2017 back to zero. If appropriated, the LLG SIPs were not usually paid in full to all LLGs or paid early enough in the year to be spent in a considered manner. In some years, a significant number of LLGs maintain they never received SIP funds, which were reported as having gone missing at the Provincial or District level.</td>
</tr>
<tr>
<td>At some future point, Wards may receive SIP funding from central government, for capital projects. Ward SIPs of K$10,000 per Ward per annum were appropriated but not warranted in 2017, for ‘capacity building and funding Ward Councilors’ allowances’. If received, Ward SIPs would significantly expand what Ward Councilors and Development Committees can do.</td>
<td>Though approved by NEC and appropriated for the first time in the 2017 budget, Ward SIPs have never actually been paid. Arguably, they would simply be another level of grant that would likely be associated with the personalized patronage of the Ward Councilor. There would be no local revenue component generating taxpayer accountability; only the clients of the successful political candidate would expect returns.</td>
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**Own-source revenue**

| LLGs are legally empowered to collect certain fees related to business and resource activities in their areas, as own-source revenues. A share of provincial business licence fees is a common source of revenues. Urban LLGs typically collect market and other local fees. LLGs may run commercial enterprises and retain the profits as own-source revenues, though successes are rare. Rare LLGs are the recipients of considerable funds through resource royalties – for instance in New Ireland, the LLGs involved with the Lihir Mine are extremely well resourced. | All such own-source revenues add to the potential capability of LLGs: but outside urban LLGs, actual collection has not been extensive to date, or has often been controlled by the province. Such resources can be used for regular construction/maintenance and/or to procure complementary inputs to enable staff to do their jobs. Such additional resources also augment the ability of LLG Presidents and Ward Councilors to contribute to Ward Development Committee activities and local events, so expanding the scope of what these activities can encompass. |

While this obviously adds up to a highly variable landscape of LLG financing, there are some basic tenets that can be identified:

- **LLGs are not well represented in arenas where resources are allocated.** LLG Presidents sit on DDAs, but are regularly sidelined in this role, especially if DDA meetings are held irregularly, away from the locality. As below, some LLG Presidents will be favoured by MP patronage; others are seen as political rivals, and many are simply left out of DDA activities and real processes of resource allocation. Where

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42 Central government capital projects will of course also occur in the territories of LLGs, but this does not mean that LLGs will have any role in the projects, or any control over any of the resources involved. The same can be true for donor projects in LLGs.
LLGs are electoral strongholds of District MPs, they are more likely (but not at all guaranteed) to see money and projects in their territory. Some LLG Presidents chair PEC committees, but these are appointed positions, certainly not available to all LLGs, and have limited budget allocation powers.

- **Most resources allocated to LLG level are in fact controlled and spent at Province or District levels.** For LLGs without access to other recurrent funding flows, their staff constitutes most of what they have to operate with. Whether the province – from where the staff are deconcentrated – supplies adequate complementary inputs to enable the staff to do their jobs (such as vehicle access, fuel, and supplies), has a major bearing on the value of these deconcentrated staff.

- **When the scarce funds are received, they tend to cover the recurrent costs of basic LLG processes, LLG headquarters maintenance, and one-off community activities, with virtually no extra contribution to wider service delivery.** Much by way of service delivery and facilities maintenance either goes unfunded, does not happen (because maintenance is funded and the budget is expended, but no maintenance is in fact done because the funds are used illegitimately), or it happens through fundraising or fees (such as for schools), with obvious equity implications. Only LLGs with reliable access to more generous recurrent funding (provided by some Provinces, and by own-source revenue for those lucky enough to have it) might escape this service delivery constraint.

- **Whether an LLG is able to secure projects does not change this fundamental constraint on recurrent activities.** Rather, it tends more to intensify the extent of one-off, sporadic activities (in this instance, initial construction activity). The ebbs and flows in capital resources are evident in the many LLGs with nearby yards of rusting, unserviceable construction machinery. Only LLGs with reliable access to capital transfers (as opposed to projects largely outside their control) or own-source revenue have the potential to escape this constraint and operate a steady capital development program.

Two scenarios – of a poor and a well-off LLG – are illustrated in the table below.

<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>Type</strong></td>
<td><strong>Source</strong></td>
<td><strong>Recurrent (K$)</strong></td>
</tr>
<tr>
<td>Stipend of LLG President</td>
<td>Province</td>
<td>In kind</td>
</tr>
<tr>
<td>Stipends of Ward Councilors</td>
<td>Centre</td>
<td>In kind</td>
</tr>
<tr>
<td>Salaries of staff deconcentrated from Province</td>
<td>Centre via Province</td>
<td>In kind 2 staff</td>
</tr>
<tr>
<td>Business fees, GST share, resource royalties</td>
<td>Own source</td>
<td>5,000</td>
</tr>
<tr>
<td>LLG administrative grant (meeting fees, maintenance, casual staff)</td>
<td>Centre via Province</td>
<td>142,500</td>
</tr>
<tr>
<td>Supplementary LLG grant (e.g. share of District Support Grant)</td>
<td>Province</td>
<td>50,000</td>
</tr>
<tr>
<td>Project funds via Province (e.g. from Governor’s PSIP)</td>
<td>Province</td>
<td>–</td>
</tr>
<tr>
<td>Project funds from DDA/MP’s DSIP</td>
<td>DDA</td>
<td>–</td>
</tr>
<tr>
<td>SIP (LLG, Ward)</td>
<td>Centre</td>
<td>–</td>
</tr>
<tr>
<td><strong>SUB-TOTAL</strong></td>
<td></td>
<td>197,500</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td>197,500</td>
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</table>
Given the staffing constraints and funds flow limitations and volatility outlined above, it is not surprising that LLGs’ annual development plans are not always realistically linked to their own budgets, or to actual expenditures. Even when and where they are developed, LLG plans are not typically or meaningfully incorporated into provincial plans or budgets. While LLGs produce annual activity reports, few or no financial reports are prepared showing actual expenditure against budgets. On paper at least, LLG expenditures are subject to District procurement boards, however actual project expenditure will usually be handled at higher levels of government. The only reports on LLGs’ actual expenditure that are prepared are those prepared by central government, showing the consolidated provincial accounts at the national level, from the data contained in PGAS (or now the IFMS, for the LLGs whose District Finance Offices have moved onto the IFMS). Even when and where they are developed, LLG plans are not typically or meaningfully incorporated into provincial plans or budgets. While LLGs produce annual activity reports, few or no financial reports are prepared showing actual expenditure against budgets. On paper at least, LLG expenditures are subject to District procurement boards, however actual project expenditure will usually be handled at higher levels of government. The only reports on LLGs’ actual expenditure that are prepared are those prepared by central government, showing the consolidated provincial accounts at the national level, from the data contained in PGAS (or now the IFMS, for the LLGs whose District Finance Offices have moved onto the IFMS). Their audit is likewise a part of the consolidated accounts, and is not looped back to individual LLGs or their electorates in any particular way.

While there are some trends of increasing resourcing for LLGs, there is also the real possibility that LLGs could be restructured. While the subnational funding flows that have increased over the last decade (PSIP, DSIP and to a lesser extent function grants) have not yet consistently found their way to LLGs, in some Provinces increasing numbers of staff are being deconcentrated to LLGs. Simbu, New Ireland and Enga are three cases among a potentially larger number that are actively deconcentrating staff down to local levels (even including engineers, planners, financial staff, and school inspectors). Function grants should continue to rise, and there are signs that PSIP and DSIP accountabilities will be strengthened (including the enforcement of sectoral allocations). Combined with the potential of the IFMS to track expenditure down to LLGs (and identify diversion at other levels), these trends may result in more funding reaching LLGs. On the other hand, the CLRC Review of the Organic Law (published 2015) recommended a new system of local council government, predominantly scaled to the District level.

2.4 What incentives do the institutional structure, funds flow and electoral system give LLG political leaders, and what are the outcomes of that?

Like all levels of politics in PNG, LLG and Ward politics are affected by the geographic, ethnic, linguistic and kin-based diversity of the population. Particularly in larger LLGs – but also true more generally – elected officials are returned by whichever clan or tribal grouping secures the largest fraction of votes. Because of the extraordinarily large numbers of candidates contesting any elections, these fractions can be as small as 10 percent of an electorate’s voters, even since the introduction of a limited transferrable preference voting system in local elections.

Given the extremely scarce resources LLG Presidents and Ward Councilors have access to, they have a limited capability to respond to the needs and requests of even the narrow group who elected them. Instead, their activities tend to be linked to close and powerful relations with (sometimes very) particular people, especially close family. As Francis Fukuyama pointed out following his PNG visit, these incentives to respond to very small groups of people make representation and delegation issues in PNG so fraught, and undermine wider institutional legitimacy. LLG Presidents and Ward Councilors have the incentive to

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43 The staff of District Finance Offices (formerly known as District Treasuries) are employed by and formally report to the national Department of Finance.

44 See Constitutional and Law Reform Committee (2015); NEC Parliamentary Bipartisan Committee (2015).

45 Fukuyama (2008).
preserve this system and its ability to bestow lottery winning-like largesse on a small group of people, even though these practices are highly unlikely to see them re-elected at the end of their term.

This patronage politics is accentuated at the level of LLG Presidents, especially when LLG Presidents are the clients of District MPs or Provincial Governors, who enlist their support to help control voting booths and political participation in general elections. A District MP will typically seek to influence LLG and Ward politics by supporting the election of personally or party-aligned Ward Councilor candidates, thus protecting their own position and undermining the prospects of potential rival MPs. Particularly in LLGs with directly-elected Presidents, the LLG President can act as a local ‘mini-boss’ for the MP, free of accountability to fellow Ward Councilors (who might otherwise oust the LLG President in a vote of no confidence), but enrolled by the District MP or Governor to deliver booths and ballot boxes at election time. Rewards and methods for doing so are personalized and often monetized. While the exclusiveness of the patronage links may be hidden from public view to an extent, the vote buying and loyalty of the mini-boss – and the consumption by the supporters being wooed – is very conspicuous.

At a deeper level, the intersection of LLG and Ward political representation with geographic, ethnic, linguistic and kin-based social fragmentation tends to generate even more exclusive dynamics. Instead of the existing longer-timeframe processes of clan or tribal deliberation providing opportunities for relatively inclusive intra-group dialogue, the intersection with electoral politics sees one man (and it is almost always a man) chosen from a host of others to be the sole representative of the region, clan or tribe. He then displaces these existing processes of clan or tribal deliberation and action, even in matrilineal societies like those of the New Guinea Islands. This exclusive, personalized/individual takeover of the communal mandate means many local people have no stake or interest in local politics. On the other hand, Wards, villages and even families may experience conflict between factions, most of which are guaranteed to lose and feel excluded by the process. The highly gendered nature of this process significantly limits women’s representation and voice opportunities.

In this context, the underlying geographic, ethnic, linguistic and kin-based diversity of LLG populations appears to affect the patronage flows. Hasnain et al show that Wards with high levels of trust and functioning basic inter-clan/inter-village networks are more likely to receive capital projects. Places that are more fragmented socially and institutionally are less likely to receive capital projects (because the projects would need to be in one particular place, and not others, which the groups concerned cannot agree on). Instead, their electoral support is more likely to be sought through cash payments, which are more readily divisible. Thus a deepening cycle of monetization and fragmentation can be established.

**Box 2.3: The outcome of sporadic, inadequate cashflow and the need for politically visible investments: expensive “build, neglect, re-build” cycles and poor value for money**

LLG (and DDA) development expenditure is dominated by sporadic, politically visible capital investments, not linked to recurrent budgets. These investments typically represent very poor value for money, especially when their maintenance is neglected (because of scarce recurrent funds), and where long neglected maintenance ultimately requires a complete rebuild (which can be funded from capital as opposed to recurrent funds). In part, this is because a build-neglect-rebuild cycle is more costly and generates a narrower asset base than a build-maintain-maintain continuum. But it is also

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because sporadic contracts for labour, materials and equipment (including vehicle) hire typically come with inflated prices.

One-off activities like sports events, graduations, opening ceremonies and so forth are also amenable to these sporadic, unpredictable funds flows – when the funds flow, the events happen. (And indeed, when the events have to happen prior to funds flow, credit from social or business ties can enable this at a price, meaning that when the funds do flow they are distributed immediately, because they have already been spent). In this way, LLG finances operate as in a debt trap, with scarcity resulting in advance spending at higher prices and/or interest, which then compounds future scarcity.

Set in the wider political context of relations with Provinces and Districts and the often active competition between them, the combination of electoral context and funds flows described above can reinforce a narrow focus of the LLG on seeking and distributing patronage from political actors in higher tiers of government. As will be discussed in subsequent sections, District MPs and Provincial Governors currently have few incentives to coordinate their actions, and indeed face incentives to act autonomously and in contest with each other, as rival patrons. Wherever there is contest between a Governor and the District MPs, LLGs become important sites for creating patronage. Moreover, the build-neglect-rebuild cycle described above leaves LLGs more dependent on projects for new construction from the Province or District, again secured through patronage relationships. As explained below, Governors tend to have some advantage over District MPs in this contest, because they can direct Provincial budgets and resources down to LLGs and Wards (bypassing District MPs), using existing executive arrangements and resources. They can empower Ward Councilors and Ward Development Committees with discretionary grants, thereby building their own political bases and supporting potential competitors to rival District MPs in ways and parts of the electorate that might threaten a narrowly elected District MP. The more intense the conflict between the Governor and Districts MPs, the greater the potential for such relationships – but also the greater loss of legitimacy of representational institutions.

These multi-level patronage relationships are a form of intergovernmental pact, where resources are transferred from Provinces (or Districts) to LLGs and Wards, in return for political allegiance and electoral support. These kind of pacts – usually representing personalized, top-down patronage relationships, within limited party loyalties – are unlikely to prompt greater accountability to electorates from the LLGs or Wards receiving the funds. But in exceptional circumstances, this can be the case. In some resource-rich Provinces, LLGs receive substantial resource royalties as well as recurrent grants and capital projects from Provinces, leaving them in the position where they can reliably deliver services and small capital works to a reasonable share of their populations, giving them greater potential for re-election and also a more enduring relationship with the Province that in some cases is quite focused on performance and outcomes. Breaking or even seeking to mitigate these patronage arrangements would require serious reform, including enabling collection of own-source revenues and more developed local accountability mechanisms for its expenditure.

The consequence of the situation as it stands is a rising intensity of patronage-based political competition, not infrequently including electoral violence, extending deep into LLG and Ward politics and communities. Patronage relationship are exclusive: a patron rewards his clients, and not those of another rival patron. This means that funds channeled through patronage systems are winner-takes-all in nature, with losing patrons and their clients excluded from the benefits. Even if the funds to be allocated are just a small development grant or a small project funded by the Provincial Governor’s or District MP’s
SIP, local factions seem increasingly prepared to fight to control this exclusive and prestigious resource. Even the uncertain prospect of control over potential (K$10,000/year) Ward SIPs or unreliable LLG SIPs (which have been as much as K$500,000/year, but are currently zero) was reportedly an important factor driving the rising number of candidates in the 2019 election. Though the stakes appear small these are the main resource flows available at this level. (It is possible to imagine such violent competition arising over the responsibility to decide on and physically collect the taxes and charges to be levied on citizens and businesses to fund service provision, and the allocation of those receipts to expenditure. Rural locations are arguably most vulnerable to such coercion of local people, where supervision and oversight of tax collection may be minimal and where taxpayers have limited opportunities to move away from such practice. However, certainly in a context where taxpayers across the LLG demand services in return for their payments, but even in the absence of such demand, there would probably be less incentive to compete violently to control such a very demanding public revenue raising and expenditure process, than to access patronage flows.

2.5 What counter-trends can be observed, and what explains these?

Despite glimmers of hope, most LLGs remain debilitated by lack of funds. Following the demise of the short-lived LLGSIP in 2017, central government SIP funding of Wards has been appropriated, but the expenditure has never been warranted. Quite simply, LLGs and Wards sit low on national priorities in the current fiscal situation. But some individual Provinces are extending significant funding to LLGs and even Wards. Typically, these are provinces with exceptional funding, including GST resources.

Morobe has a long history of such support, enabled by PSIP contributions (up to 2016, when these were significantly reduced) and by the Province’s own-source GST revenues, which fund most of the provincial budget. Morobe’s 2020 budget includes K$5,000 grants to each of the Province’s 565 Wards, as well as K$150,000 per LLG for ‘impact projects’ and further scope for grants to individual LLG Presidents. In 2020, East Sepik is allocating K$2.6 million (K$100,000 per LLG) of new and additional funds for LLGs to allocate to service delivery improvement (bringing total LLG budgets to around K$2 million per LLG, or K$52 million total). This extra funding was enabled by increased GST collection.

New Ireland province, which has revenue from two mines, has in recent years experimented with different ways of supporting LLGs and Wards. Under the slogan, “The further you are, the more we care,” New Ireland government is working towards an enlarged HR commitment to LLGs, setting out to deconcentrate the establishment of 333 provincial staff to have 80% working at District or lower level, with 50% at the LLG level. The overall establishment will be 12 officers per LLG, with each LLG having an LLG Manager, Officers in Charge of sectors, and a planner located in the LLG. This group will constitute the LLG Management Unit, whose responsibilities will include supporting the establishment of Ward Development Committees and plans. Where possible local staff will be recruited, meaning costs of housing are reduced. The Province aims to provide K$30,000 or K$40,000 per year to each of 142 Wards for projects, depending on remoteness; “good” LLG Presidents will get K$200,000 per year.

Funding for New Ireland LLGs has, however, become heavily politicised, as rivalry between the Governor and District MPs, and their respective parties, has intensified. The Nimamar LLG, which

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47 http://www.looppng.com/business/morobe-presents-record-k4846m-provincial-budget-90133
receives royalties from the Lihir mine, saw a new President elected, not aligned to the Governor’s party. In a shift from previous years, Nimamar received no funding in this year’s provincial budget. However, in the 2020 budget, the New Ireland provincial government has allocated K$7 million to what it calls a Community Development Program, with funds allocated to each Ward, direct from provincial government, and bypassing the LLGs.

**Simbu and Enga have active programs of relocating public servants to District and LLG levels.** But both still admit to challenges getting public servants to stay where there is limited accommodation, and even more limited services (school, health, banking, etc.).

**Own-source revenue collection is being explored in (mainly urban) LLGs and in City Authorities.** Simple property tax regimes on improved values in urban areas may have some potential. But what has been raised periodically to date in PNG is the possibility of local head taxes being reintroduced to fund LLG government. Risks of tax coercion, especially in rural LLG contexts, would likely to be fraught here.

**Overall, LLGs remain highly dependent on (and disempowered by) the dominant elements in PNG’s current sub-national system:** centralization, the dominance of vertical funds and patronage, merging of political and implementation roles (at this level, in the persons of Ward Councilors), and fierce, violent political competition over meagre, patronage resources. Accordingly, there seems to be limited scope for reforms at the LLG level which might appreciably counter the overall tendencies of PNG governance.

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49 Note that the World Bank-funded Rural Services Delivery Program, through Project Management Units based in the Department of Provincial and Local Government Affairs and Provincial Administration offices, has piloted and is now extending the provision of discretionary funds to Ward level in a selection of Provinces and Wards, under its Community-Driven Development (CDD) modality.
3 District Administrations and District Development Authorities

Summary

On paper and in policy, the District is not a level of government – yet in practice, there are important government entities at the District level, which together are coming to function like a level of government. Since independence, Provincial governments have maintained District Administrations as deconcentrated units of their own administrations, to provide proximate support for service delivery, for regular maintenance activity, and for local governments. But Districts are also the electoral divisions of the national parliament, and in PNG’s political context District MPs have come to exercise considerable power in national governments through confidence motions. Over time, District MPs have used this power to secure the transfer of large volumes of public resources to their discretionary control, and to build institutional structures around that. The DDA is one institutional outcome of that longer political process. As a statutory authority, the DDA has the independence to enable the MP to act as a patron, without much accountability or scrutiny. The phenomenon of District MPs acting as patrons and implementers, not just policymakers, is another outcome of that longer political process.

Thus, although ‘the District’ is not formally a full level of government with legislative, political and executive powers, the overlapping District Administration and DDA structures together with the patronage activities of District MPs constitute an important governmental domain. The largest share of sub-national transfers from central government goes to District MPs, and their DDAs now have a wide mandate – encompassing anything pertaining to the develop of the District (thereby overlapping with the mandated functions of LLGs and Provinces). In recent years, there has been discussion of consolidating subnational government at the District level.

To date, District Administration and District MPs/DDAs have tended to operate with different focuses, without much coordination between them. District Administrations have operated as branch offices of Provincial Administrations, focused on supporting recurrent service delivery, regular maintenance activity, and local governments. District MPs and DDAs, on the other hand, have mainly focused their attention and resources on capital/development projects, which are very often designed and executed to specifically benefit District MPs’ supporters. There has been little coordination between these programs within the District, and indeed little incentive to coordinate, given that frequently District MPs and Provincial Governors (and often also LLG Presidents and Ward Councilors) are political rivals, or rival patrons. The creation of DDAs has further complicated the situation, because the District Administrator (the head of the District Administration, who answers to the Provincial Administrator) is also now the CEO of the DDA (answerable to the District MP, who has a strong interest in the District Administrator’s selection and allegiance). So there is now an uneasy and generally ineffective fusing of the deconcentrated District components of Provincial governments with District MPs’ domains. This fusing operates through both District MPs themselves (who are now seen as implementers as well as policymakers) and individual District Administrators/DDA CEOs, who face two different authorities (or bosses) whose interests are not infrequently at odds with each other. One day, they are seen to be acting as ‘briefcase carriers’ for the District MP. The next, they are supposed to be ranking officials, serving the public interest apolitically.

All this is reinforced by fiscal arrangements, wherein both the District Administration and the DDA depend on (radically different, and difficult to reconcile) transfers and other resourcing from higher
levels of government. They face considerable obstacles to the alignment of funds for capital and recurrent budgets, and thus to achieving sustainability in basic service delivery. The lack of any predictable own-source revenue base for this de facto level of government arguably reinforces the ways the District operates as a field of fractious political and executive contest and fused forms of accountability.

It could of course be argued that this setup does not necessarily have to result in conflict or fragmentation. District MPs so-minded could use the discretion available to them to work cooperatively with like-minded Provincial Governors to coordinate the planning, budgeting and execution of activities from the resources available to each, to deliver the infrastructure (including maintenance) and recurrent services that are the priorities of their constituents. But to do that, Governors and MPs would have to overcome irregular and disjointed cashflows and the fact that most Provinces do not have much money to incentivize coordination. They would also have to act against the incentives of the political/patronage systems they operate within, which are to retain control over and allocate funds narrowly (even unlawfully) for political support. It seems wishful to depend – for outcomes in the public interest – on people rising above the incentives of the systems they operate within. Instead, it is reasonable to expect them to act with the incentives they face. Globally, the experience with the kind of political system PNG now operates is that it tends to lead to over-spending, poor quality spending, poor development outcomes and limited accountability for spending and outcomes.\(^{50}\)

3.1 What are District Administrations and DDAs?

The District is an electorate of the National Parliament, whose boundaries coincide with both an administrative subdivision of Provincial government (the ‘District Administration’), and the geographic reach of a nationally mandated and funded statutory authority, the ‘District Development Authority’ (DDA).\(^ {51}\) There are 89 Districts (hence 89 District Administrations and 89 DDAs), with populations varying from some 195,000 in Anglimp/South Waghi, Jiwaka Province and 189,000 in Talasea, West New Britain to about 36,000 in Goilala District, Central Province. District Administrations and DDAs are co-located in what is then, by definition, the administrative headquarters of each District. Since over one-third of MPs in Parliament have been members of the National Executive Council (NEC) (PNG’s Cabinet) in recent years, over one-third of Districts in PNG have as their MP someone who is also a member of NEC.

District Administrations are deconcentrated components of Provincial governments, which extend the presence of provincial offices and staff geographically. Each is headed by a District Administrator, who is a public servant on the national payroll, appointed by the Department of Personnel Management with Provincial government support, and who formally reports to the Provincial Administrator. District Administrators are often experienced public servants, however more recent MP influence in their selection has created exceptions to this, and led to a wider range of competencies and loyalties among

\(^{50}\) The nature of government formation in PNG is best characterized as a ‘provision pact’, which typically combines heavy funding of the parties to the pact with little accountability. See Slater (2010), Cherotich and Bichanga (2016), Ketan (2007), Duncan et al (2017).

\(^{51}\) Recently constituted City Authorities in Lae, Mount Hagen and Kokopo are statutory authorities of the same scale as Districts. They have legislative and executive roles, and access to recurrent funds as well as own-source revenue. Like Urban LLGs and the National Capital District Commission, these newly emerging municipal governing bodies are exceptional – much of what can be said about District Administrations and DDAs would need to be qualified in relation to these District-scale City Authorities.
District Administrators. District Administrations contain public servants deconcentrated from various departments of the Provincial Administration, who are normally part of the national payroll (but may be paid directly by Provinces).

**Since the 2014 District Development Authority Act, Districts have also had DDAs.** DDAs are statutory authorities with extensive mandates, as discussed below, but which in practice focus on executing capital expenditure from MPs’ District Services Improvement Program (DSIP) transfers. DDAs consist of Boards chaired by the District MP, who also chooses the appointed members of the Board, who generally outnumber the other representatives on the Board (i.e. the LLG Presidents). When DDAs were created, District Administrators were made the CEOs of DDAs, so effectively wearing two hats (one as head of the deconcentrated presence of the Province in the District, and one as CEO of the DDA).

**District headquarters, where District Administrations and DDAs are co-located, are not necessarily located in the economic/market hubs or population centres of Districts.** Where they are not located in economic/population centres, they tend to be located along main roads, usually with some accompanying commercial activity. District headquarters or ‘stations’ are typically where significant schools (particularly secondary schools) are located, and in many cases also where a hospital or significant health centre is located. District headquarters will usually also be the site of a police presence, operating within the police force’s national, regional and provincial chain of command.

### 3.2 What are District Administrations and DDAs meant to do?

The District Administration is meant to function as a deconcentrated unit of Provincial government, subordinate to the executive and financial control of the Provincial Administrator and his or her management team. As a deconcentrated unit of Provincial government, the District Administration does not so much have a functional assignment of its own, as undertaking any Provincial function that the Provincial government deems should be undertaken by staff in the District Administration rather than by staff in the Provincial Administration (in the Provincial capital).

This typically includes the maintenance of schools and teacher housing, and clinics and health worker housing. It also includes providing practical support to LLGs, because of the nearer proximity to them of District than Provincial headquarters, though this practical support to local government has never been formally defined. Each District also has a District Finance Office (formerly known as the District Treasury, formally a part of the national Department of Finance, and not the District Administration), able to print cheques and carry out accounting functions.

**Staff deconcentrated to District Administrations by the Province are formally accountable to the relevant manager in the Provincial Administration.** District Education staff have a strong line of accountability to the Provincial Education Advisor, who also oversees all expenditure. Many district level

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52 Before independence, the term ‘District’ referred to what is now the Provincial scale. What is now the District (but was then the sub-District) operated as a base for Kiaps and their patrols. At independence, the District became a somewhat more significant level of scale for public administration, each with its own District Treasury.

53 NEFC/DIRD (2015, 16) noted, “Functional assignments and determinations between the various tiers of Government will need to be revisited in the light of the new proposed DDA function determinations between provinces and districts. There continues to be ambiguity and overlaps that need to be addressed. This is critical if service delivery is to function effectively.” Though there have been preliminary, trial efforts to formally mandate District functions, there has been little support for such an assignment, which would likely involve providing Districts with recurrent budgets to accompany the mandated functions.
staff (such as school inspectors) also have a line of accountability to their national line departments or, for health workers, the PHA – national accountability links that are most relevant for police, law and justice, and finance officials.\(^{54}\)

Though a District Administration can undertake any Provincial function that a Provincial government allocates to it, it tends to be associated primarily with recurrent service delivery activities and small-scale maintenance work. Larger-scale Provincial government capital projects/major maintenance works are usually run from the Provincial capital, which is where the staff with more capacity to manage them are based. This allows closer political oversight/involvement in this politically salient expenditure (relative to recurrent expenditure), and maintains the separation of Provincial capital expenditure from the now very significant capital expenditure of DDAs.

It is difficult to understand DDAs and their relationship with District Administrations without knowing something of the history of competition between and Provincial Governments and District MPs. In the post-independence years up to 1995, District MPs elected to National Parliament had little or no control over expenditure or executive authority over public administration in their constituencies. They faced, typically as rivals in the local development space, elected members of Provincial Legislative Assemblies who did have resources and a mandate for local development via the Province.\(^{55}\) In the absence of a system of programmatic political parties, the inherited Westminster system of government gave District MPs extraordinary power, in their ability to bring down national governments in confidence votes. Over time, District MPs threatening no-confidence motions were repeatedly appeased by fragile coalition governments at the national level, which granted them more resources, more authority over local public administration, and institutionalized extraordinary autonomy and discretion.

Part of this impact is visible in the ever-rising share of subnational transfers controlled by District MPs. From their introduction in 1982, constituency funds have grown from K$10,000 to K$10,000,000 per District MP per annum. In aggregate, DSIP allocations to MPs represent about one and a half times the value of function grant transfers to Provinces.\(^{56}\) The steep rise in DSIPs contrasts with at best modest rises in other subnational transfers, so effectively District MPs have captured a rising share of the sub-national resources provided by the central government over time.

Another part of this impact is visible in legislative changes that have progressively weakened other sub-national governments and empowered District MPs. The 1995 Organic Law reforms abolished elected members of Provincial Legislative Assemblies, and made District MPs (and newly created LLG Presidents) members of Provincial Assemblies, potentially giving District MPs more power in Provincial government. Capital projects in Districts were to be prioritized by new Joint District-Province Planning and Budget Committees (JDP-PBCs), which in practice were dominated by District MPs.\(^{57}\) As above, many MPs used this arrangement to patronize politically aligned LGs and neglect those controlled by political rivals.

The 2014 District Development Authority Act further empowered District MPs relative to other levels of sub-national government, providing for the establishment and funding of an institutional structure at District level under the control of District MPs.\(^{58}\) The rationale for it is that as elected representatives,

\(^{54}\) See NEFC/DIRD (2015: 34f).
\(^{55}\) Ketan (2013, 6).
\(^{56}\) If PSIP, LLGSSIP and Ward SIP appropriations are included, SIPs collectively are more than double function grants.
\(^{57}\) Barcson (2015).
\(^{58}\) DDAs effectively institutionalize, fund and further empower what were JDP-PBCs.
District MPs are best placed to know the development needs of their constituents and be held accountable through elections for the way they direct public funds to serve those needs, so they should have discretionary control over public funds for their districts. DDAs have remarkable autonomy and freedom from wider controls, especially in their expenditure of DSIP funds. DDAs’ ‘service delivery’ mandate has in practice been treated as if it is all-encompassing, with no limits placed on the functions and responsibilities it can take on.59 In the process, ‘service delivery’ has been practically re-defined as being about the capital budget and not about recurrent spending (which still falls under Provinces’ and LLGs’ mandates). This ‘political approach’ to service delivery now means political incentive/patronage-based building of roads, schools or classrooms, water supply systems, health facilities, market facilities, and so forth); something necessary to actual service delivery, but not at all sufficient. In pursuit of this poorly defined and characterized mandate, DDAs are empowered to, “do all things that are necessary or convenient to be done for, or in connection with, the performance of its functions,” including charging fees for work done/services provided, and forming or participating in companies, partnerships and joint ventures. The overall result is a transfer and blurring of executive and political authority, wherein leaders – not only public servants – are now the implementers, and service delivery through this channel depends on politicians personally.

District Administrations and DDAs intersect through the District Administrator – who is also CEO of the DDA. As stated above, on paper the District Administrator is a public servant whose hiring and firing does not depend on political affinity. But in addition to the line of command and delegation from the Provincial Administrator to the District Administrator, there is also now a line of command between the District MP and the District Administrator (as CEO of the DDA, which District MPs control). The large value of DSIP resources that District MPs control, and the wide discretion they/DDAs have in spending them gives District Administrators strong incentives to align themselves and the operations they control with their District MPs. There are commonly now contests over the appointment of District Administrators, with District MPs seeking to have their preferred candidates appointed. The same legislation that brought in DDAs also empowered District Administrators/DDA CEOs to control all human resources in executive arms of government within their District, including being empowered to commence disciplinary action against teachers, health workers and police.60 If they manage to exercise such power, it gives District MPs even more incentive to ensure that District Administrators/DDA CEOs are allied to them. (But the exercise of such power is as yet unclear, given it conflicts with the established authority of line ministries over Provincial postings and Provinces over the staff they deconcentrate to District Administrations and LLGs.) DDAs also have the authority to approve LLG budgets. Sometimes, where there is political alignment, DDAs allocate projects to LLGs (though DDAs usually retain the resources and execution responsibilities).

**Box 3.1: Is the District a level of government?**

It is a much-repeated axiom of governance in PNG that ‘the District is not a level of government’, only a level of administration (or, in the case of the DDA, ‘service delivery’). For reformers who seek to advance the role of the District (including the DDA) in subnational government, this is convenient in

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59 The 2014 DDA Act gives DDAs the mandate to, “perform service delivery functions and carry out service delivery responsibilities specified in the Ministerial determination made under Section 6.” The Minister for Provincial and Local Government Affairs has not made any such determinations, which could be interpreted as meaning that the DDAs do not yet have any service delivery functions or responsibilities, but in practice the legislation is treated as giving DDAs an unrestricted mandate.

60 See Banga (2018, 12).
affirming that the District fits legally in relation to the three constitutional levels of government. It is certainly true that the District does not have a legislature, as central government, Provinces and LLGs do. But the axiom does not help elucidate the role of the District, especially as that expands under the close direction of District MPs.

In practice, both political/electoral and administrative powers are both present at the District level. By its very nature as a national political electorate, the District is a politically-driven and significant site of government activities, and District MPs are arguably the most politically empowered actors in PNG. Particularly since the 2014 DDA Act, District-level agencies have been taking on a broader range of functions in service delivery, the allocation of resources, and related accountabilities. MPs’ roles in chairing DDAs, together with the large value of resources DSIPs provide them, gives Districts a level of de facto political significance, while the mandate of DDAs significantly fuses political and executive power.

In practical terms, the District does most things that other levels of government in PNG do. Thus arguably, the constitutional distinction that the District is not a level of government has less and less practical relevance. Currently, reiterating the distinction tends to facilitate the expansion of executive functions and public finance for Districts, while avoiding the wider accountabilities that the formally recognized levels of government are subject to.

3.3 What resources do District Administrations and DDAs actually have, where do they get them from, and what do they use them for?

Since District Administrations are deconcentrated components of Provincial governments, it is not always straightforward to delineate the resources available to them/expended in the District from wider Provincial government spending. But many Provinces are eager to publicize the extent of resources they channel to Districts, so do report District expenditure separately. The table below attempts to indicate the main types of resources available to District Administrations, their extent and their reliability.

<table>
<thead>
<tr>
<th>District Administration Resource</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Staff</strong></td>
<td></td>
</tr>
<tr>
<td>Like LLGs, District Administrations’ most reliable resources are public servants deconcentrated to them by Provinces. The District Administrator (and via the District Administrator, the Provincial Administrator) has managerial oversight over all deconcentrated staff, though these staff also have lines of accountability to their national line departments. (Though the payroll is processed nationally, the salaries of provincial staff (including District Administration staff) are part of the provincial budget.)</td>
<td>Though the functional scope of District Administrations varies widely, many would have one or perhaps more public servants from six to eight different line departments: works, education, health, agriculture, law and justice/Village Courts, and finance. Through the addition of the DDA CEO role, District Administrators’ powers over human resources at the District level have been enhanced (though in practice it is not clear what this means).</td>
</tr>
<tr>
<td><strong>Recurrence</strong></td>
<td></td>
</tr>
<tr>
<td>District Administrations receive District Support Grants (DSG), of K$500,000 per annum. The DSG has a discretionary component of K$250,000 for the District MP (used for transport, events and day-</td>
<td>The DSG is provided by central government, through Provinces. Though it is constitutionally guaranteed, it is not necessarily paid (in the</td>
</tr>
</tbody>
</table>
District Administration Resource | Remarks
--- | ---
to-day constituency requests) and a non-discretionary component of K$250,000, for the District Administration itself. | recent fiscal crisis, for instance, it was severely abated).
District Administrations also receive/can expend recurrent resources from the function grants paid to Provinces. These are typically provided for operations, maintenance and training activities in the various sectors with a presence in the District (e.g. roads, education, health, agriculture, law and justice/Village Courts, and LLG administration). | Since these resources come from the function grants, which are often delayed, they are not particularly reliable. Their extent and timeliness is, however, critical to the ability of the staff deconcentrated to Districts to do their jobs.

**Capital transfers/projects**

As above, District Administrations generally do not receive capital grants from Provinces. (Provinces obviously make capital expenditures in Districts, but these tend to be managed by the Governor/Provincial Administration). | There are exceptions: Morobe, for instance, gave K$1,690,000 to each District Administration in 2018 for road maintenance (whether this is a recurrent or capital item is not really the point).

**Own-source revenue**

Unlike LLGs and Provinces, Districts do not collect own-source revenue (or receive shares of GST). But District-level City Authorities do. | Districts also do not have mandatory access to resource royalties. But as seen in forestry revenues in East Sepik, some have accessed those nonetheless.

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Delineating the resources available to DDAs is not straightforward either, and in practice these are not necessarily uniform across DDAs. In a 2014 report on DSIP expenditure, for instance, the Auditor General noted wide and unexplained variations in DSIP allocations between Districts, of between K$18 million and K$40 million per District (in contrast to their K$10 million ostensible level). Many DDAs report not receiving the full $K10 million, ostensibly on political grounds. The table below attempts to indicate the main types of resources available to DDAs, their extent and their reliability.

<table>
<thead>
<tr>
<th>DDA Resource</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Staff</strong></td>
<td>The current Administrative Guidelines (of 2018) and Financial Instructions provide that no more than 10 percent of DSIP funds are meant to be spent on administrative costs, though in practice this ceiling has not been enforced (nor has the misclassification of administrative costs been prevented or disciplined). The intersection of the District Administration and DDA through the District Administrator/DDA</td>
</tr>
<tr>
<td>In terms of human resources, DDAs have the MP and members of the DDA Board, the District Administrator (as CEO of the DDA), and the MP’s personal entourage of advisors and project officers who are hired out of DSIP funds (in the form of consultancies, etc. since DSIP funds are not meant to be spent on recurrent costs), and whose car hire, travel and accommodation will also typically be covered by the DDA. Effective DDA staff also</td>
<td></td>
</tr>
</tbody>
</table>

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62 NEFC/DIRD (2015, 16) found that, “…overall development expenditure (DSIP) data indicates that a large proportion of expenditure incurred is on indirect development expenditure such as salary and wages including substantial payments paid to security companies, electoral officers and compensation claims. This appears to contravene the DSIP guidelines.”
DDA Resource | Remarks
---|---
include whichever staff of the District Administration MPs can direct through a politically aligned District Administrator/DDA CEO. | CEO and the power of District MPs is now a critical feature of Districts.

**Recurrent transfers**

DDAs do not receive recurrent funding, except that effectively the K$250,000 discretionary component of the DSG provides recurrent resources for MPs’ discretionary use (so could arguably thought of as resources available to MPs/DDAs). | Members of an MP’s entourage are typically hired as consultants, so that their recurrent salaries and costs are in fact funded by DSIPs (and other funds at the disposal of DDAs).

**Capital transfers/projects**

MPs/DDAs receive DSIPs currently of K$10,000,000 per annum for development purposes (capital works). These funds are obviously large, and their political significance means they are dependable, even during fiscal crisis – with caveats (see remarks column). The sectoral allocations for DSIPs are a 10 percent ceiling on administration, 30 percent for infrastructure, 20 percent each for health and education, and 10 percent each for law and order and economic development. | Though MPs can rely on receiving DSIPs in full – at least if they are government MPs (there have at times been reports of DSIPs not being paid in full to opposition MPs), the amounts and timing of individual tranches are not predictable. The sectoral allocations have never been enforced, though the recent transfer of DSIP funding from a direct Department of Finance grant to being part of the budget and purview of the Department for Implementation and Rural Development, may signal intended change.

**Own-source revenue**

Strictly speaking, DDAs do not have the power to collect own-source revenue, but since they are empowered to establish/operate any business or corporate venture of their choosing, they could potentially generate their own revenue. | Successes with government-run ventures are sub-national level are rare.

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**As is clear in the above table, DSIPs provide the core of the resources of DDAs.** In per capita terms, DSIPs are the largest SIP in PNG. The volume of these constituency funds dwarfs similar arrangements in African countries in terms of their share of aggregate expenditure (topped only by Solomon Islands if DSIPs are considered in isolation, but above even Solomon Islands if SIPs to LLGs and Provincial Governors are also accounted for). As is indicated in the table, the amounts and timing of individual tranches are not predictable, making the planning of expenditure very difficult. Reports of DSIP money being spent in advance of receipt are common, using cash loans or supplies/services on credit from local business people (potentially at high interest rates/inflated prices). In such circumstances, DSIP tranches are full expended within days if not hours of arrival, sometimes irrespective of whether a full DDA meeting has been convened to approve such expenditure. (DSIP meetings are typically scheduled at regular intervals, whereas tranches arrive irregularly, a situation lending itself to spending decisions being made at ad hoc meetings attended only by an MP’s inner circle, a risk compounded when, as frequently happens, DDA meetings are convened in Port Moresby, where most District MPs live.)

**In comparative terms, though the resources available to District Administrations are by no means insignificant, the resources available to DDAs are multiples of them.** The table below provides this

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comparison for an example District in East Sepik, where District Administrations are relatively well resourced. It also shows the sectors where spending occurs, for the same example District. As is evident in the table, District Administrations and DDAs are often active in the same sectors. Typically, District Administration spending would be more recurrent in nature, whereas DDA spending would be more on capital projects. In addition to sectoral projects, District MPs often seek to invest in infrastructure of various kinds at the District headquarters, frequently as part of a widely held ambition for Districts to have their own urban or growth centres (this is also evident in the example District shown in the table below). Such investment at District headquarters tends to occur irrespective of the economic geography of Districts, and the location of the main population or commercial hubs.

### Budgeted Funds (2019), District in East Sepik

<table>
<thead>
<tr>
<th>Type</th>
<th>Source</th>
<th>District Administration</th>
<th>DDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary of District MP</td>
<td>Centre</td>
<td>Recurrent (K$)</td>
<td>Capital (K$)</td>
</tr>
<tr>
<td>Salaries of MP’s staff/entourage</td>
<td>Centre</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Salary of District Admin/DDA CEO</td>
<td>Centre</td>
<td>In kind</td>
<td>–</td>
</tr>
<tr>
<td>Salaries of staff deconcentrated from Province</td>
<td>Centre via Province</td>
<td>In kind</td>
<td>–</td>
</tr>
<tr>
<td>District Administration recurrent budget (general and sectors)</td>
<td>Centre via Province</td>
<td>2,965,000</td>
<td>0</td>
</tr>
<tr>
<td>DSG(^{64})</td>
<td>Centre via Province</td>
<td>250,000</td>
<td>250,000</td>
</tr>
<tr>
<td>Project funds from Province/Governor’s PSIP</td>
<td>Centre via Governor</td>
<td>–</td>
<td>0</td>
</tr>
<tr>
<td>DSIP</td>
<td>Centre</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>PIP projects in District (due to MP influence)</td>
<td>Centre</td>
<td>–</td>
<td>10,000,000</td>
</tr>
<tr>
<td>SUB-TOTAL</td>
<td></td>
<td>3,215,000</td>
<td>250,000</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>3,215,000</td>
<td>10,250,000</td>
</tr>
</tbody>
</table>

### Budgeted Funds (2019), District in East Sepik

<table>
<thead>
<tr>
<th>Sector</th>
<th>Activity</th>
<th>District Administration</th>
<th>DDA (DSIP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration (not including staff salaries)</td>
<td>Administration, planning, town services</td>
<td>125,000</td>
<td>Administration, MP office, project mobilization</td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td>900,000</td>
<td>Learning program, allocations to 6 high schools</td>
</tr>
<tr>
<td>Health</td>
<td>(Responsibility now transferred to PHA)</td>
<td>–</td>
<td>Allocations to LLG health centre, 4 health aid posts</td>
</tr>
<tr>
<td>Law and Justice</td>
<td>Village Courts</td>
<td>80,000</td>
<td>Police operations and auxiliary police allowances</td>
</tr>
<tr>
<td>Agriculture and Lands</td>
<td></td>
<td>100,000</td>
<td>–</td>
</tr>
<tr>
<td>Economic Development</td>
<td>Commerce, fisheries</td>
<td>70,000</td>
<td>National Development Bank</td>
</tr>
</tbody>
</table>

\(^{64}\) In the actual East Sepik example used here, the non-discretionary portion of the DSG was to be allocated to LLG Village Courthouses and other community projects, not to general District Administration costs, so it is not included in the sectoral breakdown of the District Administration budget in the table below.
<table>
<thead>
<tr>
<th>Budgeted Funds (2019), District in East Sepik</th>
<th>District Administration</th>
<th>DDA (DSIP)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sector</strong></td>
<td><strong>Activity</strong></td>
<td><strong>Budget (K$)</strong></td>
</tr>
<tr>
<td>Community Development</td>
<td>10,000</td>
<td>Sports (500,000), youth, women, churches and independence celebration (each 100,000)</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>1,680,000</td>
<td>District office (1,280,242) and police station (69,758), roads/bridges maintenance (2,900,000), 2 water supply projects (900,000)</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>2,965,000</strong></td>
<td><strong>10,000,000</strong></td>
</tr>
</tbody>
</table>

Not only are there many areas where District Administration and DDA spending overlaps (and, potentially, competes), there is often no coordination between their activities. It is regularly remarked that MPs ‘do their own thing’ with DSIPs. The capital created by DDAs (roads, school buildings, health facilities, market infrastructure, etc.) is not necessarily what Provinces (or national line departments) would have prioritized. In addition, DDA-funded capital does not necessarily then form part of the maintenance plans of District Administrations, while DDAs themselves do not tend to direct DSIP funds to regular maintenance work. This disjuncture between capital and recurrent spending responsibilities impedes overarching prioritization and contributes to a build-neglect-rebuild cycle.

In terms of PFM, District Finance Offices are staffed by public servants from the national Department of Finance, ostensibly overseen by Provincial Finance Offices. They process transactions (printing cheques, paying salaries, and so forth) and carry out accounting functions for both District Administrations and DDAs. While Provincial Finance Offices may oversee their activities for District Administrations, it seems less clear that they oversee their activities for DDAs/District MPs. The high level of discretionary resources available to District MPs, and the human resources powers now available to District Administrators as CEOs of DDAs, provide strong incentives to public servants in District Finance Offices to be responsive to the demands of District MPs, whether consistent with PFM regulations or not. In the past, each District Finance Office had a stand-alone PGAS financial management system. Each was meant to provide its PGAS data on a quarterly basis to the Department of Finance. According to the NEFC/DIRD (2015, 13) District Expenditure Review, this requirement was not followed systematically so the Department of Finance did not have timely financial data for all Districts. Still, the expenditure of District Administrations was consolidated each year in the Provincial accounts, as part of the annual financial statements prepared by the Department of Finance, and audited accordingly.

In contrast, DSIP funds to DDAs were expensed by the Department of Finance when paid, with only acquittal requested. As the table below suggests, that requirement is rarely met (at least not in a timely manner), meaning there is little systematic accounting information about how the funds have actually been spent. PGAS data would not necessarily help fill in the gaps, given that at least in some Districts, the accounts through which DSIP funds passed were not on PGAS – presumably being separate trust

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accounts. In the past, procurement by District Administrations and DDAs was under the auspices of District Supplies and Tenders Boards, but it is generally recognized that DSIP spending did not necessarily comply with legislation and regulations.

<table>
<thead>
<tr>
<th>DSIP/PSIP Acquittals (as reported by DIRD, May 2017)</th>
<th>Acquitted</th>
<th>Not Acquitted</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>92</td>
<td>19</td>
</tr>
<tr>
<td>2014</td>
<td>75</td>
<td>36</td>
</tr>
<tr>
<td>2015</td>
<td>36</td>
<td>75</td>
</tr>
<tr>
<td>2016</td>
<td>5</td>
<td>106</td>
</tr>
</tbody>
</table>

The rollout of the IFMS at sub-national level, together with related PFM reforms, may alter this situation. The IFMS has now been rolled out to all but three very remote District Finance Offices. It is a web-based system, with no offline functionality. This brings its own problems in areas with unreliable electricity and connectivity. But it does mean that there is full, real time visibility of all public funds flowing through accounts that are on the IFMS. No cheques can be printed outside the IFMS. At the same time, the Department of Finance has been reviewing trust accounts, closing a large proportion of them and progressively bringing the remainder onto the IFMS. If DSIP funds are only paid into accounts on the IFMS in future, the IFMS will provide full visibility of DSIP expenditure. The documentation stored in the IFMS will also enable systematic checking of whether District Administrations and DDA procurement complies with the new procurement legislation, under the auspices of the new National Procurement Authority.

3.4 What incentives do the institutional structure, funds flow and electoral system give District leaders, and what are the outcomes of that?

Given that District MPs are the most powerful political actors on the national stage in PNG, at the far smaller scale of Districts their power relative to other actors is obviously extremely pronounced. As discussed above, their power to unseat national governments through confidence votes has underpinned District MPs’ ability to secure large amounts of public resources, direct from the centre, and effectively under their discretionary control. In turn, that discretionary control over large resources makes them very powerful within sub-national domains, with strong incentives to act as patrons. The way they operate has a major impact on sub-national institutional dynamics, so understanding how these incentives play out is critical. Yet individually, their positions can be precarious, given that they – like other elected representatives in PNG – are often elected by a very small share of the electorate.

The vast majority of District MPs operate as if their re-election is most likely to be secured if they focus their attention and their resources on capital projects (rather than on recurrent services). Capital projects tend to be more visible, claimable, controllable and entail more opportunities to directly reward supporters than the recurrent provision of public services. Recurrent service provision does not normally lend itself to groundbreaking ceremonies and openings, to claims of being the gift of the District MP, to the District MP being able to control them (since delivering them requires the coordination of many

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66 NEFC/DIRD (2015, 16).
different people and systems), to opportunities for consultancies and contracts for supporters in their provision, or to opportunities to direct the services in ways that disproportionately benefit supporters (though there will always be some such opportunities of course). Recurrent service provision is largely the domain of Provincial government, and its lack of appeal to District MPs is evident in the fact that few exercise their ex officio roles on Provincial Assemblies to influence Provincial government activities (including in their Districts, via District Administrations). It is true that District MPs who are members of NEC are not allowed to be members of the influential Provincial Budget Priorities Committees, but that does not seem to be the key constraint to involvement in Provincial government, given that District MPs who are not members of NEC do not generally exercise their potential roles either. Instead, most focus their attention on the very large resources they have discretion over in the form of DSIPs.

Groundbreaking ceremonies, openings and grants to constituents allow District MPs to claim patron status for DSIP projects and expenditures. They, their constituents and the media regularly refer to these projects and funds as being ‘given’ to the people by the District MP from ‘his money’. Reflecting the patronage relationship, constituents regularly refer to District MPs as ‘bosses’, and engage with them either as supplicants or potential business partners. This is reinforced by important cultural/institutional preferences and possibilities around patronage, especially by the style and gendered modus operandi (pasin) of the Melanesian ‘bigman’, who accumulates personal wealth in order to be able to bestow it on his followers. This style is most closely associated with the highlands but spreading progressively to lowland and even coastal and island electorates (where it lacks cultural precedent). As this style has made its way into national politics, it has been increasingly associated with money, and with the patronage of the ‘bossman’. But these bossman patrons do not distribute benefits to all potential clients: many aspiring clients will miss out because they backed the wrong aspiring patrons, in what is typically a winner-takes-all contest.

Patron-client relationships of this hybrid traditional/modern kind (technically, neo-patrimonial relationships), have institutionalized themselves around elected leaders with SIP funding. This institutionalization is visible both in the style or pasin of the patron, and in the executive machinery they surround themselves with, and execute through. The most significant form is the entourage, a group of usually men who accompany and control access to the District MP (or at the provincial level, the Governor). District MPs are commonly surrounded by entourages of funded supporters and advisors, also known as ‘kaikaimen’ (food (dependent) men), ‘briefcase carriers’, or ‘number 2 (or 3, 4 or 5) bossmen’. These men are typically hired as consultants or project officers, using DSIP money and DDA mandates. When the District MP is in town (many spend most of the year in Port Moresby or the provincial capital), they will literally surround him, ready to execute his wishes immediately. This entourage can control access to the District MP, and acts as a conduit for people with proposals for how DSIP money should be spent. They can also spend a great deal of time simply waiting around to respond immediately (as they must be able to) to the District MP’s requests. This waiting might happen at a hotel or other venue, where the group sit, plan, and entertain would-be project partners. Sub-national officials interviewed during this research discussed the ways that District Administration staff including District Administrators can be caught up into following the leader in this way, often resulting in the neglect of formal administrative duties, and the bending of rules to accommodate the MP’s demands. Trust, kinship and entrepreneurial energy appear to be important criteria for selecting these individuals, rather than relevant executive experience or expertise, training, or education. In some cases, District MPs (and their entourages) can lack the executive capabilities that are needed for DSIPs to deliver infrastructure and services, and there can
be next to nothing to show for years of DSIP spending. In other cases, a committed and capable District MP can use the same latitude to hire and empower very capable people. But there appears to have been little central government interest or investment in correcting the system’s openness to all manner of outcomes. This may stem from the lack of incentive of national political leaders to agree to restrictions on their own use of DSIPs (at least some of whom do not acquit their own DSIPs), and/or to sanction malfeasance by other MPs (or Governors) on whose support their governing coalition may depend.

Overall, there are contradictory claims about the quality of DSIP spending, and of the executive capabilities of MPs and their entourages, but there is a lack of comprehensive evidence over time to fully assess them.69 Proponents of DSIPs rightly claim that can serve to get funds from central government right down to all Districts – some of which may not have seen much by way of development spending or service delivery through the system of Provincial governments and District Administrations. In expending DSIPs on capital projects, District MPs can choose what capital works to undertake, where to undertake them, and who will undertake them. Their entourages can respond instantly, and engage as necessary. This means there are powerful and well-resourced leaders – the District MPs – interested in having the projects proceed. Reformers following this logic point to the ways patronage skills could be built on, with stricter responsibilities and more social accountability mechanisms, all of which might be systematically strengthened. Patronage capability using political rent-based funding can indeed be a step towards wider, formal and systemic capability.70 There has as yet been no systematic investigation of these claims in PNG; but there is evidence in several Districts that good planning and budgeting processes can be followed, with projects allocated to sectors according to central government guidelines. Actual execution is much harder to assess: there is often little or no reporting of details of actual expenditure to overseeing bodies.

Whatever its potential strengths, the DDA/DSIP system also appears to have major weaknesses and high variation in practice. As in any public investment management process, how District MPs prioritize projects (and how/from where they construct a universe of possible projects to prioritize from among in the first place), becomes critical to the quality and effectiveness of spending. There is little evidence to suggest that the extensive guidelines regarding oversight, use, reporting and acquittal of DSIP funds are followed.71 There is, however, significant evidence of systemic non-compliance, and lack of punitive sanction. It does not seem unusual for the universe of possible projects to consist of unsolicited proposals from interested parties, and for projects to be approved without significant recourse to relevant expertise as part of any assessment. Lack of proper procurement often means there is no safeguard against inflated prices or lack of technical capability to deliver. There is evidence that a significant share of projects are subject to major delays, and a non-negligible share are never completed.72 The Auditor General’s review of DSIP spending in a large subset of Districts in 2014 found pervasive failures of governance, weaknesses in procurement, poor contract management and no systematic monitoring of project progress.73 Over 26

69 See NEFC/DIRD (2015, 5), which concluded that there was only ‘scant’ evidence available.
70 Khan (2010).
71 These Administrative Guidelines were issued by the Department of Implementation and Rural Development in 2013, and cover all SIPs, including requirements for acquittal of funds. They have been modified several times since, and further financial instructions (covering the percentages of SIP funds to be sent in different sectors) were issued in 2019. No MPs or DDA/DSIPs have been formally disciplined for non-compliance.
72 One analysis of DSIPs found 65 percent of school projects and 32 percent of health clinic projects completed on time and in full. Of the remainder, 41 percent and 45 percent respectively would never be completed, and those that would were still a year or so behind schedule on average (Howes et al (2014)).
percent of spending was on projects where expenditure was unsupported or projects were incomplete or abandoned, 13 percent was on vehicles or equipment with limited application towards DSIP objectives, and 9 percent was non-DSIP-related. Common expenditure items included unsupported consultancy fees, financial grants to individuals, election spending, hire cars and personal allowances.

Though most District MPs operate as if their re-election depends on the delivery of capital projects, particularly in ways that disproportionately benefit their supporters, it does not seem to be a strategy that reliably gets them re-elected. In the 2017 election, 48 percent of incumbents retained their seats (in the 2012 election, the figure was similarly low, at 44 percent). Thus, for about half of all District MPs, the strategy is not working. This could be because they are not able to implement it as they intend (for instance, they do not manage projects well enough to get these implemented/completed as planned). It could be because their supporters do not particularly want the capital projects they are provided with (they want other capital projects, or other things – like recurrent services – instead). But it could also be because the way many District MPs implement this strategy actually benefits a far narrower range of supporters than got them into office, making it more difficult to secure a repeat of their support. Similar to the discussion at the LLG level, while their election depends on mobilizing the votes of a wider clan or tribal grouping, in office they may respond primarily to the immediate demands of a narrower family or supporter grouping, without considering whether this will actually help their reelection and in fact leaving the wider group dissatisfied.

In recent years in some Highlands electorates, this process has evolved to the point where the candidates do not raise funds to help mobilize votes during elections, but instead a group of backers raises the funds and provides them to the candidate for election purposes, in the full expectation that a greater sum will be returned to them in cash (not in kind) if the candidate is successful. This then requires the District MP to find ways to turn DSIP (or other) resources not into projects but into cash – perhaps explaining some instances where over a five-year period in office, there is nothing by way of capital work to show for K$50 million in DSIP spending. In such instances it can be said that it is not that the MP captures voters through money politics, but rather that the voters use money to capture the MP as a patron. This ‘other side’ of competitive patron-clientelism may well be becoming more significant.

There are ways that District MPs could collaborate with Provincial governments to generate more – in objective terms – from their DSIP funds, but the fact that so few do may indicate that this does not usually translate into more value in political terms. Making joint or coordinated investment spending decisions (from the DSIP) and investment and recurrent spending decisions (from Provincial resources allocated to the District) would avoid duplication in capital projects, make it more likely infrastructure, buildings and vehicles would be maintained over time, and make it more likely that public services could be delivered because staff would have access to the capital equipment, thereby yielding a larger and longer stream of benefits to users. But joint or coordinated capital projects may be vulnerable to competitive claiming by the political leaders involved, potentially reducing the political value of the claims of responsibility for each party. In addition, the pooling of resources to undertake capital projects or recurrent service delivery would likely mean transferring resources from channels that allow greater

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74 As well as paying the suppliers of actual capital projects, DSIP funds can go to individuals – typically supporters – with roles in proposing, planning or otherwise mobilizing the projects.

75 Woods (2017).

76 See Haley and Zubrinich (2018, 46).
discretion in their use, to channels subject to stricter PFM controls and scrutiny, limiting the patronage that can be generated from the resources. Particularly where District MPs and Provincial Governors are political rivals, overcoming these disincentives to collaboration is unlikely, including because each has the incentive to maximize the patronage they can generated from their own resources at the level of LLGs, to their own advantage and the disadvantage of their rivals. Wherever District MPs and Provincial Governors are rivals, the position of the District Administrator/DDA CEO – and perhaps of wider District Administration staff too – becomes problematic, answerable to different authorities and responsible for work of very different natures.

**Box 3.2: Where do District MPs co-fund projects or operations?**

The level of government with which District MPs are more likely to form partnerships is the local level. It is not unusual for District MPs to direct resources that they have discretion over to LLGs. This can just be in the form of projects controlled largely by the District MP, provided as patronage to politically-aligned LLG Presidents (or Ward Councilors) in return for their control over voting and booths in national elections.

In some Districts, however, it includes joint projects (where the LLG has some degree of control) or actual transfers for resources for LLGs to carry out recurrent operations (like school inspections, or health patrols – prior to the advent of PHAs). These types of co-funding tend to occur in partnerships that a longer term and characterized by a higher degree of trust. They are more likely to be found in Districts where the MP is a regular member of NEC and holds a portfolio enabling the MP to augment DSIP resources with other resources from central government (for instance, Public Investment Program projects). In such circumstances, the District MP’s source of larger and longer-term resources enables greater stability of electoral support in LLGs, forming a virtuous circle the helps the District MP retain that access additional resources. But very, very few District MPs have used access to larger and longer-term resources as a base to co-fund projects or operations with Provincial governments, suggesting that the political value is not the same as from partnerships with LLGs. This may change in Provinces able to increase their GST collection, as MPs see own-source revenue augmented provincial budgets as potentially valuable co-funding sources for projects.

The IFMS rollout may reduce the discrepancies in visibility between SIP and ordinary expenditure, but if it is not accompanied by reduced discrepancies in discretion between the two forms of funding, these fundamental incentives not to collaborate may not change. Moreover, for as long as the structure of government gives incentives for rivalry among the political leaders in different tiers, it would not seem reasonable to depend on a system that requires voluntary collaboration. While the IFMS expands possibilities for applying standard PFM controls to DSIPs, national governments face disincentives to increasing controls over or accountability for DSIP funds. District MPs are interested not only in large volumes of DSIP resources but in retaining discretionary control over them. MPs’ power to unseat governments in confidence votes has enabled them to secure increased volumes of DSIP resources over time. It has also enabled them to retain discretionary control over them and/or avoid complying with measures that would reduce that control. Successive Prime Ministers have lacked strong incentives to punish MPs who flaunt the rules ostensibly governing DSIPs, and watchdog responsibilities for compliance have been given to relatively small executive departments. To date, the costs of DSIPs (in terms of the opportunity cost of the resources and the erosion of public confidence in government) have not yielded a coalition of District MPs in the national parliament willing and able to tie their own hands (and those of their colleagues) over DSIPs in the broader public interest.
3.5 What counter-trends can be observed, and what explains these?

The mix of incentives and structures introduced by the DDA is a matter of considerable commentary and debate, not least among MPs, Provincial Governments and District Administrations. The 2019 change of government meant the loss of office of the Prime Minister who had championed the DDA reforms. There is now a well-established backlash (including a legal challenge) by various actors seeking to have the structures reconciled. But in the absence of a legal ruling requiring such a re-structuring, changes to the roles of DDAs would require at least a significant minority of District MPs to combine with Provincial Governors to vote against an institutional modality that greatly enables District MPs’ autonomy and patronage.

As own-source revenue and resource royalty issues become more significant, there is increasing interest (and competition) from Districts for revenues that Provinces might also pursue and that LLGs and landowners have important interests in. This is already happening in two significant areas: City Authorities and resource revenues. Currently, the City Authorities (Lae, Kokopo and Mt Hagen) depend largely on provincial budgets for revenues to build key infrastructure (including roads). Provincial Governments are currently under no obligation to fund this to any specific level, and City Authorities must currently negotiate or jostle politically with Provincial Governments. In the case of forestry and fisheries, levies have in some instances been claimed by or paid to DDAs, generating protest and counter-moves by provincial governments, LLGs and/or landowners to reclaim the revenues.

The DDA’s role in relation to both collecting and expending own-source revenues also seems likely to be fraught. Quite simply, the DDA establishes the District MP as a patron exercising maximum discretion, fusing powers in himself and the District Administrator/DDA CEO, within a fiercely contested electoral context. Own-source revenues coming into the DDA budget would surely be used to those ends. Further, empowerment of MPs to collect taxes might create incentives for their agents to be more coercive in that activity at least in some parts of the electorate. Unless the DDA was re-established on a broader representative electoral basis, its capacity to be responsive to local demands – and thus to be a substantive base for own-source revenue raising and accountable service delivery – seems limited. This is a problem: arguably, the District is a level of governance which could and in a better context should be able to bring at least some fiscal capacity and service delivery together. But in its current form and with its current political economy, the DDA/District Administration combination is not fit for this purpose.

While patronage is incentivized and institutionally enconced in current District-level arrangements, there are emerging features of leadership in PNG which will shape the ways that many District MPs will act in relation to their constituencies, and will view and use resources. As highlighted in Box 3.3, the emerging style or modus operandi (‘pasin’) of the respected leader (‘lidaman’ – as opposed to the ‘bigman’ or ‘bossman’) is still compatible with top-down patronage, and is heavy on personalized agency. But it stresses responsiveness to a community who are constantly expressing views they want heard and absorbed by the lida. In its stressing of coming to consensus and the presence of the lidaman at the immediate interface of community factions and conflict, this kind of leadership could also express the

77 ‘The national and provincial governments shall continue to receive 25 percent and 75 percent, respectively, of royalties from timber and other forest produce harvested from State land.’ Filer (1997, 229).
78 See https://www.thenational.com.pg/gore-justifies-budget/.
kinds of bottom up accountability that might emerge should there be a greater reliance on local taxation.

In one instance of this kind of leadership, the current MP for Lae Open, who is also the Chair of the Board of the Lae City Authority, is respected as a leader in many of the terms emerging below. At the same time, he is actively promoting the idea that services are a response to people paying their taxes, rather than his own top-down patronage. Given this example, it is not out of the question that future leaders could plausibly use more reliable own-source revenue to reinforce a culture of responsive, horizontally accountable leadership.

Box 3.3: The ‘pasin’ of a ‘trupela lidaman’ (real leader)

Current popular discourse about politics and governance differentiates a ‘boss’ (‘bossman’ or sometimes ‘Daddy-boss’ – a wealthy and powerful potential patron) from a real leader (‘trupela lidaman’). The latter might or might not have money, but will have consistently provided strong leadership based in personal and ethical qualities and performance, especially in public speaking and consensus-building agenda setting, as well as good governing practice and service. All this together can compose the characteristic ‘pasin’ (fashion, modus operandi or ways of working) of a good leader. Leaders of this kind are to be found in all levels of PNG governance, from Prime Ministers, Governors and District MPs to local law and justice komiti members, many of whom pass their qualities on to followers or apprentices: ‘boys’ or even ‘little boys’ – who will often be men in their forties) who hold them as mentors and patrons. The quotes below are from residents in Lae settlements reflecting on the ideal qualities of a leader (all used the male pronoun (‘lidaman’), but there are also many woman leaders (‘lidameris’), some emerging as ‘little girls’ under the patronage of other woman leaders):

‘A leader in the community is not elected based on his appearance or wealth. We see those who can talk and his words can remove the bad and bring good to the community. His words will bring a sense of peace in people’s lives, regardless of his wealth, possession, and appearance. Whenever the leader speaks in any given scenario, people display great respect. Regardless of unfavorable weather conditions or proper sitting arrangements, people patiently pay attention, without unnecessary distraction, to what their leader conveys out of respect for him.’

‘If he’s a good leader, he could talk forever, always bringing the people along with him, them agreeing with him.’

‘If there is a situation within a particular community, it is the leaders’ responsibility to immediately attend to it. Any matter that arises, the leaders are already there to address the situation. But if the leaders are not present, they are negligent; the problem will continue and bring destruction to lives and properties.’

‘He has the reputation that he’s always there for the people. He stands for the people, he represents the people of his community in both good times and bad times, he is always committed. He is always on the front line. He has time to listen to everyone, from teenagers, women, men, youths, and persons with disabilities. He gives openly to the people in his community who are in need in times of sorrow or disaster or compensation demands. He’s got the care attitude, unselfish.’

‘He has the network of his boys who take orders from him and carries out without arguing or complaining because he takes care of them. But the most important thing of all is whether they are playing a big part in the community, in maintaining peace and order.’

Source: Craig and Porter (2018: 21)
4 Provincial Government

Summary

While much of the geography of Provincial Government has remained constant since independence, its substance has changed considerably and most of those changes have been to the detriment of its mandate, capability and accountability. (Important exceptions to this are the institution and growth of function grants – see below – and the rise of own-source revenues in some Provinces, providing a critical and reasonably reliable resource underpinning for Provincial Governments.) At independence in 1975, much hope was placed in Provincial Governments as representative, well-resourced and reasonably proximate governments responsible for delivering a wide range of services to their populations. But from the outset, challenges emerged: no two Provinces have ever been alike, and some Provincial Governments have been much more effective and better resourced than others. Provincial Government as a whole has suffered from a series of reforms, which conspicuous failures in less well-established or capable Provinces have helped to legitimate. But it was largely as a result of rivalry from District MPs and their superior power in the national parliament, that this series of reforms has occurred, diminishing Provincial Governments and elevating the resources and autonomy available at District level.

The 1995 Organic Law turned a system of decentralized Provincial Government into a centralized system with a façade of Provincial and LLG executive and political presence and power, but no longer any internal political accountability. Chief author of the reforms Ben Micah summed up their intent and achievement in this way:

By finally approving the Bills the National Parliament will be sending a clear message to the Nation that provincial governments are subsequent of [sic] not equal to national interest. They are not a second source of political or governmental power. They are part of the national Government, largely delegated, but subject to supervision and ultimate control of the state.79

As they now stand, Provinces still have Provincial Assemblies containing elected representatives, but since none of the members of the Provincial Assembly other than the Governor are elected specifically to the Provincial Assembly, or elected on provincial concerns, electoral accountability at the Provincial level is concentrated in the person of Governor. Provincial Assemblies are usually ineffective bodies, neglected by District MPs (who are ex officio members of them), their members typically limited in their ability and interest in holding Provincial Administrations to account for their performance and use of resources, a role which only Governors can begin to fill. The positions of many of the public servants who staffed Provincial Administrations prior to the 1995 reforms are still there, mapped to provincial departments, under the overall direction of Provincial Administrators. But achieving effective control over these staff at the provincial level can be challenging, because they are part of the national public service and major employment, posting, and disciplinary functions are handled at central level. As discussed in the earlier chapter, the services that Provinces were to enable LLGs to deliver tend to be unfunded.

All this is compounded by Provincial Government’s weak (or at least highly uneven) fiscal capabilities. ‘Action Governors’ (as the NCD and Engan Governors are popularly regarded to be) use GST and other resources to considerable and wide developmental ends that they take personal credit for and hold their

staff accountable for delivering. In most cases, however, Governors and Provincial Administrations depend on function grants and vertical PSIP funds (over which Governors they have discretionary control), neither of which depend on performance in service delivery or bottom-up responsiveness.

**Yet for all these limitations, Provinces remain important.** Through function grants, most Provinces now have the resources to carry out very basic service delivery, since the constitution stipulates that the share of consolidated revenue allocated to function grants cannot decrease over time. Spending on function grants may not have grown as quickly as on DSIPs, and the timing of the receipt of function grants may be unreliable, but they are a critical and constitutionally-guaranteed underpinning of the Provincial Government system. At the same time, GST transfers and own-source revenues are rising, albeit very unevenly across Provinces. The expenditure they enable is in some cases significant, in others minimal. Through their complement of public servants, Provinces have the potential for a critical mass of public administrative and technical capacity. As a result of their mandate, resources and staffing, they also have also been sites for the development of significant PFM systems and infrastructure over time. In some – but by no means all or even the majority of – Provinces, Governors pursue electoral strategies or are motivated by values that aim to deliver services across wide areas of their Provinces, and can obtain the resources to fund this capability (through influence at central level or through own-source revenue). To do this, they require their Provincial Administrations to have strong capabilities, and they hold them to account for their performance accordingly. Because of the concentration of electoral accountability in the Governor, a lot about provincial performance comes down to them – and as the paper has shown, what is disproportionately incentivized in state institutions with elected office holders in PNG is personalized, patronage-based accountabilities, focused on the Governor (or District MP, or LLG President). A person delivers, rather than a system, and delivery is typically through a patronage pathway. When the person changes, the delivery stops – or at least, it stops for the groups of supporters it was benefiting.

**Typically, those Provincial Governments that are effective are achieving ‘against the odds’**. In some cases this happens as a consequence of institutional structures, carefully managed resources and peer-related incentives and accountability within Provincial Administrations; in others, it is more because of exceptional leadership (political and executive) and exceptional levels of (well-managed) own-source revenue. Particularly since the abolition of elected Provincial Assemblies, there has been no sub-national forum within which the political success of elected representatives depends on their ability to band together to plan, resource, deliver and maintain capital projects and recurrent services at the sub-national level. To date, there is no systemic/mandatory way that Provinces and DDAs/District MPs must coordinate: elected representatives at the sub-national level (Province, District, LLG and Ward) do not need to agree with each other on how to allocate sub-national resources in order to satisfy their constituencies and support their re-election. The perilousness of this situation – that it is neither systematically required nor generally in patrons’ interests to collaborate – cannot be overstated.

**The diversity of Provinces observable at independence remains highly important today, as do current moves by those same leading Provinces to establish greater, ‘gradative’ or asymmetric decentralisation.** But capabilities are present in many ‘pockets of effectiveness’ in Provincial Government, some sectoral, some functional, depending on many factors including leadership, resourcing and teams. Provinces with strong executive teams and institutionalized separations of powers between political and executive branches have an advantage, which exceptional resourcing can accelerate at the same time as it can threaten the separation because of the strong incentives for political intrusion it provides. Provincial Governors can strengthen their executives, just as they can undermine them. In some contexts, they let
good executive leaders do their jobs, manage and expand resources, secure decentralized functions, and push good performance down to local levels. Overall PFM and procurement systems may be further centralized, but it is evident from some contexts that determined, developmentally-directed control over scarce resources can still makes a crucial difference to service delivery outcomes.

Will Provinces ever return to their status as autonomous levels of government with electoral responsibility for significant expenditure under their own control, which can potentially be pushed down into effective service delivery at District and LLG level? It seems generally, but not universally, unlikely. Much will depend on the next Organic Law reform, and on the ability of Provincial Governors to convince District MPs (who vastly outnumber them) to vote to retain and strengthen their key rival for mandates, resources, and local political accountability. But, as this section concludes, partly because diversity and asymmetry prevail, there are grounds for thinking that Provinces with certain kinds of leadership, resources and administrative teams in place or in development, offer the best scope for supporting better service delivery through the better use of public resources.

4.1 What are Provincial Governments?

Provincial Government is the middle level of PNG’s ostensibly three-tiered government system (since the District is not formally a level of government). There are 20 Provinces, plus the Autonomous Region of Bougainville (which has its own unique structure of government), and the National Capital District (covering Port Moresby and which shares certain characteristics with other Provinces). Provincial populations range in size from about 675,000 in Morobe to about 60,000 in Manus. While most Provinces cover substantial land areas, there is considerable variation, from over 98,000km² in Western to 2,000 km² in Manus (or 240 km² in the National Capital District).

Provinces have become an important source of popular identity in PNG, despite their demographic and geographic variation. Some provinces are contiguous with a single island or island group (providing a strong underpinning for Provincial identity), but most are not (they are either areas of the mainland or part of an island). All but one Province, Enga, have multiple language groupings – and in some Provinces the linguistic diversity is extreme, as in Morobe with 101 languages. Many have multiple types of terrain (highlands, coastal plains and/or islands), typically associated with different economic, social and cultural characteristics. Yet despite their internal diversity, in everyday contexts people now commonly identify themselves by Provincial origin in the first instance.

Each Province has a directly-elected Governor and a Provincial Assembly with extensive legislative powers. The Provincial Assembly comprises ex officio and appointed members: the Governor, the District MPs from the Province, the LLG Presidents from the Province, up to three ‘paramount chief’ traditional leaders, a women’s representative, and three other appointed representatives. (Prior to the 1995 Organic Law, Provincial Assemblies were comprised of members elected specifically for the purpose from provincial electoral constituencies, which were geographic subdivisions of national electoral constituencies (Districts) – similar in scale to the current LLGs.)

Each Province has a Provincial Administration to carry out the administrative mandate of Provinces. The Provincial Administration is overseen by the Provincial Executive Council (PEC), which comprises the

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80 Population data are from the 2011 Census.
Governor, Deputy Governor (an LLG President, as elected by the Provincial Assembly), and chairmen of the permanent committees appointed by the Governor to oversee departmental portfolios/sectors of the Provincial Administration (e.g. education, agriculture, transport, etc., and until recently health). These chairmen are usually LLG Presidents. On paper, the most important committee is usually the Joint Provincial Planning and Budget Priorities Committee, which is chaired by the Governor. Within the Provincial Administration, there is usually a management team, typically comprising the Provincial Administrator, Deputy Provincial Administrator, Director of Finance and the Directors and Provincial Advisors of the departments/sectors. There is also a Provincial Coordinating and Monitoring Committee comprising representatives from all sectors, including those still under direct national government control. As Morobe experience shows, this can be used to generate genuine co-operation in service delivery: but ultimately it cannot direct budget and be a real vehicle for political accountability.

**Provincial capitals are usually the largest urban centres in Provinces, and significant commercial sites.** As well as containing the headquarters of Provincial Administrations (with all of their departments), Provincial capitals also host deconcentrated units of national departments, bodies and/or statutory authorities (e.g. works, police, judiciary, customs, liquor licensing, etc.). In addition, they are the sites of hospitals, secondary schools, and in many cases also tertiary or vocational training institutions. As significant commercial sites, provincial capitals present important opportunities for taxation.

### 4.2 What are Provincial Governments meant to do?

**It is difficult to understand the current operations of Provincial Governments, without awareness of their earlier form and how that changed with the 1995 Organic Law.** Provincial Governments were established at independence to provide elected governments reasonably close to the people across PNG’s many diverse geographic areas and populations, and to make the public service responsive to local needs by locating public servants in provincial centres, to lead sub-national service delivery. The provincial government system took time to evolve. The Constitution allowed for different provinces to move towards full self-governance and even autonomy at different speeds and in stages, or what it called a ‘gradation’ of provincial and local level government. Bougainville, East New Britain, Eastern Highlands, East Sepik and Central provinces led the way, with their own elected governments presiding over a wide jurisdiction. Other locations, including Enga and Southern Highlands, resisted inclusion in provincial government.

In its early form, fully established Provincial Governments had greater powers and a greater degree of electoral accountability than they do now. In most Provinces, the members of the Provincial Assembly elected the Provincial Premier (in four Provinces, the Premier was directly elected). The members who were allied with the Premier would constitute the government, in the form of the Provincial Executive

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81 Standish (1979, 7). (Prior to independence, what are now Provinces (but were then called Districts) were the main component of Australian indirect rule, through District Commissioners, their sub-District officials and patrols, and local representatives. So while the geographic spaces of what are now Provinces had been units of government prior to independence, the nature of rule was very different.)

82 The principle of gradation survived into the 1995 Organic Law, which required the NEFC to, “...establish and maintain a gradation system for the purpose of classifying provinces and districts according to the stages of development of each.” It is still a part of autonomy discussions.

83 May and Regan (1997, 16).
Committee. Members of the PEC held portfolio responsibilities for the different departments of the Provincial Government, staffed by provincial public servants who were answerable to the administrative heads of the departments (though part of a national public service with a centralized payroll function). In this way, there was a reasonably clear line of accountability for service delivery within the Province, to the relevant Provincial Minister, working in the government headed by the Provincial Premier.

The 1995 Organic Law abolished provincial constituency members, thereby significantly changing political accountability at provincial level. While there were undoubtedly many problems with the way some Provincial Governments were operating, the key impetus for the reforms came from District MPs. Members of the Provincial Assembly had executive responsibilities and budgets for local service delivery that District MPs lacked. The latter argued that the system of Provincial Government was too expensive and pushed for its reform from the national level, where they prevailed. Elected provincial constituency members were replaced on the Provincial Assembly by District MPs, LLG Presidents and a set of appointed members. Premiers were replaced by Governors, elected directly from province-wide constituencies (as four Premiers had been previously). Thus aside from the Governor, the elected members of Provincial Assemblies are elected to other roles and also sit on Provincial Assemblies, rather than being elected specifically to Provincial Assemblies. In place of the previous ministerial system, the current committee system was introduced, whereby permanent committees oversee provincial departments, under the leadership of chairmen appointed by the Governor (typically, LLG Presidents). While provincial public servants continued to be mapped to their respective provincial departments, a greater degree of control over human resource functions in respect of these public servants appears to have been transferred to central government, despite the limited ability of central government agencies to oversee and monitor their performance (or even presence). While they Provincial Administrators are now in a weaker position with respect to provincial public servants than they were before the reforms, on a daily basis, provincial public servants work with Provincial Administrators through sectoral Provincial Advisors, whose proximity and immediate relevance may mean they operate more under his/her direction.

Many commentators consider the 1995 reforms hasty and flawed, leaving Provincial Governments halfway between the substantive sub-national governments they used to be and deconcentrated units of central government. While Provincial Assemblies still exist, with elected members (though elected to another role, and also serving this one), in practice the electoral and executive accountability that used to sit with the set of provincial elected members now rests solely with the Governor. That makes Governors potentially very powerful, with effects that can be positive or negative depending on what the particular individuals in those roles do with that power. Provincial departments are directed by committees, in place of the previous provincial ministers with executive responsibility – a situation that probably further strengthens the hand of a strong Governor who has an effective working relationship with the Provincial Administrator, but leaves a lack of leadership and responsibility for departments otherwise.

Accountability for the performance of public servants mapped to provincial departments is somewhat blurry. On paper, Provincial Administrators are to maintain overall supervision and direction of all public servants in their provinces (aside from law enforcement agencies, which have their own regional and

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84 Local governments also complained that provincial constituency members had usurped their local role, but unlike District MPs, they did not necessarily fare much better as a result of the reforms.
85 Governors, on the other hand, are directly elected as Governors and also sit in the national Parliament.
86 See May (2004).
provincial command structures, with only a very light dotted line to the Provincial Administrator). But it is not clear how that authority relates to the chain of command within the national departments that hold key human resource powers over them. Effective direction and control tends to be more about the character, capabilities and relationships of the Provincial Administrator and his/her management team (including their relationship with the Governor), than anything more systematic. As is clear in Simbu, a strong Provincial Management Team and structure can impose considerable discipline on public servants.

**Box 4.1: The problem of two or more bosses**

Historically, achieving sub-national service delivery in PNG has been hampered by unclear mandates and accountability relationships, which numerous reforms have attempted to resolve. Questions about whether public servants were accountable to national or provincial level executive arrangements were recognized from independence. Under post-independence Provincial government, elected provincial constituency members were allocated sectoral portfolios. Public servants were placed within portfolio divisions under a single command structure run by an administrative secretary, who had designated human resource management powers, and powers to direct policy under provincial government and the elected Premier.

The 1995 Organic Law curbed the powers of Provincial Governments. Senior deconcentrated officials in key areas like health, education, agriculture and works became Provincial Advisors, with ‘dotted line’ accountability for some decentralized budget expenditure to the Provincial Administrator and the provincial committee overseeing their sector. In some sectors, national standards, reporting and procurement processes extended some influence, but without much by way of accountability to a national minister to replace the accountability relationships to sub-national elected representatives that had been weakened. Others, including school inspectors, police and treasury officials, simply reverted to being deconcentrated national officials without provincial advisors as managers, and also had only ‘dotted line’ accountability to the Provincial Administration.

Partly in response to this lack of clarity in principal-agent relations and the poor service delivery outcomes that have resulted, the 2014 DDA Act gave DDAs and their CEOs (who are also the District Administrators) extensive powers over human resources, but did not clarify broader accountability relationships. The result is often more complexity and potentially perverse outcomes: Provincial Administrators seeking accountability from deconcentrated staff in Districts must now reckon with the relationship between these employees and the District Administrator/DDA CEO and District MP, who may act as patrons and protectors of allied public servants whose appointments they secured.

The 1995 Organic Law curtailed the mandate of Provincial Governments to a far lesser degree than it curtailed the capability of the Provincial Assembly and Provincial Administration to carry out this mandate. According to the 1995 Organic Law, Provincial Governments have legislative and administrative powers in respect of: the provincial budget; land; alcohol licensing; lower-level education; local health centres; rural development, trade and industry, tourism, transportation, fisheries and forestry; libraries, museums and cultural centres of provincial interest; and any other powers delegated to it by law. The 2009 Intergovernmental Relations (Functions and Funding) Act then provided formula-based funding for

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88 Standish (1992, 209).
a more modest set of functions of Provincial Governments. As with the equivalent changes at the LLG level, while these may be their funded mandates, that does not necessarily mean Provincial Governments do not still have their other (unfunded) mandates. The identified functions of Provincial Governments whose costs of delivery were estimated and bundled into the formula for Provincial function grants from central government are: construction, maintenance and aspects of recurrent service provision in relation to designated provincial roads, elementary and secondary schools, teacher housing, health centers and aid posts.

Since 2007, a parallel set of reforms has been underway in the health sector shifting the patchwork of responsibilities and finances for health services: from LLGs, Districts, Provinces and central agencies, and to Provincial Health Authorities (PHAs). PHAs are statutory authorities established under national legislation and resourced by central government, located in provinces, with responsibility for financing and managing all health services within each province. Intended to reduce fragmentation, these reforms consolidate responsibility, resources and management of all health services in each province under one authority (removing it from, among other places, Provincial budgets and responsibilities). The Boards of PHAs are appointed by and accountable to the Minister for Health in the national government: their appointment must be made in consultation with the Provincial Governor.

The current allocation of functions to Provincial Governments should not, of course, be treated as fixed. East New Britain, Enga and New Ireland are engaged in autonomy negotiations with central government, with a view to increasing the functions and financing sources that these Provinces control. Even aside from formal autonomy negotiations, a number of provincial governments are actively attempting to increase their functions and financing by a variety of means: from using own-source revenue to take on functions they believe are not being performed adequately by central government, to challenging allocations of power and/or resources through the courts. The intergovernmental allocation of functions, resources and fiscal powers will likely continue to be a highly contested and shifting space.

Relative to the situation with LLGs and Districts, public financial management responsibilities for Provincial Governments are reasonably clear. The provincial budget is developed under the leadership of the Joint Provincial Planning and Budget Priorities Committee (JPPBPC) chaired by the Governor in each Province, with input and oversight from the PEC, sectoral committees and their chairmen. There is a mandated degree of coordination with LLG/Ward planning processes (which is more or less meaningful in different Provinces depending on the extent of political alignment and resource sharing between Provinces and LLGs). The budget is debated in and adopted by the Provincial Assembly. Though District MPs are ex officio members of the JPPBPC (except for those in NEC) and the Provincial Assembly, it is reportedly rare for them to participate meaningfully in this process. Provincial budget documents are typically large and unwieldy, and though varying in what they include, typically incorporate sub-national spending that is actually under alternative forms of control (the salaries of public servants mapped to the Province, PSIPs, DSIPs, PIP projects in the Province, and so forth.). Provincial budgets thus signify authorizations to spend (for resources under Provincial Government control) and aspirations to consolidate in one document a wider set of plans, resources and activities in the Province. The budgets are proudly and publicly proclaimed on their submission to the Treasury. But subsequent processes mean they are often met by delayed inter-governmental transfers and uncertainty about the programming of funding. That makes accountability links between approved budgets and actual spending difficult to establish and monitor.
Audits of provincial funds are carried out annually, but the auditor cannot always obtain information about all areas of Provincial spending, leaving potentially important gaps. The Provincial Administrator is the chief accountable officer, and in most cases is a senior and experienced public servant. The Provincial Finance Office and Provincial Audit Service are institutions with important and reasonably sustained PFM capabilities. (In terms of the link to outcomes, the 1995 Organic Law provided for a Provincial and Local Level Services Monitoring Authority (PLLSMA) with high level inter-agency representation in central government and a secretariat within the Department of Provincial and Local Government Affairs (DPLGA). It attracted considerable donor funding for a while, but has in recent years lost status as a crucial forum, leaving overall performance monitoring of sub-national service delivery in a kind of hiatus.)

4.3 What resources do Provincial Governments actually have, where do they get them from, and what do they use them for?

Provincial Governments receive substantial transfers from central government, both in cash and kind (in the form of staff), and some also have significant own-source revenues and potentially also other support from private sector or SOE actors in natural resource-based industries. The key resources available to Provinces are the function grants and GST revenues from central government, their complement of provincially-mapped staff, own-source revenues, and Provincial SIPs. The table below summarizes the resources available to Provinces, with comments are their source, extent and reliability.

<table>
<thead>
<tr>
<th>Resource</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Staff</strong></td>
<td></td>
</tr>
<tr>
<td>Provinces have a Governor, as well as ex officio (District MPs and LLG Presidents) members of the Provincial Assembly and appointed members of the Provincial Assembly.</td>
<td>The Governor and District MPs receive salaries from central government, while LLG Presidents and appointed members of the Provincial Assembly are paid from the Provincial budget.</td>
</tr>
<tr>
<td>Provinces employ public servants directly from provincial budgets, but according to staffing structures agreed with the central department of Personnel Management.</td>
<td>The resources used for the salaries of provincially-hired public servants come from function grants and/or own-source revenue.</td>
</tr>
<tr>
<td>Provinces have a large number of public servants mapped to provincial departments but part of the national public service (and the national payroll), relative to the number of their directly-hired public servants. These include the areas of finance, audit, education, (previously also health), agriculture and works, as well as the Provincial Administrator him/herself. Provincially-mapped public servants are under the day-to-day supervision and direction of Actual reporting and supervision links between provincially-mapped staff, Provincial Administrators and national departments vary considerably. Provincial Administrators are usually the only ones who can effectively direct their work, but they lack some key human resources powers over these staff in the event of absence or non-performance.</td>
<td></td>
</tr>
</tbody>
</table>

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90 DoF has recently established provincial audit teams, which visit Provinces for internal audit purposes and report to the Secretary of Finance. We do not have any information on the impact of this process as yet.

91 One important difference between the resources of the NCD and Provinces, is that the NCD does not receive a function grant. Like Provincial Governors, its directly-elected Governor also receives PSIP funding. City Authorities have now also been established in Kokopo, Lae and Mt Hagen, largely building on previous urban LLG structures.
Provincial Administrators and their management teams. As well as provincially-mapped works staff in provincial works departments (for provincial roads), the national works department also has units in each province (for national roads) – sometimes co-located. Provinces also have police and judicial presences, whose deconcentrated staff are under more centralized direction.

**Remarks**
While Provinces apparently lack some key human resource management powers, additions to the national payroll that are instituted at sub-national level reportedly drive overall payroll overspending, in a process that does not seem to be well understood as yet.

### Recurrent transfers

Especially since 1995, Provinces have been heavily dependent on vertical transfers. Provinces receive function grants from central government, calculated according to a cost of services formula maintained by NEFC, reflecting in part the size and remoteness of the population to be served, and then adjusted downwards according to GST shares and own-source revenue capacity. Function grants vary from none (in Provinces with sufficient other revenue capacity to cover the cost of services the function grant is for) to K$53.9 million in East Sepik, 2018. Function grants are to cover the inputs to designated priority basic services, whether staff or non-staff recurrent input costs (fuel, materials, maintenance, etc.). Provinces direct some of these resources to their deconcentrated District Administrations, and some Provinces also provide recurrent transfers to LLGs from such resources as these, which they could spend themselves.

The reliability of this constitutionally-guaranteed funds flow is good in the long term, but year by year this grant is subject to the wider cashflow difficulties facing central government, which see the timing and amounts of the tranches varying – and often delivered so late in the year that regular service delivery is only be possible if provinces have other sources of revenue and/or can execute in arrears.

Funds arriving late are subject to redirection, either through (sometimes spurious) end-of-financial-year claims made to avoid the funds being swept back to central government, or by being rolled over into consolidated budgets, where they are typically redirected to capital projects in other sectors, under the control of the Governors.

Much of the ability of provincially-mapped staff to do their jobs depends not on complementary inputs provided by the relevant national departments, but on complementary inputs funded from provincial budgets, whether from function grants or from own-source revenue.

Provinces receive a 60% share of national GST revenue, with allocation among Provinces determined by the portion of total GST revenue derived from the relevant Province in the year preceding the last year. In aggregate, these GST shares have been growing as a share of Provincial budgets, though the growth has been very uneven across Provinces and whether it has continued after the economic boom in the mid-2010s is unclear.

GST revenues transferred from IRC are available to Provinces to allocate to any area of their budget.

GST revenues are paid directly from the Internal Revenue Commission (IRC) each month, so are highly reliable. Though in some ways they are like own-source revenues (earned on transactions within the Province, received automatically rather than at the discretion of the national government, and potentially influenced by compliance efforts at provincial level), in other senses they are not (their level and application is not set by Provincial Governments, so they are not a form of revenue that is levied by Provinces and simply collected on their behalf by IRC for the sake of efficiency). *We have included them with recurrent transfers here, but they could also be included with own-source revenue.*
<table>
<thead>
<tr>
<th>Resource</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital transfers/projects</strong></td>
<td>Just as District SIPs are effectively discretionary funds for District MPs, so Provincial SIPs are effectively discretionary funds for Provincial Governors. Projects/activities funded from PSIPs would typically be referred to as having been paid for by the Governor.</td>
</tr>
<tr>
<td>Other important grants include Provincial SIPs, which are generally regarded as ‘the Governor’s money’, and are typically used for capital projects.</td>
<td></td>
</tr>
<tr>
<td>Provinces are the sites of capital projects under the national government’s Public Investment Program (PIP), for instance for national roads, educational institutions, hospitals, etc., subject to decisions and direction of the DNPM and/or its Minister, and the wider NEC.</td>
<td>Promises of funding under such arrangements are commonly not fulfilled, and/or are heavily dependent on political factors. Whether such projects are provided – and how much involvement Provinces have in the projects – is influenced by the power of the Provincial Governor. Governors who are critical to the national coalition government tend to be better placed to secure PIP projects and a role in them.</td>
</tr>
<tr>
<td><strong>Own-source revenue</strong></td>
<td>Resource royalties tend to be very reliable, as are provincial fee revenues such as business license fees (though in some Provinces the tax base itself is small). There is enormous variation in the own-source revenues available to different Provinces. The function grant is meant to equalize this inequality (and that of GST shares) to the extent required for very basic service delivery, but the result is still significant variation in resources for service delivery between Provinces.</td>
</tr>
<tr>
<td>Resource-rich Provinces receive resource royalties and sometimes dividends from minerals or petroleum operations or agricultural activities in their territories. This resourcing can be substantial, as in Enga, Western Province, West New Britain, New Ireland and Hela. Provinces are also legally empowered to collect certain fees, for instance from business licenses, vehicle registration, and gaming licenses. Provinces may run commercial enterprises and retain the profits as own-source revenues, though successes have been rare. In aggregate, own-source revenue has been growing as a share of Provincial budgets, though the growth has been very uneven across Provinces and whether it has continued after the economic boom in the mid-2010s is unclear.</td>
<td></td>
</tr>
</tbody>
</table>

The funds flows that different Provinces depend on have a significant impact on the service delivery capabilities they are able to sustain. One critical difference is the extent of their dependence on function grants, with Provinces that are largely dependent on function grants the worst placed. While function grants are almost always paid eventually, and have risen each year since their establishment in 2009, the lack of reliability of the timing of this funds flow makes it extremely difficult for Provinces to plan and execute recurrent activities. In recent years, the bulk of function grants have been remitted late in the year. Late-arriving funds are more likely to be used on poor quality spending (including on arrears with

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93 By 2015, function grants had risen to the point that their resource envelopes (including own-source revenue) equaled or exceeded the cost of services estimated by NEFC (in terms of the defined Minimum Priority Activities – not any other activities that Provinces also have a mandate to undertake).
their typically inflated costs, one-off activities, corrupt payments, or capital projects in subsequent years – since function grants can be retained and rolled over, and then (in practice, if not in law) can be transferred to consolidated provincial budgets where they tend to be treated more like PSIPs, or used for capital projects. Some of these practices may be impossible if current PFM reforms are enforced at Provincial level, so where they were actually done to facilitate service delivery (e.g. commitments incurred prior to warrants being available), the timely arrival of function grants will be even more critical to protect service delivery.

**Provinces with a greater share of revenue that is not subject to national government cash flow and/or political imperatives have greater potential to plan and execute a reliable level of recurrent service delivery – though this is not a guarantee that they will do so.** In such Provinces, the timing of receipt of function grants not a critical constraint to recurrent service delivery. In this respect, Enga, New Ireland and Western Province have at various times been well placed because of the significant share of revenues they accrue from minerals and petroleum operations, with Morobe and East New Britain (as well as the NCD) well placed by the significant share of revenues they accrue from the GST. West New Britain gets a significant capital investment budget (K$50 million/year) from a former oil palm trust fund, though its relation to the provincial budget is not simple or direct. East Sepik recently more than doubled the GST transfers it receives from IRC (via active efforts to improve GST compliance locally), enabling a range of new activities (see Box 4.2). Some of these Provinces no longer receive function grants, because of the adequacy of their other revenue capacity; for those that still do, their function grants are both relatively small and relatively insignificant to their overall resources.

**Even Provinces whose revenues are dominated by relatively reliable sources (such as GST shares, resource revenues or general own-source revenues), do not necessarily have strong horizontal accountability relationships with citizens.** These depend on where the revenues come from and under what conditions. GST shares are very reliable (paid each month directly from IRC, so not subject to central government discretion), but they are derivation-based transfers rather than own-source revenues (central government, rather than provincial government, levies them – setting their level and application). As such, they do not necessarily underpin a strong accountability loop between the citizens paying this tax in a Province and what the Province spends its GST share on, because the Province does not determine the tax. That said, this situation is not immutable, as some Provinces are demonstrating by actively associating themselves with the GST in their local contexts, supporting GST compliance (including by co-funding local IRC operations), and linking the resultant GST transfers with specific expenditures (see Box 4.2). Resource revenues are of course generally noted for fracturing rather than supporting accountability loops between citizens and governments. This does not prevent some Provinces with significant resources revenues from spending them well, but they are likely to do so for reasons other than because they have systemic incentives to do so. General own-source revenue (largely fees and charges, such as motor registration) do provide a basis for horizontal accountability, because Provinces determine the level and application of these fees and charges and a segment of citizens (such as vehicle owners, in this case) have to pay them. But the types of own-source revenue Provinces can set tend to have fairly narrow tax bases, and they yield only a small share of Provincal revenue. (In recent times, when Provinces mooted reestablishing their sales taxes on liquor and other items, the national government threatened that their GST shares

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94 NEFC (2019, v).
would be withheld, on the grounds that Provinces gave up their right to levy sales taxes as part of the agreement to establish the national GST and its sharing formula.)

Box 4.2: Enhanced GST collection enabling expanded service delivery and other activities – the case of East Sepik

The IRC has an active program of engagement with provincial governments, developing MOUs on various tax issues with 13 Provinces in the last two years. While there have been successes in other Provinces over time, East Sepik’s recent reforms are worth highlighting because of the Governor’s very public advocacy about the tax, the obligation to comply with it, the benefits to provincial service delivery of the derivation-based GST transfers, and provincial responsibility to spend the money well.

East Sepik’s initiative to improve GST compliance locally has led to a more than doubling of the Province’s GST revenue. Since Provinces receive 60% of the GST collected in their Province, if they can increase GST collections from their Province they stand to gain 60% of the increase. East Sepik has been making a concerted effort to do this, through a partnership (now formalized in a Memorandum of Agreement) with the IRC. In 2019, GST transfers from IRC back to East Sepik rose to K$20 million, from K$8 million in 2018.

East Sepik Governor Alan Bird has directly linked taxpayer obligations and willingness to comply with the GST regime, with the government’s obligation to spend tax revenues well in the interests of the population. He has committed to spending this additional GST revenue in East Sepik on increased service delivery, contributing to the expenditure listed below in the 2020 Budget for East Sepik. Not all of the items below are necessarily funded entirely from the additional GST revenues, but where specific amounts are listed, that does refer to the use of additional GST revenues.

- K$6.6 million of new and additional funding for payment of 50% of school fees for all school students in government schools, partly replacing national school fee funding now withdrawn.
- K$2.6 million, or K$100,000 per LLG, of new and additional funds for LLGs to allocate to service delivery improvement (bringing total LLG budgets to around K$2 million per LLG, or K$52 million total).
- Purchase of 6 pool vehicles for the Provincial Government (total cost approximately K$1.2 million), potentially saving K$2 million per year on often abused hire vehicle procurement.
- More funding for two agricultural stations (upgrades and project funds) for a Provincial Government project working with cocoa farmers, including on land registration.
- Establishment of a labour mobility office in East Sepik enabling seasonal worker mobility to Australia.
- Increased funding (to K$100,000 each) initially for soccer and rugby league sports.
- Upgrade of provincial stadium facilities.
- Support for women’s and youth peak representative bodies (K$50,000 each).
- Purchase of police patrol vehicles, single officer accommodation and K$700,000 for police operations (fuel, vehicle maintenance, uniforms, auxiliary police uniforms).
- Support for fire victims in Australia.
- Establishment of e-libraries in all East Sepik government schools.
- More construction of housing for public servants.
- Design of a new Provincial Administration building and Provincial Assembly building.

The Provincial Government has also committed to publishing quarterly IFMS reports on implementation expenditures, and increasing audit coverage by national agencies for the last 5 years.
The table over the page summarizes the budgets of three quite different Provinces. (It follows their convention of including public service salaries which are paid directly from the national payroll system, as well as SIPs that are not actually under Provincial control.)

What service delivery capabilities Provinces are able to sustain with the resources available to them, is different from what service delivery capabilities they do actually sustain. Indications of the latter require very specific information about the extent and quality of the services actually delivered by Provincial Governments in each sector. That information is available for some services in some sectors (whether for all Provinces or only for some depends on the service concerned). The information is, however, fragmented (whereas the Provincial and Local Level Services Monitoring Authority (PLLSMA) ought to be bringing it together to provide a comprehensive dataset). NEFC data, while useful, does not fill the gap because it captures expenditure information rather than service delivery information (and may not capture expenditure information comprehensively). But what it does usefully show is the resources estimated to be available to each Province (as the grey shaded area in the following chart), relative to the estimated ‘cost of services’ – or more specifically, to the set of 11 very restricted Minimum Priority Activities or MPAs – in that Province (as the horizontal blue line). According to these estimates, most Provinces now have the resources to be able to fund their MPAs – a substantial improvement on ten years ago, when function grants were introduced. (The ‘priority gaps’ in the chart indicate where Provinces could but do not actually spend their available resources on MPAs, though as note 95 indicates, these estimates are not necessarily fully reliable.)

**Comparing spending and fiscal capacity with the cost of services estimate: 2011-2015**


95 NEFC measures of expenditure on Minimum Priority Activities (MPAs) capture expenditure from particular revenue sources on particular line items that contribute to MPAs, from expenditure data in PGAS. If Provinces accrue revenue in and expend resources from accounts not captured by PGAS (or now, IFMS), or expend resources from accounts captured by PGAS on items actually contributing to MPAs but not designated as such in NEFC’s algorithm, their expenditure on MPAs as reported by NEFC will underestimate their actual expenditure on MPAs. (Something like this must surely be occurring in Enga, for instance, whose education spending is unusually high but whose expenditure on education MPAs as reported by NEFC has been low or even zero in some recent years.)
## 2018 Provincial Budget

<table>
<thead>
<tr>
<th>Funds Flow</th>
<th>Source</th>
<th>Morobe (population 674,710)</th>
<th>Enga (population 432,045)</th>
<th>Jiwaka (population 343,987)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Resources in-kind</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries: Teachers</td>
<td>Centre</td>
<td>126,144,700</td>
<td>–</td>
<td>66,189,300</td>
</tr>
<tr>
<td>Salaries: Other public servants</td>
<td>Centre</td>
<td>30,567,300</td>
<td>–</td>
<td>19,100,600</td>
</tr>
<tr>
<td>Leave Fares: Teachers and other public servants</td>
<td>Centre</td>
<td>6,200,000</td>
<td>–</td>
<td>1,200,000</td>
</tr>
<tr>
<td><strong>Resources in cash – own</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Own-source revenue (resource royalties, fees and charges)</td>
<td>Own-source</td>
<td>18,661,100</td>
<td>of which Motor reg. 6,900,000</td>
<td>22,995,700</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mining revenues 2,500,000</td>
<td>Taxes &amp; fees 19,800,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Liquor licensing fees 2,500,000</td>
<td>Business receipts 570,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bookmakers tax 1,600,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Drivers licenses 600,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GST share</td>
<td>Centre</td>
<td>95,318,900</td>
<td>–</td>
<td>14,844,700</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0</td>
<td>–</td>
<td>285,000</td>
</tr>
<tr>
<td>Function grant ( Provincial) of which Health</td>
<td>Centre</td>
<td>15,580,500</td>
<td>2,805,600</td>
<td>29,876,100</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3,893,800</td>
<td>5,218,100</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>6,255,600</td>
<td>11,293,300</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>316,000</td>
<td>388,100</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>800,600</td>
<td>1,266,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>29,200</td>
<td>69,200</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>0</td>
<td>2,185,800</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,479,700</td>
<td>2,145,700</td>
<td></td>
</tr>
<tr>
<td>Devolved Fee-Free Education</td>
<td>Centre</td>
<td>–</td>
<td>–</td>
<td>30,000,000</td>
</tr>
<tr>
<td>Devolved Fee-Free Health Care</td>
<td>Centre</td>
<td>541,300</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>PM’s direct appropriation</td>
<td>Centre</td>
<td>–</td>
<td>–</td>
<td>15,917,600</td>
</tr>
<tr>
<td>‘Special Support Grant’</td>
<td>Porgera mine</td>
<td>–</td>
<td>–</td>
<td>2,291,000</td>
</tr>
<tr>
<td><strong>Sub-total cash – own (of which function grant)</strong></td>
<td></td>
<td>114,521,300 (0%)</td>
<td>101,629,500 (15%)</td>
<td>30,161,100 (99%)</td>
</tr>
<tr>
<td><strong>Resources in cash – for others</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Function grants: for LLGs</td>
<td>Centre</td>
<td>6,658,500</td>
<td>–</td>
<td>2,817,100</td>
</tr>
<tr>
<td>Ward SIP (not actually paid)</td>
<td>Centre</td>
<td>–</td>
<td>–</td>
<td>1,141,000</td>
</tr>
<tr>
<td>‘Special Support Grant’</td>
<td>Porgera mine</td>
<td>–</td>
<td>–</td>
<td>10,000,000</td>
</tr>
<tr>
<td><strong>Resources paid directly to others in cash or in-kind</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PSIP (paid to Governor)</td>
<td>Centre</td>
<td>–</td>
<td>10,000,000</td>
<td>–</td>
</tr>
<tr>
<td>DSIP (paid to District MPs)</td>
<td>Centre</td>
<td>–</td>
<td>90,000,000</td>
<td>–</td>
</tr>
<tr>
<td>PIP (implemented directly or with Provincial involvement)</td>
<td>Centre</td>
<td>–</td>
<td>1,000,000</td>
<td>–</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td>402,280,000</td>
<td>283,936,500</td>
<td>129,045,500</td>
</tr>
</tbody>
</table>
The disjuncture between recurrent and capital spending evident at the District level is also evident at the Provincial level. The Reform of Intergovernmental Financing Relations (RIGFA) process did not address capital costs, only recurrent costs – with the estimates that underpin function grants being confined to the recurrent costs of providing the MPAs. Provinces can of course still choose to allocate part of their function grant to capital works, and can fund capital works from own-source revenue. But what the intergovernmental financing system effectively reflects overall, is the allocation of responsibility for capital projects to District MPs (through DSIPs), Provincial Governors (through PSIPs) and the Minister for National Planning and Monitoring (who has significant influence over the PIP) and to some extent NEC (some members of which may also be able to influence the PIP). At the Provincial level, PSIPs tend to be regarded as the Governor’s money (akin to DSIPs at the District level), to be expended on projects he has the discretion to select. In addition, Governors who are critical to the formation and maintenance of national coalition governments tend to be able to get projects of importance to them into the PIP (and potentially also, secure influence over their procurement) – as reflected in the above table for Enga. Some Governors are similarly able to secure projects of important to them as donor projects.

4.4 What incentives do the institutional structure, funds flow and electoral system give Provincial leaders, and what are the outcomes of that?

Although political accountability for Provincial Government rests with the Provincial Assembly on paper, in practice it rests almost entirely with the Governor. Through the Provincial Assembly, political accountability is supposed to be shared between the Governor (directly elected), Deputy Governor (elected by the Provincial Assembly, from among LLG Presidents), District MPs, LLG Presidents and appointed members (paramount chiefs and a women’s representative). But political power is difficult to amass within the Provincial Assembly, possibly because there is little at stake in the ability to allocate a typically stretched recurrent budget whose main uses are effectively predetermined (there usually being very little space for discretionary choices on the use of the funds actually under the Provincial Assembly’s control). A key group in the Provincial Assembly – the District MPs – also has such large resources at their discretion that they tend to be preoccupied with the spending of those at the District level. And the NEC members among them cannot be members of the Joint Provincial Planning and Budget Priorities Committee anyway, so by the time they get to vote on the provincial budget in the Provincial Assembly, funds have been allocated (and not often to them).

Governors have strong cultural and political incentives to act as arch-patrons. Some of PNG’s long-standing Governors are locally lauded as ‘Action Governors’, people who by their own personal powers and connections are able to accumulate resources and distribute them across support bases. Again and again in media reporting, the Governor is depicted as having ‘given’ a high school or health post to a community, even where the funding is 100 percent from the provincial budget or function grant. This ‘bigman’ style certainly involves recognition of clients: but ceremonially and in much practice it does not appear to involve clients in making contributions which create formal obligations on the Governor. The Governor is feted for his (and it is almost always his) personal capabilities, and for personal and exclusive commitment to loyal followers: there is little acknowledgement of fiscal sources, and little sharing of the credit and status with other political actors.

There appears to be limited scope for the formation of governing coalitions within the Provincial Assembly. Governors and District MPs are frequently from different national parties or factions, and often
support rival candidates in each other’s elections and in local elections. LLG Presidents have in common that they need the support of the Governor (or District MP) to get PSIP (or DSIP) funded projects in their electorates, but for this they must compete with each other, thereby undermining any basis for collaboration. LLG Presidents might be appointed as chairs of the sectoral committees that govern departments of the Provincial Administration, but they are under no direct electoral pressure individually to deliver in these roles, nor are they collectively held accountable by the Provincial Assembly if things do not go well in their sectors. It is possible that some performance-focused Governors may attempt to hold the chairs of sectoral committees accountable for the performance of their sectors, but removing portfolios from non-performing LLG Presidents would normally carry political risk for the Governor, given LLG Presidents’ roles in supporting the Governor’s reelection.

The political power and accountability that does exist at Provincial level tends to rest with the Governor: and this affects the ways that Provincial Government is run. Through PSIPs, Governors have significant resources under their discretionary control. Through their influence on Provincial budgets (they chair and decide appointments to Joint Provincial Planning and Budget Priority Committees), Governors also have a significant degree of control over the recurrent spending (especially own-source revenue funded spending) and activities of Provincial Administrations. In this respect, Governors have strong incentives to ensure that their Provincial Administrators are aligned to them. Though Provincial Administrators are not supposed to be politicized, in practice NEC controls their appointments. Governors who can influence NEC decisions can ensure that the Provincial Administrators appointed in their Provinces are people aligned with them and/or who are capable and will be responsive to their direction. At the same time, rival District MPs might seek to ensure that NEC appoints as Provincial Administrator someone who will work against the Governor. Where a Governor has to work with a non-aligned/antipathetic Provincial Administrator, the Governor’s ability to hold public servants in the Provincial Administration accountable for their performance is diminished. Who is appointed as Provincial Administrator is a signal of the relative power of the Governor and District MPs. Given that Provincial Administrators are the chief accountable officer at Provincial level, where they have no autonomy from their Governors, Governors can effectively usurp these accountability functions, potentially neutralizing their effect.96

What Governors do with their power at Provincial level depends very much on the interests and approach of the Governor. Governor’s control and patronage is somewhat idiosyncratic: some Governors distribute their patronage publicly, putting PSIP funds through provincial budgets. In other cases, patronage and its processes and projects are much less transparent. Governors seeking short-term

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96 Ketan (2013) observes, “Generally, governors exercise effective power over the appointment of senior public servants, chief executive officers of government entities, the governor’s own support staff, and consultants. They have a say in the awarding of contracts for construction and maintenance of infrastructure and for the provision of goods and services. They also have influence over the disbursement of development grants and discretionary funds. By law, all of these decisions are supposed to be taken by appropriate committees (the Provincial Executive Council, Provincial Tenders Board, Provincial Planning and Budget Priorities Committee), but in practice governors can, and do, take decisions unilaterally and have them endorsed by committees at subsequent meetings.” And in Western Highlands, “In 2010 the Office of the Provincial Administrator lost control over planning, budgeting, disbursement of development grants and internal revenue, and the management of impact projects. These functions were performed by the Office of the Governor, via consultants and casual staff. Communication between the two offices has often broken down, with the governor blaming the administrator for failing to implement his policies, and the administrator complaining about political interference in administrative matters. The relationship between public servants and casual staff from the governor’s office was characterized by mutual distrust and antagonism.”
benefits for themselves and their supporters can use PSIP resources in a way that maximizes their and their supporters’ gains in cash or kind. Where they control the Provincial Administrator, have significant own-source revenues, or are able to get function grant rollover funds into consolidated accounts, they can also direct Provincial spending in a way that similarly maximizes their and their supporters’ gains, transforming what there is by way of a discretionary component of the Provincial budget into a vehicle of patronage. If there is collusion between Provincial or District officials and the deconcentrated staff in Provincial or District Finance Offices, large-scale irregularities can emerge, especially around project procurement. In such contexts, there can be nothing to show for PSIP spending at the end of the Governor’s five-year term, and minimal service delivery by the Provincial Administration, District Administrations and LLGs. Such Governors contribute to the undermining of wider confidence in Provincial Government as a whole, providing ready arguments for those seeking decentralisation to DDAs/Districts.

Governors seeking re-election operate differently. Governors’ elections are the only elections in PNG where Provincial matters are what is at stake, and in those elections incumbent Governors can be held to account for what they have done in office. The way elections typically work at Provincial level, Governors are assessed on their ability to deliver small projects and place-based patronage (support for community activities or facilities, local water and sanitation projects, repairs to a local road or bridge damaged by severe weather, etc.), more than by the recurrent service delivery performance of the Provincial Administration as a whole. Governors able to deliver such projects and patronage across a wide area of the Province – and even better, also ensure services are delivered – tend to be returned. This making of everyone into a successful client requires quite some (what is often called) ‘Action Governor’ capability, not just in the Governor’s office but also in the Provincial Administration, in order to execute (or cause to be executed) such widely-disbursed projects, and potentially also ensure services are delivered. (Resource revenue-rich Enga and function grant-dependent Simbu are both Provinces where Governors appear to have tried this strategy. But the results differ completely: no Simbu Governor has served two consecutive terms, while Enga’s Governor is multiple term – differences in outcomes requiring further consideration.)

Under the close supervision of the Governor and/or Provincial Administrator and top management team, Provincial Administrations can be quite effective. That effectiveness can encompass: regular road maintenance; complementary learning inputs, quality facilities and regular school inspections; functioning clinics and outreach services; and functioning Village Courts – as determined by what the Governor wants to make happen and claim as his/her achievement at election time. To achieve that effectiveness, capital spending (from PSIPs, own-source revenue and also PIP and donor projects, if the Governor can secure them) and recurrent spending (from function grant and own-source revenue) can be coordinated. Although the outcomes can be very good in such contexts, it is often largely the Governor’s preferences – reinforcing system controls – that ensure funds are so used by the Provincial Administrator and the staff he/she directs. As below, exceptional Provinces indicate that there can be a crucial role for the capability, integrity and stability of the Provincial Administrator and leadership team, and/or a functioning M&E team supporting a consistent and regular reporting function, with expenditure tightly tied to programmatic activity plans. Alongside such good quality spending, there may well be considerable spending in breach of PFM regulations and/or on direct patronage, as required to keep the Governor in office. A typical pattern among long-standing Governors is for PSIPs (and other discretionary funds) to be used to provide something small for everyone in the Province, and two or three major things for key constituencies.

As mentioned repeatedly already, co-operation between Governors and District MPs is rare. Not only do they lack incentives to collaborate in most instances, they face strong disincentives to doing so. First,
patronage in PNG politics seems to be exclusive and winner-takes-all. Governors and District MPs acting as patrons are commonly described as very reluctant to share the resultant status with others. Second, Governors are typically active members of particular political parties. Candidates contesting District seats (often 30-40 thereof) are likely to be independent or affiliated with a rival party, thus in competition with the Governor’s party candidate. To resource the resultant (likely rival) District MP would be to fund a potentially lethal political adversary. Third, Governors and District MPs also typically compete for LLG support for themselves in their own seat, and rivals in the other’s seat. In such contexts, relationships between Governors and District MPs are fraught and often highly personalized. Discretionary resources are critical to the re-election prospects of both Governors and District MPs, giving them both strong incentives to retain those resources in discretionary form, to be used under their sole direction and for the credit for the resulting projects to be claimable solely by them. Co-financing would typically involve the resources being moved to an account subject to regular PFM visibility and controls, and would reduce the ability of either to claim patron status for the project. Overall, Governors and District MPs, face incentives not to pact together locally, or with each other unless at national level in the context of government formation or confidence votes.

The only instance where Open MPs actively seek collaboration with a Governor is the National Capital District (NCD), where the Governor controls GST revenue (around $K270 million) that dwarfs what the three District MPs collectively receive in DSIPs ($K30 million). In that context, there is shared planning and budgeting for the co-financed activities. In Morobe, where the Province has significant GST revenues, the Governor has provided resources for road infrastructure to District MPs, equivalent to 16 percent of their DSIPs. In New Ireland, where the Province has significant resource revenues, there is no co-financing of activities. Perhaps the incentives for collaboration are only sufficient when the resources of the Governor/Province substantially outweigh those of District MPs. But it may not be that straightforward.

Box 4.3: Do Provinces have little political influence in PNG? If so, why?

Throughout this analysis, the rivalry between Provincial Governors and District MPs has been treated as ‘business as normal’. Since independence, they have competed with each other for budgetary funds for local development, and in this battle the evidence clearly suggests that District MPs have had the upper hand. There are several reasons for this. Most importantly, they are outnumbered 89 to 22, so collectively have less power in government formation than District MPs, and obviously also less voting power over any particular piece of legislation. Though members of national parliament, Governors cannot be members of NEC, both reducing their ability to influence NEC and preventing them holding national ministerial portfolios (with the possibilities for directing additional resources to their constituencies that this entails).

The greatest prospect for influence that Governors have is in holding leadership roles in political parties in the national parliament, or at least leading opinion among newly elected independent District MPs in government formation negotiations. If they can control or influence a larger number of votes than just their own, they can potentially be critical to government formation and subsequent confidence votes. Prior to or during government formation negotiations, such Governors can secure commitments on PIP projects and other resources from aspiring Prime Ministers, in return for delivering a set of supporters. At least in the recent change of government, very influential Governors were able to influence other MPs to move away from a government that was not being forthcoming around resource revenues. The most influential Governors seem to be those who deliver support to the government but maintain their own political autonomy. Governors that lead political parties can also potentially influence NEC, through the ministerial portfolios of their District MP party colleagues.
In general though, collectively District MPs have tended to prevail over Provincial Governors. This is most evident in the 1995 Organic Law, which considerably reduced the power of Provincial Governments, and the 2014 DDA Act, which considerably increased the power of District MPs. It is also evident in the growth of DSIP funding to District MPs relative to function grant funding to Provinces (with DSIP resources now about four times the value of function grants), a trend that further increases the power asymmetry between them. It is further evident in the greater reliability of DSIP cash flows than function grant cash flows, especially in recent years – clearly indicating the higher political priority placed on paying DSIPs in cash constrained contexts.

PSIP funding to Provincial Governors has not grown in line with DSIP funding to District MPs (and in provinces with many districts, it has been greatly reduced). But it is still similarly prioritized in central allocations of cash flow. Meanwhile it seems not to be the function grant that Provincial Governors demand increases in and/or cash flow reliability of as conditions of their support (presumably because function grants are largely pre-committed to essential recurrent expenditures), but other revenue streams like Fee Free Education funds or PIP projects (which can fund new recurrent expenditures that the Governors can shape, or capital-development projects).

The constitutional protection afforded to function grants may have enabled function grants’ survival and indeed growth, but their removal from political contest has probably had the unintended consequence of adding to their marginalization. Constitutional provisions not only require function grants to be paid, but to increase every year (though not to increase as a share of expenditure – so they can reduce in importance relative to other expenditures, which is what is happening). By being determined by formula and being mandated by the constitution, they are a given rather than a domain for political contest. That may contribute to their marginalization, including lack of demand for results from them (with no credible threat to alter them in the event of no results being achieved). Certainly, if their extent and distribution were a choice in the annual budget each year, they would likely have fallen in value and/or been skewed away from their current formula basis – so they have been best served by having constitutional protection. But the unintended consequence may have been political marginalization.

While Governors have in common the desire for stronger Provincial Government, as a collective they do not appear to have the means to achieve it – instead, a few very strong Governors may be able to increase the autonomy of their specific Provinces. These Governors are of relatively long standing, from resource-rich or revenue-rich Provinces, and/or lead relatively effective Provincial Administrations. They have had some success in achieving the transfer of various additional resources to their Provinces (for instance, the budgets for the fee free education or health programs), and have been negotiating the transfer for additional functions – though without many concrete results so far. While their Provincial Administrations are relatively well functioning, their potential to secure additional resources or functions from central government seems to depend more on the political influence they wield (in government formation and confidence votes) and the greater credibility of their prospects for non-cooperation with central government (over resource projects), because of the resources they control.

Greater revenue autonomy and service delivery mandates for Provinces could happen, but effective political accountability is unlikely to come if reforms to the Organic Law do not establish real and more direct political representation at and below Provinces. To be effective, the reforms would need to tackle the issues of political and resource rivalry and overlapping mandates between Provinces, Districts and

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LLGs. If, in the reforms to the Organic Law, the most important political accountabilities, mandates and resources for service delivery are allocated to a level of government below the Province, that level of government would need to have the capability to raise revenues locally in ways that enhance horizontal accountability (i.e. where local people/taxpayers can hold elected officials at local level accountable for the spending of these and other funds at their disposal). Provinces would in turn need to be assigned clear regional governance mandates and corresponding resources – again including, crucially, the capability to raise revenues locally in ways that enhance horizontal accountability. On the other hand, if Provinces become more autonomous within otherwise similar arrangements to what exist now, and are able to accrue greater mandates/functions for service delivery all the way down to the local level, the problem of real local accountability will remain to be addressed.

4.5 What counter-trends can be observed, and what explains these?

While aspects of the institutional structures, funds flows and electoral politics at provincial level present formidable obstacles to the effective delivery of services (as set out above), there are nonetheless examples of considerable service delivery capability being built in particular provincial contexts. In East New Britain, Milne Bay and Simbu, for instance, exceptional qualities have long been observed. More recently, better capability has been observable in some other provincial contexts. What are the reasons for this, and what is the institutional machinery through which the better performers achieve this? This paper draws on case study fieldwork in a set of six Provinces (East Sepik, Enga, Jiwaka, Morobe, New Ireland and Simbu), complemented by broader field experience for other sectors and programs in a further four Provinces (Eastern Highlands, West New Britain, the Autonomous Region of Bougainville, and Western Highlands) to identify and seek to explain such counter-trends. It is important to emphasize though, from the outset, that these are counter-trends, and that the typical context is of Provinces struggling to deliver effective governance. And indeed, some of the earlier leading Provinces have since slipped back, captured by patronage, exceptional (rent-based) resources, weak accountability around key figures, and a PFM system debilitated by those and other factors (the familiar resource-curse context).

In seeking to identify the scope for counter-trends at provincial level, and what kinds of difference these can make to service delivery outcomes, the case study work suggests nine factors that powerfully shape a Province’s ability to govern well. Provinces which can turn these nine factors to advantage can build capabilities ‘against the odds’ – or, against the formidable constraints described above. These factors are:

1. **Strong and stable political leadership** (largely from the Governor) and/or ‘strict’ executive leadership (from the Provincial Administrator and the Provincial Management Team of his/her deputies, and directors/program advisors), within a **stable, enabling relationship (but with some separation of powers)** between the Governor and Provincial Administration. These leaders need to be committed to some coherent development policy or strategy over time, for example to delivering services right down to the local level (Simbu), to transparent PFM (Simbu), or to increasing economic opportunities for provincial people beyond the Province (Enga). (Obviously, leaders with such commitments are better able to innovate in pursuit of them if they have access to exceptional and discretionary resources – this is covered in point 5.)

2. **A powerfully enabling (or disabling) setting and context**: challenging human and physical geography (powerfully enabling as in Simbu and to some extent in Sandaun, or powerfully
disabling as in Western Province), tribal or other ethnic conflict (as in Enga and Hela), and cultural and historical strengths in governance (for example East New Britain, Milne Bay and Bougainville) can all influence the qualities and outcomes of provincial governments by providing strong incentives for policy commitment from leaders to tackle geography and other fragmentation explicitly from a local standpoint (as opposed to from Waigani). (Again, having resources to enable these kinds of locally-attuned responses to service delivery matters, as in point 5.)

3. **Strategic, frugal and fairly transparent control over public finances within the financial management system**, and actively linked to control points including, for example, detailed Annual Activity Plans with active quarterly reviews, budget appropriations strongly linked to actual expenditures, pre-audit committees that closely vet all expenditures before they are made, and effective monitoring and evaluation in policy areas of high priority (ideally linked to NEFC/RIGFA Minimum Priority Areas (MPAs), but this is not essential). In Provinces where these systems function, both central transfers and the deconcentrated activities they fund, and own-source revenues and the locally-attuned programs they fund, develop more strongly. Challenges remain in directing these resources down to Districts and LLGs: but Provinces appear to be the level of government most likely to be able to do this in ways that enable quality public investment, capital and recurrent budget alignment, and effective overall supervision of funding and performance.

4. **Control over human resources/appointments by leaders with real developmental purpose**, employing senior management with developmental capabilities on merit, who are strong enough to resist simply being dominated by Governors, with employment practices respecting (but not being disabled by) the rights of public servants, within a context enabling a peer-reinforced, team-building, performance-incentivised approach. (Here, discretionary resources enable Provinces to provide specific incentives to staff aligned with provincial priorities e.g. to attract the specific skill sets required (including through private-sector comparable salaries), or to encourage people to work in remote areas.

5. **Access to special, exceptional funding sources, from resource dividends or royalties, trust funds, own-source revenues including GST transfers, donor funds, or special politically-driven allocations from the Prime Minister** (which may or may not flow through the Public Investment Program (PIP)). There are huge asymmetries here, largely between Provinces with access to mineral and resource revenues, and those without it. There are also substantial (but uneven) opportunities for provinces to enhance own-source revenues through assisting national agencies with compliance: for example, 60% of GST takings are remitted monthly direct from the Internal Revenue Commission. All of these can supplement central government grants and enable activities even when central government grants are delayed (East Sepik). On the other hand, some local government figures argue that such special funds (for discretionary use) create perverse incentives for politicians to become more closely involved with provincial budgets, creating subnational resource-curse situations – with success attributed to the absence of any such discretionary funds, and consequent determination to make the non-discretionary function grants go further (Simbu).

6. **Securing of delegated functions (and related funds)** from central government agencies and budgets, in areas such as Tuition Fee Free education funding, Teaching Service Commission offices, or school inspections. Alternatively, provinces can enable central agencies which collect
levies the province can share (Fisheries, Forestry, IRC) to have a local presence, by supplying them with accommodation, vehicles, and other support, under province-specific MOUs. Being able to co-fund national agencies is a critical capability (e.g. even if school inspections are not secured as a delegated function, a Province could ensure the effective operation of this function by supporting the local presence of education staff and funding their operating costs).

7. **Securing of exceptional, strategic development investment** in: key sectors (health, education, teacher and nurse training institutions); transport infrastructure (including for sea and air transport, as well as land transport); joint ventures and other investments in agriculture and tourism development; innovative activities in diaspora formation, e.g. in access to the Australian seasonal labor market or via training of professionals (health, education, TVET) to work outside the Province; and institutional innovation e.g. in law and justice/tribal fighting measures (Enga has been exceptionally successful in this, for instance). Community investment programs of extractives operations can be directed to such strategic development investments.

8. **Productive, cautious, well-managed engagement with the private sector, though partnerships, (and in rare cases) business arms and development corporations.** Private sector partnerships (such as that of Oil Search’s involvement with Hela health, or NBPOL’s ‘company town’ approach to partnership with West New Britain’s government) can significantly enhance a Province’s capabilities. (On the other hand, notwithstanding these partnerships, Hela people continue to hold strong grievances about the lack of good infrastructure in what should be a resource revenue rich Province.) In (very) rare places, standalone development corporations (provincial government business arms) have made a contribution – but in most cases it is difficult to plausibly include this as a positive exceptional area of provincial development (since they are usually sinks for provincial resources – East New Britain is probably the only exception here).

9. **An exceptional working political and executive relationship with other sub-national government agencies, including DDAs, PHAs, and LLGs.** As repeatedly stressed in this paper, current funds flow and wider political economy factors make such alignments very difficult to achieve. There are cases of better coordination, sometimes between Governors and individual District MPs (Morobe currently shows some positive signs in this). But even the strongest Provincial Governments struggle to keep DDAs interested in co-funding or even just coordination of programs, and even in Provinces which perform well on some levels, relations with District MPs can still be fraught, with each actively working against the others as rivals. Most likely, is the kind of fragmentation where all leaders just ‘do their own thing’.

As the paper has argued, many of the capabilities listed above are possible at the provincial level in ways that they are not at District or LLG-levels. Currently, the District and LLG both demonstrate the debilitating effects of centralized, top down government, aligned with patronage and the fusing of political and executive powers. (This is, however, in the absence of significant Organic Law reforms to enable Districts to function as much more politically and administratively accountable entities.) As has been emphasized, this does not mean that the political economy and institutional context at provincial level lends itself to capable government and effective service delivery – what is observed above are counter-trends not the main trend. But in the current context, the possibility for such counter-trends seems strongest in some of the better functioning Provinces (and among emerging City Authorities, which share some of the key advantages of Provinces in this respect), and far more limited at District and LLG levels.
5 Conclusion

5.1 Summary

As stated at the outset, the purpose of this paper is to articulate the understanding that the team has built up of the political economy and institutional context for sub-national PFM and service delivery in PNG, in order to understand what scope there is to utilize current reforms to PFM and sub-national governance to support better service delivery at sub-national level. After identifying key features and dynamics of the wider political economy and institutional context in which sub-national governments operate in PNG, the paper describes the structures, mandates and resources of sub-national government at LLG, District and Provincial levels, together with the incentives facing political leaders and officials at each level, and any counter-trends observed from the norms at each level.

The overall picture generated by the analysis is one of significant challenge: with institutional structures, electoral systems, resource arrangements and public-private sector relationships combining in such a way that public and private interests do not generally align. At the local level, for a variety of political economy, resource, and administrative capability-based reasons, most LLGs struggle to perform even a fraction of what was intended of them. As the level of government most proximate to the people, their limited capability and often narrow representational relations with local people arguably contributes to the ongoing undermining of the legitimacy and security of the state at the local level. At the District level, there is now an uneasy fusing of the two different domains (the District Administration, as a deconcentrated unit of the Provincial Administration with a focus on recurrent service delivery, and the DDA, with a focus on capital projects), typically without much by way of real incentives to coordinate. Then at provincial level there are Provincial Administrations, whose combination of a critical mass of public servants, technical capacity, public financial management systems and infrastructure, reasonably reliable and adequate resources for public service delivery, and relatively mild resource and power asymmetries with political leaders, gives them quite some potential for public administrative capability. The concentration of political accountability in the Governor, however, has reduced the likelihood of this potential being realized – outside of fairly exceptional circumstances.

For all this, it is clear that exceptional circumstances do exist in some instances, and that public administrative capability can be and is being built in such contexts. This can be the case in state and non-state authorities at any level and in any sector, but the analysis of this paper suggests that – among sub-national levels – it is most likely to occur at provincial level. At this level, there is more opportunity for particular types of leadership to come together with reliable resources (function grants and own-source revenue) and particular types of teams in the public administration, to yield public administrative capability around particular functions, which could be recognized and developed in a gradative way, as provided for in the constitution. For similar reasons, particularly with respect to own-source revenue, City Authorities and large Urban LLGs may have similar potential. As the paper has emphasized, current political and governance structures level do not make it particularly likely that public administrative capability and accountability will be built at provincial level, but it is more likely they will be built there than at other sub-national levels. Effective sub-national service delivery would depend not on provincial-level capability in isolation, but on provincial-level capability that can reach down to Districts and LLGs to actually enable public service delivery to occur there.
5.2 Reform options

As has been emphasized in this paper, PNG’s political economy and institutional context is not given or unchanging, but dynamic. In this final section of the paper, current reform processes and other emerging dynamics are briefly examined in light of the analysis in this paper, to indicate the likely feasibility of them yielding positive change in the current context, as well as to indicate the likely feasibility of the Bank engaging effectively in support of them.

Reform of the 1995 Organic Law on Provincial Governments and Local Level Governments

If the 1995 Organic Law is revised, the sub-national government system in PNG will enter a new phase. As the paper has indicated, the last such reform, in the 1995 Organic Law, made critical changes to accountability mechanisms at the provincial level, which effectively concentrated political accountability in Provincial Governors and weakened the potential for broader accountability of provincial governments to their populations, in turn reducing the potential for public administrative capability to be sustained at provincial level. The 1995 Organic Law also established a reformed local government machinery, in the form of LLGs, which have in most instances been unable to fulfil their mandate and perform the functions assigned to them, as a result of interrelated limitations imposed by political economy factors and resource availability. As the paper has shown, when combined with the impact of the 2014 DDA Act, the result has been a set of overlapping, hard-to-align mandates, along with political and resource rivalry underpinned by strong incentives to compete through patron-client relationships for vertical resource flows, and the lack of a strong basis for horizontal accountability loops with local populations.

For reform of the 1995 Organic Law to proceed, it would require support from a solid majority of District MPs. The reform could, for example, consolidate mandates, functions and funding for service delivery at the District level, with the District formally becoming a level of sub-national government. Building effective horizontal accountability mechanisms around such sub-national governments, while avoiding intensifying the competitive patron-client relationships that currently dominate sub-national governance, and supporting the development of significant public administrative capability in such sub-national governments, would be a challenge not to be underestimated.\footnote{See Fukuyama (2014), particularly chapters 5-7.} Whether – alternatively – mandates and functions could be assigned to Provinces, and horizontal accountability mechanisms built at provincial level, in such a way as to avoid the sub-national political and resource rivalry that is currently underpinned by incentives to compete for vertical resource flows through patron-client relationships, is also an open question.

It will be important for the Bank to keep informed of potential changes to the Organic Law, because the nature of any reforms that proceed are likely to have critical implications for sub-national government structures, functions, funding and accountability mechanisms. They would in turn have important implications for the potential for public administrative capability to be built and sustained in the sub-national government systems that emanate from the reformed Organic Law. The Bank has global expertise on decentralization reforms, which it could offer in order to provide PNG with comparative information to inform its organic law reform process over the medium term. The Bank’s recent engagements with decentralization reforms in the region suggest that critical success factors include the existence of reform champions and use of extensive consultative processes. With respect to reform champions, comparative
experience shows that achieving results in such significant reform areas as these is critically dependent on strong political commitment. With respect to consultative processes, comparative experience shows the importance of extensive, inclusive and credible consultation processes, particularly on potentially divisive issues. In its more immediate engagements at sub-national level in PNG, prior to such wider reforms proceeding, the Bank would obviously need to work within the existing framework.

More autonomy for (leading) Provinces

Another key dynamic in sub-national governance reform is pressure for greater provincial autonomy. Where autonomy pressures are strongest, Provinces tend to have natural-resource based industries, which offer large own-source revenue potential, and Provincial Governors tend to have significant influence in government formation at the central level, through the political parties they lead or dominate. There are exceptions, of course, with the claims of other strong proponents of provincial autonomy underpinned by very strong traditions of capable public administration, in conjunction with significant own-source (not necessarily resource-based) revenue. While District MPs dominate the national parliament numerically, the fragility of the central state means that provincial autonomy pressures should not be underestimated. Not only was a formal autonomy process agreed by the previous government, greater autonomy for leading Provinces is also occurring in practice on a piecemeal basis, both through specific arrangements negotiated by individual Provincial Governors, and through de facto measures taken by individual Provincial Governments.

Whether greater provincial autonomy would lead to a systematic improvement in sub-national service delivery would largely depend on whether such transfers of functions and resources occur within the existing system, or within a reformed sub-national government system. If the former, greater provincial autonomy would likely exacerbate the unevenness of service delivery capability across Provinces. A great deal would depend on the personal strengths and commitments of Governors, over time. For Provinces where Governors – whether driven by values or electoral strategy – require Provincial Administrations to have strong capabilities to deliver services across wide areas of the Provinces, have the resources to fund this capability, and hold the Provincial Administration to account for its performance, greater autonomy would likely result in improved service delivery. For Provinces where Governors are elected by and seek to serve fairly narrow support-bases concentrated in particular parts of their Provinces, greater autonomy would likely result in a reduction in the share of total provincial resources available to the Provincial Administration and a decline in the capability of the Provincial Administration to deliver services. In the current system, there are very few constraints on a Governor who does not focus on widespread service delivery – even if unseated at the next election, five years is a long time in which to weaken the capability of a Provincial Administration. For functional and resource reassignments to reliably yield better outcomes as part of the autonomy process, interrelated reforms would be needed to strengthen horizontal accountability mechanisms at provincial level (including reforms to current representative and governance structures, and supporting reforms to own-source revenue-raising powers).

As with the Organic Law reform, it will be important for the Bank to keep informed of potential new autonomy measures, because these reforms are likely to have critical implications for sub-national

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99 This is well established in the literature – see, for example, Bahl (1999).
100 See, for example, on Nepal: [https://www.c-r.org/accord/nepal/mapping-federalism-nepal](https://www.c-r.org/accord/nepal/mapping-federalism-nepal) and [http://constitutionnet.org/sites/default/files/concept_paper_restructuring_state_gtz_eng.pdf](http://constitutionnet.org/sites/default/files/concept_paper_restructuring_state_gtz_eng.pdf).
governance, service delivery capability, and accountability. The Bank’s global expertise on decentralization reforms could again be of value to provide comparative information to inform the autonomy reform process, over the medium term. In its more immediate engagements at sub-national level in PNG, prior to such broader reforms proceeding, the Bank would obviously need to work within the existing framework.

Reforms to vertical transfer and accountability systems

The system of function grants resulting from the RIGFA process has had remarkable achievements, in providing Provinces with constitutionally protected and reasonably reliable resources that account for their costs of service delivery and their capacity to earn other revenue. When combined with own-source revenue capacity, they are estimated to now cover the costs of basic service delivery in almost all Provinces. However significant the achievement to date, their full potential is yet to be realized, which could in theory be addressed as part of a long-mooted further review of intergovernmental financing.¹⁰¹ The cost of services estimate is of a (bare) minimum level of services associated with the functions and responsibilities assigned in the 2009 Determination of Service Delivery Functions and Responsibilities. The level of ambition of this (bare) minimum level of services used for this calculation could be revisited, to likewise increase the ambition of what function grants are aiming to cover over time. The cost of services estimate only covers the recurrent costs of providing those services, without provision for related capital investments, which could also be revisited in the next review of intergovernmental financing. In addition, while the system of function grants incorporates very well-designed controls, the incentives side of the system is less well developed. Beyond NEFC’s publicly-released reports on the use of function grants and ranking of Provinces, with a view to supporting peer and public pressure, there is little by way of incentives to use function grants well. At present, PLLSMA does not appear to serve as an effective vertical accountability mechanism for provincial (or LLG) performance. The next review of intergovernmental financing could thus also address the question of effective vertical accountability mechanisms for function grants. Finally, though NEFC monitors expenditure on services associated with the responsibilities assigned in the 2009 Determination, neither it nor PLLSMA seems to effectively monitor the outputs of that spending – in terms of services actually delivered. This gap in monitoring of actual service delivery probably reduces the likelihood that strong peer and public pressure to use function grants will develop.

Given their mandates, structures and accumulated expertise, NEFC has the potential to undertake an intergovernmental financing review addressing the above issues, and NEFC and PLLSMA have the potential to work jointly to link sub-national expenditure monitoring with sub-national service delivery monitoring. With adequate resources and access to additional specialist expertise to fill any gaps, these institutions would be well-placed to do this. Strong political leadership to drive the review would be essential for it to result in positive change, given that any significant reforms to the system of function grants – such as their expansion to include capital costs – would require parliamentary approval, and

¹⁰¹ As the paper has indicated, while Function Grants are almost always paid, they are not always paid on time, and this lack of reliability can undermine service delivery. It seems to be the case, however, that adverse impacts on service delivery result in contexts where late-received Function Grants are not rolled over at the end of the year into the appropriate vote for the previous year’s Function Grants, but are instead rolled over into a general vote, where they become available for any expenditure (contrary to the relevant Budget and Expenditure Instruction). In contexts where this Budget and Expenditure Instruction is followed, late-received Function Grants are still available for the relevant sector the following year, so on an ongoing basis (after the first year of inadequate resources), the rollover from the previous year offsets the late receipts in the current year.
thereby the support of at least a large minority of District MPs (in addition to that of Provincial Governors). The unrealized potential of PLLSMA to date, and the general lack of political attention to NEFC monitoring reports at present, suggests an underlying lack of such strong interest among current political leaders, but the situation is dynamic so that could change. In addition, there are changes that may be able to be made within the current legislative framework, under NEFC or PLLSMA leadership – such as to cost estimation methodologies, for instance, and to the monitoring and reporting of actual services delivered (not only expenditure made). Supporting demand for such changes – and for NEFC and/or PLLSMA leadership to institute them – as well as supporting the provision of any additional resources or specialist expertise that may be needed to achieve them, could be valuable where such changes would support concrete sub-national service delivery improvements.

**The various systems of SIPS are another area of vertical transfers where reforms to the transfers or to the associated accountability systems could occur.** Reform options that have been raised in political dialogue include constitutionalizing them (to reduce the potential for them to be withheld or significantly delayed to opposition MPs or Governors), equalizing them according to Province and District populations (instead of an equal amount being provided to each Provincial Governor and District MP, irrespective of population), or equalizing them according to a broader conception of need (akin to NEFC’s estimations of the different costs of delivering different kinds of services in different locations). Any of these changes would require parliamentary approval, which may be unlikely given that they would limit the ways SIPS can be used to sustain political pacts at the central level. Additional reform options include measures to require the alignment of SIP spending with the relevant sector plans and recurrent funding plans of the public administration, to achieve coordination between capital and recurrent spending. The first step in this kind of reform process has been taken by the current government, which has made sectoral allocations of SIPS (e.g. between health, education, and so forth) mandatory via a Financial Instruction. The degree to which this mandatory requirement will be enforced is yet to be seen, but the initiation of the change signals both a demand and a degree of momentum for reform. With the full rollout of the IFMS to District Finance Offices, it could be enforced through the configuration of controls in the IFMS. Again, it remains to be seen whether the government will utilize this potential, given that it would significantly decrease MPs’ and Governors’ discretion in the use of SIPS. The same is true for reporting on the use of SIP funds: presently, the funds are expensed in the government accounts when paid (rather than when spent), and the mandatory requirement to acquit the use of the funds is not enforced systematically. The IFMS could be used to report on actual spending instead. If these control and reporting options in the IFMS are utilized, it would be an open question whether governments would sanction Provincial Governors or District MPs who can be shown to have breached PFM regulations, but whose support may be critical to the longevity of the government. Still, even the publication of comprehensive information on actual spending from SIPS, which the IFMS makes possible, would allow greater public scrutiny and evidence-based commentary on SIPS than is currently the case, potentially giving more weight to the concerns voiced by citizens in the political arena, and helping to reinforce the reform momentum that is evident in initial moves to make the sectoral allocations of SIPS mandatory.

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102 In addition, there is the risk that a further round of legislative reform could have unintended consequences for function grants which, their limitations notwithstanding, remain a profound success of ongoing importance but one that is still vulnerable to being undermined.
PFM reforms

PFM reform at the central level is an area where there has been a consistently strong configuration of leadership in recent years. This has included consistent, strong leadership at senior officials level, support from political leaders even as these leaders have changed, and support from development partners in providing resources and high-level technical advisers to help formulate and implement the reforms. These reforms include the revision of the PFM legislative and regulatory framework, the revision of the procurement legislative and regulatory framework and the overhaul of procurement institutions, significant changes to the management of non-tax revenues across central government agencies and statutory authorities, and the rollout of the new IFMS to central government agencies, major statutory authorities, and progressively also sub-national governments. Each of these reforms has increased the potential for centralized control over financial management, procurement and revenue, by the central agencies of central government (and in a number of areas – including non-tax revenues – by a very small subset of senior officials and ministers). As in other instances examined in this paper (the concentration of provincial level political accountability in Governors, for instance), such a concentration of power can lead to very effective results in some circumstances, but be vulnerable to capture in others – with little scope to restrain the ill effects because of the underlying concentration (rather than balanced distribution) of power. To date, PFM reform momentum has not tended to extend to key oversight agencies, with the Public Accounts Committee fairly limited in its activities (though that has begun to change, after the most recent change in government), and the effectiveness and independence of the Auditor General’s Office made vulnerable by the executive having control over its budget.

A number of the PFM reforms that have been implemented in recent years offer platforms that could be utilized to strengthen sub-national service delivery and horizontal accountability mechanisms. That is, notwithstanding the potential for centralized control that they offer, these reforms have capabilities that can be put to the service of local control and accountability purposes. For instance, the configuration of the IFMS should enable District Administration expenditure of provincially-budgeted resources and – through District Finance Officers – LLG expenditure of provincially-budgeted resources. Not only does the IFMS offer Provincial Administrations enhanced capabilities to control and track their own expenditure, but also to reach down to enable expenditure by District Administrations and LLGs, expenditure that can still be controlled and tracked by Provincial Administrations. If accompanied by mechanisms to monitor actual service delivery outputs, the reporting capabilities of the IFMS could be used to underpin horizontal accountability mechanisms, by facilitating the availability of information on actual expenditure which could be read in conjunction with information on actual outputs. Another important PFM initiative that could be used to support sub-national service delivery and horizontal accountability is the Public Expenditure and Financial Accountability (PEFA) assessments that the Department of Finance is now supporting selected Provinces to undertake, with a view to formulating sub-national PFM reform plans based on what the PEFAs show. As long as the reform plans prioritize addressing PFM-specific constraints to effective service delivery and accountability, then the partnerships they could underpin between Provincial Administrations and the Department of Finance could be really important, if the latter lends its considerable technical expertise to support the former to tackle these constraints.

Supporting emerging ‘pockets of effectiveness’

As the analysis in the paper makes clear, against a background of generally declining public administrative capability, there are ‘pockets of effectiveness’ where capability is being built and
**sustained.** The sub-national settings where durable public service delivery capability is being built are primarily at provincial level. The delivery of basic public services does not of course occur primarily in provincial capitals, but within the territories of Districts and LLGs. But the locus where a critical mass of public servants, technical capacity, public financial management systems and related infrastructure, and resources for public service delivery can come together, with the potential to reach down to Districts and LLGs to actually enable public service delivery to occur there, is most often at the provincial level. In some Provinces, well-led teams of public administrators with an ethos of using inter-governmental grants and/or own-source revenue effectively for service delivery have developed and become more institutionalized. These teams demonstrate some capability to reach down to Districts and/or LLGs to enable service delivery to occur – especially in settings where Provinces have additional (well-managed) own-source revenues. Even in Districts or LLGs where local executive capacities and relations with constituents have been heavily clientelised, Provinces with strong public administrative capabilities have developed the necessary reach to ensure some degree of local service delivery. The provincial teams work with Governors who have some commitment to public service delivery and/or public administrative capability (or they are able to counterbalance Governors who would otherwise reach too far into policy implementation). And they – or more so their Governors – are able to reach up to central government to secure more of the resources, functions, support or autonomy that they need to operate effectively at sub-national level.

**The above should not be read as a suggestion that the provincial government context entirely lends itself to effective service delivery, or that it is governed by distinctly different political economy dynamics from central, District or LLG levels.** As the paper has indicated, the 1995 Organic Law reform weakened the political accountability of provincial governments and concentrated the accountability that remained in Provincial Governors, which has increased the potential for Provincial Administrations to be sidelined by Governors seeking to distribute patronage to narrow support bases through systems parallel to – or which even extract further resources from – Provincial Administrations. On the other hand, the 2008 reform that instituted function grants has provided Provinces with a relatively reliable resource base to work from (albeit not at a sufficient level to offer incentives to District MPs to cooperate with them in service delivery). More recently, the creation of PHAs has established provincial-level statutory authorities with relatively reliable resource bases for service delivery in the health sector. Even as the DDAs associated with District MPs have been provided with increasing grant resources and latitude to deliver services, Provinces have retained access to some key revenue flows (notably GST, but also in some places natural resource-based revenues), which in combination with a critical mass of public servants and technical capacity, have enabled somewhat more autonomous public administrative capabilities to develop in some instances. As a result, there are some Provincial Administrations where both a revenue base and service delivery capability exist or are being built. That capability is something that Districts and LLGs do not seem likely to attain without closer relationships with functioning provincial governments.

**By working with these ‘pockets of effectiveness’, where service delivery capability exists or is being built by progressive leaders, there is an opportunity to strengthen the underpinnings of that capability and enhance its effectiveness – including its ability to reach down to Districts and LLGs to deliver services.** That would require enhancing the capability of the relevant Provincial Administrations to control provincially-budgeted expenditure and achieve outputs aligned with budget priorities (including where that expenditure is executed by District Administrations and LLGs), building – among other things – on possible IFMS capabilities and existing NEFC expenditure monitoring. It would also require strengthening
the ability of the relevant Provincial Administrations to raise or secure the resources needed to fund their programs. Equally important would be strengthening horizontal accountability loops to help institutionalize the gains over time, by strengthening the ability of the public (as both public service users and taxpayers) or civil society representative bodies to monitor public expenditure and service delivery, and supporting platforms for their effective engagement with government. This would include tax bargain-based accountability mechanisms in conjunction with own-source revenue raising, to increase the material basis for horizontal accountability, as well as broader demand-side measures (including building on existing initiatives in PNG, like the open budgeting and social accountability tools that are in place in some locations). Of course, horizontal accountability measures are likely to remain fragile if they do not contribute over time to, or are not reinforced over time by, changes to broader political and governance structures at sub-national level, but the case and demand for positive change in those might be strengthened by concrete instances of initial progress in this area.

Sub-national own-source revenue is an area that central government (both at political and administrative levels) is advocating, and that sub-national governments are investing in. Its relevance is only likely to grow with movement toward greater provincial autonomy. In supporting provincial own-source revenue, there would likely be strong alignment with the interests of Governors and Provincial Administrations, therefore. Even without constitutional or legislative changes (as part of or separately from Organic Law reform and provincial autonomy moves), there is scope to work on own-source revenue at sub-national level within existing revenue-raising powers. In particular, as the East Sepik initiative is showing, working in conjunction with IRC, provincial support on the ground for increasing local compliance with the GST regime, which increases GST transfers to the Province concerned and to the central government, looks to be feasible both politically and administratively, and could be a priority area of support. Aside from Provinces, City Authorities and larger Urban LLGs may also have reasonable scope to rely more on own-source revenue, through effective taxation of their urban economies. While it is not clear whether they are being utilized effectively, LLGs have property tax powers, which global experience suggests can be particularly important for local government authorities in growing urban areas. The potential would need to be assessed, but it may be possible that a partnership between IRC, provincial governments and larger Urban LLGs, could support appropriate design and implementation of property tax regimes that complement (rather than generates excess tax burdens within) the overall tax regime. A focus on own-source revenue at provincial level (and potentially also among City Authorities and larger Urban LLGs) could be a useful complement to NEFC’s expenditure monitoring work (and ideally also output monitoring work). As part of NEFC’s mandate on fiscal management issues at sub-national level, it could help join the dots in these areas at provincial level, supporting attention to how increased own-source revenues could be translated into improved basic services.

103 Global experience is that wherever supervision and oversight is minimal and the power of taxpayers is weak – which would likely be the case in smaller Urban LLG settings (as well as all rural settings) in PNG – local taxation regimes readily become coercive and extractive, feeding revenue demands of local political leaders and their supporters. (See Moore et al (2018, 160-161.)
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