THE QUEST FOR GOOD GOVERNANCE:
A SURVEY OF LITERATURE ON THE REFORM OF
INTERGOVERNMENTAL RELATIONS IN PAPUA NEW GUINEA

coordinated by
Dr. Alphonse Gelu

Research Program on National and Subnational Governance in Papua New Guinea

NRI
The National Research Institute
First published in June 2008
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NRI Monograph 40

This report has been prepared as part of the Research Program on National and Subnational Governance at the National Research Institute, which has been funded by AusAID. It provides a guide to the broader literature on the central issues concerning the reform of the decentralized system of government in Papua New Guinea. The accompanying annotated bibliography presents official and unofficial documents.

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ISBN 9980 75 158 2
National Library Service in Papua New Guinea

ABCDE 201098

Printed by the NRI Printery

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FOREWORD

This report has been prepared as part of the Research Program on National and Subnational Governance at the National Research Institute of Papua New Guinea. It is the first in a series of research reports that have been designed to contribute to the policy debate on the improvement of governance in Papua New Guinea. As such, it lays the groundwork for future research on the central policy issues, and options for reform of the decentralised system of government.

Although this report takes the form of a literature review, it differs from the typical review of literature that is found in a thesis or empirical research report. It is not designed to lay the theoretical basis for research on a specific topic or hypothesis. It provides a guide to the broader literature on the central issues concerning the reform of the decentralised system of government in Papua New Guinea. It is designed to assist researchers in undertaking policy research on the improvement of this system.

The report has been designed to be used, and this has determined the content, structure, and presentation of this review, so that it is useful as possible. In order to plot the future direction of policy, it is important to understand the past. We must know where we have come from, if we are to plan where we should go. This is why the review of past efforts to reform the decentralised system occupies a central place in this review. The literature on the background and history of decentralisation in Papua New Guinea is also covered, as some researchers may not be familiar with it. Moreover, the literature relating to the central issues of decentralisation provides an agenda for future research on policy options for improving governance.

The review takes the form of an essay which discusses the literature, and is followed by an annotated bibliography. The essay does not provide a commentary or critique of the literature presented in the bibliography. It provides a summary of the context of decentralisation in Papua New Guinea that is covered in the literature, and covers background and history, efforts at reform, and policy options. The bibliographical references are extensively annotated, with the most important entries accompanied by full abstracts. Because of the importance accorded to official reports they are presented in a separate section at the beginning of the annotated bibliography.

In order to prevent any researcher from repeating past mistakes and from ‘reinventing the wheel’, all of the previous reports of commissions and committees of review have been included. They are annotated in such a way as to reduce the amount of time a researcher will have to devote to locating and consulting a series of dispersed and difficult to find documents. The bibliography contains an executive summary, an extensive abstract, and the integral recommendations of these reports. This will enable us to know where we have been, and how and why we got where we are now. It represents a reconstruction of the institutional memory that is often lost in setting out new policy options.

Dr. Thomas Webster
Director
### ACRONYMS

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<th>Description</th>
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<tr>
<td>ABG</td>
<td>Autonomous Bougainville Government</td>
</tr>
<tr>
<td>ACC</td>
<td>Anti-Corruption Agencies or Commission</td>
</tr>
<tr>
<td>CCAC</td>
<td>Community Coalition Against Corruption</td>
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<tr>
<td>CIMC</td>
<td>Consultative Implementation and Monitoring Committee</td>
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<td>CPC</td>
<td>Constitutional Planning Committee</td>
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<tr>
<td>DMC</td>
<td>Development Management Committee</td>
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<td>DPM</td>
<td>Department of Personnel Management</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>DSG</td>
<td>District Support Grant</td>
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<tr>
<td>ECP</td>
<td>Enhanced Cooperation Program</td>
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<td>EDA</td>
<td>Electoral Development Authority</td>
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<td>EDF</td>
<td>Electoral Development Fund</td>
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<tr>
<td>FFR</td>
<td>Full Financial Responsibility</td>
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<tr>
<td>ICAC</td>
<td>Independent Commission Against Corruption</td>
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<td>ICT</td>
<td>Information Communication Technology</td>
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<tr>
<td>JDPBPC</td>
<td>Joint District Planning and Budget Priorities Committee</td>
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<td>JPPBPC</td>
<td>Joint Provincial Planning and Budget Priorities Committee</td>
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<tr>
<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>MTDS</td>
<td>Medium Term Development Strategy</td>
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<td>MUG</td>
<td>Minimum Unconditional Grant</td>
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<td>NEC</td>
<td>National Executive Council</td>
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<td>OLPGLLG</td>
<td>Organic Law on Provincial Governments and Local-level Governments</td>
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<td>Public Accounts Committee</td>
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<td>PEC</td>
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<td>PDMC</td>
<td>Provincial Development Management Committee</td>
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<td>PIP</td>
<td>Public Investment Program</td>
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<td>PLLSMA</td>
<td>Provincial and Local-level Service Management Authority</td>
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<tr>
<td>PNG</td>
<td>Papua New Guinea</td>
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<tr>
<td>PP&amp;EC</td>
<td>Provincial Planning and Executive Council</td>
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<td>PPII</td>
<td>Provincial Performance Improvement Initiative</td>
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PREFACE

This is the first major publication under the auspices of the Research Program on National-Subnational Governance. It is designed as a contribution to the broader process of the review of the Organic Law on Provincial Governments and Local-level Governments.

The Research Program on National-Subnational Governance was established at the National Research Institute of Papua New Guinea in 2007. The overall objective is to design and conduct a comprehensive research program within the field of political governance in Papua New Guinea, in particular, relating to national-subnational governance arrangements and relationships. The ultimate purpose of the program is to contribute to the improvement of governance in Papua New Guinea through the carrying out of high-quality, relevant research, especially as it relates to provincial and local-level governments, and the relationship between the national government and these subnational units.

This publication contains a review of the literature and an annotated bibliography of the literature on the history of decentralisation, on past efforts at reform, and on major issues relating to intergovernmental relations — provincial autonomy, funding of provincial governments, provincial powers, intergovernmental relations, and so on. All of these issues feature prominently on the present agenda for reform. The detailed history of previous attempts at reform provides a sound basis for policy making within the present context of the restructure of decentralised government in Papua New Guinea.

This literature review and annotated bibliography provide a documentary basis for researchers involved in the reform of intergovernmental relations in Papua New Guinea. It will be made accessible to researchers and policy makers involved in the present and future process of the restructure of decentralised government. This initial publication from the NRI Research Program on National-Subnational Governance will be followed by a series of working papers dealing with the broader issues of the contemporary debate on the reform of intergovernmental relations.

These will include the review of intergovernmental financing arrangements and the restructure of decentralised government in Papua New Guinea; the policy process for considering options for the restructure of decentralised government; East New Britain provincial autonomy; Hela and Jiwaka provincial status; the District Authorities Act, and the Public Sector Reform Advisory Group proposals.

Dr. Alphonse Gelu, and
Professor Andrew Axline
ACKNOWLEDGEMENTS

The National Research Institute gratefully acknowledges the support provided by AusAID in the establishment and continued operation of the Research Program on National-Subnational Governance.

The Institute would also like to acknowledge the cooperation and support of other stakeholders who offered assistance in carrying out this project, especially the Department of Provincial and Local Government Affairs and the National Economic and Fiscal Commission.
CHAPTER 1: INTRODUCTION

The distribution of political and administrative powers among levels of government is a common practice in modern states today. The reality of framing proper mechanisms which could allow for the most effective and efficient ways to govern has taken up considerable time for modern states. Whether a political system is democratic or not, the distribution of powers away from the centre is seen as one way of maintaining the legitimacy and control of the central government.

The distribution of powers away from the centre usually rests on the creation of lower-level governments, which empowers them to maintain control over their territories, but still remain subject to the authority of the central government. For modern states, the distribution of powers may be done in several ways. For example:

- certain powers may be distributed, while supreme powers remain with the central government, in what is termed a unitary system of government; or
- significant powers may be distributed to lower levels of government, which may play a coordinating role with the central government. This structure constitutes a federal system of government whereby both levels of government may share complementary roles in carrying out their functions.

In most democratic states, powers have been distributed under three main categories — a unitary system, a federal system, and a con-federal system. Under each of these categories, the relationship between the national government and the subterritorial units varies, as do the powers of each levels of government.

For democratic states, the distribution of powers contributes positively to the advancement of certain basic democratic practices, including the empowerment of citizens to engage in political activities. This process allows the people to feel as though they are influencing public policy. Moreover, distributing powers allows the institutions of government to be located closer to the people. The distribution of political powers involves the creation of subnational governments, and their location enables the citizens to have closer interaction with these institutions.

Decolonisation and Decentralisation

Since becoming a sovereign state, Papua New Guinea has recognised the importance of establishing subnational governments. The subnational governments that were established after the passing of the Organic Law on Provincial Governments (OLPG) followed the administrative arrangements that were established during the colonial period, by the Australian administration. In each locality, which was known as a district, an urban town for that district was established, and under the districts were local government councils.

When decentralisation became a policy of the Somare Government in 1976, the districts became provinces. Under the provinces, districts were created, and under the districts, local government councils were established. However, the local government councils took on a new outlook, as some provinces decided to create their own form of local-level governments. In the process, local-level governments vanished, either deliberately, or were ignored.
2 The Quest for Good Governance

As a result, there was confusion as to the link between the provinces and districts and the form of local-level government that was in place. This confusion led to the inability of the provincial governments to effectively deliver services to the people, the majority of whom live in the villages. As a result, the successive governments came to realise that the decentralisation policy which was in place was not effective because the objectives of decentralising powers were not fulfilled under such circumstances.

Since its inception, the system of decentralisation in Papua New Guinea has generated a great deal of discussion. It has been the subject of extensive political debate as to its form, or the need for its very existence. Discussion of decentralisation has generated an impressive body of literature, and its evolution has been conditioned by a series of attempts — some successful and some not — to amend and improve its form. The documentation generated by this debate and discussion is voluminous and dispersed, and sometimes not easily accessible. This survey has been designed to make that literature more accessible, in order to provide a foundation for further research aimed at improving subnational governance in Papua New Guinea.

The Purpose of the Literature Review

This report is based on a bibliography of the literature on decentralisation. It provides a summary of the broad themes found in the literature on national and subnational governance in Papua New Guinea. While it aims to be broad in its scope, and is supported by an extensive annotated bibliography, it does not cover the entire body of literature on decentralisation. The literature review is designed to serve as a basis for those who wish to make a contribution to the improvement of governance, by basing policy options on sound research and a firm knowledge of the past history of intergovernmental relations in Papua New Guinea.

The bibliography is designed to be comprehensive, but not exhaustive. It is a selective bibliography in that it does not purport to cover everything written on decentralisation and provincial governments, but it does aim to intensively cover a representative portion of that literature. As such it captures all the major topics and themes related to decentralisation, and includes the most important contributions to that literature. This selective approach to the literature has two advantages:

- it avoids the problem of providing a bibliography that would be so large and cumbersome that it would overwhelm the user by offering an undifferentiated abundance of sources, without any guide as to which items are more relevant and useful; and
- it permits the literature review to focus on the central issues which underlie its raison d'etre that is, providing a basis for policy decisions aimed at improving national and subnational governance.

A core feature of this comprehensive bibliography is that it is problem-oriented, and provides a focus on the central issues related to the improvement of the decentralised system of government. The literature review is organised around those issues, and the bibliography is weighted in favour of capturing all of the relevant works on topics related to those issues.
The Organisation of the Review

The structure of the literature review is based on the organisation of the bibliography around the principal problems and issues relating to national and subnational governance.

Initially, in order to be comprehensive, writings on the background, history, and origins of decentralisation in Papua New Guinea have been included. This literature provides an understanding of how the present system came to be, and reveals how some of the contemporary problems and issues were foreseen in the period leading up to the creation of provincial governments. A broad coverage of the literature on the background, establishment, and history of decentralisation in Papua New Guinea is included in the bibliography. The central thrust of that literature is summarised, and the major works on the topic are extensively annotated in the bibliography. This comprises the first section of the literature review.

The major contribution of the literature review and the bibliography lies in the coverage of the long and chequered history of attempts to revise and reform the decentralised system of government. This topic is covered in detail, and is based on an effort to include all of the reports generated by the formal committees, commissions, and working groups that have been mandated to conduct such reviews. Often, this involved obtaining 'lost' documents that were no longer in official files or public libraries, and could be found only in a box in a researcher’s cellar, or in a computer file.

This documentation has been included in the bibliography, with an extensive abstract, as well as the full text (paraphrased, when necessary, to eliminate legalistic verbosity) of all of the recommendations of these reports. In addition to this, an attempt has been made to provide a comprehensive coverage of the literature generated around the reform efforts, either as part of their preparation, or as a commentary on their proposals. The second section of the literature review represents the major focus of the exercise.

In order to provide a basis for the generation of future options and proposals for improvement of national and subnational governance, the literature review highlights the major issues and problems related to the functioning of the decentralised system today. The third section of this report provides a discussion of some of the major issues and problems facing decentralisation, and provides a bibliographical background for further research on those topics.
CHAPTER 2: BACKGROUND AND ESTABLISHMENT OF DECENTRALISATION

This chapter provides the history and background of the establishment of provincial governments, as a general guide to the literature on that topic. An examination of the literature on the establishment of provincial governments reveals the extent to which the issues that were raised still play a major role in the ongoing debate over the existence, nature, and operation of the decentralised system.

Papua New Guinea is a post-colonial state which attained its independence on 16 September 1975. Many of the institutions that were in place prior to independence were established by the colonial administration to provide a means of governing the colony. The means of governance were based on the system of government that was introduced by the colonial administration, and with which the colonial administration was familiar. The decentralised system of government that was established reflected the structures that were in place at the time of independence. They also reflected the state of thinking about development and the particular geographical and ethnic realities of Papua New Guinea at the time (Premdas 1985).

Decentralisation and Development

Decentralisation serves many objectives, including:

- the reduction of overload and congestion in the channels of administration and communication;
- management of national economic development more effectively and efficiently;
- improvement in the ability of central government officials to obtain better, and less suspect, information about local and regional conditions;
- planning of local programs more responsively; and
- more rapid reaction to unanticipated problems that arise during development.

Moreover, decentralisation is seen as a way of mobilising support for national development policies by making them better known at the local level. Decentralisation is also seen as a way of creating a larger number of skilled administrators, and most importantly, as an ideological principle that is associated with objectives of self-reliance, democratic decision making, popular participation in government, and an accountability of public officials to the citizens (Rondinelli 1981).

Self-reliance, democratic decision making, popular participation, and accountability are all important elements of the democratic process. Decentralisation is a democratic principle which sustains the operation of these ideas in a modern state. Rondinelli (ibid.) defines decentralisation as ‘the transfer of responsibility for planning management and resource raising and allocation from the central government and its agencies to:

- field units of central government ministries or agencies;
- subordinate units or levels of government;
Background and Establishment of Decentralisation

- semi-autonomous public authorities or corporations;
- area wide, regional, or functional authorities; and
- non-governmental, private, or voluntary organisations’ (ibid.).

A number of advantages are attributed to decentralisation, including:

- it can make the implementation of national policy more effective by delegating greater responsibility to local officials for tailoring development projects to local conditions and needs;
- it will allow local officials to cut through the enormous amounts of red tape and the highly bureaucratic procedures that are characteristic of planning and administration in developing nations, and which result, in part, from the overconcentration of power, authority, and resources in the central government; and
- by decentralising development functions to the field offices of ministries, or to subordinate levels of administration, more public officials can become knowledgeable and sensitive to local problems and needs, because they will be working at the level where these are most visible and pressing.

Closer contact between local populations and government officials may also allow the latter to obtain better information in order to formulate plans and programs that could be obtained in the national capital. Decentralisation may also increase political and administrative support for national development policies at the local level, where the government’s plans are often unknown by the local population or are undermined by local elites, and where support for the central government is often weak.

Decentralisation can promote national unity by giving different groups in the country the ability to participate in planning and decision making, and increasing their stake in maintaining political stability. Decentralisation is also prescribed as a way of increasing the efficiency of central agencies, by relieving top management of routine, detailed tasks that could be more effectively performed by field staff or local political leaders who can plan more carefully, and support implementation more effectively.

In the Papua New Guinean context, Conyers (1976) presents a number of reasons for justifying decentralisation. One of the most important reasons is the need to increase popular participation in the decision-making process, partly because such participation encourages a sense of involvement in, and commitment to, local development programs, and partly because, in many societies, it is regarded as a basic human right which was denied to most people under colonial rule.

Another reason is that of great regional diversity in many newly independent nations, that makes it necessary to consider the individual needs and problems of each region, and which, in some cases, leads to the exertion of pressure for greater autonomy from some regional groups. It is also hoped that decentralisation will improve the quality of regional development planning and implementation by reducing the need for communication between the centre and the regions by improving coordination between departments at the regional level. This is particularly important because physical and tele-communication are usually poor quality, adding to the delays inherent in the bureaucratic system.
On the other hand, there have also been strong pressures in favour of maintaining, or even intensifying, the existing centralised structure (Conyers 1976). If decision-making power is concentrated at the centre, it is easier to introduce the rapid social and economic changes required in most newly independent states. Also, it is usually a more economical use of scarce financial and manpower resources. Decentralisation by itself is not enough to counteract the effects of the colonial system, especially if its introduction is hampered by lack of money and skilled manpower. An inefficient decentralised system may be no more democratic – in the sense of engendering popular participation – or effective as a means of executing development programs than the inherited centralised system. In fact, it may be even less so. Moreover, if too much or the wrong sort of power is devolved to regions, decentralisation may lead to demands for secession from the stronger regional groups (Edmiston 2002).

One of the most common reasons for maintaining the existing system is the resistance to change within this system. This is partly because of the practical problems of designing and implementing any major reorganisation, but also because of the reluctance of those in control of the system to relinquish any of their power and influence.

Decentralisation in the Papua New Guinean Context

Representative institutions were first established in Papua New Guinea in 1950 with the creation of local government councils. The introduction of local government councils was the first attempt by the colonial administration to create an institution that was political in nature by way of it being representative and based in a particular locality. These councils paved the way towards democratising a nation that was very diverse in culture and had no traditional, uniform forms of administration. This event signalled the beginning of political decentralisation in Papua New Guinea.

In terms of the administration of the Territory of Papua and New Guinea, government in Papua was initially divided into divisions, until 1951, each with its own resident magistrate — a pattern laid down by Governor William MacGregor in the late 1880s. Divisions were subdivided into smaller parts, under the control of assistant resident magistrates, and supported by patrol officers. In the Territory of New Guinea, the administrative units were called districts. The officials were called district officers, who had assistant district officers and patrol officers under them in subdistricts. After the Pacific War, the unified Territory was divided into eighteen administrative districts, each progressively subdivided into subdistricts (79 by 1969), as administration became more intense (Moore 1998).

The passing of the *Papua and New Guinea Act* (1949) and the *Native Local Government Councils Ordinance* (1949-1960) paved the way for the full establishment of local government councils in the Territory. The first local village councils were established on the Gazelle Peninsula of New Britain, at Hanuabada Village in Port Moresby, and on Baluan Island in Manus District (ibid.). In 1954, these village councils officially became local councils. Village constables were attached to council areas that were responsible for law and order, and became known as local constables. Local councils were responsible for collecting all direct taxes that were imposed on the indigenous people, and were able to make and administer regulations on everything, from gambling and community work, to controls on
Background and Establishment of Decentralisation

The operation of the local councils was greatly affected, and to some extent, was undermined by Papua New Guinea attaining its political independence in 1975. The system of government and the means of distributing political and administrative powers failed to integrate the local councils into the mainstream of decentralisation. As a result, local councils lost favour with the people and the community at large. When the government introduced the decentralised system, it failed to consider the location of local councils and the extent of their acting as a form of government which had political and administrative capabilities.

Following self-government in 1973, the government emphasising the importance of decentralisation. The third of the Eight Aims that was agreed upon before self-government was “decentralisation of economic activity, planning, and government spending, with an emphasis on agricultural development, village industry, better internal trade and more spending channelled to local and area bodies (Hinchliffe 1980). The Eight Aims were taken as policy guidelines that outlined the general direction which development efforts should take (Axline 1986). This was important because it marked a significant change in development policy — emphasising full participation by Papua New Guineans, rural development, and equal access to goods and services — and the emergence of some sense of Papua New Guinean identity and ideology (Conyers 1976).

The Constitution of Papua New Guinea, which came into effect in 1975, set out five broad National Goals, and included the basic principles already agreed upon in the Eight Aims. The Second National Goal is “all citizens should have an equal opportunity to participate in, and benefit from, the development of our country”.

There are two main reasons for the decentralisation of government in Papua New Guinea — political and administrative (Wolfers 1985). The political reason is that decentralisation allows more people to participate in decision making and the development of the country, which is part of the Second Goal in the Constitution. In a centralised system of government, all decisions are made by a few — the politicians at the national level. All of the voting people in the country had some say in the selection of national politicians, but they had no direct involvement in the formulation of government policies, or influence over decision-making processes.

The administrative reason is that decentralisation should improve the way in which decisions are implemented in the provinces and districts. Decentralisation, by way of enhancing administrative processes, allows for the coordination and streamlining of the public service and making it more responsive to the local needs of the people.

The introduction of provincial governments in Papua New Guinea was the main mechanism through which the national government implemented its aim of decentralisation. Decentralisation meant that leaders at the provincial level, and later community level, would make many decisions which affected them and their people. The need to decentralise powers was quite evident in the characteristics of the country itself — its geographical make-up and the great diversity in culture and
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language. As stated by Peasah (1994), if decentralisation was unknown anywhere else in the world, Papua New Guinea would have had to invent it. Other factors behind the push for decentralisation in Papua New Guinea included overhauling the colonial rule apparatus, promoting greater participation of people in government, increasing governmental accountability, and rendering decisions on policy and administration speedier and more responsive to local needs or wishes.

The colonial administration faced this situation and was able to establish a governmental structure that reflected this diversity. The movement towards self-government saw the greater need for decentralisation, based on the existing structures that were introduced by the colonial administration. However, the circumstances that led to urgent political action on the question of decentralisation arose out of the secessionist movement in Bougainville (Ghai and Regan 2001).

The Bougainville Agreement

The real test for a united Papua New Guinea surfaced soon after Papua New Guinea was granted self-government in 1973. The new government of Chief Minister Michael Somare became embroiled in a political situation which resulted in a sporadic declaration of independence and moves for secession by different groups in the Territory. The most significant group fighting for separation from Papua New Guinea was the Bougainville movement, which was responsible for determining the course of decentralisation in Papua New Guinea. The reality was that decentralisation had become a viable alternative, because the richest province (Bougainville) had attempted to secede, and decentralisation was the price it demanded for ending secessionist movements (ibid.).

Bougainville declared itself independent on 1 September 1975, sixteen days before Papua New Guinea became independent. For Bougainvilleans, the declaration of independence marked the end of one struggle to gain some form of their own identity, and the beginning of another. For many years, the Bougainvilleans had been unhappy with their position within a united Papua New Guinea, and had considered the possibility of either a partial or a complete separation. When the concept of provincial government was introduced, they saw this as a possible alternative to secession, and when the Bougainville Provincial Government was formed, it seemed that this governance mechanism would serve that purpose adequately.

There were several reasons that led to the threat of secessionism, and eventually, the unilateral declaration of independence for Bougainville:

- its geographical position, as part of the Solomon Islands;
- the identifiable physical characteristics of the Bougainvillean people;
- the cultural sophistication resulting from longer contact with the outside world;
- the feeling that Bougainville had been neglected by Papua New Guinea, until the discovery of valuable mineral resources on the island; and
- the desire to retain the profits from the copper mine within Bougainville (Ghai and Regan 2006).
The search for identity and autonomy in Bougainville can be attributed to a combination of factors (Regan and Griffin 2005). Some factors, such as the existence of the mine, are unique to Bougainville, but many are common to several other districts. Bougainville was already pushing for some form of decentralisation, and wasted no time in putting a Constituent Assembly together, as soon as they were given permission by the national government.

As decentralisation occurred in Bougainville, following the establishment of the Constituent Assembly and later the provincial government, the need for the transfer of administrative powers became obvious and necessary. One of the most important aspects of the establishment of the provincial government — but also one of the most difficult — was the reorganisation of the district’s administrative structure. It was necessary to develop a satisfactory working relationship between the provincial government and the administrative staff in the district, and to arrange with the central government for some decentralisation of authority from departmental headquarters to the provincial government.

The main feature of the new structure was a team approach to development. It was assumed, at that time, that most public servants in the district would eventually be responsible to the provincial government rather than to the departmental headquarters for all, or most, district matters, in order to give the provincial government some control over its staff, and to enable staff to work as a team, rather than as individual departmental representatives. The second feature attempted to introduce greater flexibility in the creation of new posts and the movement of staff within, and between, the existing departments. The aims were for jobs to be based on the work which was supposed to be done, rather than on official establishments, and that people should be engaged more on the basis of their ability and inclination, rather than their seniority, academic qualifications, or departmental affiliations.

However, the new administrative structure was never officially recognised, and it disintegrated when negotiations between the central government and the provincial government broke down in mid-1975. During the short time in which it was in operation, it had a remarkable impact on the quality of development planning and implementation in the district. The experience of the administration in Bougainville complemented the rationale behind the decentralisation policy. It could have been transplanted to other provincial governments, many of which faced greater difficulties in the areas such as planning and implementing projects in their respective provinces.

There were several positive outcomes in the establishment of the administrative structure in Bougainville. Initially, planning was being done in an integrated manner, rather than on a sectoral basis, as in the past. Coordination between departments, which had been almost non-existent, became far better than that in most other districts, and there was a real team approach among the members of the district and subdistrict development teams.

Moreover, the improvement in implementation was even more dramatic. The use of time, manpower, and money became more efficient, resulting in projects being carried out quickly, efficiently, and in some cases, at lower costs. As a result of the positive improvement in the quality of development in the district, there was a very
noticeable increase in the morale of public servants. There was a spirit of enthusiasm and optimism among both national and expatriate staff which was sadly lacking in other districts and in Port Moresby, at the time.

Despite the improvement in service delivery in Bougainville, because of the new administrative structure, the reorganisation was never officially recognised. Most people in the department’s headquarters had not approved the changes, and many were probably not even aware that they had been made. The system was operating on the basis of trust, fear, or ignorance, rather than any official arrangement.

The central government was either unaware of what was going on or chose not to interfere, while at the district level, staff took the initiative and ignored or bypassed instructions from headquarters. Inevitably, the system collapsed in mid-1975 when relations began to deteriorate, and secession became a possibility and finally a reality (Conyers 1976). Funds to the provincial government were cut off and many projects came to a standstill, forward planning became impossible because of the political uncertainty, the old suspicion between politicians and public servants returned, and morale among public servants was as low as it had ever been.

One of the more important aspects of the creation of the Constituent Assembly and eventually, provincial government, on Bougainville was the financial arrangement between the central government and the provincial governments. The negotiation of financial arrangements between the central government and the provincial government was divided into three parts:

- the recurrent (or operating) expenses of departments in the districts;
- royalties from the mine; and
- normal capital expenditure for capital works, minor new works, and the rural improvement program.

The initial establishment of provincial government in Bougainville was a disappointment. It resulted in a complete breakdown in relations between the central government and Bougainville, which lasted for several months. This was unfortunate because, at one time, it appeared as if the provincial government would be highly successful, as a means of satisfying demands for local autonomy as well as improving the quality of development planning and administration at the district level.

Both the central government and Bougainville were pleasantly surprised by the progress that was made, and if only the central government had been able to follow through the decentralisation of administrative and financial responsibilities, Bougainville might have become a model district. Unfortunately, the experience in Bougainville led to the removal of provincial government from the Papua New Guinean Constitution, and the adoption of a more cautious and confused approach to decentralisation in the country as a whole.

The Constitutional Planning Committee

One of the most important decisions that the Somare government made was the formation of a Constitutional Planning Committee (CPC). The committee was
announced in June 1973, and comprised all the parties in the House of Assembly. The CPC was tasked to make recommendations for a Constitution for full internal self-government, with a view to eventual independence. In making its recommendations, the CPC was to consider such matters as:

- the system of government;
- central, regional and local relations;
- relations with Australia;
- control of the public service;
- an ombudsman;
- a bill of rights;
- protection of minorities;
- citizenship; and
- constitutional review (Hegarty 1998).

The creation of the CPC paved the way for detailed discussion of the possible relations between the national government and lower-level governments. Soon after the creation of the CPC, the Minister for Local Government, Boyamo Sali, established a number of ‘area authorities’ which were to be the forerunner to a form of district government (ibid.).

From the outset, the CPC identified sentiments relating to the role of the people in government. The CPC stated that it was the deep yearning among the people for a greater say in the conduct of their affairs. Opportunities had to be provided to enable the people to participate meaningfully in those aspects of government that directly concerned them (Constitutional Planning Committee 1974).

In the Second Interim Report of the CPC, the members described the system of government in Papua New Guinea as ‘highly centralised and bureaucratic’. Two experts expressed similar sentiments when they stated that ‘in our experience of political systems in Asia, Africa, and the Caribbean, we have not come across an administrative system so highly centralised and dominated by its bureaucracy’ (Tordoff and Watts 1974). It was on this basis that the CPC recommended a system of decentralisation for Papua New Guinea.

In its deliberations, the CPC recommended bringing the government closer to the people, as one of the main reasons for having and establishing a system of decentralisation. Decentralisation would make government services more accessible to the people and would make government more responsive to local wishes and needs. It was felt that government activity in the districts would also become more effective, if it was brought under local political control.

As well as receiving submissions on the proposed relationship between the national and local-level governments, the CPC received what it termed a ‘counter proposal’ to the national-local-level government arrangements. One of the main counter proposals was for some form of regional government for Papua New Guinea. The proposal was similar to that of the CPC in that it was seen as a way of dismantling the existing system of government. However, the CPC believed that the proposal did not adequately address the need for a stronger system of decentralisation.
In the face of those who advocated a regional system of government or favoured a federal system, the CPC maintained its position on establishing a unitary system. Apart from their reservations about a regional system of government for Papua New Guinea by the CPC, other contributing factors that the CPC raised included the difficulty in identifying the boundaries of regional governments. There would still be great diversity within a regional system, which would be a hindrance to a united Papua New Guinea, and the establishment of regional governments would negate the efforts of nation building.

The concept of district government proved to be one of the most popular subjects for discussion at the public meetings, and strong support for some sort of district government quickly emerged. In its first interim report, the CPC stated that a clear majority view already seemed to have emerged on four issues — one of which was that a system of district government should be introduced with greater powers for districts than those vested in area authorities — in other words a call for decentralisation (Constitutional Planning Committee 1973a).

The second interim report of the CPC confirmed the support for decentralisation, and outlined the form which it should take. The committee advocated a unitary government structure, but with substantial political and administrative decentralisation (Constitutional Planning Committee 1973b). It was felt that administrative decentralisation on its own, which had been advocated by some people who feared the consequences of political decentralisation, would not be sufficient because it would not give people effective control over their own affairs. It recommended the introduction of elected governments in the districts, with specific powers prescribed in the Papua New Guinean Constitution, and an administrative reorganisation which would allow district public servants to work for the district governments, while remaining part of a national public service. It proposed that the members of the district governments should be elected directly rather than indirectly, through the council system, so that membership would be open to persons other than council nominees. Consequently, the members would be more responsive to the needs of their electorates, thereby overcoming some of the major deficiencies of area authorities.

There was wider support for decentralisation, as contained in the report by the CPC. The support was more evident in the districts, where both public servants and district politicians were strongly in favour of some sort of decentralisation most politicians supported the idea of elected governments that had greater powers than the existing area authorities. However, some public servants were more dubious about the idea of political decentralisation, fearing that provincial governments would be like area authorities, but with more power (Conyers 1976).

An important line of thinking developed which contributed to mixed feelings relating to the introduction of provincial governments, and definitely had an impact, after provincial governments were established. Initially, the concept of provincial government did not arouse much concern among Ministers and senior public servants, as it was regarded as something which was necessary because the country was committed to decentralisation, and it would not have any great personal effect on them. However, as more thought was given to the meaning and implications of provincial government, as envisaged by the CPC, they began to realise that it could
have a significant impact on the central government. Subsequently, feelings of apprehension, and in some cases opposition, began to emerge. These initial reactions affected the performance of provincial governments and their relationships with the central government, soon after their formal establishment in all the provinces.

A relatively low level of priority was given to the establishment of provincial governments. The first step was set up an interdepartmental committee to decide which functions could be handed over to provincial governments, if and when they were established. Representatives from each department were interviewed and their functions divided into three categories:

- ‘A’ functions, which should remain the responsibility of the central government;
- ‘B’ functions, which could be handled by either the central or provincial government; or
- ‘C’ functions, which could be handed over to the provinces.

In many cases, it was this exercise which aroused the fears and misgivings among Ministers and senior public servants, as it was often the first time that they had seriously considered the implications of provincial government. A list of functions, referred to as A, B, and C functions, was published as a preliminary report early in 1974, and was later included as an appendix to the final report of the CPC. The list provided the basis for the eventual division of powers between the levels of government (ibid.). The list was somewhat restrictive because it was confined to the present functions of government, and left no scope for addition or adaptation to meet changing conditions. Nevertheless, it was a start, and provided the basis for further discussion and negotiation.

Deficiencies in this division of powers had a serious impact on the operations and performance of the provincial governments soon after their establishment. From 1976 to 1995, there was continuing widespread confusion over the roles and responsibilities of national agencies and provincial governments. The transfer of staff and functions also remained unclear and this had a huge impact on service delivery in the provinces. One of the major issues relating to staff transfers was in the area of training. Many public servants who were stationed in the provinces could not further their skills and knowledge because training, which was a national function, was only given to those public servants working in Port Moresby, while those in the provinces were left out.

Two consultants, William Tordoff and Ronald Watts, were engaged to assist in preparing for the establishment of provincial governments. The consultants made recommendations concerning the political, administrative, and financial organisation of provincial governments, using the CPC’s recommendations as a basis, and outlining three phases of decentralisation. These three phases could be regarded either as stages in a process of phased decentralisation, or as alternative ultimate arrangements (Tordoff and Watts 1974).

The report was of particular value to the debate on provincial government because it provided guidelines for the organisational aspects which the CPC members had no time or expertise to consider thoroughly. Also, by proposing alternate forms
or stages of decentralisation, it helped to bring together the conflicting forces for and against provincial government (Conyers 1976).

From the very beginning, there was suspicion between the central government and the CPC, and this had an impact on the preparedness for the establishment of provincial governments. Another problem was the lack of a clear central government policy on provincial government, mainly because of disagreements within the Cabinet on the form of provincial government. The government was preoccupied with other matters such as self-government and independence, and did not have time to give serious consideration to provincial government.

The final report of the CPC was not readily accepted. When the CPC issued the preliminary draft of its final report, it became obvious that there were several issues on which there was disagreement between the government and the CPC. Provincial government and citizenship were the major areas of dispute. In response, the government prepared a White Paper outlining alternatives to the CPC report. The CPC’s proposals for the provincial government in its final report were basically the same as those in its second interim report, but with additions such as the list of A, B, and C functions, and the proposals for financial and administrative organisation that had been proposed by Tordoff and Watts. The main changes proposed by the government were designed to make provincial governments less powerful, and to introduce greater flexibility into their design and establishment.

A system of devolution of power by an Act of Parliament was favoured by the White Paper. Conyers (1976) provided a detailed interpretation of the White Paper’s counter-proposal, which stated that the Constitution should only include basic principles concerning the establishment of provincial governments and their relations with national and local governments. The details of their powers, functions, financial arrangements, and administrative organisation, which the CPC proposed should be laid down firmly in the Constitution, would be incorporated in ordinary legislation, and enacted by the national parliament as soon as practicable. It was also proposed that the Constitution should clearly state that an Act of the national parliament shall be superior to any provincial legislation, and that the responsibility of local government councils should remain with the central government, instead of being passed to the provincial governments, as the CPC recommended.

Only the basic principles concerning provincial government would be included in the Constitution. It was decided that the details of powers and organisation would be incorporated in an Organic Law, which would be more difficult to change than an ordinary law, and would be passed by parliament at the same time as the Constitution. A compromise was also reached regarding local government, with agreement that the responsibility for local government councils, including their formation and dissolution, rested jointly with the central government and provincial governments (ibid.).

After these changes had been made, the draft was sent to the legislative draftsman to make the final changes, who then forwarded it to the parliament to be passed. Despite this, there were still some outstanding disagreements between the government and a group known as the Nationalist Pressure Group. The government was assisted by Professor Watts and Professor Lederman, who were funded by the
Commonwealth Secretariat, and they managed to produce a draft of the Organic Law which was to be acceptable to both groups (Watts and Lederman 1975).

Their report proposed that provincial governments should be able to make laws concerning a wide range of provincial affairs, including agriculture and rural development, business, health, primary and secondary education, rural and urban land use, transport, capital works, traditional law and custom, provincial and village courts, and local and village government, provided that these laws did not contravene any existing or subsequently enacted national laws. The provincial governments would also have the authority to execute any provincial law, although all public servants would belong to a national public service, and executive authority could be delegated from a provincial government to the national government, or vice versa.

With respect to financial arrangements, it was proposed that the provinces should be able to levy a limited number of taxes. They should also receive the proceeds of certain taxes levied by the national government. In addition, the national government should give the provinces sufficient unconditional grants — and where appropriate, conditional grants — to enable them to operate efficiently. The amount of the grants to each province would be determined by the National Executive Council (as the Cabinet would be known after independence) on the advice of an Inter-Governmental Fiscal Commission. These arrangements became the underlying basis for funding provincial governments under the Organic Law on Provincial Government (OLPG). The Watts and Lederman (ibid.) proposals provided for the devolution of substantial legislative, executive, and financial powers to the provinces, and the development of a quasi-federal system of government. They also provided ways in which the national government could prevent such extreme decentralisation. The legislative and executive powers of the provinces could be restricted by enacting national laws to control provincial affairs, and their financial powers could be limited by the allocation of conditional and unconditional grants. The allocation of grants could also be used to reduce inequalities between provinces, arising from the unequal distribution and exploitation of natural resources.

A Provincial Government Act was passed in July 1974 to enable the Bougainville Provincial Government to become an official body, and Bougainvillians made rapid progress in establishing the political and administrative framework of the new government. Other districts that were encouraged by the passing of the Provincial Government Act and the publication of the CPC report, also began to make preparations.

By July 1975, constituent assemblies were being set up in all the districts, except Enga. At the national level, some attempts were made to examine the administrative and financial changes which would be necessary when provincial government came into operation. On the financial side, estimates of recurrent expenditure in each district were prepared, as a basis for allocating funds to provincial governments.

In the last week of July 1975, the final section on the draft Constitution, which was on provincial governments, was discussed. However, relations between the central government and the Bougainville Provincial Government had deteriorated, and Bougainville had declared its intention to secede from Papua New Guinea. Moreover, there was still a great deal of uncertainty over the actual powers and
functions to be given to provincial governments, which, in the meantime, was encountering its first financial crisis.

Confusion was reflected in the debate in the Constituent Assembly, where many of the earlier issues concerning the advantages and disadvantages of provincial governments were raised once again. On 30 July, the Chief Minister moved that the provincial government be completely excluded from the Constitution. The Chief Minister and the Minister responsible for provincial affairs, Ebia Olewale, spoke briefly to the motion. There was no general debate and it was passed by 40 votes to 19 — the remaining 48 members of the House being absent at that time. The whole procedure took less than twenty minutes.

The decision came as a shock to many people. After ten years of discussion and preparation, and at a time when the future of provincial governments had at last seemed reasonably secured, all hopes were dashed, and it appeared that the concept would never materialise.

The OLPG and the Structure of Provincial Government

The recommendations of the CPC relating to decentralisation justified the strong feeling that its members had in dismantling centralisation, as well as addressing the situation in Bougainville. Because decentralisation was identified by the CPC, there was a general feeling that provisions pertaining to it would be included in the Papua New Guinean Constitution. However, this was not to be the case. The removal of ‘provincial governments’ from the Constitution was followed by a period of confusion. Why had it been removed? Would there still be provincial governments, even though there was no provision for them in the Constitution?

The decision to exclude the section on provincial governments from the Constitution came as a shock to many people because, by that time, it was almost certain that the concept of provincial governments would come into being (Conyers 1976). According to Conyers (ibid.), in order to analyse the situation more realistically, it was convenient to acknowledge four basic reasons why the concept of provincial government was withdrawn from the Constitution:

- the apparent financial costs;
- the apparent manpower costs;
- the apparent political powers; and
- the central government’s reluctance to relinquish any of its controls.

The exclusion of provincial governments from the Constitution could be partially attributed to the differences that arose between the national government and the provincial government which had been established on Bougainville (Goldring 1978). As a result, the detailed provisions relating to powers, functions, and finance of provincial government work done found in the Organic Law on Provincial Government (OLPG). The concept of provincial government was not a subject included in the independence Constitution, partly because the CPC recognised that its proposals were incomplete, especially these proposals relating to the division of powers between central and provincial governments, and the transfer of the administrative powers.
In 1976, one year after Papua New Guinea achieved independence, amendments to the Constitution were passed, and these provided the basis for a radical redistribution of power and resources away from the State to a new system of elected provincial governments (Ghai and Regan 2001). The new governments were to be established under a subsequent Organic Law on Provincial Government (OLPG), which was authorised by the constitutional amendments involved. They operated with little change until July 1995 when they were replaced by further constitutional amendments and a new Organic Law, which provided for a new system of non-elected provincial government, with much reduced autonomy, and a dominant role for Members of Parliament.

The principal provisions for decentralisation were entrenched in the Constitution. For example:

- decentralisation involved the transfer of significant political, legislative, executive, and financial powers;
- provinces had their own representative institutions;
- there was an attempt to build considerable flexibility, particularly with regard to the gradual establishment of provincial government and the further transfer of powers to provinces, which is one important aspect of decentralisation that never eventuated in all the provinces; and
- an attempt was made to avoid ‘over-legalism’ in the relations between the centre and the provinces.

The OLPG created nineteen provincial governments with legislative and executive institutions and powers that strongly resembled the structure of a federal state. Detailed analyses of these structures and powers have been carried out by a number of academics (Goldring 1978; Ghai and Regan 1985; Axline 1986; May 2004).

The structure of the provincial government system was provided for in the OLPG, in s.187c, (1), (2), and (3) of the Constitution, which provides:

‘(1) Subject to this Part, an Organic Law shall make provision in respect of the Constitution, powers and functions of a provincial government; and
(2) For each provincial government, there shall be established –
   (a) an elective, or mainly elective, provincial legislature with such powers as are conferred by law; and
   (b) a provincial executive; and
   (c) an office of head of the provincial executive; and
(3) An Organic Law shall provide for the minimum number of members for the provincial legislature and the maximum number of members that may be appointed as nominated members of the legislature.”

The structure of the provincial government was also included in Part V: Structure of Provincial Governments, ss. 15 to 17, and Part IX: Provincial Staff, ss. 45 to 52, in the OLPG.

This structure of the provincial governments falls under two categories:

- the political structure, which included the composition of the assembly; and
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- the election of the provincial executives and the administrative structure, which looks at the composition of the administrative staff in the provincial department.

Provincial governments were to have legislatures with from twenty to thirty members, of whom fifteen must be elected — half by direct election, while the others may be nominated. The premier of each province was to be elected indirectly by the legislature, or directly by all the eligible voters in the province (North Solomons). In other provinces, the premier was elected from, and by, the legislative assembly and subsequently chooses the Cabinet — the Provincial Executive Council (PEC). In some provinces, the deputy premier was elected separately by the legislature.

This method caused problems in some provinces when the two office-holders were from opposing factions. The manner and method of choosing the PEC was determined by the provincial constitution. One situation that negatively affected the nature of governance at the provincial level was appointments to the PEC because, in some instances, almost all members of the legislature held Cabinet positions.

Although provincial governments had the choice of organising the PEC on the basis of portfolios or committees, all chose the former system, where each Minister is responsible for a line division, despite arguments that their limited size made the committee system more appropriate to their needs (Axline 1986).

The creation of an administrative structure that was appropriate to the decentralisation of political power was a much more complicated task. The main principle which guided the creation of a decentralised administration was the idea of a single unified public service, and the organisation that was created to carry out the implementation, of this structure was the Office of Implementation within the Department of Decentralisation. A report commissioned by McKinsey and Company (1977) recommended that provincial government status be passed on uniformly to all provinces, rather than progressively, as each provincial government developed the capacity to exercise the powers that had been transferred to it.

The issue of uniformity in the transfer of functions has been highly debated because of the skewed success of decentralisation in the various provinces. Many felt that the McKinsey Report should have been considered more seriously in relation to the capacity of the provinces to successfully take control of the decentralised functions.

In looking at the role of law under the decentralised arrangement, the OLPG played a significant role in structuring the relationships, especially the political and financial relationships between the national government and the provincial governments (Ghai and Regan 1992). The effectiveness of this was quite evident, with the central government maintaining control over the operations of the provincial governments. The 1976 amendment to the Papua New Guinean Constitution and the enactment of the OLPG, although representing a victory for the proponents of decentralisation, did not bring the controversies concerning provincial government to an end (Ghai and Regan 2001). Although the law changed the battle lines, it did not prevent the struggle between the parties with different views. The open-endedness of the OLPG on some matters, and the room it provided for further negotiations,
ensured that competing views would seek to capture the process of implementation and operation of provincial government.

According to Ghai and Regan (ibid.) the OLPG was effective in several areas:

- reallocating financial and human resources away from the centre to the provincial governments;
- establishing legislative and executive bodies in the provinces, through constitutions prepared by local constituent assemblies, and by a series of provincial elections;
- ensuring the transfer of certain minimum functions that were previously exercised from the centre, to the provinces;
- creating, at least in some provinces, some capacity to plan, coordinate, and carry out various executive functions;
- promoting discussions between the national government and provinces on national priorities, and the allocation of powers and functions between the two levels of government;
- ensuring the transfer of certain minimum functions that were previously exercised from the centre, to the provinces;
- creating, at least in some provinces, some capacity to plan, coordinate, and carry out various executive functions;
- promoting discussions between the national government and provinces on national priorities, and the allocation of powers and functions between the two levels of government;
- establishing a degree of political pluralism and broadening the democratic base for policy and executive functions; and
- providing a more secure basis for national unity.

The failures of the OLPG were also identified by Ghai and Regan (ibid.), including:

- bringing about a fundamental change in the political system, or economic and social policies;
- creating greater political consciousness and mobilisation at the grassroots level, to apply pressure in support of progressive policies and against inefficient and corrupt administration and practices, in the manner envisaged by the Constitutional Planning Committee;
- establishing democratic institutions below the provincial level, or involving voluntary and community organisations in policy making or administration;
- bringing about efficient administration uniformly across all provinces;
- establishing ‘cooperative federalism’ in which there could be extensive consultation between the two levels of government on national policies, leading to agreed policies and action and the sharing of responsibilities; and
- bringing about a significant transfer or delegation of functions to provinces on concurrent matters.

The success of provincial governments under the OLPG reaffirmed the commitment and vision of those who were in favour of decentralisation. However, the failures of the OLPG also had a huge bearing on the systematic application of the decentralisation policy. Some of the basic issues that were expected to emerge in the implementation of the decentralised system never eventuated. The processes that were identified by Ghai and Regan are all important, and had adverse effects of the decentralisation policy. Because of these failures, many problems began to emerge within the provincial governments, and they also had an impact on the relationship between the national government and the provincial governments.
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Under the OLPG, some provisions were mandatory, while others were discretionary and facultative (ibid.). Among the mandatory provisions were:

- those concerning the minimum unconditional grant, which required the transfer of prescribed funds to provinces;
- other provisions for the compulsory transfer of funds;
- the establishment of legislative and executive bodies, and the holding of elections;
- the structure of provincial administration, including the appointment of the administrative secretary;
- the machinery for intergovernmental relations, including the meetings of the Premiers’ Council;
- the vesting of powers concerning primarily provincial matters in the provinces; and
- the procedure for the notification of proposed laws.

There were some provisions that were not fully implemented, including:

- the doctrine of full financial responsibility, which meant the incomplete application of the rules for minimum unconditional grant for a number of provinces;
- the arrangements for the department of the province were incompatible with the law (as the Supreme Court ultimately declared); and
- the notification of law provisions were not always satisfactorily observed.

The implementation of mandatory provisions was successful, especially with respect for the rule of law, which is an important principle that became part of Papua New Guinea’s legal tradition. At the same time, this principle became an overarching part of the system of government, especially the public service, which attempts to address problems pertaining to the rule of law and its application within the public service machinery.

As well as the mandatory provisions, there were also discretionary and facilitative provisions, which were vested in various bodies (ibid.):

- the people of a province originally (through a constituent assembly), and then the provincial assembly, designed a provisional constitution (subject only to a few constitutional limits);
- the provincial government, in determining the structure and powers of local authorities;
- the national parliament, in holding the balance between the national and provincial governments, and in protecting the provinces against the abuse by the national government of powers of disallowance of taxes and the suspension of provincial governments; and
- the national government, most of all, in deciding on the pace of transfers and delegation of powers, especially on the concurrent subjects, initiating the suspension of a provincial government, the allocation of revenues to provinces additional to the minimum unconditional grant, and the primary decisions on the implementation of the resolutions of the Premiers’ Council.
Background and Establishment of Decentralisation

Ghai and Regan (ibid.) gave some explanations concerning the use of discretionary powers that were heavily vested in the national government. First and foremost, the national government acted outside of what was required to successfully implement the decentralised policy. The national government retained a considerable amount of the unconditional grant funding for several provinces. It also selectively used the powers of suspension for ulterior political motives, rather than to cure of inefficiencies and corruption that was evidently practised in many provincial governments.

The national government also failed to consult — or consult adequately — the provinces on the various matters, on which it was required to consult. The national parliament did not fulfil its role of holding the balance between the national government and the provincial governments, especially with regard to the suspension of provincial governments.

The arguments by Ghai and Regan (ibid.) also point to the very direction that affected the success of the provincial government system in Papua New Guinea. Opponents of decentralisation blamed the provincial governments for the problems they faced, but the national government was equally guilty because of the centralised nature of decentralisation in Papua New Guinea. This meant that the national government was still in control of many of the issues and processes relating to the distribution of powers and functions.

National-Provincial Relations

In accepting decentralisation as the mechanism to distribute power to lower-level governments, Papua New Guinea adopted the unitary system of government. In a unitary system, ultimate power rests with the central government, as indicated in the suspension of provincial governments by the national government. In addition, the two levels of government derive their powers from two separate legal documents — the national government from the Papua New Guinean Constitution, and the provincial governments from the OLPG. Because of the supremacy of the Constitution, the provincial governments remain vulnerable to the political, legal, and financial dictates of the national government.

The scene was established from the very beginning, and this led to the national government taking control of the main functions listed under the concurrent functions. This is quite evident in the control of the grants that should be going to the provinces. Moreover, the environment in the implementation of decentralisation was initially hampered when the provincial government system was established on Bougainville, despite the absence of a decentralised policy at the national level (Conyers 1976).

With the creation of provincial governments, a new dimension of politics emerged in Papua New Guinea, which focused on the relationship between the two levels of government (Axline 1986). The importance of intergovernmental relations was recognised and is reflected in the provisions of the Constitution and the OLPG, which deal specifically with these matters. Section 187H of the Constitution, and Part XI of the OLPG, respectively, provide for the creation of a National Fiscal
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Commission (NFC) and a Premiers’ Council, as the two formal institutions through which relations between the national and provincial governments will be channelled.

The main functions of the National Fiscal Commission included:

- reporting on any unreasonable or discriminatory tax imposed by provincial governments;
- making recommendations to the NEC on the allocation of additional unconditional grants to provincial governments; and
- making recommendations to the national government and provincial governments on the other fiscal matters referred to it by either level of government.

Despite the importance of the NFC there were several problems that affected its effectiveness (Ghai and Regan 2001). The first was that fiscal matters were at the centre of political conflict between the two levels of government, and consequently, were more amenable to political solutions than technical ones. This area is further compounded because of attempts by politicians to distribute the funds in the provinces, and the reluctance by the Department of Finance to relinquish control over the distribution of funds. The second problem is related to the appointment of the members of the NFC. Those members who were appointed did not possess the necessary expertise in fiscal matters, and provincial governments had problems with the appointment procedures and with the individuals who were appointed. They saw that the national government was using the NFC for political purposes.

The second institution that is central to the relationship between the national government and the provincial governments was the Premiers’ Council. The Premiers’ Council comprised the Prime Minister, the Minister responsible for provincial affairs, and the premier of each province (Constitution, s. 187H (2)). The major function of the Premiers’ Council was to avoid legal proceedings between governments by providing a forum for the non-judicial settlement of intergovernmental disputes. Moreover, the OLPG provides that the Premiers’ Council may discuss all matters regarding grants, loans, taxation, and other aspects of provincial finance, the legislative powers of the provinces, as well as any other matters concerning interprovincial and intergovernmental disputes (OLPG s. 84). The Premiers’ Council provides an avenue whereby the two levels of government can discuss important issues facing them, but most importantly, problems that are faced at the provincial level.

As an important venue for developing a good relationship between the two levels of government, the Premiers’ Council became better institutionalised and gained legitimacy as a forum for intergovernmental conflict resolution. Indications include the establishment of a permanent Premiers’ Council Secretariat, the taking of action on the central issue of financial relations between the national government and the provincial governments, and the emergence of regionally based caucuses and organisations as adjuncts to the Premiers’ Council. At the same time, the Premiers’ Council served as a forum for mainly discussing issues representing national versus provincial points of view. It has served as a force for cohesion among provincial governments which have rallied against a perceived common adversary — the national government. For the most part, the issues before the Premiers’ Council...
Conference concerned desires on the part of provincial governments to increase their powers and/or funding.

Despite the establishment of the NFC and the Premiers’ Council to maintain dialogue between the national government and the provincial governments, the relationship between the two levels of government became tainted as a result of infighting between leaders. The most obvious manifestation of the new pattern of political relationships was found in the interaction between national and provincial political leaders. With the creation of nineteen political systems at the provincial level, the opportunity for the emergence of a new group of political leaders was also created. These new leaders — provincial assembly members, provincial ministers, and provincial premiers — are elected by, and represent, the same constituents as the national Members of Parliament.

While the two groups of leaders do not compete for the same elected office, they actively compete for recognition as leaders of the same people. With the existence of provincial politicians, national politicians saw a challenge to their political base, particularly where the provincial and national politicians were members of opposing cultural and ethnic groups. Also, where underlying divisions did not exist, the emergence of rivals in the form of a new group of politicians created a natural situation of conflict. Where national politicians previously were confident of their political base of support in the delivery of benefits such as public works and government services, many of these very visible functions have become the responsibility of provincial governments. This has deprived national politicians of an important basis of legitimacy, and in many cases has led to resentment of, and opposition to, the idea of provincial government on the part of national politicians.

This rivalry led to strong anti-provincial government sentiment in parliament and among national Ministers. The anti-provincial sentiment has been manifested in a number of ways. The amendment of the OLPG to allow the NEC to suspend a provincial government, without prior approval of parliament, and the subsequent suspension of the Enga Provincial Government in February 1984, under these new procedures are perhaps the most striking examples.

The reaction to the emergence of provincial political power bases was evident in the persistent efforts of national politicians to divert public monies to their own use in order to distribute benefits directly to their supporters. In addition, the attempt by national politicians to undermine the political bases of provincial governments through the appointment of provincial secretaries, against the wishes of provincial governments, is another example of the rivalry. Conflict over the appointment of provincial secretaries is only a reflection of the larger rivalry resulting from the perceived threat to national politicians that is posed by provincial governments. The rivalry itself is understandable, as a natural outgrowth of the political change that decentralisation represents, and of the political culture in which it is taking place.

In addition to the political rivalry between the two levels of government, a bureaucratic relationship has emerged as a result of the transfer of the many administrative powers to the provincial governments. The political dimension of intergovernmental relations extended beyond parliamentary and ministerial politics to include relationships between politicians and bureaucrats, within each level of
government, as well as between the two levels. The creation of the decentralised system has resulted in a pattern of relationships that is more intricate than what is implied by referring to two levels of government. This area of politics and the interaction between politicians and bureaucrats is extremely important in understanding the political aspect of decentralisation in Papua New Guinea. The move from a centrally controlled bureaucratic state is a key element in the process of decolonisation.

From the beginning, there was opposition by central departments in relation to the decentralisation of some of their powers as many saw the transfer as a threat to their power at the centre. The central coordinating agencies that were represented by the Department of Finance, the Public Services Commission, and the National Planning Office, for the most part retained, if not increased, their influence as a result of decentralisation. This has resulted from the way in which the decentralisation of financial and administrative powers and functions, to provincial governments, has been implemented.

Several national departments became important agencies in the decentralisation process. Some contributed meaningfully, while others were uncomfortable because of the transfer of a range of their powers and functions to the provincial governments. The National Planning Office (NPO) was the first agency whose select functions were taken up by the NFC. However, the NPO made sure that it retained its position by virtually taking control of the new funding of activities and projects.

The Department of Finance was the other agency that limited the role of the NFC, especially in the area of allocating discretionary funds, where it was able to influence the amount and distribution of NFC grants. The Department of Finance also retained a larger role than was envisaged in the budgeting process of provincial governments (Axline 1986). With the transfer of functions to provincial governments, not only did line departments lose direct control over these activities, but the Department of Finance lost control over their budgeting, as they were to be funded by a preappropriated MUG, which was determined by a formula laid down in the OLPG. However, until provincial governments attain full financial responsibility, the funding for seven of the ten transferred activities still takes place through the national budget, with the Department of Finance responsible for budgeting, in consultation with each provincial government. Whereas the national Departments of Education, Health, and Primary Industry lost effective policy control, the Department of Finance did not lose budgetary control, except with respect to those provincial governments which had attained full financial responsibility.

The Department of Finance is also able to exercise influence, through its administration of the various funds that are paid to provincial governments in the form of grants and transferred taxes. This role has been more controversial, to the point of arousing accusations of inefficiency and irregularity (Axline 1986).

Issues and Problems

There were many issues that arose from the decentralisation system that was put in place after independence. From the beginning, as evident from the Bougainvillean experiences, the level of commitment from the national government, towards
decentralisation, was poor. This was the result of the lacklustre attitude of the national government in speeding up the various components of decentralisation. This practice continued after the establishment of provincial governments in all the provinces.

The specific problems and issues that arose from the establishment of provincial governments cut across a range of areas from finance and political competition, to the public service, and the failure of the national government to respond quickly in addressing the concerns of the provincial governments. Many of the issues that were central to the debate over the establishment of provincial governments still define the present discussions concerning the nature of decentralisation in Papua New Guinea.

In relation to finance, it was generally perceived that the grants coming from the national government to the provinces were inadequate, and that this affected the ability of the provincial governments to respond to the needs of the people at the provincial level. The Minimum Unconditional Grant (MUG) received the greatest amount of criticism, including allegations that the formula was not applied, as required by law.

The disagreement led to one provincial government threatening to take the national government to court. Similar irregularities have apparently occurred in the calculations of derivation grants to provincial governments, with simple across-the-board increments being paid in recent years, instead of basing the grants on provincial exports. For example, the projected increase in the 1984 grant was cut to zero to compensate for a larger-than-expected increase in the MUG. This sort of manipulation of provincial government grants exceeded the role of the Department of Finance in their administration, and was determined to be illegal.

As well as the manipulation of grants by the national government and its agencies, one major concern that was faced by the provincial governments was how to manage the functions that were transferred to them from the national government. Many of these functions were transferred without any financial transfers to provincial governments to take care of them. This resulted in a long list of transferred functions, but no money to support their implementation. The result of this was the beginning of the deterioration of service delivery in the provinces, mainly in office buildings, roads, communication services, and so on.

The incomplete implementation of the financial arrangements for provincial governments also had some indirect consequences, whereby the mechanism for funding the recurrent costs of services was used to service the goal of equalisation, which was contrary to its original purpose. Although authority over the activities that have been designated as provincial was transferred to provincial governments, financial control over all of these activities was not transferred to all provincial governments.

The second major issue that was faced by provincial governments was their capacity to successfully implement programs. The capacity was greatly affected by the unavailability of skilled manpower at the provincial level. Many provincial governments were not able to attract graduates from universities to work in provinces and assist in the planning and policy processes. This is mainly because of the poor
working conditions, that are offered in terms of salaries and other conditions such as housing.

Central agencies such as the Department of Personnel Management, also played a part in this area, where they were not keen in assisting the provincial governments to develop their capacities, in terms of having qualified staff available. Other personnel functions, such as staff training, were also not a priority. Postgraduate studies that are available for staff, at the national and provincial levels, are only given to staff at the national level. This has greatly affected the ability of staff at the provincial level to acquire new knowledge in their respective fields.

The third issue is the relationship between the provincial governments, and the national department that is responsible for their existence — in this case, the Department of Decentralisation. The department was specifically charged to support the new provincial governments. On the other hand, there was disappointment on the part of provincial governments because the Department of Decentralisation did not often seem to prevail in advancing the position of provincial governments against the central policy-making agencies of the National Planning Office, the Department of Finance, and the Public Services Commission.

Regan (1985) summarised the major issues facing the decentralisation process in Papua New Guinea, including:

- regional inequalities were built into the MUG formula. However, other mechanisms were provided in the OLPG for achieving greater equality in services and infrastructure — in particular the NFC grants. These mechanisms have not been used by the national government. Growing inequality caused by the concentration of competent staff in some provinces is also alleged. The PSC has ultimate control over the allocation of staff, but does little to redress the imbalance;
- local government authority declined after the introduction of the provincial government system; and
- the provincial government system has not really resulted in greater participation of the people in the political process. In fact, bureaucracies have taken over the implementation of decentralisation.

There are other issues and problems that have contributed to the skewed development of the provincial government system in Papua New Guinea and they have contributed to the perceived poor performance of provincial governments since their establishment. Despite the democratic requirement of establishing institutions that would render a systematic way of governing a modern state, the experience in Papua New Guinea, in terms of the implementation of its decentralisation policy, has not yielded the positive outcomes for which the Government had hoped.

Given the hasty implementation of the system of decentralisation, and the relative shortage of qualified personnel, it is not surprising that changes and improvements were being considered from the beginning. The experience of the functioning provincial governments revealed early on that there were shortcomings in the design, implementation, and operation of the provincial government. The recognition of these difficulties led to a series of studies and proposals for reform of the system.
CHAPTER 3: REVIEW AND REFORM OF INTERGOVERNMENTAL ARRANGEMENTS

As the earlier discussion of the literature indicates, the debate over the form that decentralisation in Papua New Guinea should take did not end with the adoption of the OLP and the establishment of nineteen provincial governments. The system represented a compromise that was formally created out of the process of decolonisation, secession, and democratisation. Although it represented the adoption of a particular view of how the decentralised state should look and function, differences remained and periodically surfaced over the succeeding years (Conyers 1975). When differences arose, it usually resulted in a resumption of the debate, a reconsideration of the rules of the game, and the establishment of a committee or commission to review the system and submit proposals for reform. The literature generated by these reviews provides the basis for the discussion following.

From the beginning, the decentralised system of government has been a ‘work in progress’. The issues considered in the first consultants’ reports resurfaced on a regular basis, and continue to be at the centre of controversy in 2008. (Tordoff and Watts 1974; Watts and Lederman 1975). The adoption of the decentralised system represented a change that was profound, complex, and at times confusing, and its nature and function were often misunderstood, even by those most intimately involved in making it work. Consequently, the proposals for reform often did not address the problem which they aimed to rectify, and at times achieved the opposite effect.

The literature on the various reform proposals is also complex and confusing, and is difficult to summarise in a concise manner. The creation of a decentralised system of government was part of the larger process of decolonisation. It involved the breaking of the highly centralised control of Canberra, the assumption of control over a large and pervasive bureaucracy by national public servants, the establishment of effective political control over the administrative structure, and the move away from a highly centralised bureaucratic structure (Premdas 1985; Ghai and Regan 1992).

The system that was created reflects the political realities of the time, including the secession of Bougainville, which influenced the timing and nature of the arrangements for provincial governments, and the prevailing trends in development thinking about decentralisation (Cheema and Rondinelli 1983). As already indicated, it was acknowledged that the system was not perfect, and shortcomings had been identified earlier. International consultants were engaged to address these problems in the implementation process (McKinsey and Company 1977).

The literature on the reform of intergovernmental relations basically started with this report. It continues with the recent report on public sector reform dealing with decentralisation (Public Sector Reform Advisory Group 2006), and the NEFC’s proposals for reforming the funding arrangements which are still pending (National Economic and Fiscal Commission 2005).

Much of the literature on the reform of the system focused on funding arrangements, as control over resources is at the centre of conflict between levels of government in all decentralised systems. This does not mean that the principal issues
were addressed in these reviews were not political. They represented the central focus of political conflict among the stakeholders concerning the nature of the decentralised system. However, it was not until the mid-1990s that major reforms in the political structures of decentralisation were addressed, resulting in a formal restructuring of the institutions.

The literature survey is organised around two periods of reform:

- the literature dealing with reviews and recommendations for reform, from the early 1980s to the 1995 restructuring, which were driven by efforts to improve intergovernmental funding arrangements; and
- the literature surrounding the 1995 reforms, which fundamentally altered the balance between the national and provincial levels of government.

This division reflects two broad themes that describe the literature, which could be described as the technical approach and the political approach.

The literature on the reform of the provincial government system in the technical approach revolves around several documents:

- the Review of Intergovernmental Fiscal Relations in Papua New Guinea (Specialist Committee Report), in 1984 (Committee established by the National Executive Council on the recommendation of the Premiers' Council on 1 December 1983, 1984); and

By referring to the reports as technical proposals does not mean that the recommendations they contained did not have important political implications, especially concerning the struggle for power between politicians and bureaucrats, politics among administrative departments, and the struggle between the central agencies and the line departments for control over the distribution of resources. The National-Provincial Working Group Report, which deals with the scope for greater provincial autonomy, made proposals for a significant shift in the distribution of powers between the two levels of government, with special attention being given to the different levels of managerial capacity in the provincial governments.

The second approach encompasses reports that were based on considerations which were overtly political, and mainly addressed the competition between national and provincial politicians for control over the distribution of resources and recognition for the delivery of services to the people. The recommendations in these reports proposed a fundamental restructuring of the political institutions of decentralised government in Papua New Guinea. Examples of this approach are:

• the Proposed Provincial Authority and Administration System to Replace the Current Provincial Government (Nilkare Report), a policy proposal submitted to the National Executive Council (NEC), in 1992 (National Executive Council 1992); and most importantly


This classification of the different efforts to reform the provincial government system in Papua New Guinea has contributed to our understanding of both the content and the outcome of the overall process, and why the earlier technical proposals were never implemented, even if they were better prepared, more carefully grounded in analysis, and designed to solve specific problems with a minimum amount of political, administrative, and financial disruption than the subsequent recommendations proposing fundamental political change.

In order for proposals to be adopted and implemented, they must have political support in the form of special majorities in the national parliament, which is composed of national politicians. However, these technical recommendations, no matter how central to the process of improving governance in Papua New Guinea, did not address what national politicians saw as the greatest problem relating to provincial government — the very existence of provincial politicians. Quite simply, the proposals needed political support to be adopted, but they did not address the political concerns of those politicians whose support was required.

The 1980-1990 efforts to reform the provincial government system fall into the category of a technical approach in that the committees making the proposals worked within the existing constitutional and political structures to propose specific remedies to observed problems with the system. The following discussion concerns the political moves to change the provincial government system which originated in a very different set of processes, and culminated in amendments to the Organic Law on Provincial Government in 1995.

Reviews of Decentralisation, 1980-1990

The technical efforts at reform occurred in two main stages, each made up of overlapping phases. The first stage, which occurred between late 1980 and mid-1988, produced detailed proposals for reform that have been the basis for much of the work carried out in the second stage. The main phases in this stage were represented by the Committee to Review the Financial Provisions of the Organic Law in the 1980 to 1982 period, the Specialist Committee of 1984, and the hiatus from 1984 to 1988.

The second stage began in mid-1988 and continued into 1989. It produced a package of fiscal reforms which were introduced into the national parliament in the second half of 1989. It began with the establishment of the Interdepartmental Working Group on National-Provincial Fiscal Relations of mid-1988, and continued
with the work of the joint National-Provincial Working Group of late 1988. Those groups produced a package of administrative reforms that were implemented in the 1989 Budget, as well as a package of proposed amendments to the Organic Law on Provincial Government (OLPG), which were agreed to by the NEC in January 1989. Modifications and additions to the proposals agreed to by the NEC were further developed in May 1989 by another interdepartmental working group on national-provincial relations.

*The ‘Vulupindi Report’, 1982*

A formal move for a review of the financial arrangements was initiated by the Department of Finance at the 1980 Premiers’ Council conference. Initial momentum came from the senior officials in the department who had been closely involved in the national government's efforts to establish workable financial arrangements, both on an intergovernmental basis and for individual provincial governments. They were well-supported by senior officers in the Department of Decentralisation. There was also strong political support from the Ministers for Decentralisation and Finance — John Momis and John Kaputin, respectively. Those Ministers came from those provinces with the strongest commitment to the provincial government system — Bougainville and East New Britain — and had been among the strongest parliamentary supporters of decentralisation proposals in the pre-independence period.

With the change of government that followed the national elections in 1982, these Ministers were no longer in government. Until the Namaliu government came to power, following a motion of no-confidence in June 1988, there was no period during which Ministers with a strong commitment to provincial government were in key positions at the national level. This situation predominantly explains progress in the implementation of reforms to the financial arrangements during that period.

The three-page review proposal was presented to the 1980 Premiers' Council by the Department of Finance, which argued that the need for such a review had been recognised as early as late 1977. The main reason for the delay in initiating a formal review was the department's view that it needed time to realistically identify weaknesses and provisions that had, or might, become inconsistent in light of developments that could take place, and which had not been anticipated at the time this law was being drawn up.

Only three examples of such weaknesses or inconsistencies were given:

- the recurrent costs of completed National Public Expenditure Program (NPEP) projects;
- the costs of other transferred activities which had not been carried out by the national government during 1976-77 (the Minimum Unconditional Grant (MUG) base year); and
- the difficulties of administering some provincial taxes under separate provincial laws — the main concern presumably being with provincial retail sales tax laws and the difficulties that were likely to arise with the differing tax regimes applying in neighbouring provinces.
The Department of Finance proposed, and the Premiers' Council accepted, that a joint national-provincial review committee be established as soon as possible. The national government members were to be drawn from the central agencies that were most actively concerned with provincial matters — the Departments of Finance, Justice, and Decentralisation, the Public Services Commission, and the General Constitutional Commission which was carrying out a review of Papua New Guinea’s Constitution. The four provincial members were to be nominated by provincial governments — one from each of the four regions.

In early 1981, the NEC approved membership, funding, and the terms of reference for the committee, authorised it to employ expert consultants, and directed it to report back by 1 January 1982. Under the very wide terms of reference, the committee was to examine:

- intergovernmental financial relationships, as determined by the OLPG;
- specific aspects of the financial arrangements, such as revenue and taxation powers; and
- administration of financial provisions.

The NEC reminded the committee to be realistic in its recommendations, be aware of various constraints, and directed it to take into account:

- constraints imposed by the limited funding available to the nation as a whole;
- the respective responsibilities of the levels of government;
- the need for efficiency in public revenue collection; and
- the possible need to promote greater equalisation between provinces.

The committee commenced work in April 1981, and consulted widely with national agencies and provincial governments. It made use of the services of two, short-term consultants, Raja Chelliah and Ron May (Chelliah 1981; May 1981) to assist with its work. Hampered by a lack of full-time research staff and by the fact that its members were all senior officials with heavy work loads, the committee was not able to present a final report until late in 1982 (Committee of Review on Financial Provisions of the Organic Law on Provincial Government 1982). The lack of research staff was the major reason for inadequacies in the subsequent report, which resulted in its rejection by the Premiers' Council and the establishing of a further review committee made up of ‘specialists’. Nonetheless, the report provided a broad-ranging critique of the many problems associated with the funding arrangements, and served as a basis for further moves for reform by subsequent bodies.

**The “Specialist Committee”, 1984**

The Report of the Committee to Review the Financial Provisions of the Organic Law was presented to the Premiers' Council conference in October 1982 (Committee Established by the National Executive Council on the recommendation of the Premiers' Council on 1 December 1983, 1984). Although it was only available for study a few days before the conference, which made detailed consideration by technical officers difficult, provincial reactions were very negative. Rather than immediately confronting the issues, the Premiers' Council appointed an
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‘Implementation Committee’ of four premiers to prepare a detailed analysis and response. That committee reported to the next annual Premiers' Council conference in May 1983, effectively recommending rejection of the report. The major criticisms that were made by the Implementation Committee were that the 1982 report was not based on an adequate analysis of several issues:

- the original aims of the OLPG's financial package;
- changes in the roles of the provinces since 1977;
- trends in financial flows to the provinces;
- trends in provincial expenditure; and
- costs and benefits of the various recommendations made.

The most serious concern arose from the lack of quantitative analysis. The defects were generally blamed on the lack of full-time research staff on the committee, the high turnover of its members, and the fact that the members were all busy senior officials who had not been able to devote sufficient time to the work of the committee (Premiers' Council 1983).

However, the 1982 report was not entirely rejected out of hand, because the premiers were uncertain as to the political climate at the national level, as the new national government under Prime Minister Somare was giving an indication that it was ambivalent in its attitude towards the provincial government system. Moreover, the premiers were anxious for some recommendations that were clearly favourable to the provinces, to be implemented immediately. Consequently, the Implementation Committee proposed the immediate adoption of a minority of recommendations, the adoption of some, subject to amendment, and further discussion with the national government concerning others. Those recommended for amendment or further discussion constituted the greater majority, as well as the key recommendations.

In addition, it was proposed that two or three specialists should be appointed to gather and analyse the statistical and other data needed to carry out a proper review of the financial arrangements. The Terms of Reference were also proposed (Premiers' Council 1983). These proposals were accepted by the council. Later in 1983, the NEC agreed to the establishment of a committee of four ‘specialists’, two nominated by the Premiers' Council and two by the national government.

In the 18 months between the presentation of the 1982 report to the 1982 Premiers' Council conference and the presentation of the Specialist Committee report to the national government, tensions between the levels of government had grown. Indicative of the growing ambivalence of the national government were the threats that it made in mid-1983 about lessening the degree of constitutional protection of the system, in particular, by removing the entrenched status of the OLPG (Regan 1985). In late 1983, the Constitution and OLPG were amended, with the explicit aim of making it much easier than before for the national government to suspend mismanaged provincial governments.

Tensions between backbench members of national parliament and provincial politicians were considerable. Even if such tensions were largely based on relatively petty competition for local influence, they were sufficiently strong enough for Prime Minister Somare to tell the 1983 Premiers' Council conference that, of the 109
members of Parliament, ‘about 100 of them want to get rid of provincial governments altogether’ (Somare 1983).

Against this background, the Specialist Committee met for a little under four weeks, during a two-month period in early 1984, and presented its two-volume report at the end of April 1984 (Committee Established by the National Executive Council on the Recommendation of the Premiers' Council on 1 December 1983, 1984). With the assistance of a full-time research worker who was given access to all relevant national and provincial financial records held by the Department of Finance and Department of Provincial Affairs, the Specialist Committee was able to base its analysis and recommendations on comprehensive data. Acutely aware of the increasingly negative national attitude towards the provincial government system, the committee made a judgement that, despite the obvious deficiencies in the financial arrangements, radical reforms were unlikely to receive national government support. Its analysis and recommendations reflected that premise.

The Specialist Committee also went to considerable lengths to ensure that its recommendations would be acceptable to provincial governments as well as key national government bureaucrats and politicians. Consultative meetings were held with provincial governments, on a regional basis, and with several key NEC members. Recognising that acceptance of its recommendations would depend very much on the advice offered to the NEC by the Department of Finance and the National Planning Office, members of the committee had numerous formal and informal consultations with key officials concerning all proposed recommendations on major issues. Many aspects of the proposed recommendations were modified to take into account concerns expressed by these officials.

The Specialist Committee's two-volume report, which contained 63 recommendations, was available shortly before the May 1984 Premiers' Council conference. However, because of lack of time for discussion at that meeting, detailed discussion was deferred to a special Premiers' Council meeting in July 1984. Although not entirely happy with the essentially conservative approach of the recommendations, the key provincial premiers and their advisers were generally convinced that, given the prevailing political climate, incremental improvements were the best they could hope to get.

Concerned that any dissent by the provinces might be used as an excuse by the national government not to accept a package of changes which they regarded as essentially favourable to the provinces, they attempted to develop a united position by organising a special meeting of premiers and provincial finance ministers a few weeks before the July Premiers' Council conference. That strategy was reasonably successful in terms of coherence in the position of the provinces. However, that coherence was not enough to ensure that the national government would implement the changes, because despite general consensus being achieved at the July 1984 conference, almost no change occurred for the next four years.

Consensus at the July 1984 conference did not mean that everything was agreed upon. Some problems in reaching consensus arose because, between April 1984 — the time the Specialist Committee completed its work — and July 1984, changes in the Department of Finance and the National Planning Office saw most of the key
staff who had been closely consulted by the committee either leaving the public service or no longer in positions where they were advising the national government on the report. In particular, the key adviser from the Department of Finance at the July Premiers' Council conference was an economist who had only arrived in Papua New Guinea after the committee had completed its work — only weeks before the conference. A number of key recommendations were opposed in whole or in part by the national government.

Discussions over two days brought consensus about most issues, apart from those mentioned recommendations and a few other minor recommendations. Subsequent NEC decisions by both the Somare government in 1985 and the Wingti government in 1986 directed that a majority of the Specialist Committee's recommendations be implemented, some with modifications agreed to by the Premiers' Council. In only a few cases were the Specialist Committee’s recommendations rejected out of hand — the most significant being those concerning grants designed to promote more equalised development among the provinces. The rejection of those recommendations has continued to have an impact, particularly because most of the elements of the package of fiscal reforms approved by the NEC in 1989 were based upon the Specialist Committee’s recommendations, as approved by the NEC, and equalising grants were not part of the package. The omission can be regarded as contributing to a lack of balance in the package.

Further Changes, 1988-1989

Despite the national government’s acceptance of most of the Specialist Committee’s recommendations, it was not until mid-1988 that any action was taken to implement the recommendations, as directed by the NEC. The reasons for the lack of action included the absence of any strong political support for the provincial government system within the national government ministry during much of this period, the absence of any national department with a strong interest in promoting change in the financial arrangements, and the turmoil within the Department of Finance and Planning, which was caused by its reorganisation following the accession to power of the Wingti government late in 1985.

By late 1988, the bureaucratic and the political climates at the national level were changing. The first moves towards implementation were initiated in the Department of Finance and Planning in June 1988, when an interdepartmental working group was established under the direction of the Deputy Secretary, Gerea Aopi, who subsequently became Secretary of the Department of Finance. By then, the department was more settled and better able to focus on dealing with outstanding issues. The working group was given the job of developing administrative measures to implement changes to provincial financial arrangements in the 1989 Budget. The focus at this time was on administrative measures because it was recognised that there would not be sufficient time to amend the OLPG before the 1989 Budget. Legislative changes were to be examined as a second stage of the working group's duties.

In July 1988, the political climate became more supportive of the provincial government system, when the Namaliu government replaced the Wingti government. The new prime minister and several key ministers were strong supporters of the
system, and early commitments made by Rabbie Namaliu included a promise to implement the changes. As a result, the working group was upgraded to a sectoral policy committee and was directed to prepare recommendations, as a matter of urgency. The committee prepared recommendations for changes to be implemented in the 1989 Budget. Although these changes were introduced administratively, rather than through legislative amendments, they were significant because they were the first real changes in the fiscal arrangements in many years. As a result, along with a national government promise of legislative change, they gave some hope to provincial governments for progress towards long-term reform.

In October 1988, the membership of the Interdepartmental Working Group was expanded. With the addition of four provincial representatives, it became known as the Joint National-Provincial Working Group, and was given the task of preparing drafting instructions for the amendments to the OLPG.

The expanded working group was directed to base its work on the Specialist Committee’s recommendations, that had previously been agreed to by the NEC. Consequently, the numerous recommendations of the Specialist Committee which had been rejected by the national government, or which did not require legislative changes, were not dealt with by the working group. It was agreed by the Deputy Secretary of Finance and Planning that, where necessary, the work could take account of developments affecting the financial arrangements that had occurred since 1984.

However, following political directions given to the Deputy Secretary, the working group felt constrained to work closely within the limits set by the NEC decisions. The political directions appeared to be based, at least in part, on perceptions of continuing hostility to the provincial government system in the national parliament, which meant that incremental, rather than radical, changes were more likely to be accepted.

The final draft of the amended proposals, as agreed to by the working group in early January, was subsequently approved by the NEC in Decision No. 17 of 1989, at its meeting on 27 January 1989. The only major change was the decision to abolish the National Fiscal Commission (NFC) — a recommendation that was made by the Specialist Committee, which the working group had felt should be reconsidered.

In December 1989, the NEC established a new decision-making process based upon the work of four ministerial committees which were to report to the NEC. One of the committees — the Executive Committee on Economic Issues — included all national government Ministers who had responsibility for economic matters. The ministerial committee was to be shadowed by a bureaucratic subcommittee headed by the Secretary for Finance and Planning, and five interdepartmental working groups were established to work on specialised areas and report to the secretary. Amongst them was the Policy Working Group on National-Provincial Relationships.

The working group comprised mainly officials from the Department of Finance and Planning, with representatives from the Department of Justice and the Department of Provincial Affairs. Its main Terms of Reference required it to prepare guidelines for the implementation of the proposed amendments to national-provincial
fiscal arrangements, as agreed by NEC in January 1989, in the 1990 Budget. It also examined some problems with the January proposals, including problems caused by the decision to abolish the NFC. As a result, some officers in the Department of Finance and Planning, who were not entirely happy with the package of reforms agreed to in January 1989, were able to use the occasion to mount a ‘rearguard action’ in an attempt to modify some of the aspects of the January amendments. Their only major success was in relation to some aspects of the proposals concerning the full financial responsibility arrangements.

The working group completed its work in mid-June, when it put forward a number of proposed additions to, and modifications of, the amended proposals agreed to in January. Those proposals were considered and agreed to by the NEC at a meeting on 14 June 1989.

Additional changes were agreed to as part of two quite separate developments in 1989. The first involved a set of proposed changes to the provisions of the OLPG which related to the structures of provincial governments, and which were approved by the NEC in April 1989. Some of those proposals had fiscal implications. The more significant proposals were those agreed to by the Namaliu government concerning the fiscal benefits flowing to the governments of provinces where major mining projects were proceeding.

During the latter part of the 1980s and early 1990s, major mining projects had become either a reality or a strong likelihood in several provinces, and not surprisingly, provincial governments had started closely examining their involvement in the decision-making process about mining, and the share of benefits flowing from mining projects to landowners and to provincial governments. In 1988, a committee of the national Premiers' Council examined these issues and made a number of radical proposals, including a call for major increases in rates of mining royalties (Premiers' Council 1988).

Responding in part to the Premiers' Council, in part to the demands of the Enga Provincial Government concerning the proposed new Porgera mine, and in part to major unrest associated with landowners affected by the Bougainville Copper Ltd mine on Bougainville, the national government agreed to a new process for the approval of major new mining projects. The process involved the establishment of a Mining Development Forum to facilitate consultation with all interested parties, prior to approval being given. This process was first used in relation to the Porgera project, and resulted in the national government dealing with provincial government demands for increased royalties by agreeing to a new grant to provincial governments, to be paid out of national government revenues.

The major new benefits likely to flow to mining provinces raised serious questions about the possibility of equalising development between the provinces — questions which had not been addressed by previous governments in Papua New Guinea. The questions were all the more worrying, given the effective abolition of equalising grants since 1985, and the lack of any provision in respect of equalisation in the amended proposals approved during 1989.
The onset of the crisis in Bougainville served as a stimulus to examine the broader political arrangements for provincial governments in 1990. Two other developments in national-provincial relations during 1989 contributed to the reforms that were introduced in parliament. First, further amendments to the Organic Law were agreed to by the NEC in April 1989, which largely related to structures of provincial governments, but also had financial implications. Second, a new regime for the division of benefits from major mining projects was developed by the national government, which included a major new grant to provinces which hosted major mining projects. The implementation of these changes was never achieved because attempts to modify the existing arrangements were overtaken by the move for a more fundamental change in provincial governments which emanated from strong political origins in 1990.

**Political and Institutional Reform, 1990-1995**

The technical approach to the improvement of intergovernmental relations was marked by slow progress towards reform, the conservatism of the reform package agreed to by the NEC, and the imbalance of the package, particularly in relation to the equalisation of development among the provinces. This approach never succeeded in bringing about most of the changes that it had proposed, and was eventually overtaken by political events. 1990 signified a clear turning point in the approach towards institutional reform in Papua New Guinea. It can be categorised as a shift away from a technical approach to modifying the provisions relating to provincial government, towards one of an assault on the very existence of provincial government. In part, it resulted from the slow progress that was made towards implementing reform, based on the technical approach.

The slow progress towards reform was all the more remarkable, given that, for some ten years, all parties had been in basic agreement as to the need for reform. Part of the reason has been the growth of considerable opposition to the provincial government system at the national level. Precipitated, in large part, by the loss of role and of status occasioned by the establishment of the provincial government system and the takeover of functions by the provinces from the national government, opposition had grown considerably by the early 1980s, and has remained so. The growing dissatisfaction of Members of the Parliament has interacted with changes in the attitudes and functioning of the NEC, which has resulted in increasing opposition to provincial governments (Ghai and Regan 1989).

With weak political parties having to form unstable and shifting coalitions to achieve a majority that is sufficient to create a government, methods of providing patronage assumed ever increasing importance. As a result, senior Ministers and their supporters had considerable incentives to attempt to displace provincial governments as the main dispensers of projects and services. At times, this resulted in significant disruption of government programs — examples being the controversies over sectoral program funding administered by the Department of Transport and Department of Primary Industry, and some of the suspensions of provincial governments in between 1984 and 1987. It was these aspects that led to the move towards more fundamental political changes in provincial governments in 1990.
The Working Group on National-Provincial Devolution, 1990


The working group was specifically mandated to address the growing gap between the ability of the original provisions for funding provincial governments to meet the needs of a decentralised system, and the inconsistent way in which these provisions were being applied. It was also tasked to deal with the obvious failure of many — if not most — provincial governments to perform to expectations.

The working group specifically recognised that, although a few provincial governments had demonstrated good levels of capability, the majority had not performed well. This led the group to conclude that there should not be a general transfer of greater powers to all provincial governments, while at the same time the diversity in the levels of capability of provincial governments should be more formally recognised. Provincial governments with a proven record of capability were to be accorded a higher degree of autonomy than others. The report stated that the responsibilities of a provincial government should match the level of resources and administrative capacity of the government, and those with higher levels of both should be granted a higher level of responsibility.

Those effective provincial governments were to be known as 'autonomous provincial governments', and were to be accorded greater autonomy by adopting a flexible mechanism that would allow them to take on new functions, when they were ready and willing, subject only to general oversight by the national government.

The working group also proposed that stringent criteria should be established for determining whether a provincial government would be eligible for this status. The new status of 'autonomous provincial government' would only be granted to those provincial governments which met high standards of capacity and performance, and which formally expressed a desire to be granted this status. Such provincial governments would only be eligible for greater autonomy after meeting a stringent set of criteria.

The recommendations of the report were designed to rectify the shortcomings in the implementation of the funding formula, by formalising the differential capacity of provincial governments that had been embodied in the concept of full financial responsibility. The report also had the underlying, and perhaps more important, objective of satisfying the desire on the part of Bougainville for greater provincial autonomy. It suggested that a new status of provincial autonomy should be created and given a distinctive title such as 'Provincial Government with Autonomy' or 'Autonomous Provincial Government'.

The report proposed the establishment of specific criteria for achieving the status of autonomy, and the process for attaining it. The criteria for eligibility for the status of 'autonomous provincial government' included:
full financial responsibility;
• political responsibility;
• legislative performance;
• policy making and planning capacity; and
• financial resources.

The grant of autonomy would be made by an Act of Parliament, to be introduced after the NEC had received a recommendation of a committee comprising ex-officio members drawn from the departments most directly involved in the operations of provincial governments, such as Provincial Affairs, Finance and Planning, and Personnel Management. The long-established, high level of capability of the North Solomons Provincial Government was recognised by the National-Provincial Working Group in 1990, and it proposed that a new level of autonomy should be granted to Bougainville.

While the immediate impetus for raising the question of greater autonomy for provincial government was the onset of the crisis in Bougainville, the mandate of the working group included addressing the question of allowing other provincial governments to apply for this status. Unfortunately many — if not most — provincial governments were having difficulty effectively carrying out the responsibilities they already had.

At that time, the situation in Bougainville was such that the North Solomons Provincial Government was the best performing provincial government in Papua New Guinea, and possessed a high management and planning capacity. Until mid-1989, when security problems in Bougainville escalated, the North Solomons Provincial Government had an exceptional record in terms of its capacity to effectively carry out its existing functions, and generally to plan and manage the use of resources at its disposal. It had already taken on more responsibilities than most provincial governments, and had demonstrated a capacity and willingness to handle both additional functions and a higher degree of autonomy.

It also had access to comparatively high levels of financial resources. Until the closure of the Panguna copper mine, the North Solomons Provincial Government had significantly higher financial resources than any other provincial government. Even before the full onset of the Bougainville crisis it was evident that there would be difficulties in addressing and meeting Bougainville’s concerns, without threatening national unity. Bougainville’s desire to achieve a higher degree of autonomy would, under any circumstances, be difficult to meet, while maintaining national unity, particularly as resentment over the special arrangements for Bougainville was widespread. To some extent, the issue was moot, as Bougainville possessed resources and capacity that surpassed all other provincial governments.

**Moves to Reduce the Influence of Provincial Politicians**

The conflict in Bougainville, which culminated in the declared secession of that province in 1990, and the onset of the Bougainville crisis further contributed to the forces that were determined to move politically against the provincial government system. In March 1990, parliament established the Select Committee to Review the
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Provincial Government System (Hesingut Committee). The mandate of the committee was to review:

(a) the provisions of the constitutional laws on powers and functions of provincial governments;
(b) the exercise and performance of those powers and functions;
(c) the finances of provincial governments; and
(d) advise generally on the effectiveness of the system.

In broad terms, the Hesingut Committee recommended that:

- provincial governments be abolished and replaced by a political body comprising chairpersons of local government bodies;
- local-level government be brought back under national legislation;
- the provincial public service be brought under the control of the national government; and
- provincial funding be based more on conditional grants (National Parliament 1991).

At the same time, a proposal was introduced in parliament to create district development authorities — a move that eventually resulted in the adoption of the Electoral Development Authorities Act, certified in February 1992, which gave MPs a mechanism for distributing funds within their electorates.

The provincial response to what was seen as an attempt to abolish the provincial government system was contained in a report of a subcommittee of the national Premiers' Council, which operated under the identical terms of reference as the Hesingut Committee and undertook a detailed study of that report. The Premiers' Council Subcommittee Report (Pokawin Report) was submitted in November 1990, seeking to put an alternative viewpoint before parliament. It was based on a detailed analysis of the Hesingut Committee Report, and placed emphasis on ways in which the provincial government system could be improved (Premiers' Subcommittee on Provincial Government Review, response to Hesingut Progress Report 1990). It recommended that:

(a) parliament not move to abolish the current provincial government system, but instead, use its powers to improve and fully implement the system;
(b) before any decision was made on the future of the provincial government system, a thorough review should be made of all proposals to change or improve the system contained in previous reports;
(c) parliament immediately enact the gazetted proposed law to alter the OLPG (as amended in light of the Premiers' Council resolution PC 7/13/90); and
(d) parliament reject the passage of the District Development Authority Bill in its present form, on the grounds that it provides for the establishment of an additional government body to perform functions which should be performed by provincial and local-level
governments and would lead to fragmented development planning in each province.

The positions of the two reports clearly represented the lines dividing the national government and the provincial governments with respect to the political bases of the decentralised political structures in Papua New Guinea. The Premiers' Council subcommittee review reflected the approach that had been adopted by all the previous technical committees which had studied the problems of provincial government. It accepted the principle of the devolution of political power to the provincial level and operated from the premise that provincial governments were here to stay.

The central task was seen as addressing the crucial problems and amending the legal and administrative provisions to correct these problems, within the broad lines of the existing political structures. The Hesingut Committee saw the essential problem as being political, with the conflict between national and political politicians being central to the difficulties. It addressed this problem by removing any vestige of an independent political power at the provincial level.

When it was clear that a strong move to undermine the political bases of provincial government was underway, the Premiers' Council, after further consultation with the provincial premiers, submitted a report containing a series of proposals that went beyond the technical approach that had marked earlier studies from the Premiers' Council. The Pokawin Report represented a shift away from the purely technical approach of earlier council resolutions by accepting more political changes, including:

- reducing the size of provincial assemblies and executives;
- directly electing provincial premiers;
- reducing the salaries and allowances of provincial politicians (and national ones);
- guaranteeing grants to local-level governments; and
- accepting the existence of electoral development authorities.

This shift was expressed in the proposed compromise which called for:

> ‘the withdrawal of both 1988 and 1991 proposed laws to alter the OLPG — Special Premiers' Council and Hesingut bills — and the Constitutional (Amendment) (Provincial Government) Law from National Parliament.’

A further compromise was proposed, whereby national parliament would be requested to convene a select committee to prepare a set of proposals for reform that would bring together the provisions which had evolved out of the technical approach, as manifested in the 1988 Special Premiers' Council, on the one hand, and the political approach to restructuring, as contained in the Hesingut proposals on the other hand. This committee was to comprise members drawn from the Pokawin and Hesingut Committees, and was to submit its proposals to the October 1991 sitting of parliament.
This compromise was not accepted, and instead of naming a committee that represented the views of the provincial governments and the national government, the national parliament appointed a committee comprising only backbench national MPs, who were selected from among members supporting the Government and those in the Opposition. Thus, the Bi-Partisan Select Committee on Provincial Government was created and given the task of proposing changes to the provincial government system in Papua New Guinea.

As the committee was composed entirely of national politicians, it followed the lines of the earlier political approaches to modifications of the decentralised structures of government, and its membership excluded all participation from the bureaucracy and provincial governments. As such, its approach, and the eventual changes that were implemented, altered the fiscal arrangements for provincial governments, as well as the political structures of the decentralised system.

**The Reform of the Decentralised System, 1995**

In the history of provincial government reform, the Hesingut, Nilkare, and Bi-Partisan Committee Reports represented a move away from reports by committees comprising public servants, to proposals emanating from the political branch of government — the last of these being a committee composed entirely of national-level politicians, who were backbench MPs from the Government and the Opposition. This knowledge of the composition of the committee is essential to understanding the nature of the proposals made by the Bi-Partisan Committee. With this change in the composition of the committees making recommendations, the problems that were identified changed from administrative to political difficulties, the recommendations shifted from proposals for technical change to proposals for structural change, and the overall focus of reform shifted from administrative solutions to political solutions.

The Bi-Partisan Committee Report was different from previous, technical proposals for reform because it started from a very different premise. Previous reports took the continued existence of provincial political institutions as given. They assumed that provincial governments were here to stay, and proposed specific changes within that system, as a means of improving them. The Bi-Partisan Committee did not start with the premise that provincial governments, as they were presently constituted, were here to stay. They were to be replaced with an institutional structure that was designed to obviate the problems which emanated from the very existence of politicians at the provincial level of government. The Bi-Partisan Committee’s recommendations did not build upon the earlier studies and proposals for reform. They ignored previous recommendations, and often simply did not address the same problems at all (National Parliament 1993).

In 1995, the Organic Law on Provincial Governments and Local-Level Governments (OLPGLLG) replaced the OLPG of 1976 as the fundamental legal basis of the decentralised system. The OLPGLLG followed the lines of the Bi-Partisan Committee Report and preserved the commitment to a decentralised system of government, which could not be easily changed on the basis of short-term political considerations. To this extent, it served to temper the political competition between the levels of government in that major challenges to the system would not be subject
to the vagaries of everyday politics, but would require careful consideration before being adopted.

This platform had no impact on increased accountability, the cost of government, the delivery of services, or improvement in governance (Simonelli 2003). In so far as an effective decentralised system was in place, its entrenchment in an organic law contributed to its integrity against shortsighted attempts at its dismantlement. On the other hand, if the new arrangements failed to respond to the expectations of its designers, or resulted in continued abuse and mismanagement by members of provincial authorities who would exercise considerable control over the allocation of resources, they would be as difficult to amend as the existing system. The obstacle to any future reform that this posed turned out to be formidable, as evidenced by the difficulties experienced in bringing about the reforms proposed by the NEFC in 2007 (National Economic and Fiscal Commission 2007a).

Changes in Political Structures

The most fundamental change from the previous system of provincial governments was the political emphasis. The OLPGLLG provided that each provincial government would still have its own constitution, structured around certain principles. All national Members of Parliament would become members of the provincial authority, with the MP representing the Open Electorate of the province to be the designated governor of the provincial government. Local government leaders also would become members of the provincial legislature.

These amendments provided for the membership of provincial authorities to be constituted by MPs and presidents of local councils, and provided that provincial electorates replace regional electorates in the national parliament. The total number of seats in parliament remained the same, with the name of the regional electorate being changed to provincial electorate. The designation of the MP who was elected in the Provincial Electorate as the governor of a province and head of the provincial authority effectively adopted the practice of the presidential-style election of the provincial premier that had been instituted by several provinces, and which had generally been considered to be a success.

These changes reflected the political nature of the reforms that were adopted in 1995, as opposed to the previous technical proposals for reforming intergovernmental fiscal relations. The changes abolished the elected provincial legislatures and replaced them with a body comprising all of the members of national parliament and local government bodies. The new arrangements effectively eliminated the previous middle level of government — provincial government — by replacing it with members of the legislative branch of the national government and representatives of local government.

The 1995 reforms flowed from the concern over political rivalry and confrontation between the two levels of government, as represented in the the Hesingut and Nilkare Reports, as opposed to the proposals to reform the existing system of provincial government, which were represented by the more technical proposals of the Specialist Committee and the National-Provincial Working Group.
Rather than attempting to improve the relationship between politicians at the provincial and national levels, by adopting mechanisms of control and cooperation, the 1995 changes attempted to eliminate political rivalry between them by eliminating one of the rivals — provincial politicians.

Control over Governmental Expenditure

The provision for specific control systems to guarantee accountability drew attention to the concern over effective control of expenditure of funds and overall accountability of government that previously had been a central component of the technical proposals for changes in provincial governments. However, the lack of detail with respect to the kinds of systems of control over expenditure represented a step back from the proposals of previous committees of review, which had included a series of specific mechanisms for increased accountability of provincial governments.

There was no evidence offered by any of the studies and reports dealing with the reform of provincial government in Papua New Guinea, that the occurrence of mismanaged or misappropriated funds, or corruption, was any greater at the provincial level than at the national level. The failure to include any specific additional mechanisms significantly reduced the ability of the new system to achieve increased accountability and efficiency. With respect to the increased accountability for the use of public funds, the replacement of provincial politicians with national politicians did not lead to any significant improvement.

One of the central justifications for the 1995 changes was that it would improve the delivery of services to the people. However, previous studies had not identified the provincial politicians as being the major obstacles in this area. Funding shortfalls and lack of skilled personnel were amongst the most important shortcomings (Bray 1985; De Albuquerque and D'Sa 1986; Kolehmainen-Aitken, Thomason, et al. 1991; Thomason, Newbrander, et al. 1991; Tuck 2006). The creation of provincial authorities to replace provincial governments did not lead to any improvement in the delivery of services.

The changes imbued the provincial governor with the status of a national Minister, with respect to the trappings of office, by elevating the twenty backbench MPs, who were elected in the province-wide electorates, to ministerial status. This was a direct response, and solution, to the loss of political status of backbenchers that had occurred with the original establishment of a decentralised system and the creation of nineteen provincial governments. Although the reforms did reduce the rivalry between national and provincial politicians, it was replaced by a new rivalry between national ministers and provincial governors, and collectively between the NEC and backbenchers, which has been as disruptive as that which it replaced.

With respect to increased accountability, there is no reason to believe that susceptibilities to the temptations of abuse are any less likely for a governor than they are for a provincial premier. Moreover, the governor is not subject to the system of checks and balances that is inherent in the principle of ministerial responsibility to the majority in the legislature (Simonelli 2003). Also, even though the total number of politicians has been reduced, the number of politicians with direct access to the
distribution of funds actually increased under the new arrangements, as MPs were given greater direct control over the allocation of resources through the provincial authority.

The decision by earlier technical committees to recommend that, under the existing provincial governments, as many as a third of the members of the legislative assembly should be allowed to sit on the Provincial Executive Council (PEC) was seen as necessary to allow for the creation of a more stable governing coalition, through the building of support by offering the perquisites of a provincial ministry. However, under the 1995 changes, where the governor was not dependent on a majority in the provincial authority to stay in office, there is no indication why as many as a third of the members would be required to be part of the Provincial Planning and Executive Council (PP&EC). This provision could be seen as undermining some of the gains in efficiency that were achieved by the simplifications of the provincial executive.

The replacement of the ‘portfolio’ system of ministerial responsibility with the committee system of collective responsibility had been recommended by virtually all previous studies of provincial government, including the Constitutional Planning Committee (Constitutional Planning Committee 1974). The fact that it is also adopted for the proposed provincial authorities indicates that the waste and inefficiency created by the replication of a mini-national government structure in nineteen provincial governments were widely recognised.

Provincial Ministers provided the link between the legislative and executive branches of government by being the responsible political heads of departmental activities at the provincial level, with the responsibility for such services as agriculture, health, education, and so on. The move from a portfolio system to a committee system was also intended to contribute to the reduction of political competition, as there would no longer be dozens of provincial Ministers reveling in their exalted status.

The Provincial Administrator

Throughout the history of provincial government in Papua New Guinea, one of the most contentious issues has been the role of the public service, and its relationship with the political branch of government. The decision to keep a single national public service with officers assigned to the provinces, provided a unifying element in the decentralised system of government. However, it posed a challenge to overall administration. The position of the head of the public service in the provinces has been the focal point of much conflict, leading to the changes in this arrangement in 1995, which created the position of administrator of a province. The creation of the office of the administrator was a direct response to a long-standing point of contention between national and provincial politicians over the nomination of provincial secretaries.

The rivalry had given rise to a number of bitter political conflicts and litigation, including reference to the Supreme Court of Papua New Guinea. According to the new arrangements, a single administrator would replace the provincial secretary. By explicitly giving the NEC the power to name the provincial administrator, the
arrangements eliminated an area of ambiguity that had served to exacerbate the level of competition and rivalry between levels of government.

However, it proved to be unrealistic to believe that the kinds of rivalries that have marked national-provincial relations in Papua New Guinea would disappear as a result of the dual membership of parliament and the provincial authorities. The naturally competing interests of these two levels of government continue to exist and provide the basis for this natural rivalry.

**Local-level Government**

Local-level government is possibly the area of government in Papua New Guinea that has seen the most obvious decline since independence (Conyers 1978; Peasah 1994). As provincial governments have jurisdiction over local-level government, it is not surprising that the OLPGLLG included a number of changes in that area.

The problems of local-level government have long been recognised, and with the transfer of authority for local government to the provincial level, much of the responsibility for these problems has been attributed to provincial governments. As with other aspects of decentralisation, the performance of local governments has varied greatly throughout the country, with some provinces developing highly effective systems of local government. However, in many cases, the opposite has occurred. The broad purpose of the changes was to bring local government closer to the national level of government, by guaranteeing their funding, while leaving overall responsibility for their structure at the provincial level.

The representation of local-level interests was also to be assured by providing for membership of local government representatives in the provincial authority. The entrenchment in an Organic Law of a minimum level of funding for local government represented a major change from the previous funding arrangements, where the costs of local government were included in the MUG, and decisions as to actual levels of funding were left to provincial governments.

It was hoped that stronger local government would contribute greatly to the overall goals of the reforms, especially with respect to the broader involvement and participation of the people, and the delivery of services.

**Provincial and District Support Grants**

The strong desire by politicians to have funds for distribution at their disposal has been a hallmark of politics in Papua New Guinea. Within this context, the proposal for a formal structure within the electoral constituency of each individual MP, is the direct descendant of the diversion of sectoral development funds, the National Development Fund, direct tied grants to local governments, and other attempts by politicians to gain direct control over the distribution of discretionary funds (Ghai and Regan 1992:121). The Bi-Partisan Committee Report that led to the 1995 reforms embodied this desire to distribute funds directly to the electorate by proposing the creation of Electoral Development Authority (EDA) (Committee established by the National Executive Council on the recommendation of the Premiers' Council on 1 December 1983, 1984)
EDAs effectively would have represented a new series of institutions constituting a fourth tier of government at the national electorate level. These institutions operate between the provincial and local levels, with one provincial authority for every MP, except for those representing regional electorates. The new arrangements created eighty-nine new administrative and planning institutions (one for each electorate), in addition to the local-level management committees for each local-level government and the provincial secretariat for each provincial authority. The proposals for the creation of EDAs contradicted the stated goals of the reforms instituted in 1995, and virtually every previous proposal for the reform of provincial government financing.

Although the EDAs were not included in the OLPGLLG, their purpose of allowing national politicians to get their hands on funds to be spent directly in the provinces and the districts, was achieved through amendment to the Organic Law with the creation of grants under ss.95A and 95B of the OLPGLLG. District Support Grants and Provincial Support Grants are to be paid directly — one half to the national MPs and one half to the Provincial and District Joint Planning and Budget Priorities Committees.

The result has been the direct expenditure of funds by politicians, often for political purposes, which usually means highly visible new projects which may or may not have long-lasting benefits, rather than improving the general level of existing services, such as education and health, or expenditure on the maintenance of existing assets. This expenditure is often effected independent of planning taking place at the national, provincial, and local-levels, and resulting in a reduction in the coordination of spending according to well-developed priorities. Given the limited funds available for all levels of government, this spending has almost always had the effect of reducing expenditure on existing services.

Along with the major political changes, the arrangements for financing provincial governments were fundamentally altered in 1995. The new arrangements that were established under the OLPGLLG led to a new pattern of funding. The effect of these arrangements has been the subject of a great deal of criticism, from both the national and provincial governments. This has led to a major review of the system, culminating in proposals by the National Economic and Fiscal Commission to create an entirely new basis for financing provincial governments. The literature relating to these arrangements and proposals is examined in the following chapter, which examines the most pressing issues of national-subnational governance in greater detail.
CHAPTER 4: IMPROVED GOVERNANCE: ISSUES AND OPTIONS FOR THE FUTURE

It is difficult to separate factors influencing good governance at the provincial level from the broader political scene, not only at the level of national government and politics, but also in the broader social and cultural context. While acknowledging this, the purpose of this review focuses on issues relating to provincial governments and intergovernmental relations, and deals with literature relating to some of the central issues of the reform of intergovernmental relations, as they relate to the improvement of governance (World Bank 2001; Scott 2005). In keeping with the overall purpose of the literature review, it provides a foundation and guide to future research on these issues, with the ultimate goal of proposing options for future reforms to the decentralised political system in Papua New Guinea.

Although the various concepts of good governance are not examined in detail, governance can be broadly defined as ‘the process by which society collectively attempts to solve problems, maintain public order, and meet other shared needs’ (Larmour 1996a, 1998; Azfar, Kahkonen et al. 2001; World Bank 2001; Wolfers 2006). Other literature deals with governance specifically in the context of Papua New Guinea and the South Pacific (Axline 1993a; Larmour 1996b; World Bank 1999; May 2003; Greenwood 2003; Barter 2004; Hoban 2006). The issues examined here reflect the principal issues raised by current literature and the major dominant stakeholders who are concerned with subnational governance. Although this does not represent an exhaustive inventory of potential areas for reform, it includes:

- the review of intergovernmental fiscal relations;
- the possible abolition of the provincial level of government;
- the possibility of creating additional provincial governments out of existing provinces;
- the desire for greater provincial autonomy; and
- the broader issues of corruption and improved delivery of services.

The first three issues have been on the reform agenda for some time, and are either the subject of ongoing research, or the object of increased calls for action by interested stakeholders. As such, there is a well-developed literature which can be reviewed as a guide to political action. The latter two issues concerning the delivery of services to the people and the corruption of public officials are perennial problems related to the broader issue of governance, and extend well beyond the parameters of provincial government performance. The literature serves as a basis for designing further research on future options for improving national-subnational governance.

Intergovernmental Fiscal Arrangements

At the centre of debate about all decentralised systems, whether they are federal or unitary, is the competition for control over the allocation of resources. This competition is particularly intense in Papua New Guinea, not least of all because the responsibility for the delivery of services in the main areas of activity that touch the lives of the population was assigned to provincial government, and decentralisation spawned a new set of provincial politicians who had control over the allocation of the funding of these services.
The 1995 reform of intergovernmental arrangements altered the way in which provincial and local-level governments are funded. In response to the widely recognised failure of these arrangements, the NEFC proposed a new set of fiscal arrangements, to be enacted in 2007. The financial arrangements for provincial governments had serious shortcomings, even when provincial governments were originally created. Provincial governments required significant amounts of funding to carry out their newly assigned responsibilities, and appropriate financial arrangements had to be established, without detailed knowledge of the actual needs of individual provinces. As a result, the original ‘base year’ amounts for the Minimum Unconditional Grant were determined somewhat arbitrarily, and not without some political consideration (Conyers 1978; Standish 1979; Manning 1979a, 1979b; Crawley 1982a; Bonney 1986;). Also, by fixing the main source of funding to a rigid formula, the anomalies that existed at the outset were perpetuated over the years and prevented provincial funding from responding to spatial inequalities and the specific needs of particular provinces (Hinchliffe 1980; Berry and Jackson 1981; Chelliah 1981; May 1981). The original funding arrangements were never implemented, as originally envisaged, for several reasons. Because of the lack of capacity on the part of the provincial government process, most provincial governments were only given control over the capital works portion of their funding, while a few with greater capacity were accorded ‘full financial responsibility’. Some national departments — particularly health — retained control over functions that were designated as provincial responsibilities, and because of inadequate data, the derivation grant and MUG increments were not calculated correctly (Axline 1988). Consequently, the national government was able to retain greater control over the distribution of funding, while achieving some of the goals of redistribution and maintaining control over the total amount of funding (Axline 1986a; Regan 1988).

As already indicated, the first ten years of attempts to reform the decentralisation arrangements were dominated by concern over the financial arrangements. The issues to be dealt with were those that had been raised when provincial governments were created, and which still remained at the centre of contention. For example:

- how to reconcile the various goals of decentralisation and development;
- the need to provide provincial governments with sufficient funds to at least maintain the level of delivery of services that initially existed;
- the need to provide sufficient funding to provincial governments to allow them to improve the delivery of services;
- the need to provide a more equitable distribution of funding across provinces; and
- the need for the central government to retain sufficient control over funding to allow it to fulfil its overall responsibility for macroeconomic policy.

Although the earlier attempts at reform have been termed ‘technical’ in their approach, they clearly addressed one of the central political issues of intergovernmental relations — the control of the allocation of resources. Even the 1990 report on increased provincial autonomy, which was a response to demands for greater political autonomy, mainly on the part of Bougainville, predominantly dealt with the issue of control over funding (Working Group on National-Provincial...
Devolution 1990). The recommendations emanating from a decade of review remained essentially moot, as none of the reports of the various commissions and committees were adopted. Although they were often based on extensive research and analysis by experts, they failed to pass the ultimate test for adoption, which was approval by politicians. The broad structure of financial arrangements remained unchanged until the reforms of 1995, which were proposed by a committee of politicians comprising Members of Parliament (National Parliament 1993).

In addition to proposing new structural arrangements for provincial governments, which strengthened the role of national parliamentarians, the Bi-Partisan Committee recommended the adoption of radically altered funding arrangements. Although purporting to take into account the earlier reports by expert committees, the Bi-Partisan Committee virtually ignored all the previous recommendations, as well as the advice provided by a consultant engaged by the committee (Axline 1993b), and proposed a system that was embodied in the Organic Law on Provincial Governments and Local-level Governments (OLPGLLG). The 1995 reforms have received a great deal of criticism, and for the most part have been considered a failure with respect to the problems they purported to solve (Commonwealth of Australia 1997; Simonelli 2003; Whimp 2005; Tuck 2006). The overall effect was to recentralise control over provincial governments, rather than improve decentralisation.

The financial arrangements under the OLPGLLG are cumbersome and complex, and have never been fully implemented, with the national government rarely funding provincial governments according to the requirements of the formulae contained in the Organic Law (National Economic and Fiscal Commission 2002, 2006). In keeping with the importance of this issue to the overall functioning of provincial government, a major research project has been underway for the past seven years. The goal of this review of intergovernmental fiscal relations is to effect fundamental changes to the arrangements for funding provincial governments which will address the problems related to the delivery of services to the people. The review is based on extensive research in order to determine the costs of effectively delivering adequate services, and designing a funding arrangement to finance these activities. It represents the first serious attempt to address the fundamental issues of stabilisation, equalisation and development that were raised when provincial governments were established (Hinchliffe 1980; Berry and Jackson 1981; Axline 1988).

The NEFC’s proposals address the following issues:

- stabilisation (the funding of provincial activities at the level needed to meet current needs), by proposing levels of funding based on actual requirements;
- development (increases in funding to meet population increases and improved levels of delivery), by increasing the levels of funding to provincial governments; and
- equalisation (the more equitable distribution of resources among provincial governments), by directing funds towards provinces with greater needs (National Economic and Fiscal Commission 2007a, 2007b).

The far-reaching study by the NEFC (Constitutional Reform Commission 1995) also addresses the outstanding issues of provincial government funding that had been
raised by all the earlier committees of review, as well as the problems created by the reform of the system adopted in 1995 (May 2004).

The amendments to the Organic Law that were required for the implementation of the NEFC proposals were passed in the first of two required readings in the National Parliament. However, they did not receive the second approval before Parliament was dissolved in May 2007. They will be submitted to the new government now that the 2007 National Elections have been completed. When adopted and implemented, these reforms will represent the first major improvements in intergovernmental fiscal arrangements.

**Greater Provincial Autonomy**

In the context of decentralisation in Papua New Guinea, autonomy is a relative term. As a decentralised unitary state, provincial governments are a creation of the central government and do not share coordinate powers, as in a federal state. Given the high degree of decentralisation, Papua New Guinea has been referred to as a quasi-federal system (Axline 1984, 1986b; Peasah 1994). Essentially, this means that, as a unitary state, the provinces have jurisdiction over a relatively large area of governmental activity, particularly as their powers and funding arrangements were designed by the Constitutional Planning Committee (Constitutional Planning Committee 1974), and were to be implemented according to the McKinsey Report (McKinsey and Company 1977).

According to the implementation plans, all powers were to be devolved equally to all provincial governments, and the Minimum Unconditional Grant (MUG) was to provide funding for provincial government activities. It was in the implementation of the funding arrangements that the concept of relative autonomy was introduced into the decentralisation process. As it was obvious that most provincial governments lacked the capacity to allocate their funding effectively, only four were given the MUG for all functions. These provincial governments were said to have ‘full financial responsibility’ — an expression that was often replaced, albeit inaccurately, by ‘full financial autonomy’. Thus, the concept of autonomy entered the vocabulary of debate over decentralisation in Papua New Guinea.

Although debate continued to use the term ‘full financial autonomy’ to refer to full financial responsibility, Crawley (1982b) measured relative autonomy by reference to the source of provincial government revenue. Axline (1986a) measured the relative autonomy of provincial governments by the proportion of total funding over which they had the power to allocate, and distinguished it from the latitude that provincial governments had, as measured by the amount of resources available in relation to the demands on those resources. Although discussions of autonomy have dealt mainly with funding, financial autonomy is not the only dimension of greater provincial autonomy. The range of activities over which a government has the power to make policy is the central element of autonomy. These powers may be increased by transferring control over functions from the national government to provincial governments (Ghai and Regan 1992).

The most concrete recommendations to formalise the granting of greater autonomy were proposed in the report that recommended the institutionalisation of
criteria, based on the granting of full financial responsibility (Working Group on National-Provincial Devolution 1990). Although initiated as a means of responding to demands for greater autonomy by the North Solomons Provincial Government, and other well-organised provincial governments, such as East New Britain, these proposals were never implemented. Instead, more than a decade later, Bougainville became formally autonomous, under very different circumstances. During consultations with provincial government officials on the 1990 recommendations, it became evident that any grant of autonomy to Bougainville, or any other provincial government would be demanded by all the other provincial governments.

Autonomy is defined as the degree of independence that a government enjoys in relation to decision making. The greatest degree of autonomy is to be found where a government has the total power to act in every area of activity, to the exclusion of any other authority. The classic example of this type of government is the independent sovereign state. The authority to make decisions in a given area is a function of the powers that have been accorded provincial governments, and this area can be increased through the transfer or delegation of powers. This has been called *de jure* autonomy, or the right to act autonomously (Bougainville Transitional Government 1998c).

Equally as important for a provincial government seeking greater autonomy is the issue of whether it has the capacity to exercise increased *de jure* autonomy. This is the element of *de facto* autonomy. Because a government has the right to act does not mean that it has the ability to act. There is no autonomy to be derived from the authority to make a decision or finance a project, if a government does not have the capability to implement the decision, or the money to provide the funding for the project.

The Autonomous Bougainville Government was created out of a particular set of circumstances, and cannot serve as a general model for greater autonomy to be accorded to other provincial governments. However, its very existence is bound to influence the aspirations for greater autonomy on the part of other provincial governments (Wolfers 2006). Bougainville’s autonomy emerged out of the protracted crisis and eventual peace settlement in Bougainville. However, the issue of autonomy for the North Solomons Provincial Government, East New Britain, and other capable provincial governments had been on the agenda well before the Bougainville crisis. Because of the unique circumstances surrounding the creation of the Autonomous Bougainville Government, it does not serve as a model for the future granting of provincial autonomy. The bid for greater provincial autonomy by the East New Britain Provincial Government explicitly rejects the Bougainville model as a precedent (East New Britain Provincial Government 2004). However, East New Britain provincial autonomy, if granted, should be designed in such a way as to serve as a precedent to granting autonomy to other provincial governments in the future. The precedent set by the East New Britain model should provide the basis for establishing a *uniform* mechanism for granting *differential* levels of autonomy to different provincial governments.

It is conceivable that a mechanism for granting greater provincial autonomy could be established, which would:
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- be consistent with the original aims of decentralisation, as set out by the CPC (Constitutional Planning Committee 1974);
- be consistent with the criteria proposed by the 1990 committee on provincial autonomy (Working Group on National-Provincial Devolution 1990); and
- theoretically be granted to all provincial governments, without compromising overall good governance in Papua New Guinea, or constraining the national government from fulfilling its responsibilities.

It is apparent that there are attractions in seeking the fullest degree of political and financial autonomy in the shortest period of time (Premiers' Council 1990; Pokawin 1999). However, it is important that any provincial government which is seeking greater autonomy considers the advantages and disadvantages.

At first, it might seem advantageous for a provincial government to take a position proposing the immediate transfer of the fullest powers of allocation and revenue raising, and not be concerned about the capability of exercising them under existing conditions. As attractive as this approach might seem, it has serious shortcomings. If there are serious inadequacies in the administrative capacity of a provincial government, there is a strong possibility that it could not effectively adopt and implement policies in many areas. This could lead to a loss of confidence and a reduction in the legitimacy of governmental authority.

In relation to the revenue raising side of financial autonomy, the consequences could be even more disastrous. It is imperative to avoid a fundamental imbalance between the powers and responsibilities to raise revenue and the capabilities to actually generate that revenue. One element in attaining financial autonomy is the reduction of dependence on transfers from the central government and the development of a capacity to raise provincial revenue. However, the danger is that stable funding through transfers will be traded off for the right to impose new fundraising powers when the economic situation does not produce sufficient revenue. Paradoxically, the transfer of a high degree of responsibility to raise revenue to the provincial government, when that government is not able to do so, would result in a lower level of autonomy.

As the administrative and fundraising capacity of a provincial government expands, the responsibility for providing revenue will shift from grants from the national government to taxes raised by the provincial government. Typically, funding will shift from conditional grants to unconditional grants, to transfers based on the derivation principle, and eventually, to fully provincially raised revenue. This shift in funding sources will bring about an increase in the financial autonomy of a provincial government, as the imbalance between de jure and de facto autonomy is reduced.

Although individual provincial governments may believe that it is in the interest of their province to obtain greater autonomy and that it may result in the improved delivery of services, any decision to grant greater autonomy must depend on the broader elements of good governance in Papua New Guinea. Certain interests of the national government must be taken into consideration, that will define the extent to which greater autonomy will be granted. It is to be expected that the national government will not concede any provincial control over the classic areas of sovereignty such as defence, foreign affairs, and currency.
In addition to these areas, the national government has been reluctant to transfer financial autonomy to the extent that it is seen to constrain their freedom of policy making in other activities. The areas which the Government of Papua New Guinea has been most concerned about are:

- responsibility for macroeconomic stability;
- spatial inequalities in the delivery of development services; and
- equal status of all provincial governments.

The Government of Papua New Guinea has strongly resisted proposals that tied transfers to provincial government to changes in the total expenditure on goods and services by the national government because it would limit its ability to pursue its macroeconomic goals of economic stimulation, debt reduction, inflation control, and so on, that lie at the heart of powers of the contemporary state.

These concerns have implications for two issues of greater autonomy for provincial governments — increased guaranteed unconditional grants, and provincial borrowing without approval of the national government. The national government had also resisted proposals to tie the Minimum Unconditional Grant to changes in total government expenditure on the grounds that it would limit their ability to pursue sound macroeconomic policy. Similarly, unfettered borrowing on the part of provincial governments was seen as eroding the capability of the government to exercise proper control over total public debt.

Another persistent theme running through the history of provincial government in Papua New Guinea is the issue of conflicting development goals of decentralised political power versus inequality among regions and provinces (Hinchliffe 1980; Berry and Jackson 1981; Axline 1988). It is generally considered that the responsibility for addressing these problems of inequality lies within the purview of the central government. However, the Government has consistently held the view that it does not want to compromise its ability to act in this area of redistributive policy. In the past, this has been a major obstacle to granting greater provincial autonomy.

One of the greatest obstacles to granting special status to any provincial government is the issue of according equal political status to all provincial governments. This approach, which had been proposed by the McKinsey Report, had proven to be unfeasible (McKinsey and Company 1977). This problem was approached in a pragmatic fashion in the 1990 report on greater provincial autonomy, which recommended a mechanism whereby all governments had equal status and the equal right to attain a higher degree of autonomy (Working Group on National-Provincial Devolution 1990).

The ultimate determination of whether provincial government(s) should be granted greater autonomy should be made on considerations of good governance. The question is, ‘does it contribute to better governance and the delivery of services to the people, not just for one province, but for other provinces, and throughout Papua New Guinea?’
Abolition or Proliferation of Provincial Governments

Perhaps the most fundamental issue relating to the reform of the decentralisation arrangement is whether provincial governments should exist at all. The debate on this issue commenced in the earliest days of independence, and when it was clear that a decentralised system was to be established, there was debate concerning fully developed legislative and executive bodies at the provincial level (Conyers 1976). The decision was taken to establish a fully decentralised unitary state, and this decision has been an issue of contention since then. At the same time, it was decided that the districts under colonial rule would, for the most part, define the boundaries of provinces, providing nineteen provincial governments, and a National Capital District.

There are two streams of logic that have provided the background for the argument in favour of abolishing provincial governments, throughout the whole period of debate over decentralisation. The first is that, shortly after independence, Papua New Guinea created provincial governments, and since then, the delivery of services has declined. Therefore, provincial governments are the cause of this decline.

The second is that, before independence, the *kiap* system was an effective system of local government, and that with decentralisation, provincial governments have been given responsibility over local-level governments. Therefore, the elimination of the provincial level of government, which lies between the national and local levels will contribute to improved delivery of services. The first proposition suffers from the fundamental logical fallacy of *post hoc ergo propter hoc*, and the second is supported entirely by anecdotal evidence. Before proposing changes that would effectively abolish provincial governments, serious empirical research should be carried out to assess the possible impact of such a change.

The debate over the desirability of the existence of fully developed political institutions at the provincial level, and the appropriate number of provinces has persisted throughout the history of proposals for reform. The earlier ‘technical’ committees took it as given that provincial governments were here to stay, and their recommendations were founded on proposals to improve the system (Committee established by the National Executive Council on the recommendation of the Premiers’ Council on 1 December 1983, 1984; Committee of Review on Financial Provisions of the Organic Law on Provincial Government 1982), as did the reports undertaken by the Premiers’ Council (1990). Even the 1990 autonomy committee recommendations were based on the existing system of provincial governments, and proposed a graduated system for provincial governments to move to the status of ‘provincial government with autonomy’.

The Hesingut Committee proposed that the elected politicians in the provincial assemblies be replaced by heads of local government (National Parliament 1991), and the Bi-Partisan Committee Report, which effectively emasculated the independent political base of provincial politicians, paid lip service to the preservation of provincial governments (National Parliament 1993). More recently, the Public Sector Reform Advisory Group publicly and formally voiced the recommendation that provincial governments be abolished as a legislative level of
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government in Papua New Guinea, and that the national government directly funds local-level governments (Public Sector Reform Advisory Group 2006). A straightforward way to research this issue would be to examine the extent to which provincial governments have exercised their legislative powers to adopt policies that are suited to their unique provincial needs.

Despite the numerous problems associated with the current system of provincial government, as identified in reports such as that of the Public Sector Reform Advisory Group, are calls that have been made to create new provinces. However, this issue has become political, as promises were openly made by the Government for the creation of two additional provinces — Jiwaka in Western Highlands, and Hela in Southern Highlands. As a result of these promises, which were echoed prior to the 2007 National Elections to lure support for candidates, the progress towards the creation of the new provinces has stalled. While it is the prerogative of the Government to decide whether to create new provinces, as a result in population growth and other factors, careful consideration must be given before any final decision is made. The Government must realise that infrastructure and other services in all the districts throughout the country are in decline. Hence, it makes more sense not to create any new provinces at this stage. The Government should work on the current system which in place, by improving the delivery of services, before it embarks on creating new provinces.

This issue of new provinces and new electorate boundaries came about through the report by the Electoral Boundaries Commission (2006). Despite the identification of additional Open Electorates, the national parliament voted against the recommendations of the commission. Although the Members of Parliament opposed the commission’s recommendations, the procedures for creating the new boundaries are even more complicated because of conflict in the laws.

The Public Sector Reform Advisory Group, second report (Public Sector Reform Advisory Group 2006) noted the conflict in laws when it acknowledged that difficulties in amending boundaries arose from their double identity and role as provincial electorate boundaries and provincial boundaries. At the statutory level, this is reflected in the placement of responsibility for the Organic Law on Provincial Boundaries with the Minister for Inter-Governmental Relations, while responsibility for provincial electorate boundaries comes under the Prime Minister, through an independent constitutional office – the Electoral Boundaries Commission.

The Ministry of Inter-Government Relations and its predecessor ministries were unable to act independently to adjust provincial boundaries because of implications for provincial boundaries under the Electoral Boundaries Commission. The Public Sector Reform Advisory Group noted that redrawing provincial boundaries and provincial electorate boundaries was complex because, as with open electorate boundaries and district boundaries, there were two distinct concepts, two relevant organic laws, and two ministries responsible for identical boundaries.

The advisory group’s report clearly stipulates that the responsibility for recognising new provincial boundaries lies with the Minister for Inter-Government Relations, and pursuing the creation of a provincial boundary would also require input from the Electoral Boundaries Commission to determine the provincial
electorate. Once these two offices agree on the creation of a new office, all the other necessary arrangements must follow:

- identifying the site for the new provincial headquarters;
- construction of houses and offices;
- election of new national Members of Parliament;
- identification of new districts and open electorates;
- the establishment of new local governments; and
- the arrangement of new financial grants from the national government.

The costs would be massive and it would take some time before the new province would become fully functional.

Despite these complications in identifying new provincial boundaries, the Somare government is committed to creating two additional provinces — Hela in Southern Highlands, and Jiwaka in Western Highlands. The Prime Minister, Sir Michael Somare, told Parliament that the National Alliance led government would stand by its commitment to create the Hela and Jiwaka provinces (The National, 3 October 2007). However, there were no reasons given as to why the National Alliance government is committed to the creation of these two new provinces. This is important because it would justify the additional funding that would be required to get the two provinces moving and the other associated arrangements that would come with it.

**Corruption and the Reform of Provincial Government**

Corruption is a problem that all governments face. While it poses a problem for both developed and developing countries, it is a greater problem for the latter group, if only because the losses and cost to government and society represent a much greater burden on their limited financial resources (Larmour 1996b). Corruption also represents an important obstacle to the establishment of a functioning democratic system (Hoban 2006), and as a barrier to the building of confidence on the part of development assistance agencies (Doig and Marquette 2005a, 2005b; Doig, Watt et al. 2006). The literature on anti-corruption measures in developing countries proposes various remedies for the problem. However, it suggests that entities such as anti-corruption commissions and national integrity systems are not totally successful (Doig and McIvor 2003; Doig 2006; Larmour and Barcham 2006; Doig, Watt, et al. 2007).

Corruption is pervasive in Papua New Guinea (Edmiston 2002; Pitts 2002; Ayius and May 2007). Although it is not limited to the provincial level, one of the major criticisms of provincial government is that it is the primary source of corruption. This is often cited as a reason for eliminating the provincial level of government. Although there is no evidence that corruption is more widespread at the provincial than at the national level (Axline 1993b), research could provide an answer by examining the number of cases before the Ombudsman Commission, the Public Accounts Committee, and the courts that deal with allegations of corruption.

The most detailed analysis of corruption in Papua New Guinea was carried out by Transparency International (Mellam and Aloi 2003). This study states that corruption
cannot be discussed in isolation from the broader issues of development and politics, and examines the relationship between Melanesian communalism, personal greed, and development. The strong belief that politics is a means to personal wealth contributes to the perpetuation of corruption in Papua New Guinea.

The Transparency International study also examines the relationship between culture and corruption, and identifies the impact that democratisation, and decentralisation have had on the level of corruption. It is clear that legislation dealing with corruption in Papua New Guinea has been ineffective. Corruption is present at all levels of government, but clearly, the weakest is the local-level of government (Filer 2004).

Although there is no conclusive evidence that provincial governments are a source of corruption, it can be assumed that, at every level of society, a number of persons are potentially corruptible. If corruption is taken in the broad sense to include the misappropriation and misapplication of funds, the overall incidence of corruption could be reduced by minimising the opportunities and the incentives to behave corruptly. The opportunities for corrupt behaviour were effectively increased with the 1995 reforms, as large sums of money were handed over to politicians to distribute, as they saw fit. This created a situation that provided fertile ground for corrupt practices. Parliamentarians are not equipped with the necessary skills to effect good accountability practices, and are not the appropriate ‘vehicles’ for implementing development projects.

The clear distinction between the institutions that are charged with legislation and policy making (the political branch) and policy implementation (the bureaucracy), which is the hallmark of good governance in a modern state is blurred in Papua New Guinea. This distinction between policy making and implementation was further blurred with the 1995 reforms, when electoral boundaries were unified with district boundaries, and when District Support Grants and Provincial Support Grants were entrenched in the OLPGLLG. A fundamental, initial step towards the reduction of corruption in Papua New Guinea would be the elimination of payment of any funds to politicians for distribution. The Members of Parliament would still exercise their role in determining the allocation of funds, but would not receive or distribute funds.

This move would be further enhanced through changes that would be made to the OLPGLLG. One proposed amendment is to s.4 of the OLPGLLG concerning the role of Members of Parliament in the Provincial Assembly, which should be clarified. The justification for the amendment is based on the stated role of Members of Parliament, which is limited by law to participation in the approval of policies, guidelines, strategies, and plans in regard to the development of the districts in the provinces. However, in reality, the open members in many districts assume the role of the district administrations.

A further amendment to address the role of open members in the disbursement of funds is proposed for s.33A, which state that the Joint District Planning and Budget Priorities Committee (JDPBPC) should be abolished. The justification for this proposed amendment is that it is of the view of the Department of Provincial and Local Government Affairs (DPLGA) that the JDPBPC should be abolished because it has become the vehicle by which most open members have hijacked decision making
at the district level, including many aspects of service delivery. The DPLGA acknowledges the political sensitivity associated with the JDPBPC, and as an alternative, suggests that they be replaced with a new committee which has the same core functions. This variation to its membership would ensure that the JDPBPC is not dominated by open members who would still be members of the new committee. Such a new committee could be strengthened by utilising the expertise available in the District Management Team (Organic Law Review, DPLGA Consultation Draft, 14 June 2007).

Generally, provincial governments have not avoided the spread of corruption in their dealings. This was quite evident soon after the establishment of provincial governments which resulted in the suspension of many of them by the national government. The most common form of corruption that occurs in many provincial governments is the mismanagement and misappropriation of public funds. This form of corruption was further enhanced after the 1995 reforms where open members had direct access to public funds in the form of the infamous ‘slush funds’. Sections 95A, 95B of the OLPGLLG entrenched slush funds for Member of Parliament through the provision of district support grants. Commentators described the system as ‘the legalised squandering of public funds’. They note that the new Electoral Development Fund projects are generally not maintained, and the funds are generally not directed towards maintenance (PSRAG Second Report, July 2007).

The Deputy Director (Leadership) of the Ombudsman Commission stated that politicians should not be allowed to handle money, as this may lead to misappropriation. Politicians should make policies instead. He also stated that leaders should not be project managers, because their involvement in handling cash has resulted in mass public funding of unsustainable projects which have minimal social or economic value (ibid.). Despite the concerns raised by the Ombudsman Commission, the misappropriation of public funds has become a norm, and has been institutionalised in the country. The evidence of this is obvious in the districts, where service delivery and development in general have been lacking over the years, even though millions of kina have been channelled through the systems to deliver services at the local level throughout the country. There is a complete lack of tangible development, and the process of acquitting the funds is obviously not working.

The allocation of public monies to politicians to deliver services to the people at the local level is one area of fund wastage. It has resulted in politicians not spending the money on tangible projects that would benefit their respective districts. If the funds that have been allocated to the politicians had been used correctly, many districts in the country would now be well-developed in terms of infrastructure and the availability of many other services such as telephones, satellite communication, banking and postal services, police stations, and so on.

**Improvement in the Delivery of Services**

Ultimately, the goal of improved governance is improvement in the delivery of services to the people of Papua New Guinea. Under the decentralisation arrangements, the major responsibility for the delivery of basic services lies with provincial governments. From the very beginning, local-level governments have suffered from a low functional capacity (Conyers 1978; Bopp 1994; Commonwealth
of Australia 1997; May 2004). Since the responsibility for local-level government was transferred to provincial governments under the decentralisation arrangements, provincial governments have often been cited as the reason for the failure of local-level government (Scott 1980; Smith 1981; Regan 1985; Peasah 1990; National Parliament 1992, 1993, 1994, 2000), and the 1995 reforms provided for the direct funding of local-level governments by the national government.

It is broadly recognised that there are serious problems in the delivery of basic governmental services to the people of Papua New Guinea. This deficiency has been documented in assessments of the performance of individual provincial governments (Central Provincial Government 2005; East New Britain Provincial Government 2005; Eastern Highlands Provincial Government 2005), as well as in broad sectoral studies on service delivery (De Albuquerque and D'Sa 1986; Thomason, Kolehmainen-Aitken, *et al.* 1991). However, the relationship between decentralisation and the delivery of services is more difficult to assess (Smith 1997; World Bank 2001; Deininger and Mpuga 2005). Although it has often been asserted, there is little evidence to show that poor service delivery can be attributed to the adoption of decentralisation in Papua New Guinea (Newbrander, Aitken, *et al.* 1991; Kolehmainen-Aitken 1991).

Other than proposing the elimination of provincial government as a level of government in Papua New Guinea, several approaches have been put forward to improving the ability of local-level government to deliver services to the people. One approach that was submitted to parliament by the leader of the Opposition proposed the creation of an additional level of government in the form of district authorities (O'Neill 2006). A Bill went before parliament proposing the establishment of district authorities, but it has not come into effect because the Minister has not signed the document.

The idea of creating district authorities with their focus on improving service delivery is a revolutionary one. Their creation would totally transform the current framework of decentralisation. Therefore, it is necessary to look into this issue more extensively in order to establish its legal basis as well as the accompanying administrative requirements. As it stands, there was no debate or wider consultation concerning this issue, therefore it lacks public approval.

A move that was considered to be reckless was the amendment by parliament of s.10 (a) (b) of the OLPGLLG. The amendment, which was passed by parliament in November 2006, effectively removed presidents of local government councils from being members of the Provincial Executive Council. Despite the passing of the amendment, many provincial governors never realised its effects until they were briefed on the matter by the Secretary for the Department of Provincial and Local Government Affairs at the governors’ debriefing held on 29 August 2007.

The implication of this amendment is that it would have a considerable effect on the composition of the members of the provincial assemblies in the provinces. For example, Manus, which is the smallest province in the country, would have only two members on the Provincial Executive Council — the provincial member and the open member — with the three appointed members effectively having more non-elected members in the assembly.
The main reason behind the amendment was to allow for the establishment of district authorities in which presidents of local government councils would effectively become members of those authorities. The amendment did not consider the wider implications that would affect the composition of the assemblies, as well as certain provisions within the Constitution.

As a result of these implications, the National Executive Council agreed that the presidents be reinstated as members of the provincial assemblies through a Bill introduced in the October 2007 sitting of Parliament (*The National*, 2 October 2007). The Acting Prime Minister, Dr. Puka Temu, gave an explanation of the amended law by stating that, under the amendment, the provincial assembly now comprised of Members of Parliament representing electorates, the appointed paramount chiefs, the appointed women’s representatives, and other appointed members. The presidents are no longer eligible to be appointed as deputy governors of provincial governments, and appointments are restricted only to Members of Parliament. However, the NEC accepted advice that the amended law had serious imperfections and agreed that the Bill, when passed, would have a retrospect effect so that heads of the local-level governments that were affected would be deemed to have continued in office despite the amended law (*ibid.*).

One major undertaking by the DPLGA to improve service delivery in the provinces, districts, local-level governments, wards, and villages is to make wholesale changes to the OLPGLLG. As stated in the executive summary of the brief to provincial administrators, in a workshop organised by the DPLGA, through the Provincial and Local-Level Service Monitoring Authority (PLLMSA) Secretariat, on 1-2 August 2007, despite service delivery being one of the objectives of the Organic Law reforms, service delivery has been deteriorating since the OLPGLLG was enacted more than ten years ago.

While the reasons for the deterioration in service delivery are well-documented, many people believe that the deterioration in service delivery is attributable to the OLPGLLG, or its failure to be fully implemented, or both. Many of the public sector management issues associated with poor service delivery are now being addressed through the Provincial Performance Improvement Initiative (PPII), which is being led by the DPLGA and Department of National Planning and Monitoring. In parallel, it appears opportune that the government also addresses the various provisions of the OLPGLLG which contribute to poor service delivery (PLLMSA Consultative Meeting, 1-2 August 2007).

The deterioration in service delivery is reflected in the poor state of services in many districts throughout the country. The National Economic and Fiscal Commission (NEFC), in its consultation paper (Review of Intergovernmental Financing 2005) lists some examples of deteriorating service delivery:

- health services have closed, or the drugs and equipment to treat basic causes of death and diseases are no longer available. In some hospitals, there are no drugs and not enough beds for patients;
- in some cases, buildings have deteriorated to the stage where they have to be closed;
• there are not enough books for students, and some of the more remote classrooms have no teachers for much of the year because of lack of adequate housing; and
• roads are expensive to build, and they deteriorate rapidly because of the mountainous terrain and wet climate. Regular routine maintenance has been neglected over many years, and the state of roads has decreased accessibility to districts.

The NEFC offers a number of reasons for the deterioration:

• misappropriation and misuse of resources for service delivery;
• lack of training and capacity of public servants;
• lack of supervision and corresponding poor performance by public servants;
• confusion over who is meant to do what; and
• poor management and coordination.

According to the NEFC, many provinces also do not have enough money to meet the costs of delivering basic services. The deterioration in service delivery over the past ten years has disadvantaged many Papua New Guineans (PLLSMA Consultative Meeting, 1-2 August 2007).

On a positive note, the DPLGA has recognised this problem and has instituted major changes and reforms, as seen in the roll out of the PPII in the provinces in the country. The various aspects of the PPII specifically target the strengthening of the capacities of provincial governments to deliver services to the people. In their visits to the provinces, the officers of the DPLGA have seen the problems and have instituted programs that will assist provincial governments to improve the institutions involved in service delivery.

Conclusions

The preceding discussion does not cover all of the problems and issues that currently face the decentralised system of government in Papua New Guinea. It merely highlights some of the major matters that require consideration and attention. While some of the issues may be addressed by specific reforms and amendments to the existing arrangements, the broad array of problems that have been examined clearly indicate that the decentralised system of government in Papua New Guinea is in need of a major overhaul. This implies the undertaking of an overall review of the provincial government system which will address the broadest issues of decentralisation.

It is notable the extent to which the current issues reflect the same ones that were discussed by the Constitutional Planning Committee in the mid-1970s, and which laid the foundation of provincial governments:

• Should provincial governments be created at all?
• What political and administrative powers should be devolved to provincial governments?
• How many provincial governments should there be?
• How, and at what level, should provincial governments be funded?
What are the means for assuring the accountability of provincial governments?
What changes should be made to ensure that the decentralised system fulfils its mandate to deliver adequate services to the people of Papua New Guinea?

The scope of the task involved in making the necessary reforms to fulfil this mandate implies a major review and reform of the decentralised system. The NEFC has completed such a review and reform of the financial arrangements, and this is waiting for ultimate implementation. The DPLGA has carried out a review of the provisions of the OLPGLLG, with a view to fixing flaws in the legal and institutional arrangements. The broader review, with proposals for fundamental reform, remains to be undertaken. The present survey of the literature on decentralisation and provincial government reform has been compiled as the first step in preparing for that review.
USERS’ GUIDE

This document has been prepared by the National Research Institute, as part of the Program on National-Subnational Governance in Papua New Guinea. The literature survey was undertaken within the context of the AusAID Subnational Strategy, with the specific purpose of providing a basis for a review of intergovernmental relations, in order to improve the delivery of government services in Papua New Guinea. As indicated in the Foreword to the literature survey, the content and organisation of the document have been designed with the end user in mind.

For those users who wish to familiarise themselves with the overall structure and history of decentralisation in Papua New Guinea, the essay provides a guide, while the bibliography provides a listing of the most important documents, which have been annotated with an abstract of the content.

For more specialised researchers, the document has been specifically tailored as an instrument for carrying out research on a further review of intergovernmental arrangements in Papua New Guinea. The official reports that have been produced by past committees of review have been grouped together in Part 1 of the bibliography, with the references being accompanied by an abstract of the findings. The integral list of recommendations proposed by these committees accompanies the bibliographical reference. In many cases, the reports of the consultants who were members of the committees are also included. From these references, researchers should be able to reconstruct the ‘institutional memory’ of past efforts to reform intergovernmental relations.

Documents that are not official government reports are grouped together in Part 2 of the bibliography. The decision to generate a single alphabetical list, rather than group documents according to subject categories was based on two considerations. First, many references cover several different topics, which would lead to the duplication of entries in the bibliography. Second, the review essay contains in-text references to the literature relating to the subject being dealt with in the review, and this provides the reader with a guide to references on a particular topic. Finally, all of the references have been provided with a detailed list of key words, which will allow for the generation of a select bibliography on a given topic, using appropriate software.

The survey of literature and the bibliography have been published in two forms. One is a printed edition which is for distribution to all persons interested in the literature on intergovernmental relations in Papua New Guinea. These data are also available in electronic form, as a CD ROM. The CD ROM contains the entire text of the document in Microsoft Word format. In addition to this, the bibliography is contained in a relational database that can be searched by author, date, year, or key words, and which will allow researchers to generate their own specialised annotated bibliographies on specific topics. The relational database is contained in a file created by the bibliographical database program, Endnote, which is required to use the bibliography in this way. The CD ROM is available from the National Research Institute, for bona fide researchers.
ANOTATED BIBLIOGRAPHY

Part 1: Official Documents


This is one of four briefing papers used by the Bougainville Transitional Government in its preparations for negotiations over greater autonomy in 1999. It builds upon the concept of de facto autonomy, and indicates that the financial situation after the conflict will leave Bougainville with a much reduced situation of fiscal autonomy than it had before the crisis.


This is one of four briefing papers used by the Bougainville Transitional Government in its preparations for negotiations over greater autonomy in 1999. It provides an analysis of the economic situation in Bougainville after the conflict, and elaborates on two scenarios as to the financial situation after autonomy. The scenarios compare the fiscal situation without any mining activity, to the fiscal situation if mining was to be resumed.


This is one of four briefing papers used by the Bougainville Transitional Government in its preparations for negotiations over greater autonomy in 1999. It develops the concepts of de facto and de jure financial autonomy. Autonomy is defined as the degree of independence that a government enjoys with respect to decision making. Financial autonomy means the ability to determine how to spend. The ability to make one's own decisions on how to spend money is the main element of financial autonomy. No matter how many powers and functions a government has, if it cannot control spending, it does not have autonomy. Financial autonomy also means the capacity to raise money. The second aspect of financial autonomy is the ability to obtain the necessary funds to implement spending decisions. A government must be able to raise the funds that it wants to spend. These two elements define financial autonomy.


The main findings of the report are designed to respond to the terms of reference under which it was prepared, namely to provide:

- a review of previous proposals for reform of intergovernmental financial arrangements in Papua New Guinea, particularly with respect to their impact on Bougainville;
- the elaboration of the various options available to the Bougainville Reconciliation Government, as potential arrangements for provincial government funding;
- the evaluation of these options in terms of their impact on the eventual autonomy of the
provincial government in Bougainville; and

• a discussion of the major issues related to the central government-provincial
government positions relating to the different options for financial arrangements.

The report is divided into four main sections:

1. **Funding Arrangements and Governmental Autonomy**

Autonomy may be defined as the degree of independence that a government enjoys with respect to decision making. The greatest degree of autonomy is to be found where a government has the total power to act in every area of activity to the exclusion of any other authority. The classic example of this is the independent sovereign state. The ability to make one's own decisions on how to spend money is the main element of financial autonomy. No matter how many powers and functions a government has, if it cannot control spending, it does not have autonomy. The second element of financial autonomy is the ability to obtain the necessary funds to implement spending decisions. A government must be able to raise the funds that it wants to spend. The authority and the capacity to raise and spend money are both necessary for financial autonomy. There is no autonomy to be derived from the authority to make a decision or finance a project, if a government does not have the capability to implement the decision or the money to provide the funding for the project.

Bougainville can negotiate the authority to make decisions over raising and spending revenue, but it cannot negotiate the ability to raise and spend money effectively. That depends on the economic, political, and administrative conditions in Bougainville.

2. **Division of Powers and Sources of Revenue**

It is possible to define the level of autonomy of a provincial government in terms of the number and importance of sectors in which it has the authority to act. The greater the number and the more significant the area, the greater degree of governmental autonomy. It is important to adopt financial arrangements that are congruent with the distribution of powers. The funding arrangements will follow the division of powers, regardless of their specific distribution.

Different funding sources carry different levels of autonomy. It can be generally stated that self-raised revenue allows for greater provincial autonomy than grants from the central government, that unconditional grants provide greater autonomy than conditional grants, and that guaranteed grants provide greater autonomy than ad hoc grants. Based on these broad considerations, we can rank the different sources of funding according to the degree of autonomy they afford, from greatest to least autonomy:

(a) Self-raised Revenue;
(b) Guaranteed Unconditional Grants;
(c) Guaranteed Conditional Grants;
(d) Ad Hoc Unconditional Grants; and
(e) Ad Hoc Conditional Grants.

Within any specific distribution of powers, greater financial autonomy will accrue to the extent that the government can raise its own revenue. To the extent that self-raised revenue is not sufficient to meet expenditure needs, funding from transfers in the form of unconditional guaranteed grants would provide the next highest level of autonomy.
3. Financial Autonomy in the Contemporary Bougainvillean Context

With respect to the effective allocation of resources, the Bougainville Transitional Government does not have the capacity to exercise de facto financial autonomy in 1998.

The Bougainville Transitional Government is not able to generate much of its own revenue, which is reflected in its budget figures. When the effect of inflation is taken into account, the total expenditure available to the present government in real terms is about half the amount that was available before the crisis.

In 1988, the year preceding the onset of the crisis, the North Solomons Provincial Government raised approximately 55 percent of its considerable revenue from its own taxing powers, while in 1998, less than ten percent of the revenue was generated by provincial taxes. The remainder was provided through transfers from the national government. The relatively high degree of de facto financial autonomy afforded by this provincially raised revenue in 1988 had been dramatically reduced by 1998.

A second important factor contributing to financial autonomy in 1988 was the fact that a significant proportion of the transfers from the national government were in the form of unconditional grants. Mining royalties, timber royalties, and a derivation grant based on the export of cocoa, copra, and other commodities provided a significant amount of unconditional grants to contribute significantly to the financial autonomy of the provincial government. Revenue derived from economic activity in Bougainville accounted for more than 75 percent of total provincial revenue in 1988, but had fallen to less than ten percent of provincial revenue in 1998.

The reduced levels of expenditure reflect not only the reduced resources available to the provincial government, but also the lack of capacity of the government to translate expenditure into effective government services.


The capability of Bougainville to exercise financial autonomy has declined dramatically since 1988, and in 1998, the provincial government would not be able to exercise any greater degree of financial autonomy, even if it had the formal powers transferred to it.

Negotiating Financial Autonomy: The Options

A first option of an approach to negotiating financial autonomy would seek the fullest degree of political and financial autonomy in the shortest period of time. Initially, it might seem advantageous to take a position proposing the transfer of the fullest powers of allocation and revenue raising now, and not be concerned about the capability to exercise them under present conditions. Attractive as this approach might seem, it has serious shortcomings. Given the present inadequacies of the administrative capacity of the provincial government, there is a strong possibility that it could not effectively adopt and implement policies in many areas. This could lead to a loss of confidence and reduction of legitimacy of governmental authority.

With respect to the revenue raising side of financial autonomy, the consequences could be even more disastrous. It is very important to avoid a fundamental imbalance between the powers and responsibilities to raise revenue and the capabilities to actually generate that revenue. Paradoxically, the transfer of a high degree of responsibility to raise revenue, to the provincial government, when that government is not able to do so, would result in a
lower level of autonomy.

A second option, which is designed to avoid that pitfall, would adopt a phased approach to the transfer of de facto financial autonomy. This approach would adopt the following sequence:

(a) negotiate for full legal and political authority in the widest range of functions and activities;
(b) negotiate the funding arrangements that provide the greatest autonomy; and
(c) negotiate an agreement to phase in the responsibility for the actual funding of the activities from provincially raised revenue, over a period of time.

As the administrative and fundraising capacity of the provincial government expands, the responsibility for providing revenue will shift from grants from the national government to taxes raised by the provincial government.

This approach has the added advantage of allowing Bougainvilleans to decide on the future pattern of development for the province for themselves, both economically and politically. The development of the capacity to actually exercise autonomy, based on the restoration and reconstruction of the economy, will take years. During this period, the phased approach will provide a transitional period during which the rate of economic recovery will become more apparent, and the role of mining activity in the province can be considered in a more stable atmosphere. This will give Bougainvilleans the opportunity to assess the trade-offs between different paths to development and different levels of autonomy, and to respond within a flexible arrangement for assuming fuller responsibility for funding, as the capacity grows.

Negotiating Financial Autonomy: The Issues

The areas which the Government of Papua New Guinea has been most concerned about in transferring greater autonomy to provincial governments are responsibility for macroeconomic stability, spatial inequalities in the delivery of development services, and the equal status of all provincial governments.

Macroeconomic Stability

The Government of Papua New Guinea has strongly resisted proposals that tied transfers to provincial government to changes in the total expenditure of goods and services by the national government because it would limit its ability to pursue policies of economic stimulation, debt reduction, inflation control, and so on, which lie at the heart of powers of the contemporary state. Similarly, unfettered borrowing on the part of provincial governments is seen as eroding the capacity of the Government of Papua New Guinea to exercise proper control over total public debt.

Provincial Economic Inequalities

It is generally considered that the responsibility for properly addressing these problems of inequality lies within the purview of the central government. However, the Government of Papua New Guinea has consistently held the view that it does not want to compromise its ability to act in this area of redistributive policy. In the past, this has been a major obstacle to granting greater financial autonomy to Bougainville, principally because the revenues from mining activity provided the largest source of national government revenue through which equalisation was pursued.
Equal Status of Provinces

Among the political issues that have constituted the greatest obstacle to granting special status to Bougainville is the issue of according equal political status to all provincial governments. This problem was approached in a pragmatic fashion in the 1990 report on greater provincial autonomy (Working Group on National-Provincial Devolution). This report recommended a mechanism whereby all governments had equal status and the equal right to attain a higher degree of autonomy, but it specified criteria (including de facto financial autonomy) for attaining that status, which only North Solomons Provincial Government satisfied.

In this way, the proposal met the requirement of formally granting equal status for all provincial governments, while at the same time allowing for greater political autonomy for Bougainville. A similar set of criteria could be adapted in the present negotiations. However, Bougainville would not currently meet the criteria established in the 1990 report. However, in no way does this reduce the utility of this approach, which is consistent with the phased in transfer of de facto financial autonomy that is suggested here.


This is one of four briefing papers used by the Bougainville Transitional Government in its preparation for negotiations for greater autonomy in 1999. It suggests the factors that will likely be most important in the negotiations, and suggests a general approach to be taken in negotiating with the national government.


This document is the annual provincial performance report prepared for the 2004 fiscal year. It essentially comprises raw data on the categories of performance submitted to the Provincial Performance Improvement Initiative (PPII).


This is the report of the "Specialist Committee" which was a major study of the overall funding for provincial governments based on detailed empirical data on that funding. The report analyses the original purposes of decentralisation in Papua New Guinea, the evolution of the system of provincial government, and all the available data on the financing of provincial governments. The premise is that the national government has a strong commitment to maintain and improve the existing decentralised system.

The committee recommends that the Minimum Unconditional Grant be retained with a new base year and a new formula for calculating annual increments based on annual changes in total national government expenditure on goods and services.

It recommends that no new conditional grants be made until a new basis for their distribution can be put in place. The funds available for NFC grants should be applied to equalisation. There should be no distinction in the NPEP between national and provincial
projects.

The derivation grant should be maintained at the existing rate, but a new method of calculation should be adopted. Provincial governments should collect 75 percent of proceeds of a proposed windfall gains tax on land compensation payments.

Provincial governments should be given no new major taxing powers. Direct grants from the national government to finance local governments are inappropriate, and should be replaced with a system of conditional grants to provincial governments for the purpose of funding local-level government.

The total increased direct cost to the national government of the recommendations in the report is K3 757 005.

The Specialist Committee report possibly provides the most detailed analysis of the functioning of provincial governments and the decentralised system generally of any report on the subject. It examines virtually every aspect of the functioning of the system — political, administrative, legislative, and financial. It includes (in Volume 2) the most extensive data on the funding of provincial governments, until the NEFC studies two decades later. Many of the problems and difficulties that were identified in the report still pose obstacles to the effective functioning of the system. Unfortunately, subsequent reviews and analyses did not take into consideration the analysis and recommendations of this report, many of which remain valid today.

Volume 2 of the report provides a detailed examination of the problems, provisions, and proposed solutions, including the identification of the action needed to implement the recommendations contained in the report.

**Recommendations**

1. The devolution of powers and functions from the national government to provincial governments should no longer be uniform. In future, powers and functions should be devolved on the basis of the individual provincial government's capacities and wishes.

2. A suitable legal means for transfers of powers to provincial governments should be developed.

3. As the number of persons directly employed by provincial governments far exceeds the number that can be employed through the provincial secretariats, the legal position of the additional staff should be regularised and normalised as soon as possible.

4. **The MUG**
   (a) The MUG should be retained as the main means to fund transferred activities of provincial governments;
   (b) The base year amounts should be adjusted to the figures in the report;
   (c) The annual increment should be based on the change in the total national government's estimated cash expenditure on goods and services;
   (d) Defined as the total amount of appropriation minus expenditure on debt servicing and commercial investments, as published in the National Estimates of Revenue and Expenditure for the year of the grant;
   (e) Where an activity is transferred, to or from, a provincial government, the annual cost of carrying out that activity in the year prior to the transfer shall be added to, or deducted from, the previous year's MUG;
   (f) If the new MUG does not come into effect until after the 1985 calculations,
then the base year amount shall be the amount that would have been paid in the previous year if the method proposed herein had been in effect;
(g) The base year figure for any provincial government obtaining full financial responsibility shall be deemed to be the budgeted funding or the transferred activities for the immediately preceding year; and
(h) There shall be a regular review of the base year every five years, having particular regard to possible inclusion of recurrent funding of completed NPEP projects.

5. Derivation Grant
(a) The derivation grant shall be calculated as 1.25 percent of the value of total exports from Papua New Guinea for the latest year for which statistics are available;
(b) The data should be based on a cycle of five-year surveys;
(c) Each provincial government should improve its collection and collation of data on production; and
(d) There should be no deduction of royalties from derivation grants, but no derivation grant should be paid with respect to any product for which a provincial government receives a royalty payment.

6. Additional Unconditional Grants
(a) The National Fiscal Commission (NFC) should be abolished;
(b) The NFC’s present function of dealing with disputes on provincial government taxation should be discharged through the Premiers’ Council;
(c) The NFC’s present function of dealing with disputes on provincial government taxation should be made redundant by establishing maximum rates for the most important provincial government taxes. The rates should be laid down for five-year periods by the Intergovernmental Review Commission; and
(d) The Organic Law should continue to make provision for the possibility of additional unconditional grants, initially at the discretion, and subsequently on the basis of recommendations, of the Intergovernmental Review Commission.

7. During the next five years, the goal of equalisation of services between provinces should be pursued, in the main, through the allocation of funds through the processes of the NPEP, or its successor, and in particular, the allocation of a new fund, to be called the Equalisation Fund.

8. In addition to funding development projects, the Equalisation Fund should be used to fund projects designed to boost the capacity of the National Planning Office and other key national agencies to assist less developed provinces, and to increase the number of competent and experienced project planning and implementation staff in the less developed provinces.

9. A thorough survey of provincial and national assets should be carried out with a view to producing reliable provincial and national asset registers.

10. Recurrent Costs of NPEP Projects
(a) The ongoing expenditures of any NPEP projects involving provincial functions, which are no longer funded under the NPEP, should be initially passed on to provincial governments as one-line conditional grants; and
(b) During the five-year reviews, an assessment should be made of these ongoing projects and of provincial governments' willingness and capacity to continue them. Where provincial governments are properly managing their total resources, and have expressed agreement to continue particular projects, the recurrent funding should then be transferred into a revised base for the MUG.
11. The distinction in the NPEP, or its successor, between national and provincial projects, should no longer be used. Instead, all agencies, including provincial governments, should compete for the funds according to a common set of criteria.

12. There should be meaningful consultation between the national government and provincial governments before the commencement of any nationally funded project located in a province, and provincial governments should have the right to refuse projects, except for defence, national security, or major internationally funded commercial projects.

13. Members of National Parliament should have an opportunity of submitting NPEP projects for design.

14. The Department of Finance should investigate possible sources of commercial funding for commercially viable provincial projects.

15. A system of matching grants should be developed for funding of projects to further improve standards.

16. The five-year reviews of intergovernmental fiscal relations should consider the effectiveness of tied grants and should move to unconditional grants.

17. Mining legislation should require payment of royalties by all gold miners.

18. The actual costs of collection of timber royalties should be calculated and should be the only costs retained by the national government. The proportion of timber royalties now paid to landowners should not be increased.

19. Provincial governments should receive delegation of responsibility to collect motor vehicle registration fees.

20. Bookmakers' licence fees should be transferred to provincial governments.

21. Tobacco excise should remain a national government tax, with provincial governments continuing to receive a share, with an increase in line with inflation.

22. The national government should introduce a windfall gains tax on capital gains made on transfers of alienated land.

23. An Equalisation Fund should be established from receipts from retail sales tax in the National Capital District, a prescribed proportion of the proposed windfall gains tax, and an additional amount representing the allocations channelled in recent years through the NFC, at least K5 million per year. This fund is to be allocated to the less developed provinces.

24. Major new revenue raising powers should not be allocated to provincial governments.

25. A modified version of the central collection system for retail sales tax should be established (details).

26. The collection of retail sales tax should be improved (details).

27. Taxpaying sellers of goods should not be permitted to deduct collection fees from the retail sales tax they remit to provincial governments.

28. Draft model legislation should be prepared for entertainment tax, mobile traders’ licence fees, and licence fees for lotteries and wagers on sporting events.

29. Liquor licensing should remain a provincial function, and be imposed on a turnover basis.

30. Provincial governments should investigate possible imposition of land taxes.

31. Provincial governments should consider greater use of service charges.

32. Formal administrative arrangement should be established whereby court offices pay the proceeds of fees and fines imposed under provincial laws to provincial governments.

33. The definition of long-term loan should be clarified.

34. Provincial commercial enterprises should be reconsidered.

35. The licensing of small businesses should be an exclusively provincial tax.

36. Provincial legislation on local-level government should be reviewed.

37. Provincial governments should allocate an adequate proportion of expenditure to
local-level governments. Grants to local-level governments should be made as conditional grants to provincial governments. The national government should not provide direct grants to local-level bodies.

38. Provincial governments should have a representative on the Minimum Wages Board.  
39. Increased costs to provincial governments caused by the introduction of new public service structures in the provinces should only be paid by the national government, if submitted through the NPEP process.  
40. In order to ensure that there are quarterly reviews of, and adjustments to, the salary and allowances component of the MUG, there should be reviews of the estimated cost of salary and allowances.  
41. Powers to recruit, discipline, and redeploy public servants assigned to provincial governments should be given to provincial public service structures, where there is capacity to utilise those powers effectively.  
42. Experienced and qualified staff should be made available to less developed provinces, initially through projects funded by the Equalisation Fund.  
43. The national government should ensure that the number of national government public servants is reduced, particularly in areas involving transferred functions.  
44. National government departments should provide technical support service to provincial public servants carrying out the transferred functions.  
45. More emphasis should be given to the training of staff throughout the country.  
46. The existing financial control improvement program in the NPEP should be broadened in scope.  
47. The Department of Finance should implement a system for recording all calculations that are used to determine grants to provincial governments.  
48. National and provincial budgets should be brought into line.  
49. The OLPG should be amended to prohibit deficit budgeting by provincial governments.  
50. Sanctions should be imposed for the failure of a province to submit a financial report.  
51. Existing OLPG requirements on provincial agreements to provide copies of provincial laws to the national government should be enforced.  
52. National government finance inspectors should have the power to inspect provincial government accounts.  
53. Provincial governments should establish their own public accounts committees.  
54. The national public accounts committee should be able to investigate provincial accounts.  
55. The concept of full financial responsibility, and the criteria for granting it should be given recognition in the law, and the national government should be able to withdraw it. The existing criteria for full financial responsibility should continue to be used, with the addition of a new criterion involving assessment of the performance of a provincial government in maintaining its assets.  
56. Provincial governments should investigate the costs of insurance of their assets.  
57. Provincial laws should be published in a supplement to the National Gazette, and should take effect 30 days after publication.  
58. Provincial governments should adhere to the requirement to give notice of their proposed laws to the Minister responsible for provincial affairs.  
59. The text of any national law on a concurrent subject should be published in the National Gazette, at least one month before the law is debated in the National Parliament.  
60. The same salaries and allowances structure should apply to all provincial governments.  
61. The maximum number of Ministers in a provincial executive shall be seven, inclusive of the premier.
62. There should be established an intergovernmental relations commission to review intergovernmental fiscal relations every five years (details).


The Third Premiers’ Council Conference in October 1980, in Port Moresby, resolved that a review be made into the financial relationship between the national government and provincial governments, as is influenced and determined by the financial provisions of the Organic Law on Provincial Government. In addition, the resolution of the council, accepted the proposed composition of the committee, as submitted by the Department of Finance as follows:

- Department of Finance;
- Department of Justice;
- Department of Decentralisation;
- Department of Public Service Commission;
- General Constitutional Commission; and
- Four regional provincial representatives.

In implementing the sixth resolution of the Third Premiers’ Council, a joint policy submission by the Minister for Finance, Mr. John Kaputin, and the Minister for Decentralisation, Fr. John Momis, was made to the National Executive Council on 23 February 1981.

The committee was to review and make recommendations to the National Executive Council on:

(a) the relationship between the national government and provincial governments in the field of finance, as determined and influenced by the Organic Law on Provincial Governments;
(b) among other things, the arrangements for specific aspects of provincial government finance, including provincial governments revenues and taxation powers, arrangements for paying of staff, accountability and audit, and grounds for suspension;
(c) the administration of the financial provisions of the Organic Law;
(d) other relevant matters, as decided by the committee;
(e) In their deliberations, the committee is to take into consideration the following:
   (i) the constraint imposed by limits of total funds available to the nation in relation to the development of the economy in general;
   (ii) the spending aspirations of both the national government and provincial governments, given their respective responsibilities under the Constitution and the Organic Law;
   (iii) the need to ensure an efficient and easy method to administer system of public revenue collection; and
   (iv) the possible need to promote a more equal distribution of benefits between provinces;
(f) authorises the committee to seek expert advice, if necessary, in the form of a consultancy; and
(g) direct that the committee consult with provincial governments and other interested parties and then report to the National Executive Council not later than 1 January 1982.
Recommendations

It was recommended that improvements be made to the existing financial package to allow a more equitable distribution of resources on the basis of need, as well as maintaining services to an acceptable level.

**Recommendation 3.1: National and Provincial Budgets**
The national and provincial budget cycles and format to be reviewed and brought into line.

**Recommendation 3.2: Reporting by Premiers’ Council**
The Premiers' Council shall have the power to make direct reports to the National Executive Council and to the national parliament. These reports may contain recommendations concerning the distribution of powers and functions between the national government and provincial governments, and such other aspects of relations between the national government and provincial governments as the Premiers' Council may determine.

**Recommendation 3.3: National Fiscal Commission**
National Fiscal Commission should not be linked to the Ministry of Finance, to ensure that it administers its responsibilities as an independent body and that it be given the necessary manpower to execute its functions. The Premiers' Council be an alternative body to carry out the functions of National Fiscal Commission in the event that it is incapable of handling its responsibilities as an independent body.

The National Fiscal Commission to be given a proper office and an independent secretariat, and that it should play a major role in the matter of transfer of resources to, and among, provinces.

The national government must ensure the independence of the National Fiscal Commission and that it is established as a separate body or the secretariat is located in the proposed Department of Inter-government Relations.

**Recommendation 3.4: Suspension**
There be established two sets of conditions leading to the suspension of a provincial government. One set deals with grounds leading to heavy sanctions and reprimand falling short of suspension. The other set deals with grounds for suspension, if the deficiencies are not remedied

**First Set of Conditions**

- provinces do not adhere to the provisions of the *Provincial Finance and Administration Act*;
- provinces do not adhere to the requirements of financial reporting; and
- accounting system and auditing.

The measure to be taken, falling short of suspension, would be for the responsibility over provincial finance to revert to the national government.

**Second Set of Conditions**

- provinces do not remedy the deficiencies in a specific period;
- there has been established corruption in provincial government; and
- there has been established gross financial mismanagement.
**Recommendation 3.5: Commission on Suspension**

Section 93 (2) be amended to provide:

(c) one member of the Premiers’ Council, other than the premier of the affected province; and

(d) the premier appointed by the Premiers’ Council shall be the chairperson of the commission.

**Recommendation 3.6: Financing of Local-level Governments**

The national government to finance local-level governments through a system of conditional grants.

The national government should not deal directly with local-level governments, except with the consent of, and through, the respective provincial government.

**Recommendation 5.7: Base Year**

The committee recommends that the base year be established as the year, two years before the year of grant, and then adjusted by the appropriate percentage according to the (revised) formula.

**Recommendation 5.8: Maintenance Funds**

That the NEC directs the Department of Finance to design, in conjunction with the National Planning Office, and the Departments of Decentralisation, and Works and Supply, a mechanism to be introduced into the MUG formula in order to permanently increase the MUG by a sum necessary to provide for the maintenance or continuation of activities initiated by the national government (e.g. as part of an NPEP project), but which are more appropriately handled by provincial governments.

**Recommendation 5.9: Minimum Unconditional Grant Formula**

Grants to be determined on a uniform amount per capita, based on population, and which is adjustable with the movement of the Consumer Price Index.

The level of funds be adjusted regularly to keep in line with the actual increase in the costs of goods and services.

The Minimum Unconditional Grant formula be modified to provide elements of growth in income and the increase in costs of goods and services.

The Minimum Unconditional Grant should have an equalisation effect and be considered more in favour of less developed provinces.

The Minimum Unconditional Grant formula should be changed so that there is a guaranteed minimum, based on either a percentage of specified central revenues, or the base year cost of carrying out the transferred functions.

The National Executive Council directs the Departments of Finance, and Decentralisation, and the National Statistical Office to jointly design a new formula which more effectively guarantees provincial governments a guaranteed MUG that is sufficient to continue to maintain acceptable levels of transferred activities and conditions of transferred assets.

**Recommendation 5.10: Salaries**

Salaries should be based on a staff ceiling and be calculated and funded separately from other grants (New Guinea Islands).
The national government must consult provincial governments when considering proposals for upgrading the status or allowances of public employees. The term ‘salaries and allowances’, and the cost of other conditions of employment and all other costs associated with making the services of public employees available to provincial governments should be more accurately defined.

The ‘estimate of the cost of salaries’ to be deducted from the adjusted base figure, should be made subject to review and adjustment, as actual expenditure on provincial public servants becomes known.

The Department of Finance to improve its reporting and accounting procedures in order to provide provincial governments with accurate and timely expenditure figures, particularly on salaries, and the provision for employment of teachers (s. 52) be amended so that their method of salary payments is consistent with that of other public servants.

Recommendation 5.11: Additional Unconditional Grants
The criteria laid down in s. 79 for the distribution of additional unconditional grants to be maintained as they are at present, with the addition of a provision for the possibility of grants being made for other special reasons decided by the NEC

The National Fiscal Commission to follow its distribution criteria more closely and provide adequate demonstration of this.

The size of the gross amount of additional unconditional grants should not be unilaterally decided upon by the NEC. Instead, it should be subject to a submission from the NFC and/or provincial governments. Alternatively it could be determined as a fixed percentage of some element of government revenues (e.g. personal income or company tax).

Recommendation 5.12: Conditional Grants
Conditional grants to provinces must have a dual purpose — that of keeping and maintaining the level of services, as well as for expansion in the level of services.

Clear definitions should be established on what are conditional and what are unconditional grants.

There be established a clear demarcation of national and provincial responsibilities in respect of projects funded under the National Public Expenditure Plan.

That the nature of requirement or obligation of the national government to consult with provincial governments over conditional grants should be clarified by reference, if necessary, to the Supreme Court, and/or the provisions of s. 65 be amended to ensure that the national government is obliged to consult and reach agreement with particular provincial governments over specific conditional grants.

Recommendation 5.13: Review of Conditional Grant Funding
The Department of Decentralisation and the National Planning Office be directed to review the aims and achievement of conditional grants, particularly of NPEP programs, and review the administrative procedures.

Recommendation 5.14: Derivation Grant
Royalty payments to be excluded from the derivation formula.
Section 66 (1) of the OLPG be amended so that royalties are deducted only in respect of the same project.

**Recommendation 5.15: Derivation Grant**
A committee to be set up to review the information systems required for the production of adequate provincial revenue estimates.

The derivation percentage be increased from 1.25 percent to 5 percent.

Derivation grants to be maintained between 1.25 percent as at present and two percent, and the NEC to direct the Departments of Finance, and Decentralisation, and the National Planning Office to pay incentive payment to provinces for internally consumed cash crops, and/or industrial production.

**Recommendation 5.16: Provincial Staffing Grant**
The provincial staffing grant in its present form to be discontinued, and the relevant section of the OLPG to be amended accordingly.

Ensure that provinces are not penalised as a result of this proposed amendment, and that the amount equal to the value of the provincial staffing grant be added to the MUG, once and for all.

**Recommendation 5.17: Court Fees And Fines**
Sections 69 (1) and (2) to be amended by deleting the words ‘made for the purpose of s. 41’.

**Recommendation 5.18: Court Fees and Fines - Trust Account**
The trust account operated by the Village Court Secretariat be abolished and all court fees and fines, penalties, and forfeitures be channelled directly to provincial governments.

**Recommendation 5.19: Retail Sales Tax**
Retail sales tax would be an eminent candidate for provincial use.

The national government to refrain from imposing high import and excise taxes on items that are subjects of retail sales tax in the provinces.

The retail sales tax is the only avenue for provinces to boost internal revenue, and as such, the national government be refrained from imposing high import and excise duties on items that are the subjects of retail sales tax in the provinces, and that its collection be centralised.

**Recommendation 5.20: Land Tax**
Section 29 to be amended to allow the provinces to levy the list of taxes in that section.

Land rates on land leases and payments made on improved and unimproved properties in subject matters of provincial interest be paid back to the provinces.

The abovementioned sections of the law be reviewed by the Department of Justice with a view to clearly showing that land tax excludes rates for specific services (which are levied under s. 20), even though local government councils had this power.

In the interest of fairness and uniformity, responsibility for assessment of land values be clearly vested in the Valuer General, with provision for delegation to a legally appointed
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provincial valuer.

Recommendation 5.21: Motor Vehicle Registration and Drivers’ Licence Fees
Fees for motor registration and drivers’ licence fees be imposed and collected by the provinces.

The provinces and the national government shall enter into consultation concerning:

(a) the method of collection;
(b) the fixing of the levels of fees; and
(c) the statistics upon which the estimated total fees are based.

Recommendation 5.22: Tobacco and Cigarette Tax
Tax on tobacco and cigarettes be imposed and collected by the provinces. The provinces and the national government shall consult each other regarding:

(a) the method of collection;
(b) the rates of fees; and
(c) the statistical basis of calculating the estimated revenue.

Recommendation 5.23: Gambling Fees
Fees on the various gambling games be imposed and collected by the provinces.

The provinces shall consult with the national government:
(a) on the method of collection; and
(b) the rate of fees.

Recommendation 5.24: Tax on Alcoholic Beverages
The tax on alcoholic beverages be imposed and collected by provinces.

Recommendation 5.25: Tax on Public Entertainment
The tax on public entertainment be imposed and collected by provinces.

Recommendation 5.26: Fees for Mobile Traders’ Licences
The fees for licences for mobile traders to be imposed and collected by provinces.

Recommendation 5.27: Head Tax
The head tax is an unsatisfactory means for local-level governments to raise revenue and should be abolished.

The provinces should critically analyse the system of head tax, and determine areas for generating internal revenue for local-level governments.

Recommendation 5.28: Additional Taxes
That no additional taxation powers be given to provincial governments at this stage, and that instead, the national government to ensure, through the Departments of Finance, and Decentralisation, and the Public Services Commission that suitable assistance is available to provinces for the full exploitation of their current taxation powers.

Recommendation 5.29: Domestic Loans and Guarantees
Section 71 to be amended to enable the provinces to borrow or guarantee money on short-term, medium-term and long-term bases.

The model Act on loans and guarantees to be drafted, for adoption by provinces. The Act
should specify the level of funds for which there is no need for the national Minister for Finance's approval. The level should not exceed 10 percent of the provincial budgets at any one time.

**Recommendation 5.30: Overseas Loans and Borrowings**
Provisions to be made to allow provinces to negotiate for loans overseas, with a guarantee from the national government. Where provinces have direct interest in the terms of overseas borrowing, that they be fully involved before and during the actual negotiations between the lender and the borrower.

**Recommendation 5.31: Optional Funding Packages**
Having assessed the optional funding packages, the committee recommends:

(a) the approved present package be adopted; and
(b) the relevant sections of the Organic Law be amended accordingly.

**Recommendation 5.32: Provincial Development Corporation**
That provinces enact legislation to provide for the establishment and operation of provincial development corporations. Such legislation should define the areas of policy controls and the degree of relationship between the management and the board of the corporation and the government.

**Recommendation 5.33: Audit of Development Corporation**
That the Auditor General be authorised to perform such audits. The audit should not be confused with inspection and policy review. Financial and audit reports should be made to the Provincial Executive Council and the Provincial Assembly.

**Recommendation 6.34: Administrative Arrangements**
That the national government takes the carriage of implementing, by January 1983, the arrangements, as proposed in Chapter 2, s. 6.1.1.1 to s. 6.3.3.2.

**Recommendation 6.35: Funding of Key Positions in the Provincial Department**
That consideration be given to the funding of key positions in the provincial governments along the lines of the 1981 NPEP submission from the National Planning Office and the Public Services Commission on the funding of key positions in provincial governments.

**Recommendation 6.36: Establishment of Staff Development Units**
That the Public Services Commission establishes a Staff Development Unit in the Department of Provinces, and creates positions accordingly.

**Recommendation 6.37: Training as a Separate Budget Activity**
For example, for the Department of East New Britain Province:

- personnel emolument;
- travel and subsistence;
- utilities;
- materials and supplies;
- plant and transport;
- special services;
- purchase and capital assets;
- grants and subsidies;
- other;
Recommendation 6.38: Decentralisation
The Public Services Commission’s powers be decentralised to the regional public service offices, and that the Public Services Commission decentralises its powers to each regional public service inspector’s office with the following delegations:

(a) recruitment, clerk class 1 – 10;
(b) selection, clerk class 1 – 10;
(c) establishment, clerk class 1 – 10; and
(d) transfers and disciplinary.

In favour of the adoption by all provinces of standard accounting procedures is overwhelming alternatively, the provinces stand to gain so much more in the long term that they are more than compensated for any temporary loss of autonomy. Apart from those advantages, others are that experienced staff can be transferred from province to province without retraining, training programs can be devised to suit all provinces, better career opportunities are provided for accounting staff, and advisory and technical back-up services are simplified.

Recommendation 6.39: Standardised Accounting Procedures
That the Premiers’ Council Resolution 80 on standardised accounting procedures to be implemented by all provinces.

Recommendation 6.40: Training of Provincial Department Staff
That special attention be given to the training of staff employed in provincial accounting divisions within the Department of Finance to raise the level of accounting.

Recommendation 6.41: Audit Inspection of Accounts
That provincial government finance divisions should maintain adequate records to facilitate audit inspections, and that failure to do so may be a contributory cause for suspension.

Recommendation 6.42: Appointment of Internal Auditors
That provincial governments should appoint competent internal auditors as soon as possible, and in their absence provinces should take advantage of the Department of Finance’s offer to make the services of finance inspectors available.

Recommendation 6.43: Auditor General’s Access to Provincial Government Accounts
That the Auditor General should be given access to the accounts of provincial development corporations.

Recommendation 6.44: Presentation of Provincial Government Annual Reports to the Minister for Decentralisation
That provincial governments should present their annual financial reports to the Minister for Decentralisation within three months from the end of the financial year.

Recommendation 6.45: Subject of Sanctions
The Minister should be the subject of appropriate sanctions, and may be contributory grounds where the suspension of a provincial government is under consideration.
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Recommendation 6.46: Financial Reporting Be Made More Frequent
That the provision for financial reporting be made more frequent, and in addition to the full annual report, provincial governments should also provide the national government with copies of their estimates and Appropriation Act (and Supply Act when one is used), plus their quarterly reviews of expenditure and revenue.

Recommendation 6.47: National Government to Have Access to Provincial Government Accounts
That the national government has access to provincial accounts on an inspectorate basis.

Recommendation 6.48: Establishment of Provincial Public Accounts Committee
That provincial governments should pass legislation to establish and operate provincial public accounts committees as early as appropriate, and that the Organic Law, at s. 74 (3), should be amended to make the establishment of provincial public accounts committees obligatory ("provincial legislatures shall ..... make provision", not "may").

Recommendation 6.49: National Public Accounts Committee
That the national Public Accounts Committee should act in respect of a province's accounts where this is required; that is, is deemed necessary "in the public interest".

Recommendation 6.50: Financial Autonomy
The grant of full financial responsibility should follow the criteria, as agreed by the Premiers' Council in Kavieng in May 1978:

- provincial finance Bill to be adopted as an Act by the provincial assembly;
- national government to be satisfied that a budgeting capacity exists in the province;
- province has an accounting system that is compatible with the finance legislation, regulations, and budget format;
- management services are established in the province with a capacity to provide services to both national and provincial government functions;
- provincial government makes a written request for the takeover of financial responsibility; and
- preferably the holding of provincial elections. However, this criterion to be considered flexible in the light of the circumstances of individual provinces. National Ministers of Finance, and Decentralisation should be satisfied with the general ability of a provincial government to plan and manage its affairs.


This report is the product of technical assistance funded by AusAID to assist the DPLGA in furthering the reforms brought in by the OLPGLLG in 1995. The first part of the report describes the reforms and the progress with the implementation of those reforms during the transitional period from July 1995 to October 1997. Section 1 of the report provides the historical context of the reforms, Sections 2 and 3 describe the reforms, and Section 4 is an update on the wider reform process with reference to a review of the functions of government and the adoption of a Medium Term Development Strategy.

The report identifies poor development performance in terms of unsatisfactory levels of service, particularly in health and education, or coverage, particularly in rural areas, in the delivery of basic services. It identifies the causes of performance as excessive centralisation, a lack of political responsiveness and accountability, corruption, low levels
of institutional capacity, and unproductive competition between levels of government. There are differences in the perception of the nature of the problem. A structural or constitutional perspective would see the solution in a better distribution of powers and responsibilities between the different levels of government. A political perspective would look for a solution in improved participatory and representative processes or in strengthened accountability and compliance systems. A management perspective would find the solution in better organisational design and improved management practices and in improved planning, budgeting, and implementation processes. The report lists a sampling of a large number of remedies for the poor performance.

Papua New Guinea's poor development performance is a problem of governance, having three separate, but closely related dimensions — the management dimension, the political dimension, and the structural dimension. Public sector management reforms are primarily concerned with improving the program preparation and program implementation parts of the policy process. Political reforms are concerned with improving responsiveness, legitimacy, and accountability in the decision-making processes of government. Structural reforms are concerned with improving the distribution of authority, finances, and functions between levels of government, and relations between them. Good governance is promoted by development in each of these dimensions, and most importantly, by achieving a suitable balance between them.

The report comments on the appropriateness of the 1995 reforms. Because of the uncoordinated way in which decentralisation objectives have been pursued, it is virtually impossible to make any useful judgment about the actual, intended, or likely ultimate distribution of responsibilities between levels of government, or the extent to which functions have been decentralised. The reforms have not successfully addressed a major underlying cause of conflict and inefficiency in intergovernmental relations — a satisfactory allocation of functions to the different levels of government and the definition of levels of authority and responsibility appropriate for these. There has been very little progress in the development of machinery for managing intergovernmental relations.

The reforms adopt a minimalist and strongly hierarchical approach to improving responsiveness and accountability. The provisions for financial management, control, and accountability have not been supplemented with supporting legislation and instructions.

A pessimistic view of the reform process would be that the narrow political agenda of the early 1990s — to reduce the political power of the provincial level of government — has been achieved, and that the political momentum for reform is now exhausted. The mixed results reflect both the complex nature of the reforms and the fact that the process has been driven, in the implementation period, by a committee of central agency officials.

The changes which go to make up the new system of local-level governments express a high level of ambivalence about the value of decentralisation. The report enumerates a number of contradictions in the principles governing local-level governments. It sets out a series of issues and challenges, and proposes ways in which AusAID can contribute to improvement.


The present system in Papua New Guinea is highly centralised and bureaucratic. Democratic control must come from the people. District-level government should be established in the Constitution. Decentralisation of government services will make them more accessible to the people they should serve. Decentralisation of decision making will make government more responsive to local wishes and needs. Government activity in the districts will also become more effective if it is brought under local political control.

The advocates of regional government are mistaken in the solutions that they propose. Advocates of regional government differ among themselves as to the number of regions there should be, and where their boundaries should be drawn. Most of them seem to favour a total of four or five regions, based on the regional administrative divisions of the government departments. Generally, they favour Papua, the Highlands, the New Guinea Islands, and the coastal districts of the New Guinea mainland. It is clear that Bougainville does not wish to form part of a region embracing all of the five existing districts of the New Guinea Islands.

We are convinced that government must be brought much closer to the people than regional government. Regional governments would heighten existing tensions among the regions, and would divert the energies of national leaders into regional politics. A system of district-level government would avoid these pitfalls.

An elective assembly, with substantial powers, including financial powers of its own, is essential if meaningful decisions are to be made at the district level, and if action is to follow those decisions. Effective government at both the national and district levels requires that there be strong links with the villages.

We recommend the establishment of a system of district-level government, that the present districts be named ‘provinces’, and that their governments be known as ‘provincial governments’.

We envisage that provincial governments may be developed in three stages. Each province should have an assembly directly elected by the people that will be the legislative and policy-making body. Provincial elections should be conducted in the same way as national elections. The provincial executive should, at most, comprise no more than one-third of the membership of the Provincial Assembly.

Three lists are proposed:

- the "A" list comprises those powers and functions over which the national government should always retain final control;
- the "B" list comprises those powers and functions that are mainly of provincial or local concern;
- the "C" list is the real key to the future of provincial government. It comprises those powers and functions which may be transferred to provincial governments, either in part or in whole.

This paper provides a general outline of the 1995 reforms in the provincial government system, and explains the rationale behind the proposals. It justifies the basic lines of reform, the involvement of national politicians in provincial governments, and the funding arrangements. It is a good summary in lay terms of the overall nature of the 1995 changes, including political reforms, administrative reforms, financial reforms, natural resources laws, the interim period, and the draft structure of the CRC model. The report contains a description of the system in the form of a series of FAQs (questions and answers).


This is the draft review of the OLPGLLG with respect to the impact of the Organic Law on the delivery of services. The report recommends changes in the Organic Law, in existing legislation, and in pending legislation regarding provincial governments.

Despite improved service delivery being one of the objectives of the OLPGLLG, service delivery has been deteriorating since the Organic Law was enacted over ten years ago.

While the reasons for the deterioration in service delivery are well-documented, many people are of the view that the deterioration in service delivery is attributable to the Organic Law, its failure to be fully implemented, or both. The OLPGLLG has become a convenient excuse for deteriorating service delivery, and it is also likely to be used as an excuse for any failure to implement the MTDS priorities.

Many of the public sector management issues responsible for poor service delivery are now being addressed through the Provincial Performance Improvement Initiative (PPII), which is being led by the DPLGA and the DNPM. In parallel, it appears opportune that the Government also addresses the various provisions of the OLPGLLG which contribute to poor service delivery, including provisions that appear to serve little or no useful purpose. This report identifies those provisions and contains recommendations for addressing the constraints to service delivery. The Organic Law does not operate alone. Key enabling legislation is also reviewed as well as the *District Authority Act*, despite it not yet coming into operation. However, sector legislation is not reviewed.

While the review examines the OLPGLLG and enabling legislation in the context of service delivery, such a review inevitably touches on key decentralisation issues, including issues relating to the organisation of government. The Organic Law is essentially about decentralisation, and this is a political decision. Although decentralisation does have some bearing on service delivery, the model of decentralisation is political. Therefore, DPLGA examines issues relating to service delivery within the existing decentralisation model, and has not recommended any fundamental changes to that model.

The report contains 40 recommendations that fall into three categories:

**Category 1:** Recommendations relating to proposed amendments of the Organic Law:
- Recommendations 1, 13, 15, 16, 21, 23, 24, 33, 34, 37, 38, and 39 relating to the NEFC reforms to the intergovernmental finance system; and Recommendation No. 17 to remedy constitutional defects in Division 8;

**Category 2:** Recommendations that can be addressed through legislative amendments
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and/or administrative changes:

- Recommendations 3, 4, 5, 6, 7, 10, 11, 12, 14, 18, 19, 20, 22, 25, 26, 28, 29, 30, 31, 32, 35, 36 and 40 aimed primarily at improving service delivery. The implementation of some of these recommendations will require further policy development as they raise other key decentralisation issues; and

**Category 3:** Recommendations that require further research:

- Recommendations 2, 3, 8, 9, 14, 22, and 27, with the research likely to be undertaken by the National Research Institute, with possible support from the Constitution and Law Reform Commission on legal issues.

The report also supplements the DPLGA package of technical amendments which remove certain inconsistencies from the Organic Law.

**Recommendations Relating to Proposed Legislation**

**Recommendation No. 1 (s. 3)**

Clause 7 of the Organic Law on Provincial Governments and Local-level Governments (Intergovernmental Financing Amendment) Law, which inserts the definition of assigned service delivery functions and responsibilities in s. 3 should be passed by the parliament and brought into operation as soon as possible by the national government.

**Recommendation No. 13 (s. 43)**

(a) Clause 8 of the Organic Law on Provincial Governments and Local-level Governments (Intergovernmental Financing Amendment) Law, which provides for the determination of assigned service delivery functions and responsibilities of provincial governments under a new s. 43 should be passed by the parliament and brought into operation as soon as possible by the national government.

(b) The Intergovernmental Relations (Functions and Funding) Bill should be introduced and passed by the Parliament and brought into operation as soon as possible by the national government.

**Recommendation No. 15 (s. 45)**

Clause 9 of the Organic Law on Provincial Governments and Local-level Governments (Intergovernmental Financing Amendment) Law, which provides for the determination of assigned service delivery functions and responsibilities of local-level governments under a new s. 45 should be passed by the parliament and brought into operation as soon as possible by the national government.

**Recommendation No. 16 (s. 50)**

Clause 10 of the Organic Law on Provincial Governments and Local-level Governments (Intergovernmental Financing Amendment) Law, which limits delegations under the new s. 50 to legislative powers should be passed by the parliament and brought into operation as soon as possible by the national government.

**Recommendation No. 17 (Part III, Division 8, ss. 51 to 53)**

After consultation between the DPLGA and the NEFC, and any necessary changes, the Organic Law on Provincial Governments and Local-level Governments (Withdrawal of Functions and Powers Amendment) Law, which inserts a new Part III, Division 8, and the Constitutional Amendment (Provincial and Local-level Governments) Law should be passed by the parliament and brought into operation as soon as possible by the national government.
Recommendation No. 21: (s. 80)
Clause 11 of the Organic Law on Provincial Governments and Local-level Governments (Intergovernmental Financing Amendment) Law, which requires assigned service delivery functions and responsibilities to be performed by the extended service of national departments and agencies should be passed by the parliament and brought into operation as soon as possible by the national government.

Recommendation No. 23: (s. 82)
Clauses 13 and 14 of the Organic Law on Provincial Governments and Local-level Governments (Intergovernmental Financing Amendment) Law, which insert a new s. 82 and Division 2A providing for the distribution of revenue at the provincial and local levels should be passed by the parliament and brought into operation as soon as possible by the national government.

Recommendation No. 24: (Part IV, Division 3, Subdivisions A, B and C ss. 83 to 90)
Clauses 15 to 18 of the Organic Law on Provincial Governments and Local-level Governments (Intergovernmental Financing Amendment) Law which provide for a revised framework of provincial and local-level taxes, fees, and charges should be passed by the parliament and brought into operation as soon as possible by the national government.

Recommendation No. 33: (ss. 115 and 116)
Clause 19 of the Organic Law on Provincial Governments and Local-level Governments (Intergovernmental Financing Amendment) Law which repeals subsection 116(2) should be passed by the parliament and brought into operation as soon as possible by the national government.

Recommendation No. 34: (s. 117)
Clause 20 of the Organic Law on Provincial Governments and Local-level Governments (Intergovernmental Financing Amendment) Law which amends s.117 and the National Economic and Fiscal Commission (Amendment) Bill which is the enabling legislation under the amended s.117 should both be passed by the parliament and brought into operation as soon as possible by the national government.

Recommendation No. 37: (s. 140)
Clause 21 of the Organic Law on Provincial Governments and Local-level Governments (Intergovernmental Financing Amendment) Law which provides for appropriation and revenue laws to be served on the treasurer should be passed by the parliament and brought into operation as soon as possible by the national government.

Recommendation No. 38: (s. 141)
Clause 22 of the Organic Law on Provincial Governments and Local-level Governments (Intergovernmental Financing Amendment) Law which provides for a simpler method of service of laws on Ministers should be passed by the parliament and brought into operation as soon as possible by the national government.

Recommendation No. 39: (Schedules to Organic Law)
Clause 4 of the Organic Law on Provincial Governments and Local-level Governments (Intergovernmental Financing Amendment) Law which provides for a revised schedule of grants to provincial and local-level governments for certain past financial years and the current financial year should be passed by the Parliament and brought into operation as soon as possible by the national government.
Recommendations Effected through Legislative or Administrative Means

Recommendation No.3: (s. 10)
The heads of rural local-level governments and the representative of urban local-level governments should be removed from the Provincial Assembly.

Recommendation No.4: (s. 11)
The role of the Members of Parliament in the Provincial Assembly should be clarified.

Recommendation No.5: (s. 23)
Section 23(2) (b) should be amended to remove any uncertainty.

Recommendation No.6: (s. 24)
The procedural rules of Provincial Executive Councils should be improved, for example to provide that they must meet at least once in each quarter in the provincial capital, including setting out such minimum requirements in legislation, if necessary.

Recommendation No.7: (s. 25)
Provincial Executive Councils should take over the functions of the Joint Provincial Planning and Budget Priorities Committees, and expanded provincial management teams should provide greater policy support to the council.

Recommendation No.9: (s. 29)
The number of elected members of local-level governments should be decreased, if the number and service delivery responsibilities of local-level governments are decreased.

Recommendation No.10: (s. 33A)
The Joint District Planning and Budget Priorities Committees should be abolished.

Recommendation No.11: (s. 35)
After consultation with the NEFC and other financial agencies, the Salaries and Remuneration Commission should make a new determination to set a fixed rate of salaries and allowances for local-level government members that is affordable, having regard to the budget of local-level governments.

Recommendation No.12: (s. 42)
The DPLGA should undertake a provincial legislation survey to determine what legislative powers have been used under s. 42.

Recommendation No.14: (s. 44)
The DPLGA should undertake a local-level legislation survey to determine what legislative powers have been used under s.44.

Recommendation No.18: (s. 73)
The Public Services (Management) Act 1995 should be amended to limit the acting appointment of any person as a say three provincial administrator or district administrator, and other key positions, to a maximum period, of, say three to six months.

Recommendation No.19: (s. 74)
The duties and responsibilities of provincial administrators and district administrators should be revised to reflect service delivery and other priorities of the provincial and district administrations.
Recommendation No.20: (s. 75)
The reporting obligations of officers of national departments and agencies who perform 'provincial functions' should be clarified, and the provincial administrators’ supervisory and disciplinary authority over those officers should be strengthened.

Recommendation No.22: (s. 81)
The size of the secretariat for each local-level government should be decreased, if the number and service delivery responsibilities of local-level governments are decreased.

Recommendation No.25: (ss. 95A and 95B)
The guidelines for the Provincial Support Grants and the District Support Grants should be reviewed, with the aim of increasing funding for service delivery and strengthening accountability mechanisms.

Recommendation No.26: (s. 98)
The national government should develop enabling legislation as a priority.

Recommendation No.28: (s. 106)
The enabling legislation under s. 106(5) developed by the department responsible for planning should be finalised as soon as possible and submitted to the government for approval and introduction into parliament.

Recommendation No.29: (s. 109)
The Department of Personnel Management and the DPLGA should work more closely in relation to personnel matters in the provinces and districts.

Recommendation No.30: (s. 110)
The Provincial and Local-level Service Monitoring Authority Bill should be finalised, and introduced into and passed by parliament, and brought into operation by the national government as soon as possible.

Recommendation No.31: (s. 111)
The DPLGA should review the work in progress on implementing s. 111.

Recommendation No.32: (s. 112)
Working relations between the provincial and district treasuries, and the provincial and district administrations should be improved.

Recommendation No.33: (ss. 115 and 116)
(a) The national government should develop enabling legislation for ss. 115 and 116 as a priority.

Recommendation No.35: (s. 118)
The DPLGA should review the work in progress on implementing s. 118.

Recommendation No.36: (s. 119)
The Provincial Governments Administration (Amendment) Bill which provides for the form and contents of reports under s. 119 should be finalised, and introduced, passed by parliament and brought into operation as soon as possible.

Recommendation No.40: (District Authority Act 2006)
Unless amendments are made to the District Authority Act 2006 to make it workable, the Act should be repealed, together with the consequential amendments to the Organic Law.
Recommendations Requiring Further Research

**Recommendation No.2: (s. 4)**
The National Research Institute should undertake research into whether the National Capital District should become a province.

**Recommendation No.3: (s. 10)**
The National Research Institute should undertake research into the holding of more than one office.

**Recommendation No.8: (s. 26)**
The National Research Institute should undertake research into the role of local-level governments, including whether local-level governments should have any service delivery responsibilities, and, given their role in relation to service delivery, what is an appropriate number of local-level governments for the country.

**Recommendation No.9: (s. 29)**
As part of its research into local-level governments, the National Research Institute should examine the number of elected members of local-level governments.

**Recommendation No.14: (s. 44)**
The law-making powers for local-level governments under s. 44 should be included in the National Research Institute’s research into the role of local-level governments.

**Recommendation No.22: (s. 81)**
As part of its research in local-level governments, the National Research Institute should examine the size of the secretariat of local-level governments.

**Recommendation No.27: (s. 105)**
The enabling legislation envisaged by s. 105(2) in relation to financial autonomy for provinces should be developed only after the National Research Institute has completed its research on provincial autonomy.

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The community consultative committee reported on its consultation with the larger community in East New Britain, and concluded that there is widespread support for greater autonomy for the East New Britain Provincial Government. Ninety-five percent of the people who participated in the discussions fully supported ‘realistic decentralisation’ or greater provincial autonomy for East New Britain. East New Britain is one of the few provinces in Papua New Guinea which has the capacity and strong leadership required for autonomy. There are major shortcomings with the existing decentralisation arrangements which have had a negative impact on government administration and the welfare of the people. The OLPGLLG failed to meet the requirements of success and effectiveness. These reforms brought more problems than improvements. One benefit of the reforms was the improvement in facilitating the coordination of planning, budgeting, and implementation at provincial, district and local-level government levels, where leadership from all levels of government can work together as a team. A major shortcoming is the lack of readily available financial resources. The absence of financial power has increased provincial dependency on the national government for its financial expenditures.

Since 1995, East New Britain has never received its full and fair share of monies from the
national government. To date, the national government owes East New Britain an estimated K50 million in accumulated grants.

Because of constraints and the unworkable nature of the OLPGLLG, the provincial government and local-level governments cannot do anything substantial to solve the major problems, including:

- increasing population growth and decreasing land availability;
- declining economic activity;
- increasing unemployment among educated and skilled people;
- law and order problems at the village level;
- need for greater capacity to deal with natural disasters;
- deteriorating education and health services; and
- increasing ethnic tension and conflicts.

The 1995 reforms were approved by the New Guinea Islands provinces because the old system was not working for them. East New Britain was one of only two provinces whose provincial government had a clean record and had not been suspended.

The form of autonomy desired by East New Britain is not the same as that attained by Bougainville. Rather, it is greater autonomy within the constitutional system of Papua New Guinea. It does not imply breaking away from Papua New Guinea. The existing system provides inadequate financial support to the provincial government, and the public service suffers from low morale because of a lack of incentives, support, supervision, and a proper system of promotion. The administration lacks funds and manpower to meet the requirements of districts and local-level governments. Policy implementation is cumbersome, expensive, and frustrating because advice and approvals have to be sought from Waigani.

Greater autonomy will create a new relationship with the national government based on mutual respect and mutual cooperation, fairness, sharing, free enterprise, and unity in diversity. It will give East New Britain the opportunity to develop in its own style, and progress at its own pace to achieve its own level of prosperity. It will safeguard national unity through the sharing of power, which is possible under meaningful decentralisation.

Detailed steps for moving to autonomy are set down, and the proposed structures are indicated in the report. Interim and transitional arrangements will permit the provincial government to operate under the existing OLPGLLG. The financial provisions of the autonomous government are set out in detail. The provincial public service will be established by, and responsible to, the autonomous government.

The major blame for the decline in governmental services in East New Britain is placed on the national government and its failure to respect its obligations towards the provincial government. The failure in implementation has been at the national level. The cause of the present depressed situation is placed squarely on the degrading influence of the reformed OLPGLLG which was introduced in July 1995. This Organic Law is defective. The obvious way that the people of East New Britain can save themselves from the economic decline and financial ruin brought on by the OLPGLLG is through a new system of government with greater autonomy.
Part 1: Official Documents

Recommendations

1. East New Britain should have autonomy.
2. East New Britain should have a separate constitution for the province.
3. The political structure would consist of:
   - an elected legislature comprising national MPs and LLG presidents; and
   - an executive body comprising selected LLG presidents and a governor who would be chairperson.
4. The OLPGLLG would cease to apply in East New Britain.
5. The Autonomous Government of East New Britain shall have sufficient revenue raising powers to become autonomous.
6. The Autonomous Government of East New Britain will contribute to the national government purse in accordance with a revenue sharing formula.
7. The national government should continue to provide the following grants to the Autonomous Government of East New Britain:
   - administrative support grants;
   - provincial support grants;
   - town and urban services grants;
   - local-level government and village services grants;
   - derivation grants; and
   - other types of grants as determined from time to time.
8. The national government must move immediately to make the necessary constitutional amendments.
9. The law of the Autonomous Government of East New Britain should provide for the recruitment, and terms and conditions of employment for the East New Britain public service.


This document is the annual provincial performance report prepared for the 2004 fiscal year. It essentially comprises raw data on the categories of performance submitted to the Provincial Performance Improvement Initiative (PPII).


This document is the annual provincial performance report prepared for the 2004 fiscal year. It essentially comprises raw data on the categories of performance submitted to the Provincial Performance Improvement Initiative (PPII).


This is a report of the impact of the 1995 OLPGLLG on local government in Manus, which is the smallest province in Papua New Guinea. It was prepared by James Pokris, Deputy Administrator of Manus Provincial Government, who chaired the committee. The report is an assessment of the OLPGLLG after six years of operation. The general conclusion is that the 1995 reforms did not improve the operation of local-level government. In fact, things got worse. The report is revelatory of the kinds of problems
encountered by local-level governments under the 1995 OLPGLLG. While the report deals only with Manus Province, and cannot be said to be representative of other provinces, it provides an insight into the typical kinds of problems encountered by local-level governments throughout Papua New Guinea.

There was a lack of information on file for most LLGs, particularly on budget expenditures and related accountability. Most LLG records were difficult to obtain because of negligence and no proper records being kept. In most cases, it is the opinion of the committee that most records have been destroyed rather than displaced.

The report outlines the main constraints and weaknesses in the implementation of the LLGs in the province as follows:

(i) The OLPGLLG appears to be still in the making; that is, there are more than 25 or so relevant laws that are intended to make LLGs fully operational, but have yet to be enacted by parliament;
(ii) Since the OLPGLLG came into force in 1995, more than seven amendments have been made, and it seems there will be more amendments to come;
(iii) The OLPGLLG has a lot of provisions that are not consistent, hence there are a lot of contradictions;
(iv) The spirit of the political reforms aimed at the direct delivery of goods and services to the rural people, and at the same time empowering them through decentralised system of government is absent in the OLPGLLG;
(v) Various levels of LLG leadership and the bureaucracy not only lack commitment and needed skills and experiences, but also do not know the boundaries of their respective functional roles and responsibilities within the given provisions of the OLPGLLG. Too many LLG leaders does not help;
(vi) Poor project planning and management by LLGs has led to many incomplete projects throughout the province;
(vii) Poor budget planning and management has led to incomplete projects, expenditure outside of budget appropriations, misappropriation, and generally a lack of essential goods and services to the people;
(viii) Poor cash-flows experienced by LLGs also contribute significantly to points (vi) and (vii) above;
(ix) LLGs have been legally restricted to be able to raise their own revenue to offset constraints because of poor cash-flows and the occasional diversion of grants;
(x) The formula for guaranteed grants to LLGs must be reviewed — particularly those as provided for under s.92 (2) of the OLPGLLG to fully reflect inflation accounting factors, total square kilometres of land/sea areas of the LLGs, the the 2000 Census figures, and the annual growth rates of the LLGs population;
(xi) There is total lack of monitoring of the implementation of the OLPGLLG by the appropriate authorities. Consequently, the kind of constraints and weaknesses faced by LLGs have not been detected and corrected. For example, all LLGs, by law (OLPGLLG and Public Finance (Management) Act), must submit their fully audited financial statements and affairs for each financial year to the Minister responsible for LLG affairs. No LLG in the province since the adoption of the OLPGLLG in 1995 has complied with this statutory requirement;
(xii) There has been lack of administrative and staff back-up from the Manus Provincial Assemble to enable LLGs to be efficient and cost-effective in their operations;
(xiii) Current LLG staff are not public servants. They have not been appointed through normal public service procedures. They seem to be answerable only to their presidents;
(xiv) National government policy directives, particularly on how funds are to be spent,
alienate LLGs from the practical and basic needs of their people, and erode much needed respect for visionary and strong political leadership of the LLGs in the province; and

(xv) Lack of infrastructure such as offices, telephones, faxes, postal and banking services, houses for staff and leaders, and so on contribute to the inability of LLGs to be effective and efficient in managing their affairs.

Recommendations

9.1 Policy Intervention

(i) That a submission be prepared for the Islands Governors' Conference to engage regional support in requesting the Minister responsible for Provincial and Local-level Government Affairs to speed up work on pending legislation to enable LLGs to effectively operate;

(ii) Given inconsistencies within the OLPGLLG on taxes and fees, and in particular s.87, Subsections (3) and (4) on the kinds of LLG taxes and fees, every effort be made with authorities such as the Department of Attorney General, Treasury and Corporate Affairs, Provincial and Local Government Affairs, Office of the Revenue Commissioner General, the National Forest Authority, and the National Fisheries Authority to secure the most legal and suitable way for LLGs to raise other taxes and fees, beginning in Year 2002;

(iii) Because of poor cash-flows, new guidelines on district and provincial support grants and non-existence of taxes and fees from other sources, the Manus Provincial Government must consider other forms of financial assistance to LLGs to subsidise their administrative and project budget allocations;

(iv) That a request be made to the Minister responsible for Provincial and Local Government Affairs to review ss. 92 and 93 concerning the funding formula by taking into account macro-inflationary movements;

(v) That a request be made to the Minister responsible for Provincial and Local Government Affairs to cause development grants payable to LLGs under ss. 93 and 94, to be paid directly to the LLGs;

(vi) That a request be made to the Minister responsible for Provincial and Local Government Affairs to cause additional complementary grants to the local-level governments in accordance with s. 95 (2) (c), (d), (e), (f), and (g);

(vii) That in accordance to s. 96 on equitable sharing of benefits, the Minister for Provincial and Local Government Affairs be requested to cause the awarding of relevant derivation grants and monetary benefits to LLGs;

(viii) As all LLGs and their respective village people have been active initiators and stakeholders of the province's IHD Policy, the Minister responsible for Provincial and Local Government Affairs be requested to endorse that the LLGs have complied 'with the requirements of the OLPLLG, as operationalised under s. 38 of the LLG Administration Act 1997;

(ix) That serious consideration be given to reducing the number of Wards Development Committees and Ward Committees to cut down on unnecessary recurrent costs and improve LLG delivery efficiency;

(x) That an immediate request be made to the Minister for Provincial and Local Government Affairs to cause disbursements of grants to LLGs as provided for under s. 92 (2), based on the current electoral boundaries of LLGs respectively;

(xi) In addition to recommendation (iv), that the Minister for Provincial and Local Government Affairs be requested to cause realistic calculation of K15 per capita, as provided for under the same section in point (x), based on the 2000 Census figures. That the Minister also be requested to take into consideration the rapid population
growth rates of the LLGs in the province; and
(xii) That the Pihi Manus Association Act be amended to make provisions for presidents of Pihi Electorates to automatically become ward members

9.2 Project Planning and Management Improvement

(i) That the IHD Policy remains the basis for LLG project initiation selection and implementation;
(ii) That LLG medium-term plans be realistically revised into their Five-Year Development Plans for the period, 2000-2007;
(iii) That a suitable and standard administrative and political structure be devised and approved for 2002 onwards;
(iv) That the Manus Provincial Assembly, under s. 66 of the Public Services (Management) Act 1995, rationalises its staff to enable each LLG to have adequate number of staff; and
(v) That planning preparation work to begin to establish the basis for our request to the Minister responsible for Provincial and Local Government Affairs to classify Lombrum as urban, to qualify for urban grants.

9.3 Management and Leadership Improvement

(i) Every assistance be given to the internal auditor to complete the outstanding auditing of all LLG affairs, from 1997 to 2000;
(ii) Based on sufficient evidence available, that legal action be taken against those officers and LLG leaders who have mismanaged, misused, and/or misappropriated LLG assets and public funds between 1997-2000, to restore confidence of the rural people in the LLGs;
(iii) All LLGs must immediately use standard bookkeeping procedures, as presented in this report;
(iv) All LLGs must immediately use a standard chart of accounts, as presented in this report;
(v) All LLG staff be appointed in accordance with relevant provisions of ss. 66, 68, and 69 of the Public Services (Management) Act 1995;
(vi) There is a great potential for LLGs to collect sufficient funds from court fees and fines, as delegated by the Manus Provincial Government under s. 49 of OLPGLLG. That immediate action be taken to improve rates, the system of collection by LLGs, consolidated revenue, and accounting;
(vii) That all LLG quarterly budget reviews be approved by their respective assemblies;
(viii) That all assistance be given to LLGs to modernise their operations and upgrade infrastructure at their headquarters;
(ix) That ward development committees be given political and administrative back up in order to perform their functional roles effectively;
(x) That the operations of the village courts in the province be reviewed with the aim of improving their efficiency and reducing unnecessary costs, where necessary;
(xi) That a review be made of the Lorengau Urban Authority, with the view to establish whether or not it can be managed as a commission;
(xii) That the Manus Provincial Assembly be instructed to effect immediate acquisition of all outstanding land areas in LLG centres; and
(xiii) That the Chairperson of the Parliamentary Committee on Local-level Government be appointed Deputy Chairman of the JDP&BPC for administrative support and financial management improvement of LLGs.

This report contains a detailed description of the study that eventually led to the far-reaching proposals of the National Economic and Fiscal Commission (NEFC) to implement new funding arrangements in 2007. The study identifies the following major issues to be addressed in the area of provincial budgeting:

- Provinces continue to maintain two separate budgets for national grants and internal provincial revenues, even though, since June 1995, the Provincial Assembly votes on both together. This complicates budget formulation and places great demands on provincial officers. The existing two budgets need to be consolidated into one to simplify budget preparation and allow staff to focus on resource allocation decision making.

- The existing provincial budget format needs to be restructured to make it a simpler and more meaningful document that accurately reflects the service delivery capacity of the province in key development areas. The use of standard program and activity codes for all functions, not only in health, is needed to clearly identify the services that provinces plan to deliver.

- Provinces do not have a provincial budgeting tool to assist them with budget preparation, or to analyse provincial resource allocations by sector, for example, education, health, and infrastructure. Provinces at the NEFC provincial seminar indicated that national government assistance in this area is needed and would be welcomed.

- Quarterly budget reviews, conducted by both the Department of Finance and the provincial administrations themselves, need to be urgently reinstated as a public expenditure management tool. These reviews have not been conducted in recent years. The provinces would welcome reintroduction of regular quarterly reviews, a view that was confirmed at the NEFC provincial seminar. Both national and provincial resources will need to be committed to conducting these reviews.

- Inspections and audit functions need to be strengthened.

This study highlights the difficulty being experienced within the national government in regard to regular reviews of provincial financial information. The suspension of quarterly budget reviews because of a lack of available data and budget personnel has meant that provinces have operated without close or regular monitoring from the national government.

The study finds that provinces monitor their cash position closely, but do not publish regular financial reports. This appears to be contrary to s. 114 of the 1995 Organic Law, which requires ‘a full statement of the financial position and the affairs of the province…for each fiscal year…accompanied by a full audit report’.

This lack of data and process for analysing provincial expenditures has meant that the 4.9 percent of GDP that is directly handled in the provinces is placed in an oversight vacuum. This represents a major diminution in the national government's control over public expenditures, and every effort needs to be urgently made to restore a viable process for reasserting oversight of provincial expenditures. If budget personnel cannot support this task, then another agency needs to do so.

The study considers that the present provincial budget format and oversight processes are
not realising the intended benefits of better provincial service delivery through bringing resource allocation processes closer to the affected constituencies.

One of the main reasons for the inability to realise the benefits of provincial budgeting is the lack of transparency concerning budget allocation and expenditure processes in most provinces. Service delivery reductions, most obviously in the form of fewer aid posts operating, less school materials and supplies available, and poor feeder road surfaces, are clearly evident in the provinces. Whether this is a product of mismanagement or opportunistic behaviour concerning provincial resources is not clear, in the absence of provincial oversight processes the specific cause of reduced service delivery cannot be determined.

Another factor causing provincial budgeting to be less effective in terms of their ability to deliver services involves the shift of K132 million (-52.8%) in provincial resources away from Organic Law grants towards tied advances managed by line agencies.

This has the effect of reducing the funds available to support provincial activities, without lowering the level of administrative overheads that the province has to fund in the form of salaries and wages, as these are financed by conditional grants. In 2001, some K132 million (52.8%) of provincial Organic Law grants were directed to national departments, which must have a major impact on the level of services that the provinces can deliver through their own administrations.

**Recommendations**

**Recommendation 1**
The national government urgently needs to reinstate the integrity of balanced budgeting in the provinces, most particularly in Western, Gulf, Central, Milne Bay, Southern Highlands, Enga, East Sepik, Sandaun, New Ireland, and East New Britain. One of the simplest ways of re-establishing this practice would be for the government to fully resource and support quarterly budget reviews for all provinces and line agencies as a high priority.

**Recommendation 2**
Devising and promoting a simple set of common program and activity codes that line agencies and provinces could utilise within each function would be a useful development that needs to be referred to the Department of Finance.

**Recommendation 3**
Provinces need to move towards preparing a consolidated budget, combining both 200 and 700 series revenues.

**Recommendation 4**
Ensure that ITD can regularly produce the provincial budgets analysis files and circulate these to budgets, or another agency, and to the provinces. The study recommends that ITD urgently develops the regular in-house capacity to produce quarterly electronic analyses of provincial budgets and actual expenditure data.

**Recommendation 5**
The study proposes that a competent secretariat needs to be established for the National Economic and Fiscal Commission (NEFC). NEFC is empowered under s.117 (8) (iii) to recommend the level of grants to be made to the provinces, and the secretariat would assist this body to scrutinise and exercise a level of influence over provincial budgets and
Part 1: Official Documents

expenditure that finance finds it difficult to do. This separation of roles would leave the Department of Finance free to focus on the technical matters of administering and accounting properly for the funds that are made available to the line agencies and provinces, while the NEFC is empowered to manage the politically and socially sensitive question of whether provinces are performing in accordance with national development objectives and should receive full grant allocations or VAT rebates in any given fiscal year.

Recommendation 6
As VAT rebates to the provinces are another form of national government funding, seeking NEFC's views on the levels of VAT funds to be made to provinces would assist to ensure that provincial budgets are consistent with national development objectives.

Recommendation 7
Allocations to administration generally appear too high. The study considers that allocating K148.9 million in provincial administrative salaries, or an additional 61 percent, to directly manage K244.3 million of provincial services delivery represents a very high overhead for provinces to bear. Further, the total 2001 provincial non-salaries and wages allocation is K522.9 million, of which administration receives K186.5 million (35.6%). It would appear that administrations are also being allocated a disproportionate share of the non-salaries budget. Some assessment of the size of the provincial public services compared with their service delivery capacity is needed to determine whether this salary and wages cost needs to be reduced.

Recommendation 8
There is some evidence to suggest that provinces may be bulk-coding their budget allocations out of convenience. Some evidence for this lies in their regular use of only 16 of the 38 available Items of Expenditure. The study considers that even this level of budget detail is complex for the provinces and does not add to the level of control that is being exercised over public expenditure. The study proposes that as few as nine Items of Expenditure could be used and still provide sufficient detail about the types of expenditure by broad categories of expenditure.

Recommendation 9
The study considers that the overall effect of combining the 200 and 700 Series revenues into a single consolidated budget, developing a simple set of standard programs and activities for each of the seven functions (and eliminating the ‘Reserved’ and ‘Other’ functions), and using just the nine Items of Expenditure, as proposed, would be to reduce the size of the average provincial budget considerably and make it more user friendly when analysing provincial service delivery capacity.

Recommendation 10
A consequence of this approach would be the need for a far more intensive inspections and internal audit function in the provinces. This becomes an essential task on which the Department of Finance and the Office of the Auditor General may be able to collaborate in order to build up the capacity needed to ensure that the streamlined provincial budgets model does not mask inappropriate expenditure decisions.

The Quest for Good Governance

This document is a summary of the power point presentation to the Special Governors’ Conference held in Mt. Hagen in October 2005. It provides a clear and concise description of the rationale and details of the new funding formula that will allow for the equalisation of funding among provincial governments.


The derivation grant is a conditional economic grant that the national government has been legally bound to transfer to provincial governments under the original OLPG and the 1995 OLPGLLG. It has been paid as a ratio of the value of exports originating from a province, under several formulas. Originally, it was set at 1.25 percent of the F.O.B. value of eligible exports from a province in the previous year. The main purpose was to offer an incentive for stronger export performance. Under the OLPGLLG, the rate was set as not exceeding five percent, excluding goods attracting royalty payments, development levies, and any other national government grants. The conditionality of the grant was not changed, meaning that provinces were required to expend the grant exclusively for promoting the exports of their primary and secondary industries.

In 2004 and 2005, the derivation grant was calculated at a fixed rate of 0.75 percent of the F.O.B. value of eligible exports in 2003. For the 2005 budget calculations, actual export data from 2003 was used, as it was the most recent full year of export data. The derivation grant calculations require nationally consistent, comparable, accurate, and reliable sources of data, and cannot be based on data produced by individual provinces. This paper provides details of the value of exports for all provinces that were used to calculate the 2005 derivation grant.


This report addresses the fundamental question of how provincial governments spend their funding. Every year, more than K1 200 million is distributed to provinces to provide services to their people in the areas of basic education, rural health, and transport infrastructure maintenance, through function grants. How were these funds used? This report reviewed financial data and conducted visits to the provinces, asking: Did you spend all the money? Did you spend the money in a timely manner? Did you spend the money as intended, on things that help deliver services to your people? The findings for fourteen provinces are compiled in a table comparing the provinces’ scores. Several major problem areas are highlighted:

**Health**

Problems were excessive spending on wages, leaving insufficient funds for purchasing goods and services.

**Education**

Problems were excessive spending on secondary schools, delayed funding to the schools, and poor monitoring of major contracts.

**Transport Infrastructure Maintenance**
Too much was spent on building maintenance, and often the funds were spent too slowly, or not spent at all.


This report is the presentation of the NEFC proposals for the new funding system to officials of the Department of Treasury in February 1997. It contains details of the new fiscal arrangements to replace those that were adopted with the OLPGLLG, and which were never implemented by the national government as they should have been. The changes proposed by the NEFC represent the most significant changes to the funding arrangements since the creation of provincial governments.

The broad objectives are to link the funding of provincial governments to the functions that they carry out, giving all provincial and local-level governments a similar capacity to deliver services, and to ensure that funding is directed towards the delivery of services. The new arrangements address the elusive goal of equalisation among provinces by distributing additional funds from the national government to provincial governments according to their needs, based on a detailed assessment of costs at the local and district levels.

Equalisation is the centrepiece of the reforms, with each provincial government and local-level government provided with a similar financial capacity to effect assigned service delivery functions and responsibilities. The implementation of the equalisation system is defined by four steps:

- determining the equalisation amount;
- apportioning this amount between the provincial and national shares;
- calculation of eighteen individual provincial and local government shares; and
- splitting the individual provincial shares into service delivery function grants.

The total equalisation amount will be defined as a fixed percentage of net national revenue (NNR) of the second preceding year. Net national revenue is defined as total tax revenues minus mining and oil revenues.

The new system will ensure that, on average, provincial governments will be able to meet 80 percent of their costs, with no province receiving less than 60 percent, compared to the previous system where some provinces received as little as 23 percent of their costs. The report contains details of the calculation and implementation of the system, as well as comparative data across provinces.


This report is the presentation in outline form of the preceding reference.


This document is the first of two volumes of a handbook designed to help staff of provincial governments, local-level governments, national departments, and provincial and district-level administrations implement the 1995 reforms. This volume provides the basis for understanding and managing the new roles and responsibilities that have been created under the new arrangements.


This document is the second of two volumes of a handbook designed to help staff of provincial governments, local-level governments, national departments, and provincial and district-level administrations implement the 1995 reforms. This volume consists primarily of tables that set out the division of responsibilities between levels of government, indicative unit costs, and contact numbers of key personnel.


The mandate of the Hesingut Committee was very broad — to review the operation of the system, in particular, the provisions of the constitutional laws on powers and functions of provincial governments, the exercise and performance of those powers and functions, the finances of provincial government, and to advise generally on the effectiveness of the system. East New Britain is cited as an example of the success of decentralisation.

The report provides a brief summary of the history of decentralisation in Papua New Guinea, and outlines the main arguments for and against it. Depending on the position taken, decentralisation is either a messiah or a monster. John Momis is cited extensively in the elaboration of the advantages of decentralisation. Iambakey Okuk's ideas are cited as a rebuttal to Momis, with the main idea being that decentralisation has resulted in over government. Financial mismanagement is one of the main criticisms levelled against provincial governments in the provinces visited by the committee. To 1991, a total of eight provincial governments had been suspended. In all of the cases one of the prime reasons was ‘gross’ financial mismanagement. However, some of the biggest scandals of misappropriation have involved national Ministers, politicians, and senior officials.

Administrative mismanagement is another major problem, with provincial politicians making a mess of things. Supporters of decentralisation argue that there is nothing inherently wrong with provincial government. The problem is the quality of the people who are elected. They are greedy and corrupt. One of the reasons for failure is insufficient funding.

There are high costs associated with provincial governments. Improvement is not possible without appropriate changes to the Constitution and the OLPG. The system must be modified to rid the system of its current weaknesses and failures. The new look provincial government (not abolition) calls for amendments to the Constitution and the OLPG.
Provincial assemblies should comprise the chairpersons of local government. The chairperson would be the only full-time politician. Portfolios would be abolished. Seconded public servants would come under the control of the administrative secretary, appointed and directed by the national government only. Provincial members would have no direct or physical control over, or access to, any sort of funding or project money. Existing grants would be maintained, but with greater emphasis on conditional grants directed to local government projects.

There should be a reduction in the number of provincial politicians. Across the nation, there are 715 provincial politicians. This is far too many. There should be no more than 300. There should be greater control over provincial spending and the salaries and allowances payable to politicians, and greater control over the provincial public service, including the procedures for appointment. There should be greater participation by local-level governments on matters affecting the development of their areas, less duplication of roles and responsibilities, and less confusing channels of communication.

There has been an abuse of delegated powers. Too many members of the provincial legislature are also members of the PEC — sometimes more than 50 percent. The portfolio system is not appropriate for provincial governments.

The report makes recommendations that range from broad constitutional changes related to the structure of provincial governments, to specific proposals to micro-manage provincial governments through suggestions as to spending and the posting of experienced public servants in the rural areas.

**Recommendations**

**Political Body: Provincial Government**

1.1 The Constitution and the OLPG must be amended to provide for a form of provincial government consisting of presidents or chairpersons of local government councils.
1.2 Present members would remain in office until the end of their term.
1.3 Members of a provincial government would elect a head and deputy head of the provincial government.
1.4 The head of a provincial government would assume full political responsibility for all matters of provincial government. He would be full-time, and paid a salary and other entitlements.
1.5 Other members of the provincial government not to hold office and not to be paid salaries or wages.
1.6 There to be no ministries or portfolios and no executive offices among the members of the provincial government.
1.7 There to be only one provincial administrative secretary of each provincial department, and that he (or she) be the chief executive and head of the public service in the province and the representative of the national government.
1.8 The offices of the head of the provincial government and the administrative secretary be kept separate and independent of each other. The head of the provincial government will advise the national government of the laws, regulations, and resolutions made by the provincial legislature, and will pass them on to the executive secretary for implementation. As for the day-to-day carrying out of our functions and those of the other public servants in the province, the administrative secretary will get his (or her) directions only from the national government.
1.9 Individual members of the provincial government to have no direct control or discretionary powers over, or access to, any sort of funding or project money.
1.10 The national government, through the parliament, to maintain its power to disallow provincial laws, as it sees fit.

Local and Community Governments

2.1 The Local Government Act Chapter 57 be made applicable to all of the provinces, and be implemented immediately.
2.2 Councils and council wards be created on the basis of population distribution, with the provision to limit the number in the larger and heavily populated provinces to be no more than 25 councils.
2.3 The various other local-level governments, which some provinces have as community governments, be maintained and redefined as councils.
2.4 All local council elections be conducted at the same time as national general elections, to save costs and maintain uniformity of term of office.

Public Service Control

3.1 There be only one public service for the national and provincial departments under the control of the national government. The NEC will appoint one contract administrative secretary for each province.
3.2 The Department of Personnel Management (DPM) be given the power to appoint and remove divisional heads and exercise full control over all public servants in the province, through the administrative secretary.
3.3 The DPM to review the functions and structures in provincial departments and be responsible for all the training needs of public servants in the provinces.
3.4 Some of the more experienced public servants be stationed in the rural areas.
3.5 That public servants be posted, as much as possible, to provinces other than their ‘home’ provinces.

Fiscal Matters

4.1 That the present methods and formulae for conditional, unconditional, and derivation grants be maintained, but with greater emphasis on conditional grants, which should be more directed to projects nominated by local governments, through the medium of provincial governments.
4.2 That the administrative secretary be accountable for all expenditure. The national Departments of Provincial Affairs, Finance and Planning, and Auditor General be given the powers to closely supervise and control provincial revenue collection, expenditure, and accounting.
4.3 That the provincial, local, and community governments be given the responsibility to identify, list, and prioritise projects, and that the national government have the power to carry out feasibility studies, approve expenditure, and supervise implementation.
4.4 That provincial governments be empowered to either repeal all existing provincial laws imposing sales tax, and authorise councils and community governments to impose head tax or maintain existing sales taxes, but not both.

This report is essential to the understanding of the reforms to the decentralised system that were brought in with the adoption of the OLPGLLG in 1995. The answer to the question as to the motivations underlying these reforms can be found at the beginning of the report, where the members of the committee are listed. Although the membership was ‘bi-partisan’, in the sense that it comprised members of both government and opposition parties, it reflected a one-sided approach to the representation of the major protagonists in the political conflict over decentralisation — national politicians versus provincial politicians. All members of the Bi-Partisan Committee were national politicians.

The committee considered all of the previous reports on the reform of the provincial government system and found them wanting. It explicitly saw the major priority as being the problems of political leadership and political authority, and therefore, it is not surprising that the most fundamental change from the previous system of provincial governments was political. The amended organic law which that resulted from this report provided that each provincial government would still have its own constitution, structured around certain principles. All national Members of Parliament became members of the provincial authority, with the MP representing the Open Electorate of the province being designated governor of the provincial government. Local government leaders also became members of the provincial legislature.

These amendments provided for the membership of provincial authorities to be constituted by Members of Parliament and presidents of local councils, and provided for provincial electorates to replace regional electorates in the parliament of Papua New Guinea. The total number of seats in parliament remained the same, with the name of the regional electorate being changed to provincial electorate. The designation of the Member of Parliament who was elected in the provincial electorate as governor of the province and head of the provincial authority, effectively adopted the practice of the presidential-style election of the provincial premier that had been instituted by several provinces, and which had generally been considered to be a success.

These changes reflected the essentially political nature of the reforms that were adopted in 1995, as opposed to the technical proposals for reforming intergovernmental fiscal relations in previous efforts. They essentially abolished the elected provincial legislatures and replaced them with a body comprising all the members of the national parliament and local government bodies. The new arrangements effectively eliminated the previously existing middle-level of government — provincial government — by replacing it with members of the legislative branch of the national government and representatives of local government. The Members of Parliament who were elected from the national electorates within each province would constitute the membership of the provincial authorities, along with some presidents of local government councils.

The 1995 reforms flowed from the concern with political rivalry and confrontation between the two levels of government as represented in the thrust of the Hesingut and Nilkare reports, rather than the proposals to reform the existing system of provincial government, as represented by the more technical proposals of the Specialist Committee and the National-Provincial Working Group.
Rather than attempting to improve the relationship between politicians at the provincial and national levels, by adopting mechanisms of control and cooperation, the 1995 changes attempted to eliminate political rivalry between national politicians and provincial politicians, by eliminating one of the rivals — provincial politicians.

Recommendations

Recommendation 1.1: Appointment of Constitutional Commission

That the National Parliament resolves to appoint a constitutional commission to:
(a) implement and monitor the recommendations of the committee;
(b) supervise the implementing process during the transitional period; and
(c) be disbanded after the 1997 National General Elections.

The Commission will also review the Papua New Guinean Constitution. The commission will automatically cease to operate after the completion of its report.

Recommendation 1.2: Legislative Changes

That the Constitution be amended, in particular to the following matters:
- s. 19 (special references to the Supreme Court) s.26 (application of Division 2 - leadership code), and s.105(1) (b) (general elections);
- s. 125(6) (electorates);
- s. 126(3) (elections); and
- repeal and replace PART VIA - (PROVINCIAL AUTHORITIES).

(a) that the Organic Law on Provincial Government not to be repealed. Instead, it should be amended in accordance with our recommendations;
(b) that the Organic Law on National Elections be amended in accordance with our recommendations;
(c) that consequential amendments be made to all national and provincial legislation, in accordance with our recommendations; and
(d) that a new National Local Government Act and the Provincial and Local Support Services Act be drafted.

Recommendation 1.3: Provincial Authorities

(a) that the reformed system of provincial government be known as provincial authorities;
(b) that their powers, functions, and constitutions be the same as, or similar to, those now exercised by the present governments, but they are to be more precisely defined;
(c) that these provincial authorities have limited legislative, executive, and judicial powers, as well as specific control systems to guarantee accountability;
(d) that each authority shall have its own constitution and provide the following features:
- all national Members of Parliament are members of the authority;
- the provincial Member of Parliament is the head of the authority;
- the Lord Mayor of Urban Authorities and presidents of all local-level governments to be full members of the authorities; and
- the provision of nominated members be made to cater for ethnic diversity and non-government organisation representation; and
(e) that the term of office for provincial authorities be five years.

Recommendation 1.4: Present Regional Seats

(a) that the present regional seats in the national parliament be abolished and replaced with provincial seats;
(b) that one of the number of members of the provincial authority shall be elected as deputy chairman, and not being a national Member of Parliament; and
(c) that, in the event that a provincial member is appointed to a public office, he (or she) shall vacate his (or her) seat as the chairperson of the provincial authority, and appoint one of the national Members of Parliament in his (or her) province, to be chairperson of the authority during the period of holding that public office.

Recommendation 1.5: Provincial Executive Council

(a) that the provincial Member of Parliament shall be the Chairperson of the Provincial Executive Council and the provincial authority, and that there shall be no office of the Speaker at the provincial level;
(b) that there shall be a Provincial Planning and Executive Council whose powers and functions are defined by law;
(c) that the size of the Provincial Planning and Executive Council shall be not more than one-third of the total number of members in the provincial authority;
(d) that there shall not be any Minister in the provincial authority. Instead, there shall be a parliamentary committee system;
(e) that each committee shall be under the control of a chairperson and constituted by members of the authority, and none other;
(f) that the number of committees shall not exceed the number of members on the Provincial Planning and Executive Council; and
(g) that the chairperson and members of the committee shall not draw any salary. Instead, they shall receive sitting and transport allowances, and other incidental expenses from funds made available by the national government.

Recommendation 1.6: Provincial Administrative Structure

(a) that the new proposed provincial administrative structure be accepted as the implementation machinery for the provincial authority system of government and administration;
(b) that the current provincial departments and positions of provincial secretary, deputy secretary, first assistant secretary, and assistant secretary be abolished;
(c) that the Papua New Guinean Constitution, the Organic Law on Provincial Governments, the Public Service (Management) Act, and the Financial Management Act be reviewed to effect the changes in provincial government and administration;
(d) that the OLPG be amended so that, on the date of coming into operation of the new system of government, all Provincial Constitution and Provincial Staffing Acts be deemed to be repealed;
(e) that the national planning function be separated from the finance function in the current Department of Finance and Planning;
(f) that a Department of National Planning be established to be responsible for national and provincial planning in the country; and
(g) that the resource management system, being a home-grown planning system, be adopted as the national planning and public administration system by all national and provincial departments, and that the program budgeting system and the basic
minimum needs system be integrated into the RMS system.

**Recommendation 1.7: Office of the Commissioner**

(a) that an office of a Commissioner of the Provincial and Local-level Government Support Service be created;
(b) that the Provincial and Local-level Government Support Service be provided with all the funds, facilities, and staff to effectively and efficiently perform its duties and responsibilities;
(c) that the commissioner shall be assisted by two deputy commissioners — one responsible for urban and local-level governments, and the other responsible for provincial public service; and
(d) that there be an office of the administrator in the province, assisted by a deputy administrator, and functional managers based at the district levels.

**Recommendation 1.8: Specialist Technical Units**

(a) that a Specialist Technical Unit comprising a lawyer, economist, and accountant be based at the headquarters to advise the commissioner and the deputy commissioner. The Specialist Technical Unit must be based at the provincial level, to advise the Provincial Executive Council, the provincial authority, and the Electoral Planning Committee.

**Recommendation 1.9: Public Service**

(a) that there must be 'one' nationwide public service; and
(b) that a Provincial and Local-level Government Support Service be established.

**Recommendation 1.10: Provincial Administrator**

(a) that a civil service office of the administrator of a province be created to replace the positions of the secretary and the executive officer;
(b) that the administrator shall hold office under a written contract for a period of four years;
(c) that the administrator's terms and conditions shall be determined under a written contract; and
(d) that a contract of employment shall be entered into between the State and the administrator, after effective and meaningful consultations with the Provincial Executive Council.

**Recommendation 1.11: Auxiliary Public Service**

(a) that there be an auxiliary public service for local-level government;
(b) that the officers of this service shall be especially trained and ideologically oriented to:
   (i) the provision of service in rural community settings;
   (ii) technical and practical competence for the delivery of services, rather than for theory and bureaucracy;
   (iii) specific project implementation rather than theoretical planning; and
   (iv) doing basic needs analysis and identification of village developments projects;
(c) that there be a national commissioner for local and village government services, who shall be responsible at the national level for the auxiliary service;
(d) that the commission shall be appointed by the National Executive Council;
(e) that the officers of the auxiliary service be eligible to join the public service;
(f) that national or regional centres be created to train the officers of the auxiliary service to implement effective nation-building and improvement; and
(g) that the appointment of auxiliary officers be task specific, and that on completion of jobs they are re-engaged for new tasks.

Recommendation 1.12: The Electoral System

(a) that there be one general election for the national parliament, the provincial authorities, and local-level governments;
(b) that the regional seat be changed to a provincial seat;
(c) that the presidents and councillors of local-level governments be elected at the general elections;
(d) that a general election may be called in the event of a successful vote of no-confidence motion being passed:
   (i) in the last 18 months of the five-year term of the parliament; and
   (ii) only applies to national parliament;
(e) that enrolment be compulsory;
(f) that voter identification tribunals be established;
(g) that on enrolment, each voter be given an identification card to be produced at the time for voting;
(h) that only the winning candidate to receive a refund of the nomination fee;
(i) that a candidate intending to nominate for that electorate must have:
   (i) the support of 100 enrolled supporters in the electorate, who shall sign the nomination form; and
   (ii) the support of the community, and has shown outstanding work in the community;
(j) that the nomination be reduced to five days;
(k) that the present voting period be reduced from four weeks to one week, or in some cases to one-day polling;
(l) that during the conduct of the general elections:
   (i) restrictions on size of election posters be removed;
   (ii) loud hailers be completely banned one day before election day;
   (iii) chief polling stations be abolished;
   (iv) the number of scrutineers in counting stations be limited on a rotation basis; and
   (v) the death of a candidate not to affect proceedings;
(m) that the first-past-the-post voting system be retained; and
(n) that the present constituencies in the provinces be changed into, and declared as, local government council areas.

Recommendation 1.13: Urban Authorities and Local-level Governments

(a) that amendments be made to the Papua New Guinean Constitution and the Organic Law on Provincial Government to allow for the enactment of a new national Local Government Act;
(b) that amendments to the Organic Law on Provincial Government be made to guarantee K20 per head of population for local-level governments as a conditional grant;
(c) that an office of the Commissioner for Local-level Governments be established with proper funding, resources, and facilities;
(d) that training in the local-level government system be reactivated;
(e) that the president of one or more local-level governments shall sit as a member of
the provincial authority and Provincial Planning and Executive Council, and hold office for five years;

(f) that the election of councillors of local-level government shall, subject to national laws, be determined by a provincial law;

(g) that the provincial authorities, subject to the broad national guidelines, shall be at liberty to establish a local-level government best suited to their ethnic, geographic, cultural, and economic conditions;

(h) that each local-level government shall have a management committee, as determined by a Provincial Planning and Executive Council;

(i) that the provincial authorities, subject to the national laws, shall determine the powers, functions, duties, and responsibilities of a local-level government and its management committee; and

(j) that the provincial authority shall collect and determine all revenues raised from retail sales tax. The Minister shall determine the appointment of the retail sales tax.

**Recommendation 1.14: Electoral Planning Committees**

(a) that an Electoral Planning Committee comprising a National Open Electorate, shall be created;

(b) that an Act of the national parliament shall establish the Electoral Planning Committee;

(c) that the Electoral Planning Committee shall not have any legislative or judicial powers;

(d) that the Electoral Planning Committee shall be an administrative and planning unit;

(e) that the powers, functions, duties, and responsibilities of an Electoral Planning Committee, shall be as determined by a national law; and

(f) that the Electoral Planning Committee shall cooperate with the local-level government and the provincial authority.

**Recommendation 1.15: Finance and Fiscal System**

**Grants**

(a) the Minimum Unconditional Grant (MUG) formula — 1992 is the new base year, also to take into account annual population growth, and kina per head population related to basic needs as tied grants to water, sanitation, feeder roads, and health centres;

(b) the OLPG does not provide for a regular review of the formula;

(c) the derivation grant be amended to five percent;

(d) that proper account be kept of all commodities exported from a province, of production and the province of shipment or export, and that failure to keep such proper records may result in committing an offence;

(e) the special support grants must now include non-mining provinces;

(f) mining agreements must now include provision of infrastructure grants given to non-mining provinces;

(g) a Rural Infrastructure Conditional Grant of K50 per head of population be made payable to the province, of which K30 goes to the provincial authority, and K20 per head of population goes to local-level governments; and

(h) the town service grants — the national government to provide conditional grants of K20 per head of population for town service, except for the NCDC.
Programmed Budgeting

(a) that all provincial authorities shall implement programmed budgeting and apply it throughout the country.

Provincial Taxes

(a) Retails Sales Tax:

(i) to have a uniform rate of 2.5 percent, and apply it throughout the country;
(ii) collected by each provincial authority, but where there is no capacity, the national government will collect it on behalf of that province;
(iii) the national government must improve capacity to administer the collection of the tax; and
(iv) to establish an implementing agency to consist of:
   • internal revenue service;
   • finance; and
   • experts.

Recommendation 1.16: Accountability and Control

(a) that the provincial authority to forward its annual report, of the previous fiscal year, to the Minister for Provincial Affairs, for presentation to Parliament by 31 March in the following year;
(b) that a provincial authority furnishes its financial report on a quarterly basis to the Minister for Provincial Affairs;
(c) that the Departments of Finance and Planning, Provincial Affairs, and Village Services assist the provincial authorities by drawing up a form on financial statements;
(d) that provincial authorities recruit qualified accountants after being screened by the Department of Provincial Affairs;
(e) that a provincial authority may own a business arm but 'shall not conduct it';
(f) that finance inspectors of the Departments of Finance and Planning, and Provincial Affairs, without notice, shall inspect the accounts and records of provincial authorities; and
(g) that the national government allocate no less than K2 million to the Office of the Auditor General to establish provincial audit cells in the provinces.

Control

(a) that controlling agencies prescribe firm guidelines on reporting format, content, and disclosure needs of the financial statements, and to include:
   (i) a detailed statement of transactions;
   (ii) a program summary and program statement;
   (iii) a statement of supplementary financial information;
   (iv) notes to financial statements; and
   (v) a certificate, as outlined by the above guidelines;

Power to Prosecute

(a) that the Audit Act be amended to enable the Auditor General to take action against those in breach of s. 4 of the Act;
(b) that the Public Prosecutor has the power of prosecution and in the event that
prosecution has not taken place within 60 days, the Auditor General shall prosecute;
(c) that s. 5(2) of the Audit Act be amended to include 'stores and property'; and
(d) that, in line with the Audit Act, s. 177 of the Papua New Guinean Constitution be
amended to authorise the Auditor General to prosecute persons, who, in his (or her) opinion, are guilty of misappropriation of public monies, stores, and/or property.

Recommendation 1.17: Implementation

Appointment of Constitutional Commission:

(a) (i) that a Constitutional Commission be appointed to oversee the implementation and monitoring of the new provincial authority system; and
(ii) that the Constitutional Commission to make periodic reports to the Speaker, who shall present the reports to the parliament, before the 1997 General Elections;
(b) (i) that no elections shall be conducted for the current suspended provincial governments;
(ii) that the current suspended provincial governments move into the new provincial authority system, during the transitional period;
(iii) that the provincial Member of Parliament be appointed by national parliament, as the interim chairperson of the provincial authority, until the transitional period elapses;
(iv) that where a provincial Member of Parliament is appointed to a public office, as a Minister, he shall appoint one of the national Members of Parliament from his province to be acting chairperson, during his (or her) term of office; and
(c) that the new provincial authority system will come into operation after six months, following the Constitutional Law coming into operation.


This document is the ministerial statement to parliament on the status of implementation of the 1995 reforms, based on information from the National Monitoring Authority, (NMA). The report includes tables on the performance of each provincial government, with comments on district and local-level government. The report contains nine broad recommendations.

Summary of Major Recommendations

1. Develop the 13 outstanding Acts of Parliament required by the Organic Law, including an enabling Act for provincial governments and local-level governments for the purposes of taxation, fees, and revenue collection.
2. Review specific areas of the Organic Law, particularly the Provincial Governments Administrative Act and the Local-level Governments Administration Act.
3. Develop model laws for provincial governments and local-level governments.
4. Provide technical assistance to help provincial governments and local-level governments develop their five-year and three-year rolling development plans and data systems referred to in s. 106 of the Organic Law.
5. Strengthen the capacity of the National Monitoring Authority to effectively
6. Improve current monitoring, inspection, and reporting between provinces and the National Monitoring Authority, through a standardised reporting system.
7. Develop technical and professional capacity at national, provincial, and local government levels in all areas of the reforms.
8. Establish provincial inspectorates as provided for under s. 110(3) to perform tasks specified under subsection 4, on behalf of, and for, the National Monitoring Authority.
9. Increase awareness activities on the reforms at all levels by targeting communities, public servants, and NGOs, on the roles, responsibilities, and partnership relations of existing networks in the reform process.


This report is also known as the Pokawin Report, after the chairperson of the Committee, Stephen Pokawin, Premier of Manus Province. As a committee of the Premiers’ Council, it represents a provincial perspective on the reform of intergovernmental arrangements. After a brief review of the history of the establishment of provincial governments, the report offers suggestions as to how the provincial government system can be improved.

Among factors hampering the performance of provincial governments are outdated laws retained from colonial times. The report supports the implementation of recommendations of the 1984 Specialist Committee Report, including the establishment of a commission to smooth the relationship between the national government and provincial governments.

Competition between provincial and national politicians over winning electoral credit for the delivery of goods and services has been a major impediment to success, and has lead to a lack of cooperation and uncoordinated project spending. Increased cooperation can be achieved without the creation of additional bodies or additional legislation. The committee opposes the District Development Authority Bill, which proposes the establishment of an authority in each electorate to perform functions that should be performed by provincial and local-level governments.

Many national government bureaucrats have a vested interest in maintaining a centralised administration, where key personnel are located, and decisions made, in Port Moresby. As a result, many national departments have been reluctant partners in the decentralisation process, and by holding onto key powers have thwarted attempts by provincial governments to foster local initiatives.

Provincial government capabilities have been reduced by the failure of the MUG to keep pace with the rising costs and population growth. The apparent deterioration of government services and infrastructure in the provinces is not because the provinces have squandered resources. The reality is that provinces have been expected to do more and more, with less and less funds.

The provincial government system has contributed to Papua New Guinea’s survival as a single nation. The Bougainville crisis is, in many respects, attributable to the failure of the national government to decentralise powers to the degree possible.
Granting greater autonomy to Bougainville must be considered an essential part of any attempt to fully re-incorporate it into Papua New Guinea. The abolition of provincial governments risks arousing secessionist sentiments in other ethnic groupings throughout the country.

Contrary to the system's detractors, provincial governments do deliver many goods and services to the people, in spite of the restricted resources resulting from the declining MUG.

Provincial governments have been leaders in several legislative fields — customary land registration in East Sepik, marine and forest resources management laws in Manus, customary compensation laws in New Ireland, and control of coffee purchasing in Southern Highlands.

The costs of running provincial governments have not been excessive, amounting to only 4.3 percent of total funding to the provinces in 1990.

The report is critical of the Parliamentary Select Committee on Provincial Government Review (Hesingut Committee). It is a biased committee. Sir Pita Lus, as a prominent member of the committee, is opposed to the provincial government system. He is quoted as saying in 1985, "the establishment of provincial government throughout Papua New Guinea is like a disease" (Hansard 22 August 1985). The Hesingut Committee undertook no credible assessment of the system. It ignored positive aspects of the system and proposals to improve it. It failed to take into consideration the numerous reports and studies that had previously been done. It blames provincial politicians, but offers no justification for the claim that they are the cause of the problems. The recommendations of the report are short on detail and lacking in justification. It starts from the premise that attempts to improve the current system would be prohibitively expensive.

**Recommendations**

(a) that parliament not move to abolish the current provincial government system, but rather use its powers to improve and fully implement the system;

(b) before any decision is made on the future of the provincial government system, a thorough review should be made of all proposals to change or improve the system contained in previous reports, studies, and resolutions of the Premiers’ Council. This review should be conducted by an Intergovernmental Review Commission, as proposed in the 1984 Premiers’ Council Specialist Committee Report. The results of the review should be tabled both at the next Premiers’ Council meeting and in Parliament;

(c) that parliament immediately enacts the gazetted proposed law to alter the Organic Law on Provincial Government (as amended in light of Premiers’ Council resolution PC 7/13/90); and

(d) that parliament rejects the passage of the District Development Authority Bill in its present form on the grounds that it provides for the establishment of an additional government body to perform functions which should be performed by provincial and local-level governments and will lead to fragmented development planning in each province.

One of the most often cited criticisms of provincial governments has been in the area of financial mismanagement. This can be partially attributed to the failure of the national government to respond to cries for help from the provinces. Greater control of financial management is required.
Centralised control of public servants has reduced the ability of provinces to adjust staffing structures and to relocate personnel to suit changing needs in the provinces. These problems can be reduced with greater delegation of personnel powers to those provinces with demonstrated management capacity. Provinces without such capacity should receive training with the aim of developing such capacity.


The Public Sector Reform Advisory Group takes the position that the decentralised system in Papua New Guinea is too complex, with functional responsibilities poorly defined, and resulting in a declining ability to deliver services. Provincial governments are not popularly elected, resulting in government that is not responsible to the people, and administration that is not sufficiently accountable. The report argues that the three-tiered governmental system should be replaced with a two-level system — the national and the district levels. Provincial governments should be abolished. The 1995 reforms and the Organic Law on Provincial Governments and Local-level Governments that it produced were ill-conceived, poorly implemented, and inadequately supported. It was a mistake to make district boundaries coincide with electoral boundaries, and this arrangement should be changed to boundaries that contribute to administrative effectiveness. The report puts a strong emphasis on increasing the capacity of local-level governments by providing them with sufficient financing and support.

The PSRAG adopts an historical approach in explaining Papua New Guinea's current condition, which it characterises as involving:

- declining social indicators;
- an ineffective law and justice sector;
- poor infrastructure maintenance;
- political patronage and corruption;
- little lasting benefit from resource exploitation or overseas aid;
- a disengaged and disempowered citizenry; and
- decaying administrative systems (*ibid.*: xi).

It attributes this performance to a dysfunctional system of subnational government. During the colonial period, a system of direct administration from Canberra was replaced with governments at the national and local levels. Following independence, a third level of government was established at the provincial level in order to achieve a greater degree of decentralisation. A reform package which was introduced in 1995 — the Organic Law on Provincial Governments and Local-level Governments — left this structure intact, but transformed relations between the different levels of government.

Papua New Guinea's subnational system of government now consists of 18 provincial governments and some 299 local-level governments. In addition, there are 87 administrative districts, special arrangements for the Autonomous Bougainville Government, and four community governments in the National Capital District (*ibid.*: 2).
The PSRAG's argument is that the two post-independence versions of decentralisation have left the country with a subnational system of government that is overly complex, and which has failed to effectively engage with local communities. As a result, service delivery has failed. Their remedy is to simplify the structure of government, clarify relations between the different levels of government, and ensure that subnational units of government are established at a level which is accessible to local communities.

The PSRAG recommends that Papua New Guinea's system of government should be simplified, by reverting to a two-level system of government. It recommends abolishing the existing provincial level of government because:

'Provincial governments, as established by the [1995 reforms], are not popularly elected. They are, by and large, removed from promoting equal opportunity or popular participation in government, providing basic human needs through economic self-reliance, or promoting responsible citizenship through self-management, control, and accountability for one's actions. Most provincial governments are as far from direct interaction with people as is Waigani. The failure of provincial government to implement empowerment may be inevitable, given the lack of direct connection to most people. Their place is one step down from the national government and one step up from local government. This insulates them from the people.'

The PSRAG's position on intergovernmental relations is that the confusion of the 1995 reforms must be clarified. The measures that they recommend for sharpening lines of responsibility and accountability between governments include:

- consolidating national legislation on local government, and consolidating administrative responsibilities at the national level, for local government;
- giving local government access to more revenue sources and greater budgetary control;
- breaking the nexus between national and local elections, and between electoral boundaries and boundaries for administrative and local government purposes;
- terminating discretionary grants to Members of Parliament;
- clearly demarcating the powers and responsibilities of the national government and local governments; and
- preventing individuals from holding multiple office in government or administration.

The PSRAG recommends the retention of the existing system of local government. It argues that:

- existing local government wards reflect traditional patterns of social organisation, and are therefore in compliance with the constitutional injunction on using Papua New Guinean forms of organisation;
- there are limits on the number of wards which can be incorporated in a local body, if it is to be effective; and
- this limit corresponds, in the main, with the size of existing local-level governments.

The PSRAG supports a widely held belief that it is at the traditional community grouping level that the energies of the people can best engage with national development projects. Finally, the PSRAG argues that local government has already demonstrated a capacity to perform, for example, in the colonial period and in administering the Village Services Scheme, prior to the 1995 reforms (*ibid.*, p. 31).
The PSRAG affirms the view that the form which the local level of government takes should reflect the constitutional injunction to use Papua New Guinean forms of social, political, and economic organisation. However, it acknowledges the dangers of parochialism and local capacity constraints. Accordingly, it recommends the establishment of a strong national agency for community and political development, as well as national support for a system of village courts.

Executive Summary

Within twelve months of independence, and to reinforce national unity, the national government instituted provincial governments. Local governments, which were often best placed to assist in unified development to benefit our citizens, were sidelined. Almost thirty years on, the nation has:

- a complex system of decentralisation that has failed in most provinces;
- declining social indicators;
- corruption and lawlessness;
- police and judicial systems which are inadequate for their tasks;
- decaying general administrative systems;
- decades of resource exploitation, with little lasting benefit;
- political patronage which benefits only a few;
- most citizens removed from positive interaction with the government;
- most citizens have not been provided with the means or motivation to better themselves;
- poorly maintained infrastructure and assets; and
- reliance on large inputs of overseas aid, with results not commensurate with the volume of aid.

A new vision for decentralisation is required. This new vision requires:

- eliminating political patronage;
- simplifying government systems and processes;
- the national government to budget adequate resources for community development and ward organisations, through local government;
- identifying and supporting community leadership;
- empowering all citizens, through community groups, wards, and local governments;
- reinvigorating administration at the national, provincial, and district levels;
- refocusing training for the public sector and communities;
- redirecting resources to key areas which support self-reliance and decentralisation;
- divesting as many responsibilities to the lowest level of government, as appropriate for implementation, according to local capacity; and
- encouraging local variation to match local needs, identity, and aspirations.

Responding to Autonomy Proposals

The East New Britain Provincial Government has been an exception to the decline of services and lack of support for local-level governments. It has asked for an increased level of autonomy, which reflects and builds on its competent work at the district and local levels. Any changes to decentralisation, which ignored East New Britain’s proposals, and recommended the elimination of the East New Britain Provincial Government may not be acceptable.
However, proposals for autonomy in East New Britain need to be handled in terms of implications for other provinces and the national government’s capacity to handle these variations. As already noted, the national government and its agencies have failed to respond to many of the basic requirements of the present uniform decentralised system. They are even less likely to respond competently to proposals for a series of special arrangements.

Irrespective of that, the PSRAG considers that, in relation to East New Britain’s proposals:

- ‘one size fits all’ may not be appropriate for every province;
- the province’s proposals do not appear to have considered, in any detail, the possible more extensive use of existing provisions for delegation of functions, powers, and finances from one level of government to another; and
- this report — particularly Chapter 3 [Structure and Roles in a Two-level Government and Elections], and especially Recommendation 8 — may answer some of the province’s proposals.

**Recommendation 28**

Any review of the East New Britain Provincial Government’s submission for greater autonomy should consider recommendations made in this report.

**Recommendations**

The recommendations are grouped and are specific to improved local government, in order to restructure a more effective system of decentralisation. The recommendations are not exhaustive.

The Public Sector Reform Advisory Group (PSRAG) proposes the following recommendations:

**Structure and Roles in a Two-level Government and Elections (Chapter 3)**

1. The Constitution be amended at s.254 (b) so that no person representing any subnational government can also be a Member of Parliament (p.17).
2. Provincial electorates and provincial seats in parliament be removed, and the number of seats available for members representing open electorates be increased (p.17).
3. A parliamentary, bi-partisan committee be established to review and recommend ways of best achieving greater representation by women in parliament and at the local level (p.19).
4. General elections for parliament and local-level governments be held separately, and local-level government elections be staggered in provincial groupings, within the five-year period between national general elections (p.20).
5. There be two levels of legislative government — the parliament and local government — and the provisions for provincial assemblies, be repealed (p.20).
6. The distribution of functions between the national government, provincial operations, and local governments be legislated by Acts of Parliament that provide for delegations to provinces according to circumstances and capacity, and not by an Organic Law (p.20).

**Provincial and District Boundaries (Chapter 4)**

7. The link between the boundaries of open electorates and districts be severed, and
district boundaries be defined on the basis of administrative convenience (p.24).

8. Local-level governments be formed within district boundaries, and not according to open electorate boundaries (p.24).

9. As many boundaries as possible be brought under the control of a National Boundaries Commission (p.25).

Local Government Boundaries, Urban Areas, Urban Local-level Governments, and Ward Boundaries (Chapter 5)

10. Wards continue to be formed in sizes that are convenient for the people, in light of their affiliations and traditional communities. Where convenient, and where the number of wards is not excessive, current local-level governments be encouraged to merge into larger; that is, district-wide local-level governments (p.27).

11. The decentralisation system to use existing urban centres as focal points for outreach, to encourage their growth as service centres for rural populations, rather than wasting resources on the establishment of centres in every open electorate (p.28).

Resourcing Local Government (Chapter 6)

12. Provisions concerning provincial support grants (PSGs) and district support grants (DSGs) be repealed, and the value of these grants be allocated to provinces and districts, and be separate from local-level government grants, to ensure that provinces have adequate funds to meet their expenditure needs and responsibilities (p.31).

13. Provisions concerning joint provincial planning and budget priorities committees (JPPBPCs) and joint district planning and budget priorities committees (JDPBPCs) be repealed (p.32).

14. Councillors' remuneration be set by the Salaries and Remuneration Commission, and monthly allowances be allocated by the national government, with local-level governments being responsible for the payment of specified incidentals, such as sitting and travel allowances (p.33).

15. Local-level governments may continue to collect head tax as a revenue source, and ward development committees and community groups be empowered by national legislation to collect project tax, as seed money for community development projects (p.35).

16. The national government to make direct grants to local-level governments, and be set at an appropriate rate to meet their responsibilities (p.36).

17. Local-level governments to operate their own accounts, while provincial and district treasuries take on support and supervisory roles (p.36).

18. Donor assistance, consistent with a system of decentralised government that is sustainable and which promotes self-reliance among the people, should be used more appropriately to realise the recommendations of this report (p.36).

Staffing District and Local Services (Chapter 7)

19. The national government to:
   - assume full responsibility for village court administration and centralise the payment of honoraria;
   - provide for joint activities of village courts;
   - establish direct links between village courts, the police, and district courts; and
   - link land mediators to the village court system, as well as to the judicial system (p.39).
20. The national government to reinstate the system of village books and village
recorders, and centralise the payment of honoraria (p.40).
21. Local-level governments be enabled to employ staff appropriate to their needs, and
for public servants generally to have advisory and support roles (p.41).

Creating Competency for District and Local Government and Administration (Chapter 8)
22. The Papua New Guinea Institute of Public Administration be reorganised and
refocused as a resource centre for community and political development, and be
fully funded by the national government and aid donors, to the extent necessary for
saturation training, instead of imposing constraints through a user-pays policy (p.46).
23. The national government to define core competencies and commence training for
provincial and district administration and local-level government personnel and
community representatives (p.46).

Shaping National Administration to Support District and Local Services (Chapter 10)
24. Following a review of the operation of present functions of national government
departments and agencies in relation to the needs and functions of provincial
administrations and local-level governments, national government responsibilities be
consolidated under one or more ministries, with a view to achieving more efficient
and responsive interaction (p.53).
25. The Department for Community Development and Department of Provincial and
Local Government Affairs be reviewed with the objective that they be combined and
properly resourced (p.53).
26. A Commission for Community and Local Government be established for the support
and control of community and local government matters (p.54).
27. A Local Government and Community Service be established to regularise
employment, duties, and remuneration of local government staff and appropriate
community service providers (p.56).

Provincial Governments (Chapter 11)
28. Any review of the East New Britain Provincial Government's submission for greater
autonomy should consider recommendations made in this report (p.57).

Conclusion
A system of decentralisation, which incorporates these recommendations, will be more
relevant to the nation, and will have a greater chance of long-term success. The fewer the
recommendations adopted, the less chance of successful decentralisation, and the greater
the disparity between the 'haves' and 'have-nots', which will entrench deprivation for the
disadvantaged.

for Provincial Governments in Papua New Guinea. Port Moresby:
Government of Papua New Guinea.

This is the report of a committee that was established at about the time the Bougainville
危机 broke out. Its purpose was to respond to the increasing demands of North Solomons
and other more capable provincial governments for greater autonomy over affairs within
provincial jurisdiction. The committee proposed a mechanism for affording greater
autonomy on a graduated basis. The recommendations were overcome by political events and were never implemented. This report is useful as background for responding to more recent requests for greater provincial autonomy on the part of the East New Britain Provincial Government.

It is important to underline the implicit and explicit goals that led to the establishment of a decentralised system of government in Papua New Guinea. The Papua New Guinean Constitution and the Organic Law on Provincial Government are concrete manifestations of a strong conviction that political power should be devolved to a level closer to the people. This has continued to be a fundamental governmental policy in Papua New Guinea, and the working group concludes that the process of decentralisation should continue with the devolution of greater powers to provincial governments. The working group concludes that this devolution should be undertaken in a way that recognises the diversity of conditions and different levels of capability among the provinces.

It is necessary to reiterate that information provided to the working group and previous knowledge of the members confirm that, for the most part, in Papua New Guinea, provincial governments are not performing at a high level of capability. There is a great deal of diversity among provinces, and this diversity should be recognised in the arrangements for devolving powers of provincial governments. Until they are able to do so, it would be unwise to contemplate granting greater autonomy to all provincial governments.

Based on this consideration, the working group recommends that, at this time, no grant of greater autonomy be made generally to all provincial governments in Papua New Guinea.

Consistent with the first recommendation is the strong conviction that much needs to be done to improve provincial political, administrative, and financial capacity. This is an effort that must be jointly undertaken by the national government and provincial governments, as in the long term it will improve both levels of government, and above all, benefit the people of Papua New Guinea who are to be served by these governments.

The working group concludes that greater provincial autonomy should be based on the specific activities and functions to be transferred to a provincial government, and that many provincial governments have not exploited fully or effectively the scope for autonomy which they currently have.

The findings of the working group indicate that few provincial governments have shown a high level of political, administrative, and financial capacity. In some instances, these provincial governments may wish to exercise control over activities which are not presently within the scope of their powers. The working group concluded that, for these provincial governments, a new status of autonomy should be made available.

In the longer term, if a concerted effort is made to improve capacity it can be expected that additional provincial governments may be able to move towards greater autonomy.

The working group concludes and recommends that, while those few provincial governments which have a record of demonstrating high capacity may be able to exercise effectively a higher degree of autonomy, they should not automatically be given a greater status of autonomy. They should only be eligible for this status after having been determined to have met a stringent set of criteria.

The report has indicated that there are a number of areas where provincial governments
with high levels of capacity would like to have authority, but where present arrangements
do not provide the ready means to give them that authority. The working group concludes
that specific arrangements could be provided in order to allow qualified provincial
governments to attain a new level of autonomy. Through this mechanism, a new status of
autonomous provincial government would be created. The working group recommends
that a new status of provincial autonomy be created. It should be given a distinctive title
such as 'Provincial Government with Autonomy' or 'Autonomous Provincial Government'.

The graduated approach to responding to the great diversity in Papua New Guinea is
served by the creation of the new status of Provincial Government with Autonomy. The
result will be four main levels of provincial government within the decentralised system:

- Provincial Government with Autonomy;
- Provincial Government with Full Financial Responsibility;
- Provincial Government without Full Financial Responsibility; and
- Provincial Government (Suspended).

In keeping with its conclusion that only a few provincial governments have the capacity to
exercise greater autonomy effectively, the working group felt that stringent criteria should
be established for determining whether a provincial government would be eligible for this
status. The working group recommends that the new status of provincial autonomy be
granted only to those provincial governments which meet high standards of capacity and
performance, and which formally express a desire to be granted this status.

The existing criteria for attainment of full financial responsibility have been largely
incorporated in proposed amendments to the Organic Law on Provincial Government.
They cover mainly the areas of administration and financial management. Although these
are important elements of provincial government capacity, greater autonomy should be
based on broader capabilities in the fields of political, legislative and planning activities.
Chapter II of the report elaborates the elements of these criteria.

The working group recommends that the criteria for eligibility for the status of
'autonomous provincial government' include:

- Full Financial Responsibility;
- Political Responsibility;
- Legislative Performance;
- Policy Making and Planning Capacity; and
- Financial Resources.

An important aspect of increased autonomy should be the secure exercise of autonomy
without threat of loss of powers, other than for very good reason. As application of the
criteria should ensure that only the most capable provincial governments achieve
autonomous status, the legal procedure for granting it should ensure its secure exercise.

The working group recommends that the grant of autonomy should be made by an Act of
Parliament introduced only after the NEC has received a recommendation from a
committee comprising ex-officio members drawn from the departments most directly
involved in the operations of provincial governments, such as Provincial Affairs, Finance
and Planning, and Personnel Management.

The working group concluded that the creation of a confederal system in Papua New
Guinea would not be in the best interest of the country. Historical experience indicates that a confederal arrangement is likely to lead to a further disintegration of the State. In a confederal system, control over the central powers of the State would lie with the province, thus imposing limits on the ability of the national government to carry out its responsibilities. The funding arrangements associated with a confederal system of government are inappropriate to the tasks required by the Government of Papua New Guinea. They give the major powers for raising revenue to the constituent states or provinces, and the national government would depend on transfers from them for its principal source of finance.

The working group also concluded that it would not be wise to create a fully entrenched federal system of government in Papua New Guinea, as it would impose future constraints on the ability of the national government to carry out its responsibilities. There are two compelling reasons for this:

(a) in a fully entrenched federal system, the national government no longer has the exclusive right to amend the Constitution. Any future changes in the system would require the agreement of the province(s); and
(b) at the same time, nearly the same degree of autonomy, in terms of control over substantive activities, could be achieved within a form that is not fully federal.

The working group felt that the means for creating autonomy should be the one that requires the least complex method of adoption. This allows for a more rapid and less complicated implementation, and provides a balance of security of autonomy for provincial governments with adequate powers for the national government to carry out its responsibilities.

The working group concluded that the system for achieving greater provincial autonomy should be the arrangements called a ‘revised quasi-federal system’, as described in Chapter 3. This system could be implemented by amending the OLPGe or enacting a national law which provides that provincial legislation prevail over national legislation in the concurrent list of legislative powers in the OLPGe. The working group recommends that the Act of the national parliament granting autonomy to a provincial government should be expressed in terms of s.114 (3) of the Organic Law on Provincial Government and provide that provincial laws on concurrent subjects will automatically repeal, in respect of the autonomous province, national laws on those subjects to the extent of any inconsistency between the laws.

Provincial autonomy created in this way has a higher degree of security than the existing arrangements where administrative acts of withdrawals of delegation can remove provincial responsibility. Under the arrangements recommended here, it would require an Act of Parliament to withdraw provincial autonomy.

There are problems with the present operation of the financial arrangements for the provincial government system, but the report concludes that the revisions to the present funding arrangements, as contained in the gazetted amendments to the OLPGe, particularly with respect the changes in the MUG formula, effectively overcome the major shortcomings that have been associated with these arrangements. In general, the working group recommends that the present MUG (as revised) be retained as the central element of the funding arrangements for provincial governments which achieve the status of autonomous provincial government.

However, the working group endorses the general principle that the responsibilities of a
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The provincial government should be commensurate with its resources. Hence, in provinces where increased royalties and the special support grant based on exploitation of resources or increased provincially raised revenue provide greater financial resources to a provincial government, that provincial government should be expected to allocate these resources to fund most new activities associated with greater autonomy. In these cases it may not be necessary to transfer additional funds from the national government into the base of the MUG.

Accordingly, MUG funding should not automatically be available where new activities are initially first taken over by such a provincial government from the national government. Decisions on whether to fund and what level of funding of such activities should be made on a case-by-case basis. For example:

- considerations applying to autonomous provincial governments with significant financial resources may be different from those applying to provincial governments with limited resources; and
- considerations applying to activities previously allocated very low levels of funding by the national government may be different from those applying to activities previously allocated high levels of funding.

Where an autonomous provincial government does not have sufficient financial resources to fund a new activity, it may negotiate for an extension of MUG funding to that activity. Case-by-case reviews of financial arrangements might also occur:

- where previous levels of national government funding for a newly transferred activity did not reflect the real cost of providing the service, in which case the base amount to be incorporated into the MUG would be negotiable (but in most cases only for provincial governments without significant financial resources); and
- where the financial resources of an autonomous provincial government are significantly reduced for reasons such as loss of royalties and the special support grant following the cessation of large-scale mining projects. An amendment to the provisions of the Organic Law on Provincial Government relating to the MUG may be required for this.

The working group concluded that the authority for imposing direct taxes should not be transferred to provincial government.

Provincial Control of Police, Freedom of Movement, and the Public Service

(a) provincial governments should not be vested with full control of police, freedom of movement, and the public service; and

(b) any question of increased control over these functions, short of full control being vested in an autonomous provincial government, raises major policy issues which this working group has not been able to examine, but which it recommends should be thoroughly examined, should requests for such powers be made.

Legal Problems with Present Transferred Activities

(a) to resolve existing uncertainty and legal problems about powers and functions under national government laws exercised by provincial government staff, a system of delegating laws should be developed, as envisaged by ss. 42 and 44 of the OLPG;

(b) a review should be carried out of all laws vesting powers in positions now the responsibility of provincial governments with a view to removing anomalies caused
by name changes and related matters; and
(c) every effort should be made by national government agencies and provincial
governments to ensure that, where practicable and appropriate, provincial laws
become the basis upon which provincial governments exercise their powers and
functions.

**Capability of North Solomons Provincial Government**

In the period since decentralisation began, the North Solomons Provincial Government
has stood out from the other provincial governments by virtue of its high political,
administrative, and financial capacity.

Because of the high level of performance manifested by the North Solomons Provincial
Government, the working group considered that it was likely to meet the rather stringent
criteria suggested for eligibility for greater provincial autonomy. Based on these
considerations, the working group recognises the capability of the North Solomons
Provincial Government and recommends granting a higher level of autonomy to it.

**Recommendations**

The working group has made eight main recommendations arising from the above
conclusions:

**Recommendation 1: No General Grant of Autonomy to All Provincial Governments**

In view of the low level of performance of the majority of provincial governments, there
should be no grant of greater autonomy made generally to all provincial governments in
Papua New Guinea, at the present time.

**Recommendation 2: Greater Autonomy for Provincial Governments with High
Capability**

A higher degree of autonomy should be available to provincial governments with an
established record of a high level of political, administrative, and financial capacity. Such
provincial governments should only be eligible for greater autonomy after having been
determined to have met a stringent set of criteria.

**Recommendation 3: Creation of a New Status of Provincial Autonomy**

A new status of provincial autonomy should be created and given a distinctive title such as
'Provincial Government with Autonomy' or 'Autonomous Provincial Government'.

**Recommendation 4: Criteria for Attaining Provincial Autonomy**

(a) the new status of greater provincial autonomy should only be granted to those
provincial governments which meet high standards of capacity and performance, and
which formally express a desire to be granted this status; and

(b) the criteria for eligibility for the status of 'autonomous provincial government' should
include:
   • Full Financial Responsibility;
   • Political Responsibility;
   • Legislative Performance;
   • Policy Making and Planning Capacity; and
Financial Resources.

**Recommendation 5: Process for Granting Autonomy**

The grant of autonomy should be made by an Act of Parliament introduced only after the NEC has received a recommendation of a committee comprising ex-officio members drawn from the departments most directly involved in the operations of provincial governments, such as Provincial Affairs, Finance and Planning, and Personnel Management.

**Recommendation 6: The Legal Mechanism for Vesting Greater Powers in Provincial Governments with Autonomy**

The Act of Parliament granting autonomy to a provincial government should be expressed in terms of s.114(3) of the Organic Law on Provincial Government and provide that provincial laws on concurrent subjects will automatically repeal, in respect of the autonomous province, national laws on those subjects to the extent of any inconsistency between the laws.

**Recommendation 7: Funding Arrangements for Autonomous Provinces**

(a) in principle, the MUG (as revised in the proposed amendments to the Organic Law on Provincial Government published in the *National Gazette* in November 1989) should be retained as the central element of the funding arrangements for provincial governments which achieve the status of autonomous provincial government;

(b) the extension of MUG funding to activities newly assumed by an autonomous provincial government, from the national government, will be decided on a case-by-case basis, dependent on factors such as the level of financial resources available to a provincial government;

(c) where necessary, the basic funding formula may be modified, as required, to meet specific new activities to be undertaken by an autonomous provincial government or the loss of major provincial revenue sources; and

(d) authority for imposing direct taxes should not be transferred to provincial government.

**Recommendation 8: Recognition of the Capability of the North Solomons Provincial Government**

The long-established, high level of capability of the North Solomons Provincial Government should be recognised, and on that basis, the proposed new level of autonomy should be granted to it.


This report is based on a larger comparative study of decentralisation in the Philippines.
and Uganda. The study found that decentralising service delivery offers benefits, but these benefits have not always materialised. Local officials can perceive local demands and needs, but have limited authority to adjust services. It was found that corruption is less pronounced at the local rather than the national level. Several factors have kept decentralised service delivery from achieving its efficiency goals. Local governments have limited authority and funding. Citizen influence at the local level is hampered by limited information. Local governments have weak capacity.

Further devolution of authority needs to be preceded by increased accountability at the local level. Decentralisation needs to be accompanied by reforms that increase the transparency and accountability of local government.
ANOTATED BIBLIOGRAPHY
Part 2: Unofficial Document


This study provides details of the local government system in Bougainville, which differs in a number of aspects from the local government systems in other provinces.


This article provides an examination of the legal basis of provincial policy making. It details a number of shortcomings and incoherencies in the legal arrangements which pose obstacles to the realisation of effective decentralised policy making. The Papua New Guinean system is a politically decentralised unitary system, which is characterised as quasi-federal. The lack of coherence in the legal basis of decentralisation flows from the piecemeal way in which the laws have been developed.

The article provides an analysis of the Papua New Guinean Constitution, the Organic Law on Provincial Government, and ordinary legislation, as they influence the exercise of governmental power through the distribution of executive and legislative powers between the two levels of government. The article proposes four ways of improving the legal integrity of the decentralised system:

- the perpetuation of the existing system;
- the regularisation of delegated powers;
- provincial legislative initiative; and
- coordinated displacement of national legislation.


This monograph contains extensive tables with details of funding of provincial governments from 1978 to 1982. It provided the data for the 1984 Specialist Committee Report on amendments to the funding arrangements. The study examines the sources and patterns of provincial financial resources, with special reference to national-provincial grant arrangements, provincial taxes, and other revenue sources. The financial foundations of provincial policy making are studied with a view to assessing the capacity of provincial governments to play an effective role in policy making in Papua New Guinea.

The analysis identifies the problems that have been encountered in provincial funding, involving especially the arrangements for the transfer of funds from the national government, and the political problem of reconciling national economic policies and political decentralisation within a unitary system of government. The study concludes that the arrangements have been successful in facilitating decentralisation, while enabling the national government to control provincial expenditures, thus ensuring that provincial policies are consistent with national development objectives.
Recommendations

- Caution should be exercised in opening a political debate over entrenched arrangements, especially when the outcome is likely to be influenced by short-term political expediency.
- To date, the implementation of the funding formula has been on an *ad hoc* basis, allowing the national government to implement a plan for equalisation of funding to the less-well-off provincial governments.
- The total amount of funding needs to be increased to meet provincial needs to deliver the services for which they are responsible, while at the same time protecting the overall responsibility for the fiscal policy of the national government.
- Legislative arrangements should be adopted, where possible, thus avoiding the necessity of amending the Organic Law.
- It is necessary to find a solution to the problem by which public service and teaching service salaries are rising faster than the funding formula for provincial governments.
- Mechanisms need to be adopted to account for the increasing recurrent costs of development projects that impose an increasing burden on provincial government finances.
- One way of doing this is to adopt a ‘recurrent cost supplement’ that could be paid to provincial governments to cover the ongoing costs flowing from national development projects in the provinces.
- The grants to the provinces should remain transparent.


The study provides a comprehensive analysis of the decentralised system in Papua New Guinea in the early 1980s. It is the first overall evaluation of the performance of the system and of provincial governments from all aspects of activity — legal, political, administrative, and financial, and of the impact of the system on the capacity of development planning for Papua New Guinea.

Political rivalries between national and provincial politicians and between politicians and bureaucrats are recurrent themes in intergovernmental relations. The study notes that there is not an effective base for provincial planning and policy making because of several factors:

- the active opposition of some national politicians;
- the retention of control of the central policy-making agencies at the national level;
- the resistance of national line departments to the decentralisation of functions;
- the weakness of the Department of Decentralisation in bureaucratic politics with other national departments;
- the lack of coordination among provincial divisions;
- the provincial ministerial portfolio system; and
- the exalted self-perception of provincial ministers.

The difficulties that provincial governments face are not likely to be overcome by an infusion of funds or technical help from the outside. More basic political change is required. The fundamental political changes required are part of the development that accompanies the movement of a political system from a particularistic and undifferentiated pattern of behaviour to a more secular and specialised one. It is a fundamental change in
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political culture.

Although the structures and powers of provincial governments are entrenched in an organic law, the decentralised system is not a federal system. The provinces are a creation of the national government, their powers are derived from the national government, and they can be changed or eliminated by the national government. Papua New Guinea is a highly decentralised unitary state, sometimes referred to as a quasi-federal state. There is a good deal of confusion and uncertainty over the distribution of powers and functions between the two levels of government, and this contributes to the weakening of provincial planning and policy making.

The study provides a detailed description of the funding arrangements for provincial governments as set out in the annex to the OLPG. A detailed analysis of the pattern of funding and spending of provincial governments reveals that the early concerns over the inadequacy of the MUG to keep pace with needs was founded, with amounts falling well below increases in costs. This shortcoming was partially mitigated by the adoption of the mechanism of ‘full financial responsibility’ — a process whereby the national government funded provincial activities directly through the department of the provinces, at a higher level than that prescribed by the OLPG. In this way, it achieved the goal of directing greater amounts of funding to less-well-off provinces. The better functioning provincial governments, by virtue of having attained ‘full financial responsibility’, did not receive this additional funding for provincial activities through the national budget, and had to operate under the constraints of the declining purchasing power of the MUG. In response to this anomaly, the national government introduced a ‘differential grant’ to offset the effect of the drop in funding for provincial governments attaining full financial responsibility in 1982 (Morobe, Madang, East Sepik, and West New Britain). These anomalies were part of the underlying motivation to undertake the overall review of the funding arrangements by the Specialist Committee in 1984.

Analysis of the funding patterns showed that there were great differences in the de facto autonomy of provincial governments, as reflected in their ability to allocate resources in response to provincial needs, with North Solomons Provincial Government being the best performing.

Indicators of provincial administrative capacity and allocation of resources provided a comparison of the performance of provincial governments in planning and policy making. These data provide a useful benchmark for assessing the progress of provincial governments, by using them for a comparative analysis with the existing conditions and patterns today.


This article builds on the earlier publications of Hinchliffe (1980) and Berry and Jackson (1981) which identified contradictions in the development goals embodied in the financial arrangements for funding provincial governments. It analyses the relationship between the development goals of stabilisation (maintaining the level of services at the previous levels), equalisation (the redistribution of resources from richer to poorer areas), and development (the initiation of new activities and expansion of services to the population).

The decentralisation of political and administrative powers and the reduction of inequalities in level of economic well-being among different areas of the country were two
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central development goals articulated by the young government of Papua New Guinea. It was recognised that there were inherent contradictions in these goals, and observers argued that redressing the economic imbalances would be impeded by the process of decentralisation. However, the manner in which the funding arrangements for provincial governments were implemented allowed for the reduction of the effect of these contradictions, thus permitting the national government to pursue a policy of equalisation through the redistribution of resources towards the more needy areas.

The funding arrangements were not implemented as originally planned, with all provincial governments receiving the Minimum Unconditional Grant (MUG), to cover the costs of the principal transferred activities. Through the mechanism of full financial responsibility, only the better run provincial governments received this unconditional grant, while the majority continued to have these activities funded through the national budget items. The national government continued to fund the transferred activities to these less-well-off provinces at a higher level than prescribed by the formula for the MUG, thus affecting a policy of equalisation. The data analysed in this article show that, from 1977 to 1983, significantly greater amounts of funding were directed to the lesser developed provinces.


This monograph contains a detailed critique of the proposals of the Bi-Partisan (Micah) Committee on the reform of the provincial government system that defined the main principles underlying the 1995 changes leading to the OLPGLLG. It provides very useful reading in the context of the 2007 report on ‘Improved Decentralisation’ by the Public Sector Reform Advisory Group, in that it foresees many of the problems cited in that later critique of the present decentralised system.

From the beginning, the one-dimensional composition of the committee was flawed, including among its members only national politicians who were Members of Parliament. While this composition probably contributed to the eventual ‘success’ in getting the new rules adopted, it undoubtedly contributed to the failure of the overall system that was created. From this study, several general reform principles can be drawn:

- use policy directions when they can achieve the goal;
- adopt rules when policies are not sufficient;
- create laws when rules must be formalised; but
- entrench those laws only when the most basic principles are being expressed.

A second principle, that was ignored is to make use of the work of numerous past technical committees that have worked to improve the system. While the Bi-Partisan Committee paid lip service to those earlier reports, it dismissed them all as being useless. The recommendations of the Bi-Partisan Committee Report do not build upon the earlier studies and proposals for reform. They not only ignore previous recommendations, but often do not address the same problems at all.

This study identifies two broad themes in governmental reform in Papua New Guinea — the technical and the political — and situates the Bi-Partisan Committee firmly in the latter. 1990 marks a clear turning point in the approach towards institutional reform in Papua New Guinea — one that can be characterised as a shift away from a technical approach to modifying the provisions relating to provincial government, towards a
political assault on the very existence of provincial government. In part, this was because of the very slow progress made towards implementing reform that was based on the technical approach.

Opposition had been growing to the very idea of the existence of provincial governments, with a strong sentiment growing in favour of their abolition. Precipitated in large part by the loss of role and status occasioned by the establishment of the provincial government system and the takeover of functions by the provinces from the national government, opposition had grown very strong by the early 1980s.

The most obvious manifestation of the pattern of political relationships arising out of the decentralised political system lies in the interaction between national and provincial political leaders. It is this dimension of political rivalry that lies at the crux of the conflict underlying the proposals of the Bi-Partisan Committee. With the creation of nineteen political systems at the provincial level, opportunities for the emergence of a whole new set of political leaders were also created. These new leaders — provincial assembly members, provincial Ministers, and provincial premiers — are elected by, and represent, the same constituents as the national Members of Parliament. Although the two sets of leaders do not compete for the same elected offices, they are very much in competition for recognition as leaders of the same people, and this competition manifests itself in a rivalry for control over the allocation of resources. This political competition is the central force behind the Bi-Partisan Committee’s proposals to fundamentally change the political bases of provincial governments.

With the advent of provincial government, national politicians saw a direct challenge to their political base. Even where underlying divisions did not exist, the emergence of rivals in the form of a new set of politicians created a natural situation of conflict. Where national politicians previously could be confident of their political base of support in the delivery of benefits such as public works and government services, many of these visible functions became the responsibility of provincial governments. This deprived the national politicians who were not Ministers (the backbenchers) of an important basis of legitimacy, and in many cases contributed to a resentment of, and opposition to, the very existence of provincial government on the part of national politicians. This underlying political rivalry has contributed to a national-provincial polarisation in Papua New Guinea, which has resulted in strong anti-provincial government sentiments in parliament and among national Ministers.

Another manifestation of the reaction to the emergence of provincial political power bases is found in the persistent efforts of national politicians to divert public monies to their own use in order to distribute benefits directly to their supporters. The creation of the decentralised system has resulted in a pattern of relationships which is more intricate than is implied by simply referring to two levels of government. This area of bureaucratic politics and the interaction between politicians and bureaucrats is extremely important to the understanding of the political aspect of decentralisation in Papua New Guinea.

The Micah Committee proposed ‘an integrated bi-partisan model of provincial authority’ — the essence of which was to enhance the role of national politicians in the operation of provincial governments. As designed, the proposals would have little or no effect on achieving the stated goals — increased accountability, the reduction of the costs of government, improvement in the delivery of services, and overall improvement in governance.

The recommendations imbue the governor with the status of a national Minister with
respect to the trappings of office — salary, benefits, allowances, and the other perquisites of high office that pertain to the ministerial status given to governors of provincial authority, as indicated by the reference to the Salaries and Remunerations Commission. The provisions propose to elevate twenty backbench Members of Parliament (those elected in the province-wide electorates) to the status of Ministers. This recommendation can be understood as a direct response and solution to the loss of political status of backbenchers that occurred with the creation of provincial governments. Although this will eliminate the major rivals to national politicians, the rivalry between national and provincial politicians may be replaced by a new rivalry between national Ministers and provincial governors, and collectively between the NEC and backbenchers, which could prove to be as disruptive as the rivalry it replaces.

It is perhaps at the local government level that there is the greatest room for improvement in governance in Papua New Guinea. The ultimate effect of the proposed changes will depend more on the actions of national and provincial politicians than formal changes in rules or structures. The proposals of the Bi-Partisan Committee must be considered in light of the national government's policy for village services, which foresees a larger role for the national government in local matters (Nilkare 1992a).

The strong desire on the part of politicians to have funds for distribution at their disposal has been a hallmark of politics in Papua New Guinea. Seen within this context, the proposal for a formal structure within the electoral constituency of each Member of Parliament is the direct descendant of the diversion of sectoral development funds, the National Development Fund, direct tied grants to local governments, and other attempts by politicians to gain direct control over the distribution of discretionary funds (Ghai and Regan 1992:121). The proposals relating to Electoral Development Authorities (EDAs) effectively create a new series of institutions which would constitute a fourth tier of government at the level of national electorates. These institutions would operate between the provincial and local levels, with one provincial authority for every Member of Parliament — except for those representing regional electorates.

The potential for conflict over funding would increase significantly, with each Member of Parliament vying for his or her share of funding to distribute within his or her electorate. The overall level of competition for resources would rise dramatically under this proposal. It would be very difficult to effectively monitor funds disbursed through EDAs and would significantly increase the work load on already overburdened auditing institutions. The EDAs would be in direct competition with national agencies, provincial authorities, and local governments for a limited amount of funding available for development projects and the delivery of services. The establishment of EDAs would create an extremely strong demand for new resources to be distributed by these authorities, and result in pressure for higher levels of funding, thus increasing competition between levels of government and demands on resources, rather than reducing the cost of government.

The recommendations of the Bi-Partisan Committee contain the most fundamental changes that have been proposed to date, apart from proposals to simply abolish the provincial government system. Many of the problems that were identified in the report had been identified by previous studies of provincial government reform, and formal amendments had been proposed to address those problems. Many of the improvements foreseen by the Bi-Partisan Committee could be achieved within the existing structure of provincial governments, by making changes that are less far-reaching than the radical restructuring proposed in its report. To the extent that the major problems could be solved without radical restructuring, with all the disruptions that it will involve, it may not be worth the cost of undertaking such fundamental changes.
A basic weakness in the Bi-Partisan Committee’s report is the strongly held conviction that the major source of most of the difficulties with the existing system of provincial government lies with provincial politicians.

The implementation of the recommendations of the Bi-Partisan Committee, without incorporating the proposals of the earlier studies, could well result in the establishment of a new system that:

- retains many of the shortcomings of the present arrangements;
- produces few of the benefits that are purported to flow from the new system; and
- introduces a number of new problems that are indicated in the following discussion.

The crux of the problem is seen as the competition between provincial politicians and national politicians in their role in the provision of basic services, such as health, education, and agriculture, which are carried out through provincial governments. Provincial politicians are seen as major obstacles in the effective distribution of government services to the people of Papua New Guinea. National politicians see the problem as coming from the existence of provincial politicians, essentially because they are provincial not because they are politicians, even though a strong current running through all the criticisms of provincial government has been that the delivery of services has become too politicised.

All of these issues must be considered in an environment where there is intense competition for limited resources, a tendency for politicians to prefer highly visible new projects over recurrent funding or even maintenance of assets, and a shortage of skilled manpower. When all these factors are taken into consideration, it is possible that the creation of EDAs will have a serious negative impact on the delivery of services and the promotion of well-planned and co-coordinated development.

It could be argued that, if present provincial governments create a condition of over-government, the creation of EDAs creates a situation of over-implementation, with no fewer than three levels of planning and coordination being proposed (provincial management council, community management council, and electoral development authority), as part of the restructured authority of provincial government.

One problem with putting so much emphasis on the institutional reform of the system of provincial government, as the central approach to improving governance, is that it tends to divert attention from the many other problems of governance, and serves to raise expectations about the great benefits that will accrue once the structure is changed. It is very likely that these expectations will not be met.

The earlier technical approaches to intergovernmental reform shared essentially the same goals as the subsequent political moves for change, including the recommendations of the Bi-Partisan Committee. The means adopted for achieving those goals differ fundamentally. However, with the latter committee proposed more radical changes, and to go about it in a way that is more confrontational than cooperative. The reasons for this can be better understood by looking at the different ways in which the bodies that represented the two approaches to reform were constituted.

The membership of the various committees charged with reviewing the provincial government system between 1980 and 1989 included individuals who represented both provincial and national interests. This composition included all the central actors corresponding to the divisions over the issues at stake in the process. The
recommendations emanating from these committees incorporated the interests of the national government and provincial governments, and reflected a compromise that could be accepted by both sides. This resulted in proposals that were less radical than if they had represented the interests of only one side of the issue. Partly as a result of this, the recommendations from the technical approach received the approval from the political side as well, through the Premiers' Council, which included politicians from the provincial governments and the national government.

Since 1990, the proposals for reform have emanated from only one side of the issue — the national side — and have excluded provincial representation from the committees charged with producing the recommendations. The Hesingut Report, the Nilkare proposals, and the Bi-Partisan Committee have had no members from the provincial side. The major political division over intergovernmental relations has not been between the government and opposition sides of parliament. The government-opposition division that defines the bi-partisan nature of the committee is really of secondary or tertiary importance, after the national-provincial and the political-bureaucratic divisions that define the issues of decentralisation. Even though the terms of reference of the Bi-Partisan Committee included consideration of the Pokawin Report, and consultations were carried out in most provinces, there was no direct provincial membership in the committee, and it decided at the outset to reject the compromise proposed in the Premiers' Council Report of 1991. This difference in the composition of the bodies that represent the two approaches to reform helps to explain the difference in the thrust of the recommendations emanating from the approaches.


This report was commissioned by the Bi-Partisan Committee to provide a critique of the various proposals that it submitted to reform the provincial government system. It is organised around the formal recommendations of the committee, and provides a critique of each recommendation with respect to the goals of the committee.

The purpose of the report was to analyse the recommendations of the committee in light of the goals that the committee itself had established. The critical comments presented in the report were intended to contribute to the debate by drawing attention to some of the issues, with a view to avoiding some of the mistakes that may be made in following the path to intergovernmental reform which was chosen by the Bi-Partisan Committee.

The discussion of the recommendations is organised around the central aims articulated by the committee:

- reduction of disruptive political competition and rivalry between the two levels of government;
- accountability to the people for the expenditure of public funds;
- reduction in the cost of government; and
- more effective delivery of services to the population.

The report concluded that the recommendations contained in the report will not have a direct positive impact on increased accountability, the cost of government, or the delivery of services.
The lack of detail with respect to the kinds of systems of control over expenditure could represent a step back from the proposals of previous committees of review, which included a series of specific mechanisms for increased accountability of provincial governments. The failure to include any of these specific mechanisms would significantly reduce the changes that the proposals of the Bi-Partisan Committee will achieve in increased accountability and efficiency, and makes it much less likely to achieve improvements than the earlier proposals of the Specialist Committee and Joint National-Provincial Working Group. Moreover, the recommendations indicate that the mechanisms of accountability would take the form of self-monitoring, which dramatically reduces the viability of an effective system of control.

The central thrust of the proposals of the Bi-Partisan Committee essentially abolishes the elected provincial legislatures and replaces them with a body composed of all the members of the national parliament and some presidents of local government bodies. This proposal effectively eliminates the existing middle level of government — provincial government — by replacing it with members of the legislative branch of the national government and representatives of local government. The Members of Parliament elected from the national electorates within each province would constitute the membership of the provincial authorities along with some presidents of local government councils.

This key recommendation clearly indicates that the Bi-Partisan Committee has chosen a path to the reform of the decentralised system, which flows from the concern with political rivalry and confrontation between the two levels of government, as represented in the thrust of the Hesingut and Nilkare Reports, rather than the proposals to reform the existing system of provincial government, as represented by the more technical proposals of the Specialist Committee and the National-Provincial Working Group.

Rather than attempting to improve the relationship between politicians at the provincial and national levels by adopting mechanisms of control and cooperation, the Bi-Partisan Committee (composed entirely of Members of the Parliament) recommends that the political rivalry be eliminated by eliminating their rivals — provincial politicians.

With respect to the increased accountability for the use of public funds, it is not self-evident that the replacement of provincial politicians with national politicians will lead to any significant improvement. The Bi-Partisan Committee (composed of politicians at the national level) places a great deal of emphasis on this aspect of the proposals, reflecting that, from their perspective, a major source of the problem is provincial politicians. This perspective is a product of the political rivalry that is the focus of the present efforts at reform.

There is no evidence offered by any of the numerous studies and reports dealing with the question of the reform of provincial government in Papua New Guinea, that the occurrence of mismanaged or misappropriated funds, or corruption are inherently any greater at the provincial level than at the national level.

The establishment of an effective series of measures for oversight, and efforts at improving management skills, as proposed by the Specialist Committee and the National-Provincial Working Group, are more likely to have a greater impact than the wholesale elimination of provincial politicians. In the absence of such mechanisms, the effect of the present proposals may decrease the accountability of government.

One of the central justifications of the Bi-Partisan Committee’s proposals is that it will improve the delivery of services to the people, even though previous studies did not
identify the existence of provincial politicians as a major obstacle in this area, with funding shortfalls and lack of skilled personnel being among the most important shortcomings. The creation of provincial authorities to replace provincial governments does not seem to lead logically to improvement in the delivery of services. The poor state of local-level government in many areas cannot be attributed solely to the provincial government system, because, in some provinces, it has clearly been strengthened.

With respect to political representation, it could be argued that the interests of improved democratic representation are not well-served by the present proposals. By choosing to eliminate rather than reform provincial governments, a democratically elected level of government would be eliminated, and with it would disappear a level of representation at the grassroots. Only if local political representation is greatly strengthened will this be obviated.

With respect to increased accountability, there is no reason to believe that susceptibilities to the temptations of abuse are any less likely for a governor than they are for a provincial premier. Moreover, the governor would not be subject to the system of checks and balances that is inherent in the principle of ministerial responsibility to the majority in the legislature.

Even though the total number of politicians would be reduced, those politicians with direct access to the distribution of funds would increase under these proposals, as every Member of Parliament would have greater direct control over the allocation of resources through the provincial authority.

With respect to the delivery of services, it is apparent that without sufficient allowances, Members of Parliament will find it difficult to carry out their additional duties as members of provincial authorities. It might well be that the total amount devoted to sitting allowances and travel costs will increase significantly, as members of the provincial authority will be required to carry out duties at Waigani as well as in the provincial capital. The proposal for granting of these privileges to provincial government does not seem to lead directly to an improvement in the provincial government system.

The recommendation to replace the portfolio system of ministerial responsibility with the committee system of collective responsibility has been recommended by virtually all previous studies of provincial government, including the Constitutional Planning Committee (CPC). The move to a committee system from a portfolio system should contribute to the reduction of political competition as there would no longer be dozens of provincial Ministers reveling in their exalted status.

The proposals provide for the naming of the provincial administrator by the NEC, for a limited term defined by contract, attempting to avoid the kinds of conflict that have been noted in earlier studies of provincial government. Previous recommendations of the National-Provincial Working Group proposed that the provincial level of government should be able to name its top administrative officer. This is essential for the integrity of the relationship between elected political responsibility and the effective implementation of policies through the administration. When these aspects are taken into consideration, it is not likely that the proposals of the Bi-Partisan Committee will contribute to a reduction of political competition, and it could reduce the effectiveness of the delivery of services.

If the effect of these proposals is to improve the level of support for local governments and make relations more cooperative between the two levels, it should have the effect of increasing accountability and improving the delivery of services, although the proposed
changes, in and of themselves, do not contribute to a reduction in the cost of government. The ultimate effect of the proposed changes will depend more on the actions of national and provincial politicians than formal changes in rules or structures.

It is difficult to see how the proposals for creating electoral development authority (EDAs) are logically related to the other recommendations in the Bi-Partisan Committee’s Report, and there is no discussion of the justification in the text of that report. The effect of the creation of EDAs would seem to directly contradict the stated goals of the reforms proposed by the Bi-Partisan Committee with respect to virtually all of the criteria used to evaluate it. It would be very difficult to effectively monitor funds disbursed through EDAs and would significantly increase the workload on already overburdened auditing institutions. The EDAs would be in direct competition with national agencies, provincial authorities, and local governments for a limited amount of funding available for development projects and the delivery of services. The establishment of EDAs would create an extremely strong demand for new resources to be distributed by these authorities, and result in pressure for higher levels of funding, thus increasing competition between levels of government and demands on resources, rather than reducing the cost of government.

It is unlikely that the creation of EDAs would contribute to the effective delivery of services to the people of Papua New Guinea. The result would be the expenditure of funds by politicians, often for political purposes, which usually means highly visible new projects which may or may not have long lasting benefits, rather than improving the general level of already existing services such as education and health, or even the expenditure on the maintenance of existing assets. In addition to this, the Electoral Development Authority would be determining its own priorities, based on political considerations, independent of planning taking place at the national, provincial and local levels, meaning that there will be a reduction in the coordination of spending according to well-developed priorities.

In response to the obvious weaknesses in local-level government and administration in many parts of Papua New Guinea, the Bi-Partisan Committee proposes the creation of an auxiliary public service to provide much needed support to local governments. The provision of a direct line of responsibility for the auxiliary public service to a national government department would seem to be in conflict with the idea that responsibility for local government lies within the jurisdiction of provincial authorities. The problem of accountability will also be complicated and compromised with a public service that is responsible to a separate agency outside the national public service lines of authority. To the extent that the creation of a new public service implies additional personnel, there will be additional costs involved in the net increase in the number of public servants, as well as significant new costs for the creation of new regional and national training centres.

Electoral boundaries do not represent useful boundaries for administrative purposes. They are drawn for the electoral and representational purposes of equalising, as much as possible, the value of each person's vote in popular elections. The only argument for designing institutions and funding around electorates is to provide the basis for building political power through the distribution of benefits in order to get re-elected. On the other hand, there are strong disadvantages to building institutions and funding based on electoral boundaries. The creation of this additional tier of government is likely to increase the overall cost of government, as the overhead costs of infrastructure and the requirements for additional personnel will necessitate additional expenditure.

It has been argued that the overall effect of the proposals of the Bi-Partisan Committee will
be to bring about a greater degree of recentralisation of powers in Papua New Guinea. It is the proper role of the responsible officials to make this decision, if they so wish, but they should realise that, if they do, it is a clear move away from the original goals of decentralisation.

Ghai and Regan (1992: 279) have indicated that the high salaries of provincial politicians, which are cited by the Bi-Partisan Committee as a major cost of provincial government, were established by a national government agency, and the national government took no steps to reduce them, even when urged to do so by some provinces.

The Bi-Partisan Committee’s Report places a great deal of credence in the proposition that the delivery of services is poor because of provincial governments, particularly because of the existence of political institutions at the provincial level. Of course, this is very difficult to determine with any degree of certainty. One recent study of the impact of decentralisation on the delivery of health services concluded that the decline in services could not be attributed to the general effect of decentralisation (Newbrander et al. 1991: 72).

There is always the danger of succumbing to the belief that improvements can be brought about simply by adopting rules, and that the improvements will be even more effective, if the rules are entrenched. Some of the recommendations of the Bi-Partisan Committee were:

- to entrench would be better left to ordinary laws, for example, the incorporation of the EDAs into the revised government structures;
- some are more appropriately left to policy decisions, for example, the deployment of public servants to the districts;
- some can only be achieved by appropriate political and bureaucratic behaviour, for example, the hiring of persons with appropriate qualifications; and
- some fall beyond the realm of institutional reforms, for example, the ideological orientation of the auxiliary civil service.

In sum, this report concludes that the proposals of the Bi-Partisan Committee should not be adopted.

**Recommendations**

The proposals of the Bi-Partisan Committee should not be adopted, and if adopted, are likely to result in a worsening of the situation, rather than an improvement.


The paper examines the proposals of the 1993 Bi-Partisan Select Committee on Provincial Government (Micah Committee) that eventually led to the 1995 reforms and the creation of the Organic Law on Provincial Governments and Local-level Governments. The recommendations of this committee differed from earlier reform proposals in that they were openly motivated by political concerns, rather than being based on technical considerations of how to improve national-provincial arrangements.

The discussion of the hazards that may be encountered by embarking on the path chosen by the committee are organised around the committee’s central aims:
• reduction of disruptive political competition and rivalry between the two levels of government;
• accountability to the people for the expenditure of public funds;
• reduction in the cost of government; and
• more effective delivery of services to the appropriate population.

In responding to these concerns, the committee proposed the creation of an integrated institutional system that brings together the provincial and national levels of government in the political sphere, by having Members of Parliament from each province and presidents of local government councils replace the elected provincial legislators who exist under the current system of provincial government. The committee’s report singled out political competition and the costs of politicians, as the central root causes of the problems with the present system. It cited the oft-quoted statistic that, in a country of only 3.8 million people, there is an unhealthy and costly political competition among the approximately 700 politicians in national, provincial, and lower-level systems of government. The stated goal of the proposals is to remedy these problems by integrating institutions at different levels of government, in order to facilitate cooperation among politicians, and to reduce the financial costs of having too many politicians.

The recommendations of the Bi-Partisan Committee had the laudable goals of attaining a reduction of disruptive political competition and rivalry between the two levels of government, increasing the accountability of government, reducing in the cost of government, and improving the delivery of government services to the people. However, there is reason to believe that, in a number of cases, the outcome may not be as beneficial as desired, and may be quite different than expected.

Some of the unfortunate consequences of the committee’s proposals are:

• political rivalry and competition were a central focus of the changes proposed by the Bi-Partisan Committee. The committee perceived that this competition has adversely affected the operation of government in Papua New Guinea and has been responsible, directly and indirectly, for the failure to deliver services to the people; and
• provincial politicians are seen as major obstacles in the effective distribution of government services to the people.

The system of decentralised government contained in the Bi-Partisan Committee’s proposals will not eliminate political rivalry and competition, which is inherent in the governmental process, particularly when there are two or more levels of government. What it will change is the structure of that competition, perhaps with some beneficial effects for the system, but also with other unforeseen negative consequences.

The committee proposed the establishment of electoral development authorities. The establishment of electoral development authorities (EDAs) creates a new level of institutions, designed solely for the purpose of the distribution of funds. It effectively makes every Member of Parliament an implementer of projects and programs. It can be seen as the direct descendant of the other infamous slush funds that have opened the door to a great deal of abuse. First, it creates an additional set of institutions involved in the implementation of policies, and places them in direct competition for control of resources with the already existing institutions at the local, provincial, and national levels. This is very likely to result in an increase in the amount of disruptive political rivalry that already exists in Papua New Guinea. Second, an additional set of institutions is likely to increase the total demand on a limited amount of already scarce resources, requiring more complex procedures to make decisions between competing demands, and thus reducing efficiency.
Finally, the creation of this additional tier of government is likely to increase the overall cost of government, as the overhead costs of infrastructure and requirements for additional personnel will necessitate additional expenditure.

When all of these factors are taken into consideration, it is possible that the creation of EDAs will have a serious negative impact on the delivery of services and the promotion of well-planned and coordinated development.

The Bi-Partisan Committee’s proposals will create new structures through which the national-provincial rivalry will take place, and this new rivalry may prove to be even more destructive than the existing system. Political rivalry between national and provincial interests will almost certainly re-emerge in the form of competition between backbench Members of Parliament supporting provincial interests, and the NEC attempting to retain control over essential national policies.

At the provincial level, local-level governments may find themselves in direct competition with EDAs for funding. The level of competition within the new provincial development authorities will likely be very intense. The adoption of the Bi-Partisan Committee’s proposals might bring about a significant loss of control over the allocation of resources on the part of the national government, thus hampering its role in the implementation of national goals, and its control over macroeconomic policy.

The new proposals for an integrated system in the Bi-Partisan Committee’s report raise a number of issues with regard to accountability, as it is necessary to consider accountability, as well as to specify to whom one is accountable.

In the final analysis, the Bi-Partisan Committee’s proposals open the way for a potentially far worse misuse of resources by reducing the formal controls and monitoring overexpenditure, while at the same time placing greater amounts of discretionary funds in the hands of politicians. It seems evident that there will be no savings in expenditure in comparison to the present system and that the ongoing costs of carrying out the proposals will most likely result in higher expenditure.

One aspect of the Bi-Partisan Committee’s proposals that is likely to have a negative impact on the delivery of services is the incorporation of EDAs into the new structures. There would seem to be no better way to assure that politicisation of the public service does occur than by creating a basis in law (to the extent of entrenching in an organic law) for the right of each Member of Parliament to give directions to the public servants responsible for services in his or her electorate.

These provisions could lead to an extensive array of problems. With regard to corruption, there is no reason to believe that national politicians are likely to be any more or less corrupt than provincial politicians. The direct distribution of funds by Members of Parliament through EDAs, opens the door to the possibility of corruption by offering a great deal of temptation with little means of assuring accountability of the funds under the control of individual politicians.

The strong tendency to rely on institutional solutions to problems of provincial government found in earlier studies is reflected in the Bi-Partisan Committee’s Report as well. There is always the danger of succumbing to the belief that improvements can be brought about simply by adopting rules, and that the improvements will be even more effective if the rules are entrenched. The most direct way to avoid introducing even greater evils into the system is to build carefully on the recommendations from earlier
studies, and the analyses of the problems of provincial governments produced by the various committees that have prepared reports over the past ten years.

The costs incurred by these new proposals will not be limited to the financial and administrative costs or the political disruption that will be occasioned by the transition to the new arrangements. Perhaps the greatest cost will be to the people of Papua New Guinea who live in those provinces that have succeeded in bringing government closer to the people, and have built effective political and administrative systems that have improved the delivery of services. These people, as well as those living under provincial governments that have failed to achieve these goals, will pay the price of being brought under a new system, which may fail to provide the foreseen benefits. The changes proposed by this committee could destroy the foundations of an effective decentralised system that have been carefully constructed in some provinces.


Corruption is consuming millions of kina annually. It has been the subject of a number of major enquiries since Papua New Guinea gained independence. However, corrupt practices continue to have detrimental impacts on investment and development in Papua New Guinea. The inability of administrative officials within our key institutions to function efficiently is often the effect of corrupt practices, which, in turn, have generated pressure for further corruption.

Most of the papers in this collection were presented at a 'brainstorming' seminar organised by the National Research Institute (NRI). The seminar included invited policy makers, academics, researchers, and practitioners from government and non-government organisations (NGOs) who identified directions for future research into definitions and forms of corruption, how corruption impacts on Papua New Guinea's development process and underpins some of the factors that contribute to bad governance, and the use of appropriate information to combat corruption.

The papers in this volume show that corruption is a complex issue with different cultural connotations at various levels of society. However, if development is not to be diverted away from the general population, managers at all levels must exercise discipline and control over the use of human, financial, and physical resources under their authority, with professionalism and honesty.


Part 2: Unofficial Documents


This article builds on the article by Hinchliffe (1980), confirming the assertion that the national government will be impeded from pursuing a policy of reducing inequalities among provinces. The article arrives at this conclusion through analysis of capital works expenditure in provinces during the first years following decentralisation.


Bonney’s book provides an early description of the funding arrangements of provincial governments, which is comprehensive, but not as authoritative as subsequent studies which provided more detail and data on the complexities of the system. It underlines the shortcomings of the centrepiece of the funding formula — the MUG.


This discussion paper deals with the Village Services Program which was tabled in national parliament on 12 August 1992. It proposes a training program to support a ‘bottom up’ approach to development to replace the existing ‘top down’ managerial approach, through the use of a grassroots training program. The study identifies key personnel at the national, provincial, and local levels, suggests changes in their approach to achieve the goals of the program, and proposes the involvement of churches and other groups in the process.


The advent of decentralisation has significantly changed the role of provincial governments in education. Whereas previously they were mainly responsible for the implementation of plans devised at the national level, now they are charged with producing their own plans, according to their own priorities. The devolution of responsibility has not always been a simple matter, and has not always had the wholehearted support of national officers. Early critics of the policy feared that decentralisation would permit the evolution of widely differing policies, which, in turn, would both increase interprovincial disparities and threaten national goals.

This report is one of the two consultants' reports (the other is by Ron May, 1981) that identified a number of the shortcomings of the decentralisation arrangements. Chelliah analysed the funding arrangements, and identified the major shortcomings that were later addressed in the Vulupindi Report (1982).


A study of the important impact of events in Bougainville on the establishment of the decentralised system of government in Papua New Guinea.


This monograph provides a detailed analysis of the early debate over the establishment of provincial government. It provides the basis for the background discussion in this literature review.


The development of local government in Papua New Guinea falls into two distinct periods, which are determined by separate Ordinances. This paper is concerned with the development of a local government system from 1946 and its subsequent development in the political, social, and economic spheres during the effectiveness of the Native Village Councils Ordinance, 1946-1964. The key role played in developing the local government system and in establishing the early councils in the Gazelle Peninsula are outlined in detail.

Fenbury’s strategy for local government to serve as a means of delaying political advancement, to aid Australia’s interests, is a new concept which questions the role of Australian colonial policy. Many of Fenbury’s proposals were adopted as administration policies and the early local government development set the pattern for its future role, which is evident in the present system.


Governance interventions have evolved to place a much greater emphasis on the demand side of good or democratic governance. This article discusses the need for an appropriate balance between both the demand and the supply sides. While citizens need to demand, governments need to respond, both are capable of some supply, and none of these should be taken for granted. The pros and cons of a balanced approach are discussed, as well as the risks of imbalance. The article also begins to explore what a balanced approach might look like, arguing that balanced approaches incorporate a reorientation and expansion of various mechanisms of control:

- hierarchic/bureaucratic mechanisms are reoriented to embrace and promote
democratic principles and opportunities for exit and voice;
- market mechanisms are exploited wherever possible; and
- clan mechanisms based on trust and repeated interaction are introduced and emphasised.

Brief examples demonstrate that operationalising a balanced approach entails consensus building through a series of negotiations among key stakeholders.


This is one of the first papers to spell out the problem of the ‘downward ratchet effect of the MUG’ on the funding of provincial governments.


This study is one of the earlier analyses of the differences in the level of delivery of services among different districts.


This paper discusses the issues of the implementation of, and compliance with, standards of public issues from a conceptual and inspirational perspective and argues in its conclusion that ‘only the leadership of central governments, in partnership with local government, through a continuous process of review and improvement, will ensure not only its implementation (standards of public ethics), but also progress towards it objectives — to preserve public ethics and thereby protect public interest’.


The growth of global corporations is synonymous with the spread of market capitalism. Market capitalism looks to regulated market economies and stable growth to expand, and this, in turn, assumes that states are committed to economic liberalisation and the reduction in the barriers to trade. Such preconditions are assumed to be achievable through the promotion of democratisation — the liberal democratic model of government, now the favoured developmental template of multilateral and bilateral donor agencies. One major
challenge to this approach is corruption at the state and local levels — and a major indicator of its acceptance is addressing corruption.

As agencies that espouse a strong ethical stance internationally, corruption has appeared to be a highly visible reform issue for them during the 1990s. In spite of—or because of—such attention, levels of corruption appear to continue to rise and become more entrenched, while donor commitment may be under pressure to adapt, both as a possible consequence of the continued promotion of democratisation. This will force them to face the question of whether corruption may be an integral component of the model, and whether they either confront the risks associated with it, or start to ignore corruption in favour of some wider agenda objectives that have less to do with international ethics and more to do with international realities of market capitalism.


Donors currently place emphasis on the need to address corruption in an increasingly coordinated fashion, as part of their support for the wider development and democratisation agenda. Findings from country study reports which used the National Integrity System (NIS) approach for assessing types and levels of corruption indicate that corruption persists and that donor coordination is evidenced in developing the resultant anti-corruption strategies within recipient states.

This paper adopts a different perspective on the issue of donor coordination, specifically considering the potential for the integration of activities of agencies or institutions from within one specific donor country involved in work overseas in the anti-corruption field. The article uses the United Kingdom (UK) as the case study, looking at the activities of one transnational agency located in the UK (the Commonwealth Secretariat), at the UK’s development agency (the Department for International Development, both as a single donor and as part of a partnership with other development agencies), and at two UK agencies — the National Audit Office and Her Majesty’s Customs and Excise.

The article draws two conclusions:

- the individual organisations pursue their own agendas although the specialist agencies are aware of the need for contextual reform to make their work effective; and
- despite this awareness, there is, at present, little evidence of a common purpose or approach for offering to recipient countries more integrated forms of assistance agreed between agencies from one donor country.


This article builds on a Transparency International (TI)-sponsored research study funded by the Dutch Government into the National Integrity System (NIS), in practice. The NIS is a framework approach developed by TI that proposes assessing corruption and reform holistically. The NIS not only looks at separate institutions or separate areas of activity or separate rules and practices, but also bases its perspective on institutional and other interrelationships, interdependence, and combined effectiveness. The study involved 18 countries, using in-country researchers and an overview report. This article assesses the findings of the study to consider how the approach can work, in practice, what the
approach can reveal about the causes and nature of corruption, as well as the implications for reform.


The article reviews a number of reports and articles on both the roles and purpose of anti-corruption agencies or commissions to set the context for its empirical research. The research draws on field visits to two African countries — Ghana and Uganda — in 1999, and visits to these and three other African countries — Tanzania, Malawi and Zambia — in 2004, to study agencies whose remit includes anti-corruption work—to consider the relevance and reality of the issues and themes raised in the review. The visits to Ghana and Uganda offer, for the first time, longitudinal perspectives on the development of such agencies and donor involvement. While the research generally confirms issues raised in the review, this perspective provides the basis for the development of three hypotheses new to the study of anti-corruption agencies or commissions (ACCs):

• is there, paradoxically, an adverse impact on the development of ACCs, as a consequence of mounting pressure from donors for anti-corruption results;
• is the Hong Kong Independent Commission Against Corruption (ICAC) is the most relevant ACC model; and
• can better results be achieved with sequenced or less donor involvement using ACCs and other organisations?

This clearly has practitioner and policy relevance for the future role and development of existing ACCs within current circumstances, and for decisions on the creation of new ACCs.


The article reviews aspects of the literature on public sector organisational development in developing countries, and on anti-corruption agencies or commissions (ACCs), to set the context for its empirical research into five African countries’ ACCs. This argues that ACCs are as likely to be affected by the same problems as any other public sector institution, but the approaches taken by donors and the consequential expectations on performance fail to recognise this. The article further argues that, in addition to these two dilemmas relating to the conditions necessary to promote organisational development and performance expectation—organisational continuity—of ACCs, a third dilemma—differing cycles of donor and government activity—also poses problems for that development. This has practitioner and policy relevance. With multilateral and bilateral donors still continuing to establish ACCs as the lead agency to address corruption, there is a need to address the future organisational development of existing ACCs as well as using the lessons from the performance of such ACCs to provide the continuity for new ACCs to be capable of dealing with corruption.

Using the experience of Papua New Guinea as a case study, this article examines the importance of political and administrative organisation, electoral politics, and revenue assignments for fostering subnational autonomy and accountability in decentralised developing countries, and hence the success of fiscal decentralisation programs.


It has been generally agreed that local government has been the weakest of the three main levels of government in Papua New Guinea since independence, with the reasons for this being well-documented in the literature.

This discussion paper looks at the role of special purpose authorities and their relationship to local-level government in Papua New Guinea. It provides examples of a number of different such authorities, but analyses in detail the Porgera Development Authority as an example of the benefits and problems associated with the response to weak local-level government through the establishment of a special purpose authority.

The study conclude that although the special purpose authority can fill a role in strengthening governance at the local level, it by no means represents a ‘magic bullet’ that can be effective in any situation where local communities stand to receive an unusually large package of public goods and services from agreements to exploit, manage, or conserve their natural resources.


International donors, as longstanding supporters of decentralisation reforms in developing countries, often face the challenge of aligning program assistance to the great variety of country governance settings in which many operate. This article presents a framework for assessing the implications of governance and institutional context for a range of programming challenges, with particular reference to the challenge of decentralised programming. The framework has three conceptual steps. First, country governance and institutional change environments are described in terms of how enabling governance capacities are for decentralised programming, and how rapid and predictable the rate of institutional change is. Second, these environmental considerations are associated with overall assistance modalities of donors, in areas such as the type of partners sought and interventions selected. Third, a range of options concerning the aims, scope, and extent of decentralising programming are reviewed and linked to this diagnostic framework. The framework is broadly derived from organisational contingency theory, which it is argued has been relatively neglected in the study of development administration because of a preponderance of analysis based on single case studies.


This discussion paper provides a detailed analysis of the constitutional provisions related to the decentralised system of government in Papua New Guinea.

This paper discusses the principles, institutions, and procedures for the conduct and negotiation of intergovernmental relations within the decentralised system of government established in Papua New Guinea under the Constitution and the Organic Law on Provincial Government (OLPG).

The OLPG faced peculiar difficulties in fashioning the system for intergovernmental relations. The system of government agreed to under the Bougainville Agreement did not fall neatly into a clearly recognisable constitutional category, such as unitary or federal, which might suggest precedents. It strove, within an essentially unitary framework, to incorporate elements of federalism. It relied heavily on ideas, assumptions, and schemes proposed by Tordoff-Watts (1974) and the CPC, which took the unitary nature of the government as the starting point. For that and other reasons, it placed a primacy on political consultation and negotiations. The Bougainville negotiations took place in circumstances when both these assumptions were questionable. These negotiations led to some refinement of earlier proposals — the incorporation of some substantive matters, such as primarily provincial legislative subjects, exclusively provincial taxes and minimum unconditional grants, and a degree of entrenchment no longer compatible with a simple unitary model.

With the establishment of provincial governments and the strengthening of provincial identities, the management of relations between provinces also becomes a political matter. The constitutional laws contain relatively little about this aspect of decentralisation, other than to establish the Premiers’ Council, where all premiers meet, and to provide that the Premiers’ Council’s role is to deal with relations between ‘governments’ generally, and not just between the national government, on the one hand, and provincial governments on the other. Some of the factors which may cause tensions among provinces are not connected with decentralisation.

The potential for tensions was built into the OLPG. For example, the notion of gradations of provincial governments (s.100), the provincial secretariats (s.48), and the provisions for the assignment of public servants (s. 49) are licences for ‘wantokism’. The limited prescriptions for provincial constitutions in the Constitution and the OLPG may encourage notions of ‘provincial origins’ as qualifications for office (in fact, several provincial constitutions do give substantial preference to persons born in the province in terms of rights to vote and to stand for provincial office).

A few matters touching on interprovincial differences have been raised at Premiers’ Council’s conferences, and there have been occasions where there have been serious public differences between provinces, or groups of provinces. The most bitter clashes have been about proposals — usually from provinces in the Islands Region that restrict freedom of movement or systems of registration of citizens which are imposed as crime prevention measures. Such proposals have been seen by premiers of the Highlands provinces as intended to discriminate against people from the Highlands Region, who often migrate from their densely populated home provinces seeking economic opportunities in coastal areas.

If more autonomous institutions with substantial powers to deal with intergovernmental relations had been established, tensions between the provinces may have been given a forum through which to develop. However, as yet, the increasing national government
control of major affairs has tended to push tensions along a centre-province axis.

The Premiers’ Council has not been a forum for interprovincial issues. The more important fora for interprovincial relations have been the four regional Premiers' Councils which have helped foster the emerging concept of regionalism. The Papuan, Highlands, and Islands regions had degrees of distinct identity long before provincial governments were established.

However, on the whole, attempts at more active cooperation on regional economic development have not been very successful. Several joint ventures on the part of the Papuan provinces in fishing and shipping were spectacular failures, leading to the liquidation of the corporations. A degree of regionalism is certainly emerging. The main significance of the force linking provinces in regionalism so far has been opposition to the centre.

A large number of reports and enquiries have been made. There would appear to be several reasons for the proliferation of the reports. In the beginning, there was considerable uncertainty about the legal provisions and the best method to implement them, as well as a general anxiety about the consequences of decentralisation. Subsequent reports and enquiries have served a different function. They have generally been initiated when the relevant authorities have been unable to resolve a controversy. The appointment of a committee has been a way to avoid a confrontation and sometimes been a device to avoid making a decision. Financial reviews would fall into this category, as would the Premiers’ Council resolution (never carried out) to review national legislation in the concurrent areas.

Apart from the reports discussed in this paper, there were several others. Ghai and Isana (1978) reviewed the legal provisions, on the economic impact of the OLPG. Ghai (1982) made another review; Justice Barnett (1977) reported on the transfer of powers to provinces; Justice Saldhana, reviewed the OLPG (1977); and an interdepartmental committee of officials (Prime Minister's Office, Justice and Provincial Affairs 1984) reviewed various practical difficulties arising from the operation of the laws, and made specific recommendations which the Minister for Provincial Affairs endorsed (see Appendix 1). In addition, there have been a number of reviews of the public service, which have included an examination of the public service in the provinces.

The piecemeal approach to the review process and the implementation of recommendations has led to considerable uncertainty about many aspects of the system of provincial government and sometimes about the very future of the system. Much effort and energy have been wasted on fruitless debate and on attempts to counter proposals that may have little chance of implementation. The seeming irrationality of the system is compounded by the number of occasions on which important changes have been proposed or made without any preparatory work.

The constitutional changes which led to the membership of the Members of Parliament (MPs) in the provincial assemblies, the simplification of the suspension procedure, or the proposed change to the OLPG which would give MPs representation in the provincial executive and a vote in the assembly have already been reviewed. All these matters have considered reports. However, little use appears to have been made of them when embarking on the changes. Nor does there appear to be much reflection before traumas, like the referendum proposal, are inflicted upon the system. Perhaps these are not as irrational as they seem, as they are inextricably connected to the kind of political and economic system that has developed in the country. They reflect the growing mistrust
between the politicians and public servants, the fluidity of political forces, the lack of party
discipline and the absence of collective responsibility, and the consequent inability of the
government to manage parliamentary business effectively. Provincial government both
adds to, and suffers from, these circumstances.

If policy about fundamental changes in the constitutional structure is so fraught with
controversy and indecisiveness, success in more technical areas where reform is desirable
is scarcely better. A good example is the review of the financial provisions of the OLPG.

Ghai, Y. and Regan, A. J., 1992. The Law, Politics, and Administration of
Decentralisation in Papua New Guinea. Port Moresby: The National Research
Institute.

This work is the most comprehensive study of all the major aspects of decentralisation up
to the early 1990s. It is particularly strong in the area of the legal aspects of
decentralisation, but provides extensive detail on the political, financial, and administrative
aspects as well. It places the process of decentralisation and provincial government in the
broader context of decolonisation and development, and provides insight into the politics
of intergovernmental relations in Papua New Guinea.

The Organic Law on Provincial Government

The Organic Law on Provincial Government (OLPG) is the result of torturous
negotiations, with representatives of parties, and even the parties themselves changing
during the course of the negotiations. The law reflects compromises over numerous points.
However, the philosophy — democratic structures, consultation and cooperation and the
accommodation of a process — remains remarkably clear, even if the overall coherence of
structures, procedures, and relationships suffered somewhat. The final constitutional
arrangements are not easy to classify in terms of traditional categories of decentralisation.
While the ultimate supremacy of the national parliament disqualifies them from being
designated as federal, the extensive safeguards provided for the provinces by the
Constitution and the OLPG give them a character higher than local government or even a
simple devolution. If the formal structure of the OLPG is examined, it closely resembles a
federal system. The study enumerates the number of ways in which the national
government can override provincial governments.

The success of the OLPG depends on political pressures and procedures. The OLPG
provides an agenda (in terms of the transfer of powers and resources) and a framework for
negotiations.

The Establishment of Provincial Government

One of the most striking features of the establishment processes was the extent to which
they were determined 'by ad hoc reactions' to immediate pressures, rather than by
evaluation of the most appropriate processes. Well-thought-out proposals of the CPC —
particularly in respect of a phased establishment — were never used because of political
pressure for the general introduction of provincial governments, following the initial
concessions to Bougainville. A phased approach to establishment would have provided
time and the opportunity for new politicians and inexperienced personnel to learn how to
work together and to handle these resources. It perhaps would have enabled the national
government to establish monitoring and support systems. Instead, immediate access to
resources resulted, in some provinces, in the inexperienced and often undisciplined
politicians treating funds and personnel largely as sources of patronage. There seems little
doubt that in many provinces the patterns of political behaviour and accumulation drawn from traditional society were transposed by aspiring politicians and 'big-men' into the new structures — a development common to many Third World countries.

The State is a major avenue for accumulation in Papua New Guinea and it is not surprising that provincial government structures should be used in the same way as other state institutions. Traditional and modern forms of political and economic activity tend to coincide in effect. Provinces that answer most closely to this model are Simbu, Enga, and Oro. However, Sandaun, Western, Western Highlands, and Central Provinces also share some similar characteristics. Not surprisingly, several of them were the worst offenders in terms of length of time operating as non-elected bodies.

Constituent assembly members in these provinces had many opportunities for personal gain, with few groups able to apply any organised pressure on them. In the absence of province-wide political activity, the politics of patronage quickly developed in the appointment of personnel and the allocation of funds and services (Standish 1979; Standish, n.d.: 41-43; Gordon and Meggitt 1985: 133-142 and 158). It is not surprising that public complaints about abuse of office, misuse of funds and political interference in the public service had become widespread by 1978 and 1979, with even the strongest supporter of decentralisation, John Momis, regularly exhorting the unelected politicians to serve the people rather than 'building grand new provincial headquarters and driving around in flashy cars' and providing themselves with 'expensive trips abroad, and high salaries and allowances' (Momis 1978: 18).

In the meantime, very little action was taken by the national government to control the wide range of problems developing in the provincial governments. There was no capacity to monitor developments in the provinces on any consistent basis, and as antagonism grew between Members of Parliament and provincial governments, there was little will at the centre to take remedial action other than suspension (or engage in fruitless debates about the possible abolition of the provincial government system).

It seems clear now that it was a mistake not to have a phased introduction, especially as there was virtually no capacity at the national level to monitor developments in the provinces and intervene where necessary. In hindsight, it is evident that the uniform transfers added to the severe problems being experienced in the worst managed provincial governments, from their very inception.

**Provincial Constitutions**

Although there are some significant differences between the provincial constitutions — for example, only some contain provisions giving a high degree of preference in voting and candidacy to persons with ethnic links to the province — the freedom to choose their own structures through making their own constitutions, entrenched from change by the centre, has not produced a wide range of structures uniquely reflecting local needs. Structures tend to be similar from province to province, with legislative and executive bodies being established basically on the model of the institutions at national level.

The executive tends to be dominant in all provinces, which reflects the position at the national government level. An outcome of the almost uniform adoption of the portfolio system and the pre-eminent position given by most provincial government constitutions to the premier is, ironically, in part, because of the freedom to choose structures being vested at the provincial level.

There seems little doubt that even in the worst managed province, provincial institutions
are closer to the people, and often more responsive to local demands and needs than the colonial administration ever was. These developments suggest that popular participation in government is greater than it was before the provincial government system began.

The institutions and processes established by the OLPG and by provincial government constitutions in order to ensure accountability of provincial governments have not been very effective. This reflects a general pattern, which is evident at the national government level as well, whereby the apparatus of government is seen as a source of patronage and accumulation.

**Legislative Powers**

Despite the smaller than expected amount of provincial legislative activity, the complex provisions for the division of legislative power are workable. Constitutional problems have not been a significant factor in the provisions not producing the expected outcome. On other hand, it is likely that the complexity of the legal framework has been a factor, because this does not make it easy for provincial governments to make use of the legal framework. However, it is unlikely that complexity is a major factor in the low level of legislative activity. As a result, and contrary to the intent of the Bougainvillean negotiators, administrative arrangements rather than provincial laws continue to be the main foundation of provincial powers and functions. The most unsatisfactory experiences relate to the sharing of legislative powers on the concurrent subjects.

The lack of adequate financial and personnel resources has also been a major obstacle to developing provincial policies and laws. As discussed in Chapter 7, there are seldom funds for new initiatives — almost all financial resources are committed towards maintaining existing activities. The inability of provinces to fully exploit their potential range of legislative powers subordinates them to greater central control than envisaged by the OLPG, maintains a greater than envisaged role for national government bureaucracy, and reduces the accountability of the provincial bureaucracy to provincial leaders.

The purely administrative methods used for the initial transfers of executive authority to the provinces have reduced the importance of legislation as the basis of provincial powers. This development has tended to divorce provincial politicians from policy matters, and therefore, from the initiation of legislation. The lack of involvement of provincial politicians has been reinforced by the fact that provincial bureaucrats have little interest in developing provincial legislative initiatives which result in their having greater answerability to provincial politicians.

**Provincial Executive Powers**

The initial methods used for devolving executive authority to the provinces and organising and controlling assigned public servants were not as provided for in the OLPG, and kept provincial governments under greater national government control than was envisaged by the OLPG. These methods have tended to make provincial governments operate more as administrative arms of the national government than as the separate governments envisaged by the OLPG. At least in part, because there was limited scope for policy initiatives at the provincial level, provincial governments have been less able to respond to local needs than had been hoped.

Nevertheless, there has been some movement towards the kinds of arrangements envisaged under the OLPG. In relation to executive powers, provinces are gradually exercising more of their powers and functions under their own laws. The big winner from the arrangements
has been the bureaucracy. At the national level, bureaucratic obstruction has prevented a review of concurrent subjects which could have provided a sound basis for provincial executive powers under provincial laws. They have paid no attention to the quality of the personnel resource that is available to the provinces, and have been unable to provide specialist staff as required.

The bureaucracy at the provincial level has also benefited from the arrangements that have been discussed, because it has been generally less subject to political control than envisaged by both the CPC and the OLPG. As a whole, the bureaucracy has maintained its control of the machinery of the State far more effectively than was expected. With few exceptions, provincial government executive bodies have exhibited a limited capacity to formulate new policies — either policy designed to meet local needs, or those that are different from existing national policies. In essence, most provincial executives merely continue to carry out services, the responsibility for which has been transferred from the national government, and are content to work within the framework of national policies in an uncritical way. Provincial legislatures that are effectively dominated by the executive are able to offer little critique of the executive.

There is scant evidence that provincial governments are either more responsive to local needs than the national government, or more effective or efficient. On the other hand, there is scant evidence that the generally acknowledged rundown in provision of services to rural areas has occurred because of the establishment of the provincial government system.

**Financial Provisions**

It is clear that the national government has retained a firmer control over public revenues and expenditure than was expected. It has achieved this through the system of funding transferred activities to provinces without full financial responsibility (FFR), the use of Divisions 271 to 290 to fund other activities such as health services, even in the provinces with FFR status, and the virtual absence of unconditional grants (outside the MUG). The decline of the MUG, itself relative to national revenue, has brought a larger proportion of funds under national control than was anticipated at the commencement of provincial government. The way the financial provisions have been operated means that, in some respects, the national government is in a more favourable position than before the OLPG, because otherwise it would have had the responsibility, at least, to maintain the level of services which it has passed on to provinces in return for amounts that are not sufficient for the purpose (for those with FFR). In some sense, those provisions are subsidising the national government instead of being a guarantee for provinces. The MUG has become a protection for the national government.

The aims of stabilisation of services, equalisation of development, and increasing provincial autonomy in the allocation of expenditure have also failed (Axline 1986: 92-117). The MUG, which was intended as the main device for stabilisation, was fatally flawed at birth, so that the ravages of inflation, salary increases, and population growth mean that it is woefully inadequate for the purpose, and provinces can only manage by diverting additional funds (such as internal and transferred revenues envisaged for new development) to it. This means, in turn, that provinces are unable to initiate new policies, and the scope for reordering their priorities is almost non-existent. Ironically, this most affects the provinces with FFR — unless they have substantial revenue from internal sources or from taxes — which are best equipped otherwise to initiate and manage new policies and projects. Nor are significant sums provided through the Public Investment Program (PIP). Provinces without FFR may be under fewer financial constraints, but they trade that for the loss of autonomy in transferred functions.
In equalisation, there also has been little progress. The key role of the NFC did not materialise, and even in its diminished role, equalisation was not its clear priority. In so far as the provinces without FFR are the less developed, the funding arrangements for them have resulted in higher financial transfers to them. However, it is not obvious that the differential funding was because of a deliberate policy of equalisation, or that it has reduced disparities. This may be fortuitous because when we turn to what would have been the key instrument for equalisation — the NPEP-PIP — we find little evidence of support for equalisation. It has been argued that, on the whole, the NPEP-PIP has favoured well-off provinces, except when those provinces have not needed the funds (especially North Solomons), or where they have been unable to get projects under way (French, n.d.:15).

Whether differences among provinces have increased or decreased is not a consequence of the financial package. It is a consequence of the policies of the national government, for which has been secured much greater discretion than the OLPG envisaged. Increasing emphasis in government development policy on ‘growth areas’ has largely relegated equalisation from the national agenda.

**Intergovernmental Relations**

Many reports and enquiries have been put forward. The appointment of a committee has been a way to avoid a confrontation, and sometimes serve as a device to avoid making a decision. On the whole, the reports have had little effect, with the exception being the first McKinsey Report. This phenomenon is not surprising when the intention behind the establishment of a committee is to avoid confrontation or a decision. A major factor has been the failure of the various government coalitions at the national level to develop or pursue a consistent policy on provincial government.

The piecemeal approach to the review process and the implementation of recommendations has led to considerable uncertainty about many aspects of the system of provincial government and sometimes about the very future of the system. A great deal of effort and energy have been wasted on fruitless debate and on attempts to counter proposals that may have little chance of implementation. The seeming irrationality of the system is compounded by the number of occasions on which important changes have been proposed or made, without any preparatory work.

If policy about fundamental changes in the constitutional structure is so fraught with controversy and indecisiveness, success in more technical areas, where reform is necessary, is scarcely better.

**Suspension of Provincial Governments**

The amendment and subsequent use by the national government of the provisions on suspension reveal a great deal about movements in the balance of power between the centre and the provinces. The way that the powers have been used since 1983 clearly demonstrates a further movement in the balance of power. The 1983 amendments have moved the provincial government system far closer to the local government model than would have been considered possible in 1977. Suspension by the national executive is a simple matter, and hence can be — and has been — used for purely political purposes. Even the suspensions not carried out for specific political reasons were, in a sense, making a broader political point. They were, to some degree, an assertion of dominance, made all the more important because of the frustration felt by most Members of Parliament in relation to what they see as the usurpation of their roles by the provinces.
Despite the deep tensions between the parliament and the provinces, in the medium term a whittling down of provincial powers and independence through legislative and administrative change is likely to be more achievable than complete abolition of the system. Abolition would be difficult because, although provincial governments generally have not been able to build the political power needed to protect the system, when threatened, they are able to mobilise sufficient support to make abolition an extremely difficult achievement.


This paper compares the experience of two main attempts to accommodate secessionist pressures in Bougainville, a subnational island unit of Papua New Guinea. In 1976, constitutionally based devolution was established on a largely uniform basis for Bougainville and Papua New Guinea’s 18 other provinces. A 2001 agreement to end a secessionist war has resulted in constitutionally guaranteed asymmetrical autonomy and a right to a deferred referendum on independence for Bougainville. The paper considers whether the Bougainville experience supports the view that autonomy creates pressure for secession, and whether secessionist pressures might be accommodated by the development of innovative economic policy and governance practices of the kind utilised by many other small non-sovereign island autonomies.


This chapter examines Papua New Guinea's experience of decentralisation from 1976 to 1995 and explores the role of law in that experience. It seeks to explain the operation of the system of decentralisation both within the terms of the legislation governing it and the factors external to the system. The chapter examines the status and structure of law, including the disposition of powers and responsibilities, as mandatory or discretionary, and the methods of adjudication and enforcement, and relates these to the implementation of decentralisation. The operation of the law on decentralisation in Papua New Guinea has to be understood within the broader context of the State — the constellation and contradictions of social forces that find their reflection and expression in the apparatus of government.


A detailed analysis of the Constitution of Papua New Guinea


In September 2005, Papua New Guinea celebrated 30 years of independence. Despite greater Australian control over foreign aid spending in its former colony since the late 1980s, the Australian Government still feared ‘state collapse’ in PNG. Framing its concerns in such a fashion assumes that there was a time when the state in PNG ‘worked’, in the same way as developed states. Australia practised paternalistic colonial policies before 1975, and independence was thrust upon PNG, rather than achieved as the result of the efforts of an organised nationalist movement. Nation-building in PNG has been problematic from the outset, with a linguistically diverse population, and no significant nationalist sentiment or structures on which to build.

In the past decade, neoliberal economic policies promoted by Australian policy makers and international lending agencies have tried to force the government and economy to be more efficient. Slowing growth, increased unemployment, rising crime rates, and the apparent inability of the State to reverse these trends led Canberra to convince the PNG government to accept an ‘Enhanced Cooperation Program’ (ECP) to shore up the PNG state and reverse its predicted demise. The ECP raises questions over the success of nation-building and state-building, as well as the degree of actual sovereignty enjoyed today by PNG.


Papua New Guinea embarked on a process of decentralisation at a time when thinking about development put an emphasis on self-reliance, more equitable distribution of wealth, and greater political participation. It is not surprising that these aims were reflected in the decentralised system of government adopted by Papua New Guinea. This article was one of the first to point out the contradiction in development aims that often exists in developing countries, and which was embodied in the Papua New Guinean experience. It underlines the assertion that the most common areas of conflicts in these aims are:

- the financial distribution between the central government and provincial governments;
- the control which the central government has over the expenditure decisions of these units; and
- the distribution of financial resources among the units.

For Papua New Guinea, there is no doubt that the decision to base the allocation of provincial grants (the MUG) largely according to the levels of funds actually spent in the provinces during 1976-1977 will lead to an ossified pattern of provincial inequality, at least in the short term, and a reduction in the power of the government to reduce inequalities in the long term. Basing the analysis on the provisions for funding provincial governments, this article concludes that the chosen form of provincial financing is likely to prevent the possibility of addressing the problem of inequalities among provinces. It argues that the national government is likely to lose control over both recurrent expenditure in the provinces, and the uncommitted capital expenditure which is necessary for stimulating greater provincial equality.
Chapter 1 provides a description of the ‘official’ development paradigm. Chapter 2 summarises a number of commentaries on the nature and causes of Papua New Guinea’s problems. From this material, a set of propositions concerning the roles which the State, society, and the private sector should play in Papua New Guinea’s development has been developed. Together, these propositions constitute a ‘first cut’, or preliminary version of an alternative to the ‘official’ development paradigm.

Chapters 3 to 5 assess the feasibility and appropriateness of these sectoral propositions by testing how well they fit with Papua New Guinean realities. Unfortunately, they do not provide an adequate response to Papua New Guinea’s development problems.

Chapter 6 reformulates the propositions on the role of the State, society, and the private sector, and adds a fourth element which recognises the need to develop a strong state-society relationship at the district level. These four propositions constitute a new model for thinking about Papua New Guinea’s future development. The critical element of this model is a political integration strategy which proposes the development of a new system of subnational government as a remedy for the disconnect between the State and society, which lies at the heart of Papua New Guinea’s development problems.

Chapter 7 summarises the argument for a political integration strategy and discusses some of the matters to be considered in implementing such a strategy.

Chapter 8 makes a broad assessment of the willingness and capacity of the principal development actors to engage in such an ambitious reform program, and to suggest a ‘step wise’ process for making it happen.

Chapter 9 sets out the institutional options that are available to ‘make it happen’, and outlines the reform pathways. The role that Australia can play in this reform program is also presented.

A Postscript of recent initiatives and developments in Papua New Guinea and Australia highlights some of the policy developments that have occurred, and which hopefully will assist in the development of an effective new system of subnational government.

The following three propositions have been formulated about the roles which the principal development actors should assume and the ways in which they should interact, if Papua New Guinea’s underlying development problems are to be addressed. These are the:

- **local government proposition**: The active engagement of the people in the national development project is contingent on strengthening the existing system of local government because it is the level of government which is most closely aligned with traditional forms of social and political organisation;
- **dormant, private sector proposition**: The private sector in Papua New Guinea lies dormant because of inappropriate state policies and customary constraints. Economic development will flourish once these are removed; and
- **national, political community proposition**: Probity in politics and effectiveness in public administration are contingent on the development of a national political community which has the capacity and commitment to scrutinise and sanction the
behaviour of officials.

Subnational Reform

Different accounts of the performance of the provincial governments were advanced during the 1980s. Some argued that a sufficient number of them were performing satisfactorily, under difficult circumstances, and that what was required was a package of ‘technical’ reforms in relation to resourcing, overlapping responsibilities, and inexperienced management. Others attributed their poor performance to destructive political rivalry between the national and provincial levels. These views were canvassed in a series of official enquiries undertaken in the 1980s (Axline 1993). The outcome was the Organic Law on Provincial Governments and Local-level Governments; that is, the 1995 provincial reforms.

In other jurisdictions, one would expect such legislation to contain provisions in relation to representation and organisation, powers and responsibilities, meetings, planning, budgeting and audit processes, provisions for cross-boundary coordination, and many other substantive and procedural matters. However, the 1995 legislation and supporting documentation were silent on critical policy and technical matters such as the:

- role of a subnational level in Papua New Guinea's governmental system;
- relative merits of two-level and three-level governmental systems;
- suitability of the existing units of provincial and local government;
- relationship between modern and traditional forms of government at the local level;
- criteria for the allocation of functions between the different levels of government; and
- implications of revenue raising capacity, cost structures, and scale of economies for the size and number of local government units, and the efficient and effective provision of services.

The 1995 reforms were essentially concerned with defining power relations between the different levels of government. Local government was removed from provincial control, and given access to central funding. Provincial governments were brought under close central government control. Senior executive appointments, such as provincial administrators and treasurers, were made subject to national approval, and provincial governments were required to submit annual performance reports. Their democratic accountability was compromised. Members would no longer be directly elected. Local Members of Parliament and the heads of local government councils would be ex-officio members of provincial governments.

Other measures strengthened the control which local Members of Parliament could exercise over the allocation of resources. A substantial proportion of central government funding would be disbursed directly by MPs, a minimum proportion of provincial budgets would be spent in each national electorate, and local government budgets would be coordinated by district administrators who were appointed by the national government.

Having legislated to provide for provincial governments that were constituted by, and held accountable to, the national level of government, parliament handed responsibility for detailing and implementing the reforms, to technical working groups. These were under the direction of agencies that had a direct interest in the outcomes of the reform process. For example, these arrangements allowed the Department of Health to control the decentralisation of health functions, the Department of Education to protect its interests, and so on. The outcome is a web of intergovernmental relations which is so confused that it has taken a research team from the National Economic and Fiscal Commission two years
to document the actual allocation of responsibilities between levels of government (PSRAG 2006:42-44).

If the 1995 provincial reforms were conceived as a solution to Papua New Guinea's development problems, they are now recognised as a significant part of these problems. Papua New Guinea now has a total of 18 provincial governments, 299 local-level governments, four community governments, and 87 administrative districts, for a population of some 5.12 million people, in 2000 (ibid.:2).

It is a system in which the local-level governments are well-liked by those who are entitled to the allowances which the central government provides. However, it is a level of government which lacks the staffing, management, and revenue base to assume any useful responsibilities. Also, it has a provincial level of government which is not directly accountable to its constituents.

The explanation for this unfortunate outcome lies in those struggles for power and influence which characterise the development and implementation of decentralisation policies in the Third World (Smith 1985:185-206). The principal rivalries have been between politicians and bureaucrats at the national level, and between central agencies and the subnational level of government. Tensions between politicians and bureaucrats are given a sharper edge in Papua New Guinea through memories of the powers that were exercised by officials in the colonial period. However, the critical factor has been the perception, among politicians, that they are competing with the bureaucrats who are experienced in managing their political masters, while politicians operate without appropriate support and the kind of support provided in an established party system (Axline 1993:24-44).

Measures that have been taken to strengthen the hand of politicians over bureaucrats include changes to the Public Service Act, which gives Ministers greater control over departmental appointments, and the 1995 reform measures, which brought provincial and local governments under direct political control.

The other struggle, which has had serious implications for the subnational level, is between bureaucracies, and concerns the extent and nature of decentralisation. Any agency will be reluctant to promote decentralisation, if that involves the erosion of its power and influence. Strategies which have been employed by central agencies to resist decentralisation initiatives include contrived confusion in the transfer of functions to the provinces, failure to adequately fund transferred functions, failure to transfer appropriations in a timely manner, and the conversion of grants from a bloc to a conditional basis.

These dysfunctions have been compounded by the failure of the Department of Provincial and Local Government Affairs to effectively discharge its oversight and advocacy roles. As the national agency which has the mandate to strengthen the subnational system of government and to facilitate intergovernmental relations, the Department of Provincial and Local Government Affairs has achieved little. It has contributed very little to the reform debates of the 1980s, and acquiesced in the weakening of the legislative framework for local government. Also, it allowed national agencies to 'implement' the 1995 reforms, in accordance with their institutional interests, and it has presided over the dispersal of responsibilities for staffing, finance, planning, and training matters among agencies of the national government. In its current condition, it lacks the standing to manage intergovernmental relations, and the capacity to provide leadership or technical support to provincial and local levels of government.
Conclusion

To summarise the ‘goodness of fit’ between these characteristics of the Papua New Guinean State, and the proposition that the existing local government system should be assigned a lead role in the nation’s development:

- there is a well-established set of political institutions at the national level;
- attempts to establish an effective system of subnational government have been systematically frustrated by power struggles between politicians and bureaucrats, and between agencies at the national level; and
- existing units of local government may align closely with traditional forms of social and political organisation, but they are almost certainly too small to play a lead role in national development.

In summary, an effective decentralisation strategy is unlikely to be driven from the top, and existing local government units are not appropriate in scale, finances, or functions to assume a lead role in the national development project; that is, the local government proposition does not fit with Papua New Guinean realities.

- In Relation to the Local Government Proposition: This proposition attributes Papua New Guinea’s poor development performance to the failure of the subnational level of government to effectively engage with local communities. It argues that the existing local level of government is best suited to this task because it aligns well with the pattern of local communities. However, the reality check suggests that existing local government units are too small to carry out a useful range of functions. The conclusion is that a new development model should incorporate an element of state capacity building, and that this should be combined with the development of a more appropriate system of subnational government. The local government proposition is reformulated to reflect these features.

Recommendations

Reformulating the Local Government Proposition

The local government proposition is sharp in its diagnosis and prescriptions, but weak in its analysis. Papua New Guinea’s poor performance is attributed to the failure of its subnational system of government to engage with the people. The solution is to clear away the confusion caused by the 1995 reforms, and to construct a strong state-society relationship at the point of intersection between Papua New Guinean forms of social and political organisation and the existing pattern of local government units.

Although the general argument for a better relationship between the State and society is attractive, the local government proposition glosses over critical difficulties concerning the size of the government units. Existing local government units are not a satisfactory base on which to attempt to develop a robust form of local self-government. With an average population of approximately 17,000 people, most of the 303 local government units in Papua New Guinea have a small revenue-raising capacity. They will never be able to carry out a useful range of functions in their own right. Also, the national government will never be able to afford to fund the provision of a full range of services through such a fragmented system. These stark realities have major implications for the structure of Papua New Guinea’s governmental system and for the appropriate size and number of subnational government units.
The Quest of Good Governance

Papua New Guinea’s existing three-level system of government is overly complex and gives rise to confusion as to lines of accountability and responsibility. It is a system of government which is inappropriate for Papua New Guinea’s requirements, given constraints on fiscal and human resources at the subnational level. The existing three-level system of government should be progressively replaced with a two-level system. For these purposes, a new level of government should be established. Having regard to the likely size of the units forming this level of government, it will be referred to as a ‘district’ level of government, and the individual units as ‘district councils’.

Considerations in relation to the size and number of units include:

- as a generalisation, overhead costs, as a proportion of total costs, diminish as the size of service units increases. Therefore, larger units will generally be able to provide a wider range of services or a higher level of service than smaller units. District governments should be relatively large, in terms of the population that they will serve;
- to achieve their potential as a means for resolving inter-group conflict, and their scope for enlarging human development, district governments will, in many cases, need to be established on a scale which combines significant numbers of traditional groupings;
- citizens should have reasonable access to their representatives and officials. Given Papua New Guinea’s difficult terrain and pioneering transport networks, the average size of units might have to be somewhat smaller than would otherwise be the case. However, proximity is not the only measure of access. Public consultation and participation processes, political education and awareness programs, and public information systems can improve citizens’ access; and
- the challenges which political integration at a district level poses for traditional forms of social and political organisation are recognised. However, they should not be overstated. The readiness with which social movements have been mobilised in the past on a regional scale, and the active development of linkages between localised social groupings indicates that local communities will cooperate, where there is a prospect of mutual benefit.

Most existing local government units are too small to meet the above criteria. The proposed system involves a significant reduction in the number of units, and a corresponding increase in the size, relative to the existing local government system. The appropriate scale for the proposed system is likely to be somewhere between the scale of the current province and the district administrative areas.

The solution to Papua New Guinea’s development problems lies in the formation of effective state-society relationships at the subnational level. The point of intersection between traditional forms of social and political organisation and the existing pattern of local government units does not provide a suitable site for the formation of such relationships. Existing units of local government are too small to function as robust units of local self-government, and there are serious points of conflict between the traditional political processes of local communities, and democratic principles and practice.

The most effective means for promoting state-society relationships at the subnational level is to create the conditions for the development of strong forms of democratic political community at the district level. This can be achieved by establishing an effective system of government at that level. The formation of strong political communities and governments at the district level, together will accelerate the formation of a strong political community at the national level. This will create a supportive environment for the activities of civil society organisations. As the State is brought under more effective democratic scrutiny and control, its performance will improve.
This can be considered as the political integration argument, or theory, because it focuses on the relationship between the State and society, integrates local-level and national-level solutions, and proposes a transition from traditional to democratic political processes, as the basis for addressing Papua New Guinea’s fundamental development problems.

**Elements of a Reform Program**

Major reforms to the existing structure of subnational government are indicated. Matters for consideration in designing a suitable reform strategy include:

1. Local government, democracy, community, representation, participation, responsiveness, transparency, and accountability are contested concepts or values which are susceptible to a wide range of interpretations.
2. District government should be conceived as a form of democratic, local, self-government, not as an administrative agent for the delivery of centrally managed services.
3. District governments should be equipped with a broad range of responsibilities and powers, which should extend beyond the provision of services to include cultural, regulatory, economic development, and conflict resolution functions.
4. A program to establish a district government system will have to address matters relating to the functioning of the larger government system, including intergovernmental relations, training and accreditation systems; the audit of electoral and integrity functions, industrial relations matters, civics education, and the provision of technical support services.
5. In implementing a reform program, the tendency will be to focus on concrete, state-building activities, such as the establishment of units of government. However, the focus must be on the more complex objective of developing effective state-society relationships.
6. The conventional approach to local government reform has been to debate all of the issues, prepare comprehensive enabling legislation, and then introduce reforms on a nationwide basis. This approach favours the status quo because it holds reform hostage to a general consensus on all issues, before experimentation can proceed on any of them.
7. The conventional approach appeals on the grounds of transparency and uniformity. However, it works to maximise the capacity of current office-holders to protect the positions of power and influence that they enjoy under current arrangements, and therefore frustrates the development of innovative and responsive systems. An incremental approach that allows for the trialling of more responsive systems to proceed in communities which are politically open to experimentation and change is preferable.
8. A reform program should be conceived and presented in a positive manner as a program for developing new state-society relationships and supporting effective self-government. It should not be a negative program which merely restructures existing units of government.
9. In view of the political and administrative sensitivities involved, it would be politically prudent to introduce the new system on an incremental basis.
10. Because of the low level of human resources in Papua New Guinea’s existing provincial and local levels of government, their replacement with a new system must necessarily proceed on an incremental basis.
11. In view of the scope, complexity, scale, and political sensitivity of the matters to be addressed, an incremental approach will allow for ‘action learning’, in which lessons learned in the course of developing state-society relationships in a particular community can be incorporated into the development of such relationships elsewhere.
12. Although an incremental approach will allow for flexibility and learning in the
development of effective state-society relationships in particular areas, these activities
should be conceived as part of a process of developing a coherent governmental
system for the whole country.

13. Having regard for all of these recommendations, it is evident that legislation should
support, rather than lead, the political integration process. A principal Act for a system
of subnational government should be seen as a product of the reform program, not a
blueprint for it.

14. Advocates of structural reform must recognise the relationship between political
integration, economic development, and overall development. This development
model relies on political integration and positive interventions to achieve growth in the
key economic sectors of commercial agriculture and small-to-medium businesses.
Structural reform is necessary for overall development. However, by itself, without
substantial economic development, it will not yield a significant development
dividend.

Rolling out a Reform Program

The following three phases give an indication of the scale and complexity of the reform
process in rolling out a reform program.

In an initiation phase, legislation would be enacted to establish a commission or an
implementing agency to enable it to assume and exercise the powers and responsibilities of
existing provincial and local governments, to facilitate the transfer to district councils. The
commission would then be appointed and a program design prepared.

In an implementation phase, the commission would call for expressions of interest from
candidate areas. A shortlist of these would be selected for ‘district council conversion’,
possibly over a five-year period. For example:

- in the first year, the commission would assume an overseeing role over existing local
governments in the candidate area. After extensive community consultation, a charter
on district government would be submitted to a deliberative convention. Subject to
adoption of a charter, the commission would assume the powers and responsibilities of
existing local governments, and elections would be held for an interim district council;
- in the middle years of the program, the commission would support and assist the
interim council and deliver awareness programs on political matters, including
democratic principles and practice;
- in the fourth year of the program, a follow-up convention would be held to review and
adopt a revised charter. Elections for a district council would then be held; and
- following the implementation of the program, the commission would continue to
monitor the performance of the district councils.

This five-year cycle would be replicated in other areas, until the district government
system had been established nationwide.

In a consolidation phase, district government legislation would take on its final form. A
Commission for Inter-Governmental Relations could assume the commission’s
overseeing role, and a District Government Association could assume its technical
assistance and support roles.

Governance is defined as the conscious management of regime structures with a view to enhancing the legitimacy of the public realm. In this definition, regime and governance structure are the same, and structures are rule based. Governance and policy making are treated as two separate conceptual entities.

The article is concerned mainly with developing the conceptual dimensions of governance as a tool for the comparative analysis of developing countries. It provides a discussion of the literature on governance, and concludes that governance is the comparative political equivalent of policy analysis. In the same way that policy analysis is concerned with improving policy making, governance is the study of how to improve politics and the conditions determining that effort.


This paper presents substantially expanded and updated indicators of six dimensions of governance covering 199 countries and territories for four time periods — 1996, 1998, 2000, and 2002. These indicators are based on several hundred variables which measure perceptions of governance, drawn from 25 separate data sources from 18 different organisations. The governance indicators for 2002 cover up to 199 countries and territories.

By aggregating large numbers of individual sources, the authors have expanded country coverage and also improved the precision of the aggregate indicators. Nevertheless, as emphasised throughout, margins of error remain substantial, relative to the units in which governance is measured, and these margins need to be taken seriously when comparing countries with each other, and over time. This is especially the case when attempting to classify countries into groups according to their levels of governance, as for example has been proposed for the Millennium Challenge Account eligibility criteria. In these situations, it is important to recognise the significant risks of misclassifying countries, given the inherent imprecision in these indicators.

The paper also discusses a number of important methodological issues relating to the construction and use of these governance indicators. It is argued that, for the purposes of measuring governance, there are few alternatives to the subjective, experiential data on which the study relies. Moreover, in cases where objective indicators of governance are available, the paper states that these also have implicit margins of error, and provide indicative calculations indicating that these margins of error are on the same order of magnitude as those associated with the subjective aggregates. The study also empirically investigated, and for the most part discounted, the importance of ideological biases in the perception data from polls, as gathered by experts on whom they rely. Finally, while the aggregate indicators measure countries’ relative performance in each period, the study also examines the limited available evidence on trends in governance worldwide, over time.

Interpreting these trends is difficult, but it can be stated with some confidence that there is little, if any, evidence of improvements in global governance over the period considered. The broader objective of this research project is to provide individual countries with a set of monitorable indicators of governance which they can use to benchmark themselves
against other countries, and over time. The study recognises that there are limitations to what can be achieved with this kind of cross-country, highly-aggregated data. This type of data cannot substitute for in-depth, country-specific, governance diagnostics, as a basis for policy advice to improve governance in a particular country.


This discussion proposes a research framework for analysing weak states in Melanesia, and is centred on the role of state, market, and community forms of governance. The definition of governance is adopted from the World Bank's concept of ‘the manner in which power is exercised in the management of a country's economic and social resources’.

At independence in Papua New Guinea, Solomon Islands, and Vanuatu, strong separatist pressures were accommodated by commitments to devolution to provincial governments. In Papua New Guinea, the system of decentralisation failed to prevent a second attempt at secession by Bougainville. In 1995, the Papua New Guinea parliament abolished the system of provincial government that had been established at independence, but did so in the name of greater decentralisation to the local level. The research framework will be used to study governance in Melanesian societies.


Studies of ‘national integrity systems’ are part of the new international concern with corruption and its prevention. Doig and McIvor (2003) coordinated studies of 18 countries, and reflected on their method in Public Administration and Development. This article compares their conclusions with an overview of a subsequent study of twelve small island states in the South Pacific, using the same method. Although the sample was not chosen with scale in mind, smallness might explain some of the similarities between the Pacific Island cases, particularly the risks associated with offshore financial centres, trust funds, and investments. Their relative size and weakness has also made them targets for direct intervention by Australian police and officials in order to rebuild anti-corruption institutions. The article goes on to show how the evidence from the Pacific Island cases
raises questions about some of the standard proposals for anti-corruption reform — stronger parties, an Independent Commission Against Corruption (ICAC), civil society coalitions, and greater accountability and transparency.


This report was commissioned for the 1982 Vulupindi Committee Report, and along with the report by Chelliah (1981), served as the basis for the recommendations of that report.


This paper provides a brief, but comprehensive overview of the political situation in Papua New Guinea, as well as a larger context to the history and reform of intergovernmental relations. The paper characterises Papua New Guinea as a ‘disorderly democracy’, and after presenting a brief political history of the country provides insight into political parties, elections, civil-military relations, institutional reform, as well as a discussion of decentralisation, before pronouncing on the state of democracy in Papua New Guinea.

In 1975, Papua New Guinea faced regional separatist movements in Papua and in Bougainville (North Solomons) Province. It was also experiencing the proliferation of a variety of ‘micro nationalist’ movements across the country. In part, to appease the demands of separatist activists on Bougainville, in 1977, Papua New Guinea introduced a system of provincial government, with elected assemblies, based on the country's nineteen administrative districts.

Papua New Guinea's experience with provincial government was mixed. Some provincial governments, especially in the New Guinea Islands Region, worked well, but in others, limited administrative capacity, nepotism, and corruption undermined performance. By 1994, fourteen of the nineteen provincial governments had been suspended at least once, mostly on grounds of financial mismanagement (although, in some cases, political competition between national politicians and provincial governments contributed to decisions to suspend).

From the latter part of the 1980, many national Members of Parliament, who saw their political support bases being eroded by provincial assembly members, were calling for the abolition of provincial government. They were frequently supported by members of local-level governments, who also saw their role being diminished under the provincial government system.

In 1995, the legislation under which the provincial government system had been set up was
replaced by an Organic Law on Provincial Governments and Local-level Governments (OLPGLLGLG), which abolished the directly-elected provincial assemblies and replaced them with provincial governments, comprising the national Members of Parliament from the province, representatives of the local-level governments in the province, and a limited number of appointed members to represent paramount chiefs (where such existed), women, and other sectors. The 1995 reforms were presented as a move to further decentralise political decision making to the local level. However, the net effect was to give national Members of Parliament more power, and as most local-level governments were in a state of advanced decline by the 1990, to recentralise policy making to the national capital.

Within five years, there was a widespread feeling that the new provincial and local-level government system was not working well, and in 2000, with two provincial governments suspended and a third facing suspension, Prime Minister Morauta announced that the system would be reviewed.


This book contains a collection of writings over the past twenty-five years by one of the most perceptive observers of Papua New Guinea. It covers a wide range of topics, including political style, micro-nationalism, political education, class, ethnicity, regionalism, political parties, Bougainville secession, and autonomy, *inter alia*.

Two chapters are devoted to decentralisation and provincial governments. ‘Decentralisation: Constitutional Form and Political Reality’ is based on the author's consultant report to the 1981 Committee to Review the Financial Provisions of the Organic Law on Provincial Government. ‘Decentralisation: Two Steps Forward, One Step Back’ chronicles the history of provincial governments, and provides insight into the decisions made at the time of their establishment, and assesses the 1995 reforms that fundamentally changed those arrangements. This latter chapter provides a narrative of the political background to the adoption of the new OLPGLLGLG, which the author sees as an attempt to centralise power in the hands of national politicians under the guise of furthering decentralisation.


McKinsey and Company was engaged in May 1977 to provide recommendations on the implementation of the provincial government system in Papua New Guinea. When the work on the study began, implementation of provincial government had run into severe problems. The OLPG had been passed and provincial governments were being formed, but there were administrative obstacles. There was scant agreement within the public service on organisational structures, and financial, planning, and personnel processes. The problems included unwanted concerns by public servants about their future, resistance to change and lack of cooperation among public servants in provinces and at the centre, and little decisive action at the centre.

Management of implementation was ineffective. Provincial affairs lacked authority to make other departments act, there were no overall plans, too few people were assigned to the various tasks, and committees met rarely and made few decisions.
This report proposed the structures and functions which still describe the current decentralised arrangements. Except for staff on major national projects, all provincial development public servants report to the provincial government. National development departments immediately devolve powers over most provincial public servants to the Ministry of Decentralisation, which holds these powers until provincial governments are ready to take over. A temporary ‘Office of Implementation’, with direct access to the Premiers’ Council is to be established. The report set out the organisation model of a full provincial government, with programs for each function in each province.

One of the key recommendations of the McKinsey Report was that decentralisation takes place as quickly as possible at the administrative level, and that this be done across the board, rather than function by function and department by department. The political decentralisation can then follow as various provinces elect to take over powers which they are entitled to exercise under the Organic Law. The ‘custodial’ role of the Ministry of Decentralisation would diminish as provincial governments assumed full responsibilities.


There are still many things that need to be done to reduce corruption in Papua New Guinea. A number of priority areas need to be attended to immediately to improve the fight against corruption:

- pressure from a wider community must be put on Members of Parliament to pass the Bill for the establishment of the Independent Commission Against Corruption. The media could play a bigger role in educating the voters to put pressure on their members to vote in favour of this commission;
- laws relating to increasing the powers of the Ombudsman Commission should be reviewed. This should be done with the view to giving more ‘teeth’ to the commission; and
- the interest and enthusiasm of the general public in the fight against corruption need to be strengthened and maintained. This can be done through media campaigns, the involvement of NGOs in awareness campaigns, and discussions and consultations with various sections of society. The media campaign should be further complemented by ensuring that those found guilty of corruption are prosecuted.

Corruption in Papua New Guinea cannot be discussed in isolation from development and politics. Explanations deduced from leaders dismissed as a result of misconduct and misuse of public funds alleged that their actions resulted from attempts to address, if not fast track, wealth-generating development activities in their electorates. This further enlightens the fact of widening disparities in development between ethnic groups, and different geographical areas.

The immediate question is that of how and why corruption is peculiar in Papua New Guinea. In the political arena, cases of corruption portray reasons pertaining to a political leader's desire to bring about immediate and visible development to his or her electorate, and especially those immediate to the leader. This justification also highlights a possible nexus between Melanesian communalism, personal greed, and development. However, these links could be rebutted, especially when traditional leaders were transparent in the distribution of wealth — a trait that is concealed in the dealings of today's politicians.

Related to this would be the misconception of politics as a means to personal wealth. This perception has historical validity. Absence of a strong indigenous capital base during
colonialism would have fuelled the business aspirations of politicians. A browse through Papua New Guinea’s political chronicles reveals an interesting trend. Politicians begin their political careers as ordinary persons, or civil servants, and graduate as business entrepreneurs, after their discontinuation from office.

Most medium-sized business activities in Papua New Guinea are owned, or partly owned, by politicians and ex-politicians. The emergence of politicians-turned-businessmen, or vice versa after 1975, and the difficulties in separating business from politics, had sent out false signals to aspirants to political office. Contesting elections has become a god-sent opportunity to wealth accumulation. Cases of diverting public monies into personal accounts, or into those of the politician's business associates, as cited in this report, allude to this assertion.

The absence of a developed indigenous capital base has provided a vacuum in Papua New Guinea’s economy, which, in turn, has impaired the government's bargaining position against the multinational companies. The national government, by default, has become the business entrepreneur to partner multinational companies in major development, and it is the dilemma of wearing 'two hats' that has compromised the government's neutrality. Its participation as guarantor and joint-venture partner has also facilitated avenues for corruption by exposing civil servants and politicians and making them vulnerable to bribes and commissions from foreign companies.

It is also an alternative to the market, as a producer and distributor of goods and services. Hence, businesses are conducted with government resources and through government institutions, guided by political prices more than market prices. Corporate clients of business houses are public officials and organisations. The balance of the market is secured through political affiliations and networks. These factors are susceptible to corruption and further make it difficult for business entrepreneurs pursuing political careers to separate politics from their business interests.

Finally, there is the issue of political exploitation of natural resources and 'generous' levels of aid in terms of ‘windfall’ incomes (economic rents) that have led to waste and corruption. Rent-seeking has subsidised the rise of a small political elite and overblown central government at the expense of investment in infrastructure and diversification of the economy’ (Windybank and Manning 2003: 2). The political arena becomes a goal for inside economic gain, rather than for the promotion of the public interest.

Papua New Guinea’s traditional culture does not sanction corruption, but it is its compulsion and its incompatibility with the bureaucratic and democratic norms and its abuse that denotes corruption. Skewing and manipulating proper tendering procedures to award contracts to family companies, or facilitating appointments with disregard to merit— carry implications of contrariety in the communal culture that exists within Papua New Guinean society. Payani's (2000) diagnosis of the composition of a country’s public sector alluded to a domination of one ethnic or provincial group depending on the provincial origin of an executive or the human resource personnel within the organisation.

Papua New Guinean culture is one factor that can give an explanation to the causes of corruption. While it can be argued that there are certain attributes of the culture which seem to be more compatible with corruption, this does not mean that Papua New Guinea has a corrupt culture. In many parts of the country, sharing and caring is synonymous with a clan leader or an elder of a family. Amongst traditional leaders, mobilisation and distribution of wealth are essential components of their responsibilities. Such activity further enhances their status in the clan or the tribe.
Corruption in Papua New Guinea happens at all levels of government and private organisations, although at a less alarming rate amongst private organisations. Elected leaders at almost all levels of government are also directly and indirectly involved in almost similar corrupt activities, but in varying degrees.

There are several categories under which the cost of corruption is discussed. The economic cost of corruption stands out as the number one category. In general, the economic cost of corruption is associated with decline in growth, as a result of bad investments. Public funds (including foreign aid), which elected leaders, access, are committed to capital spending on the premise that this would foster growth. On the political front, legitimacy and the integrity of elected leaders are disparaged to an extent that civil society has little or no faith in the government. In summary, it can be deduced from these cases that the cost of corruption falls on the taxpayers, the business houses, and ordinary Papua New Guineans. Public funds that are spent on politically expedient projects or diverted into private accounts only increase the poverty gap amongst Papua New Guineans.

Democratisation, decentralisation, and good governance have been some of the changes that have had a considerable impact on levels of corruption in Papua New Guinea. Democratisation has led to the opening of the State. Over the past decade, the level of societal participation, especially of interest groups, has increased considerably. Apart from mobilising their members and increasingly articulating their interests within society, these interest groups have joined forces, as in the Community Coalition Against Corruption (CCAC) and the Consultative Implementation and Monitoring Committee (CIMC), to influence the decision-making process of the government. The recent decentralisation reform has further allowed for transparency in the decision making process and the distribution of scarce resources to be determined at the community level.

On the other hand, democratisation has allowed for increasing pressures to be applied on the ailing state machinery. In many ways, this change opened avenues for increasing demands from society on the state machinery. While this would be legitimate, the acute incapacity of the State to respond to these demands facilitates opportunities for officials and recipients alike to disregard procedures, rules, and regulations.

The legislature in Papua New Guinea has not been very effective in performing its accountability function since independence. A notable feature in the legislature's relationship to corruption can be further assessed in the use (or abuse) of the Electoral Development Fund (EDF) — commonly referred to as the ‘slush fund’. It was initially a discretionary fund theoretically using the government’s tender procedures for minor works and projects in their constituencies. It was constantly abused, and the Ombudsman Commission has prosecuted a number of members over such misuse. The existence of this fund is very controversial as it is directly implicated in facilitating corruption. More than 90 percent of elected members who were dismissed under the leadership tribunal between 1976 and 2000 were found guilty on charges related to misuse of their EDF.

The media in Papua New Guinea is very vocal against corruption, and most of the public know about corruption and the practices thereof through the media. Civil society in Papua New Guinea is very much passive towards corruption. Overall, the centralisation resulting from the roles of Members of Parliament, and the absence of a separately elected provincial government (provincial governments are made up of presidents of local-level governments and MPs who are all elected, but not directly to the provincial government) diminishes local political accountability (even if it reduces levels and costs of additional political and administrative levels).
What needs to be done about corruption in Papua New Guinea must be deduced by understanding the complexities underlying the phenomenon. This automatically reinforces the need for an integrative approach. Corruption in Papua New Guinea is more of an attitude and behavioural issue. Reckless attitudes towards laws, especially the Public Finances (Management) Act, and the principles of prudent public administration underlying it are major traits underlying cases pertaining to corruption.

There is an immediate need to review and amend the Leadership Code, with special emphasis on eliminating the provisions for leaders to resign from office when referred to the tribunal. The length of time before entering leadership roles should further be extended to five years. The jurisdiction of the Leadership Code should be expanded to investigate and refer leaders for prosecution after their resignation to avoid tribunals. Other agencies, such as the Police Fraud Squad, need to be backed with capacity and resources. Most importantly, officers engaged in investigating fraudulent activities of a leader must be remunerated to be devoid of bribery. Their activities should be transparent and be monitored through affiliations and sharing of information with other anti-corruption agencies, especially the societal based agencies.


The Asian Development Bank’s (ADB) focus on improving the management of public financial resources, as advocated herein, while it may be seen as rather narrow in scope, given the wide-ranging nature of the findings discussed, is an important element in making sure that governments are open, accountable, and responsive to the community in the use of public resources for the common good. Development is a collaborative effort by Development Management Committees (DMCs) and the aid community. ADB’s assistance to any individual Provincial Development Management Committee (PDMC) is only a contribution toward the bigger pool of aid available to the country. It is expected that other development partners will continue to play important roles in supporting PDMCs to improve governance, especially in areas where they have ready access to specialised expertise and experience.

For example, it is clear that the change in approach to public financial management planning and control, that is proposed here, will need to be supported by strengthening capacity in public sector management, in terms of general public administration and human resource management, and in specific sectors. This is an area where other development partners in the region have provided considerable assistance to PDMCs. The ADB is confident that the aid community will continue the collaboration and coordination efforts that have been evident in recent years. The involvement of civil society and community groups in influencing the resource allocation process through constructive comments and participation would give substance to aspects of the Pacific culture that call for consultation, shared understanding, consensus seeking, and community participation. This is a small step towards integrating the modern and traditional systems of governance that will make government and the management of public resources understandable to ordinary citizens outside the elite groups that, to date, tend to dominate national planning and resource allocation decisions on economic and social development.

Although the establishment of clear processes, rules, and procedures in public financial management are essential, and compliance with rules is to be enforced, the need for flexibility within established boundaries must be recognised to achieve results and minimise inefficiency. It is also important to bear in mind that improving public financial management involves many elements that will require prioritisation and sequencing, as
resources are limited and capacity constrained. Thus, it will be necessary to effectively manage community expectations of benefits to be derived from the pain of reforms. Information and communications technology (ICT) tools have the potential to improve the transparency of government decision-making processes and reduce opportunities for corrupt behaviour by public officials.

At present, the poor and inadequate state of ICT infrastructure and facilities in most PDMCs renders the use of e-governance tools and techniques very remote for most of the population, in the period covered by this report. Improving governance is a long-term exercise, as good governance is not only a matter of good institutions and processes, but also of education and culture. Other development partners and regional institutions play important roles in improving the quality of leadership, providing civic education to youth and community groups, and other measures to enhance democracy and citizens’ rights. The ADB’s contribution to improving the management of public finances, for the purpose of expediting delivery of basic social services to the community through the strategic focus advocated here, should add to a more enlightened governance environment in the Pacific.


This article examines the impact of decentralisation on the performance of the health system. It is recognised that the time since decentralisation has been limited, and that there may be little evidence of its impact on health status indicators. Therefore, the study focuses on health service performance indicators rather than health status indicators. The study concentrates on maternal and child health service performance because these services directly affect high-risk population groups, and the data were readily available.

The basic hypothesis is that decentralisation should improve maternal and childhood health indicators. A model of statistical analysis measures the impact of resource factors, demographic factors, political factors, and decentralisation on the health system's ability to deliver basic health services for mothers and children. Measures of the delivery of services include the total number of institutional births, antenatal clinic coverage, and the level of immunisation coverage.

This study covers the period 1980 to 1986, with measurements for each year, for nineteen provinces. Results showed a general rising trend, starting in 1980 and continuing through the first year of decentralisation in 1983. Institutional deliveries over the next two years declined, before showing an upward trend again in 1986. Examining trends by region showed mixed results.

The main conclusion is that there was no clearly identifiable change in the trends with decentralisation. In fact, the number of institutional deliveries had been steadily doubling every ten years, during the previous 20 years. The Highlands Region had a rate of increase four times greater than that of the Momase Region, which indicated that health service performance was affected by other factors not evident from the data, and quite apart from any possible effect of decentralisation. There is an indication that immunisation coverage
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is not as high in those provinces with full financial responsibility. This could be an indication that health is not as great a priority in those provinces, as one would have hoped.

There is no solid statistical evidence that decentralisation resulted in the increased use of maternal and child health service performance in the post-decentralisation period. The differences in performance between different parts of the country are greater than any changes that have occurred within provinces or regions in association with decentralisation, which suggests that other factors are probably of greater significance.

The one obvious detrimental effect of decentralisation was seen in those provinces that decentralised their administration to the district level. Overall, decentralisation appears to have made little difference to trends in maternal and child health service performance indicators. Such changes as can be attributed to decentralisation have had a negative effect. Decentralisation in Papua New Guinea was supposed to enhance the opportunity for local health administrators to manage their resources in a way that is more responsive to local needs. Unfortunately, this goal has not been realised in many situations because the health administrators have lost control over their resources.


This paper explains the rationale behind the District Authorities Act that has been proposed by the author. The Act provides for the creation of a dynamic district administration structure within which local-level governments can participate in development, policy making, and wealth sharing. Our multi-tiered system of delivery of public services and national development programs is not responsive to our people's or nation's development needs. Services, development, and gainful wealth-generating opportunities have to be made more accessible to every man, woman, and child.

The objective of the Act is to establish authorities to implement the principal administrative functions of the OLPG, as specified under the Local-level Governments Administration Act 1997. The underlying intentions of establishing district authorities are to assure that:

- government funding and development resources will reach and directly benefit populations residing within a defined district boundary;
- elected leaders of the people, including council presidents, the MPs in respective open electorates or districts, and representatives of churches, women, and chambers of commerce, together with the district administrator and district treasurer as ex-officio members, will participate in determining priorities for the allocation of development funding, and overseeing management control and the distribution of resources in order to accelerate improvement of the standards of living of the people;
- an objective and result-driven administrative structure is developed for the effective, equitable, and efficient delivery of public services, government resources, and development projects to populations living within the district or open electorate;
- district and local-level government decision makers, the local Member of Parliament, and other stakeholders and development partners have the opportunity to participate directly in making policies and decisions that determine the development agenda of their district and local-level government area.

The district authorities will be supported by structural units that are similar to the joint district planning and budget priorities committees chaired by the open Members of
Parliament, and will meet twice in each three calendar months.


This discussion paper analyses the relationship between the three levels of government in Papua New Guinea. The Constitutional Planning Committee had emphasised the need for strong links between the national government, provincial governments, and villages, and attached great importance to government at the village level. Provincial governments were considered better placed than the national government to devise forms of local-level government that were suitable to the different localities. This led to a situation in which the powers, functions, forms, and even the resources of local-level governments are determined by individual provincial governments. Therefore, many of the problems and issues of local-level governments largely depend on the capacities and peculiarities of the individual provinces in which the particular local-level governments are located.

The formal-legal position of local governments under the Constitution and OLPG is described in detail, confirmation that local-level governments have a very weak constitutional position. The result of this is that whatever guarantees there are for the existence and role of local governments is to be found more in the realm of politics than law. Also, the performance and usefulness of local-level governments depends on the capacities and policies of the individual provincial government under whose law they operate. The existence and role of local-level governments hinges on the extent to which provincial governments see them as useful political and administrative bodies. There is an array of powers at the disposal of the national parliament and national government to thwart any attempt by a provincial government or assembly abolish local-level government. They are the power to disallow provincial laws, the authority to amend provincial constitutions, and the authority to suspend provincial governments.

On the whole, the national government and politicians have inherited the mantle of the national bureaucracy's antagonism towards the provincial government system. In contrast, such antagonism is rarely shown by national politicians towards local-level governments. Rather, the difficulties of the third level of government are a favourite ground for national politicians to berate provincial governments for ‘incompetence’.

The real lessons from these observations are that:

- national politicians are not well disposed towards provincial politicians;
- similarly, at best, there is only a sort of love-hate relationship between provincial and local-level government politicians;
- provincial politicians are much more likely than national politicians to call for the abolition of local-level governments; and
- national politicians most probably would defend local-level governments in any fundamental confrontation between the second and third levels of government.

In such an atmosphere, national politicians may be inclined to regard the provincial level of government as a nuisance, or, at best, a necessary evil. In that, possessing the powers and authority to visibly discharge micro-functions of immediate concern to the electorate, at both the provincial and local levels, provincial governments may be seen by national politicians as an unnecessary intermediate layer between them and their electorates, and thereby obfuscating the usefulness of national politicians in the eyes of the voters.
The study provides a detailed description of the sharing of powers between local-level governments and the two other levels of government.


Local government in Papua New Guinea is situated in the context of culture-contact as a background to an extensive and detailed study of all aspects of local government from the early 1960s up to the mid-1990s. It is related to the overall goals of decentralisation and the growth of democratic institutions in Papua New Guinea. This work provides a comprehensive source of information on the history of local government, its role in local-level decision making, its financial basis, its structure and administration, and the personnel comprising this level of government.

A major part of the work is devoted to the analysis of local-level government within the larger context of decentralisation in Papua New Guinea, where its place in the three-tiered system of government is examined in detail, providing a keen insight into the complex relationship among national, provincial, and local-level politics, finance, and administration. The individual chapters on financing local-level government, administering and managing local-level government, and human resources of local-level government provide rich, stand-alone sources of information on each of these topics.

The monograph is a study in change and continuity in the effort to inculcate liberal-democratic self-determination and government at the local level in Papua New Guinea. The terminal date of the study is 1988, and consists of two parts. Part A deals with the development of local-level government during the second of our three phases (periods), while Part B discusses the developments thereafter, and up to 1988.

On the whole, since the mid-1970s, such has been the preoccupation with matters relating to the provincial governments that research and debate on decentralisation have been conducted as if local-level government had been an afterthought, if not a red herring.

In contrast to this paucity of coherent and systematic information and debate on local-level government, there has been an avalanche of research monographs, books, articles, massive legislation and regulations, tomes of consultancy and commission/committee reports on national-provincial relations, and on provincial governments.

**The Scope of the Study**

This study is intended to help fill an unfortunate vacuum in the general political and constitutional debate in the country. The development of local-level government in Papua New Guinea has gone through three more or less distinct and yet (in some respects) overlapping phases. The first began with the passing of the *Native Village Councils Ordinance* 1949 (No. 11 of 1949), and terminated at the end of 1964. Throughout that period, the local government councils only had jurisdiction over indigenous Papua New Guineans. The second period was ushered in by the *Local Government Ordinance* 1963 (No.16 of 1964), which repealed all previous legislation on local government, and came into effect in January 1965. It ended with the passing of Constitutional Amendment No. 1 (ss.187 A - 187 J of the Papua New Guinean Constitution), and the Organic Law on Provincial Government in 1977. The former legislation provided for the establishment of provincial governments, while the latter defined, in some detail, their powers, functions,
Part 2: Unofficial Documents

procedures, resources, and relationships with the other levels of government. This was the period in which the foundations of the main political and administrative institutions and practices of the post-independence period were laid. The third period started in 1977 with the establishment of provincial governments and the beginning of a quasi-federal political system. Since 1977, the provincial governments have had the constitutional power to establish forms of local-level government that were suitable to the characteristics and needs of their areas, if they so wished.

As a political means for the indigenous populations to take final decisions on matters of local concern, the role of the local government councils was more apparent than real. At best, the indigenous councillors usually only supplied part of the information upon which final decisions were taken by the national government's institutions and officers, so to say, in the name of the councils. Therefore, the councils served largely as 'consultative' bodies to the national government regarding policies and programs that were suitable to the various localities.

The institutions, procedures, and norms of the local government system were alien, and being, in many respects, also at variance with traditional ones, for a considerable time the system encountered some resistance from sections of the indigenous population. As long as this was so, the local populations had to not only develop (from scratch) the capacity to operate the local government system, but also learn to accept it. Therefore, given the general ignorance of the people about the local government system, a complex situation arose in which the national government was basically using the councils to attempt to find popular acceptance for its own policies regarding local administration, instead of the local communities using them as a means for local self-determination and decision making.

Although in the ten-year period before independence the law seemed to have given to the local government councils what might be considered as a sufficient range of sources of finance, the only really feasible, internal source of finance was the head tax. However, for both political and practical reasons, the head tax was very difficult to administer.

In the light of the difficulties of independently raising their revenues, the idea — which persisted and lingered for a long time — that the local government councils somehow should be financially self-sufficient, was clearly unrealistic.

Up to the time of independence, the prospects of obtaining qualified local government personnel in sufficient numbers were still not encouraging. Training and employment in the local government service tended to be seen by the officers as a stepping stone to 'better' careers elsewhere. The local government councils were what may be called 'residual' employers. Their officers seemed to be mainly either the newly qualified ones, who had not yet had time to seek employment elsewhere, or those waiting to take advantage of the training opportunities that came with working with the local government councils.

The impressive political emphasis in Papua New Guinea on decentralisation has been (and still is) expressed in constitutional arrangements that can best be described as a unitary political system, with very marked tendencies towards federalism. Within this set of arrangements, local-level governments; that is, the third level of government, have been made the primary responsibility of provincial governments in a way that provides them with no separate identity from the provincial governments in the sharing of powers, functions, and resources among the levels of government.

One major consequence has been that the existence of the local-level governments seems to depend critically on the policies and even perhaps dispositions of individual provincial
governments. However, despite the unease and love-hate relationships which often tend to develop between them and their local-level governments, it would be impossible (especially for practical political reasons) for the provincial governments to abolish the third level of government, as such, even if they so wished. The constitutional laws give the provincial governments almost completely unfettered freedom to determine, and establish, forms of local-level government in line with their own policies, and which are suitable to the peculiar conditions of their localities.

On the whole, the provincial governments depend substantially on financial transfers from the national government. The overwhelming proportion of the transfers is accounted for by the Minimum Unconditional Grant (MUG). However, as the MUG funds can barely satisfy the purposes for which they are granted, and the proceeds from the provincial internal sources of revenue either are generally very small or increase at a slow pace, it seems that the provincial governments hardly have significant 'uncommitted' funds or dispensable sources of revenue with which they may offer financial help to their local-level governments.

In considering the financing of local-level governments in Papua New Guinea, the following crucial points should be borne in mind. First and foremost, the constitutional laws do not assign specific sources of finance to local-level governments, as such, but to the provincial governments. As the jurisdiction of the local-level governments (almost all of which now operate under provincial laws) does not exceed that of the provincial governments, their internal sources of finance cannot go beyond those constitutionally available to the provincial governments themselves. As a result, it has been possible for the provincial governments to assign to local-level governments only paltry internal sources of revenue. Consequently, local-level governments have had to depend very heavily on grants from their respective provincial governments (and to a very limited and insignificant extent, from the national government) for funds.

Administrative efficiency has not proved to be a particularly strong point with local-level governments. One general strategy to help local-level governments is the emphasis on devising structures and processes to coordinate activities in the outstations:

"The council system introduced in Papua New Guinea was based on the system existing in Australia ... and was, therefore alien to the vast majority of Papua New Guineans. It was not an expansion or variation of the traditional political systems already in existence in the country but a completely new system imposed from outside. Consequently, it has not been easily understood by the people and has often conflicted with their traditional political systems" (Conyers 1976a:4).

In general, political terms, the local councils were envisaged as an important means to inculcate Western liberal democracy, local self-determination, and self-reliance among the local communities. They were also aimed at improving effectiveness and efficiency in the governmental delivery of goods and services at the local level. In that, they were expected to be more sensitive to local needs than the higher levels of government.

The structures were based exclusively on the principles and practices obtaining in Australia, as adapted to suit Papua New Guinean conditions:

- the councils comprised popularly elected members;
- decisions were by majority vote;
- accounts and various reports had to be made and presented;
- committees were set up;
• minutes had to be written; and
• complex meeting procedures and standing orders had to be adhered to.

The powers, functions and responsibilities of the councils were far beyond the capacity of the inhabitants of the rural areas. The system demanded a certain level of administrative, technical, and managerial skills as well as economic and financial resources that were not readily available in the rural areas.

Not being formally linked in any way whatsoever with the various local political cultures and traditions, the local government system was, at least initially, not only alien and complex, but also incomprehensible to the vast majority of Papua New Guineans. Although this situation has in some respects improved since independence, and provincial governments now have primary jurisdiction over local-level government matters, the issues relating to local-level government are basically the same as they were before independence.

The role of the provincial governments has meant two main things. First, after a provincial government has 'exhaustively' provided for its local-level governments, the national government ceases to have jurisdiction over local-level government in that province. Second, it means that the local-level governments, which are exhaustively provided for by the provincial governments, may not have jurisdiction beyond what is constitutionally available to the provincial governments themselves. As a result, the initiatives to address the issues of capacity, efficiency, local self-determination, and popular acceptance or political legitimacy have had to come almost exclusively from the provincial governments.

A few provinces have devised what they call community governments, which are expected to take account of local political cultures and traditions, and traditional group identities. In this way, the community governments are intended to be simpler than the system, as inherited from the Australian colonial administration, and are also envisaged to elicit greater political understanding and support from the various peoples. However, our conclusion has been that the community governments have not proven to be any more politically acceptable or simpler than the local government council systems. The view that the local-level governments should be self-sufficient in resources has to be substantially discarded as unrealistic.

It should be emphasised that dependence on the higher levels of government for resources does not necessarily detract from the essence of local self-determination, either in Papua New Guinea or anywhere else in the world.

It is increasingly the practice that provincial grants are earmarked, not simply for such items as feeder roads and bridges, aid posts, classrooms, salaries and wages, per se, but also because they require that the specific projects and items be identified prior to the approval of the related grants. In this way, the tradition of tied grants initiated by the pre-independence Rural Improvement Program grants system has been extended to cover a wide range of the policies and activities of the local-level governments, with a view to curbing the tendency on the part of the local-level governments to sometimes 'arbitrarily' change projects, programs, and expenditure patterns during the course of the fiscal year. Moreover, in the process, the provincial governments have the opportunity to assess the feasibility of, and confirm or reject, a good proportion of the activities of the local-level governments.

Another example of the attempt to place greater emphasis on the efficient administration and management of the local-level governments, rather than on their leeway to make
independent decisions, may be found in the many efforts being made to coordinate policies and activities in the districts.

Given this situation, perhaps the most feasible way to deal with the issue of personnel is to establish provincial, local-level government services, which are managed by either the divisions responsible for local-level government, or preferably by autonomous provincial boards or commissions. These may then be in charge of employment matters (recruitment, placement and transfers, appraisals and promotions, and discipline), remuneration, training, working conditions (including housing and the general workplace environment), employment services (pensions, gratuities, sickness benefits, long-service allowances, and the like), and the management of conflicts (strikes, bargaining, arbitration, and conciliation).

The capacity to operate the local-level governments and the will to support them have not been readily forthcoming in many of the rural areas. Therefore, the provincial governments have had to devise strategies and schemes to improve the capacity of their local-level governments, as well as foster and sustain political support for them.


This book provides a detailed account of the structure and function of the criminal justice system in Papua New Guinea and its performance in the control of crime and the administration of justice. It connects the weak political economy to governmental inefficiency, and the state’s inability to control crime and uphold the rule of law in this post colonial society. However, the long-lasting impact of the negative effects of nearly a century of colonial rule beginning in 1884 (during which time the country was subjected first to British, then German, and finally Australian control), and ending with independence in 1975, has been somewhat understated. In addition, notwithstanding the devastating impact of the International Monetary Fund (IMF) and World Bank’s structural adjustment programs in almost every developing country in which these multilateral lending institutions are involved, the book champions the role that these agencies can play in the regeneration of Papua New Guinea’s economy and the alleviation of poverty, which can be expected to have a positive impact on crime prevention and control. The book provides the reader with an engaging discussion of the social, political, economic, and legal contexts in which crime occurs and crime control measures are implemented in Papua New Guinea.

Relying on a variety of sources, including official reports, criminal justice data, newspaper reports, and anecdotal evidence, it paints a picture of an underdeveloped country with a devastated economy, an inadequate social and political framework, and a rapidly increasing, culturally diverse, and largely uneducated population, alienated from a government that is plagued by incompetence and corruption. Despite the fact that the country is rich in natural resources, only a very small percentage of the population benefits from the wealth that is generated. Governmental mismanagement of the country’s resources, fraud, and corruption have resulted in a large and impoverished rural population, political and tribal violence, and the demise of the rule of law.

Papua New Guinea is characterised as a ‘violent and dangerous place’ and crime statistics show dramatic increases in interpersonal violence (murder, sexual crimes, and grievous bodily harm), robbery, car theft, firearm offences, and drug-related offences between 1980 and 1998. These trends are very similar to those of many other developing, post-colonial states where no systems were put in place during the colonial period for managing the
demands of rapid population growth, urbanisation, and modernisation, following independence. Apart from economic stagnation and decline, the most intractable problem facing these ‘new’ democracies tends to be the inability of the governments to maintain social order and to provide for the safety and security of their citizens. Combined with the lack of public security resulting from inadequate and ineffective law enforcement, corruption, and insufficient resources, the situation in Papua New Guinea is exacerbated by the concurrent administration of justice under customary law and practices, and those established under the colonial legal system that was based on the Westminster model.

The negative effects of weak political leadership, an underfunded judiciary, and the failure to implement effective strategies to fight corruption in the police force and other criminal justice agencies are discussed. Many examples are provided of fraud and corruption by political operatives and criminal justice agency officials and of fraud-prevention initiatives that are inadequately funded and enforced.


This article, by the then premier of Manus Province, constitutes a plea, on the part of the more advanced provinces, to be granted a greater degree of autonomy.

Given the diverse characteristics of Papua New Guinea and the important role that the provinces play in the affairs of the country, granting greater autonomy to the provinces would be a fitting development strategy. Current political and administrative practices clearly demonstrate that the needs of the country cannot be met by a system that concentrates power and authority with the central agencies. The provinces have the basic infrastructure to exercise greater autonomy in generating revenue, controlling resource development, establishing development needs, determining the allocation of resources, and implementing plans and programs.

Political insecurity caused to the members of the national parliament by the members of the provincial governments who were 'in touch' with the people fuelled moves to reform the system. This was eventually achieved in 1995 with the enactment of the Organic Law on Provincial Governments and Local-level Governments, and the repeal of the original Organic Law on Provincial Government.

Even though the new law is supposed to strengthen the system of provincial and local government, the new system effectively gives greater power to the central agencies. The control of finances, staff, and legislative processes remains with the national government. In the name of 'national interest', the Government can legislate on matters which should be the responsibility of the provincial governments and local-level governments. The provision of services is further challenged by the rugged and remote nature of the country — a situation as true today as it was during the period of colonial administration.

Papua New Guinea's diversity, combined with the colonial legacy, gives credence to the desire for greater autonomy. This was realised very early on, when the embryonic national leadership embraced the decentralisation of powers. Experience has clearly demonstrated that Papua New Guinea cannot be effectively administered, managed, and developed by a centralised system of government. The emergent sociopolitical culture has imposed new parameters that must be recognised and managed. The provinces provide the basic functional units for the development of the country. Over the years, they have also become politically distinct from one another. People identify themselves with the provinces from
which they come. The issue of equal participation takes provincial representation into account.

Provinces should be given greater autonomy to do what they can, without being held back by the national government. Greater autonomy could increase opportunities and allow services to reach a greater number of communities throughout the country.

Autonomy means being responsible for as many functions as possible. The role of the national government should be one of support for the provinces, and be limited to national security, monetary and fiscal areas, and foreign affairs. Provinces should effectively govern, administer, legislate, generate revenue, determine and fund policies, and develop natural resources in their respective jurisdictions.

Granting greater autonomy to the provinces would require changes to the Constitution and the Organic Law. Individual provinces, or two or more provinces, if they so decided, should have their own constitutions; laws that provincial governments have powers over and which should not be altered or removed by the national government; raise their own revenue; and power and control over investment in their territories, including the development of natural resources. Such autonomy would affirm that political power originates from the people; people maintain complete control over the land, sea and resources; every part of the country would have equal opportunities to develop; and autonomous units of development would stand a better chance of meeting the challenges brought about by rapid changes.

The Organic Law should limit itself to the framework and generalities of the political, constitutional, and administrative system. In order to empower the people, the provinces must be empowered as the political and administrative units. This would create greater opportunities for more people to effectively participate in the development process that directly affects their lives.


A brief discussion of the relationship of decolonisation and decentralisation in Papua New Guinea.


This article argues that there is no simple (or even complex) uniform model for fiscal decentralisation in Africa. Each country has to devise its own strategy. The article proposes an analytical framework to help countries consider how to structure fiscal decentralisation. It presents the main decentralisation instruments that are available—allocation of functions and revenues across the levels of government, development of intergovernmental transfers, institution of central monitoring and control mechanisms, and the institution of electoral rules. It then examines the various objectives that will be served or impacted by these instruments, including economic efficiency, macroeconomic stability, interregional or interpersonal equity, and political efficiency. Selected impacts are reviewed and illustrated to demonstrate how an understanding of these issues in each country is a prerequisite for designing appropriate decentralisation.
The decision to decentralise in Papua New Guinea was stimulated by the crisis of Bougainville secession, which was resolved by the decision to entrench provincial government in an Organic Law. After some stalling, the McKinsey consultants' report in 1977 proposed that decentralisation take place immediately, but be implemented in stages. Lack of capacity in provincial governments led to the concept of full financial responsibility, which allowed only the better run provincial governments to have control over the main sources of funding.

There was some vocal pressure to create additional provinces, mainly from Western, Eastern Highlands, East New Britain, and Western Highlands Provinces. The Motu-Koitabu in the National Capital District also felt that they were disadvantaged by having no province of their own. In 1981, when a number of separatist claims were being strongly pressed, the National Executive Council (NEC) made a policy decision that no new provinces were to be created for the time being.

The alternative concept of regional government had been firmly rejected by the Constitutional Planning Committee in 1974. The main proponent of regional government was Iambakey Okuk, whose main criticism was the expense and administrative burdens he saw being created by nineteen new governments, and the poor performance of many of them. While regional government is no longer an issue, there is growing cooperation among the provincial governments in each of Papua New Guinea's four regions.

The chapter describes of the structure of provincial government and the division of powers between the two levels of government. It also lays out the legal bases of provincial government and describes the funding arrangements, as well as the early attempts at reform of fiscal arrangements.


This paper examines the development and operation of several mechanisms which have resulted in increased central control over funding for provincial activities, often in ways that are contrary to, or at least outside, the terms and the spirit of the Organic Law. The paper illustrates the difficulties involved in using legislative change to redistribute power and resources, especially if powerful groups and institutions are not committed to or oppose redistribution. The paper also shows that the development and operation of the control measures have been part of a more general movement of power back to the national government. The financial arrangements examined in this paper have brought a significant proportion of the funds allocated to provincial activities under a high degree of national government control. That control is largely achieved by the national government allocating such funds to national government created public service departments in each province, rather than as grants to the provincial governments themselves. Funds appropriated under Divisions 271 to 290 of the annual national estimates of revenue and expenditure are allocated to provincial activities and accounted for by provincial staff, but those funds also have to be accounted for as national department funds and so must be kept completely separate from funds allocated under the provincial governments' own budgets.

The financial arrangements represent a significant diminution of the degree of financial
independence for provincial governments envisaged by the Organic Law and that the growth of national control has had wide-ranging effects. The outcomes include: increased power of provincial bureaucrats at the expense of provincial politicians; increased national control of provincial bureaucracies; and widespread planning and administrative problems for provincial governments. As a result there are good practical reasons for changing the arrangements. In addition, the arrangements are contrary to the Organic Law, and hence illegal.

If a provincial government system is to continue to function in Papua New Guinea, there are good reasons for ensuring that at least the better managed provincial governments have a reasonable degree of fiscal independence. Further, the experience of some provinces shows that with sufficiently trained personnel and reasonable revenue, provincial governments can bring about improvements in planning and administration of government activities and projects.

The Specialist Committee Report ruled out the possibility of major changes and instead emphasised the need for consolidation of present arrangements. In these circumstances successful 'tinkering' may nevertheless be a significant step forward.


This paper provides a detailed analysis of the process whereby Bougainville became autonomous, tracing the concept of autonomy from the earlier years of provincial government, through the 1990 report on provincial autonomy, to the establishment of the Autonomous Bougainville Government. Although it focuses on the financial aspects of autonomy, the conflict and peace negotiations provide a background to the discussion.


This collection of original chapters provides a comprehensive study of all aspects of Bougainville preceding the conflict of the 1990s.


A paradigm linking public sector decentralisation reforms to poverty reduction via improved local governance and development has provided the rationale for donor support of decentralisation and parallel efforts to build local government capacity. This article considers the paradigm and reviews modalities of external aid to decentralisation, highlighting key limitations and contradictions. In spite of much rhetoric, decentralisation remains marginalised in a donor-government policy dialogue dominated by macroeconomic and sectoral issues. Compartmentalisation within major aid organisations of the expertise and responsibilities to support administrative reforms, sectoral assistance programs and community development projects, produces fragmented and competing
Part 2: Unofficial Documents

Interventions that do not address — and even retard — the systemic changes needed to advance decentralisation. New and more effective partnership arrangements between decentralising governments and their external partners are necessary to link ‘downstream’ assistance to local governments to ‘upstream’ development of the national decentralisation reform framework, and to help manage a gradual and strategic approach to implementation of the reforms. Donor support to ‘decentralisation policy experiments’ may provide a new model for policy dialogue and the basis for building more effective partnerships.


A discussion of the problems related to implementation of decentralisation among developing countries by two of the most important authorities on the question of decentralisation and development.


Political governance is essentially about managing the State, establishing a practice of accountability to the people, and promoting a sense of nationhood. It includes the process of electing leaders to office, the interface between the political and bureaucratic arms of government, the strength of oversight bodies such as the judiciary and the ombudsman, and the role of civil society in influencing the quality of governance.

Key political governance issues of concern in the Pacific include:

- persistent political instability in some countries;
- a trend of weak parliaments;
- corruption;
- weak executive governments; and
- the often encountered failure of institutions of good governance, such as the auditor-general and the ombudsman.

The causes of poor political governance are deep and often institutionalised and include:

- the complexity of governance institutional structures, often beyond the country's financial and management capacities;
- the inability of such structures to take adequate account of local leadership tradition and effectively integrate customary political structures;
- a weak sense of nationalism, especially in some Melanesian countries;
- inadequate sanctions for poor leadership or incentives for strong leadership;
- the general inability of civil society to hold leaders accountable; and
- underrepresentation of women in political governance.
Some significant influences on governance in the region include:

- increasing pressures within countries for devolution and autonomy;
- increasing activism on the part of civil society in its calls for better governance; and
- regional and international expectations, which have become important in the current globalised context.

As 2020 approaches, governments need to focus more aggressively on addressing the issue of political governance or run the risk of further lags in social and economic growth, and even the possibility of disintegration for some countries. Strategies for promoting better political governance generally fall within two categories — the 'supply' side of governance, and the 'demand' for better governance. To strengthen the supply side of political governance, some important strategies that can be adopted include systematically strengthening three groups of key governance institutions — the electoral system, parliament, and oversight bodies; the executive government and public service; and local government's integration with customary or traditional community leadership. In addition, much more can, and should, be done to support greater representation of women in political governance positions, and to build a sense of nationhood.

As important, if not more so, are the strategies that address the demand for better governance. These include enhancing the role of civil society organisations in holding government more accountable for performance, promoting the role of academia and the press in pressuring for better governance, and encouraging the private sector to engage with political leaders in more effective ways. While much has been done to strengthen the supply side of political governance, much more can be done to encourage greater demand for better political governance.

A 2020 vision of effective political governance in the Pacific region might include:

- vibrant and transparent electoral systems that offer opportunities for strong, nationwide political parties to be elected on clearly enunciated mandates that are openly debated;
- parliaments that function effectively and provide a strong oversight of the executive;
- judicial, and other oversight bodies that are well-funded and work effectively;
- truly accountable executive governments that encourage robust debate on policies, support a merit-based public service, and are open to being accountable to the public;
- genuine partnerships between the leadership and the people, with civil society and the private sector given greater access to information and a larger role in working with government to enhance progress; and
- governments that are open to dialogue and trade with regional and international partners, working constructively for greater regional integration and cooperation for mutual benefit.

Experiences in other parts of the world have demonstrated that enlightened leadership, supported by a vibrant civil society, can change the path of a nation. There is no reason why it cannot also happen in the Pacific. Pacific countries are therefore at a crossroad, with two very clear directions to take. In large measure, the decision on which direction to take lies with the current leaders of these nations and their citizens. The countries can embark on a determined and committed journey to more effective governance, or allow the status quo to continue. However, if the leaders of these nations openly accepted the challenge of moving forward quickly and decisively on strengthening and reforming political governance, and called for the active participation of the citizens in this endeavour, many of the Pacific nations could look positively different in 2020. We could then look forward
to a region living up to its enormous potential and rewarding its talented peoples with the opportunities that they deserve.


Throughout Melanesia and many parts of the Pacific, systems of government continue to be reviewed and restructured. Decentralisation of state powers and responsibilities from the national to provincial and lower levels of government is a recurring theme. The major rationale is that it is both more democratic and more efficient to locate decision-making powers closer to the people. A good deal of thought and effort by government planners and constitutional ‘engineers’ has gone into central-local relations, particularly into the division of powers and financial arrangements between the two levels.

From one country to another, the resulting models of decentralisation have varied considerably. In all of this effort, however, surprisingly little attention has been paid to the nature and shape of local-level government. In the years since independence, it is clear that, in many Pacific countries, local-level institutions have decayed and the quality of their governance has deteriorated. In light of the apparent inability of national governments to provide stability, consistent services and good governance, the demand for the reform and strengthening of government at the local level is increasing.

In May 2003, the State, Society, and Governance in Melanesia Project hosted the local-level governance in the Pacific workshop at The Australian National University. This discussion paper comprises the papers presented by two key speakers, Dr Penelope Schoeffel and Professor Mark Turner. Taken together they provide insights into models, structures, and processes of local governance, and how these might be developed in countries where governmental systems are under review.


Thirty years after independence, Papua New Guinea is looking increasingly fragile. After a good start, the state's authority and capacity has gone into decline. Average health and education levels are improving only incrementally, if at all. HIV has begun to spread at an exponential rate, with disastrous economic and human implications. The natural resources upon which the economy depends appear to be running out. Increasingly avaricious politics, violent elections, corruption, and the ascendancy of organised crime are all causes and symptoms of the problem.

However, the news is not all bad. Papua New Guinea has undertaken important economic and constitutional reforms, and the Bougainville conflict has been resolved. Unfortunately, these positive developments are insufficient, on their own, to counter Papua New Guinea's negative trajectory. Unless this is reversed, Papua New Guinea's democracy will become less liberal, criminal influence will grow, public order will deteriorate, more local groups will go their own way, and Papua New Guineans will become poorer, hungrier, and sicker. However, there is little likelihood of large-scale violence, overt secessionism, a coup, or an outpouring of refugees. The hope that Papua New Guinea could leapfrog from a multitude of micro-societies to a unitary liberal democracy now looks overambitious. The top-down approach that Papua New Guinea's governments copied from their colonial predecessor has not worked.
Reforms, including the legislative manufacture of political parties (less promising), and the introduction of limited preferential voting (more promising) provide some guide. More fundamental reform, including separating the executive and legislature, and the use of electoral colleges should also be considered. Decentralisation is unavoidable in such an ethnically and geographically fragmented country. The de facto decentralisation which has accompanied the state's weakening provides some basis for rethinking the current system. A better-designed system could make government more flexible, efficient, and accountable.

In 1995, Papua New Guinea effectively abolished provincial government as an independent institution, replacing separately elected legislatures with an assembly dominated, in most cases, by the member representing the province (the 'regional' member) in the national parliament. Although the 1995 reforms increased the theoretical powers of local-level governments, because of inadequate funding and weak capacity, they have not become any more powerful at the local level. The 1995 reforms coincided with the deterioration of provincial service delivery, and although they had broad support at the time, the reforms are now widely regarded as a mistake.

It is far from clear that the problems with provincial governments have disproved the potential benefits of decentralisation in Papua New Guinea. In retrospect, the gap between provincial government and national government performance in the earlier period was perhaps not as great as was once thought.

The CPC failed to fully anticipate the inherently competitive relationship between the national government and provincial governments, hoping instead for the emergence of cooperative relationships in accordance with 'Papua New Guinean ways'. It did not clearly define the powers and responsibilities of each level of government but allowed for substantial overlap in the hope that an appropriate division would evolve, over time. The lack of a clear division has made it easier for each level of government to evade responsibility. The division of finance was, by contrast, overly complex. The fact that it was only understood by a handful of technocrats made it easier for the central government to avoid properly funding the provinces. These problems were only compounded by the hastily drafted 1995 reforms which have added more confusion over the rights and responsibilities of different levels of government, again making it easier for each level to avoid responsibility.

The energy devoted to ‘keeping the regional genie in the bottle’ may not only have been unnecessary, it may have been counterproductive. If regional or ethnic loyalties do not threaten the state's existence, and have even underwritten its democracy, it should be possible to realise more of the positives that traditional groupings can offer. Broadly speaking, there are three ways in which Papua New Guinea can negotiate its ethnic heterogeneity:

- attempt to manufacture a new national identity to supersede the old ethnicities, which is unrealistically ambitious;
- encourage greater cooperation between ethnic groups; and
- create political units that better match traditional units, which is the rationale guiding many federations.

Aligning modern and traditional political units can create zones in which indigenous norms, including controls on behaviour, can effectively operate, and more importantly, adapt. Finding a positive way to reconcile and combine the traditional and the modern is the fundamental cultural challenge facing Papua New Guinea. Decentralisation offers the
possibility of a less ambitious, but more realistic, approach to nationbuilding, with subnational groupings providing the building blocks. The challenge would be ensuring that this bottom-up approach does not get stuck on the ground floor.

A frequent objection to decentralisation is that it produces government which is too large and too expensive. It has been estimated that provinces spent K40 million on politicians and K5 million on rural health services in 2003. Subnational governments around the world find it harder to attract quality personnel. Papua New Guinea's shortage of skilled bureaucrats was — and still is — felt even more acutely at the subnational level. Subnational government can also be more susceptible to corruption, and not just because of weak capacity. Local government personnel are more likely to have personal connections with constituents which can compromise their professional duties. Poor competence and corruption are the main downsides to moving government closer to the people, and these problems need to be confronted directly. Robust systems of decentralisation also tend to enhance government transparency and to increase flows of information between government and citizens very markedly, in both directions.

A less frequently discussed benefit of decentralisation is the creation of checks and balances. This function assumes greater importance where national institutions fail to hold government accountable, as they have in Papua New Guinea. Accountability is best ensured through political competition, rather than technical measures. The real political divisions in Papua New Guinea run along ethnic and regional lines. The potential of provincial governments to check and balance the national government was demonstrated during the period before 1995. The emergence of provincial government as an alternative site of power, if not yet quite a check on power, was responsible for much of the hostility it attracted from the national government. This capacity was lost in 1995 largely because of the tendency of provincial (regional) members, who have since then doubled as provincial governors, to spend most of their time in Port Moresby, where they are inevitably drawn into the 'great game' of national politics.

A relatively simple change would be to repeal the 1995 law and reconstitute separately elected provincial governments. At the very least, national parliamentarians should be removed from provincial government. The current push to establish a separate 'Hela Province' in Southern Highlands is only the most recent example of subprovincial secessionism in the Highlands Region. This movement is partly an attempt to grab more resources, both from the local natural gas revenues and the creation of a new governmental body, but it also reflects genuine historical animosity between the Huli and their neighbours.

Papua New Guinea's post-independence governments have mimicked their colonial predecessor. However, in doing so, they have not provided strong unified leadership or economies of scale. The national government has often absorbed resources, rather than redistributing them. Its remoteness has made it less accountable, and hence, frequently self-serving. A more realistic approach would recognise that Papua New Guinea can only be built from the ground up.


In this study, Scott discovered that many districts are run in a very uncoordinated way, despite the millions of kina going to the districts every year. The appointment of district managers is one problem and as a result has affected the coordination and delivery of services at the district level.

The study provides an extensively detailed description and analysis of the 1995 reforms that resulted in the establishment of the revamped decentralised system, as set out in the OLPGLLG.

According to the NMA Draft Handbook, the perceived problems that the reforms sought to address related to:

- goods and services not reaching the people, particularly in rural areas;
- government services concentrated in provincial centres, forcing people to travel too far;
- politicians and public servants based in capitals and isolated from rural populations;
- weak community and local-level government decision-making power; and
- misuse and uneven distribution of public funds.

The Draft Handbook notes the stated aims of the reforms as being to:

- improve the delivery of services, particularly in rural areas;
- decrease the number of elected politicians;
- increase participation in government at the community and local levels;
- decentralise powers and responsibilities to local levels;
- increase funding to local governments;
- relocate public servants from urban centres to districts and outstations; and
- reduce misuse and mismanagement of funds.

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

Most of the 'transferred' functions were not adequately funded in 1996 provincial budgets. There may have been various reasons for this:

- some provinces were still not aware of the 'transfer', or were unable to recast their budgets in time;
- some provinces may have simply not wanted to fund functions that they saw as national responsibilities, as they had up to that time been;
- some provinces did not yet fully appreciate that the transferred functions were to be funded from the grants paid to provincial governments under the new funding arrangements, and were waiting for additional funding from the national government to accompany the functions transferred under the previous funding arrangements, where there was a link between functions and funding. All provinces received the transferred functions at the same time; and
- some provincial governments may have felt that they were not able to effectively takeover the functions, particularly given such little preparation and assistance.

It appears there was little done to assess the capacity of the recipient provinces, or the overall feasibility of all the provinces taking on the additional functions all at once, from the start of 1996. The impact on some functions was particularly severe with funding
ceasing, and in many cases, services at the local-level effectively ending overnight.

National Government Grants and Funding Levels

The grant formulae were intended to provide a 'guaranteed' minimum funding level, and with that, a degree of certainty so that provincial governments could plan with confidence, knowing what they would receive in national government grants. The reforms were implemented at the start of a period of severe downturn in the Papua New Guinean economy and unprecedented fiscal difficulty for the national government. For that, and other reasons, the national government has been unable to pay the formula-calculated amount of the grants. From 1999, it became increasingly difficult for the national government to pay anything approaching the full amount of the grants. For the 1999 and 2000 budgets, less than half the calculated amount was appropriated (approximately 47 percent each year). The three main reasons why the government was unable to meet its grant funding commitments were economic downturn and fiscal constraints, increasing salary costs, and the national funding of some provincial services. The key point to note is that the architects of the reforms sought a more equitable funding distribution across all provinces, but failed to consider the funding system as a whole. The use of formulae-based grants may have acted to address inequity resulting from national government grants, but did nothing to address the huge province-to-province variation in internal revenue. This significantly skews the total revenue per capita towards well-developed and non-renewable resource-rich provinces.

It is not only health officials who feel that not enough is being spent in their sector. Almost every national agency argued that provincial governments were not spending enough on their particular sector. For example, the national Department of Education felt that not enough was being spent on the education sector.

The local-level government and village services grant has never been paid in full. As for the other national government formulae-based grants, the appropriation came closest to the OLPGLLLG mandated amount in 1997 and 1998, when it was about 98 percent and 84 percent, respectively, of the calculated amount. There was a significant fall in the 1999 budget, when the amount appropriated was just 35 percent of the formula calculated amount. In 2000, about 37 percent was appropriated. The amounts appropriated in 2001 and 2002 increased a little but, as for the other grants, the amount appropriated as a percentage of the calculated amount actually fell to around 30 percent for each year, because of the use of the 2000 Census population data.

A key objective of the reforms was the empowerment of local-level governments through, among other things, the (guaranteed minimum) direct funding from national government. The underpayment of the grants, together with claims that some funding is 'held-back' at the provincial level, suggests that this objective has not been met. More than 50 percent of the LLGs in the sample had ‘a former year’s appropriation', which are funds carried over from the previous year that arrive too late to be expended in that budget year.

The most significant area of expenditure is administration. The total of salaries and wages, officials' allowances, meeting allowances, and general administration averaged some 58 percent of total expenditure for LLGs in the sample. For 86 percent of the LLGs, this was the largest single area of expenditure. All LLGs made significant allocation to administration — with the allocation of the five LLGs that allocated least, averaging 28 percent, and the five that allocated most, averaging 99.7 percent. Eight LLGs (22%) allocated more than 85 percent to administration. This means that there are many LLGs — more than one in four — that are unable, or do not wish, to allocate funds towards their
responsibilities in education. Similarly, there are almost two in five LLGs that are unable, or unwilling, to allocate funds to meet their responsibilities in health.

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

However it appears that, in general, many districts still lack the capacity to effectively do all that is required of them. In addition to funding difficulties, major deficiencies relate to:

- infrastructure — office and residential accommodation, physical access, postal and telecommunications, and support services, such as banking services;
- personnel — lack of experienced and capable staff; and
- administrative systems — accounting systems.

These constraints are interrelated. Notwithstanding the strength and range of views, the basic issue is that there is currently a lack of solid information regarding the role and functions actually being undertaken by LLGs, the level and variation in performance, the problems and constraints they face, the factors that make for effective government, and so on. This makes sound decision making problematic.

Basic information such as this is needed before any decision is made on the way ahead. Without that, the outcome would simply become a matter of luck. It is proposed that a study be undertaken to collect basic information on LLGs, and at the same time, gather stakeholders' views on what functions should be undertaken at the local level.

Shortcomings stem from several problems:

- the reforms were not sufficiently well defined;
- there was no overall statement of intent and defined strategy;
- not enough was done to secure the understanding and genuine support of all stakeholders;
- implementation was rushed and caught many stakeholders unprepared; and
- a poorly prepared implementation strategy.


The complex ways in which decentralisation is practised in the field of government health services are examined. Organisationally, decentralisation means a choice between different types of public institutions, which vary in terms of the areas over which they have jurisdiction, the functions delegated to local institutions, and the way decision makers are recruited, so producing institutions. There is little agreement about the optimum size of areas, either in terms of population or territory. Areas cannot be delimited without consideration being given to the powers to be exercised at each level. The specification of functions always assumes certain things about who will exercise the delegated powers. The two issues cannot be separated. Five structures of decentralisation are distinguished, each of which could, in principle, be created at regional, district, and village/community level — the multi-purpose local authority, the single-purpose council, the hybrid council, the single purpose executive agency, the management board, field administration, health teams, and interdepartmental committees. Whatever the institutions used for decentralisation, the choice of structures and the ensuing process of decision making will
be highly charged politically.


This study is important in the sense that it provided some insights into the viability of local government councils, as vehicles for change. Whether councils can continue to be the focus of ‘grassroots’ initiatives in future development will depend on how effectively they can rekindle the public’s diminishing faith in their ability to achieve developmental goals on a fair and equitable basis, to turn the false dawn of the early 1970s into a new beginning in the 1980s.


The book provides interesting insights into the politics of the founding of provincial government in Papua New Guinea, and the operation of the Constitutional Planning Committee. It discussed the demise of the kiap system and its replacement by provincial governments. A detailed analysis of the Chimbu case underlines the teething problems of the new system of government, many of which still can be perceived in provincial government today.

It was clear by the early 1970s that the administrative system was slow and excessively centralised, and that there was wasteful duplication within districts, which were becoming unmanageable. In 1973, departmental heads in the capital agreed to delegate important powers to district councils to allow for district coordination, and issued a circular memorandum to this effect. However, ‘district administration’ was one of the subjects in the terms of reference of the CPC. The 1973 administrative initiative was dropped following angry opposition from John Kaputin, a member of the CPC, who thought this measure would pre-empt the work of the CPC. The moves towards provincial government are an explicit reaction against the paternalism and authoritarianism of the past.

In 1970, legislation was in preparation for district-level area authorities. Initially, no specific powers were provided for the area authorities — new bodies which were to comprise representatives chosen by each of the local government councils within a district, but additional powers could be devolved by the central government. National parliamentarians were to be non-voting, ex-officio members.

The first area authorities were established in late 1972, and by the time of independence they were in all but four districts. In July 1974, the Chief Minister instructed that area authorities could make RIP allocations, and the public servants could only offer advice.

Barry Holloway thought that the CPC had misread the situation. While they may have asked for ‘district government’, what they wanted was a flexible and responsive extension service. Provincial government was likely to become one more barrier between the people and the State.

At Mt. Hagen in 1975, the PSC proposed a system of administrative decentralisation. Under the structure proposed by the CPC, as in any governmental system, it was obvious that the greatest future struggles would involve money matters.

The article discusses a broad range of aspects of Papua New Guinea's present situation, including:

- the survivability of democracy in PNG;
- the economy and state capacities;
- varied political styles;
- the 2002 elections;
- preferential voting;
- political parties and the integrity law;
- Parliament and the Executive;
- votes of no-confidence;
- patronage and the provinces;
- the anti-corruption agenda; and
- national mobilisation.

Since the 1995 provincial government reforms, backbench MPs have undertaken strong executive roles in the allocation of funds within their electorates. In these roles, the MPs are largely unchecked. The 1995 OLPGLLG was pushed through parliament by the Chan government on the pretext of further decentralising power to local-level governments. In effect, these reforms had the effect of recentralising power over the bureaucracy, while giving MPs virtually untrammeled control over district operating funds, and strong influence over staffing matters in their electorates. Few of the local level governments have the resources or skills to operate effectively.

National politicians are now able to grab resources that should be allocated to provincial governments and districts that are charged with providing essential services. In 2006, there were proposals to further entrench the powers Members of Parliament, within their districts, including the selection of public servants.

There are a few exceptions, such as East New Britain, where MPs sensibly transfer their funds to local-level governments and provincial and district administrators, leaving local government to local leaders and avoiding the inevitable political backlash.


In order to shed further light on the discussion about decentralisation-poverty linkages in developing countries, this article introduces a conceptual framework for the relationship between decentralisation and poverty. The framework takes the form of an optimal scenario and indicates potential ways for an impact of decentralisation on poverty. Three different but interrelated channels are identified.

Decentralisation is considered to affect poverty through providing opportunities for previously excluded people to participate in public decision making, through increasing efficiency in the provision of local public services because of an informational advantage of local governments over the central government and through granting autonomy to geographically separable conflict groups and entitling local bodies to resolve local-level conflicts.
Based on the experience with decentralisation in Uganda, it is shown that these channels are often not fully realised in practice. Different reasons are singled out for the Ugandan case, among them low levels of information about local government affairs, limited human capital and financial resources, restricted local autonomy, corruption and patronage, high administrative costs related with decentralisation, and low downward accountability.


This article evaluates the extent to which decentralisation in Papua New Guinea actually achieved the benefits that were anticipated. Well before decentralisation Papua New Guinea, had a well-articulated and unified three-tiered health care system in place. Rather than promoting a more rational and unified health service, decentralisation has brought opposing pressures. In spite of the retention of one national public service, the creation of provincial departments, as separate entities, has worked to fracture the unity of the public service. There have been growing interprovincial inequities in salaries and conditions, career development, transfer opportunities for health staff have been inhibited, and staff morale in poorly managed provinces has deteriorated.

Even though provincial authorities have increased their involvement in decision making since decentralisation, there is less evidence to support the view that decentralisation has resulted in greater involvement of local communities in decision making about their health services. Rather than containing health care costs, decentralisation in Papua New Guinea has substantially increased them. Many of the inequalities in the distribution of resources which preceded decentralisation have been perpetuated. There is no evidence that there has been improved integration of the activities of different agencies since decentralisation. Poor maintenance of rural health facilities is another major problem affecting the rural health service.

It is difficult to attribute the decline in rural health standards to the decision to decentralise. A similar decline has also been reported in areas of the health services which were not decentralised.


This article was written by Professor Tordoff who was a consultant to the Constitutional Planning Committee. He outlined the terms of reference for his task and discussed some issues relating to the devolution of powers, the public service, and the financial arrangements.


This is one of the original reports underlying the architecture of the decentralised system in Papua New Guinea.

PSRAG's first report was issued in October 2002. This report contained twelve priority initiatives, most of which were generally well received. However, one of those initiatives (No. 9), was ignored. Initiative 9 was for direct funding to local-level governments, which was in line with the intent of the OLPGLLG, and for a review of the DPLGA to identify its responsibilities and resource requirements to fulfil those responsibilities. The main aim was to strengthen the operations of the DPLGA in relation to local-level governments.

Responsible leaders agree that the present three-level legislative system is expensive and inefficient. It does not satisfy the basic requirements of most citizens, and has not produced enhanced economic development. It has contributed to the nation's declining human development.


This article deals with an attempt to implement the policy of decentralisation in the area of public service training. The case study traces the rise and fall of a program that was designed to provide decentralised training for field officers engaged in district administration. The institution that was responsible for delivering the course of study was the Administrative College of Papua New Guinea whose purpose was to develop and conduct training programs which are aimed at meeting the operational requirements of public servants in administration and administration. The college was founded in 1963, and since 1967 has occupied a site at Waigani in the country's capital, Port Moresby. After 1978, four regional training centres in other parts of Papua New Guinea were amalgamated with the Administrative College so that the training needs of the new provincial departments could be better supplied. The history of the training program described in this article illustrates the difficulties of undertaking certain types of decentralised training and the experience of Papua New Guinea may provide valuable lessons for other countries contemplating similar actions.


One of the early consultant reports that helped define the overall structure of decentralisation in Papua New Guinea.


This paper outlines some personal observations about how the system of decentralisation in Papua New Guinea is working, with particular reference to specific provisions in the Organic Law on Provincial Governments and Local-level Governments.

The key message is that Papua New Guinea's democratic architecture does not facilitate horizontal accountability back to voters, even if that was a culturally amenable concept. The alternative approach of making provincial and local governments perform through nationally determined policy and top-down monitoring and supervision is contradicted by
the level of autonomy over allocation of funding that is given to provincial governments. It is also unrealistic in view of the resources that Papua New Guinea has available to apply to this task.

Implicit in several dimensions of this analysis is the idea that Papua New Guinea has ended up with this system because its architects did not know how the system it was replacing worked; did not think about the natural incentives inherent in the arrangements they were devising, and tried achieve two competing objectives (bottom-up, locally-driven development on one hand; top-down national standards and priorities and a national plan for economic and social development on the other), without addressing the need to strike a balance between them.

The Role of Subnational Government

What are the roles of provincial and local-level governments in Papua New Guinea, and does the constitutional framework fit this? Papua New Guinea is a unitary state, so it is up to the national government to determine the role of provincial and local-level governments (and parliament cannot permanently devolve power to lower levels of government).

A different constitutional and political architecture would be required, depending on whether Papua New Guinea's subnational governments are either:

(a) fully decentralised, autonomous, and capable of making their own policies and priorities, and allocating resources to them accordingly, on the one hand (as seems consistent with the relatively untied funding arrangements, and statements concerning the ‘full fiscal autonomy’ of provinces); or

(b) the implementing, operational arm of national government (as seems to be suggested in various statements of principle, in s.51, and in the notion of ‘extended services of national departments’) on the other.

National and provincial politicians have very different answers to this question, suggesting that it is a major issue to be resolved. The current constitutional arrangements incorporate top-down determination of priorities and standards, but it is not clear how this is intended to fit with a bottom-up planning framework.

Provincial Governments Are not Democratically Accountable to Electors

As provincial governments currently enjoy a relatively unfettered ability to allocate resources to their own priorities, the question of how they are held accountable for those choices becomes important. As LLG members outnumber the national Members of Parliament by 3 to 1 in the provincial assembly, the consequence is that the majority of members are not directly electorally accountable for the decisions they make in the provincial assembly. There is a widely held view among long-term observers and commentators that the imperative for reforming the provincial government system in the early 1990s was predominantly a political one. National parliamentarians saw provincial politicians as commanding control over a much larger resource base than the national MPs, and wanted to dissipate that control.

The Role of Local-level Government

From 1995, local-level government became a constitutionally mandated level of government reporting to the national government instead of to provincial governments. It is appropriate now to ask whether this arrangement has worked better than the previous
system, under which local governments were subordinate to provincial governments. A critical question is whether the national government can support and supervise local governments. Arguably, resources are more likely to be efficiently used if they are allocated to the provincial health office, or possibly even to the national Department of Health where, the administrative skills and resources that are needed to tender and manage distribution contracts are more likely to be located.

**Urban-Rural Distinction**

There is a further local-level government issue that is worth mentioning. The Organic Law makes very little distinction between urban and rural local-level governments. This offends against one of the 'ten golden rules for fiscal decentralisation', which is that one intergovernmental financing system does not fit both the urban and the rural sectors.

**Affordability**

NEFC's work has focused on the affordability of the system of grants that are determined in absolute kina (and calculated on an expanding population base), but there are other affordability issues. Without including the costs of national MPs salaries, which are paid by national parliament, the total cost to provincial governments of meeting the SRC determination is almost K40 million, which is about 40 percent of the total amount the national government gives to subnational governments in grants. There is little evidence that the new district orientation of service delivery has achieved the desired objective of improving the deliver of services to people in remote areas.

**Accountability Relationships**

Is it workable to have a set of national minimum service delivery standards, give provinces untied funding, and then withdraw their powers when they fail to meet those standards? Furthermore, unless the minimum standards are set at a level which all provinces can afford, is it workable to have minimum (which implies uniform) national service delivery standards at all?

**Financial Accountability**

At a practical, operational level, the main means by which national government can exercise its legal capacity to hold provincial governments accountable is through the financial management system, by approving and monitoring budgets and expenditure by the national treasurer, and through provincial finance staff being accountable to the National Department of Finance. However, even those supervisory systems which require not much more than political will to be effective, do not seem to be operating as they were designed. (An alternative model of accountability would be a more traditional one, in which each level of government is accountable — primarily horizontally — to the citizens who elect that government and pay taxes to it. There is at least as much corruption and mismanagement in provincial governments now as there was ten years ago when these arrangements were put in place. The supervisory role of the national government in relation to provinces and local governments that is enshrined in the Organic Law was intended to address the non-functionality of a conventional system of accountability, but has arguably failed to do so.)
Is Top-down Accountability Feasible?

The supervisory systems through which provincial and local governments are held accountable are necessarily top-down in nature, particularly as there is no proper political accountability (at least of provincial governments). There is little evidence of these systems being at all effective, as they can hardly be said to be in existence. In addition to being potentially unaffordable, the current accountability model may be effectively unworkable. It is arguable that, in Papua New Guinea, accountability systems which are based on the assumption that individuals in positions of power will hold other individuals in positions of power accountable, are ambitious at best, and foolhardy at worst. Failure to hold others to account is one of the chief weaknesses in the Papua New Guinean public sector. A more workable approach, given Papua New Guinea’s resource and other constraints, may be to focus more on the incentive structures which operate.

Responsibility for Service Delivery

The Organic Law provisions on staffing are confused. Nevertheless, it is possible to guess the intention behind these provisions, and it seems likely that recentralisation, rather than decentralisation, of service delivery was intended.

It has been speculated that the re-emphasis on district structures under the new Organic Law represented a misinterpretation about the role and organisational arrangements for districts under the colonial administration. If this was the case, the misinterpretation manifested itself in the new arrangements in two ways. Under the colonial administrative structures, districts are what we know today as provinces. Also, district administration in the colonial administration did not involve direct reporting relationships between service delivery staff and district officers. In fact, service delivery staff in sectors such as health, education, and primary industry were employed in vertical structures, and ultimately reported to the heads of the respective national departments. The role of the district officer did involve coordination, but not by requiring those staff to report directly to him.

Problems with the Transfer of Functions

Although the Organic Law specifies the subjects on which provincial governments and local-level governments may pass laws, there is no list of the functional administrative responsibilities of either level of government. The Organic Law requires the functions of provincial and local-level governments to be specified in an ordinary Act of Parliament. The Provincial Governments Administration Act attempts to do this, but the situation becomes even more confusing. The biggest area of dispute over functions today relates to what are described as ‘national functions’. The Organic Law uses the term ‘national functions’ in a way that seems to encompass all service delivery responsibilities, but the colloquial use of the term by provincial bureaucrats refers to functions which have always been thought of as being the responsibility of the national government, rather than the provincial government. These include most of the law and order functions, such as correctional service, police, and courts, the fire services, and the National Broadcasting Commission.

Confusion over Funding of Functions

In 1996, all provinces were, for the first time, responsible for budgeting for a full range of services. Furthermore, the introduction of the Joint Provincial and Joint District Planning and Budget Priorities Committees made it very clear that budgeting was a political responsibility, not a bureaucratic one. It is conceivable that some provincial politicians did
not understand what their budgets had to cover, had no idea how much was needed to support service delivery, and had no real understanding that the success or failure of service delivery in these areas would rest with them.

**Separation of Capital and Recurrent**

Successive missions by the IMF and World Bank identified that much of Papua New Guinea's budget was tied up in recurrent expenditure, thus leaving little for spending on investment. Unfortunately, this separation between recurrent and development expenditure also inhibited proper planning of development projects involving new infrastructure, in particular the planning for ongoing recurrent costs. The result has been a large number of poorly planned and executed infrastructure projects and an almost complete failure to incorporate ongoing recurrent needs into provincial budgetary planning.

**Gradation of Provinces**

Both the old and the new systems of decentralisation have recognised that provincial governments have very different levels of capacity, and therefore there should be a system of gradation which allows them to move progressively towards increased autonomy, as they are ready to do so. However, while the OLPG provided a mechanism to achieve this — through the graduated transfer of functions to provincial governments — this is not really possible under the current OLPGLLG.

**Taxation Powers**

One of the reasons why provincial governments may justifiably reject the idea that they are responsible for funding certain functions is that they receive considerably less funding than was envisaged in the Organic Law. Not only are their Organic Law grants underpaid by some 60 percent, they are effectively prevented from collecting taxation in order to supplement their resources with internally-generated revenue.

**Viability of the District Service Delivery Model**

While the concept of taking services to the people is unquestionably a good one, some questions remain about affordability and feasibility. Many of Papua New Guinea's current district headquarters were established many years ago, under the system of colonial administration. Under that system, many districts were thriving small towns, albeit with very underdeveloped private sectors, supporting services like high schools, district hospitals, substantial police contingents and agricultural, business development and other extension staff. District offices were taken over and became part of the provincial administrations in 1977, and, in most cases, continued to operate as outposts of the provincial governments. However, there was a significant decline in the services that were offered in districts during the 18-year period, which the first system of decentralisation operated.

Changes in government policy also contributed to problems with the continued functioning of districts. Under the new district arrangements that were introduced in June 1995, district service delivery arrangements were no longer a matter for provincial administrations to determine, according to what made the most sense in that province. Instead, district administration boundaries were to be determined by the political boundaries of each open electorate. This created significant problems with administrative service delivery networks, as some parts of districts cannot be readily serviced from the
location which is designated as the district headquarters. Other district headquarters were required to be established in locations which economy and efficiency could not justify. Districts are a subset of provincial administrations, which are dependent on the provincial budgets to fund service delivery. In most cases, provinces have budgeted little for district operations. The point to be made is that there are many factors which have contributed to the deterioration of service delivery from district centres, but not all can be readily rectified.


A discussion of the different forms of decentralisation in the comparative context of the South Pacific.


Governance is defined as the process by which society collectively attempts to solve problems, maintain public order and meet other shared needs — and not just government — as one of the main instruments for such purposes. (ibid.: 1).

The original arrangements for decentralisation in 1974 provided for the possibility of differential degrees of provincial responsibilities among provinces, and foresaw the process of devolution as taking place in stages. Instead, a ‘one size fits all’ model was adopted and implemented uniformly for all provinces, probably in the interest of administrative simplicity.

The autonomous arrangements for Bougainville are likely to have an impact on other provinces. The Bougainville arrangements were part of a larger peace process that was multi-layered. It was ‘doubly entrenched’ in that it requires qualified majorities in both the national parliament and the Bougainville legislature to be amended.

The Bougainville conflict was a civil war among Bougainvilleans, as well as a conflict between the BRA and the PNGDF. The Autonomous Bougainville Government (ABG) does not exercise authority over the whole of Bougainville. There are still no-go areas. Not all differences have been resolved with the establishment of the ABG.

Substantial responsibility for government and development has been vested in the ABG, and additional powers are available for transfer, at the ABG’s request. Thus, autonomy has implications for the need, not only for an enlarged public service, but for personnel with much higher-level policy and planning skills than provincial governments normally have at their disposal (or than the North Solomons and Bougainville Interim Provincial Governments probably required in the past). There are also costs in time and money for the various forms of consultation with the national government, for which the agreed arrangements provide. These are additional to the costs of the political structure for which the Bougainville Constitution provides.

It will take continuing mutual confidence and commitment to cooperate in realising the
potential of the 'joint creation' outlined in the Bougainville Peace Agreement, for the system to operate and develop as intended, and to avoid disputes. On the national government side, the challenge of ensuring that government officers are aware of the relationship between their activities and the provisions in the Bougainville Peace Agreement is great. Relevant constitutional legislation alone covers some 146 pages. Training is needed to ensure that relevant national government officials are aware of their responsibilities towards Bougainville.

On many indicators, Bougainville is better off than many other parts of Papua New Guinea. Bougainville was awarded a prize for the best medical services in the country on the first anniversary of the ABG’s establishment. At 95 percent, the proportion of the eligible school age population that manages to enrol in Grades 1-6 is the best in Papua New Guinea, while the proportion of secondary school enrolments is also among the highest.

Implications for Decentralisation

The East New Britain Government set up a high-level committee in 2002 to explore options for autonomy in East New Britain. Meanwhile, the governor of Morobe, Hon. Luther Wenge, has also spoken out for greater provincial autonomy, which is not new in Papua New Guinea. The West New Britain Provincial government has been reported as being interested in greater autonomy. The national government did not intend that the agreed arrangement for Bougainville autonomy would open the way for other parts of the country to follow.