



INDEPENDENT STATE OF PAPUA
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Constitutional and Law Reform Commission

**THE REVIEW OF INTERGOVERNMENTAL FINANCING
ARRANGEMENTS AND THE RESTRUCTURE OF
DECENTRALIZED GOVERNMENT IN PNG**

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In January 2008, the National Executive Council (NEC) established a Task Force on Government and Administration to undertake a series of governmental reforms, including the restructure of decentralized government in Papua New Guinea. The task force is to look into a broad range of proposals for amending the existing arrangements, with a view to improving the delivery of basic services to the people of PNG. The purpose of this paper is to discuss the incorporation of the recent reform of the financing arrangements into the broader process for addressing and resolving the major problems with the existing system of decentralized government.

I. THE NEED FOR A COHERENT POLICY PROCESS

The need for a major restructure of the existing arrangements is widely recognized. There is general consensus that the reforms implemented with the adoption of the 1995 Organic Law on Provincial and Local Level Government (OLPGLLG) did not result in the improvement of the previous arrangements, and led to additional problems. Since that time various proposals for amendment and improvement of the system have been put forward, but no single policy process for restructure of the system as a whole has been initiated. The recently appointed task force aims to do that.

For the present moves to restructure decentralized government to succeed they will have to avoid the mistakes that have marked virtually all previous attempts to improve the system. One of the major shortcomings of past reform efforts is that proposals did not take into account previous reform efforts. At times, different proposals have been channeled through separate departments, resulting in competing, often incompatible policies being considered or adopted. All of this has contributed to an incoherent policy process, which has led to changes that have been ineffective or have worsened the situation.

The context in which the present initiatives for the restructure of decentralized government are being undertaken contains the potential for creating a great deal of confusion and incoherence in the policy process. In addition to the proposal for a restructure of decentralized government emanating from DPLGA, the Public Sector Reform Advisory Group (PSRAG) is independently pursuing the adoption of wide-ranging proposals that would, *inter alia*, eliminate the provincial level of government altogether, while other proposals to consider the creation of additional provinces of Hela and Jiwaka are being entertained. East New Britain Provincial Government is pursuing greater autonomy, which is being channeled through the Office on Autonomy and Autonomous Regions (East New Britain Provincial Government 2005).

Recommendations relating to the means for incorporating each of these separate proposals into a single integrated policy process have been outlined in separate papers produced by the NRI Research Program on National/Sub-National Governance. These proposals vary from a comprehensive overhaul of the system in the PSRAG report to very specific requests from individual districts or provincial governments on the part of East New Britain and Hela and Jiwaka.

In addition to these specific proposals for reform, a broad review of the financial arrangements of decentralized government has been undertaken by the National Economic and Fiscal Commission (Papua New Guinea. National Economic and Fiscal Commission 2007a). The reform of overall financing arrangements is not specifically included in the options contained in the Terms of Reference for the task force studying the restructure of decentralized government. However, it is apparent that there will be financial implications related to any of the options put forward.

While previous papers proposed that all options presently being considered for the restructure of decentralized government be incorporated into the present policy process, this paper proposes that the policy process be **integrated into** the reforms developed by the NEFC. The new funding arrangements for provincial governments are slated to be implemented in 2008, and phased in over a period of years. The reforms of financial arrangements were carried out under the Review of Intergovernmental Financing Arrangements (RIGFA), and represent a major accomplishment in the history of intergovernmental reform in Papua New Guinea.

II. THE REFORM OF FUNDING ARRANGEMENTS

The financing arrangements for funding provincial governments have been an issue since the foundation of the decentralized system in 1975. Since that time there have been numerous studies, com-

missions, and committees appointed to reform the system, all of which failed, either by not adopting improvements, or enacting changes that resulted in worsening the situation. The RIGFA proposals represent the most comprehensive and positive reforms to date.

A. Stabilization, Equalization, Development

From the time of the establishment of decentralized government in PNG in the 1970s, attempts were made to adopt a formula that would allow for the effective funding of national government activities while at the same time providing provincial government with the financial means to carry out the activities that were assigned to them. More specifically, financial arrangements were designed to provide for the funding of these activities at the same levels they were provided before decentralization, to apportion funding among provinces to redress the great level of inequality in service delivery among provinces, and to increase funding to permit the expansion of delivery of services to the population. These three central purposes of the financing arrangements came to be referred to as “stabilization”, “equalization”, and “development”, and it was recognized from the very beginning that the funding formula under the original OLPG centered around the Minimum Unconditional Grant (MUG) did not fulfill these goals very well (Hinchliffe 1980; Berry and Jackson 1981; Axline 1988). There were serious questions as to the degree to which the original base year figures on which each provincial government’s activities were calculated accurately represented to cost of delivering services, and by tying annual payments to the base year amounts, existing inequalities were frozen into the annual increases (Crawley 1982a). The formula for annual increases not only was designed in such a way to prevent the MUG from keeping up with increasing costs, but did not provide any means for taking into account population growth or expanded activities.

B. Previous Efforts at Financial Reform

The shortcomings in the financial arrangements created under the 1975 OLPG gave rise to a number of studies and commissions designed to improve or replace these provisions with more appropriate funding arrangements (Papua New Guinea. Committee of Review on Financial Provisions of the Organic Law on Provincial Government 1982; Papua New Guinea. Committee Established by the National Executive Council on the Recommendation of the Premiers' Council on 1 December 1983 1984). Through the 1980s and 1990s several reports recommending changes were produced but did not result in major improvements being implemented. During this period, the national government was able to achieve a degree of redistribution of additional funding towards the more needy provincial governments through national departments outside and in addition to the grants required by the OLPG. This was done by allocating additional funds, above the amounts determined by the MUG formula, to provincial governments that had not been accorded the status of Full Financial Responsibility, while the latter provincial governments (generally those that were better off) were limited to funding under the MUG formula. Effectively, the national government was able to achieve a degree of equalization (redistribution) by implementing the funding arrangements differently from the requirements of the OLPG.

The other major shortcomings of the financing arrangements, maintaining the level of delivery of services (stabilization) in face of the reduction of resources in real terms as a result of inflation, and the inability to provide additional funds for expanded activities (development), remained unaddressed, as did additional difficulties in the administration and accountability of the funding arrangements. Extensive study of these problems and numerous official recommendations, including proposals for a system of asymmetrical decentralization, where provincial governments with a higher level of capacity could be granted greater provincial autonomy, did not result in the adoption of any fundamental improvements in the financing arrangements.

C. The 1995 Reform of Decentralized Government

In 1995 the Parliament of Papua New Guinea enacted a new organic law that changed the provisions for provincial government, including new funding arrangements, which were embodied in the Organic Law on Provincial Government and Local Level Governments (OLPGLLG). It is generally recognized that the new system of decentralized government did not represent an improvement over the preceding arrangements, and in many cases worsened the situation, particularly with respect to the funding of provincial governments and the delivery of services. The principle of allocating funding based on the cost of delivering services was replaced with a formula founded on per capita funding. In prac-

tice, the financing arrangements were not implemented as provided, and did not respond to the financial needs of provincial governments. This is not surprising, as the 1995 reforms were addressed mainly at restructuring the political arrangements between provincial politicians and national MPs, and were more concerned with concentrating financial control in the hands of the latter rather than improving the funding of essential services of provincial government (Axline 1993a).

The general dissatisfaction with decentralized government under the OLPGLLG has culminated in widespread demands for its improvement or replacement with an entirely different system. Proposals range from the elimination of provincial government as a legislative level of government in PNG, to the creation of additional provinces and the granting of greater autonomy to some provincial governments. The present task force charged with making recommendations relating to the restructure of decentralized government is considering these options, *inter alia*.

The arrangements relating to the financing of provincial governments have already been the subject of extensive study and analysis, and a new set of funding arrangements have been formulated and are in the process of adoption and implementation. The severe shortcomings of the funding of provincial governments under the 1995 OLPGLLG led to the establishment of a project to undertake a major overhaul of the financial arrangements. The legislation relating to the 2002 National Budget exercise included the establishment of the Review of Intergovernmental Financing Arrangements (RIGFA) under the auspices of the NEFC. The review has been completed, and the changes resulting from it are ready for adoption and implementation.

D. NEFC and the RIGFA Reforms

Effective funding arrangements are at the heart of a functioning decentralized system. Provincial, district, and local level governments are responsible for the delivery of services in PNG, and require sufficient funding to carry out their responsibilities. Funding arrangements are also at the centre of contention as part of the competition over the control of the allocation of resources, which partly explains the difficulty in adopting the series of improvements proposed during the 1980s.

The NEC recognized the central importance of the funding arrangements by initiating the study of these arrangements and providing the NEFC with the authority and resources necessary to carry out extensive research and make detailed recommendations for reform of intergovernmental financing arrangements. The RIGFA exercise constitutes the most comprehensive study undertaken of the funding arrangements of decentralized government in PNG, and its recommendations represent the most extensive and detailed provisions for financing provincial governments.

III. RIGFA AND THE RESTRUCTURE OF DECENTRALIZED GOVERNMENT

In February 2008, the National Parliament voted unanimously 82-0 to adopt the amendments to the OLPGLLG required to create a new system of funding provincial governments as contained in the RIGFA reforms. With a second passage by the required two-thirds majority in the next sitting of parliament the amendments will become law and will provide the basis for adopting implementing legislation for the creation of the new funding arrangements.

The new arrangements for the funding of provincial governments represent the single most important improvement in decentralized government since its establishment in 1975, and their implementation is of the highest priority. The time and resources that have been dedicated to the elaboration of the proposals, the scope and quality of research underlying the proposals and the detail and rigor of the analysis behind the proposals have resulted in a new set of arrangements which address all the fundamental issues of provincial government funding that have been debated since the establishment of the decentralized system.

A. RIGFA and the Goals of Decentralization

Founded on the principle that funding should follow function, the RIGFA exercise determined the funding needed to deliver governmental services, and constructed financing arrangements around those needs. The overall funding package addresses the need to increase the resources required to deliver services to the people, the necessity to provide for more equitable distribution of resources, and the requirement to devote additional resources to the expansion of activities at the provincial and local levels.

Not only do the NEFC reforms contained in the RIGFA proposals represent the first time that the elusive goals of stabilization, equalization, and development have been adequately addressed in the financing arrangements in PNG, but they have also achieved general acceptance as to the desirability of their implementation. Through consultations with all major stakeholders, the NEFC was able to generate consensus on the importance of adopting the RIGFA proposals, and to gain their support for implementation. In 2008 the NEFC has given highest priority to implementing the new financing arrangements.

At the beginning of 2008 conditions are propitious for the implementation of the proposals. The elections of 2007 returned to power the government that had approved the first passage of the required revisions to the organic law. Economic conditions are sufficiently good to provide the necessary funding to implement the proposals. The research data underlying the proposals are still fresh, and the timetable for phasing in the new arrangements is in place. The new government has signaled its commitment to fundamental changes to improve the decentralized system through the creation of a task force to propose a restructure of decentralized government. February 6, 2008, the Parliament of Papua New Guinea acted on that commitment by passing unanimously the first of two required approvals of the amendments to organic law required to adopt the RIGFA proposals.

However, there are some potential obstacles that lie in the path of the ultimate adoption and implementation of these reforms. As well as providing an opportunity to effect major improvements in the decentralized system of government, the simultaneous consideration of a wide range of proposed changes also poses a possible risk of delay in implementing the RIGFA reforms. The risk is that the task force may recommend changes to the decentralized system which are incompatible with the NEFC reforms, or may recommend that implementation of the NEFC reforms be deferred until consideration of all the other various proposals for the restructure of decentralized government may be completed. Given the past history of reform efforts and the time lag inherent in undertaking any major governmental change, any delay in the implementation of the new financial arrangements pending consideration of the restructure of decentralized government would pose a serious threat to the progress made in the NEFC reforms. These reforms should be implemented as a first priority, and the consideration of any new proposals must be integrated with the new financing arrangements. The purpose of this paper is not to describe the RIGFA proposals in detail, which is done elsewhere, but to indicate how they can serve as the basis for the restructure of decentralized government in PNG.

B. NEFC Reforms as a Platform for Change

Historically, the reform of intergovernmental financing arrangements has been the greatest challenge in improving the decentralized system of government in Papua New Guinea. The significance of the accomplishment represented by the RIGFA arrangements is even more impressive when viewed in this light. For this reason, and for the factors enumerated above, the implementation of these reforms and the provisions contained within them should be taken as a given in the consideration of the broad restructuring of decentralized institutions. The challenge is to accept the NEFC as the platform on which other changes will be adopted, while not ruling out any of the possible options being considered.

The approach adopted by the NEFC in carrying out the RIGFA reforms allows them to serve as the financial basis for virtually any formal governmental structure. First of all, the adoption of the principle that “funding follows function” permits the determination of the actual activities that are involved in delivering governmental services to the people of PNG. A comprehensive inventory of these activities, and a detailed accounting of the actual costs of carrying them out, provide a basis for the calculation of the levels of funding required to deliver essential governmental services. Rather than being based on an arbitrary figure of per capita funding for recurrent costs of service delivery for each provincial government, the RIGFA proposals are grounded in rigorous empirical analysis of the cost of meeting the needs that are to be serviced by provincial, district, and local level governments.

Upon this foundation combining the principle of “funding follows function” and the data on the cost of functions, the NEFC studies calculated the cost of carrying out the delivery of services to the level of government charged with carrying them out, and then compared this cost to the funding already available to that level of government. On this basis, it calculated the extent to which a provincial government’s existing financial capacity met its needs, developed a set of financial arrangements designed to ensure each provincial government had a similar financial capacity, and provided a formula to that would distribute more funding to those provincial governments that needed more funding.

As indicated above, the various proposals that are presently being considered as possible alternatives to the existing system of decentralization, vary in the extreme, and in some cases are directly contradictory. The purpose here is not to reconcile the different options that are on the table, but to demonstrate that the immediate implementation of the RIGFA reforms does not pre-empt the adoption of any of the proposals, and therefore does not need to be delayed until the broader restructuring process is completed. For the first time in the overall history of the reform of intergovernmental financial relations in PNG the funding arrangements can serve as a foundation on which the other reforms can be built. Given the wide range of proposals for reform that are presently under consideration, it is useful to indicate how each of these possibilities can be effectively integrated into the NEFC financing arrangements, and how the apparent contradictions found in these proposals can be overcome.

C. The Compatibility of RIGFA with Other Reform Options

The various proposals for the reform of intergovernmental relations under consideration at the beginning of 2008 constitute a wide-ranging collection of suggested changes contained in both an informal and a formal agenda for reform. The formal agenda has been developed by the DPLGA and the Task Force on Government and Administration, and includes proposals for greater provincial autonomy, proposals for the creation of new provincial governments, proposals for the elimination of a provincial political level of government and proposals to build the system around district authorities. Informal proposals have been suggested to create a level of government created of electoral constituencies to be directly funded through the national budget. The examination of the general characteristics of these proposals provides a basis for understanding how the RIGFA proposals can serve as the funding basis for each of them. The various proposals range from technical adjustments to the radical modification of existing structures.

I. Amendments to the existing system proposed by DPLGA

The proposals comprising the overall package of the NEFC reforms were developed in the period from 2002 to 2007, within the decentralized arrangements that had been established in the 1995 reforms. Since these structures comprised the “platform” on which the reforms were conceived, they do not pose any fundamental obstacle to the implementation of the RIGFA proposals.

During 2006 and 2007 DPLGA organized a number of corporate planning workshops in several provinces and identified a number of provincial management issues that were impeding the effective operation of provincial administration. Given the administrative nature of these issues and the necessity to consult with provincial governments on these matters amendments were not proposed to address these issues. Other issues, such as those arising from the adoption of the District Authorities Act and other amendments relating to provincial management were left to the broader review of decentralization.

In 2007, the DPLGA produced a report containing a list of “technical” amendments to be made to the existing OLPGLLG, aiming to “clean up” inconsistencies and inaccuracies of the text, and suggested a number of other issues to be considered at a more fundamental level (Papua New Guinea. Department of Provincial and Local Government Affairs 2007). The report contains 40 recommendations that fall into 3 categories: (a) those relating to proposed amendments of the Organic Law dealing with the NEFC reforms to the intergovernmental finance system and constitutional defects in Division 8; (b) those that can be addressed through legislative amendments and/or administrative changes, including several aimed primarily at improving service delivery; and (c) those recommendations that require further research. These last recommendations relate to such matters as the status of the National Capital District, the powers of local level government, provincial government autonomy, and other matters of a more substantive nature dealing with political structures and powers.

There is no inherent contradiction between the new intergovernmental financing arrangements and the amendments proposed by DPLGA. Both were conceived as changes to be effected to the existing decentralization arrangements, and in fact the DPLGA amendments take into account the proposals contained in RIGFA. Since the existing OLPGLLG arrangements will remain in effect until the larger consideration of the restructure decentralized government, it would be appropriate to proceed to adopt both the RIGFA reforms and the DPLGA amendments.

2. Establishment of District Authorities

In 2006 the Parliament of Papua New Guinea adopted the *District Authorities Act*. This act had been introduced in Parliament by the then Leader of the Opposition Peter O'Neill. The goals cited in support of the proposal included attaining a higher level of efficiency in government and public sector management, human resource use, and delivery of goods and services within a deliberately structured approach. O'Neill maintained that the act provided for the creation of a dynamic district administration structure within which local-level governments can participate in development, policy making and wealth sharing, with the intention of providing the means for effectively coordinating national development goals and objectives with those of the districts (O'Neill 2006).

The purpose behind the *District Authorities Act* was to create new institutions at the level of districts within the provinces of Papua New Guinea. For each district a District Authority would be established to formulate policy, determine budgetary priorities and oversee implementation of policies related to the development of infrastructure and the delivery of services to the people.

The Act was put forward as a means to provide for the elevation of local-level government capacity to articulate and construct sustainable development initiatives for their respective districts or LLG areas. The act was envisaged as a way to achieve greater participation and a feeling of ownership of development policies and initiatives by district and local-level government decision makers. The initiative was designed to provide for active and direct participation of people in the process of effective and efficient government, and to provide opportunities for the people, institutions and interest groups who are at present excluded from the decision-making process or have been marginalized in the development process.

The adoption of the act that created a new institutional structure at the district level was a response to the perception that the multi-tiered system of delivery of public services and national development programs is not responsive to the people's or the nation's development and that gainful wealth-generating opportunities have to be made more accessible. It was seen as the response to the need for an appropriate administrative infrastructure.

District Authorities were seen as vehicles, or enabling administrative structures, to ensure the wise use of public funds for social and economic development projects that would maximize the living standards of the people within defined district boundaries or open electorates. It was envisaged that the administrative structure that comes with the establishment of district authorities in each open electorate would remove cumbersome provincial bureaucratic red tape, political preferences and biases, and other systemic flaws that in the past have made it impossible to attain efficient delivery of basic life support and development services. The initiative was intended to improve the delivery of goods and services, to lead to good governance and accountable and transparent distribution of public wealth, and to bring development opportunities and public investment programs directly to the people. The Leader of the Opposition, in advancing the District Authorities Act, enumerated the underlying intentions of the proposed legislation (O'Neill 2006:3).

Provisions of the *District Authorities Act*

Section 2.

Purpose and Object of the Act and Authorities

- to bring governments funding and resources directly to the people within the Districts;
- to enable elected leaders of the people, to determine priorities for allocation of funding and to oversee management control and distribution of resources so as to accelerate improvement of the standards of living of the people;
- to ensure that resources are equitably distributed in the Districts;
- to encourage co-operation among both the government and the non-governmental agencies or persons engaging in development activities in the Districts.

Section 6.

The functions of an Authority are:

- to assist in the proper and efficient administration and management of the District, and;
- to assist in the proper and efficient administration of all government services including health, education, law and order, infrastructure maintenance and extension services; and
- in consultation with the District Services of the Provincial and Local-level Government Administrative Services, to formulate policies in relation to the powers of the Local-level Governments under Section 44 of the Organic Law; and
- in consultation with the District Administrator, to assist the Joint District Planning and Budget Priorities Committee to perform its functions under Section 33A of the Organic Law; and
- to make provisions for appointment of personnel to provide support services for Local-level Governments.

The *District Authorities Act* was designed to modify the existing structures under the 1995 OLPGLLG, and to create new institutions at the district level within the present arrangements. While District Authorities might be seen as being in conflict with existing arrangements for determining budget priorities within the provinces, it does not affect actual arrangements for funding provincial governments. The provisions for funding in contained the Act are general and are not based on the principle of funding follows function, but they would not affect the redistributive aspects of RIGFA. Consequently, the implementation of the RIGFA reforms would not conflict with nor impede the operation of District Authorities, if they are eventually established.

3. Abolition of Provincial Governments (PSRAG Proposals)

The elimination of a provincial level of government altogether is one of the most dramatic among the various proposals for changes to the existing system of decentralized government. From the time of the original establishment of provincial governments there has been a debate over the very desirability of decentralized government. One position, mainly emanating from the national government side, argues that provincial governments are inefficient, wasteful, and corrupt, and that their very existence is the major reason for the decline in the delivery of governmental services. The essence of the argument is *post hoc ergo propter hoc*, that is, services have declined since the establishment of provincial governments, and therefore provincial governments are the cause of the decline in services.

A 2006 report on the reform of provincial governments contains one of the strongest arguments for the elimination of a political level of government at the provincial level. 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, 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-tiered system, the national and the local government levels. Provincial governments should be abolished. The 1995 reforms and the Organic Law on Provincial 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 (Papua New Guinea. Public Sector Reform Advisory Group 2006).

While at first glance, it might seem that a proposal to eliminate the provincial political level of government would be at odds with the NEFC reform of the provincial financing arrangements, in fact there is no fundamental contradiction that would preclude the implementation of both reforms. Thus, the implementation of the RIGFA proposals will not pre-empt the debate over the elimination of provincial government nor preclude the adoption of the PSRAG proposals. Two fundamental underlying characteristics of the RIGFA proposals contribute to their adaptability to a decentralized system that does not possess political institutions at the provincial level. Although funding under the RIGFA arrangements is allocated to **provincial governments** the important principle underlying the funding is that it is destined to serve the population of a specific **province**, and under the present arrangements provincial governments are the structures given the authority to receive and allocate the funding. The second principle on which the RIGFA proposals is founded is “funding follows function”, where the financing of activities is provided to the particular institution responsible for carrying out those activi-

ties. A third principle underlying the NEFC reforms is that funding is based on relative need (defined as costs minus revenues), bringing the funding arrangements back into consistency with the constitutional goal of equal access to services by all the people of PNG.

In the absence of provincial governments, the funding of activities previously carried out by provincial governments could be directed to the institutions assuming those responsibilities, be they national departments with provincially-delimited responsibilities, administrative institutions at the provincial level, district authorities, or local level governments within each province as proposed in the PSRAG report. The funding that is now provided to a particular provincial government would be provided to the appropriate institutions assuming the delivery of services in that province. These institutions would then be funded on the basis of need, ensuring that all citizens have equal access to services. These observations should not be taken as support for the elimination of provincial governments, but rather as an argument that the implementation of the NEFC reforms should not be deferred on the grounds that it prevents discussion of the possibility of adopting reforms proposed in the PSRAG report.

4. Greater Provincial Autonomy

East New Britain Provincial Government is actively pursuing a policy to acquire a greater degree of autonomy within the decentralized system of government. The East New Britain proposals are the most advanced among those of several provinces which aspire to the same status of greater autonomy. Extensive preparation at the provincial level has been followed up at the national level in the form of a cabinet submission that was prepared and submitted to the NEC on August 23rd 2004. The purpose of the submission was to inform the NEC that the people of ENB expect an early response to previous submissions for East New Britain Provincial Government to achieve greater political autonomy (East New Britain Provincial Government 2004).

The main focus of the East New Britain request is to achieve greater autonomy in the areas of:

1. political structures – including a provincial constitution;
2. finance – including increased access to, and control over, revenue and; administration – including enhanced control over an increased range of government functions, agencies, and personnel.

The preparation of the request to be granted greater autonomy by East New Britain Provincial Government was undertaken within the structure of the existing system of decentralized government in PNG. It is clear that any form of provincial autonomy would be incompatible with some of the competing proposals for restructure of decentralized government, such as the elimination of provincial government altogether. However, in a situation where political institutions are retained at the provincial level, a policy of differential levels of autonomy is potentially feasible, and is not inherently incompatible with the NEFC reforms.

The focus here is not on the compatibility of the East New Britain proposal with competing models of reform, nor the desirability of a decentralized system with different levels of devolution of powers to different provincial governments, but rather the extent to which an asymmetrically decentralized system can be accommodated within the reform of financing arrangements contained in the RIGFA proposals. The issue is not whether the specific aspects of the East New Britain Proposal can be accommodated, but rather whether Papua New Guinea wishes to create a system of asymmetrical decentralization, where different powers are accorded to different provincial governments. Rather than framing the issue as one where some provincial governments have more autonomy than others, it is more useful to see the question as one of differential devolution of powers to individual provincial governments. The term autonomy has gained currency in Papua New Guinea, first as the inaccurate term “full financial autonomy” often replaced the correct “full financial responsibility” under the original OLPG. Subsequently it was used by the 1989 working group on devolution of powers (Papua New Guinea. Working Group on National/Provincial Devolution 1990), and more recently in the context of the creation of the Autonomous Region of Bougainville (Bougainville Transitional Government 1998c; 1998d).

Although the present East New Britain proposal explicitly rejects the Bougainville example as a

model for its request for greater autonomy, the specific elements of the proposal indicate that it has been inspired by that example, including provisions for increased funding in the form of a number of additional grants and transfers of revenue. The proposal also explicitly states that its provisions should be taken as a negotiating position, not as a final form of autonomy. If the East New Britain proposal is taken as the first example of devolving greater powers on provincial governments within a larger national policy of differential devolution, it can provide a model for future such requests within a framework that is accommodated within the new financing arrangements under RIGFA.

Greater provincial autonomy should not be taken to mean automatically having access to greater financial resources, and the ENB proposal should not be construed to mean that. Previous initiatives to grant greater autonomy to provincial governments were conceived as a means to give greater control over the allocation of resources to provincial governments which already had access to greater resources, and which possessed the capacity to allocate those resources in a more effective manner. Greater autonomy generally means more control over the sources of funding and over the allocation of funding, not necessarily more or larger grants or new taxing powers or greater proportion of rebated taxes. The greatest potential contradiction between greater autonomy and the new financial arrangements is that provincial governments with greater autonomy might seek a greater portion of the available funding for national and provincial government activities, thus making it impossible to achieve the goals of the NEFC reforms. If, however the East New Britain request is treated as an opportunity to develop a national policy on the differential devolution of powers within asymmetrical decentralization rather than the first of a number of "one off" requests, it could be accommodated within the NEFC reforms. In that case, the East New Britain example could serve as the basis for developing criteria, procedures, and institutions for a national policy on the devolution greater powers to provincial governments.

The research and principles underlying the NEFC studies on provincial government funding and spending provide a basis for developing such a policy. First of all, the research underlying this work provides data on the detailed costs of provincial government activities. Second, the principle of funding follows function provides the basis for increasing the funding of a provincial government when control over new activities is transferred to it. Third, the overall provisions for providing equalization funding for all provinces provides the financial parameters within which any provincial government could contemplate acquiring control over additional activities without compromising the ability of the national government to fund the decentralized system.

If it can be said that Bougainville autonomy cannot serve as an example for any other provincial government to follow, then it can also be asserted that the granting of greater autonomy to East New Britain must be in a form that can be a model for any other provincial government seeking greater autonomy. It must take a form that would assure that if every provincial government had that level of autonomy, Papua New Guinea would still be a viable functioning state and that the national government would be able to fulfill its responsibility of overall macro-economic control, including the ability to fund the equalization policies set out in the RIGFA proposals.

Under a national policy for differential devolution, provincial governments could qualify for control over the allocation of greater amounts of funding without necessarily receiving larger grants or retaining a greater amount of derived revenue, both of which could compromise the equalization elements of the NEFC reforms. Provincial governments could qualify for greater autonomy by meeting certain standards of organization, capacity and performance which would demonstrate their ability to exercise autonomy effectively. A fundamental criterion of qualification for autonomy would be the demonstration that the provincial government is presently managing the funding over which it presently has control in an effective and efficient manner. This could be achieved by reducing the amount of misappropriation and corruption, in addition to reallocating funds from such high overhead costs as administration towards the funding of service delivery.

Another performance criterion could be the application of funds from the Provincial Support Grants and District Support Grants to the funding of provincial services, where it could be directed towards the activities and areas most in need. In this way, meeting the performance criteria for greater autonomy could also serve the equalization goals of the NEFC reforms. Additional funds would be directed towards provincial needs as determined by the provincial government, reflecting the essence of greater autonomy. This would help dispel the perception that greater autonomy necessarily involves additional grants from the national government, which, on the contrary, implies greater de-

pendence, the opposite of autonomy. As part of this criterion, provincial governments seeking greater autonomy would be encouraged to direct more funding to the sectors most requiring it. This would further reduce pressures to divert funds from national equalization needs in order to fund greater autonomy.

If Papua New Guinea is to adopt a policy of differential devolution of powers it should do so within a broader framework of asymmetrical decentralization, whereby different degrees of control over specific activities are devolved on individual provincial governments. The provisions contained in the RIGFA proposals can assure that a realistic, workable autonomy framework is adopted within the financial constraints of a viable funding system for provincial governments, where the principles of “funding follows function”, and greater equalization are respected. The RIGFA proposals contain a number of mechanisms to specifically address calls for increased autonomy. For example, it is possible for a provincial government to negotiate with the national government the right to take on additional responsibilities. Provincial governments can also enter an agreement with the national government that would provide greater budgetary freedom for provincial governments that have a demonstrated capacity to manage their budget well.

From these observations it is clear that there is no reason to defer the full implementation of the RIGFA proposals pending a decision on the request for greater autonomy from East New Britain Provincial Government. Conversely, in order for the decision on East New Britain’s request for autonomy to be considered within the larger question of a national policy on differential devolution, a final decision on that request should be made only after the consideration of such a national policy on differential devolution can be undertaken within the broader proposals for the restructure of decentralized government in PNG.

5. New Provinces of Hela and Jiwaka

One of the more fundamental changes to be put forward since the creation of the Autonomous Region of Bougainville is the proposal to create two additional provinces in the highlands region. Consideration is being given to the creation of a separate province of Jiwaka out of part of the Western Highlands Province, and a separate province of Hela out of the Southern Highlands Province. Both of these proposals have been advanced by interests in these two provinces, and have been given encouragement by promises of support by national politicians.

The Jiwaka people of Western Highlands have been fighting for a separate province since 1974. The Jiwaka people inhabit a region that used to be the Minj sub district in colonial days, one of four sub-districts that made up the Western Highlands District, along with Mendi sub-district, Wabag sub-district and Hagen sub-district. Mendi sub-district became Southern Highlands District in 1974, Wabag became Enga Province in 1978/79 and Minj and Hagen sub-districts remained to make up Western Highlands Province. The proposed Jiwaka Province would comprise the three electorates of Jimi, North Wahgi, and South Wahgi electorates.

The push for a separate Hela province within Southern Highlands has been ongoing for the past 30 years, and now more than ever it has become an agenda item of national importance. The foundations for the move to create a separate province of Hela lie in the cultural roots of the people of the area. The Hela people created the Hela Association in the 1970s to work towards a separate Hela District (eventually province). The association was incorporated as the Hela Gimbu Association in 1985. A significant impetus for this move was provided by the discovery of rich oil and gas fields which are being developed.

The development of an underlying law to institutionalize the clans in Hela as a unit for development has been one of the currents driving the Hela Gimbu Association’s pursuit of the issue. The Hela initiative is based on the idea that representation would effectively be through clan chiefs rather than a council ward, which, it is argued, is a foreign idea ill-adapted to the conditions in Hela.

The proposal to create the new province of Hela was adopted as official policy of the National Alliance at its national convention in Kokopo in 2001. The proposal was also part of the official party platform in the 2002 national elections and in the 2003 supplementary elections in the Southern Highlands. It was originally believed that the new provinces could be created by the Boundaries Commission, which turned out to be incorrect, as the creation of new provinces can only be enacted

by the National Parliament through constitutional change and amendment of organic law. In 2005, the National Government established the Ad Hoc Parliamentary Committee on Hela Province, chaired by Sam Abal, Member for Wabag, to investigate the possibility of creating a new province of Hela. This committee developed a submission to the NEC, which resulted in a proposal to the National Parliament to create the Province of Hela, comprised of the Tari-Pori, Koroba-Kopiago, and Komo-Magarima electorates.

February 28, 2007, a submission was presented to Parliament, but the legislation required to create the new provinces of Hela and Jiwaka failed to pass. Parliament voted unanimously (69-0) to create Hela Province. Although all members present voted in favor of the bill, the number still fell short of the required 73 absolute majority vote required. The government had the number of votes necessary to create the separate provinces of Hela and Jiwaka, but their representatives were absent during the taking of the vote. Many of the Southern Highlands members were not there at the time. (*Post-Courier* April 19, 2007). The Members for Komo-Margarima, Tari-Pori and Koroba-Lake Kopiago were not present and did not vote. Prime Minister Sir Michael Somare indicated that the legislation could not be passed until all MPs, especially Southern Highlands leaders, supported the bill.

During the 2007 election campaign, Prime Minister Grand Chief Sir Michael Somare told a huge crowd at Banz and Minj that if he became the next prime minister, he would support the creation of a separate province for Jiwaka. Since the re-election of the Somare government there have been additional statements on the part of politicians assuring Hela and Jiwaka that they will be given provincial status. Friday, February 8, 2008, the Papua New Guinea *Post-Courier* reported that the Deputy Prime Minister Dr. Puka Temu informed the National Parliament that the Prime Minister and his government were fully committed to the establishment of Hela and Jiwaka provinces, and that they would be in place by the 2012 elections.

Of all the proposals for the reform of intergovernmental relations presently under consideration the creation of new provinces of Hela and Jiwaka stands out as the policy initiative that has been subjected to the least amount of scrutiny within the criteria of good governance. And it is the most difficult of all the proposals to reconcile with the NEFC reform of intergovernmental financial arrangements.

The equalization provisions of the RIGFA proposals are spatially based on existing provincial boundaries. Even in the absence of provincial governments (in a district based system of decentralization) the districts within the boundaries of a province would define the territory to be served. The fundamental change in boundaries inherent in the proposals to create two new provinces would require a recalculation of needs that form the basis of the equalization formula. The new financial arrangements might arguably be compatible with the creation of administrative and political structures on new provincial boundaries with funding based on distribution of districts within those boundaries. Although cumbersome, this would not be an impossible task. More problematic is the basis for calculating derived revenue and transferred taxes that comprise part of the funding sources of provincial governments. Of course, one of the major motivations for a new province of Hela is that it would argue that it should receive the revenue based on rich mineral deposits that are presently shared with the entire province of Southern Highlands. The implementation of the creation of additional provinces would necessitate a major reorganization of the structure of the financing arrangements contained in the NEFC reforms.

The proposal to create the provinces of Hela and Jiwaka is a classic example of “constitutional tinkering”, a piecemeal approach where specific individual changes are made in fundamental laws based on short-term, narrowly based interests founded in political expediency. Such changes do not take into consideration any implications beyond the political *quid pro quo* involved in the promise of granting concessions in exchange for political support. The problem is that the content of these policy decisions has been determined on the basis of narrow political bargaining rather than on the broader concerns of good governance, and often without the slightest attempt to understand the implications of the change beyond the immediate political considerations.

Not only have the proposal to create new provinces of Hela and Jiwaka not been considered in relation to the criteria of good governance, such as the underlying capacity to carry out the responsibilities of provincial government, the impact on service delivery, the performance of existing structures, etc. But no formal assessment has been made of their impact in the larger context of Western High-

lands Provincial Government, Southern Highlands Provincial Government, other provincial governments, and the national government's capacity to meet its own fiscal responsibilities. Inclusion of these factors is essential for any responsible consideration of policy changes of this fundamental nature.

It should be clear from the previous discussion that deferring implementation of the RIGFA proposals so that they can be reconsidered in light of an eventual decision to create additional provinces is not advisable. Rather, any consideration of the creation of Hela and Jiwaka provinces should be deferred until it can be evaluated within the larger context of the restructure of decentralized government, including the new financial arrangements.

6. Direct Funding of Districts

Although there is no formal proposal for a rebuilding of decentralized governments on the model of direct funding of districts, there are advocates of this approach. In one sense, it could be seen as the logical extension of the trend in the evolution of decentralized government in PNG that was embodied in the 1995 reforms. The adoption of the OLPGLLG of 1995 signaled a victory of national politicians over provincial politicians with control over allocation of provincial funds falling under the influence of national Members of Parliament. The most transparent of the elements of this trend was the adoption of the Electoral Development Authorities, and it was further extended by the statutory obligation to pay funds to MPs in the form of Provincial Support Grants and District Support Grants. It and received further impetus in the 2007 supplementary budget which provided an additional K10 million to each MP. Along with the elimination of directly elected provincial legislatures and the domination of district and provincial priorities committees, national politicians have further increased their dominance in provincial affairs.

As the portion of total government spending paid directly to MPs increases, there are fewer resources to allocate to other national and provincial priorities, including the financing provisions of the NEFC reforms. If present trends continue and these amounts grow, it is conceivable that direct funding to MPs could come to dominate the funding of provincial governments, effectively undermining the goals of the NEFC reforms. The allocation of the funds directly to MPs is determined neither on the basis of need, nor according to the principle of funding follows function. There is no assurance that the funds will be used to address the shortcoming in delivery of services, as the temptation to distribute the monies in a politically advantageous manner is strong. Many new projects will appear while basic services decline. The amounts are not even based on per capita amounts, but paid equally to each MP. Its distribution is based solely on expediency, where if one MP gets a certain amount all MPs want to get the same amount.

As the direct funding of electoral districts through Members of Parliament is presently implemented, it violates some of the fundamental principles of good governance, and conflicts with the goals of the NEFC reforms. There is an inadequate system of accountability of these funds, and they serve to further blur the line between policy making and policy implementation. The basic goals of stabilization, equalization, and development that were painstakingly crafted into the RIGFA proposals are undermined to the extent that direct district and provincial funding to MPs assumes larger proportions. As they now stand these funding arrangements do not conform to the principles embodied in RIGFA, and to the extent that they are expanded they will further undermine these reforms.

In spite of the fundamental contradictions between the NEFC reforms and the direct funding of MPs, it is possible to envisage modifications in the district funding arrangements that could be compatible with the implementation of RIGFA. Fukuyama argues that, given the political realities of PNG, it is unrealistic to hope for the immediate abolition of direct funding of districts through Members of Parliament, but that it is feasible to envisage the modification of these arrangements (Fukuyama 2007). Certain modifications could be put into effect that would make the direct funding of electoral districts more compatible with the NEFC reforms. The first and most essential step would be to subject these payments to the most stringent accountability procedures to reduce the potential for misappropriation and corruption, including the requirement that they be channeled through the provincial budgeting process along with all other sources of funding. This would imply that these funds be included in the resources allocated to the priorities determined by the provincial and district administration, rather

than by the individual MP.

A second step, admittedly more difficult to achieve politically, would be to allocate at least some portion of these direct grants on the basis of the NEFC criteria of greater funding towards provincial governments with greater need. While these modifications might reduce some of the shortcomings of direct provincial funding through electoral grants, more extensive changes are needed to make them compatible with the central principles of the NEFC reforms. The payment of equal direct grants to all MPs violates both the equalization principle of directing more funding to where there is greater need and the principle of “funding follows function”. Although it would face formidable political resistance, the replacement of equal grants to each MP with grants whose calculation took into account relative need based on NEFC criteria would allow these funds to support rather than undermine the central thrust of RIGFA.

An incentive that might help overcome political resistance to the proposals such as the ones outlined above would be to link the granting of greater provincial autonomy to the meeting of performance criteria that would include the allocation of direct provincial funding according to the principles of good governance. The addition of electoral district grants to the total funding available to a provincial government would provide additional resources to be allocated to provincially-determined priorities as part of the greater autonomy of that provincial government.

IV. CONCLUDING REMARKS

The aim here is not to advocate the adoption of any one or several of the proposals discussed above. Rather, the purpose is to demonstrate that while the different proposals on the table may be directly contradictory to one another, none of them is inherently incompatible with the RIGFA reforms. There is no attempt to make the argument that there are not fundamental contradictions between any particular proposal and the NEFC reforms, or that no conceivable amendments to decentralized system are incompatible with RIGFA. Rather, the idea is to show that the RIGFA reforms are so important that they should not be delayed because of their potential incompatibility with any of the proposals for constitutional reform presently on the table. Some proposals may be difficult to reconcile with the RIGFA proposals, such as creation of new provinces, but these proposals need to be considered within the context of the requirements of good governance, and should take the RIGFA proposals as a given, and work within that context.

There are compelling reasons for structuring any further reforms to decentralized government around the RIGFA proposals. The extensive work of the NEFC has assured that these proposals have been:

- built on fundamental principles of fiscal decentralization;
 - based on detailed research on the needs of the people of PNG;
 - constructed in such a way as to respond to the basic goals of decentralization in PNG;
- rooted in strong political support developed through effective consultations.

The NEFC reforms are invaluable as a contribution to the improvement in the funding of basic services to the people of PNG. They respond to the original goals of funding decentralization: stabilization, equalization and development. The principle of stabilization is served by basing the amount of funding for delivery of services on the actual cost of delivering those services. The principle of equalization is served by providing for the redistribution of the amounts of funding according to the greatest needs. The principle of development is served by providing for increases in the level of funding to recognize the growing needs of the people of PNG.

The conclusion to be drawn from this analysis is that the NEFC reforms should be adopted as the basis for all further reforms of decentralized government, and that no effort to defer their adoption should be based on the idea that their implementation will eliminate the consideration of any of the options presently under consideration or likely to be considered in the present restructure of decentralized government. The RIGFA proposals as developed by the NEFC should serve as the centre-piece of future reforms, with other options that may be adopted being tailored to these reforms. The point is not to adapt the financial arrangements to the political structure of decentralization, but to adapt the political structure to the financial arrangements. Previous attempts at reform were based on the contrary proposition that funding arrangements should be adapted to administrative and political reforms.

Building on the NEFC reforms is not only desirable because of the inherent value of the RIGFA arrangements, but it is eminently feasible because of the way these reforms have been developed. Funding is based on the functions being carried out, by whatever institutional level, and needs have been determined on a spatial basis independently of whether these needs are funded by institutions at the local, district, provincial, or national level. Needs have been determined on the basis of activities carried out within the territory of a particular province, and financial resources can be directed to the institution carrying out the activity that requires funding. The ability to tailor other reforms to the RIGFA proposals lies in these characteristics of the reforms. The new funding arrangements:

- are not tied to any particular institutional structures;
 - do not require political or legislative institutions at the provincial level;
 - do not require a system based on symmetrical decentralization;
- are compatible with a system based on administrative decentralization.

In conclusion it is important to underline that any proposal for the restructure of decentralized government must be assessed according to criteria of good governance. Every proposal must be examined as to what it aims to accomplish. Is it an appropriate goal? Is it likely to achieve the goal? What is its impact on the immediately interested party? What is the impact on other provincial governments? What is the impact on the overall process of government in PNG, including the broader goals of the national government? What is the likelihood that there is the capacity to implement a particular reform?

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