

LOWY
INSTITUTE

Papua New Guinea's fiscal decentralisation: A way forward

ANALYSIS

MAHOLOPA LAVEIL

March 2024

LOWY INSTITUTE

The Lowy Institute is an independent policy think tank. Its mandate ranges across all the dimensions of international policy debate in Australia — economic, political and strategic — and it is not limited to a particular geographic region. Its two core tasks are to:

- produce distinctive research and fresh policy options for Australia's international policy and to contribute to the wider international debate
- promote discussion of Australia's role in the world by providing an accessible and high-quality forum for discussion of Australian international relations through debates, seminars, lectures, dialogues and conferences.

Cover image: Kula Rings, Trobriand Islands, Papua New Guinea (David Kirkland/Getty Images)

Lowy Institute Analyses are short papers analysing recent international trends and events and their policy implications.

Responsibility for the views, information, or advice expressed in this report is that of the author. The contents of this report do not necessarily reflect the views of the Lowy Institute.

Published 4 March 2024

31 Bligh Street
Sydney NSW 2000

[lowyinstitute.org](https://www.lowyinstitute.org)
+61 2 8238 9000

Version 2024-02-29.6EDE882

Contents

Key findings	4
Executive summary	5
The challenges of measuring and delivering development	6
Decentralisation: Can it make a difference?	8
Fiscal decentralisation in PNG: Missed opportunities	11
Phase 1: Large financial powers but poor governance (1977–1995)	11
Phase 2: The beginning of MP “slush funds” (1984 to present)	12
Phase 3: More continuity than change (1995 to present)	14
Swings and roundabouts persist	16
Finance continues to inhibit decentralisation	18
Budget inequities	22
Staff spending crowds out service delivery	22
Revenue remains inadequate for operational needs	24
Service delivery spending	25
Service delivery oversight	26
Development budget	27
Governance over capital spending	29
Pathways towards improving decentralisation	30
Conclusion	33
Acknowledgements	35
Appendix A: List of acronyms	36
Appendix B: Exchange rates for PNG	37
Notes	38

Key findings

- Papua New Guinea’s fiscal decentralisation efforts have not improved governance, which has been hindered by a lack of accountability and capacity, coupled with political interference.
- Revenue to provide services at the provincial and local levels remains inadequate. In 2021, no province possessed the fiscal capacity to meet all its spending needs, and total real (adjusted for inflation) revenue collected in the provinces was lower than in 2019.
- To improve outcomes from decentralisation, the PNG government needs stronger reporting and accountability standards, a better understanding of capacity constraints, more effective oversight and anti-corruption agencies, and the phasing out of MP “slush funds”.

Executive summary

Fiscal decentralisation in Papua New Guinea (PNG) has been a contentious topic for much of the country's history. PNG has had several attempts at decentralising fiscal responsibilities, without much success in improving governance or service delivery. This is concerning, given sub-national funding has increased in the past decade. Governance has deteriorated over time as more responsibilities and funds are channelled to lower levels of government, including through unaccountable transfers to members of parliament (MPs) to use at their discretion. Government effectiveness and service delivery have suffered as a result, leading to poor development outcomes.

This paper examines the weaknesses in the decentralisation process and how these mechanisms can be strengthened. Data collected from PNG government budget reports is analysed both for insights into the decentralisation of finances to provinces since 2007 and implications for service delivery and accountable governance. Where data are publicly available, the paper compares sub-national revenues and operational and capital spending across provinces, provides contrasts to global experiences, and relates the insights gained from field interviews of province and district administration staff in two provinces: East New Britain and New Ireland. The paper concludes with reflections on policy implications.

The challenges of measuring and delivering development

As the largest nation in the Pacific region, PNG's population in 2021 was estimated at 11.8 million, with an annual population growth rate of 3.1 per cent.¹ However, there are serious doubts about the accuracy of population and other data, given the last census in 2011 was considered a failure and PNG scored below the low and middle-income country average in statistical capacity in 2020.² According to official figures, PNG's population growth has exceeded the growth of real non-resource GDP, averaging 2.2 per cent since 2011, leading to a decline in average living standards.

The level of revenues and services diminishes the further one moves away from the capital, Port Moresby, and even there, services and the reach of government are patchy.

PNG is classified by the World Bank as a lower middle-income country.³ Although gross domestic product (GDP) is a standard global measure of economic performance, PNG's dominant extractive sector, which includes mining and petroleum industries, is largely foreign-owned and employs few nationals, making GDP an inappropriate measure for the living standards of the average Papua New Guinean.⁴ Gross national income (GNI)⁵ is a better measure, but PNG lacks reliable GNI data, leaving non-resource GDP (excluding mining and petroleum GDP) as the best alternative. PNG's real (adjusted for inflation) non-resource GDP per capita in 2020 was K5053 (AU\$1460); lower than its 2013 resource boom level. This reveals that the gains from the resource sector have failed to sustainably lift living standards.

The gap between the wealthy and poor is growing — a fact that is not well captured by national statistics. This is reflected in PNG's dual economy, comprising a formal sector and an informal sector primarily reliant on traditional subsistence farming and low-value cash crop exporting. In 2019, it was estimated that the formal sector only employed 367,000 people⁶ or 7.8 per cent of PNG's workforce.⁷ Government services have failed to reach most in rural and remote areas — where a majority of the population lives — further exacerbating the divide between the cities and rural areas.⁸

The level of revenues and services diminishes the further one moves away from the capital, Port Moresby, and even there, services and the reach of government are patchy. Much of the population lives away from cities in four diverse geographic regions: Highlands, Islands, Momase, and Southern. The most recent census reported 39 per cent of the population resides in the agriculture

and resource-rich Highlands, 26 per cent in forest-laden Momase, 20 per cent in the coastal Southern, and 15 per cent in the tropical Islands. These regions are further divided by province, and then by district within each province (Figure 1).⁹ Local level governments (LLGs) operate under districts, which are further divided into wards as the lowest level of government administration.

Figure 1
Papua New Guinea by province



See www.lowyinstitute.org/publications/papua-new-guinea-s-fiscal-decentralisation-way-forward for real revenue and spending data. Map based on Terence Wood, “Papua New Guinea Election Results: Trends and Patterns 1972-2012”, Development Policy Discussion Paper No. 55, 28 February 2017.

The many layers of government make service delivery and accountability challenging and costly. The result has been poor governance. In 2021, PNG ranked in the lowest global quartile in all six of the Worldwide Governance Indicators (WGI): control of corruption, political stability and absence of violence/terrorism, voice and accountability, rule of law, government effectiveness, and regulatory quality.¹⁰

Decentralisation: Can it make a difference?

Decentralisation has been pursued globally to improve service delivery and governance, and PNG is no exception.¹¹ Decentralisation can take one of four forms, depending on the extent of devolution of financial powers, ranging from power delegated by a national government to complete local autonomy (Figure 2).

Decentralisation with least autonomy is termed “delegation”. Delegation involves all decision-making power being vested in national government, with limited revenue-raising and spending responsibilities delegated to sub-national governments through legislation, mainly to enact centralised policy. A more decentralised form of government is termed “devolution”, in which sub-national governments are granted the power to pass their own legislation but still have limited revenue-raising capability. Following from devolution is an arrangement termed “regionalism”, which involves instituting an elected authority above local government but which is subordinate to national government. The final form of decentralisation is “federation”, where public power is constitutionally divided between national and sub-national government, each acting autonomously and accountable to its constituency.

Figure 2
Degrees of decentralization



SOURCE Cheryl Saunders and Anna Dziedzic, *Decentralized governance arrangements in Papua New Guinea: a framework for national conversation*, No. 10, October 2022, (Boroko, PNG: The National Research Institute, Papua New Guinea, 2022)

The primary benefit of decentralising responsibilities to sub-national governments is that it brings government closer to the people. This allows government to be better informed, increasing the efficiency of service delivery

by matching services more accurately with needs.¹² A government closer to its citizens enables greater accountability and addresses some of the challenges faced by centralised governments managing regions that are geographically widespread and with unique needs. It is claimed that decentralisation has raised welfare in countries as diverse as Ireland and Vietnam.¹³

A principle that guides the devolution of powers is that of “subsidiarity”, which entails devolving as many functions as can be effectively delivered to the lowest levels of government possible.¹⁴ Decentralising fiscal responsibility involves vesting the powers of taxing, spending, and regulatory authority in sub-national governments according to their capacity.

It is argued that governance is improved when members of sub-national governments are directly elected from their constituencies and the concentration of power in a single level of government, usually national government, is reduced. This argument assumes that sub-national governments are responsive to the needs and demands of the communities they serve. In practice, the pool of trained and experienced people in governance at the provincial and local levels may be limited.¹⁵ The resources, and will, to ensure systems are accountable are often weak.

Further, some services are still more efficiently provided by national government. These services, classified by economists as public goods, possess two characteristics. First, they are non-excludable, in that consumption does not exclude other consumers from access. Second, consumption of this service is non-rival, meaning the costs from additional consumption of the good are zero. Examples of services more efficiently provided by national government include national defence, macroeconomic management, foreign relations, and currency management.¹⁶ More complex is the delivery of services such as health, education, and transport, where regional circumstances can influence how effectively these are delivered at lower levels of government.

In PNG, decentralisation has not brought about the anticipated benefits. Sub-national governments faced many challenges when powers were devolved, not all of their own making.

In practice, decentralisation has proved problematic. In a 2022 report, UNSW finance professor Satish Chand outlined five challenges to implementing fiscal decentralisation in PNG: inadequate funding to sub-national governments, overspending by sub-national governments, weak revenue generation, ineffective service delivery, and the inability of sub-national government structures to adapt to changing circumstances.¹⁷ Another risk is that of political interference. With little accountability and the need to secure financial resources for re-election, there is an incentive to evade accountability measures and to abuse office, giving rise to erosion of good governance and service delivery.¹⁸ This is known as the principal/agent problem wherein local government officials (agents), who are elected by a constituency (principal), fail

to serve the constituency's best interests.¹⁹ The abuse of office may involve misappropriating funds and, at times, outright corruption.

In PNG, decentralisation has not brought about the anticipated benefits. Sub-national governments faced many challenges when powers were devolved, not all of their own making. When functions were devolved, adequate resources, capacity, and regulatory mechanisms to support the shift were often missing. In many cases, the seeds of failure were planted at the early stages of devolution.

Fiscal decentralisation in PNG: Missed opportunities

Fiscal decentralisation in PNG has been shaped by several key reforms in both legislation and policy. These reforms introduced new tiers of sub-national administration, new revenue streams, revisions to spending powers, and modifications to processes used to transfer funds from national government. Each new iteration of the decentralisation process failed to adequately learn from the previous one. Three different efforts have been made to decentralise fiscal powers with the intention of improving governance and service delivery in PNG; a close examination of these efforts can yield lessons for future efforts.

Phase 1: Large financial powers but poor governance (1977–1995)

In preparation for independence in 1975, work began in 1973 to design PNG's sub-national government system under the Constitutional Planning Committee, which intended to create provinces with strong political control. But this was quickly reversed post-independence, and in 1977 it was agreed that the national government would determine which policies it wished provinces to carry out while retaining control over provincial administration.

The Organic Law on Provincial Government (OLPG) introduced in 1977 established two tiers of government: national and provincial. Although the law established provincial financial powers that were federal in nature, provincial legislative powers were subordinated to national government approval, with national government granted the power to suspend a province that was deemed as not acting in the “public interest”. The division of legislative powers devolved to the provinces was significant, strengthening the political power of provincial administrations under the provincial MPs.²⁰

Financial provisions for the provinces were considerable: exclusive provincial taxes, conditional and unconditional grants from national government, and allocations from national taxation. Provinces were also allowed to borrow.²¹ Even with these additional revenue-raising powers, provincial governments were still heavily dependent on grants from the national government. By 1980, provinces' tax and non-tax revenue comprised only one per cent of all spending. Provinces varied in tax collection capacity, and there was no consistency in revenue-raising mechanisms across the provinces. Different provincial taxes were introduced, and tax collection varied in form and effectiveness. The bulk of

tax raised was concentrated in Morobe and the National Capital District, provinces with more capable administrations and greater financial resources.

It was concluded that the distribution of payments from national government failed to reduce provincial inequalities, and per capita spending did little to improve provincial development.

Expenditure levels were determined after consultation between national government and the provinces, but the national government reserved the authority to reallocate between different spending areas. Equalisation was determined by making payments per capita equal among provinces, and by other consider-

ations including “the location and physical nature of a province”, “the lack of development of a province”, or “any other relevant factor”.²² In theory, funds were allocated to reduce inequality between the provinces, to supplement administrative costs, and to maintain infrastructure, but in practice, capacity gaps remained as national government transfers did not strictly adhere to the per capita principle, leading to some more populous provinces being allocated more on a per capita basis.

Only a few provincial spending areas achieved effective enforcement of non-compliance with reporting requirements, which led to a breakdown of governance in this period. Provincial governance was generally weak. A 1983 amendment to the provincial law permitting the suspension of provincial governments for non-performance saw 15 of the then 20 provinces suspended on grounds of financial mismanagement by 1995.²³

It was concluded that the distribution of payments from national government failed to reduce provincial inequalities, and per capita spending did little to improve provincial development. This phase suffered from three key weaknesses: a transfer of revenue-raising powers without adequate capacity, a lack of accountability for expenditure, and inadequate systems to assess the need to reduce inequalities between provinces.

Phase 2: The beginning of MP “slush funds” (1984 to present)

The introduction of MP slush funds represented the second phase of decentralisation, which attempted to make financial transfers consistent across districts, but still failed to deal with the capacity, accountability, and equity issues adversely affecting the first phase. This second phase was a push towards regionalism as a form of decentralisation, as district spending was determined by national government, with future funds contingent on satisfactory completion of projects. Constituency Development Funds (CDFs), more colloquially known as MP slush funds, were formally introduced into the national budget in 1984 under the National Development Fund, with initial allocations of K10,000 for each district MP (then numbering 89).²⁴ The

National Development Fund was rebranded as the District Services Improvement Program (DSIP) in 2013.

There are spending guidelines for the MP funds, with allocation focused on infrastructure, health, and education. In practice, however, MP funds have been used as tools of electoral patronage and, on a per capita basis, are some of the highest in the world.²⁹ A common complaint about the funds is that they are often used to reward and expand an MP's voter support base.

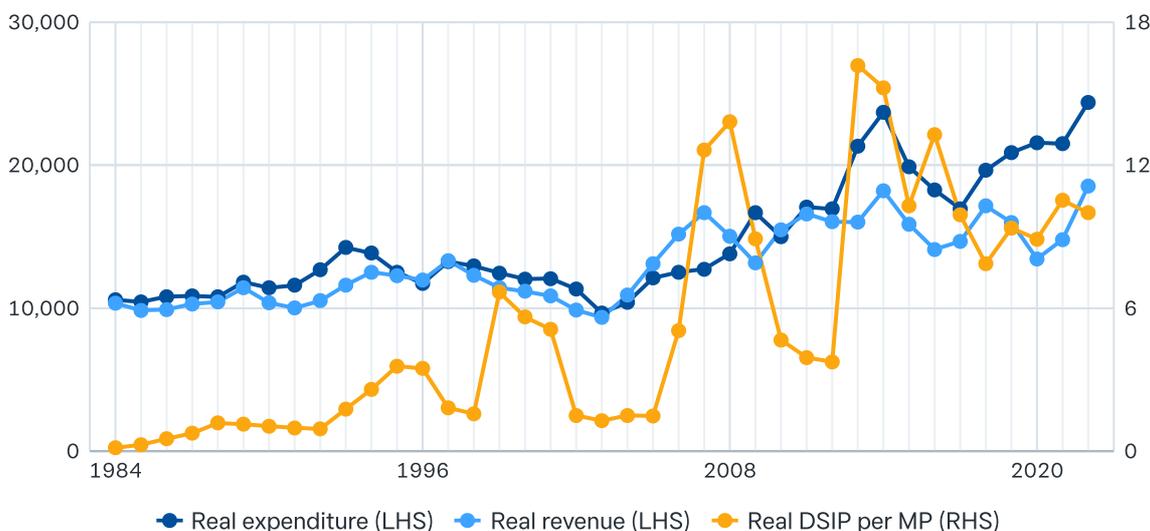
Box 1: PNG's "slush funds"

PNG's Services Improvement Program (SIP) is a form of constituency development fund (CDF). Although CDFs vary considerably from country to country, all such funds are transferred from central government to constituencies where spending is controlled to a significant degree by the local politician.²⁵ Because PNG's SIP funds are administered by committees chaired by district or provincial politicians, they are often referred to as "slush funds".²⁶ CDFs, or CDF-type funds, have existed in some countries since the late 1960s. CDFs are now thought to exist in 15 countries,²⁷ with PNG's SIP being the highest as a share of total government spending in the world.²⁸

Since 1984, the level of district slush funds has been volatile but has grown steadily, at times experiencing large spikes.³⁰ This volatility is a consequence of slush funds being contained in the development budget, and rising and falling with national government revenue. When government revenue fell, MP slush funds were reduced to accommodate the shortfall.

MP slush funds have experienced four large spikes (Figure 3). The first occurred between 1993 and 1995, when government revenue rose as log and coffee prices increased, enabling MP slush funds to rise by 178 per cent. A second spike occurred in 1999, when the government sought financing from the central bank and when the Value Added Tax (VAT) was introduced, causing MP slush funds to increase by 335 per cent. Between 2006 and 2008, increases in log and mineral prices caused another surge in government revenue, enabling slush funds to increase by 403 per cent. The final large spike came in 2013, when tax revenue was boosted by the PNG Liquefied Natural Gas (LNG) project construction phase enabling an increase of 258 per cent.³¹ With each spike, expectations rose but not accountability, and the funds largely failed to build the capacity of the districts to meet development challenges and improve welfare.

Figure 3
Trends in real DSIP fund per MP, real national government revenue and spending
 Kina millions (2022 prices), 1984–2022



SOURCE Author's calculations

Phase 3: More continuity than change (1995 to present)

Financial functions became more centralised with the introduction of the Organic Law on Provincial Governments and Local Level Governments (OL-PLLG) in 1995, which repealed the OLPG of 1977. The new law introduced a third tier of government — Local Level Governments (LLGs) — and was later amended to add another tier in 2013 called District Development Authorities (DDAs). Although the provinces retained access to grants from national government, collection of large revenue sources such as sales taxes was subsumed by national government and generally saw PNG's sub-national fiscal arrangement move towards a hybrid between a regional and federal arrangement.

Heavy dependence on national government meant that national grants expanded to include provincial and local level administration, provincial infrastructure development, local level government and village services, town and urban services, provincial and local-level staffing, and a grant equivalent to exports sourced from the province (five per cent of the province's export value). The local level government and village grant, and the town and urban services grant, were allocated based on population. A major problem was that sub-national grants were variable and disbursed too slowly, impeding service delivery. By 2006, the National Research Institute observed that most provinces and local level government administrations were inadequate in "scale, finance, or function",³² arguing that the functions devolved to these levels were too fragmented for services to be delivered appropriately.

Revenues expanded with the introduction of Value Added Tax in 1998, but revenue inequities persisted among the provinces. Value Added Tax was later rebranded the Goods and Services Tax (GST) in 2003.³³ GST added another significant revenue stream for provincial governments. The funds are collected by the national government and distributed according to where they were generated, not where needed. Thus, the bulk of GST remains with National Capital District and Morobe, the two provinces with the most economic activity, leaving provincial inequities unsolved. Furthermore, volatile national government revenues in this period meant provincial needs went unmet as revenues did not match the devolved service costs.

One improvement to governance came through the Intergovernmental Relations (Functions and Funding) Act introduced in 2009, which unified all transfers to the provinces under a single transfer termed the Function Grant. The new Act established the National Economic and Fiscal Commission (NEFC), whose responsibility was to assist sub-national governments formulate budgets and assess performance. However, governance generally deteriorated and by 2014, it was noted that though fiscal strategies were satisfactory, management, accounting, and reporting at the provincial level were “very weak”.³⁴

As of 2023, PNG’s sub-national governments have expanded to comprise 22 provincial governments, 96 district authorities, and 333 local level governments. Unfortunately, more did not prove to be better.

Provincial governments failed to provide oversight of district planning. Poor accountability was not surprising, given provinces suffered a lack of administrative capacity, poor commitment by government officials, political appointments and interference in administration, excessive spending on staff remuneration, and high numbers of staff working in temporary positions.³⁵ With this phase of decentralisation, the number of sub-national governments increased without addressing systemic weaknesses such as administrative capacity, financial reporting, and auditing.

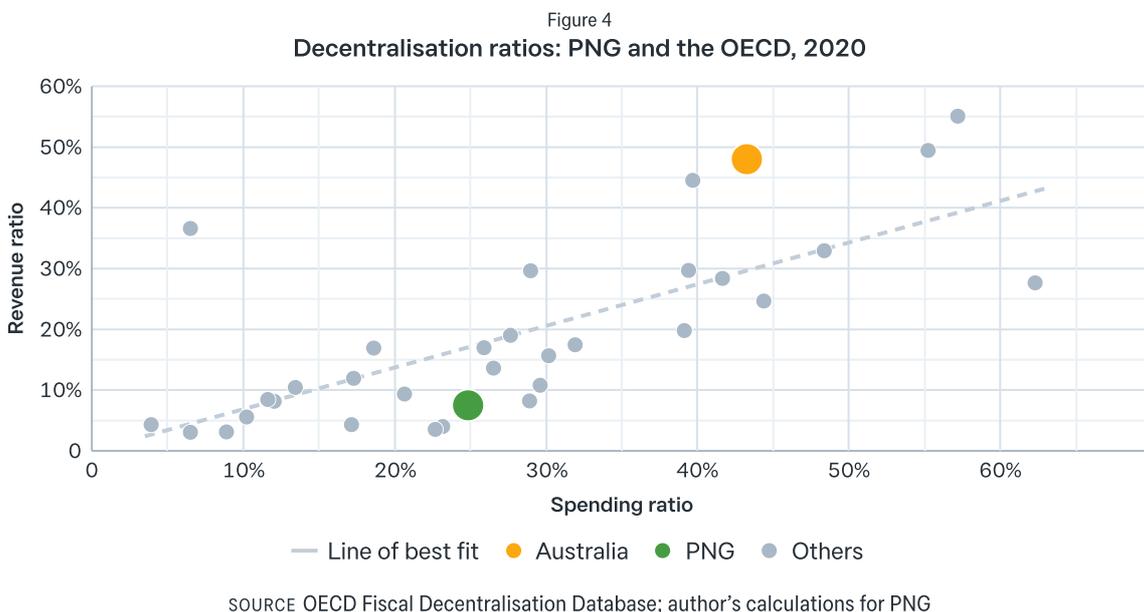
In 2014, parliament amended the 1995 law to further empower local government. It removed the Joint District Planning and Budget Priorities Committee, with an accompanying Act to create District Development Authorities with greater decision-making power. These authorities have effectively added a fourth tier of government. But governance and service delivery safeguards for district authorities are poor.³⁶ Districts do not possess revenue-raising powers and rely only on MP slush funds for spending. The Department of Implementation and Rural Development, tasked with monitoring MP slush fund projects, has only been able to visit 16 of the then 89 districts, with its most recent project site visit conducted in 2016. A study in 2014 surveying eight provinces found that spending under MP slush funds reached only 20 per cent of schools and 12 per cent of health clinics.³⁷ Further, many projects initiated under the slush funds were found incomplete or of poor quality. Once again, decentralisation had failed to deliver.

As of 2023, PNG's sub-national governments have expanded to comprise 22 provincial governments, 96 district authorities, and 333 local level governments.³⁸ Unfortunately, more did not prove to be better. Of the four regions, the Islands fared better in governance and service delivery, likely due to their smaller size and relatively stronger administrative capacity.

Swings and roundabouts persist

Despite efforts to improve the quality of fiscal decentralisation, PNG's sub-national governments remain largely dependent on transfers from national government, administrative weaknesses persist, and new challenges are emerging. Most provinces are not able to raise finances and manage their affairs effectively. A more centralised model seems the most efficient solution given institutional, capacity, and resource constraints at lower levels of government.

PNG remains largely centralised with respect to its financial and administrative governance arrangements compared to Organisation for Economic Development and Co-operation (OECD) high and upper middle-income countries. As shown by Figure 4, PNG's sub-national governments remain heavily dependent on transfers from national government. For a poor country, this level of centralisation is likely better suited to PNG's level of development.



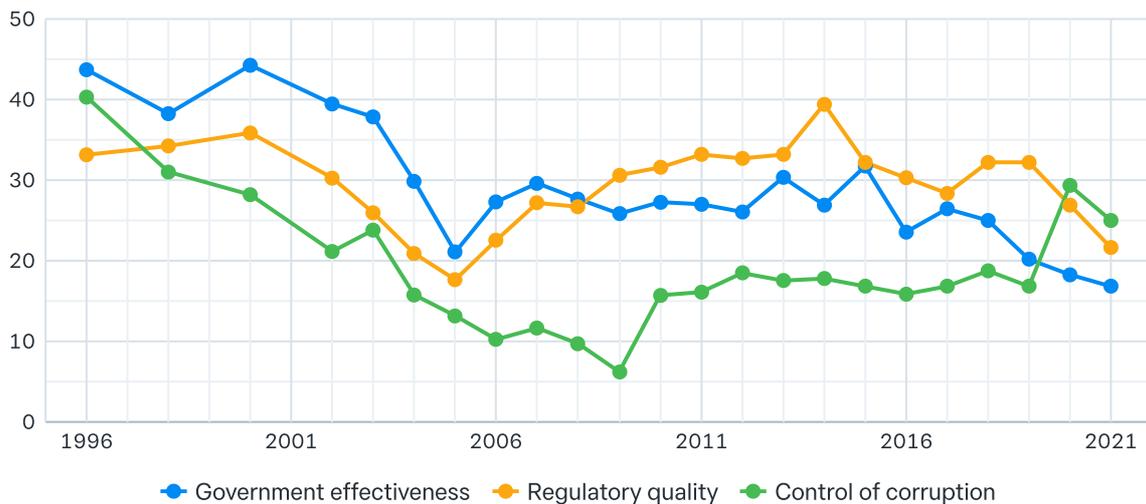
Contrary to the anticipated advantages of fiscal decentralisation in PNG, governance and service delivery weaknesses undermined the benefits expected

following the passing of the Provincial and Local Level Government law in 1995. Trends in World Governance Indicators (WGI) reveal a deterioration in regulatory quality, control of corruption, and government effectiveness. In 1996, PNG ranked 33rd in regulatory quality, 40th in control of corruption, and 44th in government effectiveness. By 2021, PNG had fallen to the bottom quartile in all three indicators. Without strengthened accountability and governance systems, increasing financial transfers to sub-national governments has few benefits.

While governance largely deteriorated, there were periods of relative improvement. The introduction of the National Economic and Fiscal Commission in 2009 (see Box 1), which added oversight of provincial budgeting, likely contributed to an improvement in the control of corruption indicator. Control of corruption also likely improved as anti-corruption agencies such as Investigation Task Force Sweep and the Ombudsman Commission were introduced, which were initially successful following greater national government funding (although funds fell from 2015). Improvements in controlling corruption, however, had little impact on government effectiveness and regulatory quality. In fact, the introduction of district authorities likely contributed to the worsening of government effectiveness and regulation after 2014, when MPs were granted greater political control over sub-national financing through the districts, leading to a weakening of oversight and poor-quality project delivery.

Figure 5 illustrates the effectiveness of service delivery (government effectiveness), government institutions (regulatory quality), and corruption curbs over time.³⁹

Figure 5
Global governance percentile rankings for PNG
1996–2021



SOURCE World Governance Indicators (2023)

Box 2: National Economic and Fiscal Commission — Boosting capacity and accountability

The National Economic and Fiscal Commission (NEFC) is an independent statutory body established under the Constitution of Papua New Guinea. Its primary role is to provide advice and recommendations on matters related to the distribution of national revenues and grants to the provincial and local level governments.

The NEFC plays a crucial role in the fiscal decentralisation process. It assesses the financial needs of provincial and local governments and makes recommendations on the allocation of funds from the national budget to these sub-national entities. Along with assessing the costs of various sub-national governments, it reports on the effectiveness of sub-national governments in delivering services. Since being revamped in 2009, the NEFC has assisted in developing provincial and local level government budgets and has been instrumental in increasing financial transparency at the sub-national level through better reporting, while also reducing the excess in spending. The NEFC has, however, failed to arrest the general deterioration in governance at the sub-national government level observed since 2014.

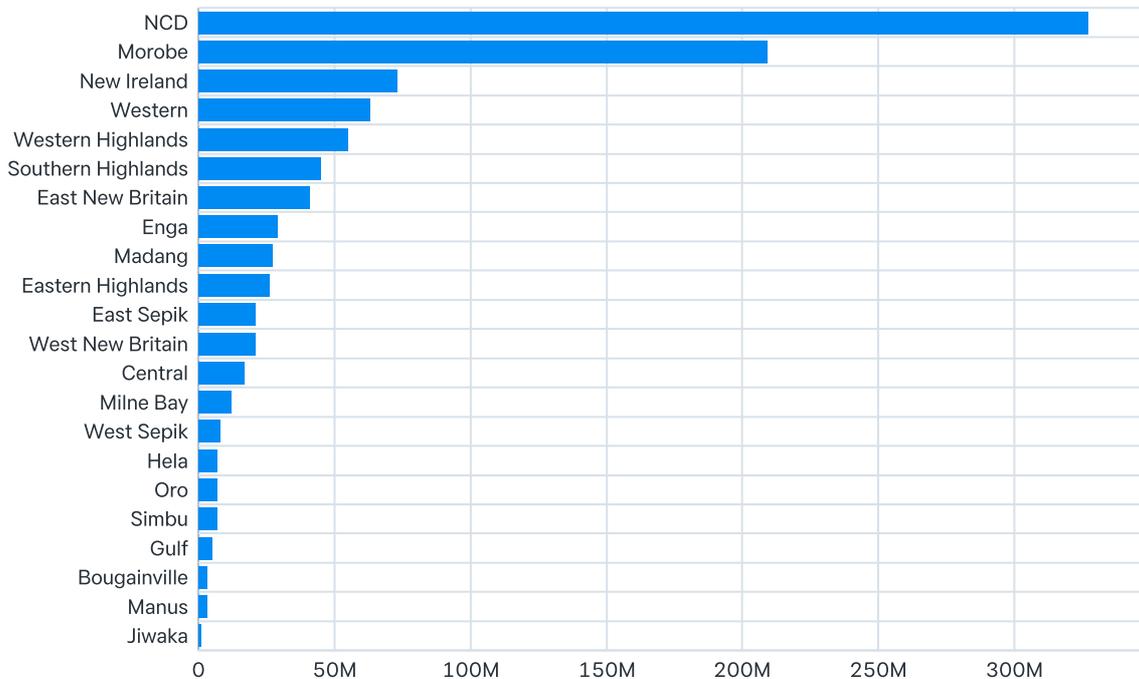
Finance continues to inhibit decentralisation

Real revenue raised by all provinces in 2020 was K1 billion (AU\$423 million), comprising only 7.5 per cent of total government revenue but with big service delivery expectations. More than half of this revenue was raised by two provinces: National Capital District and Morobe. In 2020, Jiwaka raised the lowest level of real revenue (Figure 6). Low levels of revenue collected have affected individual provinces' capacity to meet spending needs, raising their dependence on national government, and feeding power imbalances.

Provincial governments have limited revenue-raising powers (Figure 7) and are mostly dependent on GST. Not all GST collected is remitted to the provinces. The national government is responsible for collecting GST (remitting 60 per cent) and bookmakers' tax (remitting 40 per cent). Provinces still have few alternative sources of finance. They receive the provincial share of royalties from resource projects. They can also raise revenue directly through dividends on profits from investments, but few have investments or the capacity to invest. The final provincial revenue source, called own source revenues, comprises licence fees for various entities and activities such as liquor outlets, gambling establishments, business registration and property sales, motor vehicle and

drivers' licences, road tolls, and court fees and fines. Again, the capacity to leverage these revenue sources varies across provinces and favours those with greater economic development, exacerbating inequalities.

Figure 6
Real revenue by province, 2020
 Kina millions, 2022 prices



SOURCE NEFC Fiscal Budget Report 2020; Treasury Final Budget Outcome (FBO) Report 2020

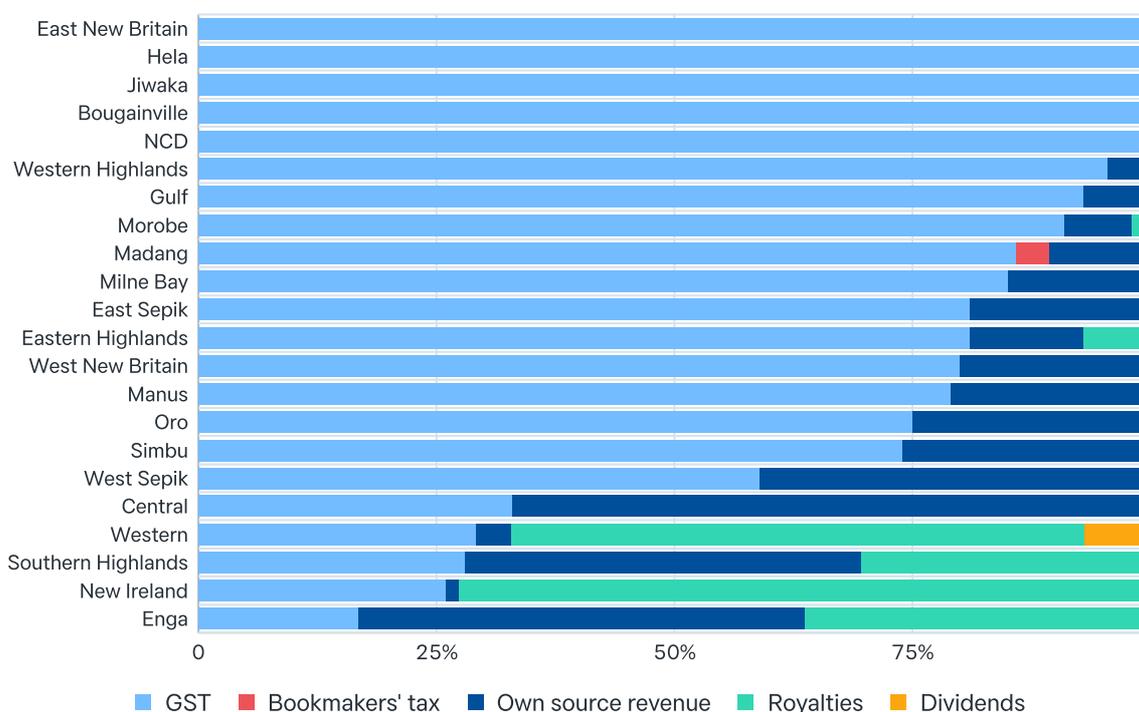
In 2020, provinces were heavily reliant on GST collected by the national government, which comprised more than three-quarters of total real revenue. Although a few provinces enjoy royalties from resource projects — such as liquefied natural gas royalties in the Hela, Southern Highlands, and Gulf provinces — this is not a game changer, adding at best 12 per cent to total provincial revenue. Own source revenue collections, a reliable indicator for business activity, generated a low 8.6 per cent of all revenue across all provinces in 2020. Dividends and bookmaker revenue together comprised less than one per cent.

It is concerning that most provinces lack a diversified revenue base, raising the risk of revenue collapse if an economic shock affects consumption patterns. For 17 of PNG's 22 provinces, GST contributed all or most of their revenue in 2020 (Figure 7). Of these, East New Britain, Hela, Jiwaka, and Bougainville were solely dependent, while GST contributed an average of 83 per cent of revenue for the other 13 provinces. For provinces not dependent on GST, own source revenues

contributed a majority of the revenues for Central, Southern Highlands, and Enga. Royalties contributed most revenue to the provinces of New Ireland (Lihir and Simberi gold mines) and Western (Ok Tedi gold mine).

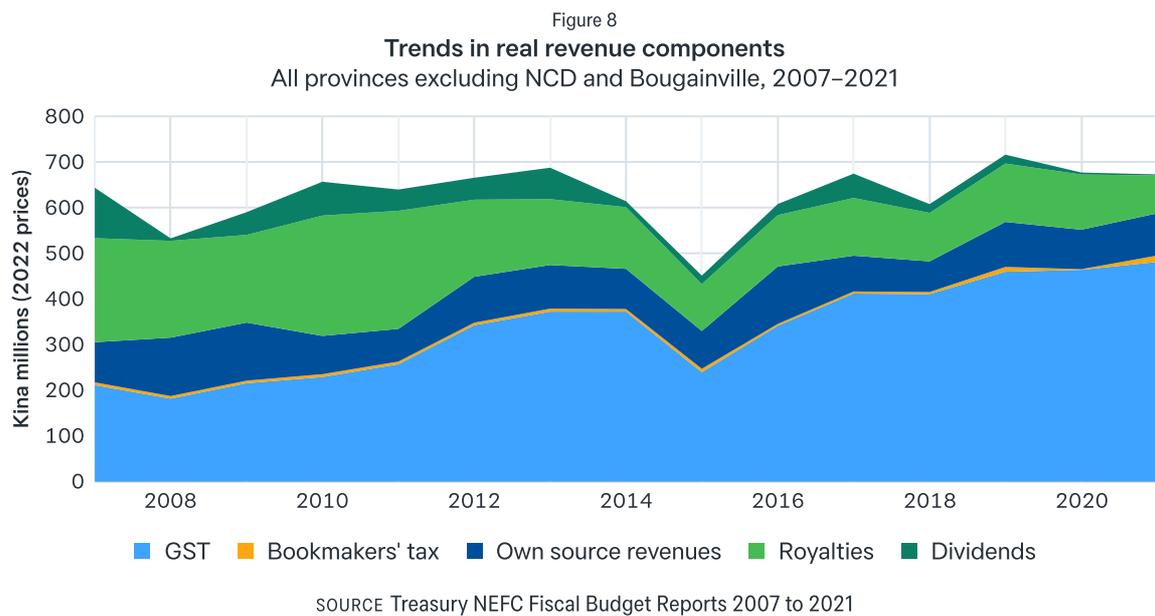
Excluding the National Capital District and Bougainville, for which data is not available in some years, provincial real revenue has fallen since its peak in 2019. By 2021, real revenue at K673 million (AU\$276 million) was back near the 2007 level. PNG’s resource boom (lasting from 2003 to 2013) explains the steady increase in provincial revenue from 2008 to 2013. The sharp fall in real revenue in 2015 reflects a fall in commodity prices and a drought resulting in a fall in consumption that led to declines in royalties, dividends, and GST respectively. The fall in revenue in 2018 was caused by the Southern Highlands earthquake, which saw the resource GDP contract by 15 per cent, and which led to a fall in dividends, royalties, and own source revenue. Provincial real revenue then recovered in 2019, before falling during the years of the pandemic and afterwards. Lower revenue levels over time have reduced many provinces’ capacity to become self-reliant, as spending needs have risen. Stagnant revenue levels mean an increased reliance on national government transfers, which have weak accountability. This gives MPs greater opportunities to leverage funds for power and patronage.

Figure 7
Revenue dependency by province, 2020



SOURCE NEFC Fiscal Budget Report 2020; Treasury FBO Report 2020

The picture for financial flows to provinces is one of volatile and inequitable transfers. Revenue has been volatile because of the reliance on consumption and resource revenues (Figure 8). Provincial revenue has been inequitable because the provinces with the most economic activity and resource projects have inevitably raised more revenue. Of the different revenue streams, GST has grown to become the largest contributor. The rise in GST is a positive sign as GST is a reliable proxy for broad-based economic activity.⁴⁰ Policies to stimulate growth in poor provinces would enable the broadening of provincial economic bases and arrest the trend of GST dependency.



Budget inequities

This section examines some of the biggest problems generated by decentralisation: the growth of staff remuneration spending that has crowded out service delivery; the fiscal capacity of the different provinces; the preponderance of capital spending under MP control; and the deterioration of accountability over sub-national spending. For simplicity, sub-national spending in the provinces can be analysed in two ways: operational expenditure, covering service delivery and staff remuneration; and the development budget, covering capital expenditure. Expenditure is large and increasing, so ensuring effective and equitable distribution of funds is essential to underpinning the development process. In 2021, real total sub-national spending amounted to K5 billion (AU\$1.9 billion), comprising 31 per cent of total government spending. In this section, local level government and district spending are included in provincial operational expenditure. Capital spending is split between provinces, districts, and local level governments.

Staff spending crowds out service delivery

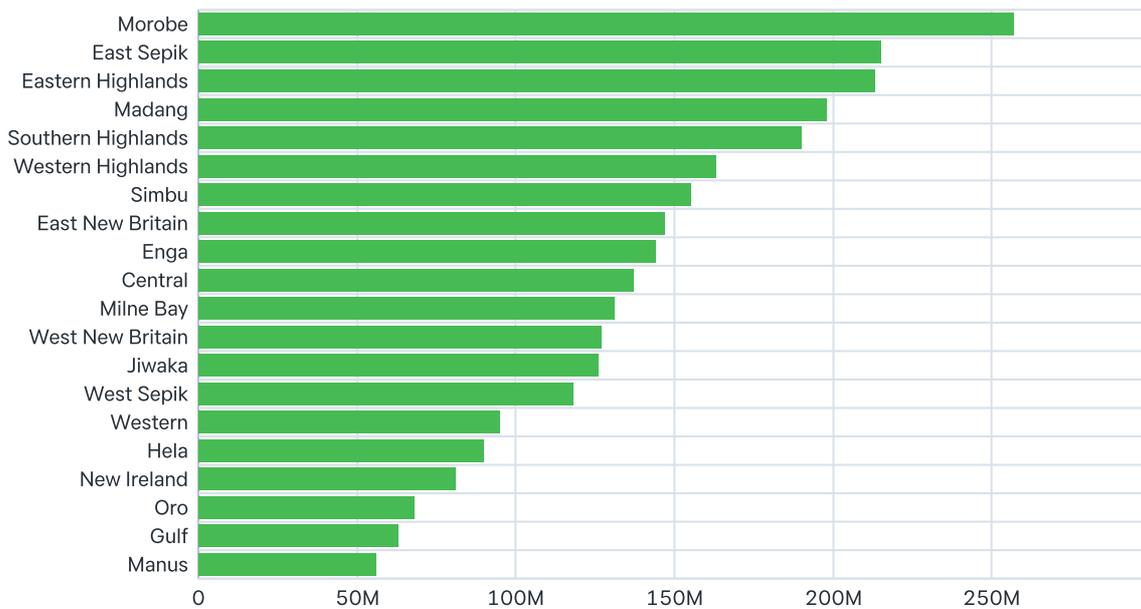
Real operational spending to all provinces, excluding the National Capital District and Bougainville, was K2.8 billion (AU\$1.1 billion) in 2021 (Figure 9). NCD and Bougainville are excluded because these provinces are governed by different laws, and report spending differently. For the 20 provinces listed, Morobe was the highest spending province, while Manus spent the least. These figures are consistent with population sizes, as Morobe was the most populous and Manus the least populous province in 2021.

Staff remuneration is managed centrally by the national government, while service delivery spending is a responsibility devolved to the provinces since 1977. Provincial revenue is used to pay for service delivery, and the national government assists through grants when there is a shortfall. In 2009, six types of grants covering different priorities were unified under a single transfer termed the function grant. Service delivery costs are determined by the NEFC in consultation with provincial administrations. The NEFC conducts a cost-of-service exercise every five years to ascertain provincial costs, with the most recent costing exercise conducted in 2020. Costs are adjusted for inflation and population growth annually.

Government staff remuneration has been the largest provincial government spending area since 2009 except for 2014 and 2015 (Figure 10). The 2014 bump in operational spending reflected a ramping up of national government

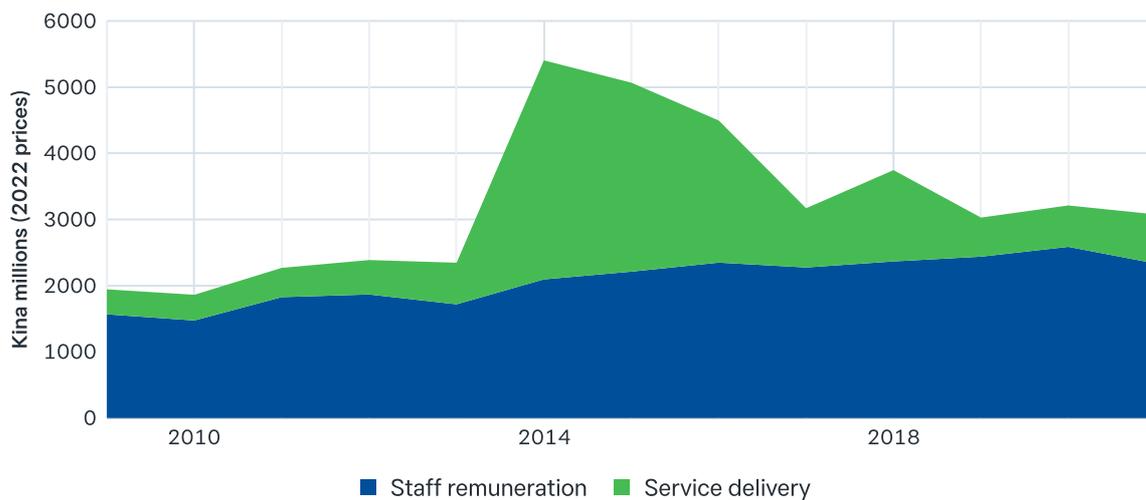
spending, which turned out to be unsustainable as commodity prices fell in subsequent years. The fall in operational spending after 2018 is partly a result of the introduction of Provincial Health Authorities, which became responsible for providing most provincial health services.

Figure 9
Operational expenditure by province, 2021
Kina millions (2022 prices)



SOURCE Treasury FBO report (2021)

Figure 10
Trends in real operational spending (excluding NCD and Bougainville), 2011–2021



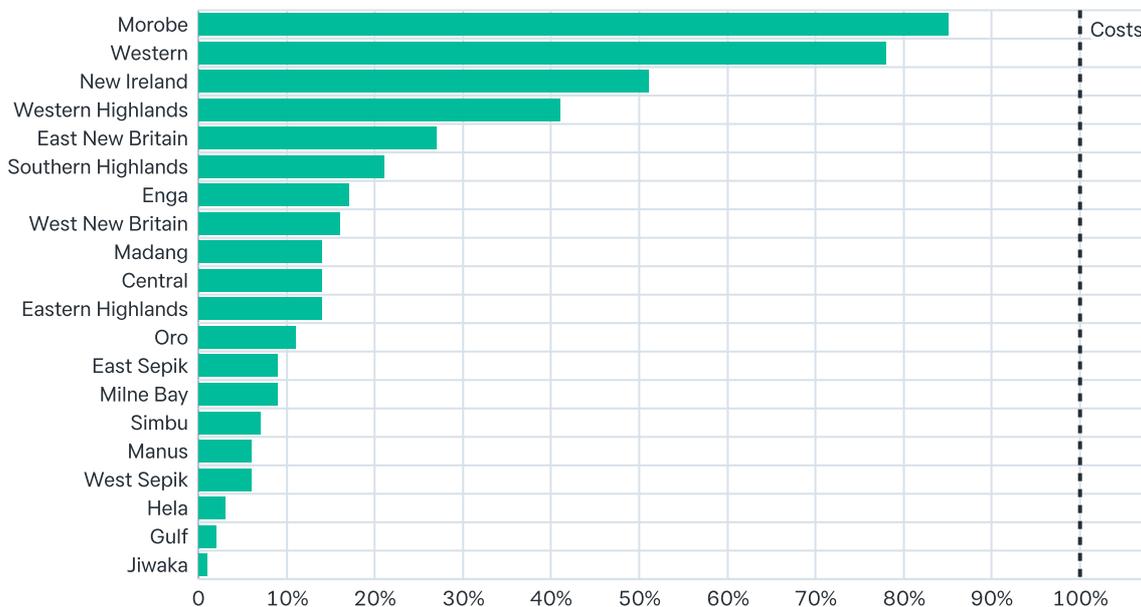
SOURCE Treasury FBO reports 2009 to 2021

Between 2009 and 2021, staff remuneration averaged 69 per cent of annual provincial spending, while spending on function grants averaged 31 per cent annually. Although staff are important for delivering services, the World Bank found there to be excess spending on government staff since 2010.⁴¹ The excessive spending on staff and the volatility in service delivery spending levels are partially responsible for the deterioration in the quality of service delivery. This was evident in 2018, when an evaluation of PNG roads found not enough was spent on maintaining the 21,262 kilometres of road for which sub-national governments are responsible, leading to nearly 60 per cent being in poor condition.⁴²

Revenue remains inadequate for operational needs

A province that can fund its entire operational costs may be considered fiscally self-reliant. As shown in Figure 11, no province in 2021 possessed the ability to become fiscally self-reliant. Only Morobe and Western generated enough revenue to cover more than three-quarters of their operational costs. Of all the provinces, excluding the National Capital District and Bougainville, 17 were unable to meet half of their total spending needs and were heavily dependent on transfers from national government. Increasing their economic base would enable the provinces to better meet all their needs.

Figure 11
Fiscal self-reliance capacity by province, 2021
Revenue as % of costs



SOURCE Treasury FBO Report 2021; NEFC Fiscal Budget Report 2023

Unlike most countries in the OECD, PNG has a limited sub-national taxing arrangement where there is more central control and the extent of tax sharing between national and sub-national governments is larger. For most OECD sub-national governments, their taxing capacity enables them to collect other types of tax, such as corporate and personal income tax, in addition to the taxing areas that form the remit of PNG’s sub-national governments. Taxing capacity and governance, however, at PNG’s provincial and local government levels are weak. A 2015 IMF Public Expenditure and Financial Accountability assessment found financial reporting capacity to be low, an increasing culture of non-compliance in reporting, and politicisation and corruption within provincial and district administrations.⁴³ Given the capacity of most provinces, the current arrangement where provinces are heavily dependent on national government for tax collection and grants should be maintained.

Service delivery spending

Real service delivery costs in 2021 amounted to K743 million (AU\$279 million), of which K629 million (AU\$238.9 million) was funded through function grants. Service delivery costs cover all spending areas, however, since 2018, some health funding has gone to Provincial Health Authorities. In 2018, Morobe and New Ireland’s revenue exceeded their service delivery costs, so they ceased receiving function grants from national government, meaning reporting for spending sub-components ceased (only aggregates are available). Allocations of grants to various services remain mostly steady and predictable, apart from rising administration and local government costs. Between 2009 and 2017, the largest components of provincial spending were transport infrastructure, education, and health, which is a positive sign, as these align with PNG’s development goals (Figure 12).

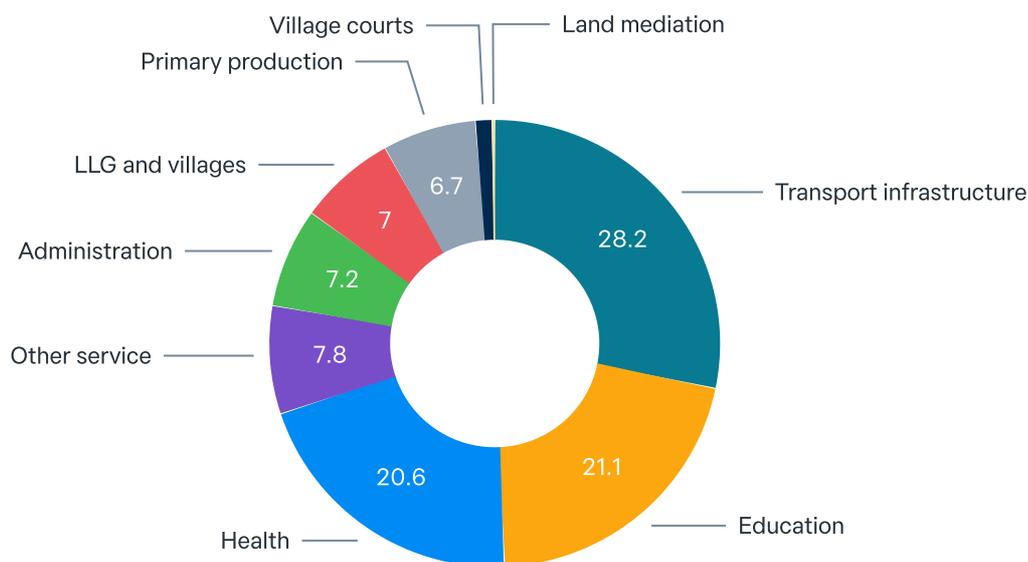
The disbursement of function grants also needs to be streamlined. Grants from the national government are released late, with 90 per cent received in the latter half of the year, as shown in Table 1. While waiting for funding, provinces fall back on their revenues and roll-over of function grants from the previous year. This increases the risk that funds will not be used for legislated functions, as roll-over funds are accessed in lump sum payments, whereas grants are designated for specific spending areas.

Table 1: Scheduled and legislated quarterly release of function grants from national government, 2018

Period	1st quarter	2nd quarter	3rd quarter	4th quarter
Governor’s resolution (%)	40	30	20	10
Actual cash release (%)	2	8	28	62

Source: NEFC Fiscal Budget Report (2018).

Figure 12
Service delivery spending by priority, 2017



SOURCE Treasury FBO reports 2017

Service delivery oversight

Governance over sub-national government finances in PNG has been lacking. The last provincial audit performed by the Auditor-General was in 2017, and concluded that an opinion could not be formed on the financial statement of all provincial and local level governments because the statements contained “material errors, uncertainties and lack of adequate records”.⁴⁴ Among other problems, the Auditor-General found that financial statements were inaccurate, many finance personnel were inexperienced and lacked training, and proper accounting of fixed assets and investments had not been done.

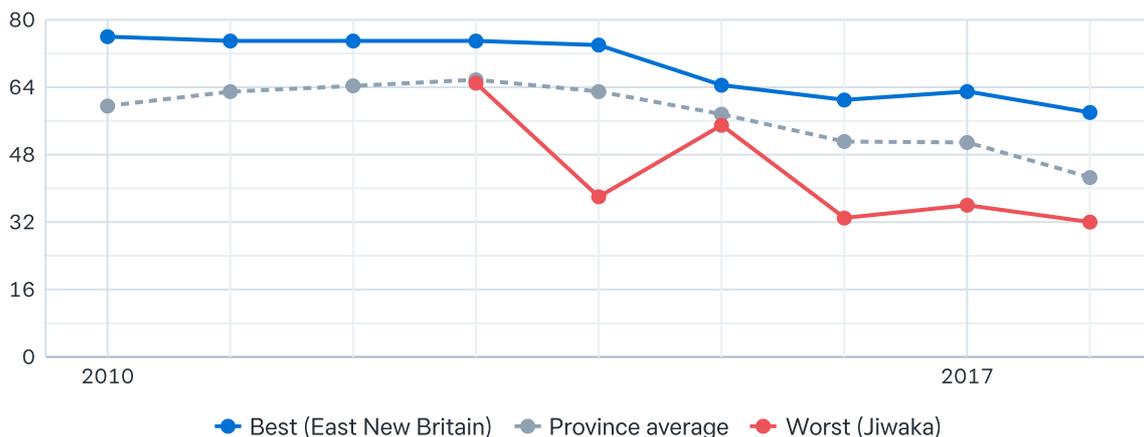
With district authorities came an expansion of staff and funding, but these were not accompanied by the requisite investment in oversight agencies and training of staff.

In lieu of audits, another indicator that may be used to assess individual province governance is the National Economic and Fiscal Commission’s budget quality scores. The NEFC conducted budget quality assessments for service delivery spending between 2010 and 2018. Provinces were assessed on a range of indicators, including timeliness of submission, quality of data presentation by financing source, and whether sectoral allocations matched the minimum priority areas determined by national government. Lower scores were awarded to provincial governments that allocated funds to areas other than those determined by national government.

Between 2010 and 2018, East New Britain was the best performing province in terms of budget quality (Figure 13) because, unlike other provinces, its budget formulation process was transparent. It held quarterly meetings with local level governments and district authorities and incorporated all yearly and five-yearly plans in the provincial budget, ensuring these informed and aligned with the provincial budget.⁴⁵ Lessons from East New Britain can be applied to poor performing provinces such as Jiwaka, to ensure budgetary processes are more transparent.

Also revealing is that governance for all provinces deteriorated after district authorities were introduced in 2014. With district authorities came an expansion of staff and funding, but these were not accompanied by the requisite investment in oversight agencies and training of staff. Removing district authorities, or at least reducing their size and funding, would ensure provincial administrations are less burdened in managing them.

Figure 13
Province budget quality score average
Best and worst performing province, 2010–18



SOURCE NEFC Fiscal Budget Reports 2010 to 2018

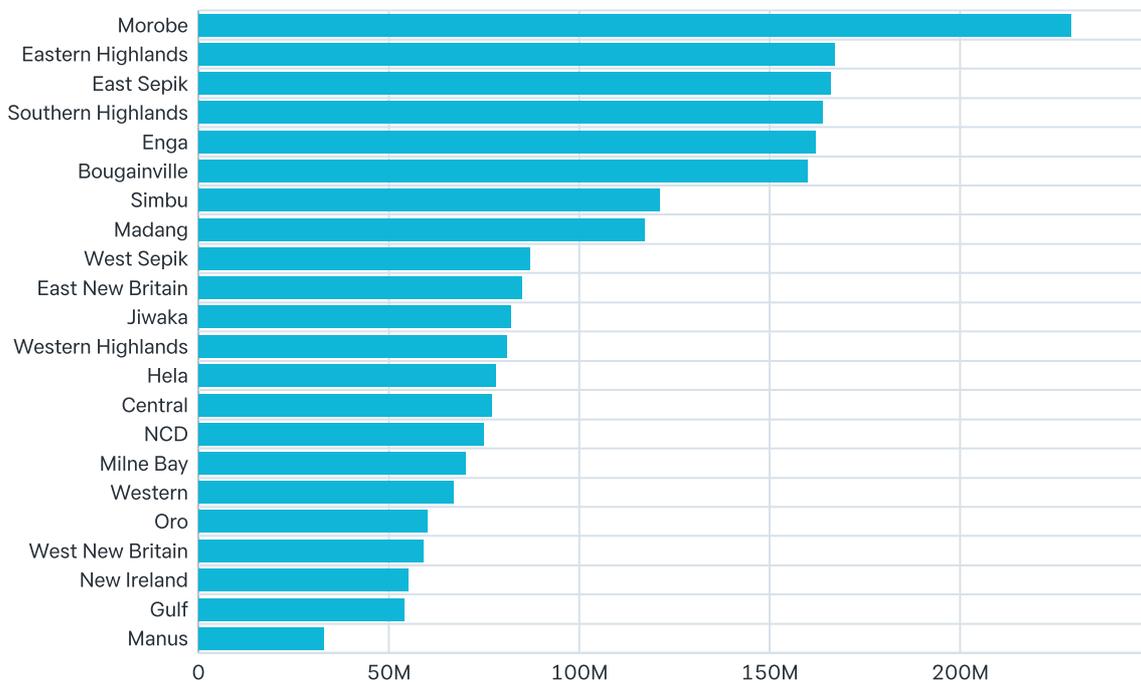
Development budget

The sub-national development budget, covering capital expenditure, has increased tremendously in the past decade. Though meant for road, health, and education infrastructure, commensurate with PNG's development goals, it has largely been spent on short to medium-term projects and has at times been inconsistent with PNG's development programs: the five-year Medium Term Development Plans and Vision 2050. The reason is that much of the spending is determined by provincial and district MPs, and suffers being repurposed, or worse, misused.

Capital spending in the provinces falls under the national government’s broader Public Investment Program (PIP). The investment program has two main streams: one is for specific projects undertaken by national government in consultation with provincial governments; the other is the Services Improvement Program (SIP), consisting of the MP slush funds mentioned earlier. Real sub-national capital spending in 2021 amounted to K2.3 billion (AU\$854.8 million). Two-thirds went to specific projects, while a further 27 per cent went to district slush funds spending, and the remaining seven per cent went to province slush funds spending.

There is a strong need for capital spending to better align with service delivery constraints. The greatest weakness of the Public Investment Program is that its spending is politicised. Removing power over capital spending from the MPs and vesting it in provincial and district administrations would reduce the risk of it being misused. Spending directed towards maintenance of existing infrastructure instead of building new infrastructure would address the service delivery constraints mentioned in the previous section. Better monitoring of projects under the PIP will also reveal if capital spending aligns with development goals. Strict penalties for non-compliance could bring sub-national governments into line.

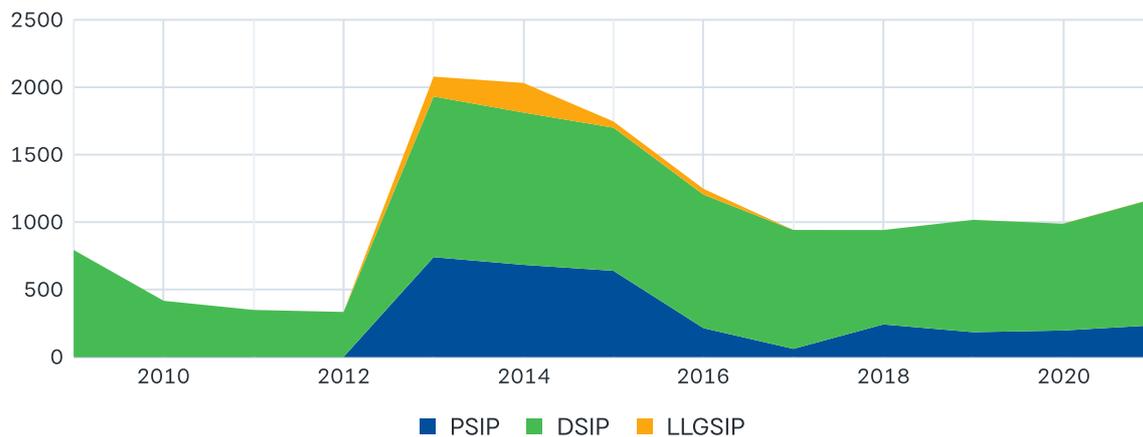
Figure 14
Real Public Investment Program by province, 2021
 Kina millions (2022 prices)



SOURCE Treasury Budget Vol. 3A Report 2023

It is easier to track MP slush funds over time, as data on these are available for all years, whereas information on the broader Public Investment Program is not. Slush fund disbursement has been volatile since 2009, and given that these funds are spent solely at the discretion of the MPs, with poor oversight, much of the spending has not gone to development goals. Slush funds increased sharply in 2013, as shown in Figure 15, when provincial and local level government slush funds were introduced, but fell after 2015. Provincial slush funds were initially allocated K5 million (AU\$2.3 million) nominally according to the number of districts in each province (for instance, Morobe with nine districts was allocated K45 million or AU\$20.7 million), however, their total funds were reduced to equal district fund levels (K10 million or AU\$4.6 million) in 2016 when national government revenue collapsed. For their brief existence, local level government slush funds averaged K229,093 (AU\$106,549) per local level government. Since 2013, district funds averaged three-quarters of total slush funds annually, while provincial slush funds have comprised the remainder.

Figure 15
Trends in real Services Improvement Program funding totals
Kina millions (2022 prices), 2005–2021

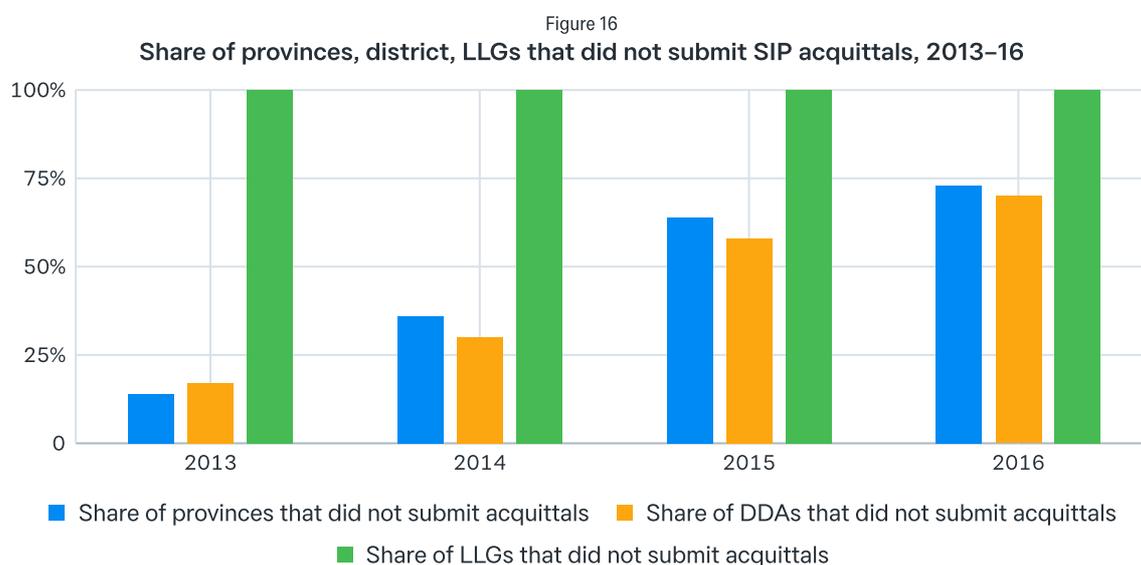


SOURCE Treasury Budget Vol. 3A Reports 2011 to 2023; PNG Economics Database; Auditor General's Report: SIPs 2019

Governance over capital spending

Better oversight of MP slush funds and broader Public Investment Program spending is needed. While information on PIP spending is lacking, for slush funds, between 2013 and 2016, none of the local level governments acquitted any of the SIP funds it spent, as shown in Figure 16. The share of provinces and districts that did not acquit their slush funding rose from less than 20 per cent in 2013 to more than 70 per cent in 2017 (Figure 16).⁴⁶ In its 2019 report, the Auditor-General noted that a significant number of provinces and districts did not feel obliged to comply with reporting timetables, indicating weak managem-

ent. The Auditor-General concluded that the management of the slush funds was largely ineffective because there were no penalties for non-compliance.



Better funding and building the capacity of the Department of Implementation and Rural Development (DIRD) will improve accountability of the MP slush funds. DIRD is responsible for monitoring slush fund projects, although the dearth in acquittal submissions meant that by 2016, DIRD had visited only 16 districts and three provinces. Political interference within the Department of Finance has allowed MPs to subvert administrative guidelines that state that the disbursement of the next round of funds is dependent on submission of the previous year's acquittals.⁴⁷ Better enforcement of penalties for non-compliance through the Department of Finance will ensure provinces and districts acquit better to access future funding.

Pathways towards improving decentralisation

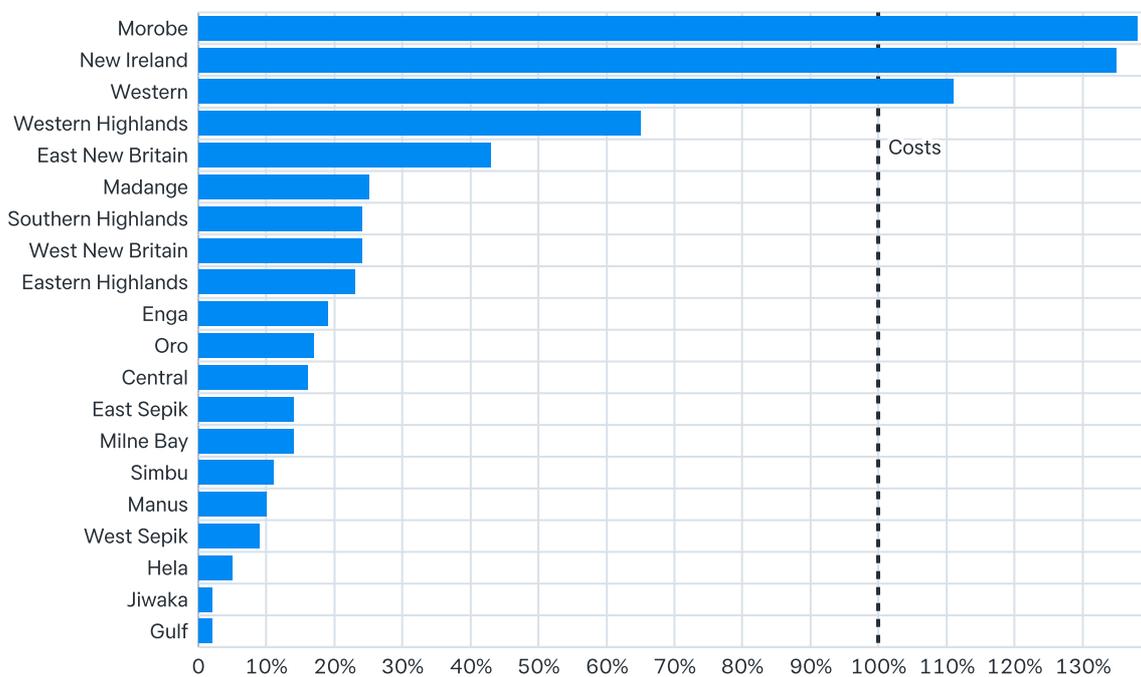
There are several pathways towards improving the decentralised arrangements of sub-national government. This is important because, although present levels of decentralisation are not optimal for PNG, there is unlikely to be a movement towards large-scale re-centralisation, so PNG needs to make the best of it. Indeed, the movement appears to be in the direction of further decentralisation. In 2018, Enga, East New Britain, and New Ireland signed service delivery partnerships with the national government, indicating their desire to be granted more financial powers.⁴⁸

Given that provinces vary in administrative capacity, it is unlikely that greater decentralisation would be successful unless it is first attempted in provinces that possess the capacity and whose remitted revenues exceed costs. For poorer provinces, dependence on national government is not a bad thing and may be beneficial given the national government would have fewer provinces to manage. Along with greater revenue powers, governance and capacity must be addressed, and these are discussed next.

For poorer provinces, dependence on national government is not a bad thing and may be beneficial given the national government would have fewer provinces to manage.

Figure 17 reveals the fiscal capacity of provinces if complete revenue retention were granted, based on current revenue sources. If all GST and bookmakers' tax is remitted (instead of the 60 per cent and 40 per cent remitted respectively), only three provinces (Morobe, New Ireland, and Western province) would be able to meet their operational costs, while the rest would still be reliant on transfers from national government in function grants and for staff remuneration. Decentralisation would be best served if greater fiscal powers were piloted in these three provinces. The benefit would be that provinces with greater retention are incentivised to encourage more economic activity in their provinces in order to generate more revenue.

Figure 17
Fiscal self-reliance with all revenue remitted, 2021



SOURCE Treasury FBO Report 2021; NEFC Fiscal Budget Report 2023; author's calculations

There also needs to be a workforce and payroll audit at the province, district, and local levels before greater autonomy is granted. This would identify skills gaps, with a plan to strengthen the administrative and financial capacity of province and district staff. The audit would also identify the areas where spending on staff remuneration is in excess, with a view to redirecting surplus funds to service delivery.

Introducing stricter penalties for non-compliance in reporting, with better enforcement by sub-national governments, would make sub-national administrations more compliant. Financial reports consistently submitted quarterly and bi-annually would boost transparency and enable the Auditor-General to perform audits more quickly. This would also introduce greater oversight of data entries into the Integrated Financial Management System, thereby protecting its integrity as different provinces transition from the manual Government Accounting System to the more digitised accounting system. Further, the process of reconciling national and sub-national accounts would be sped up, and the risk of discrepancies lowered.

MP slush funds should be phased out and these funds given to traditional government agencies responsible for infrastructure, health, and education.

To improve provincial government responsiveness, funding disbursement must be streamlined for faster access from the Department of Finance. The period between budget approval, warrants granted, and actual funds reaching provincial and district bank accounts must be

shortened. Enabling sub-national governments to access 70 per cent of national government transfers in the first half of the year as legislated would lessen the reliance on volatile revenue. Along with speeding up the disbursement of funds, the national government would be best served by reducing the level of MP slush funds as provinces improve on accessing funds and delivering services. MP slush funds should be phased out and these funds given to traditional government agencies responsible for infrastructure, health, and education.

Governance at the sub-national level would also improve with increased funding and strengthening of administrative capacity in the oversight and anti-corruption agencies. These include the National Economic and Fiscal Commission, Department of Implementation and Rural Development, Auditor-General's Office, Ombudsman Commission, Independent Commission Against Corruption, National Fraud and Anti-Corruption Directorate, and Financial Analysis and Supervision Unit.⁴⁹ It is paramount that these agencies are kept from being politicised, and that they are financially and administratively empowered to perform their entire range of functions including audits, investigations, and prosecutions.

Conclusion

Much work is needed to address governance and service delivery in PNG's sub-national governments. Chief among the issues are the declining real revenue raised in the provinces and the over-reliance on GST as a revenue source. On the spending side, service delivery is made haphazard by the delays in national government transfers. Further, the lack of accountability over capital spending constrains it from contributing effectively to development.

Greater taxing powers may address declining real revenue, however, varying tax collection capacity has made it necessary for national government to raise revenue and withhold a share. It may be valuable to pilot a provincial model where provinces with high levels of revenue and administrative capacity are granted greater taxing powers. The risk is that an asymmetry in taxing powers across the provinces would make it difficult for national government to oversee and coordinate the decentralisation process.

The main problems impacting governance stem from political influence and a lack of capacity within the provincial bureaucracy. The political barriers to improving governance are significant, given MPs are embedded in three tiers of government: national, provincial, and local level government. This gives MPs considerable control over sub-national finances, particularly slush funds, which leads to these funds not being spent effectively, or at worst being misused. For any meaningful reform in governance to occur, the influence of MPs over province and district funds must first be curtailed.

A culture of non-compliance has also crept into the provinces, districts, and local level governments, partly because penalties are not well defined or enforced. Non-compliance and weak financial management practices have led to arrears in reporting, and discrepancies between national and sub-national accounts.

While the current decentralisation arrangement should be maintained and improved upon, there is scope to increase fiscal powers to certain provinces.

Addressing problems in governance would firstly involve strengthening the capacity of sub-national governments and anti-corruption agencies. Second, introducing penalties and increasing enforcement over non-compliance in financial reporting would force sub-national administrations to meet reporting timelines. Finally, making policy planning a transparent process, whereby the public, local level governments, and districts participate in province policy and budget formulation, would improve accountability over sub-national government financing.

While the current decentralisation arrangement should be maintained and improved upon, there is scope to increase fiscal powers to certain provinces. It is hoped, however, that any future attempt at decentralisation is undertaken with the lessons from sub-national capacity, governance, and service delivery firmly in mind.

Acknowledgements

This report is part of the Lowy Institute's Pacific Fellow Project, funded by the Foundation for Development Cooperation (FDC). Responsibility for the views, information, or advice expressed in this report is that of the author/s. The contents of this report do not necessarily reflect the views of the Lowy Institute or the Australian government.

The author would like to thank Professor Meg Keen, Sam Roggeveen, and Roland Rajah for reviewing the many drafts of this paper and providing useful insights. This paper was also significantly improved by comments from two external reviewers: Professor Stephen Howes and Professor Ronald May of the Australian National University. A final thanks to the hardworking staff of the East New Britain and New Ireland provincial administrations who participated in field interviews.

Appendix A: List of acronyms

AGO	Auditor-General's Office
CDF	Constituency Development Fund
DDA	District Development Authority
DIRD	Department of Implementation and Rural Development
DSIP	District Services Improvement Program
GDP	Gross Domestic Product
GNI	Gross National Income
GST	Goods and Services Tax
LLG	Local Level Government
LNG	Liquefied Natural Gas
MP	Member of Parliament
NCD	National Capital District
NEFC	National Economic and Fiscal Commission
OECD	Organization for Economic Cooperation and Development
OLPG	Organic Law on Provincial Government
OLPLLG	Organic Law on Provincial and Local Level Government
PIP	Public Investment Program
SIP	Services Improvement Program
WGI	Worldwide Governance Indicators

Appendix B: Exchange rates for PNG

Foreign currency units per Kina

End of period	AU\$	US\$
1990	1.3616	1.0511
1991	1.3818	1.0498
1992	1.4708	1.0127
1993	1.5077	1.0190
1994	1.0927	0.8485
1995	1.0558	0.7810
1996	0.9666	0.7580
1997	0.9331	0.6884
1998	0.7644	0.4808
1999	0.6050	0.3890
2000	0.6306	0.3620
2001	0.5476	0.2976
2002	0.4706	0.2573
2003	0.4326	0.2816
2004	0.4222	0.3101
2005	0.4229	0.3224
2006	0.4342	0.3272
2007	0.4027	0.3375
2008	0.4451	0.3709
2009	0.4652	0.3638
2010	0.4006	0.3680
2011	0.4113	0.4240
2012	0.4625	0.4800
2013	0.4620	0.4469
2014	0.4509	0.4067
2015	0.4817	0.3595
2016	0.4294	0.3192
2017	0.4093	0.3137
2018	0.4063	0.3037
2019	0.4249	0.2952
2020	0.4200	0.2890
2021	0.3798	0.2850
2022	0.4099	0.2841

Source: Bank of Papua New Guinea, Quarterly Economic Bulletin, Statistical Table 8.11.

Notes

- 1 Papua New Guinea National Statistical Office, “Population”, <https://www.nso.gov.pg/statistics/population/>.
- 2 The World Bank, “Statistical Capacity Score (Overall Average) (Scale 0–100), Papua New Guinea, Low & Middle Income”, <https://data.worldbank.org/indicator/IQ.SCI.OVRL?end=2020&locations=PG-XO&start=2004&view=chart>.
- 3 The World Bank, “World Bank Country and Lending Groups”, <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups>.
- 4 Stephen Howes, Rohan Fox, Maholopa Laveil, Bao H. Nguyen, and Dek J. Sum, “2019 Papua New Guinea Economic Survey”, *Asia and the Pacific Policy Studies*, Vol. 6, No. 3, (September 2019): 271–289, <https://onlinelibrary.wiley.com/doi/10.1002/app5.287>.
- 5 Gross National Income is defined as GDP plus net receipts from abroad of compensation of employees, property income, and net taxes less subsidies on production.
- 6 PNG Economic Database, “Employment”, DevPolicy, <https://devpolicy.org/pngeconomic/series/employment/>.
- 7 The 2016–18 Demographic and Health Survey found 55 per cent of PNG’s population were of working age, constituting PNG’s workforce; see Papua New Guinea National Statistical Office, *Papua New Guinea Demographic and Health Survey 2016–18*, (Port Moresby: NSO, November 2019), <https://dhsprogram.com/pubs/pdf/FR364/FR364.pdf>. For data on PNG’s formal sector employment, see DevPolicy, “PNG Economic Database”, <https://devpolicy.org/pngeconomic/>.
- 8 United Nations Department of Economic and Social Affairs, *World Urbanization Prospects: The 2018 Revision*, (New York: UNDESA, 2019), <https://population.un.org/wup/publications/Files/WUP2018-Report.pdf>.
- 9 Commonwealth Local Government Forum, “The Local Government System in Papua New Guinea: Country Profile 2019”, https://www.clgf.org.uk/default/assets/File/Country_profiles/Papua_New_Guinea.pdf.
- 10 The World Bank, “Worldwide Governance Indicators”, <https://www.worldbank.org/en/publication/worldwide-governance-indicators/interactive-data-access>.
- 11 OECD, “Making Decentralisation Work: A Handbook for Policy-Makers”, *OECD Multi-Level Governance Studies*, 19 March 2019, <https://www.oecd.org/regional/making-decentralisation-work-g2g9faa7-en.htm>.
- 12 Wallace E. Oates. “Toward a Second-Generation Theory of Fiscal Federalism”, *International Tax and Public Finance*, Vol. 12, No. 4, (August 2005), 349–373, <https://link.springer.com/article/10.1007/s10797-005-1619-9>.

- 13 Liv Bjornestad, “Fiscal Decentralization, Fiscal Incentives, and Pro-Poor Outcomes: Evidence from Viet Nam”, Asian Development Bank Working Paper Series, No. 168, July 2009, <https://www.adb.org/publications/fiscal-decentralization-fiscal-incentives-and-pro-poor-outcomes-evidence-viet-nam>.
- 14 Ibid.
- 15 Satish Chand, “Fiscal Decentralisation in Papua New Guinea”, National Research Institute, Papua New Guinea, No. 11, October 2022.
- 16 Ibid.
- 17 Ibid.
- 18 Benjamin Reilly, Mark Brown, and Scott Flower, *Political Governance and Service Delivery in Papua New Guinea: A Strategic Review of Current and Alternative Governance Systems*, National Research Institute Discussion Paper No. 143, (Boroko: PNG, 2015).
- 19 Stefan Leiderer, “Fungibility and the Choice of Aid Modalities – The Red Herring Revisited”, UNU–WIDER Working Paper No 2012/68, August 2012.
- 20 Ron J. May, “Policy Making on Decentralization”, in Policy Making and Implementation Studies in Papua New Guinea, edited by Ron J. May, *Studies in State and Society in the Pacific*, No. 5, 203–232, (Canberra: ANU Press, 2009).
- 21 Raja J. Chelliah, “Consultant’s Report to the Committee to Review the Financial Provisions of the Organic Law on Provincial Government”, National Institute of Public Finance and Policy, New Delhi, December 1981.
- 22 Ibid.
- 23 Ibid.
- 24 The exchange rate from PNG Kina to the Australian dollar in 1984 is not available.
- 25 International Budget Partnership, “Constituency Development Funds: Scoping Paper”, (Cape Town: International Budget Partnership, 18 January 2010), <https://internationalbudget.org/wp-content/uploads/Constituency-Development-Funds-Scoping-Paper.pdf>.
- 26 Frederick Guande, “Better Monitoring Needed to Transform Slush Funds into Development Funds in PNG”, *Devpolicy Blog*, 22 September 2020, <https://devpolicy.org/better-monitoring-needed-to-transform-slush-funds-into-development-funds-in-png-20200922/>.
- 27 Machiko Tsubara, “The Politics of Constituency Development Funds (CDFs) in Comparative Perspective”, APSA 2013 Annual Meeting Paper, American Political Science Association 2013 Annual Meeting, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2299409.
- 28 Ruslan Piontkivsky, Rashad Hasanov, and Rubayat Chowdhury, “Papua New Guinea Economic Update: Unlocking the Economic Benefits of Gender Equality”, World Bank, 29 March 2023, <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099032923055010127/p17932200ac1750780937c052dcc9b51bf5>.

- 29 Maholopa Laveil and Terence Wood, “Do DSIP Funds Help PNG MPs Win?”, Development Policy Centre Discussion Paper No. 99, 17 March 2022, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4059724.
- 30 Maholopa Laveil, “PNG’s MP Funding: Volatile and Unaccountable”, *Devpolicy Blog*, 8 July 2021, <https://devpolicy.org/pngs-mp-funding-20210708/>.
- 31 Ibid.
- 32 Des Hoban, “Consolidating Democracy: A Strategy for Peaceful Development in Papua New Guinea”, National Research Institute, Discussion Paper No. 102, 2006, 51–54, <https://catalogue.nla.gov.au/catalog/4087419>.
- 33 Maholopa Laveil, “Predicting the Impact of PNG’s 2018 and 2019 Tariff Increases: A Review of PNG’s Trade Policy History”, Development Policy Centre, Discussion Paper No. 85, 1 November 2019, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3481547.
- 34 David Fellows and John Leonardo, “Poor Financial Management in PNG: Can It be Turned Around?”, *Devpolicy Blog*, 12 January 2016, <https://devpolicy.org/pngs-financial-management-can-it-be-turned-around-20160112/>.
- 35 Eliko Pedastsaar, Ramon Hurtado, Bruno Imbert, Richard Allen, David Shand, and Ron Hackett, “Papua New Guinea: Public Expenditure and Financial Accountability Assessment”, *International Monetary Fund*, August 2015, <https://www.pefa.org/sites/pefa/files/assessments/reports/PNG-Aug15-PFMPR-Testing-version-Public-with-PEFA-Check.PDF>.
- 36 Ron Duncan and Chris Banga, “Solutions to Poor Service Delivery in Papua New Guinea”, *Asia and the Pacific Policy Studies*, Issue 5, No. 3, (September 2018), 495–507, <https://onlinelibrary.wiley.com/doi/full/10.1002/app5.260>.
- 37 Stephen Howes, Andrew Anton Mako, Anthony Swan, Grant Walton, Thomas Webster, and Colin Wiltshire, “A Lost Decade? Service Delivery and Reforms in Papua New Guinea 2002–2012”, *The National Research Institute and the Development Policy Centre*, October 2014, <https://devpolicy.org/publications/a-lost-decade-service-delivery-and-reforms-in-papua-new-guinea-2002-12-2014/>.
- 38 Electoral Boundaries Commission, *2021 Reports & Recommendations of Electoral Boundaries Commission*, as presented to the National Parliament, https://www.tallyroom.com.au/wp-content/uploads/2022/06/EBC-Boundaries-Report-and-Recommendations-2021_20220323212154_strong_compression.pdf.
- 39 Grant Walton and Husnia Hushang, “Boom and Bust? Political Will and Anti-Corruption in Papua New Guinea”, *Asia & The Pacific Policy Studies*, Issue 2, Vol. 7, (May 2020), 187–203, <https://onlinelibrary.wiley.com/doi/full/10.1002/app5.306>.
- 40 Alyssa Leng and Stephen Howes, “Is PNG’s Economic Bust Over?”, *Devpolicy Blog*, 8 December 2022, <https://devpolicy.org/is-pngs-economic-bust-over-20221208/>.
- 41 The World Bank, *Papua New Guinea Economic Update: Recovery Amid Uncertainty*, July 2019, (World Bank: Washington, DC, 2019), <https://openknowledge.worldbank.org/entities/publication/c94ab825-de5f-5cec-a968-0b2ce5083959>.

- 42 Australian Government, Department of Foreign Affairs and Trade, “Road Management in Papua New Guinea: An Evaluation of a Decade of Australian Support 2007–2017”, February 2018, <https://www.oecd.org/derec/australia/australia-ode-evaluation-road-management-in-papua-new-guinea-brief.pdf>.
- 43 David Fellows and John Leonardo, “Poor Financial Management in PNG: Can It be Turned Around?”, *Devpolicy Blog*, 12 January 2016, <https://devpolicy.org/pngs-financial-management-can-it-be-turned-around-20160112/>.
- 44 Auditor-General’s Office, Papua New Guinea, *Report on Accounts of Provincial and Local-Level Governments and Associated Entities*, (PNG Auditor-General’s Office, 2017).
- 45 Reflecting author’s conversations with various provincial administrations.
- 46 Auditor-General’s Office, Papua New Guinea, *Performance Audit Report on Payments and Acquittals of Service Improvement Programs (SIP) 2013–2016*, (PNG Auditor-General’s Office, 2019).
- 47 Ibid.
- 48 “New Ireland’s Bid for Autonomy Goes Before Parliament”, *PNG Post-Courier*, 25 April 2023, <https://www.postcourier.com.pg/new-irelands-bid-for-autonomy-goes-before-parliament/>.
- 49 Grant Walton, “Governance and Corruption in PNG’s Public Service: Insights from Four Sub-National Administrations”, Development Policy Centre, Discussion Paper No. 81, 22 April 2019, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3365319.

About the author



Maholopa Laveil

Maholopa (Maho) Laveil was the inaugural FDC Pacific Fellow at the Lowy Institute. He worked in the Institute's Pacific Islands Program as part of a one year secondment from the University of Papua New Guinea (UPNG).

His research interests include fiscal and monetary policy in Papua New Guinea (PNG), election and parliamentary politics, tariff policy, PNG economic history, and development. Maho teaches undergraduate economics at UPNG. He holds a Master's in International and Development Economics from the Australian National University (ANU) and an undergraduate degree from UPNG.

The FDC Pacific Fellow is supported by a grant from the Foundation for Development Cooperation.

LOWY INSTITUTE