

PAPUA NEW GUINEA OPEN ELECTORATES



Fiscal decentralization and governance in PNG

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Fiscal decentralization history

Organic Law on Provincial Governments (OLPG): 1977 – 1995

- Provincial revenue 1 percent of spending. Bulk of revenue raised by Morobe and NCD.
- Provinces heavily dependent on grants determined by per capita payments, ‘the location and physical nature of a province’, and ‘the lack of development of a province’.
- 15 provinces suspended on grounds of financial mismanagement by 1995

Organic Law on Province and Local Level Governments (OLPLLG): 1996 – 2013

- Introduction of LLGs, VAT/GST (1998), and Intergovernmental Relations (Functions and Funding) Act (2009).
- Provincial financial powers, and spending areas were largely the same.
- Public Expenditure and Financial Accountability (PEFA) indicators worsened between 2009 and 2014.

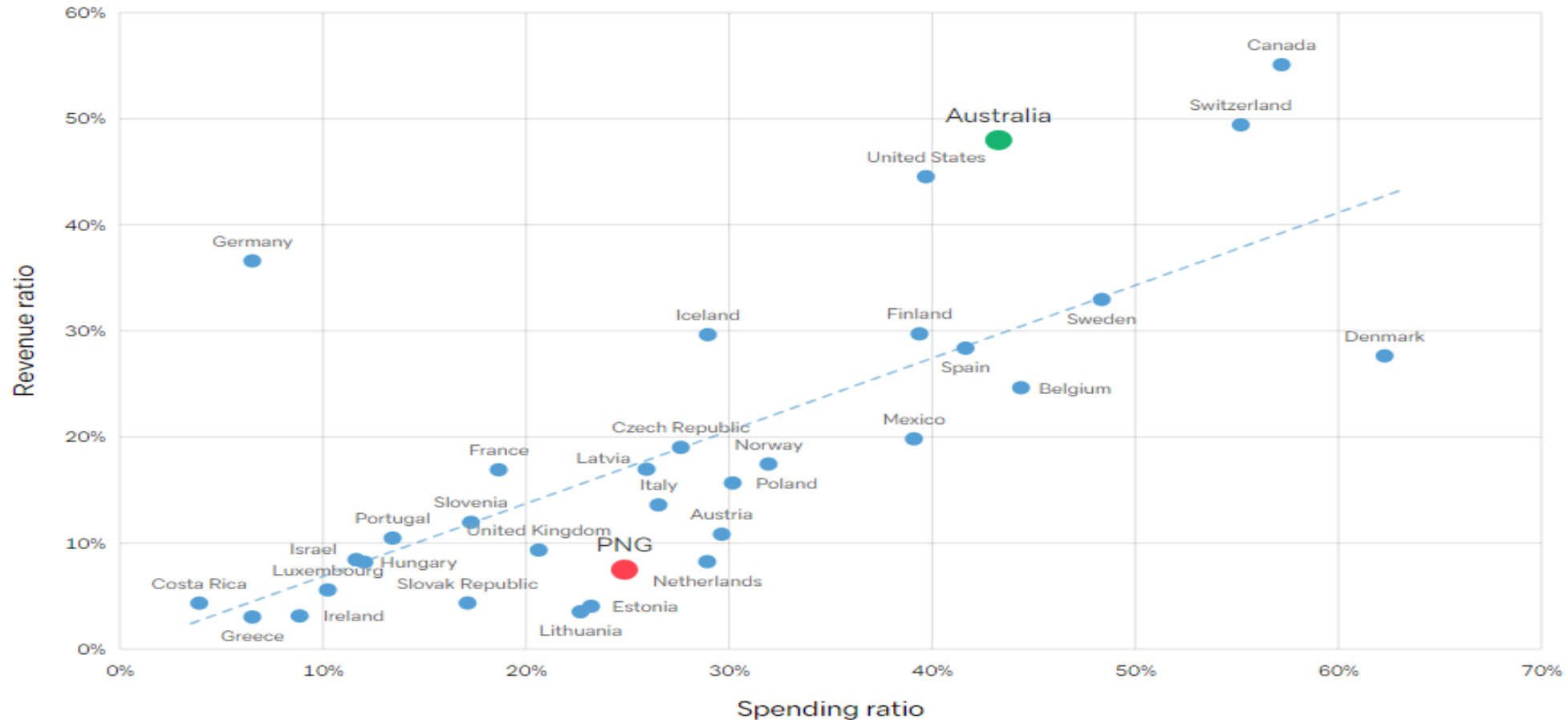
District Development Authorities (DDAs): 2014 till present

- Introduction of DDAs – third subnational government
- Introduction of Services Improvement Program (SIP) for Provinces, Districts, and LLGs.

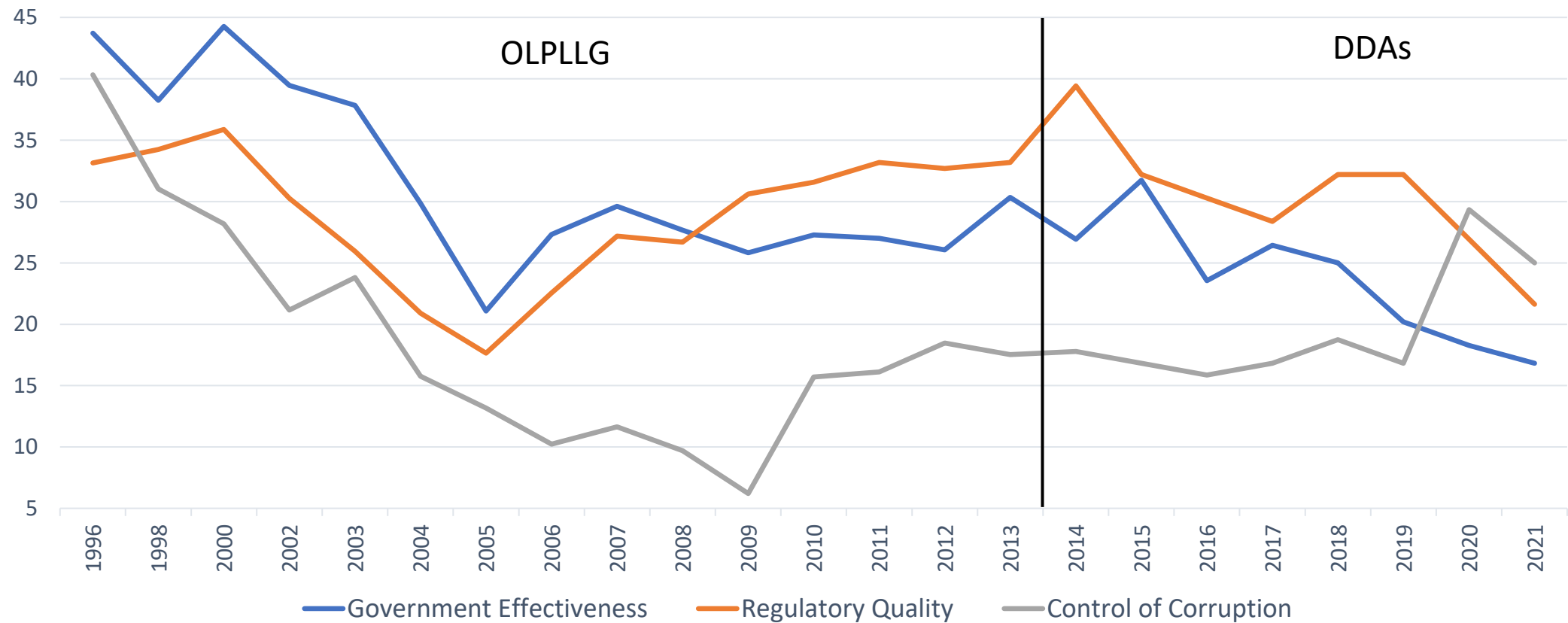
PNG's subnational governments

Region	Provincial governments	DDAs	Urban LLGs	Rural LLGs	Total LLGs	Population (NSO 2021)
Southern	6	21	5	61	66	2,412,736
Highlands	7	36	10	98	108	4,566,698
Momase	4	26	5	91	96	3,040,584
Islands	5	13	7	56	63	1,761,841
Total	22	96	27	306	333	11,781,559

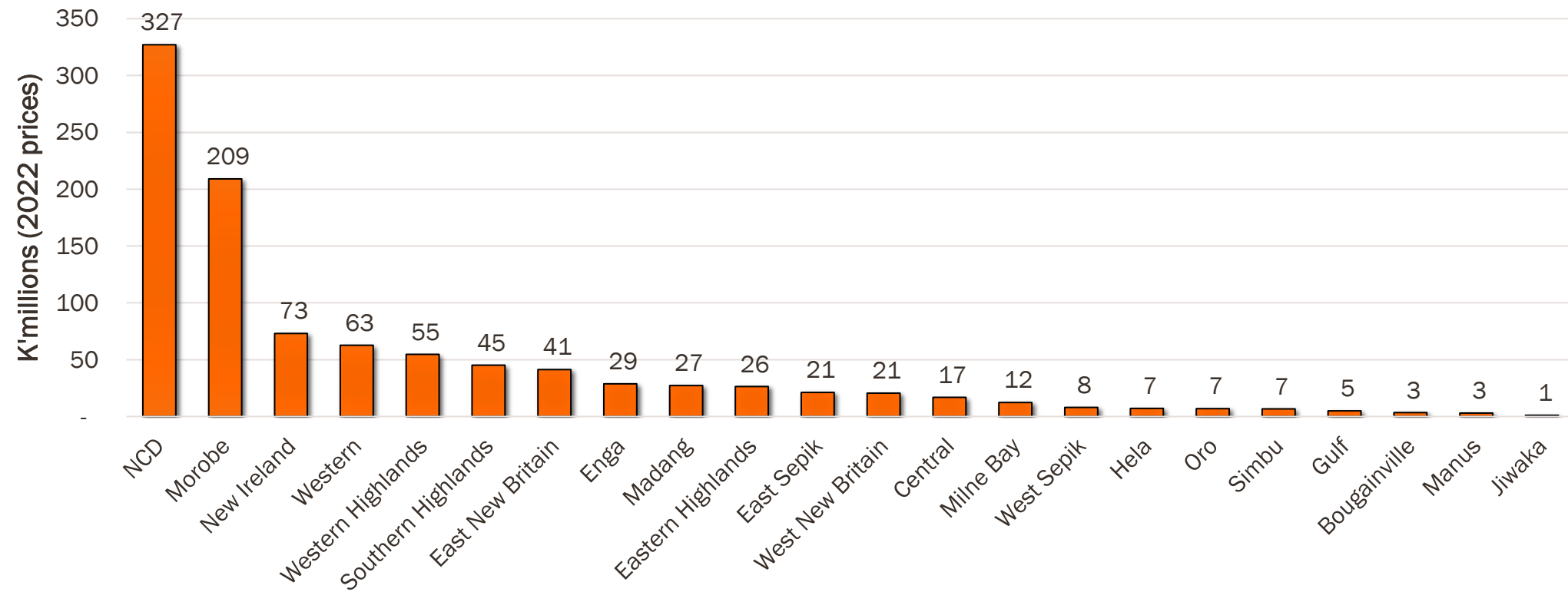
Decentralization ratios: PNG and the OECD, 2020



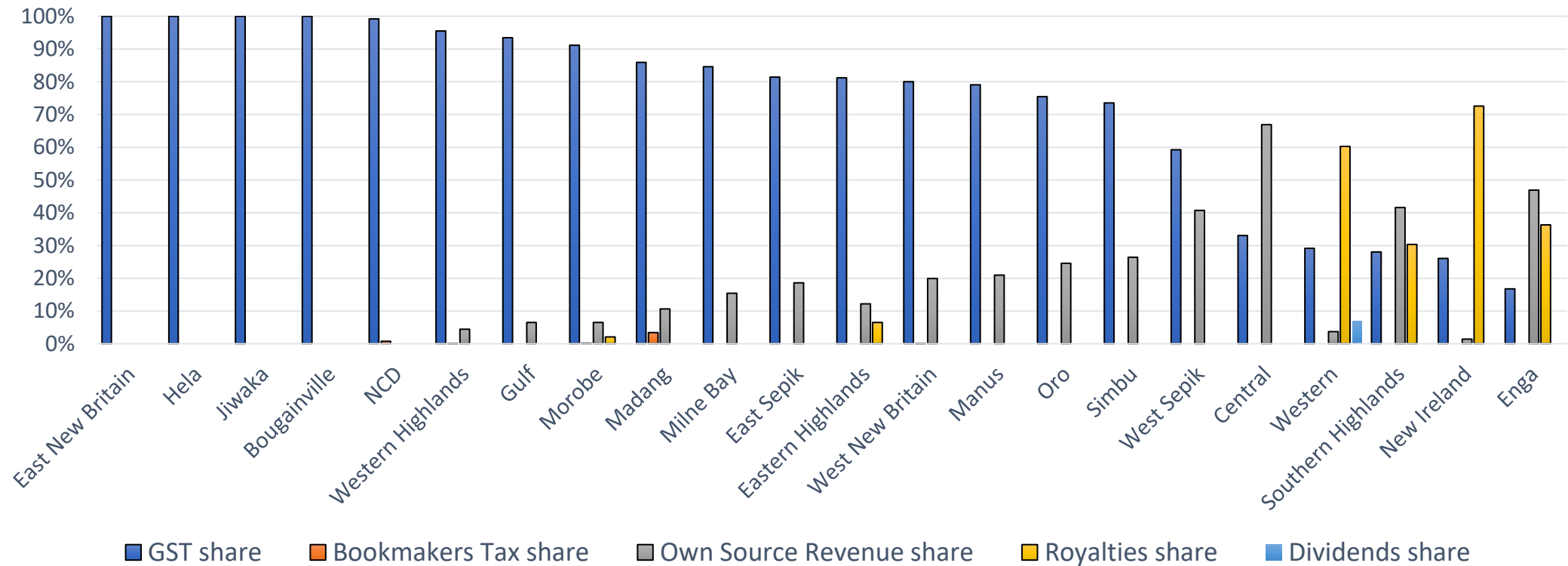
Global governance percentile rankings for PNG, 1996 – 2021



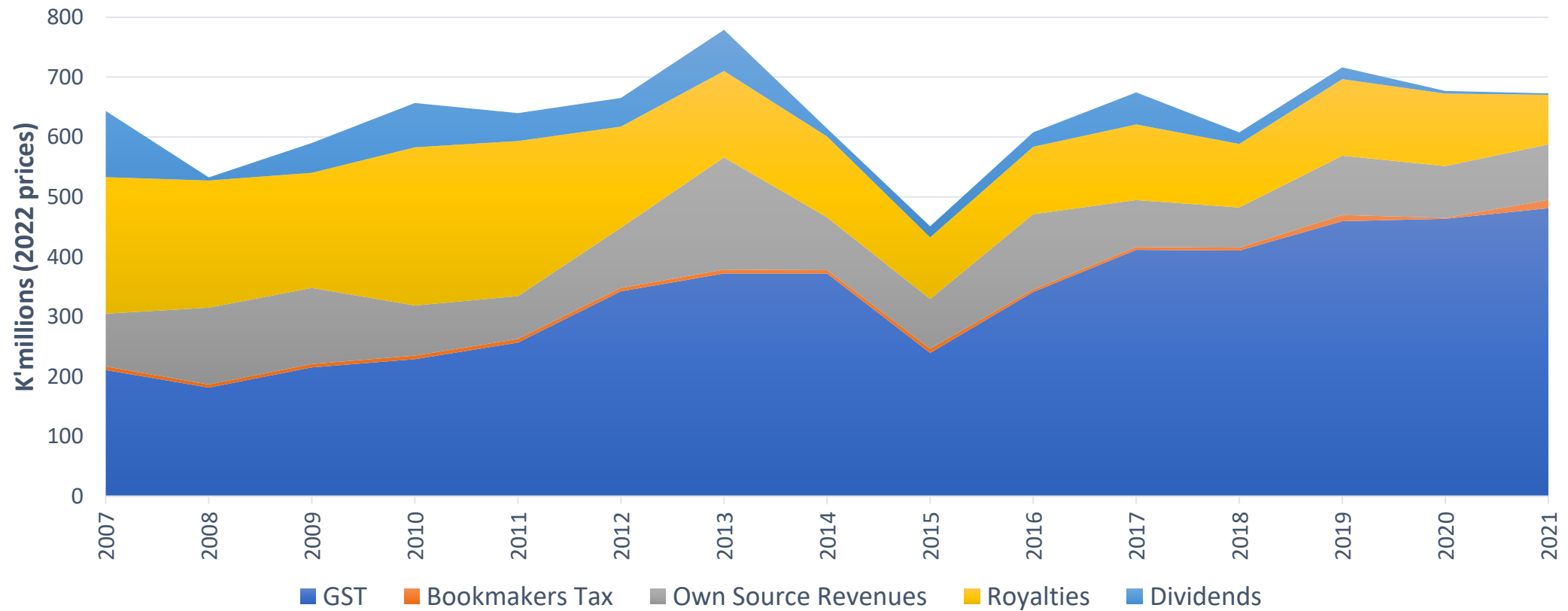
Real revenue by province, 2020



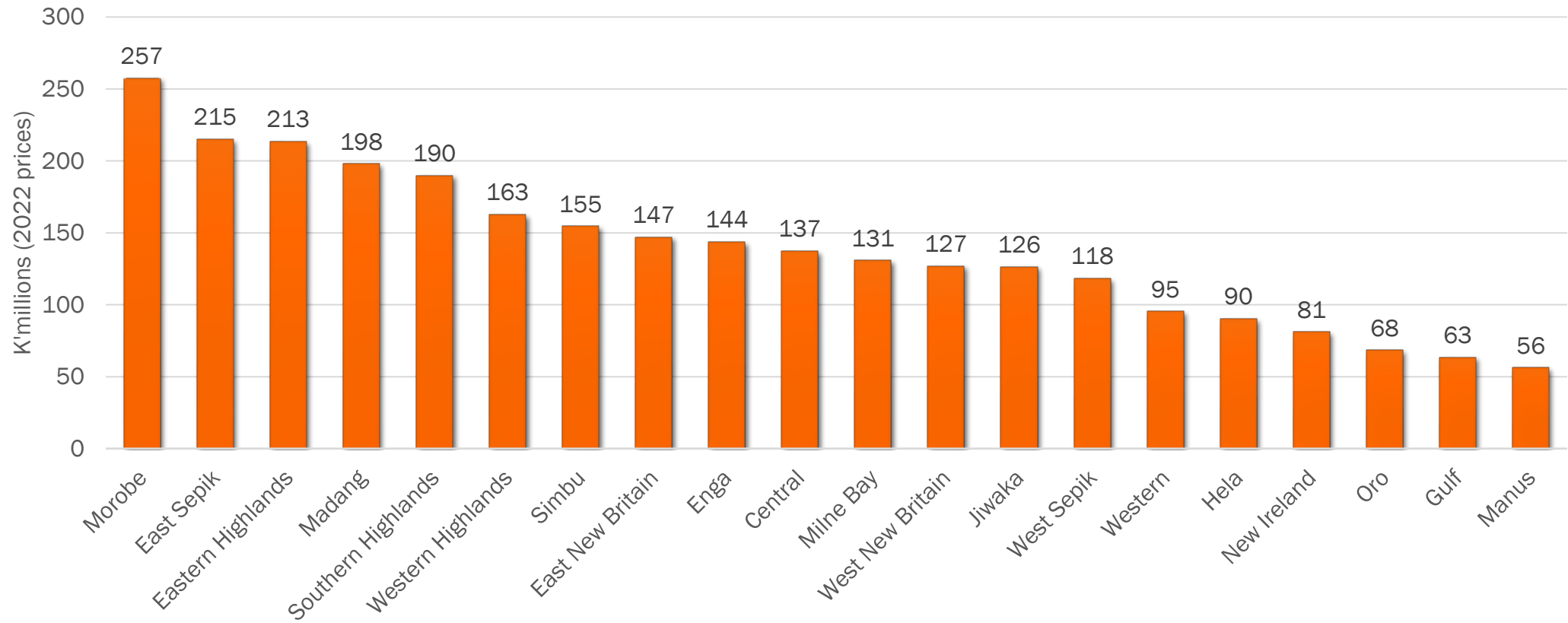
Revenue dependency by province, 2020



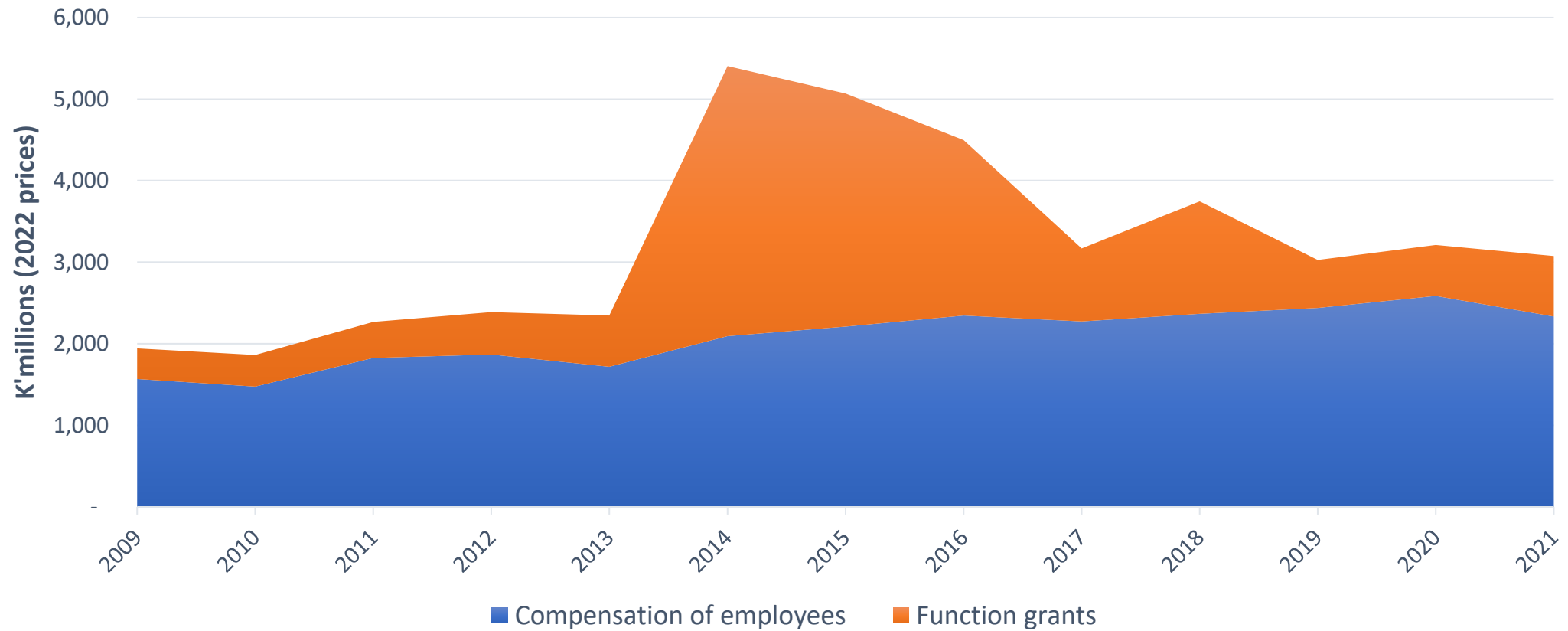
Trends in real revenue for all provinces 2007 – 2021



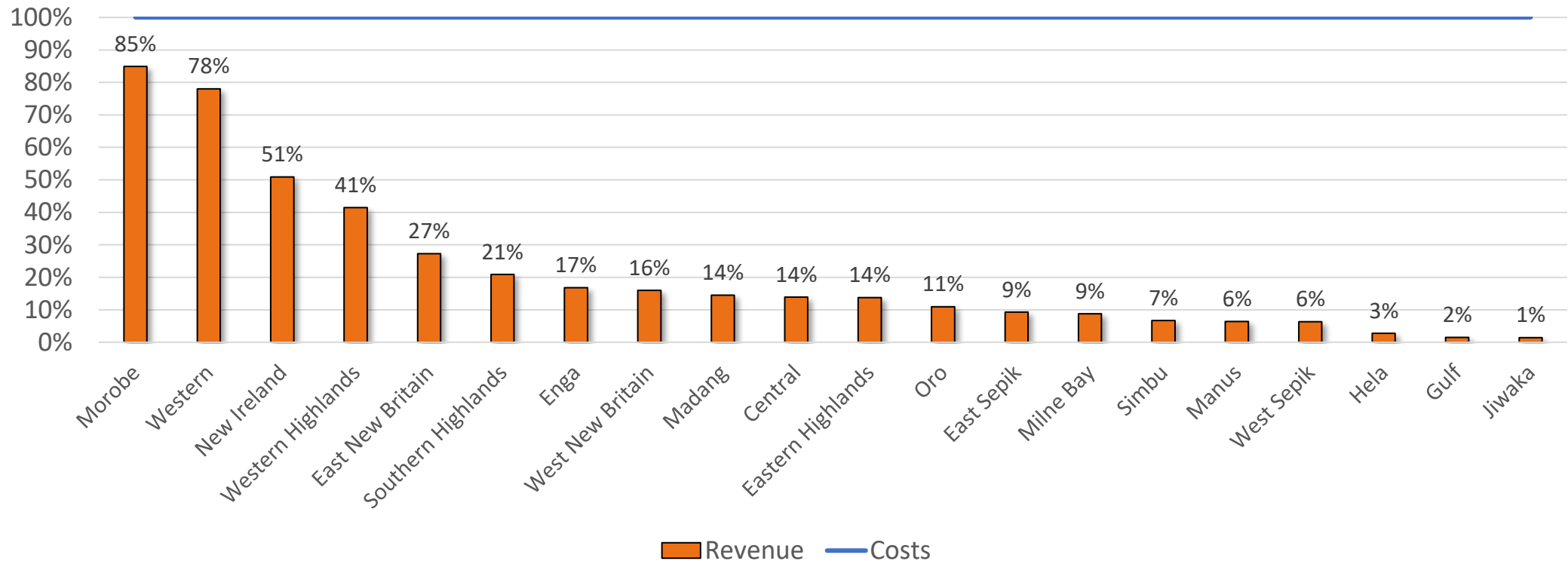
Recurrent expenditure by province, 2021



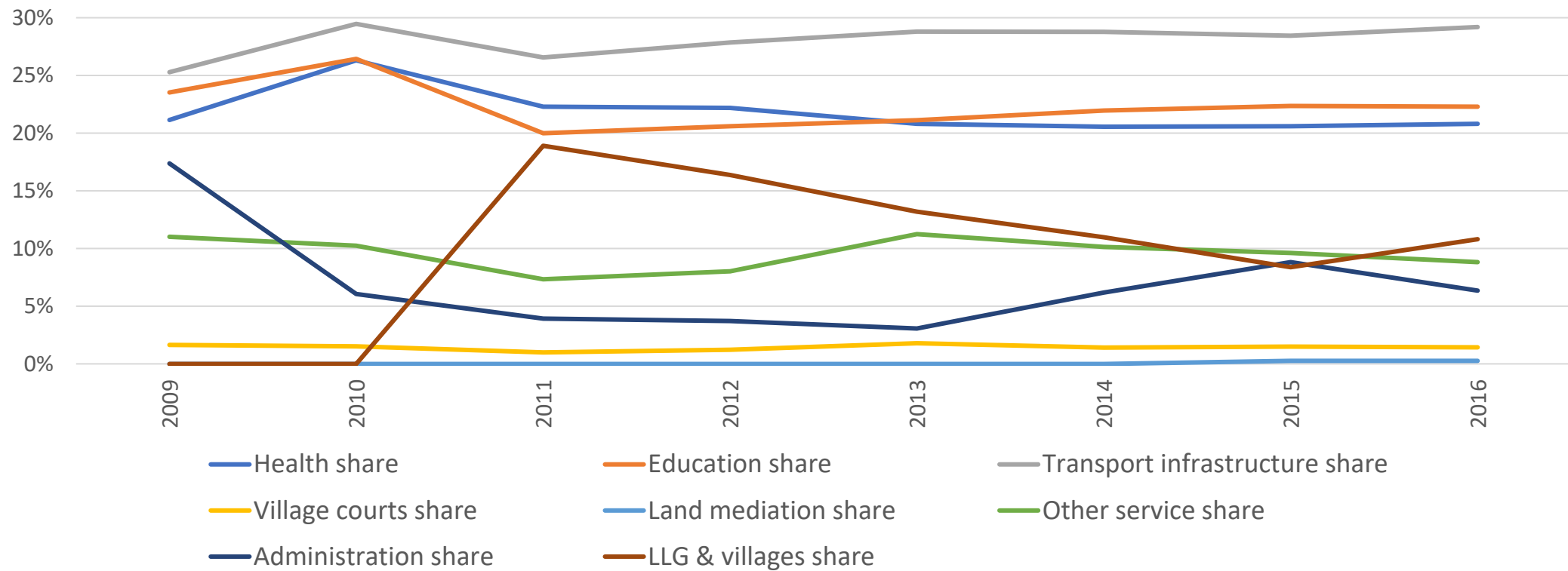
Trends in recurrent spending, 2011 to 2021



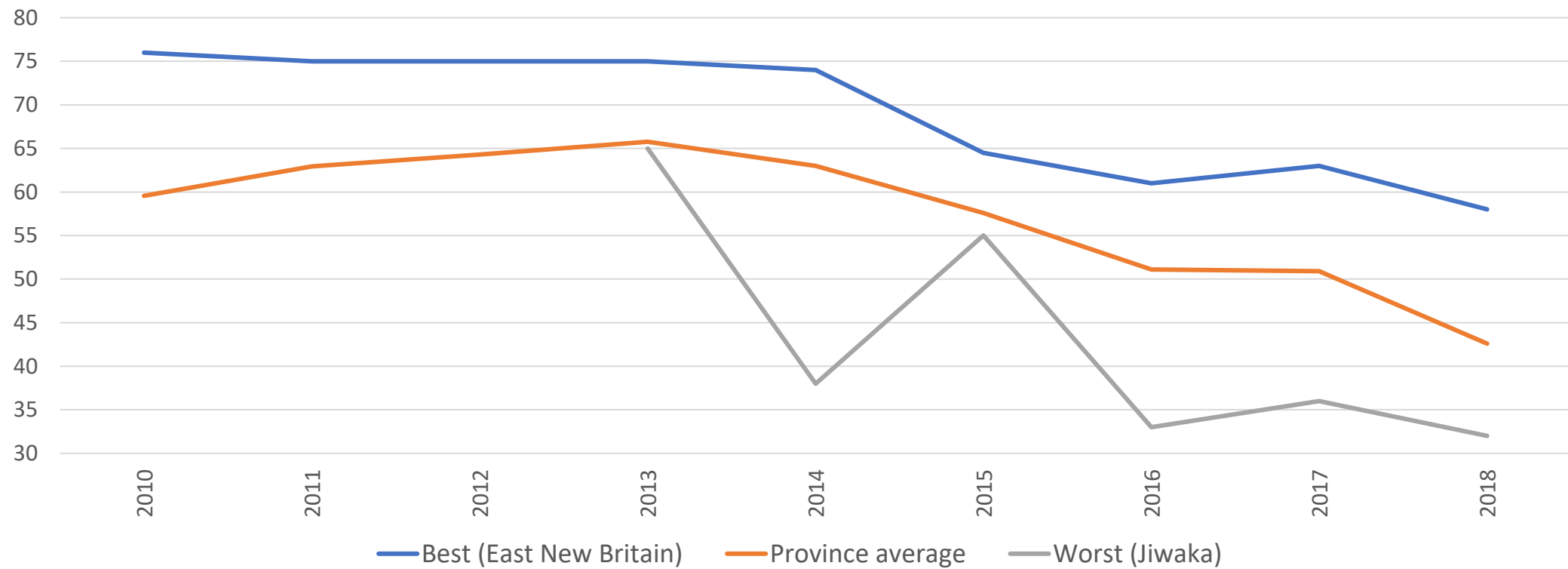
Fiscal autonomy capacity by province, 2021



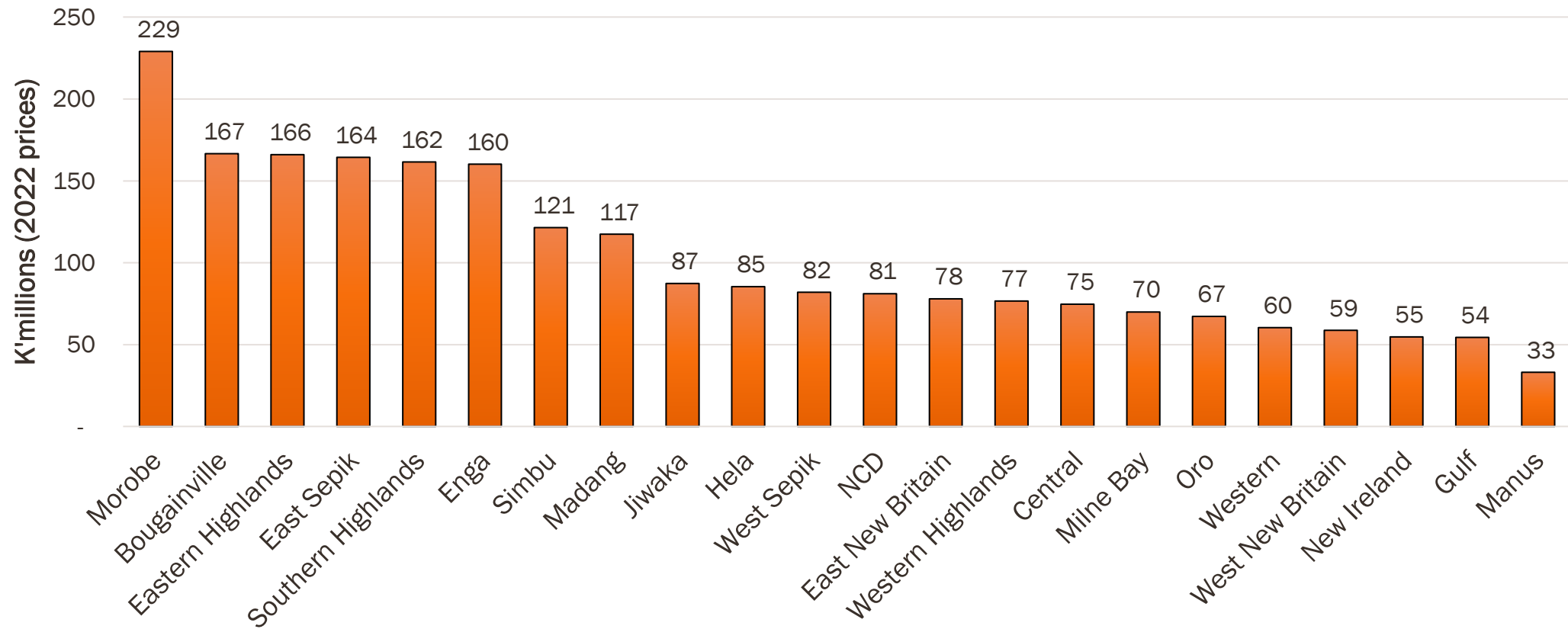
Trends in function grants breakup, 2009 to 2016



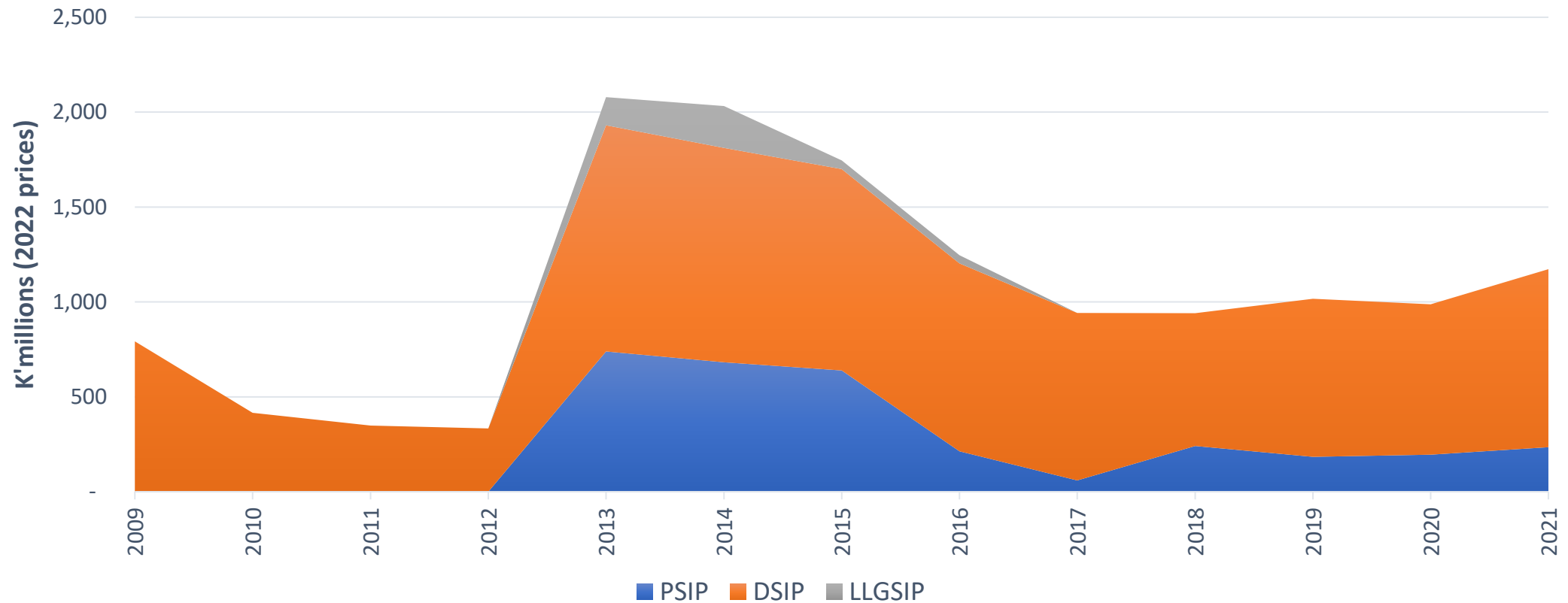
Province budget quality score, 2010 to 2018



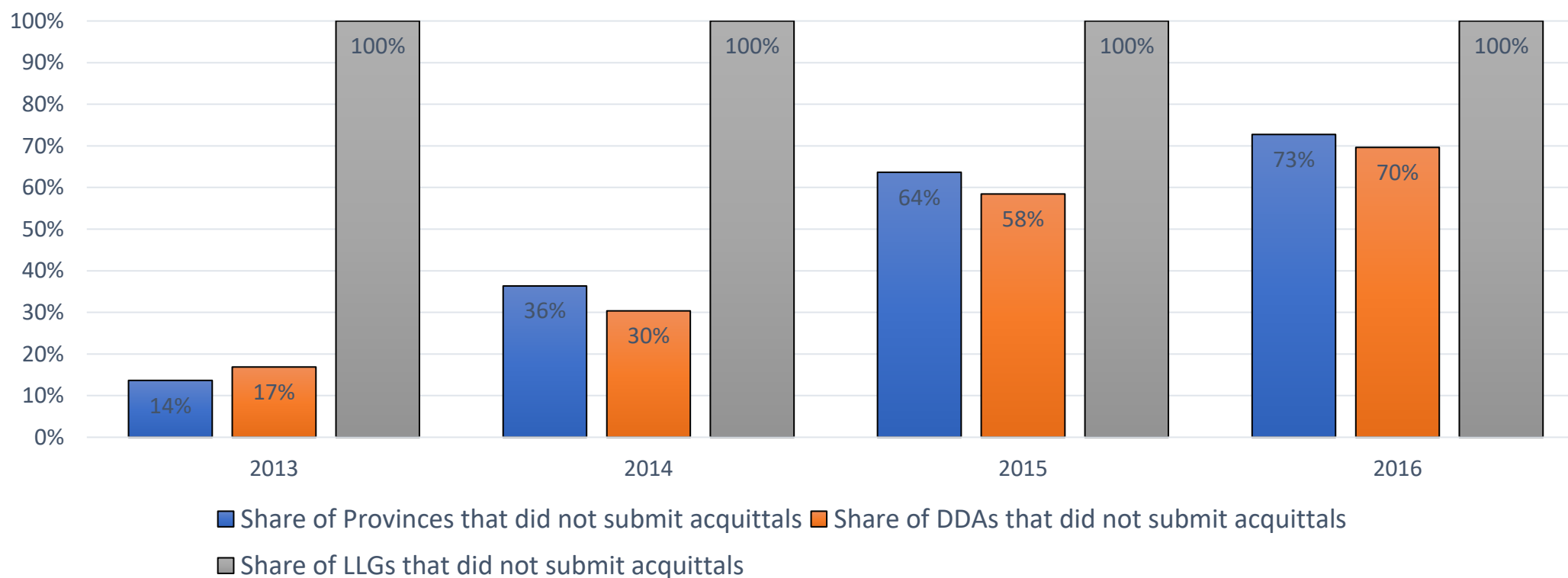
PIP by province, 2021



Trends in SIP totals, 2005 to 2021



SIP acquittal status, 2013 to 2016



Legislated schedule and actual cash release, 2018

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

Problems with subnational financing

- While waiting for funding, provinces fall back on their revenues and roll-over funds from the previous year.
- As provinces are prohibited from borrowing, a decline in revenue directly impacts spending.
- In 2005, 4 provinces did not have the capacity to meet service delivery obligations, but by 2020, this number had grown to 17.
- Large capital spending adds pressure on the recurrent budget for maintenance of the new facilities.
- Manpower and payroll audits undertaken in 2012 revealed huge discrepancies and anomalies in the salaries of teachers and public servants.
- Bank reconciliations failed to be completed monthly, with a backlog dating more than five months. Even if reconciliations were completed, there were likely to be discrepancies extending more than two years.
- Using two IT systems (IFMIS and PGAS) also compromises data integrity. The complex process of transferring monthly summary data from the manual PGAS system to the digital IFMIS creates risk for error and fraud, since supervision is weak.

Conclusion

- PNG is relatively less decentralized in terms of revenue and spending at the subnational level.
- More than four-fifths of provincial revenue is determined and collected by national government – GST & royalties.
- Volatility in real function grants levels means service delivery obligations cannot be met consistently.
- Increase in capital spending has also added pressure on function grants for the maintenance of new facilities.
- DDAs have embedded MPs in the top three tiers of government: national government, provincial governments, and DDAs.
- Governance problems stem from political influence and a lack of capacity within the provincial bureaucracy.
- Culture of non-compliance has also crept into province and district administrations, partly because penalties are not well-defined or enforced, leading to arrears in reporting, and discrepancies between national and subnational accounts.

Recommendations

- Strengthen administrative and reporting capacity for provincial and district staff.
- A better analysis of administrative capacity before granting more autonomy to the provinces.
- Introduce stricter penalties for non-compliance in reporting by subnational governments.
- Strengthening and streamlining disbursement funds for faster access to funds by the provinces, districts and LLGs.
- Increased funding and strengthening administrative capacity in oversight and anti-corruption agencies, namely: NEFC, DIRD, Auditor General, Ombudsman Commission, ICAC, and the National Fraud and Anti-Corruption Directorate.