

Subnational governance in PNG – poor and worsening

by Maholopa Laveil

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Rabaul Harbour, East New Britain
Photo Credit: [Flickr/Carsten ten Brink](#)

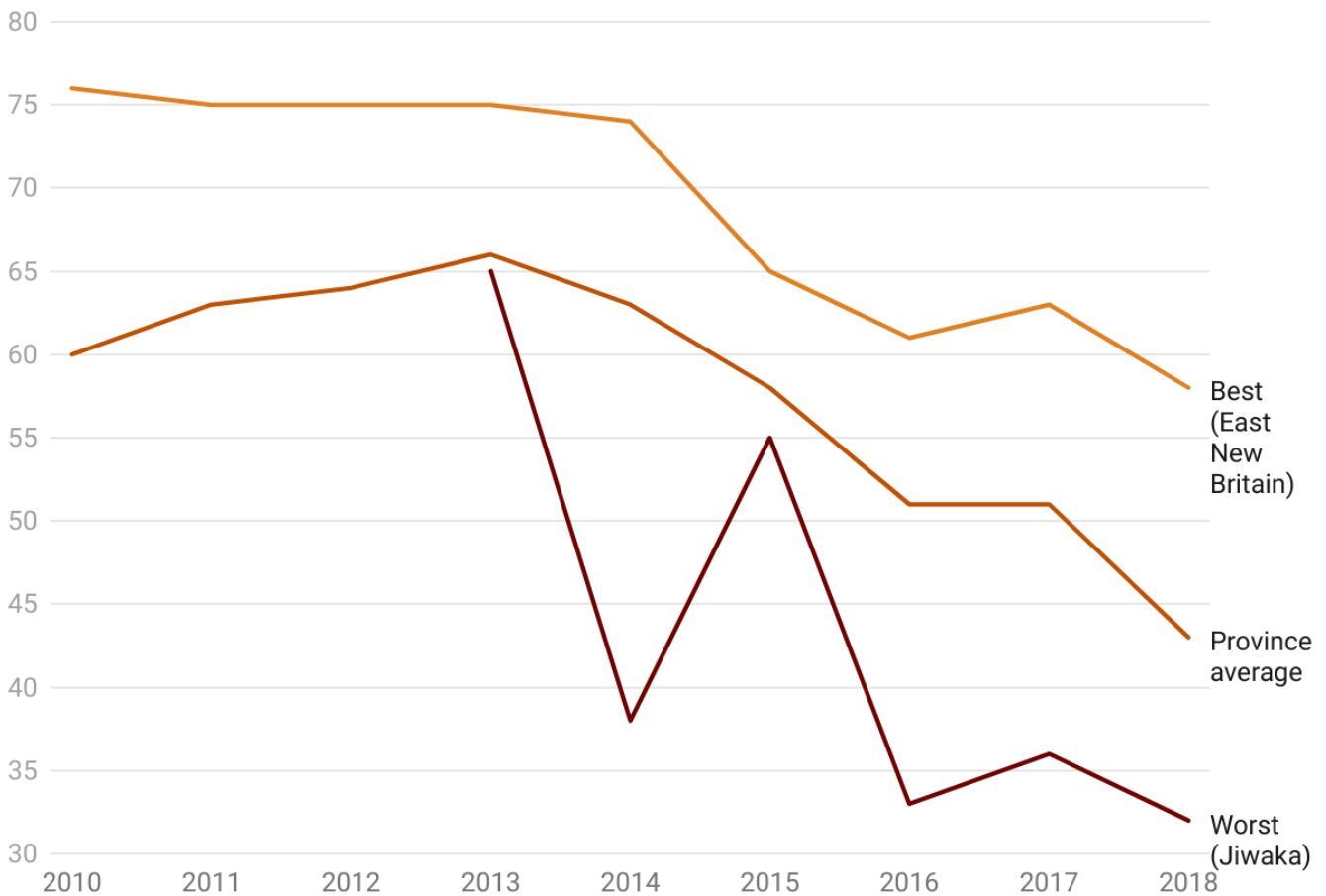
In this third post in a [three-part series](#) focusing on subnational government financing in PNG, I look at governance arrangements for provinces, districts and local-level governments (LLGs).

Governance around subnational government finances in PNG has been lacking. The last [provincial audit](#) completed by the Auditor General's Office (AGO) was in 2017, and concluded that an opinion could not be formed on the financial statements of all provinces and LLGs owing to "material errors, uncertainties and lack of adequate records". Among the many problems, the AGO found that financial statements were inaccurate, many finance personnel were inexperienced and lacked training, and a proper accounting of fixed assets and investments was not done.

Another indicator that may be used to assess governance in the provinces is the National Economic and Fiscal Commission's (NEFC) [budget quality score](#). The NEFC conducted budget quality assessments of 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 the extent to which sectoral allocations matched the minimum priority areas determined by national government.

East New Britain was the best performing province in terms of budget quality and Jiwaka the worst. East New Britain's budget formulation process was transparent in that it held quarterly meetings with LLGs and district authorities, incorporating all their yearly and five-yearly plans into the provincial budget. Lessons from East New Britain can be applied to poor performing provinces, such as Jiwaka, to improve accountability of the budgetary process. That said, not only did average provincial budget quality fall over this period, but the best province's performance also fell.

Figure 1: Province budget quality score average, best and worst performing province, 2010 to 2018



Source: NEFC Fiscal Budget Reports 2010 to 2018 • Created with Datawrapper

It is revealing that governance for all provinces deteriorated after District Development Authorities (DDAs) were **introduced in 2014**. With DDAs came an expansion of staff and funding but this was not accompanied by the requisite investment in the training of staff and oversight agencies. Removing DDAs, or at least reducing their size and funding, would ensure provincial administrations are less burdened by managing them.

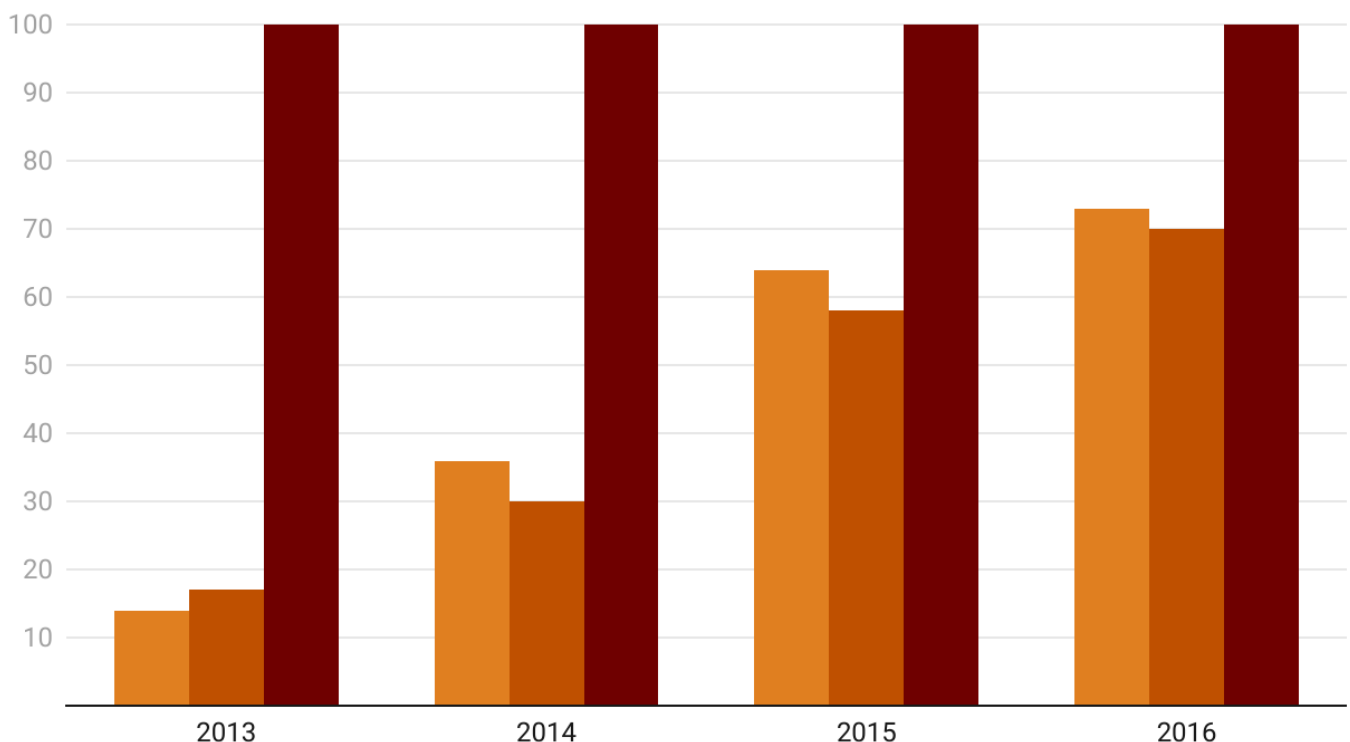
Better oversight over Services Improvement Program (SIP) funds is also needed. Between 2013 and 2016, none of the **LLGs acquitted** any of the SIP funds they spent. The share of provinces and districts that did not acquit their SIP funding rose from less than 20% in 2013 to more than 70% in 2017, as seen in the chart below. In its **2019 report**, the AGO noted that a significant number of provinces and districts did not feel obliged to comply with reporting timetables, indicating weak management. The AGO concluded that the management of the SIP funds was largely ineffective because there were no penalties for non-compliance at the subnational level.

Political interference also hampers the oversight of SIP funds. According to an [administrative direction](#) from the national government, the Department of Finance (DOF) is only allowed to disburse the next round of SIP funds if the previous year's acquittals are submitted. Even though a growing share of subnational governments did not submit acquittals, DOF maintained SIP disbursements due to "[extreme political pressure](#)". This political influence enabled SIP funds to be released earlier in the year compared to [function grants](#) for provincial governments.

Figure 2: Share of subnational governments that failed to acquit SIP spending

2013 - 2016

■ Provinces
 ■ Districts
 ■ Local Level Governments



Source: AGO report: SIPs 2019 • Created with Datawrapper

In addition, several problems highlighted in the IMF's [Public Expenditure and Financial Accountability \(PEFA\) report](#) in 2015 have not been addressed. [Discrepancies in the salaries](#) of teachers and public servants are yet to be corrected. Another problem was that bank reconciliations were not completed monthly, leading to a backlog of more than a year in some cases.

The PEFA report also stressed that while [government was transitioning](#) from the old Public Government Accounting System (PGAS), to the new Integrated Financial Management System (IFIMS), some provinces are using one system and others

another.

Despite these problems, the PNG government has taken steps to improve subnational governance. An example of this is the [Bilum Platform](#), a digital data management platform recently launched by Catalpa and the Department of Implementation and Rural Development (DIRD), funded by Australian aid. The Bilum Platform aims to assist DIRD in monitoring and reporting on SIP projects and is currently being rolled out in several provinces. However, there have been few details about its uptake and like other promising initiatives it risks languishing on the shelf.

In summary, governance problems at the subnational level stem from a lack of capacity within the provincial bureaucracy and political influence. A culture of non-compliance has also crept into the subnational 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 subnational accounts.

It is striking that NEFC no longer bothers to report on the quality of provincial expenditure, even though its own reports indicate significant deterioration. It is hard to take seriously calls for greater provincial funding and autonomy until subnational governments show that they are committed to improving expenditure governance.

You can [access a map](#) that contains fiscal data for each of PNG's provinces. Also included are the subnational governments in each of these provinces in 2022, and province populations in 2021.

The [Papua New Guinea's fiscal decentralisation: A way forward report](#) is available on the Lowy Institute website. This report is part of the Lowy Institute's Pacific Fellow Project, funded by the Foundation for Development Cooperation (FDC), and was undertaken while the author was the inaugural FDC Pacific Fellow at the Lowy Institute.

This is the third blog in [a three-part series](#) on fiscal decentralisation.

Data from the three blogs is available at the [PNG Budget Database](#).

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Link: <https://devpolicy.org/subnational-governance-in-png-poor-and-worsening-20240318/>