

Provincial and Local Governments Program

Program Design Document
2012 – 2017

Volume 2: Annexes

17 November 2011

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Annex 1 - Design Team's Term of Reference

Background

1. Papua New Guinea's system of decentralisation is articulated in the 1995 Organic Law on Provincial Government and Local Level Government (OLPLLG). Under this government system, primary responsibility for the financing and delivery of the majority of public services rests with provincial and local level governments. The system has suffered from confusion about the roles and responsibilities of different levels of government; insufficient funding for lower levels of government to fulfil their responsibilities; and lack of prioritisation by lower levels of government for core service delivery responsibilities. This weakened system of decentralisation needs to be strengthened in order for PNG to meet any of the Millennium Development Goals.
2. In response to the challenges outlined above AusAID developed its Sub National Strategy (SNS). Following a successful pilot in 2004, the SNS was originally designed as a long term (15 years) endeavour between PNG and Australian Governments with the goal of improving service delivery to the people of PNG through the strengthening of sub-national levels of government. Broadly this is achieved through advisory support and incentive grants targeted at building administrative capacity in provinces, support for reforms to intergovernmental financing and capacity building of coordinating and monitoring agencies. Under the broader Sub-national Strategy of which SNS forms a part, AusAID officers are deployed to four provinces and the Autonomous Region of Bougainville to improve outcomes of key sectors including Education, Health and HIV.
3. In 2009 an Independent Review endorsed the relevance of the SNS and supported its continued implementation. In 2010 the Department of Provincial and Local Government Affairs (DPLGA) requested that support provided through SNS continue and that AusAID participate in a joint design process with the Government of Papua New Guinea.
4. In November 2010 members of the SNS Independent Adviser Review Group (IRG) undertook some initial analysis and consultations on what a subsequent phase of SNS should consider. A core part of this process was extensive consultation with GoPNG stakeholders; DPLGA, DNPM, NEFC and Vision 2050. Their findings and recommendations were provided to both AusAID and GoPNG.
5. The findings included:
 - Broad support for SNS from key GoPNG stakeholder and demand for a subsequent phase.
 - SNS objectives and overall purpose remain relevant, and that greater focus was warranted on Performance management, lower level implementation, political and policy engagement and strengthening DPLGA to support lower level capacity
 - Modalities and process are still relevant but would benefit from some re-design
 - DPLGA is ready to take greater leadership and practical ownership of many activities.
6. Based upon the findings of the IRG, a Concept Note for Second Phase of SNS was developed. This Concept Note was peer reviewed on 9 February where approval was given to proceed to design.
7. Specific guidance that came from the peer review

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- PNG Sub-national Program Phase 2 moves from concept to design phase, based on an evolutionary program approach.
- The design team should aim to specify a clear strategic intent / objectives for the program based on achieving service delivery outcomes and also define an exit strategy for Australian assistance based on sustainable levels of achievement. The design team should suggest an alternative name for the next five years of the program.
- The design should consider the dynamics of reform and the theory of change for sub-national service delivery, addressing issues such as engagement with elected leaders, civil society and improving the opportunities for women in decision-making.
- The design team should carefully liaise with other AusAID sector teams at Post to ensure an integrated approach to supporting service delivery, in particular the EPSG and Democratic Governance Units.
- PNG AusAID should keep Pacific Division regularly briefed on developments in the design.

Objectives

8. To prepare a design that provides a clear and justifiable 'program' for the specific SNS niche (goal purpose objectives and deliverables etc) that meets AusAID's quality principles and conforms to AusAID documentary standards.¹ The design should also be consistent with the approved Concept Note and take forward agreed Peer Review recommendations.

Scope

9. To be achievable, the design team will need to provide a specific way forward for some issues, but only a framework for others. To this end, the design team should be able to define:
 - (a) clear program objectives relevant to service delivery;
 - (b) a more appropriate governance structure for the program to facilitate sufficient PNG Government oversight of all program components;
 - (c) a revised approach to capacity building that links to service delivery, incentive payments and theories of change;
 - (d) a joint approach to M&E; and
 - (e) a proposed approach for the use of government systems.
10. In designing a newly named program, the design team should not only clarify the program's service delivery objectives, but also seek to delineate (as provided in the mid-term review) the role of the sub-national program in AusAID's broader sub-national strategy and to what extent the existing third limb of the SNS Phase 1 design should remain a part of the program in the second phase. To this end, the design team should consider:
 - the role that the program should have in supporting the wider service delivery ambitions of the AusAID PNG Program and alignment of sector programs to sub-national; and

¹ See attached design Guidelines.

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- the best location within AusAID Port Moresby of reporting obligations of provincial representatives, and in particular whether those positions should best report to the Sub-national Program Director or the Chief of Operations.

11. Additional work that may take place subsequent to the 2 week design period could include specific missions on procurement assessments and/or the use of incentives.

The design will need to:

- Incorporate the relevant agreed recommendations of the PPII review;
- Define the key principles to for the 'program' to evolve in the PNG context ensuring its focus, prioritisation and role as part of the wider aid program and PNG's development agenda.
- Define how the 'program' comes behind, is integrated with and contributes to key GoPNG development directions and specific GoPNG plans (including DPLGA, PLLSMA, NEFC, ORD DNPM, specific provinces and the PPII etc)
- Confirm and refine achievable and sustainable outcomes.
- Identify key linkages and opportunities for shared outcomes/objectives and working approach for the SNS to enable AusAID's investment in priority service sectors for PNG (health/HIV, education etc)
- Examine feasibility and viability of delivery options available including opportunities to increase use of "non TA" capacity building.
- Review current performance indicators identified for SNS monitoring and evaluation framework for the activity and revise where appropriate. This includes identifying an approach to gathering baseline data from existing PNG systems.
- Review and rearticulate the theory of change for the SNS.
- Define how the 'program' links with and works with other AusAID enabling programs and their partners such as Democratic Governance and Economic and Public Sector Reform.
- Consider how the framework of "program pillars" will evolve from Phase 1 to Phase 2
- Review the "special case" approach to providing assistance outside of PPII.
- Review the Kokoda Development Program Design and advise how it can be incorporated into the SNS Program.
- Examination of current approach to incentives
- Review current Scope of Service and Basis of payment and recommend any changes needed.
- Full risk assessment and development of a risk management strategy.
- Consider benefits of re-badging the program.
- Define governance arrangements including roles and responsibilities of partners
- Ensure cross-cutting issues including gender and HIV are appropriately included.

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Consultations

- AusAID
- DNPM
- DPLGA
- NEFC
- DNPM
- NRI
- Provinces
- Donors

AusAID Programs (including team leaders)

- SPSN
- Health
- Education
- HIV
- EPSP

Reading

AusAID Options Papers to inform and guide the design team will be prepared on the following areas:

- Monitoring and Evaluation
- Drivers of Change
- Gender
- Incentives
- Working in Partner Systems
- Provincial Representative briefing and position papers

Other reading

- PNG Program Strategic Directions Paper
- Designs for SPSN, Church Partnerships, EPSN, Plus Health and Education Delivery Strategies
- SNS HIV Strategy
- Mid term review and accompanying position papers
- Interim guidance note
- Concept Note and accompanying reviews
- SNS Six Monthly Monitoring Reports
- ISP Reviews
- ISP Six monthly reports

Key Government of PNG Documents

- PPII Review
- DPLGA Corporate Plan

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- NEFC RIGFA
- PLLSMA Vision Paper

Duration and Phasing 2011 (later dates subject to change)

Pre-reading, team discussions	March 2 – March 6
Design Mission Week 1 – Analysis of documents, consultation with key stakeholders	March 7 - 11
Initial ideas paper	March 11
Design Mission Week 2: Workshop series with stakeholders	March 14 -18
Aid Memoire	March 18
Draft Design document	April 26
Subsequent inputs on incentives and use of government systems	May 2 - 5
Feedback to team and follow up work	May 20 - 30
Final Design document	June 30
AusAID Approval Processes.	July

Team Specification

Core Design Team to be made up of:

Tony Land (Team Leader)

John Mooney

Felecia Dobunabu

The following PNG departments have also been invited to send representatives to participate in the mission consultations.

DNPM

DPLGA

The Sandaun Provincial Administrator will also participate in the mission

Reporting

- Interim brief end of first week of mission to provide Canberra with progress update.
- Aide Memoire prior to leaving the country (see Aide Memoire Outline template)

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- Activity design document and associated annexs (see Guideline on Managing Development of a Design for recommended design document content)

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Annex 2 – People consulted And Design Team Experience

Design Process in Country & Key Persons Consulted

The Design Team had two weeks in PNG. An important task during the first week was to consult key AusAID sectors to understand current service delivery strategies and implementation approaches. During the second week four workshops were held with key SNS groups. Individual meetings were held with PNG's DPLGA, DNPM and NEFC.

Dept of Provincial & Local Government Affairs

Manasupe Zurenouc OBE, Secretary

Russell Ikosi, Deputy Secretary

Dickson Guina, Director Capacity Building (CBD)

Julius Wargirai, Director Performance Management

Gerelyal Mogia, Director Human Resources

Simon Kunai, Director LLG Division

Gabriel Ngat, Director Legal & Policy

Ray Kala, Assistant Director, CBD

Margaret Muh, Assistant Director CBD

National Economic Fiscal Commission

Dr Nao Badu, Chief Executive

Department of National Planning and Monitoring

Ruby Zarriga, Acting Secretary

Joseph Turia, Director Aid Coordination

Members of various divisions

National Research Institute

Dr Alphonse Gelu, Senior Research Fellow

AusAID

Stephanie Copus-Campbell, Minister Counsellor

David Chick, Director SNS

Richard Slattery, SNS

Tom Nettleton, First Secretary, SNS

Heather Rich, Second Secretary, SNS

William Hilton-Thorpe, First Secretary Transport

Phillip Warren – Adviser Transport

Peter Coventry, Director Education

Fred Brooker, Education Adviser

Jelena Zelenovic, Second Secretary

Dr Geoff Clarke, Director Health

Aedyn Whyatt, First Secretary

Paulinus Sikosana, Health Adviser

Sophia Close, First Secretary Democratic Governance

Peter Aitsi – SPSN Manager

Cathy Amos, Program Manager

Lucy Tia, Program Manager

Belinda Bayek-Bush, Assistant Program Manager

Andrew Yuangi, Assistant Program Manager

Andrew Elborn – First Secretary Economic & Public Sector Program

Geoff Elvy – Public Sector Adviser

Steven Ilave – EPSP Program Manager

Catherine Gill, Law and Justice Program Director

Gabriel Kubul, Program Manager

Tau Geno-Hoire, Program Manager

Janet Philemon, Program Manager, Kokoda

Abraham Opito, HIV Adviser Provincial Engagement

Linda Kelly, Consultant, AA Program M&E

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Rose Gawayia, Gender Integration Adviser

Taeva Tararau, Planner, MBP

Puara Kamariki, Chief Exec Officer Div of LLG

Workshop with AusAID Provincial Representatives

Judith Ugava- Taunao and Paul Bridgeman ENBP

Colin Wiltshire, CP

Roslyn Kenneth, ABG

Moale Vagikapi, EHP

Jimmy Morona MBP

Workshop with DPLGA Senior Management team

Julius Wargirai, Dickson Guina, Gerelyal Mogia,
Margaret Muh

Workshop with Central Agency Representatives

Dr Nao Badu, CEO, NEFC

Ravu Vagi, Deputy Secretary, Dept Personnel

M'ment

Simon Cholai and Francis Koou, Vision 2050 Centre

Kelly Lovaru. Deputy Director, ORD

Elizabeth Gumbagiti, Director Planning & Policy,
NDOH

Dr Sinebare, Deputy Director NRI

Workshop with Provincial Administrators

William Powi, Provincial Administrator, SHP

Willamsen Hosea, Deputy Provincial Administrator
WNBP

John Gimiseve, Deputy Provincial
Administrator, EHP

Gei Raga, Deputy Provincial Administrator CP

Geoving Bilong. Deputy Provincial
Administrator, MP

Levi Mano, Planning Advisor, ENBP

Design Team PNG SNS Experience

Members of the Design Team have had significant previous experience in the PNG SNS program:

Activity	Design Team Members
PPII Design 2005 & PPII operations 2004 – 2011	Guina, Sungi
SNS Design 2005	Guina
SNS IRG 2006-2010	Land, Dobunaba
SNS Mid Term Review 2009	Land, Dobunaba
SNS AusAID PNG Program Coherence Review 2009	Mooney
SNS Interim Guidance Note 2009	Land, Dobunaba, Mooney
DPLGA PPII Review July 2009	Mooney
Contribution to SNS Phase 2 Concept Note 2010	Land, Dobunaba, Mooney

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Annex 4-1: Background to SNS

Original Concept

SNS was original called Sub National Initiative (SNI) and formally commenced in partnership with GoPNG originating from a joint agreement and memorandum of understanding in 2004. This partnership has focus on effective working relationships, and has continued. In July 2004 the AusAID executive endorsed a concept² for SNI which is at **Attachment B**. The SNS investment from the outset was also premised to complement and enhance AusAID's sectoral and central agency engagement in Papua New Guinea.

The underpinning premise for SNS is:

- the majority of responsibilities for actual service delivery is at the provincial, district and local levels;
- the decentralised system needs to be effective to enable implementation of services;

² Strengthening the Effectiveness of Australia Aid to Provinces, Districts and Local Governments and Administrations: Concept Paper for a Sub-National Initiative (AusAID 2004)

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- the provincial levels is a distinct level of government impacting service delivery outcomes
- there is large the diversity of provincial district and local operating contexts, leadership and opportunities; and,

Based on this SNS provides targeted program based assistance to:

- supporting provinces, district and local level governments implement their recurrent service delivery responsibilities; and,
- supporting the strengthening and implementation of the decentralised service delivery systems.

SNI and SNS Design

Based on the original concept AusAID commenced through the Sub-National Initiative, which ran from 2004 to 2006. The SNI was developed in conjunction with, and to support key GoPNG initiatives particularly the Provincial Performance Improvement Initiative (PPII) and the Review of Intergovernmental Financing Arrangements (RIGFA). A summary of the SNI framework in ***diagram 1*** below.

The SNI was assessed as a successful pilot and to further this investment a subsequent Sub National Strategy (SNS) was designed in 2006 with GoPNG and began implementation in 2007. The SNS was approved via a Ministerial Submission in 2006, as 15 year program. FMA 9 approval was granted for the initial phase SNS until June 2012.

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Diagram 1 – Sub National Initiative Framework

Overarching Goal	Strengthening public administration for improved service delivery outcomes		
Rationale	The sub national level has extensive responsibilities for service delivery; actions at the Central and Sector Agency level have limitations on service delivery impacts; there is will and desire for reform at the sub national level in certain areas.		
SNI Objectives	<ul style="list-style-type: none"> • Provide support to sub national reform initiatives • Improve the management of budget, planning and public expenditure at the sub national level • Help strengthen implementation of PNG's decentralised framework 		
SNI Strategy	<ul style="list-style-type: none"> • Pilot engaging in reform opportunities existing at the sub national level • Help national government respond to the needs/challenges raised by sub national issues • Promote better consistency of donor activities with PNG's decentralised framework 		
Key Principles	Public expenditure management; affordability; budget integrity; civil participation; accountability; flexibility; incremental performance based assistance; team approach; stability		
Components	1. National government support	2. Selected sub national engagement	3. Consistent approach to decentralisation
Actions	<ul style="list-style-type: none"> • Engagement of central agencies (DoF, DoT, DNPM, PSRMU and NEFC) on sub national performance issues facilitated through DPLGA • Ongoing support for NEFC's Review of Inter Governmental Financing Arrangements (RIGFA) • Provide high level and senior management assistance to DPLGA including NMA and engagement in areas of national interest • Support management of pilots through DPLGA 	<ul style="list-style-type: none"> • Identify entry points • Engage and reach agreement on ongoing relationship principles • Help formulate a reform agenda in partnership • Undertake stocktake and provide tool kit of policy and technical advice, capacity building assistance and limited financial support • Increase AusAID policy dialogue engagement on resource allocation • Help support public expenditure management at the sub national level 	<ul style="list-style-type: none"> • Review donor cohesion with PNG's decentralised framework and make recommendations • Distil and disseminate understanding of PNG's decentralised framework • Elicit governments support • Input into program development (ECP, aid review and JCS) • Support SN engagement in areas of national interest and post conflict
Mechanisms	<ul style="list-style-type: none"> • Placement of technical assistance • Establish (or use existing) committee to monitor and guide process • Placement of AusAID resources with DPLGA 	<ul style="list-style-type: none"> • Reach relationship based agreement with pilots involving sub national entry points, AusAID and DPLGA • Provide AusAID staff and TA for policy engagement on resource envelope and allocation 	<ul style="list-style-type: none"> • Provide AusAID and TA resources for cohesion study and decentralisation framework articulation • Facilitate discussion forums • Share ongoing learning for SNI pilot engagement and national responses

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		<ul style="list-style-type: none">• Provide new TA and possibly additional resources as well as a better coordination of existing programs with pilots priorities	<ul style="list-style-type: none">• Link SNI with other program initiatives
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Underpinning the SNS approach are key principles summarised below that are still relevant to the program.

- i. Ownership
 - Invest time into development of ownership of assistance by recipient and responsible drivers
- ii. Tailored, targeted, responsive and flexible assistance
 - Assistance to consider and utilise different types, approaches and focus' of assistance as appropriate for each stakeholder
- iii. Integration with PNG systems, responsibilities, policy, leadership and reforms
 - Working with and through PNG systems to plan, finance, provide and monitor assistance
 - Co-locating AusAID with GoPNG and locating advisers with recipient counterparts
 - Coming behind PNG reform and improvement agendas and their committed leadership
- iv. Relationally based engagement
 - Engagement based around effective working relationships
- v. Holistic approach
 - Engage with and support whole of decentralised service delivery system
 - Supporting cross sectoral coordination, consideration and prioritisation
- vi. Support sub-national service delivery responsibilities
 - Have direct engagement with sub-national administration (provinces, districts and LLG's)
- vii. Cohesive and coherent approach
 - Support SNS and other programs to increase coherence with PNG's policy agenda, reform agendas, systems and practice
- viii. Incremental and iterative approach
 - Work gradually utilising pilots, lessons learnt, improved understandings and M&E findings to allow refinement and targeting of program
- ix. Performance / incentive based assistance
 - Reward those who implement systems, practice and reforms that improve service delivery and their specific drivers

The SNS 'Program' and SNS 'Strategy'

SNS design articulated a three pronged approach by which SNS contributes to the goal of "Improved service delivery for the men, women and children of Papua New Guinea". These prongs are:

- Supporting:
 - (1) Government of Papua New Guinea initiatives that aim to improve public administration and governance processes related to enhanced service delivery (the PPII); and,
 - (2) Improved performance in Provinces of national interest to both governments (special case Provinces).
- Informing:
 - (3) The alignment of AusAID's ongoing programs in PNG so that they are more responsive to service delivery challenges at the Sub-National level

As the program has been evolved, 'supporting' under SNS (prong one and two) have been identified as the SNS 'program', and the informing under SNS (prong three) has been identified as the SNS 'strategy'.

Whilst the SNS 'program' and SNS 'strategy' can be viewed separately they are linked in a symbiotic nature. The SNS 'program' needs the SNS 'strategy' to inform and target its focus and assistance. And the SNS 'strategy' needs the SNS 'program' to ensure currency of analysis and understanding of PNG decentralised system and facilitate opportunities to inform the wider AusAID program.

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The 2009 SNS Mid Term Review³ (MTR) recommended that the SNS 'program' be more clearly differentiated from the SNS 'strategy' to facilitate greater progress in informing the alignment of AusAID's ongoing program. This work has commenced with an Interim Guidance Note offering a vision and underpinning principles for a whole of AusAID program strategy summarised at below.

Annex 4-2: Strengthening the Effectiveness of Australia Aid to Provinces, Districts and Local Governments and Administrations: Concept Paper for a Sub-National Initiative (AusAID 2004)

Purpose

The Australian Government aid program is focussed on helping the Government of Papua New Guinea to deliver better services. Central agency engagement has increased the focus on integrity of public expenditure management while sectoral program support has assisted national agencies in their capacity to deliver services. In Papua New Guinea's decentralised system, the importance of sub-national governments in achieving good governance and effective service delivery outcomes is fundamental.

The Sub-National Initiative aims to address our engagement with and assistance to sub- national governments to build on the aid program's work at central and line agency level. It is about targeted, tailored engagements that include incentives to support performance and achieve development outcomes. Continued analysis and pilot assistance will provide a continuous learning context to inform a strategic policy framework that will guide the Initiative over the medium term.

Background

The decline in service delivery in PNG, particularly to the rural poor, arguably represents the single greatest challenge to the Government of Papua New Guinea and its development partners. Australia is now moving decisively to provide substantial support to PNG central agencies to improve public expenditure management and public sector management. This support is critical to providing the overall national framework for the enhanced functioning of Government, and ultimately improved service delivery.

It is increasingly clear, however, that sub- national government mechanics are also constraining improvements to service delivery. While work has occurred at the sectoral level in provinces, increasing consideration is being given to how to enhance sub- national governments more directly. It is this gap and the strategic opportunity it provides that this Initiative aims to address.

Part of the challenge lies in the poor implementation of the 1995 Organic Law on Provincial and Local Level Government, which provides for provincial and district administrations as well as provincial and local political governments. Rather than leading to the efficiency and governance benefits of a decentralised system (local input and coordination leading to greater accountability and civil participation in decision-making), the laws numerous interpretations only complicate policy implementation and accountability.

3

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The World Bank Low Income Countries Under Stress (LICUS) work provides a context for the Initiative. This includes using mechanisms other than central government, and an iterative process with reform opportunities to facilitate policy and system change while improving essential service delivery.

Rationale

Six key factors underpin the case for a significantly enhanced focus on, and engagement with, sub-national government in Papua New Guinea:

1. sub national governments have the prime mandate and key role in the financing and delivery of many key services in Papua New Guinea;
2. sub-national governments have substantial resources at their disposal to support service delivery;
3. national government and donor sectoral approaches do not fully address the whole of decentralised government constraints to service delivery;
4. despite weak capacity, the opportunities with the Dept of Provincial and Local Government Affairs should be taken advantage of to support this coordination role;
5. PNG's decentralised structure offers the opportunity to pilot incentives for improving public expenditure management with reform sub-national governments; and
6. buy-in to the debate on PNG's decentralised government and possible reform agendas through partnerships and value-adding.

Sub-National Initiative: Draft Objectives

The objectives of Sub-National Initiative is to improve the ability of sub-national governments to deliver services for broad-based economic growth by:

- providing support to sub-national reform initiatives;
- improving the management of budget, planning and public expenditure at the sub-national level;
- helping to strengthen implementation of PNG's decentralised framework through a consistent donor approach; and
- contributing to a comprehensive and informed analysis to underpin any structural changes to the financing or management of intergovernmental relations.

Implementation

It is intended that the assistance would be integrated within the processes and systems of the Government agencies involved, rather than in the form of a classic project. This requires a flexible and iterative process to develop and implement the program. Key to implementation is an **effective engagement approach to enable national agencies, sub-national governments and development partners to actively interact on policy issues.**

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It is proposed that the program of support would be informed by a **strategic coordination group** that would consist of representatives from relevant GoPNG agencies such as the Department of Provincial and Local Government Affairs (DPLGA), Department for National Planning and Rural Development (DNPRD) and the National Economic and Fiscal Commission (NEFC), some provincial governments, and AusAID (other development partners could also be involved while the role of other central agencies would be determined by the Central Agencies Coordinating Committee). The function of this group would be to provide high level planning and oversight of the activities of the program, possibly reporting to an existing PNG Government body such as the National Monitoring Authority.

Proposed Sub-National Initiative

The focus of a proposed Sub-National Initiative would contain three main themes:

1. Support to the key national government agencies responsible for improving sub-national government performance **through a flexible program of technical assistance and financial incentives. The program would seek to improve intergovernmental financing arrangements, monitor provincial performance, and coordinate support for more effective and accountable sub-national expenditures. The support would also help GoPNG examine long-term reform of the Organic Law on provinces.**

Linkages to other Central Agencies and the work of the ECP personnel will be a key part of the initiative. Placement of ECP personnel in relevant areas such as the Provincial Budgets Branch of Treasury and relevant areas in Department of Finance will be critical to leveraging the engagement with provinces.

Support for DPLGA would help coordinate and monitor the range of current national government, provincial government and donor input to improve sub-national government service delivery performance. Continued support to the NEFC will further their analytical work on reforms to financing relationships and systems both between and within various levels of government. Support for the Public Sector Reform Management Unit work on the public sector reform agenda at the sub-national level would also be considered.

2. **Pilot engagement and incentive linked assistance for selected sub-national governments** to improve their public expenditure management. This involves both improving public sector performance (leadership and management practices) and efficiency and effectiveness of their expenditures (planning and resource allocation, budget preparation and execution, accountability practices). Each pilot will be progressively engaged and tailored to individual contexts and available entry points.

The engagement and assistance will only be with a few provinces, selected on the basis of commitment to pro-reform agendas and/or national interests of the Papua New Guinean and Australian Governments. The engagement would support policy discussion on the sub-national governments' initiatives, providing an opportunity to inform, and be informed by, various initiatives. The assistance will be modest and according to what is affordable to the province over the medium-long term. Incentives for reform implementation will be provided in this context promoting the

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demonstration of reform outcomes. Lessons from the Incentive Fund, such as a focus on commitment to reform processes as opposed to outcomes will be incorporated.

Pilots selected for national interest reasons, primarily stability, will engage with both state and not state entry points.

3. **Enhanced coordination and coherence of Development Partner funding to provinces.** In order to strengthen the decentralised government mechanism in PNG, it is necessary to more fully integrate both donor and other development resources with both national and sub-national planning and budgeting priorities. Discussions with JCS partners are already underway, with future joint analysis of the decentralisation issue being considered.

It is proposed to develop total resource envelopes (of recurrent and all donor flows) to provinces, and integrated medium term and annual activity plans. Analysis and pilots will provide a continuous learning context to test and inform development approaches.

Forms of Assistance and Delivery Mechanisms

The proposed program of support would provide resources in a number of forms at a number of levels, including:

- limited high level strategic technical assistance;
- more extensive technical assistance to support analytical work for reform proposals, and to provide implementation support for national or provincial level reforms;
- limited operational funding to support specific functions; and
- financial support to sub-national governments as incentives for improved performance.

The resources to support this work would be delivered via a range of different existing mechanisms:

- a posted officer could be seconded into DPLGA on a short-term basis to assist in scoping and monitoring of the sub-national pilots;
- PNG Incentive Fund could be tasked with managing any incentive based funding to provinces and managing operational funding. This could link with kina for kina proposals with members discretionary funds as proposed in PNG parliament, revised PNG National Development Charter, and recommendations of the Funds review of its policy stream;
- existing AusAID programs to support initiatives emerging from the program at both national and provincial level as well as with civil society; and
- Advisory Support Facility (ASF) for analytical and implementation support activities. This could include, linking with the ASF strategy for sub-national placements that is currently being proposed, and the extensive central agency support, including DPLGA and NEFC being provided through ASF.

Monitoring

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The program would primarily be monitored through use of existing PNG monitoring systems. This includes quarterly review processes, sectoral monitoring indicators, and expenditure and performance reports produced by Treasury and the National Monitoring Authority. In addition, there would be a limited role for an Independent Monitoring Group that would be charged with providing periodic high-level review of the PNG monitoring systems, and the performance of the program and participating agencies. It could monitor impacts of incentives (both intended and perverse) and related risks such as social or stability impacts.

It is recognised that such systems are quite weak at present and will require specific focus, with a linkage to the work in Treasury under ECP, but also directly to the National Monitoring Authority located in the DPLGA. The monitoring of the program will also be linked to the PNG program's own Monitoring and Evaluation framework currently being developed.

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Annex 4-3: Sub National Program Map

DPLGA <ul style="list-style-type: none"> • Policy Adviser* • Revenue and Taxation Adviser • Legislative Drafter (periodic) • PLLASMA Adviser* • Performance Management Adviser* • Function Assignment Adviser* • Communication Adviser* • Committee Coordination Adviser* 	NEFC <ul style="list-style-type: none"> • Strategic Management Adviser* • Economic and Fiscal Adviser* • Grant and Expenditure Adviser* • Fiscal Analysis Adviser (periodic) • Funding for awareness and dissemination 	NRI <ul style="list-style-type: none"> • Funding of Research Coordinator * • Funds of research 	ORD <ul style="list-style-type: none"> • DIMS Adviser*
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<div>PPII</div> <div>(shared for all provinces)</div> <div><div>Annual Peer Review</div><div>Legal scholarships</div><div>HRM Scholarships</div><div>Provincial Exchanges</div><div>Leadership and Management Training</div><div>Work attachments</div><div>PCMC communication training</div><div>Provincial IT training</div><div>Support for Short Course providers</div><div>Lead Finance Adviser*</div><div>Finance Adviser *</div><div>Lead HRM Adviser*</div><div>HRM Adviser *</div><div>ICT Adviser*</div><div>ICT Adviser *</div><div>Data base Adviser*</div></div>	<div>DPH 2 Province</div>	<div>Central</div> <div><div>Up to K1m</div><div>B&E Adviser*</div><div>District Planning & Implementation Adviser*</div><div>HRM Adviser*</div></div>	<div>EHP</div> <div><div>Up to K1m</div><div>B&E Adviser*</div></div>	<div>ENB</div> <div><div>Up to K1m</div><div>B&E Adviser*</div><div>District Implementation Adviser*</div><div>HRM Adviser* (25%)</div></div>	<div>MBP</div> <div><div>Up to K1m</div><div>Dev. Planning Adviser</div><div>HRM Adviser * (75%)</div></div>	<div>WSP</div> <div><div>Up to K1m</div><div>CPI Adviser*</div><div>B&E Adviser*</div><div>HRM Adviser* (50%)</div><div>District Capacity Adviser*</div></div>	<div>ARB</div> <div><div>Up to K5m GIF funds</div><div>Legislative Drafter Adviser*</div><div>HR Adviser*</div><div>Economic Development Adviser*</div><div>Procurement and Contract Management Adviser*</div><div>Policy Adviser*</div><div>Finance and Expenditure Adviser*</div><div>Planning and Budget Adviser*</div></div>
		<div>DPH 1 Province</div> <div><div>Morobe</div><div><div>Up to K0.5m</div><div>CPI Adviser*</div><div>Technical Imp. Adviser*</div></div></div> <div><div>Manus</div><div><div>Up to K0.5m</div><div>CPI Adviser*</div></div></div> <div><div>New Ireland</div><div><div>Up to K0.5m</div><div>CPI Adviser*</div></div></div> <div><div>Madang</div><div><div>Up to K0.5m</div><div>CPI Adviser*</div><div>HRM adv (50%)</div></div></div> <div><div>WNB</div><div><div>Up to K0.5m</div><div>CPI Adviser*</div></div></div> <div><div>Oro</div><div><div>Up to K0.5m</div><div>CPI Adviser</div></div></div> <div><div>Simbu</div><div><div>Up to K0.5m</div><div>CPI Adviser</div></div></div> <div><div>SHP</div><div><div>Up to K0.5m</div><div>CPI Adviser*</div><div>HRM Adviser*</div><div>District Planning</div></div></div>					

SNS general

(all areas)

- Gender Adviser*
- Capacity Effectiveness Coordinator*
- Public Financial Management

Key

- National Level Assistance
- Sub National Level Assistance
- CPI Adviser - Corporate Plan Implementation type adviser
- B&E Adviser – Budget and Expenditure Adviser
- HRM Adviser – Human Recourse Management Adviser
- Vacant position
- Incentive Funds
- Other Capacity Development Assistance
- * - rated as 'low' in TA review
- * - rated as 'medium' in TA review

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Annex 4-4: Summary of the PPII Program 2010

PPII Phases	Preparatory Phase: Engagement with DPLGA to develop Corporate Plan	Phase 1: Support to implement key priorities in Corporate Plan	Phase 2: Implementation of Corporate Plan and focus on service delivery	Phase 3: Economic Growth and Sustainability
Participating provinces	<ul style="list-style-type: none">• Gulf• Western• East Sepik• Enga• Western Highlands	<ul style="list-style-type: none">• Simbu• Madang• West New Britain• Oro• Morobe• New Ireland• Manus	<ul style="list-style-type: none">• Central• Sandaun• Milne Bay• Eastern Highlands• East New Britain	None to date and criteria yet to be defined.
PPII Incentive Grant	None	Up to K250,000	Up to K1 million	Yet to be defined
PPII Assistance (Capacity building)	DPLGA engagement to support Corporate Plan development that identifies reform priorities	<ul style="list-style-type: none">• Full-time TA in the province depending on needs• Fly-in, fly-out TA in key corporate functions: budgeting, financial management, HR, project management and IT• Provincial exchanges• Training, scholarships• Provincial peer review• Facilitation of other program assistance (both GoPNG and donor – eg PSWDP)		Yet to be defined

Annex 4-5: Concept Note's Description of SNS Program Performance

Although it is difficult to demonstrate the success of the PLGP against the broad objective of 'improved service delivery', it has achieved important successes in partnership with the PNG Government in support of the more concrete objectives of the PPII, in improving sub-national public administration.

An independent Mid-Term Review (MTR) of SNS Program in 2009 noted achievements in strengthening the decentralisation system, through:

- increased provincial funding for service delivery through the Reform of Intergovernmental Financing Arrangements (RIGFA);
- greater clarity on responsibilities for provincial and local-level governments;
- improved coordination and performance monitoring systems; and
- a strengthened role of key national agencies in supporting provinces.

Recommendations of the MTR are at **Attachment G**. AusAID accepted all the recommendations of the MTR in full or part.

Separate missions of the Independent Review Group on RIGFA in 2009 affirmed the successes under RIGFA but also observed fragility in the system and a need for ongoing support, particularly in the implementation and monitoring of the Minimum Priority Areas for service delivery that had received additional funding.

The independent review of the PPII in 2010 found that PPII was strongly owned by the PNG Government and had significant achievements against two of its objectives: viz. to strengthen corporate management of, and streamline national agency support for, provincial and district administrations (details at **Attachment F**).

Through PPII, PLGP has worked with the PNG Government to:

- restructure provincial administrations to improve service delivery;
- improve financial management through integrated planning and budgeting systems;
- improve governance and coordination through Provincial Management Teams and Provincial Coordination and Monitoring Committees; and
- improve reporting on service delivery through increased compliance with s119 provincial performance reporting.

However, the review found that the PPII objectives to: strengthen relations between provincial/district administrations and elected leaders; and enhance accountability of provincial and district administrations for service delivery, had not been as successful.

As well as reaffirming the PPII/PLGP achievements outlined above, six-monthly independent performance monitoring has also reaffirmed the above weaknesses. In particular, independent monitoring has assessed a need for:

- improved socio-political analysis around how change in Papua New Guinea is driven, to allow the PLGP to be tailored to better support improved public administration and service delivery outcomes;

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- a well-developed theory of capacity development to guide its approach, including in relation to alternatives to the use of advisers; and
- a review of incentive payments made to provinces, to ensure that they are driving positive reform (this is linked to socio-political analysis above).

An internal AusAID cross-country review of public sector reform and service delivery conducted by the ODE in 2009 also supports the arguments raised through the above independent six-monthly monitoring. In relation to capacity development, the review acknowledges that capacity building in fragile environments is high risk, with more failures than successes. However, it concludes that rewards are worth the risks where:

- there is potential to have a major impact on poverty reduction, through supporting service delivery provision or strengthening critical systems (eg. PFM); and
- there is realistic prospect for progress in reform and/or capacity development, based on strong local ownership.

In relation to incentive payments, the ODE review (like the six-monthly monitoring report) encourages a strong analysis around the political economy of reform.

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Annex 4-6: Interim Guidance Note Vision for Effective Decentralised Engagement

How AusAID can work at the decentralised level to strengthen service delivery and meet mutually agreed policy commitments

<p>By 2015 (ie over the next 5 years), the AusAID country program will be characterized as:</p> <ul style="list-style-type: none"> • Framed by the GoPNG's development policy, sector strategies and service delivery agenda • Guided by the twin objectives of service delivery improvement and enhanced capacity of GoPNG systems for service delivery through decentralised structures. • A portfolio of programs forming part of a clear "whole-of-program" strategy to support service delivery through decentralized country systems, linked to higher order policy commitments as reflected in the Partnership for Development and Commitment on Aid Effectiveness. • Individual programs (sector, central agencies and sub-national governance/CD programs) working in a harmonized manner, learning from one another, and working together to address cross-cutting development challenges at the decentralized level. • Working substantially through GoPNG systems and delivered through program-based approaches, suitably adapted to provincial capacity and sector contexts. 			
<p>Dialogue & Engagement</p> <ul style="list-style-type: none"> • Whole of government high level dialogue and engagement providing the platform for effective aid responses under the PFD in sectors and provinces. • AusAID contributing analysis and position papers to address systemic cross-sector constraints. • AusAID contributing to key constraints on a cross program basis, especially to endemic public admin constraints. • Operational dialogue and engagement leading to a redirection/shift of significant resources to sub-national service delivery. <p>Regular and comprehensive sub-national (state and non-state) dialogue by AusAID contributing to the PFD implementation</p>	<p>Capacity Development</p> <ul style="list-style-type: none"> • CD strategies/plans are an integral part of sector and provincial development plans/ budgets • CD support is increasingly managed and monitored through GoPNG systems/ management structures • Mechanisms are in place to ensure coordination and coherence across different CD programs/ initiatives • A broader repertoire of CD support options are being used with reduced reliance on TA • Emerging shared understanding and agreement among PNG stakeholders and DPs on key capacity challenges/ approaches 	<p>Funding modalities and PFM</p> <ul style="list-style-type: none"> • Increasing use of PFM system and reduction of parallel funding modalities • Increased use of earmarked budget support mechanisms together with other Development Partners • Provinces have complete view of development and recurrent budgets • Targeted enhancement of key PFM functions through dialogue on reform priorities and institutional competencies 	<p>Performance Monitoring & Evaluation</p> <ul style="list-style-type: none"> • Substantial use of GoPNG performance system by AA and other DPs. Reduced parallel monitoring and reporting • Analysis and use of performance data by provincial and district administrations to inform management and support dialogue • Use of joint supervision and evaluation to inform management and support dialogue • Active participation of civil society in performance monitoring • Internal AA mechanism for cross-program learning and exchange

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Guiding Principles to Achieve Interim Guidance Note Vision.

A focus on system strengthening and use - All programs should have an explicit objective to strengthen the capacity of decentralized service delivery systems, and to progressively use those systems.

Reflecting decentralized governance – Program design and implementation modalities should take full account of decentralized structures of governance, and in particular respect functional assignments of roles and responsibilities for service delivery.

Pathways for change – All programs should propose pathways for change to progressively work towards decentralized service delivery.

Tailoring approaches to context – Pathways for change need to reflect sector and provincial contexts. (“one-size-fits-all” approaches are to be avoided.)

Balancing Fiduciary and Development Risk – Proposals for alignment to decentralized systems should be based on a clear assessment of fiduciary and development risk. As a matter of principle, a higher degree of fiduciary risk can be considered where clear developmental benefits can be anticipated to be more cost-effective and where more robust mechanisms for risk management can be proposed.

Engagement through Dialogue – Promotion of dialogue should feature as an integral objective and task of future programs. As programs engage through multi-stakeholder relationships and work across program boundaries, dialogue and relationship building between AusAID and PNG stakeholders at appropriate levels will be crucial.

Taking account of complexity – Fostering change and supporting systems strengthening is complex while outcomes can be uncertain. Successful implementation of the Guidance Note depends on recognition of this complexity, the risks of failure and the need for continuous learning and adaptation.

Cross-program exchange and learning – Effectiveness of a whole-of-program approach depends on programs actively seeking opportunities for collective action, information sharing and engagement in joint learning.

Harmonisation with other Development Partners – While focusing on what AusAID can do to support GoPNG decentralised service delivery, it is understood that this will be done in the spirit of donor harmonisation and consistent with the broader joint PNG-donor commitment on aid effectiveness.

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Annex 4-7: Mid Term Review Key Recommendations

The following except is from the Sub-National Program (Phase 2) Final Report (June 2009) as it summarised its recommendations.

Recommendations

SNS has the opportunity to adapt as the program continues to evolve, adjust to a changing policy context and learning from experience. At the same time, SNS is a long term strategy, and far-reaching change should not be encouraged for its own sake. Many of the processes the program employs are now bedding in and the many stakeholders with whom it engages are becoming familiar with its approach. It would be inappropriate to recommend far-reaching changes that may unsettle stakeholders, unless really warranted. The MTR, therefore, recommends a continuation of SNS' overall trajectory and adjustments in selected areas only, as set out in the recommendations contained in the body of this report. The key recommendations are reproduced here for ease of reference:

Supporting the Rollout of PPII.

- Develop a vision, criteria and incentives for provinces to advance to Phase III. This vision should aim at harmonizing and aligning development budgets (including PPII) through provincial planning, budgeting and reporting systems and focus on strengthening implementation capacity at district and facility levels.
- Take steps to ensure that adequate capacity is in place within DPLGA to ensure delivery of quality support associated with an ever-expanding program. Support for PCMCs and establishment of regional offices of DPLGA to back stop activities at provincial levels should be an immediate consideration.
- Encourage PPII to serve as a platform for promoting performance improvement by coordinating and harmonizing various GoPNG initiatives to strengthen service delivery. It is important for PPII to proactively engage with other initiatives to create synergies and avoid fragmentation of effort.

Strengthening National Agencies and Policy Framework.

- Reinforce current efforts at promoting inter-agency collaboration, particularly through PLLSMA, but equally through other coordination instruments such as CACC.
- Make efforts at consolidating and reinforcing capacity gains that have been made within key national agencies and consider more closely ways to sustain those gains.
- Proactively promote debate and dialogue among GoPNG and its development partners on the architecture of decentralisation and on building stronger linkages between separate governance, administrative and sector reform initiatives.

Promoting Coherence across the AusAID Country Program.

- Distinguish SNS the program from SNS the strategy as a step towards developing a clear country program-wide policy/position on the relationship between sector support and decentralisation and the implications for service delivery improvements.
- Find ways to align AusAID support to different parts of GoPNG national and sub-national administration and better align sector/thematic support to the architecture of sub-national government.
- Actively promote, behind GoPNG leadership, harmonisation and alignment of donor support for decentralisation.

Incentives

- Ensure that incentives are provided in strict accordance with agreed upon performance criteria, and that decisions are communicated in a transparent manner. The value of the incentive payments is immediately lost if strict adherence to the criteria is not upheld.

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- An assessment should be made of the incentives needed for Provinces to successfully complete Phase II and advance to Phase III. As suggested elsewhere, besides provision of a financial incentive, it may be appropriate to think about alternative funding mechanisms that prepare the way for moving towards a single financing instrument eg: earmarked budget support.

Use of Government Systems

- To strengthen GoPNG ownership and initiate a transition to sustainability, the PPII Steering Committee should be renamed the SNS Sub-Committee and become a sub-committee of PLLSMA. This would better position SNS at a strategic coordination level for decentralised service delivery and allow the SNS program to be ultimately implemented as PLLSMA.
- Encourage greater cross-government commitment and ownership of PPII, and stronger links with CACC in the way of reports on the SNS by the PPII Steering Committee and by PLLSMA.

Co-location.

- Provide greater clarity on the roles, responsibilities and relationships of co-located officers and distinguish these from other stakeholders involved in SNS delivery.
- Strengthen the role of co-located officers as a focal point for promoting coherence across the AusAID program rather than being mainly a co-manager of SNS supported activities.

TA

- Reflect critically on alternatives to TA deployment in support of provincial and national agency capacity development, and consider different modes of CD support for progressive stages of PPII.
- Clarify roles and responsibilities of TA personnel, and invest more thoroughly in the preparation of TA to ensure their focus is on capacity development. This should include arrangement of joint induction courses, and orientation/training in process facilitation/ change management.

ISP and AusAID Management.

- Reinforce the understanding of GoPNG/AusAID management of SNS and in this context clarify the respective roles and responsibilities of GoPNG, AusAID and the ISP.
- Structure AusAID career paths to include PNG national specialists with a long-term career focus on a country as a way to better support long-term policy dialogue and effective contract management, and as part of a wider staff retention and sustainability strategy.

Monitoring and Evaluation.

- Set in motion a medium term transition plan to align the SNS MEF behind GoPNG instruments and processes for sub-national performance monitoring and reporting under DPLGA/PLLSMA stewardship.
- Encourage an increasing focus on monitoring trends in service delivery outputs and outcomes and to link this to monitoring of CD support

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Annex 4-8: PPII Achievements as identified by the Independent Peer Review

The following excerpt is from the Provincial Performance Improvement Initiative (PPII) Independent Review for the Secretary Department of Provincial and Local Government Affairs (August 2010) as it discusses PPII achievements.

“At the highest level the Review Team judges PPII as a success Provincial Administrators have spoken enthusiastically about improvements in public administration. The 2008 and 2009 Peer Reviews record the provinces themselves celebrating success, drawing out lessons and sharing experiences.

Most of the PPII supported activities were focussed on Objective #1 *Strengthen Corporate Management of the Provincial and District Administrations*. Success include:

- All provinces have corporate plans, many for the first time in recent years
- Provincial Management Team’s (PMTs) working together
- Integrated Planning and Budget System (IPBS) is working in four provinces (CP, ENBP, MBP, and Sandaun) taking budgets down to districts, and LLGs in some cases, with a direct line of sight to the Minimum Priority Activities funded by the function grants and in some cases sources of funds identified
- Bottom-up development planning and development forums engaging multiple stakeholders (Central Province, EHP, ENBP, MBP, Sandaun)
- Provincial administration organisation structures have been revised to meet service delivery needs with positions transferred in the new structures from head quarters to districts and LLGs to meet government policy objectives of a ratio of 15:35:50.
- Phase II provinces are operating clearly at a higher level of achievement than the Phase I provinces.

PPII is very well regarded in the provinces for a number of reasons:

- the regular association with DPLGA is highly valued
- DPLGA is fulfilling its role as the ‘mother department’ in Waigani for the provinces

PPII has given DPLGA purpose and an increased capability to support provinces illustrated by:

- the significantly increased demand for PPII to the extent that all provinces are now involved, please refer to Section 3.1 (Phases and Approaches)
- CBD’s increasing management of the program, especially through the development of the Capacity Building Plans, the monitoring of their implementation and the engagement with the PPII provinces.

Objective # 3 was the next most successful. PPII has developed good linked with some government agencies and programs. However, this is an area where the provinces are demanding that other agencies, especially the central agencies, following DPLGA’s example of being accessible and province friendly.

There were very limited achievements in the other two objectives. Provinces widely recognise the need for a much great effort on assessing performance through effective monitoring and reporting. Many provinces have access to significantly more funding through the function grants for priority sectors. Every province the review visit is not equipment to report on the quality of increased spending or the achievement of outcomes. This is a serious issue. Building monitoring and reporting capacity is a priority for the next iteration of PPII.”

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Annex 4-9: Summary of Possible Entry Points to be considered for a possible subsequent phase of SNS as identified by the SNS IRG

These are summarised from the SNS IRG team paper Report on Contributions to the Preparation of the Concept Paper for a Possible SNS Phase II, November 2010, F. Dobunaba, T. Land, J. Mooney

Provincial Performance Improvement Initiative (PPII) - *Working with DPLGA to integrate PPII into core business and reshaping PPII support provincial priorities for improved service delivery outcomes*

Performance Management – *Supporting the systems and production of performance report and the utilisation of this information as management tools to improve delivery of services*

- Supporting provinces produce annual performance reports
- Strengthening PLLSMA overall functioning
- Supporting NEFC public Expenditure Reviews
- Supporting NRI and others research and analysis of service delivery at lower levels
- Improving financial Reporting at provincial and LLG levels
- Supporting PCMC's to strengthen local accountabilities

Political Engagement and Policy Development – *Supporting effective working relationships between administrative and political arms of provinces to maximise opportunities for joint efforts (not competing inputs) to improve (and not undermine) service delivery*

- Supporting DPGLA and Provinces to engage more suitably with political leaders using existing plans and strategies
- Supporting Administrative links with application of DSIP resources in provinces
- Supporting provincial engagement, involvement and agreement on district development plans and simple but effective ways of collecting key data for monitoring and reporting performance feedback to stakeholders
- Supporting forums and avenues for dialogue

Central Agency Engagement with Provinces – *Consistent with specified responsibilities, supporting central and provincial administrative stakeholders and systems to work together for the enabling and implementation the full chain of responsibilities to delivery services*

- Support DPLGA to engage with other central agencies to work collaboratively with provinces
- Enabling other AA program to support this
- Considered assistance to central agencies for function at they relate to service delivery
- Strengthen key government and agency systems that support province to implement service delivery responsibilities
- Support the critical role of an effective PLLSMA

Strengthening DPLGA internal capacity – *Supporting their role in the whole-of-government context as the 'mother' department for provinces in as far as it complements and enables other areas AusAID's Program.*

- Support capacity to implement its corporate and strategic plan
- reshaped PPII activities across the department
- provision of technical assistance to DPLGA and provinces
- incentive funding for provinces
- continued strengthening of its ability to provide government with policy advice
- strengthening PLLSMA
- targeted institutional strengthening for its finance, ICT and HR branches

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District and LLG Focus *providing capacity development working through provincial administration down to districts and LLG based on local analysis and priorities in priority service areas.*

- Capacity development for district administration and LLGs central feature
- Support working through provincial administration down to districts and LLG level
- Based on diagnostics of need in high priority areas of health education and HIV/ AIDS that this tailored for each setting (avoiding blueprint approaches)

Special Case Settings - Bougainville *Recognising Bougainville's special arrangements maintain a specific approach and utilise the whole of the SNS program.*

- Continue with a specific approach for Bougainville recognising its different constitutional status
- Look for inclusive support through the whole of the SNS program including PLLSMA, PPII, PCMC, assessment tools and joint use of resources

Special Case Settings – Other *Shift focus on other special case settings to the existing program and working with GOPNG via intergovernmental committees as appropriate.*

- Should be engaged via PPII and tailored to their specific contexts as with all provinces.
- Were relevant work with GoPNG interdepartmental committees.
- Specific 'distinction' not necessarily required

Other national Level Agencies (NEFC, NRI, ORD)- *Ongoing support for these stakeholders as they are consistent with SNS objectives, increasing focus on enabling resources to be implemented for service delivery and whole of government coordination.*

- Support these in line with SNS wider strategic objectives
- Support NEFC particularly in the area of public expenditure reviews and political engagement
- Support NRI's targeted research on decentralisation issues informing policy debate, engagement and development

Engage with ORD and their role in performance management and political engagement.

Annex 5: Policy and Institutional Context

GoPNG Strategy and Policy⁴

This annex provides an explanation of the laws, policies, key institutions and processes supporting sub-national government in PNG.

A schematic of the decentralised political and administrative structures is presented in Figure 1.

Policy

Papua New Guinea's system of decentralization is articulated in the 1995 Organic Law on Provincial Government and Local Level Government (OLPGLLG)⁵ creating the three tier government system. This law delegates primary responsibility for the financing and delivery of many core services to sub-national levels of government.⁶ It also establishes the provincial administrator as the chief accountable officer for performance and service delivery in the province. This division of responsibilities was reaffirmed through the 2009 Lae Leaders Conference Communiqué and the NEC endorsed *Determination of Service Delivery Functions and Responsibilities* (October 2009).

In order to support each level of government to effectively formulate and implement policies to improve services, OLPGLLG provided for creation of a 'one line' national public service from national to province to districts to provide manpower to support planning and implementation of government initiatives to improve service delivery.

One line public services in the context of OLPGLLG means that the officers appointed to serve at national or provincial levels are appointed under one public service system, except that they are assigned to various agencies to serve the government of the day, either at national or provincial Levels. For instance:

- Some public servants are assigned at national level working in various national agencies to support national government.
- Some public servants are assigned to provincial governments to support the work of provincial governments and local level governments (LLGs).

⁴ Extracted from the Concept Note and the original SNS design, with additions

⁵ This was predated by the 1977 Organic Law, which also recognized the need to involve people and communities in the governing of their country. The genesis of decentralization was in the context of Bougainville's secessionist movements prior to Independence in 1975. The 1995 OLPGLLG resulted from frustration with the previous arrangements including under-funding by the national government.

⁶ See *Decentralisation Toolkit*, Part 2, AusAID, September 2008 for the NEFC snapshot of responsibilities of different levels of government.

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- Some are assigned to Districts under the offices of the District Administrator to provide support for the Local Level Governments.
- Within the one line public service, the provincial administrators and district administrators are responsible for efficient management of administrative systems in the province, as well as being responsible for officers assigned by government working in the province and furthermore, coordinate and monitor roles and functions of national department and agencies operating in the provinces (Section 74).

The Organic Law

In terms of its history, the first organic law on decentralisation was the Organic Law on Provincial Government 1977. This Organic Law left much doubt about the transfer of powers (and ultimately administrative functions) from National to Provincial Government and it remained a “work in progress”. Local-level Government were more or less left out.

Devolving powers and administrative functions was a stop and start affair during the 1980s and the most common impediments being expressed was the lack of capacity of Provincial Government to take on new powers and complaints from Provincial Governments about getting sufficient grants from National Government to implement new responsibilities.

In his assessment of the Provincial Performance Improvement Initiative, Dr. Gelu states that “while the reasons for the deterioration in service delivery are well documented, many people believed that the deterioration in service delivery is attributable to the OLPGLLG, or its failure to be fully implemented or both”.⁷

These were just some of the many decentralisation reform issues identified in various reviews and Committees during the 1980s and early 1990s.

In a whole scale change to the organic law on decentralisation, the *Organic Law on Provincial and Local-Level Government 1995* attempted to resolve many of these issues. Some of the changes included:

Local-level Government was once again recognized.

- The new organic law provided a much more comprehensive and detailed list of law making powers that were the responsibility of Provincial Government (section 42) and Local-level Government (section 44)
- The new organic law provided that administrative functions for Provincial Government and local-level government can be made by a law in Parliament (Sections 43 and 45).

⁷ Gelu Alphonse, Provincial Performance Improvement Initiative (PPII): An Assessment National Research Institute/Sub-National Strategy 2010 Port Moresby. P7.

Reform of Inter-governmental Financing

One of the successes of government supported through the Sub-National Strategy has been the reform process that have taken place on Intergovernmental Financing.

The National Economic & Fiscal Commission began a deliberate detailed design process in 2002 and “built a case for reform using evidence and empirical analysis as a foundation.”

Continued consultative approaches together with the collection and use of analysis of baseline data on cost of services, function assignment and grant review, generated sufficient agreement to propose changes to existing legislation.

The Organic Law on Provincial and Local Level Government was modified in November 2009 and the Ordinary Intergovernment Relations (Functions & Funding) Act was passed in March 2009. Commencing from the 2009 Budget, the Secretary for Treasury issued Budget and Expenditure Instructions calling for Provinces to adequately fund eleven specific service delivery activities from their recurrent budget. These eleven activities have been identified as basic provincial responsibility across the five key function grant categories of Agriculture, Education, Health, Transport Infrastructure and Village Courts (all MTDS priority areas) and are known as Minimum Priority Activities. These Minimum Priority Activities (MPAs) were arrived at after extensive consultation with national agencies, provinces and PLLSMA.

MPAs should assist Provincial Government to priorities effective and targeted service delivery outcomes at the district and rural level”.

The 2009 Budget document, Economic and Development Policies summarises the new system which provides for equitable resource allocations to provincial governments:⁸

‘The new system affects all provinces, except the National Capital District and the Autonomous Region of Bougainville, which are both subject to separate legislation and will continue to introduce a number of service delivery function grants for recurrent goods and services.’

The key features of the new system are:

- GST will continue to be distributed to provinces according to where net inland GST is collected, but they will now receive a standard 60 per cent of actual collections from the last complete year. Provinces will also receive 100 percent of the bookmakers’ tax collected in the province.
- All income received by provinces and local-level governments will be taken into account in calculating the grants they receive from the national government.

⁸ Independent State of Papua New Guinea 2009 National Budget Volume 1 Economic and Development Policies, November 2008, Port Moresby. P75

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- Provincial governments will receive service delivery function grants for goods and services. The amount of these grants will be based on need. This is designed to give more funding to those provinces which have less revenue from other sources. Once the system is fully implemented, all provinces should have the financial capacity to meet at least 70 percent of their service delivery needs.
- Total funding available to provinces and local-level governments for goods and services will be set at a fixed proportion of net national revenue (total revenue, less volatile mining and petroleum revenue). This approach ensures that, as 'normal' revenues rise, funding to provincial and local-level governments will increase in an affordable and sustainable way.
- Additional funding will be phased in over the first five years of the new system. For 2009, this is equal to K37.5 million. During this five year transition period, no province or local level government will receive less than it did in 2008.

These changes will make the system of provincial and local-level government funding more equitable, and provide increased assistance to provincial and local-level governments towards the costs of basic service delivery.”

In 2009, the Inter-Government Relations (Functions and Funding) Act was passed. Section 5 of this Act provided that the Governor General can make a Determination by notice in the National Government that assigns service delivery functions and responsibilities to Provincial and Local-level Government. A draft Determination was developed and endorsed by the Provincial and Local-level Service Monitoring Authority in November 2008 and finally agreed to by NEC in June 2009 before being gazetted in February this year.

The Organic Law on Provincial and Local Level Government 1995 again focused on efficiency and citizen contributions. The **preamble** to the Organic Law on the Provincial and Local Level Government stipulates that the key rationale for reforms is to provide basic services in water, health, education, transportation, communication, accommodation and social order through self reliance; where each and every citizen of the nation is given the opportunity to participate and benefit in development. Further, it explicitly states that the provincial and local level governments were established and given the responsibility for improved service delivery that is, to provide services to the people.

In addition, the Organic Law on Provincial and Local Level Government recognised the need for coordination and so assigned the Provincial and District Administrators with the responsibilities of coordination of national agencies work in provinces as provided for under Section 74 of the Organic Law.⁹

⁹ Section 74 (e) The Provincial Administrator shall co-ordinate and monitor the roles and functions of the National Departments and agencies

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This is further complemented by National Agencies being tasked the responsibility of formulation of policies and coordination of implementation, and providing technical and professional support to provinces under Section 80 of the Organic Law.¹⁰

Papua New Guinea Vision 2050

In November 2009, the government launched the *Papua New Guinea Vision 2050* (Vision 2050), which maps out the future directions for the country and reflects the aspirations of the people. The Vision is underpinned by seven strategic focus areas, which are referred to as pillars:

- Human capital development, gender, youth and people empowerment
- Wealth creation
- Institutional development and service delivery
- Security and international relations
- Environmental sustainability and climate change
- Spiritual, cultural and community development; and
- Strategic planning, integration and control.¹¹

Under the Institutional Development and Service Delivery strategic focus area of *Vision 2050* (para 1.7.1), the overall objective is 'reform of the public service, legal and political systems to be effective and efficient, and to improve the delivery of services to citizens'. The priority activity is to 'cultivate organisational ethics and work culture' with the outcome being 'the public service at national, provincial and district levels delivering services'.

Specific sub-objectives are:

- 'Maintain the three-tier system of government and improve service delivery to local-level governments in accordance with the Resolutions of the August 2009 Morobe communiqué;
- Ensure direct funding to local level-governments through appropriate legislation;

¹⁰ The role of the Departmental Head of each National Department shall be to—

(a) formulate the national policies and co-ordinate the implementation of those policies in the provinces and local-level government areas; and

(b) provide support to the Provincial Administrators and District Administrators with planning, professional service and consultancies, and to maintain standards as prescribed by the national laws

¹¹ National Strategic Plan Taskforce, *Papua New Guinea Vision 2050*, Government Printer, 2009 at p. 3

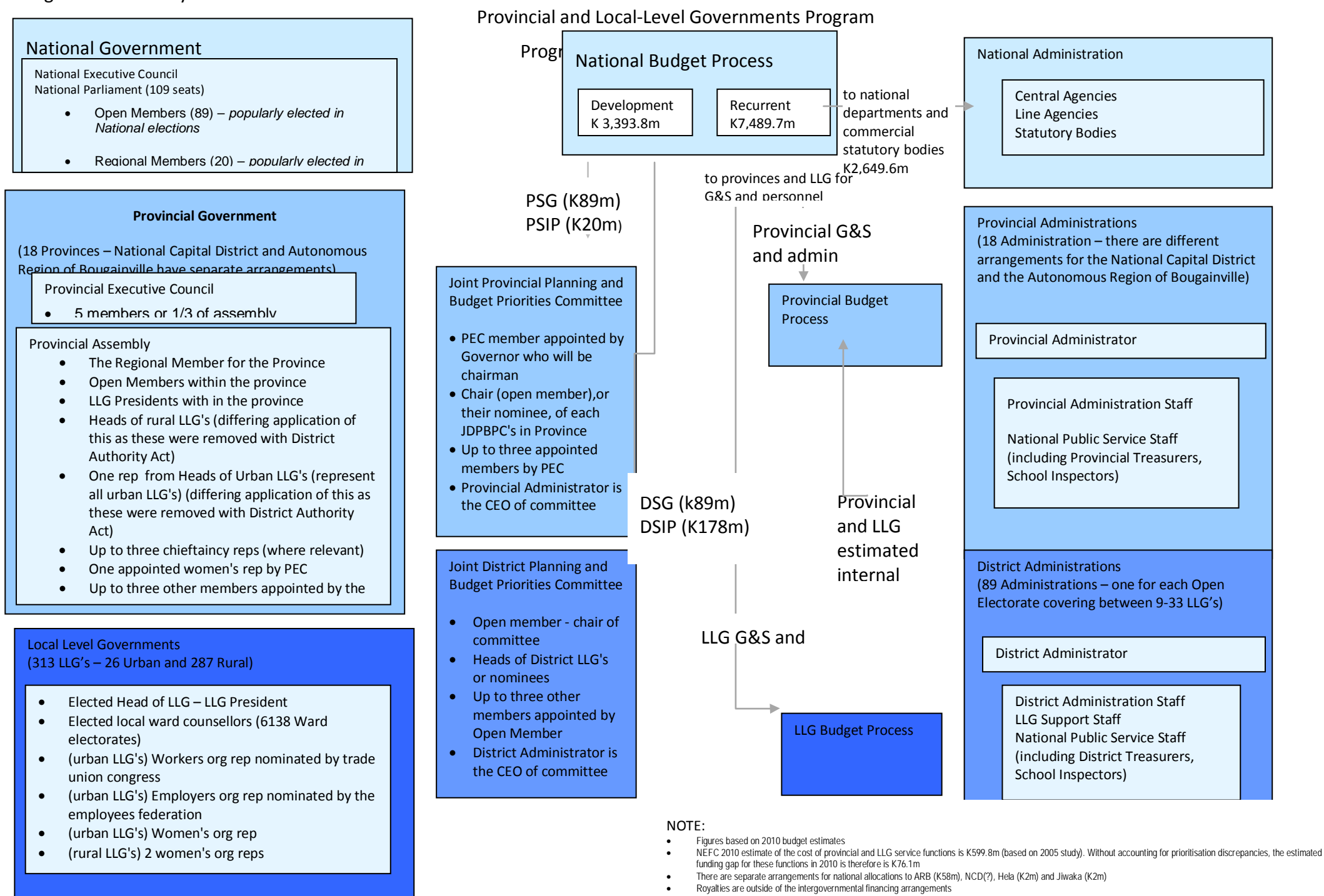
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- Develop a clear policy on the devolution of responsibilities’.

While there is often much discussion about the roles and responsibilities of provinces the local Level governments (LLGs) are overlooked. The constitutional fathers of PNG saw a major role in democratic governance and service delivery for the LLGs. *c.f. The Report of the Constitutional Planning Committee* (1974) available on www.paclii.org

Figure 1 - Summary of the Decentralised Political and Administrative Structures



NEC expectations and the Vision

In his opening address to the Lae Leader's Summit in 2009, the prime minister outlined five policy and administrative issues that the national policy must reflect:

- Subject to overall policy control and direction from the national government, the provincial government must be able to plan and implement their own activities.
- More financial resources must be channelled to the provinces.
- Provinces must be accorded greater financial control and increased revenue base.
- The public service structure needs to be reviewed to shift staffing from the national to the provincial level.
- The capacity of staff at the provincial and local level must be improved.

In Lae the prime minister then specifically directed that the national policy for power sharing would provide for:

- A clear separation of powers between the levels of government
- That there would be an unoccupied legislative field for provincial governments
- Responsibility for LLGs to shift back to provincial government
- Reform the public service so that some national public servants are relocated to the provincial level, and
- Increased capacity development for Provincial Government and LLGs.

There is political momentum towards greater provincial and local level government engagement in service delivery for which they will need even more capacity. The policy paper on power-sharing between the national and provincial governments proposes:

- Increased draw down of national government powers, service delivery functions and responsibilities, the process dependent on an assessment of provincial capacity conducted by DPLGA with the Department of Treasury (DoT);
- Increased provincial legislative powers;
- Increased and formal consultation with governors on national government policy papers;

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- Greater discretionary control over funding including increased revenue raising powers; and
- Greater transparency and provincial engagement in the allocation and appropriation of development funding.

These proposals, while at the discussion stage, will be shaped into the next stage of the evolution of Papua New Guinea's three levels of government. Greater sharing of powers between national and provincial government is inevitable with discussions well advanced with New Ireland province.

Development Strategic Plan 2010-2013

In the Development Strategic Plan 2010-2013 (DSP), the policy context for improving service delivery is largely found under the sectoral strategy of rural development. The DSP states:

'The Governments priority is to improve service delivery in rural areas. For this reason, deliverables in all sectors of the MTDP are focussed on rural communities. Rural prosperity can therefore be seen as an overacting goal of the PNGDSP and hence of the MTDP 2011 – 2015. Therefore the resourcing of rural development is captured under almost all sectors and comprises the bulk of expenditure under the MTDP'.

Medium Term Development Plan 2011-2015

The Medium Term Development Plan 2011-2015 (MTDP) contains very little explicit discussion on the three tiers of government. However, implied throughout the strategies and actions is the implication that provinces as service delivery implementers have to do a better job and that human resource competencies and organisation capacities have to be strengthened.

In the Foreword to the MTDP, the Secretary, DNPM states that the MTDP is revolutionary because its 'emphasis is no longer an expenditure on priorities ... but is policy driven'. The emphasis will now be on getting the preconditions right, the basic infrastructure, institutions and systems and processes to a compatible standard to pave the way for effective service delivery and private sector led growth. Significant funding will be allocated 'to improve the efficiency and governance of institutions that deliver services as well as opening up and expanding the productive capacity of the economy throughout transport and infrastructure connectivity'.¹²

In addition, the MTDP 'calls for performance in terms of delivering the desired results and promotes a performance based culture throughout the public service system'.

¹² Department of National Planning & Monitoring Papua New Guinea Medium Term Development Plan 2011 – 2015 Port Moresby. October 2010. IBID PIV & IBID PV

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Partnership and collaboration is the approach for implementing the MTDP within government through whole of government collaboration, with the private sector, churches, society and community based organisations. All provinces and districts (and sectors) are required to align their five-year development plans to the MTDP and provincial governments and local level governments aligning programs and projects to MTDP priorities.¹³

Why Decentralisation?

The decentralised system and its poor application continue to impact service delivery outcomes. Implementation and application of PNG's decentralised arrangements is widely reported as poor and varies significantly across each provincial context. The NRI literature review¹⁴ highlights published views that service delivery is deteriorating and that this is attributable to the OLPGLLG and/or its poor implementation. This failure undermines investments from all sources to improve services and was the underlying rationale for AusAID's original SNS concept.¹⁵

As the original design records international experience¹⁶ tells us that there are potential gains to be made through a decentralised system of government, including gains in service delivery and public participation at the local level. Local level gains are unlikely to be realised if certain preconditions are not met, including fairly designed inter-government fiscal transfers, robust financial mechanisms for channelling money to sub-national governments and good accountability of local governments to their citizens and the capacity of their management systems.¹⁷

Arguably, these preconditions are not currently fully met in PNG although with the SNS supported Reform of Intergovernmental Financing Arrangements (RIGFA), and government's actual annual increased funding under them, improvements are evident. In addition, PNG has one of the most difficult decentralisation challenges of any country in the world, with its remarkable cultural diversity, difficult geographical terrain, major variations in rural economic potential, massive localised resource flows from the extractive sectors, inconsistent policy and financing initiatives (e.g. the District Services Improvement Program (DSIP) and the provincial health authorities, and political focus on local needs.

¹³ Government of Papua New Guinea Organic Law on Provincial & Local Level Government 1995 Section 33A.

¹⁴ The Quest For Good Governance: A Survey of Literature on The Reform of Intergovernmental Relations in Papua New Guinea, coordinated by Dr. Alphonse Gelu, Research Program on National and Subnational Governance in Papua New Guinea, NRI

¹⁵ Strengthening the Effectiveness of Australia Aid to Provinces, Districts and Local Governments and Administrations: Concept Paper for a Sub-National Initiative (AusAID 2004)

¹⁶ *East Asia Decentralises*, World Bank, 2005 at 1

¹⁷ Ibid, at 4

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Several reviews and reports on PNG link inadequate service delivery with poor implementation of the decentralised system. The *Public Expenditure Review and Rationalization* analysis notes:

*In PNG, from a public expenditure point of view at least, the costs of decentralization seem to be outweighing the benefits. Decentralization has led to an erosion of budgetary control both in terms of ensuring that national service delivery priorities are met and in ensuring that public funds are prudently deployed and accounted for. Reforming public expenditure systems and procedures at the Provincial and District levels therefore warrants priority attention.*¹⁸

The National Research Institute released *The Quest for Good Governance: A Survey of literature on the reform of intergovernmental relations in Papua New Guinea*.¹⁹ This document notes that:

“Decentralisation serves many objectives, including:

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

There is debate in PNG as to whether decentralisation has contributed to poor service delivery or whether unresolved confusion in roles, responsibilities, resourcing, systems and capacity has contributed to the 1995 decentralisation being unable to deliver real benefits. The debate does not matter. Decentralisation is the service delivery policy and efforts are being made to make it work.

There have been many studies in PNG on the weaknesses in the systems and processes that are meant to be in place to support efficient and effective decentralised service delivery. The most recent is the *Case Study of District and Facility Funding Report* (2010) lead by DPLGA. The District Case Study, highlights some of the serious systematic challenges to service delivery at the provincial, district and local levels including: underfunding; poor prioritisation of available funds; poor distribution of available funds and poor accountability.

¹⁸ Papua New Guinea Public Expenditure Review and Rationalization Overview of Discussion Papers September 2003 at 16.

¹⁹ Gelu, A., National Research Institute, September 2008

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Despite Papua New Guinea's commitment to improvement there are still significant challenges including:

- Underfunding and/or inconsistent funding of recurrent service delivery responsibilities of many province by the national and provincial budgets;
- Uncoordinated demands of national departments and donors on provincial and local governments;
- Uncoordinated funds (e.g. DSIP) going to districts and facilities by-passing provincial and district plans and processes;
- Increased development funds direct to district level can and are being spent outside of annual planning and budget processes with cost implications for recurrent budgets of other levels of administration;
- Increasing the confidence of political leaders in the provincial and district public service to do a good job;
- Varied application and control of systems and processes creating confusion and additional administrative challenges to actual service implementation;
- The deterioration of service delivery infrastructure as a result of many years of maintenance neglect; and
- Poor local implementation capacity of service delivery responsibilities and a possible need to redefine some service delivery responsibilities.

What has changed?

PNG has taken steps to address constraints to decentralised service delivery, including:

- Making political commitment to retain the three tiers of government and to strengthen them;
- Implementing a new intergovernmental financing arrangement²⁰ from 2009 based on the principles of equity and linking funds to service delivery responsibilities and increasing the function grant funding for the second (2010) and third (2011) years;
- Agreeing to a framework of function assignment across levels of administration;
- Remobilising of s119 provincial performance monitoring and tabling of 2007 reports in the PNG Parliament;

²⁰ RIGFA – Plain English Guide to the New System of Intergovernmental Financing, (NEFC 2009)

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- Revitalising the Provincial and Local Level Service Monitoring Authority (PLLSMA) to monitor provincial service delivery and coordinate national inputs as well as developing a strategy²¹ and drafting an enabling statute for parliament, to further establish this Authority and DPLGA;
- Implementing the PPII for capacity building behind provincial priorities with some successes; and
- Consulting on a policy on power sharing between levels of government.

SNS has been able to come behind PNG leadership and opportunities supporting each area either directly or indirectly.

PPII is strongly owned by the PNG Government and had significant achievements against two of its objectives: viz. to strengthen corporate management of, and streamline national agency support for, provincial and district administrations (details at Annex 7, Attachment H). Through PPII, SNS has worked with the PNG Government to:

- Restructure provincial administrations to improve service delivery;
- Improve financial management through integrated planning and budgeting systems;
- Improve governance and coordination through Provincial Management Teams and Provincial Coordination and Monitoring Committees; and
- Improve reporting on service delivery through increased compliance with s119 provincial performance reporting.

However, the review found that the PPII objectives to: strengthen relations between provincial/district administrations and elected leaders; and enhance accountability of provincial and district administrations for service delivery, had not been as successful.

Where is the demand?

There is a clear demand for a second phase of the SNS. Experience, participation and success in the last five years has created a more coherent policy framework and network of supportive interest within which a second phase can operate.

Achievements are creating demand:

- DPLGA is a central agency with credibility and support. Provinces have seen what it can do to support them and they want more.
- DPLGA, the Department of National Planning and Monitoring, NEFC and the PNG Vision Centre, based on the approach and results from the

²¹ Provincial and Local Level Governments Services Monitoring Authority (PLLSMA) 3 year Implementation Strategy, PLLSMA (2010)

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implementation of PPII/PLGP, recently gave their strong support for a second phase of the PLGP.

- The PNG Government has reaffirmed its commitment to, and has developed a more coherent framework for, decentralised service delivery through the Vision 2050, DSP and MTDP. Further developments are expected through the Integrated Service Delivery Model Mechanism (ISDMM), yet to be endorsed.
- There is very strong ownership for the PPII from provinces as a key instrument for enhancing provincial capacity to provide conditions for more effective service delivery. PPII is now in all provinces – its design contemplated six or seven by 2009! DPLGA has agreed to integrate PPII into its core business and there is increasing recognition across the PNG Government of this role.
- The NECF's work around reviewing the expenditure of all provinces and creating leagues tables of performance is creating competition among provinces with the poorer performers enquiring as to why they are where they are and how can they improve.
- Putting more effort and resources in to measuring performance and then managing programs and activities in provinces and district to achieve better results. This is a strong request from provincial administrators through the PPII Review and to this design mission.
- Key central agencies recognise the opportunity and entry points to be engaged in a PNG-led program supporting provinces to do their job.

Key institutions

Provinces and provincial administrators

Within the province:

- The provincial administration is responsible for developing the provincial corporate and development plan and then implement them;
- The district administration is responsible for co-ordinating the implementation of the provincial corporate and development plans in each specific districts and in its LLGs
- The LLGs are responsible for implementing the provincial corporate and development plans specifically in each LLG areas at the ward levels

The provincial administrator has a broad mandate (s.74 of OLPGLLG) often overlooked with the role and responsibilities of this office very clear in Section 74 of the Organic Law:

74. FUNCTIONS OF THE PROVINCIAL AND DISTRICT ADMINISTRATOR.

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(1) The Provincial Administrator of a province–

- (a) shall be the chief executive officer of the Provincial Government; and*
- (b) shall be the administrative head of the staff in the province; and*
- (c) is **responsible for the efficient management of administrative services in the province**; and*
- (d) shall **maintain overall supervision and direction, in accordance with an Act of Parliament, over all officers and employees assigned or otherwise employed to carry out the functions of the National Government** (other than the law enforcement agencies unless by special arrangement with these agencies) **and the Provincial Governments and Local-level Governments**; and*
- (e) shall **co-ordinate and monitor the roles and functions of the National Departments and agencies**; and*
- (f) may by written instrument, delegate all or any of his powers (except this power of delegation) relating to a district, to the District Administrator of that district; and*
- (g) shall **co-ordinate policy formulation, planning and implementation of policies** as required by Sections 25 and 106; and*
- (h) shall liaise with the Provincial Government and Local-level Government support services on the overall functions of the Provincial Assembly and the Provincial Executive Council; and*
- (i) shall liaise and consult with the Provincial Treasurer on budget and treasury matters; and*
- (j) shall perform such other functions as are prescribed by this Organic Law or by an Act of the Parliament.*

There is a strong theme (thread) of *planning, coordination and monitoring* of all activities in the province:

- As the administrative head of the staff in the province and chief accountable officer;
- Is responsible for the efficient management of administrative services in the province;
- Maintains overall supervision and direction, in accordance with an Act of Parliament, over all officers and employees assigned or otherwise employed to carry out the functions of the national government (other than the law enforcement agencies unless by special arrangement with these agencies) and the provincial governments and LLGs;
- Co-ordinates and monitors the roles and functions of the national departments and agencies;
- Can delegate all or any of his powers (except this power of delegation) relating to a district, to the district administrator of that district; shall co-ordinate policy formulation, planning and implementation of policies as required by Sections 25 and 106; and

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- Liaises with the provincial government and LLG support services on the overall functions of the Provincial Assembly and the Provincial Executive Council.

Districts

There are eighty-nine districts in PNG. As is shown in Figure 1 the districts have a very important role to play in service delivery particularly through the Joint District Planning and Budget Priorities Committee (JDPBPC). District Administrators are also Executive Officers to JDP and BPC. ²²Their general functions are to:-

- Strengthen the capacity of LLGs in that district.
- Prepare a 5 year District Plan based on LLG Plans and Provincial priorities.
- Prepare annual budgets for District Support Grants for review by JDP & BPC.
- Ensure the district meets the minimum standards in health, education and infrastructure development.
- Maintain data collection and management system for planning, co-ordination and evaluation, including data on performance made towards meeting national minimum standards.
- Accountable for all district Funds through the district treasury office"

Section 35 of the Organic Law On Provincial and Local Level Government outlines the purpose of the Joint District Planning and Budget Priorities Committee (JDP & BPC) is to:-

- ²³Oversee, co-ordinate and made recommendations regarding overall district planning, including budget priorities, before being sent to the Provincial and National Governments.
- Determine and control budget allocations for development priorities for the LLGs in the district.
- Approve the LLG budgets for presentation to the Local Level Government.
- Develop five year rolling district development plans and annual estimates, and review the plan annually.
- Determine the allocation of funds from the District Support Grant; District Service Improvement Program and other development grants.

²² Public Sector Reform Management Unit & Department of Provincial & Local Level Government Affairs Volume 2 Management and Administration of Reforms at the Sub-National Level. Second Edition March 2008 Port Moresby.

²³ IBID P11

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The spirit of the JDP & BPC is to promote bottom-up planning. Each LLG plan should reflect the needs, priorities and plans of communities in all the Ward areas. The JDP & BPC should make sure funds are used wisely at the district and LLG levels.

The district becomes the important link between the provincial administration and LLGs.

The JDPBPC is composed of elected and appointed leaders. The Member of Parliament representing the Open Electorate is the chair, while the heads or presidents of the LLGs in the district or their nominees and up to three appointed members of the Committee. The JDP & BPC is the lowest level where national and local level politicians meet at committee level and this provides an excellent opportunity for broader political engagement on service delivery issues, particularly implementation. It is at LLG and ward level that basic services are delivered particularly with the access that the Local Member of Parliament has with District Support Grants (DSG) and DSIP. District Support Grants are required to be channelled and endorsed through JDPBPC and must be used in conjunction with the District Development Plan and LLG Annual Budgets.

One of the three appointed members is a women's representative and while some women have been elected to LLGs more needs to be done to encourage women's participation at LLG and ward levels.

It is also through the districts where the open members of parliament have a very close relationship with the provincial administration that there is a massive potential to have resources applied to priorities. Member's control the JDPBPCs which when supported with the funding under the DSIP gives the members significant power and influence.

The major constraint in this system is that there is more often than not a lack of connection between what the member wishes to spend DSIP funding on and the district and provincial plans. A common complaint of provincial administrators and communities is that DSIP and other funding at the district level is spent on political sectarian interests rather than broader agreed development priorities.

DSIP was in part developed as a political response to what members saw as an under-performing public service. They demanded and got a massive tranche of funding so that they could 'do things' and meet the perceived failings of the provincial administrations. An opportunity does exist in some provinces and in some districts to strengthen the ability of a province and a district to do its job. If this is successful then some members may be persuaded to work with the provincial and district planning systems.

From recent the PNG media reports it is evident that frustrations with the failings of DSIP are rising. The next phase of this program will be able to work with administrators and members to seek to use all available resources to implement local plans to meet local priorities.

PLLSMA

Note: This commentary from the PPII Review originated from the SDMM Study coordinated by DPLGA with national agencies.]

PLLSMA can be a difficult concept for people to grasp. PLLSMA was created under the Organic Law to achieve orderly and effective operations between the levels of administration under the “one line public service”. The authority is a special committee of senior departmental heads and has a wide mandate as described below. It is not a statutory authority – it is a committee with the whole of DPLGA as its resource and housed within DPLGA. It does not have its own staff although under DPLGA’s new structure it will have DPLGA staff assigned to it. The secretary for DPLGA is the chair of PLLSMA. Established under the Organic law:

110. ESTABLISHMENT OF PROVINCIAL AND LOCAL-LEVEL SERVICE MONITORING AUTHORITY.

(1) There is established a Provincial and Local-level Service Monitoring Authority within the Department responsible for provincial government and local-level government matters.

(2) The Authority shall consist of–

(a) a representative of each of the following Departmental Heads and National Agencies:–

(i) the Department responsible for provincial government and local-level government matters who shall be the Chairman of the Authority;

(ii) the Department responsible for personnel matters;

(iii) the Department of the Attorney-General;

(iv) the Departments responsible for law and order and national security;

(v) other Departments and national agencies as determined by the National Executive Council from time to time; and

(b) a representative of the Chairman of the Teaching Service Commission; and

(c) the Director of the National Training Council; and

(d) such other persons (other than officers of the National Public Service) not exceeding three in number appointed by the National Executive Council, by notice in the National Gazette.

(3) The Authority shall establish in each province an Inspectorate to carry out the functions of the Authority to be administered by the Department responsible for provincial government and local-level government matters.

(4) The principal functions of the Authority are–

(a) to co-ordinate and monitor the implementation of the national policies at the provincial and local-level; and

(b) to establish minimum development standards and to monitor

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maintenance of those standards in the overall development of the rural and urban communities; and

(c) to assist the Auditor-General carry out the performance audit of the Provincial Government and Local-level Government affairs; and
(d) to develop, co-ordinate and monitor the training and professional needs of the officers of the National Public Service assigned to the provinces and districts; and

(e) to assess the effectiveness and efficiency of the Provincial Governments and the Local-level Governments; and

(f) to execute powers and functions that are delegated to it by law; and

(g) to make recommendations to the Minister responsible for provincial government and local-level government matters in the strengthening of the decentralisation of government; and
(h) to ensure that all appointments to offices in a Provincial Government and a Local-level Government are based on merit.

Given the large number of government agencies and institutions involved in service delivery both at policy and implementation level, coordination and collaboration is indeed vital. Coordination is essential for formulation and implementation of GoPNG policies. Linkages and flow of key sector information is essential and needs requires improvement. Coordination is needed at a number of levels:

Coordination at National level. Inadequate stakeholder inputs into sector wide policies because of weak linkages, and that leads to disparity between policy formulation and actual implementation.

- **Coordination between National and sub-national organisations.** Currently, there are no formal linkages between Sector agencies and Provincial sectors; rather this is through the Provincial Administrators. A clearer link is important for national policies to be translated into programs for implementation.
- **Coordination between Provinces and Districts.** Strengthen linkages between stakeholders at Provincial, Districts and Local Level Government levels.
- **Coordination of Resources.** Rationalization of existing National Government grants to Provinces by quarantining funds for specific programs that are consistent with National Government policies at sub-national level. Also apply integrated planning approach to allow for complementary support to key programs.
- **Opportunities for partnership in services delivery.** Currently Provinces are not fully utilizing opportunities available for outsourcing extension as well as targeted priority training and agriculture and rural livelihoods information services function to other public and private enterprises.

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It is important therefore that there is effective collaboration and partnership between agencies to share information and resources to service citizens. And that is the key function of PLLSMA.

But everyone needs to be realistic as to what PLLSMA can achieve. DPLGA does not think that PLLSMA is fully functional. PLLSMA was dormant up to year 2000 and is now being reactivated slowly under the guidance of the current Secretary for DPLGA and enthusiastic DPLGA officers. A useful comparator as to what progress can be made in PLLSMA's organisation development may be the NEFC. Today is Year 8 or 9 of a journey that has given NEFC capacity to do three or four core things well, and with significant advisory support delivered one major reform i.e. RIGFA. However, the chief executive of NEFC is the first to point out that as an organisation it is still fragile with high demands for strong leadership, encouragement, technical assistance and successes that can be marketed to stakeholders.

PLSMA needs significant support and encouragement to fulfil its key functions and thereby increase its ability to support provinces through better intra government coordination and monitoring. It needs internal organisational capacity develop and technical assistance and government support for a set of key functions including:

- PLLSMA meetings
- PLLSMA and provincial administrators meeting
- PLLSMA secretariat support to Annual Governors Meetings
- PLLSMA sub-committees for service delivery sectors currently education, HIV, law and justice
- Provincial Coordination and Monitoring Committees at provincial levels to improve coordination and monitoring
- Embedding the provincial functional assignment of roles and responsibilities
- Improved provincial performance monitoring through revitalization of Section 119 report.
- Limited research and analysis in important service delivery sectors.

The PLLSMA reactivation and operations has now given opportunity for improved working relations and coordination between the levels of government in implementation of key policies and priority programs.

As the State goes further into supporting development at provincial level, the issue of coordination becomes much more vital. There is an even greater need for whole of government coordination from national departments and agencies in terms of policy formulation on service delivery and decentralisation issues.

Consistency in policy making from national to provincial levels is vital for improved service delivery as well as clarity and consistency in the engagement and commitment from relevant stakeholders to support and share their expertise with

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the government to empowering the people. Government systems and mechanism need to improve in terms of consistency in policy making and implementation, clarity in roles and responsibilities, consistency in capacity building and consistency in the way performance is managed.

The PPII Design should have as an underlying strategy support for these five themes.

There is also need for effective coordination of capacity building initiatives to support provincial administrations. Whilst these initiatives are important and have genuine reason to support provincial and district administrations, lack of coordination does impact on the sustainability of programs.

Currently there are a number of important programs like PPII, FMIP, PFMTIP, SPIA, PCaB and SIP which are targeted provincial and district administrations, however, without proper coordination, these initiatives also affect the performance of front line officers because of time taken to attend training and workshops.

Whilst the national agencies mandated to provide technical and professional support to provinces, the key issue now is coordination and consistency. This is further expressed by the Provincial Administrators in their consultative meeting early this year in resolving to request all capacity building support provided at provincial levels to be better coordinated to reduce the time taken by their officers attending workshops and conferences away from their work stations and the province.

The DPLGA, as the Secretariat to PLLSMA should improve coordination of capacity building to support provinces and LLGs. The calendar, should ensure that capacity building initiatives are based on supply and demand with DPLGA coordination of initiatives at national levels and supporting provinces based on their requirements in line with capacity building plans and to ensure effectiveness, quality and more importantly relevance and sustainability.

Clearly there is need for effective coordination amongst the agencies of government in *implementation* of government's service delivery initiatives. From the provincial perspective, implementation is now creating more work-load for front-line service delivery providers instead of giving them the opportunity of meeting the expectations of the citizens.

The key problem being that each government initiative has different process and with the number of initiatives it becomes a burden for front-line officers as they have to spend time learning new processes. This reduces their time to serve the needs of people.

There is need to focus on practicality and consistency in performance management to improve service delivery and while there are many requirements for reporting in government from national to provincial levels it is not yet related to whole of government performance scenarios (frameworks).

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Under the unified public service transformation, reporting systems will be aligned particularly for provincial and LLG levels to synchronize with the Section 119 reporting. Working with different mandates and requirements as the alignment is necessary to ensure performance management is vital for management processes and not a report writing exercise.

This alignment will include

- One provincial annual report linking with Section 119
- Performance Monitoring System by Prime Minister's Department
- Provincial Administrators Performance, review and extensions link to performance under Section 119 reporting (PM's Department).
- Performance Management review
- Quarterly Review based on performance
- Treasury releasing funds without reviews
- HR reviews
- PLLSMA work to focus on implementation of Section 110
- Implement the MPAs and expand to Minimum Standards
- The use of PCMCs in the performance management

The recent SDMM studies recognised a number of capacities that have to be developed if service delivery is to be effective:

- The need for national agency coordination at provincial levels. This is within the spirit of the Organic Law.
- The need for bottom up planning and coordination of service delivery again within the spirit of Organic Law and a PPII priority.
- The need for improved performance management which was strongly reiterated during this Review and should be a future PPII priority
- National agencies support provincial administrations to plan and implement their priorities
- Best Fit models vary from province to province, no one size fits all.
- The National Agency to coordinate through PLLSMA to support provinces through PLLSMA Sub-committees
- Provincial Administrations to improve their corporate culture to consistently coordinate and work with national agencies through the PMT and the PCMC

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DPLGA

The *National Gazette* determination accorded DPLGA' main function as 'to provide effective liaison and coordination of assistance to Provincial and Local Administrations'. The minister, from whom the department derives its mandate is responsible for:

- Organic Law on Provincial Governments and Local level Governments
- Provincial Government Administration Act
- Local level Governmental Administration Act
- National Capital District Commission Act
- Organic Law on the Boundaries of the National Capital District Commission
- Organic Law on Provincial Boundaries

Also these other Acts -

- Animals Act
- Cemeteries Act
- Cities Act

The Minister has portfolio responsibility for the following -

- Disaster Management Act (administered by the National Disaster Office not the Department)
- Electoral Development Authority (not commenced - a very old Act no longer Government policy)
- Fire Services Act (administered by the Fire Services not the Department)
- Liquor Licensing Act (administered by the Liquor Licensing Commission not the Department)

DPLGA is the Secretariat to PLLSMA, which gives it the mandate to coordinate and monitor national policies implemented at provincial levels and also to coordinate capacity building for provinces.

DPLGA has two sets of clients:

- The provincial and local level governments who seek its support on a wide spectrum of fronts, and
- The National Executive Council (NEC), Members of Parliament, and the Central Agencies Coordinating Committee (CACC) who wish to better communicate with and to be informed on the performance of the provincial and local level governments

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In its draft corporate plan²⁴ DPLGA seeks to explain the *expectations* and *needs* of these clients:

‘The expectations and needs of Provincial and Local Level Governments from DPLGA may be summarized as follows:

- *Support in their policy and legislative responsibilities;*
- *Monitoring and coordinating their overall governance and service delivery performance; and*
- *Capacity building for LLGs and provinces.*

Needs and Expectations of the National Executive Council (NEC), Members of Parliament, and the Central Agencies Coordinating Committee (CACC) from DPLGA may be summarized as follows:

Continuing and consistent dissemination of policy and strategic directions emanating from the NEC;

Establishment of National Standards of Governance and Service Delivery Performance;

Reports on the performance of provinces and LLGs to the PLLSMA and the NEC;

Information on provinces and LLGs; and

Coordinated implementation of national and sectoral programs’.

The draft corporate plan DPLGA has identified these six results areas as its unique contributions to the workings of government in the medium term:

‘Provision of policy, legal & IT advice and support to province and LLGs, Minister and CACC.

Support PLLSMA to coordinate, monitor and report on performance of provincial and LLGs.

Help build the capacity of provinces and district administrations.

Provide advisory support to LLGs.

Undertake Special Projects and support border management as required by the national government.

Strengthen DPLGA’s internal Human Resources Management and Financial Administration to achieve the above results’.

²⁴ This is the 2010 version. A new plan will be available in mid 2011. While the structure may be different these activities are representative of the department’s work.

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This pathway forward, which is under development within DPLGA is consistent with the direction of support proposed in this design.

National Economic Fiscal Commission (NEFC)

The NEFC is an independent constitutional advisory body of the State. It was established under OLPGLLG. Its main roles are to provide the Government with advice regarding:

- OLPGLLG grants and other transfers from the National Government to provincial and LLGs;
- The level of funding that is available to provincial and LLGs;
- How equitably total funding is split between the various provinces and LLGs; and
- Economic, planning and financial management matters that impact on the system of financial transfer between the levels of government

Operating with a small secretariat staffing the NEFC has been successful in slowly and deliberately building its capacity over the last eight years. That process in itself is a very useful lesson in organisational capacity development under strong local leadership, using advisers in direct and indirect roles and then phasing down from ten advisers to three. The commission is also very focused on what it can and should be doing. It currently has a high reputation among the provinces for its annual performance reports and engagement through regional workshops to analyse performance. Its work is driving change through comparison and competition among provinces.

Other Key Agencies

Provinces and districts interact with a tight group of central agencies, which are critically important to them in providing efficient and effective systems and process of government:

- **Department of National Planning and Monitoring (DNPM)** has the primary role of supporting the provinces in development planning and administering the Development Budget. In recent times the department has had limited capacity to assist provinces either from Port Moresby or through its undeveloped regional offices. The acting Secretary indicated to the design team an opportunity existed for the program through DPLGA's leadership, to re-engage with a founding partner of the original SNI/SNS and PPIL.
- **Department of Treasury (DoT)** is responsible for the national budget and the funding of provinces. Provinces main engagement is with the Budget Division, which prepares and coordinates the annual budget for all levels of government, implement sectoral policies through the budget process, control and monitor government expenditure and provides advice and

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assistance to departments, provinces and agencies. The Division is responsible for the monitoring of the expenditure under the Function Grants.

- **Department of Finance (DoF)** through the Provincial and District Financial Management Division has an objective to provide management advice and maintain high level of effective interactive systems, to enable operational efficiency and effectiveness thus promoting transparency and accountability in the management of public resources at the provincial and District levels. DoF operates the provincial and district treasuries and manages the accounts for provincial government, government projects and trust accounts in the province.
- **Department of Personnel Management (DPM)** is primarily responsible for public sector management, specifically as it relates to performance, human resources, and organisation management. DPM is committed to Provincial and Local Level Government Reform directed at improving public access and information (bringing government closer to the people) and therefore better control and accountability, and at improving the impact and efficiency of Government services, particularly in the rural areas. For the provinces DPM is very important in advising on implementing corporate re-organisations, recruitment of staff, development of staff and the management of payroll. DPM has been supportive of SNS and PPII in particular. It has indicated a strong wish to expand its engagement under a new program
- **PM&NEC** as the custodian of Vision 2050 with its cascading logic of plans and reporting. It is also the home of the Central Agencies Coordinating Committee (CACC). While direct assistance to each of these agencies is not contemplated, promoting engagement with these offices by PNG partners of the program undoubtedly is an appropriate role.

The program currently has a focus on a few key national agencies in support of decentralisation – DPLGA, NEFC, ORD and NRI. All of these agencies have been a part of the current program but the engagement has been uneven and opportunities missed. While these agencies remain important, the design advocates that the program will extend its support to additional national agencies, which have responsibilities for supporting the systems of decentralisation and where identified constraints can be fixed (e.g. With DNPM, DPM, DoT, DoF and Auditor-General's Office).

With the exception of DNPM, these agencies already receive support from AusAID's Economic and Public Sector Program and/or Strongim Gavman Program. However, there was a universal request to the design team to consider specialist technical assistance to support these agencies engage with provinces and district to directly address identified bottlenecks and constraints. In other words, for the program to facilitate and 'link-up' government agencies to do their job. Since the field work for this design was completed AusAID Economic and Public Sector Program has undertaken extensive work with its Program Management Group to identify some

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key constraints and bottlenecks to improved service delivery. They will choose from that list several topics to take forward under the leadership of the appropriate central agency. EPSP will support those agencies with resources while this program will come in behind the provinces, and the central agencies if needed, to ensure that all government stakeholders are resourced properly. The EPSP approach will be to be selective as to the provinces to be targeted. For example, DPM will be rolling out payroll administration in two or three provinces. PLGP will be expected to contribute through the use of its human resources advisers in the provinces to work with DPM staff.

Australia's Role

SNS's focus on sub-national capacity and service delivery falls within the direction recommended by the *Development Cooperation Treaty Review*.

The PNG-Australia Partnership for Development provides a focus on service delivery and achievement of the Millennium Development Goals. Schedule four to the Partnership combines Australia's national level public service program with the PLGP.

The Minister Counsellor's recent paper *Repositioning the PNG Aid Programme Implementation Priorities 2011-2015* provides further positioning of this program in the Australian PNG Aid program:

- *The program will focus on outcomes in education and health supported by a strengthened enabling environment in governance, law and justice and transport.*
- *Australia will work through three concurrent strategies for assistance:*
 - *being able to demonstrate, for our investment, more achievements in the delivery of basic services to the people of PNG.*
 - *by working with those agencies that are committed to reform and engaging in consistent and strategic dialogue, Australia will continue to support key public sector reforms. We will work to strengthen PNG's own systems with a goal, in line with aid effectiveness principles, to use these systems to deliver the aid program; and*
 - *it will continue to support the strengthening of civil society and the institutional underpinning of democracy in recognition that only PNG can bring about its own transformation through its democratic processes.*
- *Through enhanced Strongim Gavman, Economic Public Sector and Subnational programs we will continue to assist Central Government (ie Finance, Treasury, the National Economic and Fiscal Commission) and*

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Provincial and lower levels of governments to better budget, target, deliver and account for expenditure on core services.

- *Recognising the important role of PNG's women and men in achieving development outcomes, Australia's aid program will significantly sharpen its focus on gender equality.*
- *Investing more in PNG's provinces and districts in recognition of the important role sub-national levels of government play in direct service delivery. This means working more directly with lower levels of government, NGOs, churches, volunteers and the private sector.*
- *Promoting greater coherence across our entire program by ensuring our sector programs and programs assisting central agencies and provinces are working towards common goals and objectives and by measuring and reporting on these outcomes for the program as a whole.*

The paper states that 'Australian support to **the public sector at the national and sub-national levels** will help ensure funding is available for key services and assist PNG to better account for this funding.

We will do this by:

- *encouraging macro-economic stability through a sustainable budget process.*
- *encouraging funding allocations through national and provincial budgets to better target recurrent service delivery priorities.*
- *improving the ability of government administrations to implement service delivery programs, including more timely disbursements of resources between levels of administration and more efficient access to funds at the frontline of service delivery.*
- *assisting Australia's funding mechanisms to operate in a way that strengthens PNG's own system of funding service delivery through national and provincial systems.*
- *promoting a culture of accountability and performance through the work of internal audit committees, the Auditor-General's Office, the Provincial and Local Level Service Monitoring Authority and the National Economic and Fiscal Commission.*
- *entrenching and strengthening the decentralised system of government to empower local voice and better target the delivery of services to local needs.*

Summary of Lessons Learned

PLGP has benefitted in its effectiveness by coming behind PNG led national programs, which themselves support local priorities and agendas. PPII is a program that supports provinces behind their priorities and agendas.

PLGP's effectiveness has been improved by being responsive to emerging PNG Government priorities – structured through rolling annual updates, continual reassessment of strategies between AusAID and the PNG Government, and an ability to flexibly use unallocated funds.

Strong relationships are vital in pursuing any reform agenda. In this program PPII has demonstrated the critical role of the provincial administrators and departmental heads in leading the activity. Similarly evidence of dis-engagement is plainly visible when provincial administrators have been ignored or their position not respected.

In working at provincial, district and local levels, PLGP needs to account for:

- Large diversity at all levels of capacity and across locations;
- The importance of local leadership and ownership;
- The disconnect between the administrations and political leaders often apparent and always a serious constraint to progress and development'
- The potential slow pace of change and need for additional investment;
- Increased logistical and coordination challenges;
- The importance of implementation.

AusAID needs to support the appropriate level of government to do the functions for which they are legally responsible.

Support is needed for service delivery systems as a whole including at national, provincial and facility level. Support is needed at each level in an appropriate manner to be effective and avoid imbalance.

AusAID's assistance to strengthen sub-national tiers of government complements support to central agencies and sector departments, but more needs to be done.

SNS's approach to capacity building, including the use of inputs other than technical advisers, is consistent with the direction of the Joint Review of Technical Advisory Positions.

AusAID monitoring of SNS has identified a number of weaknesses that need to be addressed in particular:

- Improved socio-political analysis around how change in Papua New Guinea is driven, to allow the PLGP to be tailored to better support improved public administration and service delivery outcomes;

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- A well-developed theory of capacity development to guide its approach, including in relation to alternatives to the use of advisers; and
- A review of incentive payments made to provinces, to ensure that they are driving positive reform (this is linked to socio-political analysis above).

An internal AusAID cross-country review of public sector reform and service delivery conducted by the ODE in 2009 also supports the arguments raised above. In relation to capacity development, the review acknowledges that capacity building in fragile environments is high risk, with more failures than successes. However, it concludes that rewards are worth the risks where there is:

- Potential to have a major impact on poverty reduction, through supporting service delivery provision or strengthening critical systems (eg. PFM); and
- Realistic prospect for progress in reform and/or capacity development, based on strong local ownership.

In relation to incentive payments, the ODE review (like the six-monthly monitoring report) encourages a strong analysis around the political economy of reform.

Annex 6: Supplementary Information for Chapter 2: Program Rationale

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6-1: REFLECTION ON DPLGA WORKSHOPS ON A NEW CORPORATE PLAN & MAKING PPII 'CORE BUSINESS'

TO: Manasupe Zurenouc, OBE, Secretary, Dept of Provincial and Local Government Affairs (DPLGA)

DATE: 20 May 2011

Part 1 - Workshops – 16th – 18th May 2011

John Mooney and Willie Edo facilitate three days of workshops with the DPLGA senior management team and invited guests. The guests included:

- four provincial administrators representing West Sepik, Eastern highlands, Milne Bay and Northern provinces – for all three days
- ORD, DPM and AusAID – for the two PPII days

Monday 16th May was devoted to establishing the parameters and concepts for a new corporate plan. The subsequent two days looked at how the current PPII can be transformed into a wider modality to support the implementation of the corporate plan.

Each of the three days had about 35 participants.

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In the two weeks prior to the workshop the facilitators had spoken with the secretary and almost all members of the senior management team, often more than once.

Part 2 - DPLGA Corporate Plan

There are three major starting points for the new corporate plan:

1. The Organic Law
 -
2. The other laws for which the minister is responsible as recorded in the determination of ministerial functions.
 -
3. Papua New Guinea has three tiers of government: national, province governments and local level government (LLG).

DPLGA has the mandate to support provinces and LLGs as levels of government.

The Mission of the department was discussed, and has not been agreed. However there are clear elements from the various suggestions that can be consolidated in these words:

a department which is knowledgeable, informed and responsive that mentors and guides provinces and LLGs, occasionally leads and disciplines, and builds capabilities which contributes to the three tiers of government having the capacity to do their job in service delivery.

The new DPLGA corporate plan will be outward looking. Five Strategic Result Areas (SRAs) have been chosen from the point of view of what do the clients of the department want to achieve?

The five SRAs by title

1. Service Delivery by provinces and LLGs.
2. Governance in provinces and LLGs.
3. Performance Monitoring and Measure driving change.
4. Enhanced performance of LLG Special Purpose Authorities and special projects.
5. Ministerial support and effective and value for money corporate services.

For each SRA the question to be answered are:

- What is our vision or objective?
- What is our contribution?
- How do we contribute and what?
- What is success?

Within each of the SRAs there were numerous activities identified. They will have to be prioritised. DPLGA capacity and resources will limit action.

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There were three significant breakthroughs achieved at the workshops:

- a. DPLGA management really got listening and discussing what the clients need and want from DPLGA – the contribution of the Secretary and the four invited provincial administrations was significant;
- b. The positioning and role of PLLSMA as an authority was clarified; and
- c. The senior managers have a better understanding of the PPII Review recommendation that PPII (the modality) becomes core business i.e. building capacity development in provinces in all areas that DPLGA has responsibility for.

Significant changes in focus

Resulting from the workshops were three definite changes in focus and prioritisation of work for DPLGA:

1. Governance of provinces and LLGs needs more effort in terms of inspections, achieving compliance and when needed imposition of sanctions. The provinces are asking for inspections with the minister, secretary and PLLSMA having powers and processes to enforce compliance e.g. to suspend provincial governments. This requires new and enhanced Organic Law arrangements for accountability arrangements for provinces and provincial administrators (also provincial treasurer).
2. LLGs are the third tier of government. They are also very weak in many aspects. DPLGA will consider establishing a major intra-department project to look at all aspects of LLGs and prepare a policy paper to NEC. The feeling was that DPLGA has neglected this important level of government and it needs special effort.
3. Capacity development support, using the PPII modality, should come from DPLGA in all areas of its responsibilities and be better coordinated.

The SRAs

A summary of the SRAs and the key activities/outputs/outcomes. This mixed grouping needs work to harmonise the approach.

a. Service Delivery by provinces and LLGs

These bullets are read as “DPLGA’s contributing or doing or achieving ...

- a. Capacity development capacity in individuals, divisions, districts, LLGs and the province (note: DPLGA works with provinces and through them to lower levels)
- b. Coordination of capacity development for sub-national activities. A PLLSMA role
- c. Sub-national perspective represented across government.
- d. Provinces engaged in government service delivery policy with DPLGA playing a role in joining up layers of government

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b. Governance in provinces and LLGs

- a. National and provincial governments acting on quality policy advice from DPLGA.
- b. Power sharing developed and rolled out.
- c. Compliance and inspection activities strengthen governance. Provincial & LLG Assemblies operating according to law
- d. Ministerial and Secretary executing delegated powers efficiently
- e. LLGs working according to law and strengthened to do service delivery.

c. Performance Monitoring and Measure driving change

- a. PLLSMA functioning as an authority i.e. the organisation overlay with DPLGA
- b. PLLSMA functions being achieved with national agencies engaged with PLLSMA on monitoring and dialogue on MPAs etc
- c. Provincial performance improving through PCMCs and Provincial and LLG monitoring and reporting
- d. Monitoring and reporting of political institutional performance (assemblies, PECs etc) and reporting to national government
- e. Agreed sector standards reported on

d. Enhanced performance of LLG Special Purpose Authorities and special projects

- a. LLG SPAs operating with good governance and accountability
- b. Enhanced disaster coordination
- c. Creation of provinces and boundaries
- d. Border and refugee management
- e. Land Administration - Alienation of customary land for state purposes.

e. Effective and value for money corporate services

- a. Reporting departmental achievement to govt, province and people. Reporting successes (PLLSMA PCMCs)
- b. DPLGA leading donor engagement
- c. Motivated and competent staff
- d. ICT sharing information; learning environment;
- e. Working finance, HR (data base), payroll, and internal audits systems

Part 3 - Structure of the Successor to PPII

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The current PPII is a very good tool or modality, widely appreciated and respected. However, it only looks at six Key Result Areas in what could loosely be called public administration, corporate administration and relationships. When analysed most of the indicators come from:

- *Public Finance Management Act*
- *Public Service Management Act*
- a few from the *Organic Law*; and
- some are good management practices.

The PPII Review recommended that PPII should become 'core business' of DPLGA. The decision has been made that PPII will be built upon to develop the KRA joint analysis tool to include at least three addition sets of KRAs that can be assessed a provinces compliance and capabilities as a level of government and a service delivery agent.

Broadly, there will be a set of criteria that can be checked to give an assessment of the province under each of the broad headings:

1. **Public administration and relationships.** The current PPII KRA list under this heading is:
 - Provincial and District Management Teamwork
 - Senior management team work – province, district, treasury.
 - Relations with Stakeholders
 - Administration works effectively with Elected Leaders, National Agencies, Civil Society, Private Sector
 - Performance Management
 - Performance Planning, Monitoring, Reporting (s. 119 Report)
 - Managing the Budget and Financial Systems
 - Effective links between Budget and Plans; integrated budget
 - Managing Human Resources
 - Motivation, productivity, discipline
 - Managing Assets
 - Inventory control, maintenance, ...
2. **Governance** – assemblies, PECs, JDPBPCs, LLGs all complying with the law, reporting to the people.
3. **Performance Monitoring** – the current KRAs (internal audit, ss. 114 and 119 etc) but with additional related to monitoring and feedback on service delivery in key sectors e.g. feeding key health and education data to national agencies; reporting to the people; reporting to national government;
4. **Service Delivery** – engagement with national agencies; quality of spending of function grants.

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Some of these will be hard to develop and will take time to work out. DPLGA is willing to take on this work working with its partners in PLLSMA.

The idea is that PLLSMA could publish a report on each province against these indicators, similar to NEFC's Public Expenditure Review.

Every two years all DPLGA relevant divisions plus other national agencies will work with the province to undertake joint assessment against the wider set of KRAs in those provinces that have progress to Phase 2. The resulting needs will be identified in a Capacity Development Plan. It is this plan that then drives the engagement through PLLSMA in coordinating the provision of capacity development assistance to a province including, PLGP2. In seeking to remedy weaknesses and deficiencies all roads do not lead to PLGP. Provincial and central agency resources will also be required.

This is what is now understood by making PPII core business. It is a capability assessment tool for DPLGA to use to map out its assistance, and that which can be acquired from other national agencies and the province itself.

The modality will have a graded system the same as PPII:

- preparatory, including completing a current corporate plan;
- Phase 1 with the current KRAs (slightly updated)
- Phase 2 the new broader set of KRAs.

The financial incentives, renamed 'performance grants will be retained. However, over two years AusAID's funding will be replaced by GoPNG. The actual level of funding may decrease. Through the new PLGP technical assistance may be provided to provinces and DPLGA to meet priority needs and fill gaps.

All provinces will participate.

AusAID comes in behind the DPLGA corporate plan and the government's decentralised service delivery policies. PLGP2 supports DPLGA's capacity development assistance for provinces, and for itself to implement it, based upon the capacity assessments. Within this sub-component PLGP can supply technical assistance, including advisers where appropriate, and for the first two years funding for the current PPII incentives. GoPNG will contribute future performance grants: but workshop agreed that failure to provide cash is not fatal to the concept. The three Phase 2 provincial administrators's repeated what they told the PPII Review - the best results in PPII had come from the non-cash activities.

Part 4 – Service Delivery Incentive Fund

It is proposed that a new incentive fund should be established, initially for donor funding. This is NOT Phase 3 of PPII. There is no automatic entitlement to participate just because a province is assessed as a Phase 2 province. It is an entirely different opportunity for those provinces who have demonstrable capacity, a commitment to change, prioritised plans of their own and which are willing to develop and managed their own project.

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- If a province meets a set of entry or 'gateway' criteria it can submit to PLLSMA in an annual budget round a project proposal in a competitive bidding process as described in the PPII Review. Projects that contribute directly to service delivery will be eligible, including creating an enabling environment. The maximum project funding would be in the order of K6 million over three years.
- The Service Delivery Incentive Fund can be designed on the same basis at the PNG-Aust Incentive Fund. That facility has now been in operation for over seven years and has a significant record of success for its procedures and processes. One difference that would be appropriate, but which will need further work with AusAID, is that the funding province to provinces should be both on budget and on treasury i.e. subject to risk assessment etc funding should go through the provincial accounts.
- If this is supported in the PLGP2 design it will not start until Year 2 at the earliest with the initial full assessments in year 1. The modality can be modelled on the PNG-Australia Incentive Fund with which all the administrators present were familiar.

John Mooney

Willie Edo

6-2: PROVINCIAL AND LOCAL LEVEL GOVERNMENTS SERVICES MONITORING AUTHORITY (PLLSMA) 3YEAR IMPLEMENTATION STRATEGY

1. Purpose

The purpose of this paper is to present to PLLSMA:

1. An assessment of its current operations and identifying how effectively it is addressing its mandate and expected results and thus arriving at where it needs strengthening:
 -
2. Present strategies for adoption implementation for the next three years based on the analysis.
 -
3. A draft forward agenda which fulfills its strategic result areas in 2010 and 2011.

2. Reflection on the last two years 2007-2009

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- PLLSMA was reactivated a couple of years ago and this is a very positive development
- There is broad recognition of its role and potential value in regard to improving services
- There are very useful related initiatives in the process of being implemented with the help of SNS such as the strengthening of the S119 reporting, the PCMCs and the function assignment roll out and PPII.
- LLGs are supported through the EU program mainly in facilities, but also capacity support to LLGs is very minimal.
- However, PLLSMA has not fully implemented its key functions.

3. Brief analysis of recent PLLSMA Successes

Coordinate implementation of national policies

National agencies that create national policy and plans with monitoring mechanisms on MTDS services such as agriculture, health, education, transport infrastructure and law & justice, should use PLLSMA to coordinate implementation of their programs. PLLSMA's record of achievement in this regard is rather modest.

- NEFC has used PLLSMA to coordinate implementation of the Reforms to Intergovernmental Financing Arrangements (RIGFA) in conjunction with Treasury to pilot conditional function grants in the provinces.
- PLLSMA through its subcommittee, coordinated, the Function Assignments Determination that has now been gazetted.
- Health Sector has recently used PLLSMA in the consultations of the National Health Plan and intends to use PLLSMA to support its implementation and reporting;
- PLLSMA quarterly meetings provide a forum for senior executives to consult on processes and inform members about high level discussions;
- Transport Sector is now having discussions with PLLSMA to develop its National strategy;
- Law and Justice engaged PLLSMA in developing its Provincial engagement Strategy and Village Courts implementation;
- NAC is also in discussion with PLLSMA on its Provincial and District implementation strategy.
- More recently Vision 2050 office has had discussions with PLLSMA on a partnership to support the implementation of Vision 2050.
- The PCMCs are intended to be PLLSMA replicas at the provincial level and play the role of helping coordinate program implementation at that level among the various agencies.

Establishing Minimum Standards and their monitoring

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The questions should be asked whether the geographic, demographic and fiscal differences among provinces mean that it is unrealistic to establish standards for services across all provinces.

- Treasury and NEFC have used PLLSMA to support two significant and related initiatives. These are - establishing 'Minimum Priority Activities' (MPAs) and more recently performance indicators for reporting performance against provincial targets. NEFC and Treasury have systems in place for communicating and monitoring the use of function grants for MPAs.

Performance Audits with the Auditor General and Assessments of Effectiveness and Efficiency.

This reflects two related function areas (4.c and 4.e of S110) which focus on the same issue of making provincial and local level governments more accountable for their performance on service delivery.

- PLLSMA's progress on this key function needs to be strengthened. Performance audits have not been undertaken of provinces and only this year the first reports were tabled in Parliament.
- Provincial performance reports to DPLGA (s119) have been collected for 2007 and 2008. DPLGA regards the validity and quality of the early reports as poor. In most cases, the provinces are only just establishing monitoring and performance systems.

Develop, coordinate and monitor training needs of public service at the sub national level

Under the PPII, DPLGA has instituted a system for requiring each province to develop its 'capacity development plan' and these plans, at least for the Phase 2 provinces (Central, EH, ENB, MB, WS) are monitored by the PPII Secretariat. These plans and any progress monitored could provide to PLLSMA valuable information on the organizational capacity and capacity needs so they can progress.

Many central and sector agencies have capacity development and training programs for the provinces such as FMIP, PCaB, SIP, SPIA, and the capacity development programs of the Health, Education, Transport and Law & Justice Sector Programs. These approach the provinces in an uncoordinated way which often creates problems for the provinces in terms of taking staff away from work in an unscheduled manner, and due to overlap of content. PLLSMA has been unable to date to coordinate and rationalize all of these training and capacity development activities.

4. Forward Agenda

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If PLLSMA is to be effective, it is essential that key departments such as DPM, NEC, Treasury, Finance, Auditor General and key service sector lead agencies are formally nominated as members by the NEC.

Commitment by Executive of central agencies will occur when PLLSMA to add value to the deliberation of each sector agency.

PLLSMA, as per its mandate, is a 'services monitoring authority'. While it has no powers or authority of sanction for poor implementation of service delivery, it can use its mandate of 'monitoring' to report on the progress of provinces and. At present, PLLSMA does not have in place the required mechanisms and capacities for effective and consistent monitoring and reporting. Establishing more effective monitoring and reporting of service delivery is a key priority.

The following table outlines forward agendas for 2010 and 2011 taking into consideration the Strategic Result Areas (Appendix 2). While other business can be conducted at each meeting on issues as they arise, these should be a focus for PLLSMA members.

PLLSMA Forward Agendas 2010-2011

Meeting	Agenda	Results Framework
Last Quarter 2010	<p>In the last quarter of each year, each service sector agency briefs PLLSMA on the progress made during the year on key service sector priorities and programs.</p> <p>Progress made by each province on indicators related to corporate governance</p> <p>From these, DPLGA then prepares a Report for the Minister.</p>	1, 5,6
First Quarter 2011	<p>At the start of each year, all lead service sector agencies brief PLLSMA on key annual priorities in their sector for each year.</p> <p>At the start of each year, all lead service sector agencies provide to PLLSMA their annual budget and program plans at the national level and disaggregated by province.</p>	1
Second Quarter	Auditor General provides audit summaries of completed Provincial performance audits to PLLSMA with a view to their incorporation in capacity	2,3,4

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2011	<p>development planning</p> <p>Mapping of advisory support that is provided to provinces from all sources</p> <p>Training and capacity development programs led by central and sector agencies for provinces are discussed PLLSMA</p> <p>Sector Sub committees have met and report on the feasibility of establishing national service standards for the Minimum Priority Activities and performance indicators.</p>	
Third Quarter 2011	<p>Treasury and NEFC reports to PLLSMA on the use of function grants and the progress made by provinces on the minimum priority activity indicators. (2nd Q Budget Review)</p> <p>Report on progress and capacity of PCMC's to fulfill their mandated roles</p>	1,5
Last Quarter 2011	<p>In the last quarter of each year, each service sector agency briefs PLLSMA on the progress made during the year on key service sector priorities and programs.</p> <p>Progress made by each province on indicators related to corporate governance</p> <p>From these, DPLGA then prepares a Report for the Minister.</p> <p>Review Strategic Result Areas and create forward agendas for 2012.</p>	1, 5,6

The PLLSMA Secretariat strengthening in planning and managing PLLSMA meetings and follow up actions

The potential strengths of PLLSMA are dependent on –

- (i) the quality and relevance of each meeting agenda for inter-agency discussion;

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- (ii) the quality of the reports (relating to policy coordination or provincial service performance) it tables for discussions, the extent of analysis behind these reports, and the relevance of related recommendations;
- (iii) the quality of decisions taken and the consistency of follow through on decisions;
- (iv) the ability of the Secretariat to synthesise its monitoring reports and provide these to Government.

1. Recommendations

It is recommended that PLLSMA;

5.1 Adopts the **Vision** and **Mission** statements in attachment 1.

5.2 Adopts Forward Agenda taking into consideration the results framework in attachment 2

5.3 A provincial performance monitoring technical subcommittee is established comprising PM and NEC, DNPM, DPLGA, Finance, Treasury, and NEFC to synthesise service delivery data available for monitoring and reporting purposes.

Manasupe Zurenuoc

Secretary DPLGA and Chair

Provincial and Local Level Services Monitoring Authority

September 2010

Attachment 1

Mandate, Vision and Mission

Mandate

PLLSMA's mandate is derived from section 110 of the Organic law and Section 110 (4) of the Organic Law clearly and succinctly outlines the functions of PLLSMA. There are eight functions mentioned of which the first five are more significant. These are as follows –

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- S110 (4) (a) Coordinate the implementation of national policies;
- S110 (4) (b) Establish minimum standards for services and monitor maintenance of these standards;
- S110 (4) (c) Assist the Auditor General to carry out performance audits of provincial and LL governments;
- S110 (4) (d) Develop, coordinate and monitor training needs of public service at the sub national level, and
- S110 (4) (e) Assess the effectiveness and efficiency of provincial and LL governments

Vision

“All Papua New Guineans have access to Basic Services.”

Mission

PLLSMA members have a shared mission;

“To strengthen coordination, monitoring and reporting in delivering basic services in PNG between the three levels of government and to support the capacities of the lower levels of government”

Attachment 2

Strategic Results Areas (SRA)

PLLSMA strategic results areas can be related to functional areas outlined in section 110 (4) of the OLPLLG.

Since PLLSMA meets quarterly, it is clear that a strategic approach needs to be taken.

These SRA should be reviewed at the start of 2012.

1. Coordinate the implementation of national policies	<ul style="list-style-type: none">• At the start of each year, all lead service sector agencies brief PLLSMA on <i>key annual priorities</i> in their sector for each year.• At the start of each year all lead service sector agencies provide to PLLSMA their <i>annual budget and program plans disaggregated by</i>
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	<p><i>province.</i></p> <ul style="list-style-type: none"> • In the last quarter of each year, each lead service sector agency briefs PLLSMA on the <i>progress made</i> during the year on key service sector priorities and programs. • PCMCs are established in each province to ensure policy and program implementation at that level is coordinated • PCMCs <i>meet regularly</i> and do fulfill their mandated role
2. Establish minimum standards for services and monitor maintenance of these standards	<ul style="list-style-type: none"> • <i>Consultation arranged by Sector Sub committees to establish national service standards</i> for the Minimum Priority Activities and performance indicators. • Treasury and NEFC <i>reports to PLLSMA</i> once a year on the <i>use of function grants</i> and the <i>progress made by provinces</i> on the minimum priority activity indicators.
3. Assist the Auditor General to carry out performance audits of provincial and LL governments	<ul style="list-style-type: none"> • # of <i>performance audits</i> per year • Provincial performance audits summaries <i>discussed in PLLSMA with a view to their incorporation in capacity development planning</i>
4. Develop, coordinate and monitor training needs of public service at the sub national level	<ul style="list-style-type: none"> • <i>Mapping of advisory support</i> provided to provinces • <i>Training and capacity development programs led by central and sector agencies</i> for provinces are discussed PLLSMA
5. Assess the effectiveness and efficiency of provincial and LL governments	<ul style="list-style-type: none"> • # of <i>S119 reports</i> provided • <i>Quality</i> of S119 reports • Evidence of progress made annually by each province on the <i>achievement of minimum priority activities (Treasury 2nd Q Budget Review</i> • Evidence of Progress made by each province on <i>indicators related to corporate governance (CBD)</i>
6. PLLSMA secretariat	<ul style="list-style-type: none"> • Establish a monitoring system for PLLSMA • Tangible progress made on each SRA • Maintaining coordination framework • PCMCs are functioning

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6-3: Indicative PLGP Inputs for Year 1 & 2

Sub-Component 1.1.

This is an indicative budget for the program. A core element the successor to PPII will be designed in early 2012. The design assumes that GoPNG will increase its support for a 'new PPII' for which this design outlines a number of options. New analytical work needs to be done on the purpose and use of incentives. AusAID support for PPII's incentive phase cannot end suddenly and this design envisages a transition during which, DPLGA's funding increases and AusAID decreases for this component of PPII. Similarly AusAID is developing a new comprehensive strategy for Bougainville. It is proposed to do a review of the purpose of all advisory support to Bougainville. A review of the GIF will be undertaken in the last quarter of 2011. Accordingly, the budgets are subject to a very large caveat that they are indicative.

	2012-13		2013-14					
	AusAID AUD	GoPNG Kina	AusAID AUD	GoPNG Kina	Adviser	ARF		Notes
Rate of exchange A\$1.00 = PNG Kina 2.60	000s	000s	000s	000s	No	Displ	Job Level	
Component 1 - Provincial and District Capacity								
Sub-component 1.1 The new PPII								
PPII Incentives - extension of current PPII	2,000	2,000	1,000	4,000				i. AusAID funding reduces as GoPNG Development Budget funds the core PPII program ii. PPII AA incentives \$2.5 million in 2010 iii. DPLGA requested transition to GoPNG counterpart funding starts in 2012 iv. GoPNG funding for DPLGA to support its staff in PPII
PPII Incentives - new phase 3	500		1,500			D	4	This funding will scale up as select provinces enter the new PPII incentive phase
PPII Capacity Development	300	150	300	150	1			One senior adviser in DPLGA on CD. This is an extremely critical

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								position.
PPII Advisers - in provinces	2,000		2,000		8 to 10	C & D	3 & 4	Number of advisers subject to annual planning. A significant number of positions will be PNG advisers
PPII Advisers - core resource team in DPLGA	1,900		1,900		up to 9	C & D	3 & 4	i. Number subject to annual planning. A significant number of positions will be PNG advisers. ii. Total adviser cost at A\$4.2 million down from \$5 million currently for PPII
Admin, Equipment, Supplies, travel	150	400	150	400				
Non-adviser technical assistance	750	200	1,500	200				Training, peer reviews, provincial exchange visits, PSWDP etc
Emerging issues technical assistance fund - available to program as new issues arise needing a response	200		300					
TOTAL	A\$7,800	K2,750	A\$8,650	K4,750	16 to 19			

Sub-Component 1.2.

	2012-13		2013-14					
	AusAID AUD	GoPNG Kina	AusAID AUD	GoPNG Kina	Adviser	ARF		Notes
Rate of exchange A\$1.00 = PNG Kina 2.60	000s	000s	000s	000s	No	Displ	Job Level	
Sub-component 1.2 - Kokoda								
Kokoda Development Program	1,000		1,000		STA only			This funding to AusAID from Kokoda Initiative Joint Understanding #2
TOTAL	A\$1,000		A\$1,000					

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Sub-Components 1.3.

	2012-13		2013-14					
	AusAID AUD	GoPNG Kina	AusAID AUD	GoPNG Kina	Adviser	ARF		Notes
Rate of exchange A\$1.00 = PNG Kina 2.60	000s	000s	000s	000s	No	Displ	Job Level	
Sub-component 1.3 - Bougainville								
Advisers - in Bougainville	2,250		2,250		up to 7	C & D	3 & 4	Number subject to annual planning: estimate up to 7. A significant number of positions will be international advisers
Non-adviser technical assistance	300		300					
Governance and Implementation Fund	4,000		4,000					This is an increase from A\$3.5 million in recent years.
Admin, Equipment, Supplies, travel	200		200					
TOTAL	A\$6,750		A\$6,750					

Sub-component 2.1

	2012-13		2013-14					
	AusAID AUD	GoPNG Kina	AusAID AUD	GoPNG Kina	Adviser	ARF		Notes
Rate of exchange A\$1.00 = PNG Kina 2.60	000s	000s	000s	000s	No	Displ	Job Level	
Component 2 - Performance								
Sub-component 2.1 National Level								
PLLSMA advisers - in DPLGA	750		750		2	C & D	3 & 4	Number subject to annual planning. Focus is national performance monitoring

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PLLSMA Admin, Equipment, Supplies, travel		150		150				
Sector/program annual report	300	100	300	100	0.8	A C	1 to 2 3 to 4	i. STA required to manage process to produce annual report for PLLSMA ii. Local research assistants and data gatherings funded on contract to supplement DPLGA
NEFC advisers	800		800		3.5	D	4	1. Number subject to annual planning. Focus is continuing & embedding current work ii. Advisers should be senior professionals & likely to be international
NEFC Admin, Print, Supplies, Travel	200	100	200	100				
ORD adviser	350		350		1	C	3 & 4	
Emerging issues technical assistance fund - available to PLLSMA as new issues arise needing a response	250		250					
TOTAL	A\$2,650	K350	A\$2,650	K350	7.5			

Sub-component 2.2.

	2012-13		2013-14					
	AusAID AUD	GoPNG Kina	AusAID AUD	GoPNG Kina	Adviser	ARF		Notes
Rate of exchange A\$1.00 = PNG Kina 2.60	000s	000s	000s	000s	No	Displ	Job Level	
Sub-component 2.2 Provincial Level								
PLLSMA advisers - for provincial engagement	600		600		3	C	3 & 4	Number subject to annual planning. Likely to be locally engaged.
Admin, Equipment, Supplies, travel	75	200	75	200				

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Support to meet provincial costs when budget not available e.g. annual report	100	100	150	100			
TOTAL	A\$775	K300	A\$825	K300	3		

Sub-Component 2.3.

	2012-13		2013-14					
	AusAID AUD	GoPNG Kina	AusAID AUD	GoPNG Kina	Adviser	ARF		Notes
Rate of exchange A\$1.00 = PNG Kina 2.60	000s	000s	000s	000s	No	Displ	Job Level	
Sub-component 2.3 Research & Analysis								
Contestable sub-national service delivery research fund - annual	100		300					First year unlikely to be much spend as process set-up for PLLSMA to manage. Fund could increase in out years. contestable research fund. NACS model a good one to replicate with Research Council.
Total government expenditure on health and education study for PLLSMA managed by NEFC and undertaken by contractors	200		250					To be started in 2012 but likely to take 18+months
Initial baseline study for the Program - STA, data collection, analysis, travel etc	350		250			A C	1 to 2 3 to 4	i. Initial study to establish the M&E baseline for the program managed by Contractor for PLLSMA, including baseline for 'soft' indicators li. STA required to manage process to produce annual report for PLLSMA iii. Local research assisants for data gatherings funded on contract to supplement DPLGA

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Advisory support to establish and maintain research activity	350		350		2	C	3 to 4	Full time advisory position required to establish and maintain this component supported by locally engaged contract staff. Should be reviewed after two years and could become STA.
Admin, Equipment, Supplies, travel	50		50					
TOTAL	A\$1,50		A\$1,200		2			

Sub-Component 3.1.

	AusAID AUD	GoPNG Kina	AusAID AUD	GoPNG Kina	Adviser	ARF		Notes
Rate of exchange A\$1.00 = PNG Kina 2.60	000s	000s	000s	000s	No	Displ	Job Level	
Component 3 - Whole of government								
Sub-component 3.1 PLLSMA Coordination Role								
PLLSMA advisers - in DPLGA for PLLSMA & national	550		550		2	C & D	3 & 4	Number subject to annual planning. Focus is national CD coordination
Admin, Equipment, Supplies, travel	50	150	50	150				
TOTAL	A\$600	K150	A\$600	K150	2			

Sub-Component 3.2.

	2012-13		2013-14					
	AusAID AUD	GoPNG Kina	AusAID AUD	GoPNG Kina	Adviser	ARF		Notes
Rate of exchange A\$1.00 = PNG Kina 2.60	000s	000s	000s	000s	No	Displ	Job Level	
Sub-component 3.2 Central Agency Engagement								

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Technical assistance and resources to central agencies to establish their CD approaches for provinces and districts	600		600		2 FTE	C & D	3 & 4	Number subject to annual planning. Focus is national CD coordination
Advisory support for DPLGA to develop policy, advocacy for decentralisation	400				1.50	D	4	Senior advisory services to support NEC and whole of government policy change
Support for central agencies to provide technical assistance to provinces - travel, materials, venues	300	100	300	100				
TOTAL	A\$1,300	K100	A\$900	A\$100	3.5			

6-4: Kokoda

Purpose

AusAID is currently designing a new program of assistance to support sub-national service delivery improvements, the Provincial and Local Governments Program (PLGP). The purpose of this note is to assess the design document for the Kokoda Development Program (KDP) and provide advice to AusAID and the PLGP Team Leader on:

- Aspects of the design that are not flexible under the negotiated agreements between Australia and Papua New Guinea;
- Aspects of the design that are flexible and provide opportunity with the SNS program under the negotiated agreements between Australia and Papua New Guinea;
- How both designs can be incorporated in the SNS design (management, planning and monitoring etc) and under a single service provider contract?
- How integration of KDP with SNS can support KDP achieve integration with GoPNG systems at the national provincial and local levels and contribute to service delivery improvement to the extent possible.
- Provide advice to AusAID on any adjustments needed to the KDP design so that it can leverage off the Phase 2 SNS approach to working within PNG's decentralised system.

The Kokoda Initiative Joint Understanding (KI JU2) *Draft Implementation Plan July 2011 – June 2015* is in the course of finalisation. It represents an agreement between the GoPNG, represented by the Department of Conservation and Environment (DEC), and GoA, represented by the Department of Sustainability, Environment, Water, Population and Communities (DSEWPoC) to support

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sustainable development in the region of the Kokoda Track. JU2 has three components: Environment and Heritage Protection; Renewable Resource Development and Community Development and Service Delivery (CDSD).

AusAID is responsible for parts of Component 3 (CDSD) known as the Kokoda Development Program (KDP). KDP builds on activities under JU1 that started in 200 and is managed directly by the AusAID PNG Post.

The Kokoda Initiative

Background

[This section consists of verbatim extracts from the JU2 Draft Implementation Plan (January 2011). Amendments had been made for readability and presentation purposes only. Commentary on key elements that are relevant to PLGP is in Section 4.]

In April 2008, the governments of Papua New Guinea and Australia signed a two-year 'Joint Understanding' (JU1) for a Kokoda Initiative (KI) covering the Kokoda Track and Owen Stanley Ranges. The KI was in response to a GOPNG Cabinet decision of March 2008 to protect the Brown River Catchment for the future water and power supplies of Port Moresby, and to develop a Sustainable Development Master Plan for the Kokoda Track, Brown River Catchment and Owen Stanley Ranges region.

A joint evaluation of the KI was undertaken in September 2009. The evaluation determined that while progress had been made in Track management and service delivery, the Initiative needed to be further consolidated to develop a Sustainable Development Master Plan, and to ensure ongoing management is successfully transitioned to the GOPNG. In July 2010 the PNG and Australian governments signed the second Joint Understanding (JU2) for the period (2010-2015) and agreed to conduct a joint design mission to formulate a strategy and implementation plan for the progressive achievement of the JU2 goals.

Organisation of the KI

GoPNG and GoA inputs are organised through their respective Taskforces established under the JU1. The lead agency for the PNG National Taskforce is the Department of Environment and Conservation (DEC). The Department of Sustainability, Environment, Water, Population and Communities (DSEWPaC) is the lead agency for the Australian Taskforce. The current GoPNG and GoA taskforce management arrangements will remain in place. These arrangements will be reviewed following the legislative approval of the new PNG Conservation and Environment Protection Authority which is expected within the next two years.

DEC has also flagged with the GoA Taskforce its intent to establish a Program Management Unit to coordinate its GoPNG recurrent and development planning and budget process and donor support activities. While the KI is currently the principal donor support activity within DEC, the Department is anticipating

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significant funding from UNESCO through the Global Environment Facility some of which will be allocated to support its KI commitments.

Kokoda Initiative 2011-2015

JU2's principal activities include:

- Continuing the process of program development and implementation.
- Concluding consultations and agreements with core stakeholders (landowners, resource developers, national and sub-national levels of government and civil society groups) on program priorities, future directions and roles and responsibilities.
- Developing guidelines and an interim management plan for the Kokoda Track which secures its significant heritage values, maintains its condition, regulates trekker activity and ensures adequate safety standards.
- Engaging with provincial and local level government and other service providers for the provision of (i) basic infrastructure and services to Track communities; (ii) enterprise development for income generation; and (iii) the progressive expansion of these activities to the wider Interim Protection Zone as resources allow.
- Completing the Brown River catchment feasibility study and a draft management plan.
- Engaging with PNG Power, Eda Ranu and other resource developers on the scope and timing for renewable resource developments targeting the supply of power and water.
- Completing a regional tourism development plan leveraging off the economic opportunities generated by the Kokoda Track.
- Undertaking studies to identify significant heritage values of the Owen Stanley Ranges.

DEC is the lead PNG agency for KI JU2 and is responsible for coordinating other PNG agencies²⁵. DEC, DSEWPaC and AusAID have developed the Plan. Stakeholders in the Kokoda Initiative include the local communities, men, women, boys and girls, customary landowners, the two provinces, LLGs, trekking companies, tour operators, the Kokoda Track Authority, veterans from WW2 and their descendants and the growing wider Australian constituency with an appreciation and interest in the Kokoda – Australia relationship.

²⁵ Including the two key provinces

Component 3 – the Kokoda Development Program (AusAID’s contribution)

The KI Design Team has proposed an Implementation Plan²⁶ formulated around three components:

- Component 1: Environment and Heritage Protection
- Component 2: Renewable Resource Development
- Component 3: Community Development and Service Delivery (CDS)

AusAID contribution is centred on Component 3. The intended intermediate outcome for Component 3 is:

“The Oro and Central Provincial Governments are partnering with the region’s landowners and developers and local and international NGOs to enhance quality of life for the region’s communities.” (emphasis added)

Specifically:

- “a participatory planning process is established involving the Northern and Central provinces, the Kokoda Track Authority, the region’s land owners and resource developers, and national and international NGOs (the CDS partners);
- the community development and service delivery program is prioritised;
- the provinces and their CDS partners commit to funding priority infrastructure and services; then
- plans can be implemented to improve the standard of living of communities throughout the region.”

The set of outputs²⁷ under Component 3 which are AusAID’s responsibility is community development, health and education activities implemented through mainstreaming with the relevant GoPNG national and sub-national agencies:

“Community Development

Law and Justice: services will be delivered through the Village Courts and Land Mediation Secretariat. This program will be implemented through joint planning with the Provincial Governments (Oro & Central) and Kokoda and Koairi LLG’s.

Good Governance: This is a program to improve the knowledge, skills and attitude of local leaders on what constitutes good governance. It is a training program specifically for LLG presidents, ward councillors and their staff. It is designed to promote more transparent planning and decision-making.

Food Security & Agriculture: It is anticipated food security will become an important issues the imminent El Nino forecast for PNG within the next couple of years. The Oro PG

²⁶ Draft January 2011

²⁷ Described in detail in Volume 2 of the Draft Implementation Plan

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particularly wanted some agriculture extension work on food security; plantation rehabilitation (rubber, cocoa and coffee) and livestock.

Water, Sanitation and Rural Electrification: this program includes development and maintenance of facilities on an off the track targeting priority villages and education and health facilities.

Education

KDP will continue to provide support for education infrastructure and supplies, school boards, teacher training and expand services to the wider region with the aim of further mainstreaming the initiative into Provincial Education Plans with the focus on sustainability post JU2 in 2015. This package will include continuing:

- Regular patrols aimed at reinstating and training school boards of management
- Mobilising communities to support their schools through activities that involved communities in planning for the future of schools and being part of the decision making process
- Sourcing and distributing basic and curriculum materials to schools
- Developing professional relationships with district education officers
- Providing leadership and management training to district and provincial education officers
- Providing opportunities for the professional development of primary and elementary teachers
- Assisting the province in creating positions for additional teachers
- Building and renovating classrooms
- Supporting appropriate water supply piped to all schools
- Continue to support the Sohe/Hiri District and Oro/Central PDoE, and
- to strengthen the school Boards of Management (BoM)

Health

KDP will continue to provide support for health infrastructure and supplies, health training and expanded services including further mainstreaming these initiatives into the Provincial Health Plans with the focus on sustainability post JU2 in 2015. Specific activities:

- Infrastructure Development renovations to health clinics including rural incinerators for waste management and water tanks and internal running water, VIP pit toilets & bucket showers for patients and, where relevant, haus win/waiting houses new or renovated staff housing & kook haus
- Community and Public Health Outreach targeting the training of Village Health Volunteers and a Track HIV prevention Strategy.
- Health Staff Support through the provision of a Health Adviser and Health worker training
- Procurement through the provision of equipment and supplies with special emphasis on the installation of radio communication
- KDP will work in close partnership with the Kokoda Track Foundation (KTF) is providing study grants for training of CHWs for the Kokoda track health facilities; Executive excellence has worked with KDP health for the construction of an aid

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post for Naoro; and Rotary for assistance with infrastructure work at Kokoda Health Centre and Vesulogo Aid Post.”

Within Component 3 DSEWPaC is responsible for enterprise development, transport and communication aspects which are primarily delivered through the KTA with program funding allocated to:

- **3.1 Community Development and Service Delivery Program and Management Plan** which will prioritise the program and coordinate the stakeholder inputs is completed by June 2011.
- **3.5 Micro and Commercial Enterprise Development** which will continue to support micro enterprises associated with tourism and provide support for small holder and commercial agricultural development where this proves feasible.
- **3.6 Transport and Communication** activities which will continue to explore measures to improve air services and telecommunication linkages along the track and within the region.

KDP Detailed Specification, Budget & Management

Because of the scale of AusAID’s contribution its role in mobilising the community development, health and education outputs is documented in more detail as Volume 2 of the *JU2 Implementation Plan (AusAID Contribution)*.

For the period June 2011 through to June 2015 it is proposed GOPNG and GOA jointly contribute a total of K 50 million (A\$25million) for the management and implementation of the JU2. This includes a special fund of K14 million (AU\$ 7 million) to be managed by AusAID to support CDSO. The remaining GOA contribution (A\$16 million) will be managed by DSEWPaC.

KDP is currently managed by an AusAID officer based in Port Moresby with assistance from other AusAID sectors (primarily health and education) and their contractors. For the period June 2011 to June 2012 the AusAID Post will directly contract and manage any resources needed for KDP. The AusAID KDP Manager as part of the CDSO Working Group (under the KI Task Force management structure centred in DEC) will be responsible for coordinating with the Oro and Central provincial governments and other stakeholders to prioritise KDP health education and community development activities.

The Plan envisages that after 2012 the AusAID Manager will subcontract PLGP and, as appropriate, the PLGP ISP providers to provide procurement services for personnel, materials and supplies, training and field operational costs in support of the program.

Measuring Success

At the conclusion of the JU2 in 2015, if the Kokoda Initiative is successfully implemented and managed, GOPNG and GOA Taskforce members could expect the following outcomes relevant to Component 3:

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- Track and regional communities have enhanced quality of life through improved delivery of basic services, income generation and community development activities as promoted through the KDP
- The functions of the KDP have been absorbed into the CDS program managed by the Oro and Central provincial governments in partnership with the region's landowners and developers and local and international NGOs.

Risks to Community Development and Service Delivery

The Background Paper for the JU2 Draft Plan notes a significant risk to the KI JU2, one that is very relevant to PLGP:

“(ii) Local and Provincial Governments

Local and provincial governments have not been fully engaged in the Initiative to date, however attempts have been made to engage them, particularly in the delivery of the Kokoda Development Program and as members of the KTA Management Committee. The provincial visits initiated during the course of this design mission and the ensuing resolutions for the integration of KDP initiatives into the Central and Northern Province annual planning and budget cycle is an important step in addressing this issue.

It is essential the relationship between the KI and the Central and Northern Provinces be strengthened for ultimately they are responsible for service delivery in the key areas of health and education, employing health workers and teachers, maintaining buildings and providing essential supplies.”

In the main body of the Plan it notes these risks with a generalized risk management strategy:

- “The principal risk to a seamless transition from the KDP to the CDS program is if partnerships between the Oro and Central Provincial Governments, the regions landowners and resource developers supported by national and international NGO's cannot be established.
- This risk can be minimized by immediately forming a CDS Working Group and engaging the stakeholders in program prioritization and the annual planning and budgeting process.”

Commentary relevant to the new AusAID PLGP

From an Australian perspective it does not need to be laboured in this paper that:

- Kokoda has a special place in Australia and Papua New Guinea's joint military history and relationships.
- Kokoda has high visibility in Australia and deriving from that it has increasing national significance as a place of special remembrance and developing nationhood.
- Kokoda is the place where more Australia's have contact, either physical or through the media, with Papua New Guinea and any other day-to-day endeavour.

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- Kokoda's management arrangements need care and good stewardship

From a Papua New Guinea perspective:

- The 'Kokoda' area in the two provinces is the traditional home to communities of people who are entitled to a good standard of social services from their government, participation in the economic benefits that the Track brings and their leaders and supporting partners working together for their benefit.

Engagement with the two provinces in improved service delivery

The KI JU2 Draft Implementation Plan overall, and in Component 3 specifically, is clear and speaks of the need to integrate community development, health and education activities into provincial plans. The intent is excellent looking at the direct extracts quoted above. However, is it enough? This review suggests that it is not.

One way to look at the draft plan is to ask the **why, what** and **how** questions.

Why KDP?

The **why question** (why should there be a community development and service delivery component in the Strategy?) is mainly answered in the Plan itself around:

- (a) the assumption of need – Volume 2 has some specific baseline data on service delivery;
- (b) the wishes of the landowners and communities for better services;
- (c) the wishes of the trekking companies for staff and good relations with communities;
- (d) preserving the environment and discouraging extractive industries; and
- (e) achieving an equitable distribution of resources and wealth from the catchment's assets.

It all makes good development sense for the communities to have education for kids, health services for mothers and children etc. It makes further sense for KDP to be part of a wider initiative as picked up through JU2 as a whole.

What should KDP be?

The Draft Plan answers the '**what**' question in part with Volume 2 providing a detailed project plan for AusAID's contribution to Component 3.

However, it is not clear from either volume that the Draft Implementation Plan recognises the wider context of what all the actors in the Track area are doing and more importantly who should be doing what and who is responsible for operating, staffing and maintaining the facilities and assets afterwards:

- The level of the overall income and resourcing available to the people of the larger Kokoda catchment. The economic and public financing analysis behind the Plan is quite thin. In the course of preparing this review the author was

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advised that there is a view in the Central Province Administration that most of the Track is located within one of, if not, the wealthiest district (Hiri) and LLG (Koairi) of Central province. Landowners in the area have revenue opportunities not available to others in the province through trekking fees, work opportunities, logging royalties and water usage royalties.

- The Koairi LLG Special Purpose Authority and the Kokoda Track Authority have MUCH more funding and capacity than the Koairi LLG itself and the Hiri District. The Koairi LLG SPA received a GoPNG Development Budget grant via DNPM for over K8 million in 2010. That is more Development Budget funding than was received by the whole province. It would be understandable if the province, district and LLG are frustrated when it seems that the SPA dictates to provincial district and LLG staff when instead it should be supporting the LLG.
- The Hiri District has a development plan. Central province is completing a provincial development plan. What is the development basis for the activities that are listed in the Volume 2 JU2 (KDP- AusAID Contribution) and how do they correlate to the available Central provincial and district plans? Similarly for Northern province. This is definitely a problem as after development projects are finished they are handed over to the province for ongoing funding. See your point below.
- The national government has significant increased recurrent budget funding for health and education under the functional grants. What is Central and Northern provinces track record in spending this funding on these core services?
- Abau, Rigo and Goilala Districts in Central province receive much less funding compared to Hiri District. This author was told that those districts have therefore become more prominent at Provincial Assembly meetings than Hiri District. There is a general feeling that Hiri can take care of itself²⁸, which is a danger to sustainability and unity in the province if the province does not take over the recurrent obligations.
- These types of interventions, and others, provide significant 'ad hoc' resources to parts of the Kokoda catchment outside of provincial systems and processes. They also impose costs and obligations on the provinces and districts. It would be quite understandable if the provincial governments were to say "the problems belong to the KTA, DEC and Australia/AusAID under KI, go away and do not bother us"²⁹

This does not mean that the KI or KDP is bad or inappropriate. It means that much more time and effort needs to be spent working with the provinces to bring all

²⁸ Hiri is also the location of the LNG processing plant and wharf with significant economic benefits to landowners.

²⁹ An example of this is the transport infrastructure function grant. JU1 recently rehabilitated the Ower's Corner Road, which is a provincial road and provincial responsibility. It seems that no-one involved the province in the early stages. The significant involvement came when the road was completed and a handover ceremony was being planned and Central province was being asked to take over the maintenance costs.

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activities into their processes and systems. As one very senior provincial administrator told this author recently about AusAID delivering text books and drugs directly to facilities “I do not mind at all if the job gets done, but please come through my front door and consult me. Do not drive passed my door and ignore me and the administration. I am the provincial administrator and I am in charge here.”

How should KDP be delivered?

The 'how' question is answered in the Plan in an old-style aid project modality. AusAID as the manager and contractor contracting inputs and delivering outputs, consulting with the key actors including the provinces. The Australian desire to get things done in this high profile environment is understandable.

The positive is that the draft Plan recognises the importance of the provinces and their roles. It itself states that in JU1 the engagement with the two provinces was less than optimal.³⁰ How is JU2 any better?

The Plan is clear that “service delivery activities will remain the primary responsibility of Provincial and Local Level Governments”.^[1] But it could go further. All of the outputs of Component 3 are the legal and functional responsibility of the two provincial governments. The Background Annex 3 is the only place that the service delivery role of the provinces is explicitly acknowledged as quoted above (previous page under heading risks).

The Draft KI JU2 Implementation Plan Volume 2 notes that:

“DEC, DSEWPaC and AusAID are proposing a strategy which, under the JU2, KDP activities be progressively devolved to partners, particularly provincial and local government through the Community Development and Service Delivery (CDSD) component of JU2 Implementation Plan”.

In other words KDP is ‘gifting’ to Central and Northern provinces activities and roles that are already theirs rather than working with them and supporting them to do their job. This approach is often admired as ‘we are getting the job done’ and “it it is good to see the program working with provincial and local level governments”. But we can do better

Surely, given that the two provinces are the primary service delivery agents, this quote begs the question as to why the two provinces are not at a higher level of engagement from the GoPNG side? The two provinces, not DEC, have the core service delivery functional responsibility in the Kokoda catchment areas.

Volume 2 when speaking of the Education Outcome notes “ [o]verall coordination with external stakeholders [for the KI Education Initiative] should be the responsibility of the PNG Taskforce led by the PNG Department of Environment and Conservation) which is responsible for high-level communication with external stakeholders in PNG.

³⁰ based upon the commentary in the Annex 3 and comments made to the author of this paper.

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The question has to be asked why are the two provinces not responsible to their government for Component 3 with support from KI JU2 and KDP in particular. While the two provinces are acknowledged and it is recognized that there is a need for them to 'be involved' it seems as though they are just part of a mix of stakeholders rather than having their leadership role as primary service delivery agents acknowledged. For example Component 3 is to be managed by a Community Development and Service Delivery Working Group, chaired by DEC, 'with representation from the Northern and Central provinces' together with KTA, utility companies, NGOS and landowner groups. This makes no sense if leadership and sustainability is the end goal.

One has to be concerned that notwithstanding the correct description of service delivery responsibilities in the draft Plan it implies, or leaves vague, that the KTA and the future Conservation Environment and Protection Authority will be given the overall authority and control on development outcomes in the Kokoda catchment. This is not correct and it certainly is not the DPLGA view as conveyed to DEC recently. DPLGA, which administers the SPA legislation is clear that the two provinces have the central role. How do the two provinces feel about being beholden to DEC? They most probably will just walk away and say 'not our responsibility'.

A different how question concerns the AusAID role in managing KDP. This is discussed below however, in short:

- KDP should be an identifiable sub-component of PLGP managed by a dedicated AusAID officers in the SNS team;
- PLGP and the revised Provincial Performance Improvement Initiative³¹ managed by DPLGA with the provinces can provide a feasible vehicle for KI JU2 and KDP to engage properly in planning and implementation of activities under KDP in both provinces.
- PLGP can be used as a vehicle for AusAID to support supplementary direct funding to the two provinces for agreed KI JU2 Component 3 priorities which should be located in the respective district and LLG development plans. The financing can be visible to the province and the districts.
- The AusAID SNS team can also ensure that the Health and Education Delivery Strategies support KI JU2, particularly their implementation arrangements delivering textbooks, medical supplies and training for health workers and teachers etc.
- The PLGP ISP will be responsible for arranging and contracting all required inputs, other than those provided directly by a province. This includes technical assistance.

³¹ PPII will be redesigned by DPLGA by mid-2011.

The Questions

Aspects of the design that are not flexible under the negotiated agreements between Australia and Papua New Guinea;

This question is not particularly relevant to PLGP at this stage. The JU2 Draft Implementation Plan is just that draft. All the advice received while preparing this note is that it is flexible.

If there was an opportunity for the JU2 design team to revisit or clarify analysis or text there are three specific areas from this note that could be clarified:

- i. The economic analysis of the Kokoda catchment by LLG area and district. There are significant differences in wealth and access to income opportunities across the Track.
- ii. More prominent position for Northern province and Central province in the service improvement and management arrangements, particularly Component 3.
- iii. Greater involvement of the provinces in landowner issues. Provinces in PNG generally have the resources, corporate memory and knowledge of history to contribute positively to stakeholder mapping etc. This author got the impression (and it could be wrong) that various landowner engagement strategies were separate e.g. for water supply, for electricity etc. Central province showed in 2010 at the LNG landowner conflicts that can work with its own people to sort of issues and conflicts. They were mightily upset at having to clean up after national government and the developer had done what some saw as 'cosy' deals with a few, perhaps ignoring the wider community.

Aspects of the design that are flexible and provide opportunity with the SNS program under the negotiated agreements between Australia and Papua New Guinea;

To repeat: JU2 is flexible; its philosophy for component 3 is excellent; and as identified the difficulty is in the how?

AusAID SNS should be encouraging the GoA side of the KI JU2, through DPLGA, to ask GoPNG to take a wider view of the implementation of the whole program based upon the GoPNG's own Determination of Functions and Responsibilities. There is plenty of evidence over the last decade that GoPNG departments and provinces disengage when they feel that other GoPNG departments and agencies or donor are taking over their responsibilities.

Failure to bring both provinces into planning and implementation and monitoring is a serious threat to sustainability and stability. There is a serious risk in my view that those stakeholders and communities with access may capture the KDP resources. This may not be an intention bias but simply one brought on by working with those

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who are accessible, articulate and know how to make the system work. This is significant benefit to Australia in moderating that risk by having all decision-making go through provincial systems and processes.

How both designs can be incorporated in the PLGP design (management, planning and monitoring etc) and under a single service provider contract.

How integration of KDP with PLGP can support KDP achieve integration with GoPNG systems at the national provincial and local levels and contribute to service delivery improvement to the extent possible.

Provide advice to AusAID on any adjustments needed to the KDP design so that it can leverage off the Phase 2 PLGP approach to working within PNG's decentralised system.

Answering the three questions together and without repeating too much what was above.

The new AusAID Sub-National Program will continue support for the provinces through GoPNG's revised Provincial performance Improvement Initiative (PPII). Under PPII Central Province is at the Phase 2 stage while Northern Province is in the preparatory phase. PPII provinces receive additional funding grants (currently all AusAID money) to use to implement service delivery capacity development plans.

Under the new PLGP AusAID will be responsible for the strategic management and engagement of the program with the provinces through DPLGA, the host government agency. It will be supported by an Implementing Service Provider (ISP). One component of PLGP supports provinces to strengthen the implementation of their plans. Through the new PPII:

1. Central and Northern provinces should be offered additional funding, technical assistance and other capacity development inputs (under KI JU2 Component 3) to complete the activities and outputs as specified in an agreed annual plan. The provinces would also be responsible for monitoring and reporting.
2. If the provinces do not have the capacity to implement their plans and activities in Kokoda then the PLGP ISP can support them. This should happen from June 2012. Notwithstanding that the provinces are responsible for monitoring and reporting progress the ISP should be required to ensure that processes are in place for AusAID

By incorporating KDP as an activity plan under PLGP deficiencies in the KDP design can be overcome. For example PLGP's approaches to contract management, M&E, gender equality, HIV (acknowledging that KDP has a significant HIV activity itself) etc.

Keeping Kokoda as a separate sub-component of the new PLGP component 1 achieves a number of Australian objectives:

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- i. AusAID can manage KDP through dedicated resource at Post with the person responsible for:
 - representation and engaging through KI on Component 3
 - coordination on operational matters for CDSD as per Figure at Draft plan Volume 2 paragraph 4
 - engagement with the two provinces with the AusAID officers located in DPLGA and AusAID provincial representatives
 - working through the ISP and DPLGA to ensure that the provinces and/or the ISP had the resources to ensure implementation.
- ii. It maintains a level of visibility which is essential given the importance of Kokoda and Australia's national interest.
- iii. Reporting can be both integrated into PLGP, but also separate as required under KI JU2.

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6-5: Program Results Matrix

	Objectives / End of Program Outcomes	Specific Results
Program Purpose	Crating an enabling environment an capable institutions to support service delivery to the children, women and men of Papua New Guinea	<i>See Combined Results of Components 1-3 below</i>
Component 1 Strengthen the corporate and implementation capacity of sub-national government to deliver services	Capacity of provinces, and districts to deliver services strengthened according to functional assignments	<i>See Combined Results of sub-components 1.1 – 1.2 below</i>
<i>1.1. Support to the New PPIL and DPLGA</i>	<i>Provinces, districts, LLGS and DPLGA have the core skills, systems and processes to get things done and to sustain themselves</i>	<ul style="list-style-type: none"> • <i>Foundational capacities in place and bedded-down in core public administration with all provinces able to plan for the delivery and monitoring of service delivery responsibilities particularly in education, health/HIV, transport</i> • <i>Service delivery priorities are visible through the provincial and district budgets and district development with implementation being monitored</i> • <i>Function grant, DSIP, and development partner funded projects and activities achieving direct service delivery improvements</i> • <i>Improved DPLGA capacity to coordinate and direct CD support to provinces and districts</i> • <i>PPIL mainstreamed as DPLGA core business</i> • <i>Service delivery implementation bottlenecks addressed in at least three provinces</i>

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		<p><i>under the new incentive phase</i></p> <ul style="list-style-type: none"> • <i>Women have a higher profile in provincial and district planning, implementation and monitoring</i>
<i>1.2.Support to the Kokoda Development Program</i>	<i>Track and regional communities have enhanced quality of life through improved delivery of basic services, income generation and community development activities as promoted through the Kokoda Development Plan</i>	<ul style="list-style-type: none"> • <i>The Oro and Central provincial governments take the lead under the Kokoda Initiative in implementing an agreed program of sustainable activities</i> • <i>Law and Justice; good governance; education and health/HIV outputs and outcomes being achieved as per the Kokoda Development Program</i>
<i>1.3. Support to the Autonomous Region of Bougainville</i>	<i>The Autonomous Government of Bougainville has increased capabilities to get things done to support the Bougainville Peace Agreement and the Constitution</i>	<ul style="list-style-type: none"> • <i>Capacities in place in core public administration for the ABG to plan, deliver and monitor its service delivery responsibilities with results visible in education, health/HIV, transport and law and order.</i> • <i>Service delivery priorities are visible through the ARB budget to the three district development plans and 12 LLG development plans with implementation being monitored</i> • <i>GIF and Function Grant funded projects and activities achieving direct service delivery or facility improvements.</i>
Component 2 Strengthen Demand for and evidence of service delivery improvement	Key national, provincial and district stakeholders using performance information to manage and account for service delivery	<i>See Combined Results of sub-components 2.1 – 2.3. below</i>
<i>2.1.Support to Service Delivery Monitoring at National Level</i>	<i>Strengthened PLLSMA, and key national institutions meeting national service delivery monitoring</i>	<ul style="list-style-type: none"> • <i>PLLSMA at the national level consistently exercises its statutory responsibilities for performance monitoring in a limited number of core areas</i> • <i>Sources and coordination of provincial performance monitoring improved: s119, PPII monitoring, EMIS, HMIS etc.</i>

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	<i>and reporting responsibilities</i>	<ul style="list-style-type: none"> • <i>PLLSMA respected as an important performing government entity regularly engaging with key service delivery sectors to improve performance</i> • <i>ORD reporting on the performance of DSIP spending</i> • <i>DNPM receiving information from provinces to support the monitoring of the MTDP</i> • <i>Treasury receiving timely quarterly expenditure reports with an increasing emphasis on demonstrating the quality of spending f the Function Grants</i>
<i>2.2. Support to Service Delivery Monitoring at Sub-National Level</i>	<i>Provinces and Districts able to Meet Service Delivery Monitoring and Reporting Responsibilities</i>	<ul style="list-style-type: none"> • <i>PCMCs at the provincial level exercise their statutory responsibilities for performance monitoring and provision of follow-up advise</i> • <i>Selected Provinces produce annual performance reports (“State of service delivery”) based on improved performance monitoring data and systems with specific focus on health, education, HIV/AIDS and gender.</i> • <i>Political leadership participate routinely in provincial and district performance monitoring and supporting administration to resolve implementation constraints</i> • <i>DSIP funding and implementation reflected in provincial and district plans, budgets and results frameworks</i> • <i>Provinces and districts provide timely and complete submission of s114 and s119 reports</i>
<i>2.3. Support to Policy Analysis & Applied Research</i>	<i>Performance Management Supported by Institutions Conducting Applied Research and Policy Analysis</i>	<ul style="list-style-type: none"> • <i>NEFC publishing “Walking the Talk” and conducting the regional forums with provinces resulting in provinces analysing their performance and making changes</i> • <i>NEFC, NRI produce and publish targeted applied research and analysis to inform policy and operational decision making related to remedying service delivery constraints</i> • <i>NRI produces a bi-annual newsletter highlighting service delivery innovations and lessons</i> • <i>Provincial PFM research and assessments in three provinces resulting in sustained improvement in those three provinces and some lessons applied across others.</i> • <i>Research and analysis on gender impacts being produced and used to guide the allocation of resources and implementation</i> • <i>Analytical work on education and health spending produced to inform AUSAID whole-</i>

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		<i>of-program planning/ decision-making</i> <ul style="list-style-type: none"> • <i>PLLSMA using research, analysis and monitoring, including sex disaggregated data, to understand differing impacts for women, men, girls and boys in service delivery</i>
Component 3 A joined up Whole-of-Government Response in Support of Sub-National Service Delivery	Whole-of-Government Approach to decentralized service delivery operational	<i>See results from Sub-components 3.1-3.2 below</i>
<i>3.1. Support to PLLSMA Coordination Role</i>	<i>PLLSMA effectively coordinating national response to challenges of decentralised service delivery</i>	<ul style="list-style-type: none"> • <i>PLLSMA coordinates central agency engagement around identified decentralized service delivery policy and operational issues</i> • <i>PLLSMA facilitates closer coordination of performance monitoring processes across government agencies</i> • <i>PLLSMA facilitates on a regular basis consultative processes between central agencies and provinces including political leadership</i> • <i>PLLSMA sub-committees are operational around all key sectors of health, education, HIV/AIDs and law and justice.</i> • <i>Functional assignment clarified and endorsed by central agencies and national departments</i>
<i>3.2.Support to Central Agency Sub-national capacity development responsibilities</i>	<i>Central Agencies providing timely capacity development and policy support to Provinces</i>	<ul style="list-style-type: none"> • <i>DPLGA, working closely with EPSP recognized and able to function as focal point for coordination of central agency capacity development support to provinces</i> • <i>DPLGA, working closely with EPSP playing a policy coordination role facilitating greater coherence in policies related to sub-national service delivery</i> • <i>Provinces and central agencies/ sector departments engage together to resolve identified service delivery bottlenecks</i> • <i>Provinces and districts formulate CD plans to guide and coordinate support from central/ sector agencies</i> • <i>Selected provinces have fully implemented decentralized HR functions through capacity</i>

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		<i>support of DPM</i> <ul style="list-style-type: none">• <i>Selected provinces are using planning and reporting templates that are consistent with DNPM guidance and which offer an integrated framework for linking ward, district and provincial plans</i>• <i>Identified bottlenecks in financial disbursements and reporting are resolved</i>
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Annex 7 – Supplementary Information for Chapter 3: Implementation Arrangements

The governance and implementation arrangements for the program cover all program components as well as engagement with all GoPNG agencies. These arrangements differ from SNS where AusAID maintained individual engagement strategies with the key counterpart agencies and for which there was no over-arching GoPNG coordination mechanism. The proposed structure of the management arrangements is similar to those of SNS/PPII with some modifications to enhance engagement and coordination and the use of GoPNG mechanisms:

- PLLSMA, chaired by Secretary DPLGA, will, subject to PLLSMA approval, be the high-level co-ordinating committee replacing the current PPII specific steering committee.
- The present multi-agency PPII Secretariat, which functions well, will change into a PLLSMA sub-committee, with terms of reference to be agreed by PLLSMA.
- The financing arrangements will move initially to traditional GoPNG/AusAID donor trust accounts based in DPLGA (from contractor and DNPM trust accounts) and then subject to further analysis by AusAID to 'on-budget and on treasury' GoPNG funding arrangements.

Management Institutions

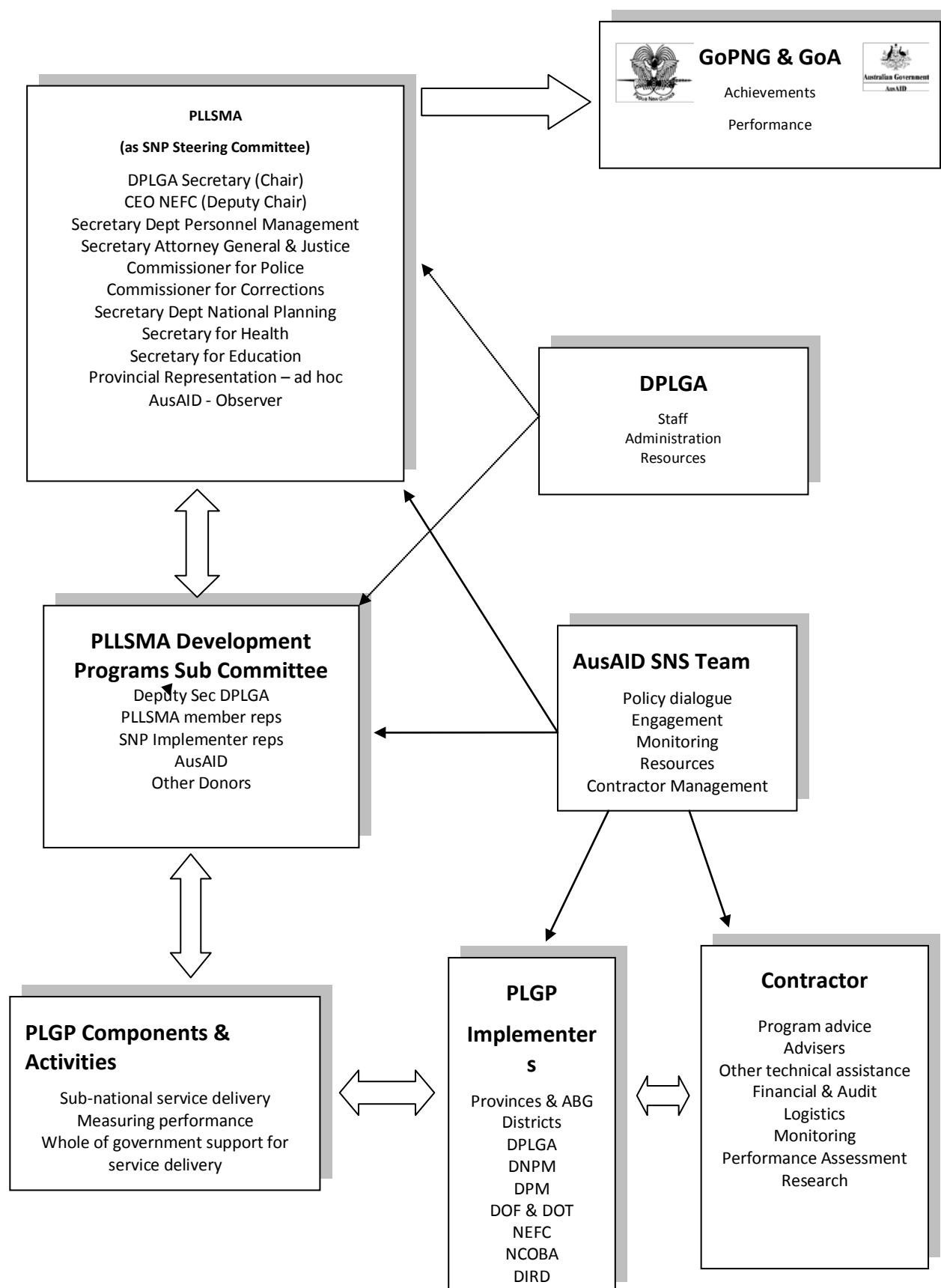
Responsibility for delivering the program rests on the agencies of GoPNG participating in it. However, AusAID and the contractor are not absent friends – they are there in support of and behind GoPNG in implementing this program. In practice this means that:

- The Contractor is compelled to provide advice on capacity development strategies and appropriate mixes of inputs constantly, provided it does not take the responsibility from GoPNG implementing partners.
- The Contractor then needs to engage and facilitate working with GoPNG agencies with AusAID.
- AusAID is PNG's development partner. AusAID works with the PNG partners to influence strategic direction and performance. AusAID is providing significant finance for the program's activities. It has a strong interest in the successful delivery of the program, but it is not the implementer.
- AusAID has engaged the Contractor to provide the management services in this design and to act as described above. The AusAID team stands above the Contractor; it is responsible for overseeing the quality of the Contractor's contribution.

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Figure 2: Management Arrangements for



PLLSMA – Strategic Oversight and Management

PLLSMA is the appropriate body to provide the high level oversight of the program and would replace the current PPII Steering Committee, recognizing that PLLSMA will cover the whole of PLGP. Three of PLLSMA's statutory functions are particularly relevant to performing this role:

“(a) to co-ordinate and monitor the implementation of the national policies at the provincial and local-level; and

(d) to develop, co-ordinate and monitor the training and professional needs of the officers of the National Public Service assigned to the provinces and districts; and

(e) to assess the effectiveness and efficiency of the Provincial Governments and the Local-level Governments.” (Section 110)

PLLSMA members are:

- DPLGA Secretary (Chair)
- CEO NEFC (Deputy Chair)
- Secretary Dept Personnel Management
- Secretary Attorney General & Justice
- Commissioner for Police
- Commissioner for Corrections
- Secretary Dept National Planning
- Secretary for Health
- Secretary for Education
- Chairman Teachers Services Commission
- Chairman National Training Council
- Provincial Administrators – invited
- Office of Rural Development

PLLSMA engages twice a year with all provincial administrators, and twice a year with four provincial administrators as representatives. Although Bougainville has separate constitutional arrangements the Chief Administrator for the ABG participates in PLLSMA provincial administrators meetings.

AusAID has been invited to attend PLLSMA meeting as an observer. This should continue with AusAID participating in discussions at PLLSMA on the program. At least once a year the AusAID Minister Counselor should be invited to join PLLSMA to reflect on the achievements of the program and the direction for the next period.

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AusAID engagement in the annual planning process, the allocation of resources and review of performance is further discussed below in the Annual Planning section.

PLLSMA provides the policy, strategic direction and implementation oversight, including roles such as:

- a. providing policy and strategic guidance to the program;
- b. engaging with provinces and other program participants on their performance and how the program can be adjusted and enhanced to improve their service delivery effectiveness;
- c. ensuring that participating institutions and key national agencies are appropriately coordinated with respect to their involvement and contributions;
- d. providing continued and high level assessment of outcomes;
- e. endorsing membership of the PLLSMA Development Programs Sub-Committee;
- f. approving PLGP annual plan, the annual budget and component resource allocations e.g. numbers of advisers;
- g. engaging with AusAID on the effectiveness, performance and achievements of the program agreeing changes on approaches and contributions as required; and
- h. reporting PLGP progress to the CACC annually.

DPLGA and Key Agencies

PLLSMA/DPLGA are the lead counterparts for PLGP but not the sole key ones. Others include provinces and some districts, ABG, NEFC, ORD, NRI and select central agencies. DPLGA is responsible for:

- a. taking primary accountability within GoPNG for enabling PLLSMA to undertake overall coordination of the program for the government. Individual agencies are accountable for the achievement of the outputs and outcomes targeted by PLGP in their agency;
- b. coordinating with AusAID and the Contractor on the assistance to be provided for smooth implementation not only with DPLGA;
- c. coordinating and communicating with provinces and the participating national agencies, both central and sectoral, on their respective roles and responsibilities in the PLGP;
- d. seeking and obtaining budget for its contributions to PLGP and its programs (e.g. the new PPIL);
- e. facilitating the linkage of PLGP with other key GoPNG programs and initiatives, which also target strengthening of provinces, districts and LLGs with respect to service delivery;

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- f. resourcing PLLSMA with personnel to support PLLSMA as planned for in the new corporate structure;
- g. supporting and resourcing the appropriate division of DPLGA to be a secretariat to the PLLSMA Development Programs Sub Committee;
- h. managing the program annual planning process, with support from the Contractor; and,
- i. managing the Trust Account mechanism.

AusAID

AusAID's key responsibilities include:

- a. engaging with GoPNG, particularly DNPM and DPLGA, on this program in the context of the whole aid program;
- b. engaging with and participating in setting strategic direction and policy for the program through the PLLSMA, PLLSMA Development Partner Sub-Committee, DPLGA and other program partners;
- c. identifying opportunities and issues for the program;
- d. acting as an advocate for program engagement with civil society and in advancing gender equality and HIV prevention;
- e. contributing to AusAID's internal sub-national policy and strategic direction setting, providing analysis, briefings and reporting, management contracts and meeting Whole of Government obligations (e.g. Kokoda Initiative);
- f. identifying, servicing and ensuring effective program linkages to other AusAID programs;
- g. driving, managing and overseeing the program and technical support provided by the Contractor to achieve quality outputs and eventually emerging outcomes;
- h. participating in the formal reviews and ensuring ongoing integration of cross-cutting themes and activity level monitoring; and
- i. reporting on PLGP effectiveness to GoA.

The AusAID representative located in DPLGA will strengthen implementation and support close collaboration between the program and DPLGA (and other partners). The AusAID representative will be responsible for day-to-day engagement with DPLGA working through the deputy secretaries of the department who he/she will keep fully briefed on program developments, issues and performance. He/she will also help identify additional entry points and linkages. The AusAID Program Director will have primary responsibility for policy and performance dialogue with the Secretary of the department and other agency heads.

The wider representational role of the AusAID team for the Kokoda Development Program is described at section 3.

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PLGP will be managed by AusAID's Sub-National team. This currently comprises:

- Director
- Deputy Director (First Secretary)
- Deputy Director (O-based)
- Strategy Adviser (50%) – if not an AusAID staff position this role should be contracted through Contractor to provide AusAID and DPLGA with advice.
- AusAID representative (O-based) located in DPLGA
- Program Manager Kokoda Development Program
- Program Manager
- Second Secretary
- Program officer.

AusAID will also have reporting to it:

- Independent Review Group
- Independent Review Team – contractor performance
- Independent Monitoring and Evaluation Adviser.

The Contractor

Implementing Service Provider vs. Contractor?

AusAID sometimes uses the words 'Implementing Service Provider' (ISP) and 'Contractor' interchangeably. The tender for the next phase refers to 'Contractor.' This design team prefers the use of 'Contractor'. In both modalities AusAID's contractor works in the background, facilitates progress and procures quality inputs. However, there is evidence emerging in the PNG Program that one outcome of the ISP model is that some contractors believe that their contractual responsibilities begin and end with the procurement and management of inputs. This design team believes that more is required, without the Contractor becoming an implementer. This program's contractor cannot be a 'dumb' contractor. GoPNG and AusAID need more than that.

AusAID and GoPNG need a contractor that is prepared to proactively support government partners to achieve development results. The Contractor has responsibilities to provide timely advice, think strategically, be adaptive to program experience, and making things such as M&E work. The Contractor has to be a model in addressing cross-cutting issues. GoPNG needs a contractor that is respectful of leaders, understanding of the development environment, appreciative of the

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complexities in the working landscape and has the willingness and the skill to patiently and deliberately build capacity of PNG program participants to get the best out of the program by themselves.

Contractor Roles and responsibilities

The Contractor will perform management services for implementation of PLGP. The main functions and responsibilities of the Contractor can be described as:

- a. supporting AusAID's role to implementing the PLGP to enable PNG to improve service delivery in the context of decentralised system of government;
- b. supporting PLGP, but not to leading PLGP, either through provision of capacity building assistance or the procurement of goods and services, to build GoPNG capacity to lead this improvement in areas agreed to between AusAID and GoPNG in the Annual Program Plan;
- c. provide strategic advice to AusAID and other PLGP Stakeholders where appropriate, on the options to best deliver assistance to achieve the PLGP's objectives;
- d. facilitating and enabling other parties for the delivery and implementation of the program. (The Contractor should be able to demonstrate an in-depth knowledge of Papua New Guinea's sub-national service delivery processes, institutions, capacity deficits and complexities. The Contractor is not, however, a direct implementer of program outputs and activities.)
- e. maintaining excellent relationships with partners and stakeholders;
- f. implementing disability, gender equality and HIV and AIDS and other policies: including development, mainstreaming and monitoring of disability, gender equality, child protection and HIV and AIDS strategies within the program way of working including the selection of advisers, the design of their work plans, the monitoring of their performance and the advocacy of the contractor in its engagement with program partners. This includes all aspects of awareness raising, training and on-going mentoring as part of integrating and modelling good practice;
- g. tailoring support for each PLGP stakeholder organisation including contracting, delivering and managing high quality capacity building inputs for each Component (including technical assistance, goods and services for non-adviser capacity development, providing logistics, and providing oversight to the operation of the financing mechanisms);
- h. contributing to the planning, design, management and performance assessment of adviser and non-adviser capacity building initiatives
- i. delivering capacity building assistance inputs that are identified, designed, managed and monitored with PLGP stakeholders so that they may participate in the program as part of strengthening transparency, technical skills and service delivery e.g.:
 - i. in managing technical advisers and assessing their performance

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- ii. participating in the annual planning process
 - iii. using the program's financial system
 - iv. mainstreaming gender equality and HIV initiatives.
- j. providing inputs that represent value for money and promote aid effectiveness;
- k. have robust management frameworks and transparent procedures for delivering capacity building inputs.

The Contractor will be required to:

- i. facilitate the annual planning process;
- ii. facilitate the production of detailed M&E Framework (recognising that some M&E process will require independence from the Contractor) with AusAID, Key Partners and other stakeholders, to meet both learning and accountability needs; establishing the processes and systems to operationalise the MEF and supervise its implementation by a wide range of stakeholders and organisations. In particular, the Contractor will have responsibilities for:
 - identifying, accumulating and managing data, providing regular reporting to AusAID and PLLSMA that maps progress and disaggregates the data along important themes; e.g. by province, by gender and specific crosscutting information (for example initiatives that engage with people with disabilities; reducing domestic violence or increasing gender equality; combating HIV and AIDS); and public diplomacy/good news stories.
 - aggregating, synthesizing, analysing and reporting from a wide range of evidence available to the PLLSMA and AusAID in a usable form.
- iii. undertake research if agreed with stakeholders; working with AusAID at commencement to ensure systems and data provided are the kind and level of information required by the agency in order to meet its reporting needs. The Contractor will also seek to align M&E with relevant government agencies' own processes where appropriate;
- iv. contribute to a process of continuous learning, in conjunction with AusAID. This includes the Contractor sharing examples of good practice and lessons learnt with AusAID (including other AusAID contracted programs), GoPNG and stakeholders.
- iii. manage the performance of non-advisor technical assistance sub-contractors who are delivering support and other services, as well as in the

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implementation of key policies such as disability, gender, HIV and AIDS and child protection.

- iv. provide management services for the program including programming, administration, logistics supply, budgeting, cash flow forecasting and expenditures reporting as well as maintaining an audit regime;

Cross-cutting issues responsibilities

The Contractor must:

- a. focus on gender equality, with appropriate frameworks, reporting systems and specialist technical support, which is fully integrated from the outset. The work on gender equality and HIV in the current program must be continued;
- b. develop the current SNS "*Strategy for Addressing HIV as a Cross-cutting Issue*" (SNS March 2010), based around the eight outcomes an excellent place to start;
- c. contribute to the design of activities and projects by encouraging the conduct of gender analysis to recognise the difference between the urban and rural situations of men, women, boys and girls; engaging with counterparts to discuss the roles of women in service delivery, leadership, accessing resources; providing resources for women's representative in government and political institutions at the sub-national level;
- d. similarly with HIV prevention and mainstreaming bring local evidence about the epidemic into planning discussions and project planning and implementation;
- e. encourage participants to use research, analyse and monitor gender impacts and HIV impacts, including collecting sex disaggregated data so that among others male leaders begin to understand differing impacts for women, men, girls and boys e.g. in education and health analysis at the provincial and national level.
- f. ensure the Contractor-engaged advisers, and sub-contractors and their staff understand and appreciate the need to advocate and mainstream gender equality and HIV;
- g. bring forward gender equality and HIV prevention insights and successes in the program monitoring and reporting to other AusAID, PLLSMA and partners

Management and staffing

The tender for the transition phases of SNS has these designated positions:

- A full time Team Leader to take responsibility for the management of the Contractor's contribution for the program
- Deputy Team Leader - support Team Leader
- Human Resources Manager - contracting and managing TA and non-TA inputs
- Finance Manager – program financial and audit management

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- Logistics Coordinator – procurement of goods and services
- Services Manager - managing

The obvious gap in this structure is explicit and dedicated support for developing and managing non-adviser inputs given the increasing emphasis on them as a form of technical assistance. This design strongly recommends that the single Team Leader and HR manager be replaced and that the Contractor team consist of:

- A full time Team Leader will take responsibility for the management of the Contractor's contribution for the program
- Deputy Team Leader (Development) – integrating all CD responses
- Deputy Team leader (Services) – managing the program's inputs
- Monitoring, Reporting and Evaluation Manager – fulfilling the contractor's M&E responsibilities
- Recruitment Coordinator – located in PNG for recruitment processes
- Finance Manager – program financial performance and audit management
- Logistics Coordinator – procurement of goods and services
- Services Manager – managing personnel in finance, logistics and program processes

Independent Review Team

AusAID will conduct an annual performance assessment of the Contractor. It will be an independent review team. The specific terms of reference and duration of in-country visits will be decided by AusAID in consultation with PLLSMA and DPLGA. GoPNG will have formal input into the assessment. The final decision on the Contractor's performance assessment is at AusAID's sole discretion.

The capacity of the Contractor to undertake the role outlined in this design will be crucial to the overall success of the program. As a result this design places considerable emphasis on the quality of the Contractor's performance. Continuous improvement will be achieved through good management processes and meeting contractual obligations. AusAID, the Contractor and partners will develop a set of governance, strategic management, financial system and M&E implementation indicators which will largely be qualitative.

Capacity Development and Advisers – the Key Inputs

This section sets out the approach to capacity development (CD) that the PLGP will follow. It also discusses the current issue of advisers.

Definitions

The program is guided by AusAID's definitions of capacity and capacity development, which appear in the list of acronyms and glossary of terms.

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It is important to emphasize that capacity development is an endogenous process that needs to be led and directed by country partners. Development partners such as AusAID can provide support to endogenous processes through the provision of technical and financial resources and through the facilitation of change processes. However, they can neither lead nor shoulder full responsibility for capacity development.

This design uses the term “adviser” as defined in AusAID new Operational Policy *Use of Advisers in the Aid program* (March 2011) for what as formerly called ‘technical adviser’ or ‘TA’.

PLGP Context

At a strategic level, the PLGP can be described as a capacity development support program, whose main goal is to support improvements in GoPNG capacity at the level of individuals, organisations and larger systems.

- Supporting the development of **individual** capacity is typically associated with human resources development. It can involve, in-service and pre-service training, on-the-job mentoring and learning, performance management. This will be required at all levels of program intervention, for instance work with DPLGA, PLLSMA and at provincial and district level across PNG.
- Supporting the development of **organisational** capacity is typically associated with organisational development and change. It can involve restructuring, development of leadership and performance management systems, inculcation of norms and values, strengthening of core corporate capabilities and well as implementation or technical capabilities. This will be the focus of program interventions at national and sub-national levels. Most of the program’s envisaged results are defined in organisational terms.
- Supporting the development of **system** capacity is typically associated with strengthening networks of organisations and the relationships that exist between them, developing the policy and legal environment within which organisations function as well as larger systems that transcend any individual organisation. This will be an increasingly important part of the program as it seeks to promote a more robust “joined up” approach to decentralized service delivery including strengthening of relationships and coordination mechanisms as well as developing performance monitoring systems that link both vertically and horizontally.

Capacity Development Guiding Principles

Thinking Beyond advisers

A basic principle is that selection of CD inputs should only be considered once a diagnostic of need has been conducted. The nature of the problem/ challenge to be addressed should guide the selection of an appropriate response. Often this might require a mix of inputs that could include:

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- Provision of long and short term advisors
- Short and long term training opportunities for selected individuals
- Short exchange programs and study tours
- Peer learning events including secondment of staff across departments/provinces
- Financial resources to enable deployment of existing GoPNG CD programs/activities

In this regard, it is noted that an objective of the program will be to promote the use of existing GOPNG CD resources such as advisory support, training programs and the like that are housed across different Central Agencies and line departments. To the extent possible, these will be used as a default with appropriate back-up support.

Adviser Considerations

Decisions to deploy advisers on either short or long term will be informed by guidance associated with the recent Adviser review. This will, among others, have implications on total numbers of advisers to be deployed. Building on SNS phase 1, a deliberate effort will be made to recruit PNG advisers and to ensure appropriate representation of women in advisory positions. This design's approach, and that of the Independent PPII Review which will be heavily influential on Component 1 activities, is consistent with the minimum standards for adviser planning, selection and performance management as described in the Operational Note. Using the Notes paragraph numbers (Section 4.1):

- A. The initial demand for capacity development inputs will come from the annual planning process driven by the agencies. The choice and mix of technical assistance will be articulated in the Project Formulation Document.
- B. Articulating and then justifying the choice of technical assistance, in particular advisers, is not always easy. This is often difficult in PNG given the wide use of advisers from enablers to facilitators as described in the Note. However, this weakness is not just confined to using advisers. Defining and selecting appropriate other non-adviser technical assistance is equally difficult and often harder to plan, manage and achieve quality when provided by sub-contracted institutions. The contractor will have responsibilities for working with, and building the capacity of, partner agencies to define the need, to identify the desired development path, to establish the sequencing that takes into account risks and capacity, and then manage performance.
- C. Assessing the value for money of the available alternatives is not an easy mechanical task. It often calls for professional judgement based upon all the facts and a review of the risks of each approach. Adviser costs must be included in Project Formulation Documents. The AusAID/PNG Law and Justice Program has done this since 2004 with advisers included at full cost in the PNG Law and Justice Sector Development Budget. When K600,000 is sitting in

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the project's budget line as 'adviser cost' counterparts quickly learn that there are alternative input options.

- D. Specifying the objective, deliverables and outcomes of advisory inputs, and non-advisory inputs contracts (e.g. the provision of training) is essential. Experience in this program to-date has shown an improving performance for advisory inputs. The current contractor was established and resourced to do this. However, the expanding desire to use other forms of technical assistance has to be reciprocated by a recognition from partners and AusAID that the contractor will need the skilled personnel and resources to plan, design, manage and monitor the provision of these inputs. Contractors have extensive personal employment sway over advisers. The same direct influence is not available in the same form over sub-contractors, some of whom have influence and constituencies in the development business wider than those of the contractor.

Based upon experience in the current program and the PPII Review recommendations advisory support in the new program is likely to be to **supplement** or to **facilitate** capacity. It will concentrate on:

- Building implementation capacity in provinces facilitating and stimulating change management, improved communication, team work and leadership
- Strengthening core provincial and district public administration capabilities and capacity with a line of sight to service delivery; and
- Improving performance measurement, monitoring and reporting.

AusAID and the contractor may have a need to engage advisers as **enablers** in positions such as providing strategic advice.

There may be occasions in the Kokoda Development Program and with the activities in Bougainville where direct **substitution** is appropriate to cover immediate capacity deficits. Similar in areas such as legislative drafting when an adviser does the work for First Legislative Counsel on his instructions or contributing to policy development, although that should have significant supplementary aspects to the task. This type of advisory role will be in the minority in this program.

- E. In the majority of positions in this program the adviser's counterpart is likely to be an organisation or a sub-part of one. Advisers are likely to work as a team for a provincial administration or a division of DPLGA.
- F. This design supports the emerging practice in the current program and endorses the recommendations of the MTR and the Independent PPII Review:
- a. All adviser recruitment activity should be counterpart lead from scoping through to induction. Prospective candidates should be interviewed in-PNG by a panel of counterparts. The contractor has a key role in supporting the total process and ensuring integrity.

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- b. Advisers workplans are negotiated with counterparts.
- c. Advisers should be managed by counterparts and they should report regularly to counterparts.
- d. Counterparts must be involved in the regular performance assessment of advisers – this is happening in the current program.

As the Operational Note records a joint assessment of counterpart capacity should be made. The contractor will be responsible for building counterpart capacity to manage advisory inputs. It is a reality that advisers become embedded in agencies where some can and do influence counterparts about their importance and value. The contractor, as the contracted employer and AusAID contractor, has a duty to ensure that all dealings are transparent.

Further efforts will need to be made to ensure appropriate induction of advisers and training/ orientation in process facilitation/ change management functions. This also must include attention to clarification of roles, lines of accountability and communication.

Practical Ownership on the Partner Side

If CD is an endogenous process, then ensuring practical ownership of change processes on the part of partner organisations is critical and a key determinant of CD outcomes. Attention to the following is required:

- Partner organisations are fully involved in needs assessment, consideration of optional inputs and recruitment of CD inputs.
- Partner organisations make clear their own roles and responsibilities in realizing agreed capacity development outcomes. This can include exercising leadership and oversight, mobilization of staff and financial resources.
- Partner organisations are fully involved in the management of CD related activities including performance review. In the case of advisers, this implies being responsible on a day-to-day basis for supervising advisers, agreeing on workplans and performance monitoring. In the case of other forms of CD support, this implies assuming a clear management role in ensuring implementation of activities.
- Partner organisations together with AusAID/Contractor jointly review their respective contributions to CD support, identify constraints and shortcomings and produce an action plan for problem resolution.

Incentive and Demand Based Approaches

The program will avoid so-called supply driven approaches that enjoy modest support and ownership on the part of beneficiary organisations. Supply driven approaches will be avoided by:

- Ensuring that CD support is grounded in proposals emanating from potential beneficiaries and vetted against agreed criteria

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- Select use of incentive-based approaches where access to CD support services and discretionary funding is based on successful progression through agreed CD strengthening processes. This will be applied primarily in the context of the revised PPIL.

Promoting Coordinated Approaches across AusAID programs

PLGP program together with other AUSAID programs will be responsible for coordinating CD support to national and sub-national institutions and especially between governance and sector programs. Improving CD coordination across GoPNG will moreover be a priority of component 3 of the program. Key challenges for AusAID is to distinguish responsibilities for CD at provincial and district levels between the education and health programs and the PLGP. The Interim Guidance Note prepared in 2009 provides further insights on these challenges.

Financing Arrangements

These are detailed in Annex 11.

Indicative Budget

Table 1 below provides an indicative budget for PLGP phase 2. Costings are, however, only provided for years 1 and 2. The table elaborates the indicative costings that have been provided for each sub-component of the program in the previous annex.

Table 1: PLGP 2 First Two Years Illustrative Cost July - June

	2012-13		2013-14		Adviser
	AusAID AUD	GoPNG Kina	AusAID AUD	GoPNG Kina	
Rate of exchange A\$1.00 = PNG Kina 2.60	000s	000s	000s	000s	No
Component 1 - Provincial and District Capacity					
Sub-component 1.1 The new PPIL					
`	2,000	2,000	1,000	4,000	
PPIL Incentives - new phase 3	500		1,500		
PPIL Capacity Development	300	150	300	150	1
PPIL Advisers - in provinces	2,000		2,000		8 to 10
PPIL Advisers - core resource team in DPLGA	1,900		1,900		up to 9
Admin, Equipment, Supplies, travel	150	400	150	400	
Non-adviser technical assistance	750	200	1,500	200	
Emerging issues technical assistance fund - available to program as new issues arise needing a response	200		300		

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Sub-component 1.1 The new PPII	7,800	2,750	8,650	4,750	16 to 19
Sub-component 1.2 - Kokoda					
Kokoda Development Program	1,000		1,000		STA only
Sub-component 1.2 - Kokoda	1,000		1,000		STA only
Sub-component 1.3 - Bougainville					
Advisers - in Bougainville	2,250		2,250		up to 7
Non-adviser technical assistance	300		300		
Governance and Implementation Fund	4,000		4,000		
Admin, Equipment, Supplies, travel	200		200		
Sub-component 1.3 - Bougainville	6,750	0	6,750	0	Up to 7
Component 2 - Performance					
Sub-component 2.1 National Level					
PLLSMA advisers - in DPLGA	750		750		2
PLLSMA Admin, Equipment, Supplies, travel		150		150	
Sector/program annual report	300	100	300	100	1
NEFC advisers	800		800		4
NEFC Admin, Print, Supplies, Travel	200	100	200	100	
ORD adviser	350		350		1
Emerging issues technical assistance fund - available to PLLSMA as new issues arise needing a response	250		250		
Sub-component 2.1 National Level	2,650	350	2,650	350	7
Sub-component 2.2 Provincial Level					
PLLSMA advisers - for provincial engagement	600		600		3
Admin, Equipment, Supplies, travel	75	200	75	200	
Support to meet provincial costs when budget not available e.g. annual report	100	100	150	100	
Sub-component 2.2 Provincial Level	775	300	825	300	3
Sub-component 2.3 Research & Analysis					
Contestable sub-national service delivery research fund - annual	100		300		
Total government expenditure on health and education study for PLLSMA managed by NEFC and undertaken by contractors	200		250		
Initial baseline study for the Program - STA, data collection, analysis, travel etc	350		250		
Advisory support to establish and maintain research activity	350		350		2
Admin, Equipment, Supplies, travel	50		50		
Sub-component 2.3 Research & Analysis	1,050	0	1,200	0	2

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Component 3 - Whole of government					
Sub-component 3.1 PLLSMA Coordination Role					
PLLSMA advisers - in DPLGA for PLLSMA & national	550		550		2
Admin, Equipment, Supplies, travel	50	150	50	150	
Sub-component 3.1 PLLSMA Coordination Role	600	150	600	150	2
Sub-component 3.2 Central Agency Engagement					
Technical assistance and resources to central agencies to establish their CD approaches for provinces and districts	600		600		2 FTE
Advisory support for DPLGA to develop policy, advocacy for decnetralisation	400				2
Support for central agencies to provide technical assistance to provinces - travel, materials, venues	300	100	300	100	
Sub-component 3.2 Central Agency Engagement	1,300	100	900	100	3.50
AusAID Provincial Representatives					
AusAID Provincial representatives	1,500		1,750		
Project Management					
Contractor staff, expenses and fees	2,750		2,750		4
PLLSMA Sub-Committee as Secretriare	150	150	150	150	
PLLSMA as Steering Committee	100	100	100	100	
Program website/support for DPLGA to host	50	20	50	20	
Program Communications & media Strategy	150		150		
Annual External Audit	100		100		
Independent Review Group	150		150		
Project Management	3,450	270	3,450	270	4
Total	26,875	3,920	27,775	5,920	43 to 48

Annex 8: Sub-National Engagement and the Role of Provincial Representatives

AusAID's Direct Sub-National Engagement

Australian support to decentralisation in Papua New Guinea (the Sub-national Strategy) was designed in 2006 as a 10 – 15 year initiative, in response to the vital role that sub-national governments and administrations play in delivering services. The SNS had two service delivery components which became the Provincial and Local Governments Program (PLGP) and a third “informing the alignment of AusAID’s sectoral PNG programs so that they are more responsive to service delivery challenges at the sub-national level.” Since the 2009 SNS MTR this aspect has been referred to as the “strategy.”

The country strategy has moved beyond ‘informing’ the program to an explicit recognition that AusAID has to work at the sub-national level. The recent paper “[R]epositioning the PNG Aid Program, Implementation Priorities 2011-2015” has as its first delivery approach:

“Investing more in PNG’s provinces and districts in recognition of the important role Subnational levels of government play in direct service delivery. This means working more directly with the lower levels of government, NGOs, Churches, volunteers and the private sector.”

Such a strategy encompasses:

- Recognition of the mandated responsibilities of the three tiers of PNG government
- AusAID’s overriding objective to strengthen GoPNG systems across the three tiers of government to facilitate service delivery
- Recognition of the Province as the focal point for coordinating AA engagement sub-nationally, and
- Appreciation that as Chief Accounting Officer, the Provincial Administrator should be consulted on all matters pertaining to resource allocation to the sub-national level

Implementation of the strategy is a corporate responsibility for all AusAID sectors, rather than a PLGP responsibility. PLGP will share collective responsibility to see the strategy implemented providing leadership where it has a comparative advantage for doing so. Implementation of the sub-national strategy is not therefore included as a component of the new design, however proposals for making it operational are indicated below.

History of Provincial Representatives (Formerly Co-located Officers)

The history of the provincial representatives and a proposal from the then Director of SNS can be found in AusAID internal document *AusAID’s provincially co-located staff in PNG: Options Paper on future role and positioning* (Joanne Choe, SNS Director, June 2009).

Provincial co-location was an AusAID management strategy that was piloted in 2005 under the Subnational Initiative (SNI) with officers sent to Eastern Highlands, Central Province and East New Britain. At that time, officers were sent out with few instructions about their role but with a general objective of establishing an AusAID presence in the province, developing

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a relationship with the provincial administration and learning more about how it worked and what its constraints and challenges were. The thinking was that this would help AusAID to better understand the challenges faced at the subnational level and therefore help to shape our programs to be more responsive to those challenges. The approach was deliberately intended to be flexible, adaptive and iterative, noting that every province is different and will require a different approach.

Teams of two AusAID officers were sent to each of the three pilot provinces, consisting of an A-based and O-based officer. The broad rationale for this mix was that A-based bring the knowledge and experience of the GoA agenda, whilst O-based provide greater cultural and contextual understanding to the team. The teams established offices within Provincial Administrations and were provided with housing, vehicles and logistical support through contracted services (Deployee Services Unit). Each team began establishing relationships in the province and over time, the nature of their work evolved in different ways depending on the environment in the province, priorities of the Administration and the focus of the co-located officers themselves. In all cases, a primary focus of the then co-located officers and a key entry point for their relationship with Provincial Administrations was through the Provincial Performance Improvement Initiative (PPII).

The PPII was the key national government program that AusAID helped to design, establish, fund and manage in partnership with the Department of Provincial and Local Government Affairs (DPLGA). The PPII was a key plank of AusAID's Subnational Initiative (SNI) and subsequent Subnational Strategy (SNS). The objective of the PPII is to support capacity development in provincial administrations, including through dialogue and engagement with DPLGA, assistance with corporate planning and implementation, technical assistance and incentive funds. As a deliberately flexible and iterative program, the PPII has grown and developed simultaneously as AusAID's SNI and then SNS grew and developed. Its evolution was therefore simultaneous with the evolution of co-location, as another key plank of SNI/SNS. The PPII was also piloted in the same three provinces where co-located officers were deployed.

AusAID co-located officers played an important role in supporting the PPII. While the approach was different in each province, AusAID co-located officers were critical in supporting their host provinces to become part of the PPII program, participate in it effectively and use the available assistance to maximum benefit. There was a natural fit between the role of co-located officers in working with and understanding the priorities of a province, including by attending its key internal management meetings, and the ability of co-located officers to help strengthen the province by drawing on PPII assistance to improve the way it operated. AusAID co-located officers helped to oversee, coordinate or manage PPII technical assistance as well as oversee and assist the province to manage PPII Incentive Funds.

Since 2009 the role in support of PPII has diminished significantly with DPLGA assuming most of the responsibility for supporting the PPII provinces (now almost all of them).

In 2006, two AusAID officers (one A-based, one O-based) were deployed to the Autonomous Region of Bougainville, to work closely with the Autonomous Bougainville Government (ABG). Since the ABG is not a 'province' but an autonomous region under the Bougainville Peace Agreement, the focus of these officers has been different to other co-located officers. The ABG is not a part of PPII and its liaison point in national government is NCOBA, not DPLGA. However, DPLGA recognized the ARB as a 'special needs province' under its PPII framework. Australia is developing a separate strategy of support for Bougainville, given its particular status and post-conflict environment. There is a high level of Australian whole-of-

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government interest in Bougainville, which also influences the focus of AusAID's co-located officers.

In mid-2008, a further two AusAID officers (one A-based, one O-based) were deployed to Milne Bay Province (MBP).

Possible future role

AusAID's program to Papua New Guinea currently fields a number of positions in Provincial settings. The purpose of these positions is to represent AusAID, engage locally and to improve the programs understanding of specific provincial operating contexts to improve the delivery of our aid to these specific contexts. The underlying purpose of these positions is shared by the AusAID health, education and sub national programs.

A discussion on the appropriate use of resources for provincial representatives and preferred location was held with the AusAID Chief of Operations and representatives of the health, education and sub national programs. A refocusing of the resources terms of reference, management arrangements and some locations was proposed and is reflected in this note.

Currently Provincial Representatives are located³² as:

<i>Southern Region</i>	
Central Province	<ul style="list-style-type: none">• Development Specialist (vacant)• Program Manager(vacant)
Milne Bay Province	<ul style="list-style-type: none">• Development Specialist – <i>Education Sector Focus</i>• Program Manager
<i>Islands Region</i>	
East New Britain Province	<ul style="list-style-type: none">• Senior Program Manager• Development Specialist
Autonomous Region of Bougainville	<ul style="list-style-type: none">• Development Specialist• Program Manager• Assistant Program Manager
<i>Momase Region</i>	
<i>Highlands Region</i>	
Eastern Highlands Province	<ul style="list-style-type: none">• Senior Program Manager (vacant)• Development Specialist (vacant?)• Program Manager

³² Actual positions against establishment needs to be confirmed

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It is proposed to locate Provincial Representatives with sectoral focus as below.

<i>Southern Region</i>	
Central Province	<ul style="list-style-type: none"> • Development Specialist or Senior Program Manager – <i>possible focus to be confirmed including options of sector(s) and Kokoda</i>
Milne Bay Province	<ul style="list-style-type: none"> • Development Specialist – <i>Education Sector Focus</i> • Program Manager – <i>Health Sector Focus</i>
Western Province	<ul style="list-style-type: none"> • Advisory Representative – <i>Health Sector Focus</i>
<i>Islands Region</i>	
East New Britain Province	<ul style="list-style-type: none"> • Development Specialist or Senior Program Manager – <i>possible focus to be confirmed including options of sector(s) and intergovernmental financing?</i>
Autonomous Region of Bougainville	<ul style="list-style-type: none"> • Development Specialist • Development Specialist or Senior Program Manager – <i>Health Sector Focus</i> • Program Manager • Assistant Program Manager
<i>Momase Region</i>	
<i>Highlands Region</i>	
Eastern Highlands Province	<ul style="list-style-type: none"> • Development Specialist or Senior Program Manager – <i>Health Sector Focus</i> • Program Manager – <i>possible focus to be confirmed including options of sector(s) including infrastructure?</i>
Western Highlands Province	<ul style="list-style-type: none"> • Development Specialist or Senior Program Manager – <i>Health</i> • Program Manager – <i>possible focus to be confirmed including options of sector(s) and new provinces?</i>

Underpinning this refocusing of provincial representatives is:

1. Provinces and the Provincial Administrators as chief executive officers are the key counterparts to all provincial representatives. Provincial Representatives will operate in the whole of province context that is needed to deliver specific services.
2. All Provincial Representatives roles will include aspects of representing the Australian aid program; analysis and understanding of the social, political and cultural context of each province; and advice for all AusAID program on coherence in aid delivery in a specific provincial context.
3. Provincial representatives will be allocated a sectoral focus, primarily health or education. This focus will be driven by the AusAID sectoral program and will be the majority of the role. For existing officers, shifting to this sectoral focus can commence immediately.
4. In provinces where there is more than one provincial representative all AusAID officers will be a single team with the senior officer in the province as the team leader.

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5. All Provincial Representatives will have a central management point in AusAID Port Moresby. The reporting arrangements to this management point and meeting the needs of sectoral teams in Port Moresby will need to be clarified
6. AusAID sector and governance programs will take the lead on politically sensitive issues with a province. The Provincial Representatives will support this but being located in the province will not be the front line as it may politicise and complicate relations with provincial counterparts. Sector and governance programs may need to support provincial representatives with analysis and advice on specific issues from their program resources.
7. Due to isolation and expected difficulty to recruit for a position in Western Province and the health focus of this position an advisory position is expected to be recruited. For highlands provinces two officers are recommended. Other established posts such as East New Britain and Central province should be single officer posts with specific supports to that officer.
8. In selecting provincial representatives for a post it would be preferred to advertise for both 'A-based' and 'O-based' applications with selection made on the response received. (Under this approach acknowledgement of the Canberra based 'A-based' selection process would need to be accepted and worked with.)
9. It is recommended that the Central, ARB (health), and EHP (health) be advertised as soon as possible. Commencement of scoping the logistics and security of the Western Highlands positions should also commence, however it is recommended that these positions would not be mobilised until late 2012 following the PNG National General Elections.
10. It is suggest that agreed resources from the sub national program could contribute to the new resources required for new positions.

Suggested Terms of reference³³:

Whole of province engagement and insight

- Develop relationships with stakeholders in the province or region including provincial and district administrations, elected leaders, LLGs, wards, community representatives, business groups, NGOs, and Churches;
- Understand the workings of government and public administration at the provincial, district, LLG and ward level and identify ways that AusAID programs can support improvements;
- Understand the issues impacting upon service delivery in the province/region and identify ways that AusAID programs can assist;
- 'Marketing' the Australian Aid program to the provinces, provincial administrators and governors, including informing provinces on structure of AusAID programs and entry points;
- Assisting AusAID sectors to ensure provincial administrators are regularly briefed on the scope, structure, implementation arrangements and resourcing of AusAID programs that are relevant to the province;
- Support communication between AusAID programs and provincial/regional stakeholders in a way that strengthens communication between different levels of government in PNG;

³³ Taken from the Sub National Program Phase 2 Design Document

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- Support provinces to identify their resourcing and capacity building needs in sectoral areas in order to draw assistance from AusAID-supported programs e.g. particularly in health/HIV and education
- Develop a Provincial Strategy for each province which determines how AusAID programs support various service delivery priorities in that province through its sectoral programs

Sector Specific Focus – *to be completed by Sector team*

- Support AusAID and provinces to manage activities and advisers attached to AusAID-supported programs in a province, e.g. particularly in health/HIV and education
- Support the design, implementation, review and monitoring of AusAID programs so that they reflect and respond to sub national priorities and perspectives and are enhanced with a deep understanding of decentralization issues and challenges in PNG;

Enabling the Australian Aid Program

- Represent AusAID in a province or region;
- Support and strengthen progress against the aid effectiveness agenda in the province/region including by facilitating greater donor harmonization;
- Support AusAID staff and contracted personnel to understand sub-national service delivery issues including by supporting inductions, visits and communication.
- Contributing to implementation of AusAID country M&E framework by visiting sites and facilities to capture success from beneficiaries/users point of view and inspect progress on activities and delivery of outputs. Support the preparation of good practice case stories to share with other provinces and to inform AusAID policy and strategy.
- Providing direct feedback on, and coordination of, operational performance of the key sector's implementation arrangements to AusAID PNG sectors through the [name the AusAID Post manager].
- Support the financial arrangements through which AusAID-supported programs provide funding to provinces through various programs so that they can increasingly integrate into provincial government systems over time or be otherwise streamlined to reduce transaction costs on the province.

Annex 9 – Supplementary information for Chapter 4: Monitoring And Evaluation

Table 9-1: Key Questions

<p>Program Purpose: Is there evidence of service delivery improvements across provinces?</p> <ul style="list-style-type: none"> • How have improvements related to components 1, 2, 3 contributed to service delivery improvements? • How have the results of one component influenced results of other components? • What factors beyond the control of the program have facilitated or have needed to be in place to explain service delivery improvements? • What factors beyond the control of the program have constrained or undermined efforts to improve service delivery? • What unintended consequences have been observed as a result of program interventions • What improvements to gender equality and HIV prevention can be attributed to from support for provinces to the implementation of the <i>National Gender Policy</i> and the <i>National HIV & AIDS Strategy</i> 2011-2015 respectively? <p>Component 1: Have organisational capacities of provinces and districts improved in ways that support better service delivery?</p> <ul style="list-style-type: none"> • What changes in organisational capacity of ARB, provinces and districts can be detected? • What changes in the ability of provinces and districts to tackle service delivery implementation bottlenecks can be detected? • What improvements in service delivery can be reported in education and health? • What changes in organisational capacity of DPLGA to manage sub-national capacity development can be detected? • What changes have there been in the level and quality of women's involvement in decision making at provincial and district level on planning, budgeting and delivery of services? • What changes in local leadership, resourcing and commitment have taken place to implement the <i>National HIV & AIDS Strategy</i> and the <i>National Gender Policy</i>. <p>Component 2: Has demand and capacity for performance monitoring increased and has it acted as a driver for service delivery improvement?</p> <ul style="list-style-type: none"> • What changes can be detected in organisational capacity of PLLSMA to monitor (a) the Minimum Priority Areas, (b) provincial and district performance? • What changes in the capacity of provinces to monitor performance, use management information for decision making and report can be detected? • What changes in the capacity of PCMCs to monitor provincial and district performance can be detected? • What changes can be reported in accountability and performance attributable to enhanced political participation in provincial/ district planning, budgeting and reporting can be reported? • What changes in demand for improved service delivery can be attributed to women in decision making in government or connected to women's groups in the community (and others)? • How has applied research and policy analysis on service delivery bottlenecks and constraints (previous and new) shaped policy development and decision-making within government and this program? • How has provincial analysis of the differing needs of men, women, girls and boys influenced resource allocation at provincial and district level for education, health/HIV? • How have PLLSMA and the Program identified gender inequality impacts on service delivery at sub national levels and what approaches have been trialled and adopted to support positive local efforts to address constraints and strengthen responses?
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Component 3: Is there a more joined up response to sub-national service delivery and has this helped unblock service delivery impediments?

- What progress can be reported on capacity development responses by central agencies to provincial and district needs and improved process, particularly addressing known critical constraints and bottlenecks?
- How has PLLSMA improved its capacity to coordinate CD across central agencies?
- How has PLLSMA performed its coordination role with respect to a joined up response to sub-national service delivery including working with Department of Community Development to co-ordinate implementation of the *National Gender Policy* and NAC/NACS to implement provincial aspects of the *National HIV and AIDS Strategy 2011-2015*.
- How has DPLGA improved its capacity to engage with central agencies, CACC and government to support provinces unblock service delivery impediments?

Quality of Interventions and Management Support: To what extent have GoPNG and AUSAID provided appropriate CD support and how effective has management and oversight arrangements been?

- Is the program engaging adequately with partners to understand needs and requirements; supporting GoPNG and AusAID decision making; and making recommendations on appropriate type, quantity and sequencing of technical assistance?
- Are program processes promoting learning and the dissemination and uptake of innovation?
- Are formal decision-making and oversight arrangements functioning as expected?
- Are the strategies and approaches for gender equality, HIV/AIDs and capacity development being implemented, monitored and refined based on implementation experience?
- Is program monitoring working with timely and selective collection of data, analysis and reporting, and monitoring shaping program management and the mix and focus of inputs?
- Are procedures/ processes for diagnosing needs and formulating responses to those needs effective?
- Are Terms of Reference and performance monitoring of all forms of technical assistance working effectively and promoting mutual accountability for results?
-

Table 9-2: Examples of Capacity and Service Delivery Indicators

Capacity Change At Provincial and District Levels	Service Delivery Improvements
<p>Public Financial Management: funds readily available to facilities, audit reports, quarterly expenditure, s114 reports, incidences of malpractice/ corruption, reports on delays in disbursement, eligibility to channel AUSAID funds through own system, NEFC reports</p> <p>Planning and Budgeting: comprehensiveness of budget information, integrated planning and budgeting to facility level, district and LLG plans used by members for DSIP funds, proportion of budget spent on MPAs, compliance with national standards, spending of incentive grant</p> <p>Performance Management: compliance in completion of s119 reports, meetings of SMT, problem resolution by using management information, PPII joint reviews, regular reporting on outputs by facility or district against budget,</p>	<ul style="list-style-type: none"> • Expenditure information related to MPAs/ function grants • Physical reporting on recurrent and development budget activities related to health and education: eg number of health patrols conducted, number of clinics open, student-teacher ratios • Facility construction and rehabilitation; ratio of classrooms to pupils, distance health facility to settlements etc. • Facility Staff development and deployment; skill levels, vacancies, distribution • Data drawn from EMIS and HMIS pertaining to: number of pupils sitting exams, enrolment levels, vaccination rates, number

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<p>province or district ability to produce annual report, ranking in NEFC reports</p> <p>Human Resources and CD; CD plan in place including training needs identified, succession planning, change management plan, payroll system, compliance with public service act.</p> <p>Technical implementation: Provincial Health Authorities established and working</p> <p>Behaviour and attitude incl. leadership, political leadership supporting administration, gender, ownership, confidence, team-spirit, legitimacy</p>	<p>of attended births etc.</p> <ul style="list-style-type: none"> Evidence of resolution of service delivery bottlenecks incl. issues of access to facilities, based on diagnostics <p>Example Indicators specific to health</p> <ul style="list-style-type: none"> Essential drug stock out reduced from 25-15% Children vaccination (triple antigen) up from 70% to 80% <p>Example indicators specific to education</p> <ul style="list-style-type: none"> Primary school enrolment to 75% by 2015 Maintaining secondary completion rates at 7%
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Table 9-3: Calendar/Typology of Reporting

Purpose	Frequency	Prepared By	Primary Audience	Info Source
Mutual Accountability				
PLGP Mutual Performance Review	Annual	<ul style="list-style-type: none"> M&E Manager PLGP MEF advisor Agency counterparts 	<ul style="list-style-type: none"> PLLSMA AusAID 	<ul style="list-style-type: none"> 6 monthly progress reports Agency reports Commissioned work and research
PLGP Progress Reports	Quarterly for first two years, then 6 monthly	<ul style="list-style-type: none"> Program manager & deputies M&E Manager 	<ul style="list-style-type: none"> PLLSMA AusAID Key GoPNG stakeholders 	Combination of GoPNG data sources and additional enquiry
Advisor Performance Reviews	6 monthly	<ul style="list-style-type: none"> Contractor Management Advisers and counterparts 	<ul style="list-style-type: none"> Relevant Department CEO Advisor Contractor 	<ul style="list-style-type: none"> Counterpart interviews Program management Advisor
CD provider reports	3 monthly or on completion	<ul style="list-style-type: none"> Program management Counterparts provider of CD 	<ul style="list-style-type: none"> Relevant GoPNG entity Contractor AusAID 	As identified in ToR
Impact Assessments/ Special Evaluation	Periodic	<ul style="list-style-type: none"> Independent Advisers 	<ul style="list-style-type: none"> PLLSMA Agencies AusAID Contractor 	As per approved evaluation methodology
Contractor Assessment	Annual	<ul style="list-style-type: none"> Independent Advisers 	<ul style="list-style-type: none"> AusAID goPNG 	<ul style="list-style-type: none"> Program documents Additional enquiry

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AUSAID Reporting				
Annual Sector Performance Report	Annual	• AUSAID PLGP Director	• AUSAID Internal	• PLGP progress reports
QAI	Annual	• AUSAID 1st Secretary	• AUSAID Internal	• PLGP progress reports and internal financial information
Evaluation	Periodic during program	• Independent Advisers	• AUSAID Internal	• Multiple
MTR	3 rd year	• Independent Advisers	• AUSAID Internal	• Multiple
Independent Completion Report	Final qtr of the program	• Independent Advisers	• AUSAID Internal	• Multiple
GoPNG Reporting (example only)				
s119	Annual	• Provinces	• PLLSMA	•
"PPII"	Quarterly	• DPLGA/Provinces	• DPLGA	• Self-assessment
Financial reports	Quarterly	• Province/treasury	• DoT	• Financial records
DPLGA Annual Report	Annual	• NEC & Parliament	•	•
Provincial Annual report (proposed)	Annual	• Provincial and District Administrators	• Governor, Parliament, Provincial Assembly, open members, PLLSMA, DPLGA, DPs	• multiple

Table 9-4: Whole of Program Contribution to Service Delivery

AUSAID Program	Contribution to Service Delivery Improvement
AUSAID health sector program	<ul style="list-style-type: none"> • Direct Procurement and Distribution of pharmaceuticals • Strengthening NDOH drug procurement and distribution system • health facilities • PHAs • Human Resources Development
AUSAID Education sector program	<ul style="list-style-type: none"> • textbooks • classrooms and houses • trained teachers
AUSAID HIV/AIDs program	<ul style="list-style-type: none"> • Strengthening Provincial response to HIV/AIDs

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Sub National Program	<ul style="list-style-type: none"> • Strengthening provincial and district management and distribution; corporate functions and technical capacities for service delivery management. Spending of function grants
Economic and Public Sector Program	<ul style="list-style-type: none"> • PFM reform, budget preparation and organisational strengthening of central agencies
Democratic Governance Program	<ul style="list-style-type: none"> • Strengthening management and accountability of church service providers • Strengthening bottom-up participation in planning and monitoring of district plans

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Figure 9-1: PLGP M&E Framework

GoPNG Service Delivery Results chain		Recurrent inputs: staff, money etc.	Through-put = Organisational/ System Capacity: Systems, processes, structures, leadership, implementation arrangements, accountability	Service Delivery Outputs: <ul style="list-style-type: none"> Health services: patrols Education services: teachers 	Service Delivery Outcomes: <ul style="list-style-type: none"> Increased use of services; immunization rates, classroom enrolment 	Service Delivery Impact: Improvement in health and education indicators: Reduced maternal deaths, higher pass rates
PLGP Program Results chain	Program Inputs: <ul style="list-style-type: none"> GoPNG; resources, leadership PLGP inputs: TA, funds etc. 	Program Activities: Eg: <ul style="list-style-type: none"> Component 1 Component 2 Component 3 	Program Outputs: Changes in Organisational/ System Capacity as defined in component objectives:	Program Outcomes: Improvements in service delivery outputs: <ul style="list-style-type: none"> As defined by GoPNG/ AUSAID 	Program Impact: Improvements in service delivery outcomes	
Focus of PLGP Monitoring (& Evaluation)		Quality of program interventions Day to day mgt information to support decision making and reporting	What outputs are being achieved? <ul style="list-style-type: none"> In terms of capacity change Periodic monitoring incl case studies/ research for learning and accountability 	What outcomes are being achieved? <ul style="list-style-type: none"> In terms of service delivery change <i>This will be part of broader cross program (SNS) monitoring linking up with contributions of governance and sector programs to service delivery</i> 	Wider impact of combined GoPNG and AUSAID program effort on meeting Partnership for Development Objectives	

Notes:

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- Row 1 = GoPNG Service Delivery Results Chain = example of a typical service delivery chain that inputs resources into organisations and systems to produce outputs, outcomes and impacts.
- Row 2 = PLGP Program Results Chain = focusing on strengthening the capacity of the (sub-national) system to deliver services, with inputs from both AusAID and GoPNG
- Row 3 = Suggested focus of M&E along the program results chain
- Cells highlighted in yellow are the main focus of the PLGP MEF focusing on i) implementation of program activities ii) program outputs
- Cells highlighted in orange illustrate where the contribution of the program at outcome and impact level needs to be incorporated into the proposed whole of program MEF
- Program Monitoring focuses mainly on implementation of program activities and outputs and to lesser extent on outcomes. Program evaluation focuses primarily on outcomes and impact.

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Annex 10: Supplementary Information for Chapter 5: Risk and Feasibility

Table 10-1: Risk and their management

Ref	Area of Risk	Impact	Mitigation
Strategy and Implementation			
1.	Inconsistent GoPNG policy framework and political support for decentralization resulting in possible new policy directions.	Confusion and uncertainty among partners Program having to change direction	DPLGA and key partners constantly briefing each other on potential policy changes and development Briefing ministers, governors and others on program successes and increased service delivery performance DPLGA contributing to policy development through CACC, national Planning Committee and NEC to mitigate poor political decision-making AusAID engaging with GoPNG
2.	2012 PNG Election disrupts implementation and government business.	Will require significant focus, resources and time of provincial and national administration slowing the program and decision processes Potential to result in changes of direction by new leadership and new provincial leaders	DPLGA brief all in-coming key ministers Provinces brief all members and governors Utilise theory of change study to focus engagement and expectations

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Ref	Area of Risk	Impact	Mitigation
3.	Failure of the two governments to agree on development objectives	<p>Programme's aims and objectives are jeopardised.</p> <p>Progress thwarted.</p> <p>Reversal or slippage of achievements to date</p>	<p>Information sharing between the Contractor AusAID and PLGP Stakeholders.</p> <p>Provide information, analysis and support to AusAID as required.</p> <p>Support provided to GoPNG partners to build and maintain political and bureaucratic commitment by supporting the implementation of priority initiatives and addressing new policy priorities as they emerge. Identification and support of reform champions in building a solid base of commitment across government at sub-national and national levels.</p>
4.	Pressure for short-term results creates an approach to program delivery that undermines local ownership and capacity.	<p>Ineffective development delivery adopted</p> <p>Duplication and parallel systems</p> <p>Missed opportunities to develop local capacity.</p> <p>Potential to upset key partners such as provincial administrators if local protocol and offices not respected</p> <p>Deterioration of relationship with GoPNG agencies through their frustration with uncoordinated development partner activity, demands and implementation.</p>	<p>AusAID to maintain frequent dialogue with all GoPNG stakeholders and donor partners.</p> <p>Provide briefings for the PAs and politicians on program activities</p> <p>Continue quarterly aid effectiveness meetings to highlight areas for closer integration and ensure close alignment of all donor assistance to PNG's priorities to mitigate risk.</p> <p>Avoid the use of parallel systems.</p> <p>Provide timely advice to partners on issues relating to problems experienced in using GoPNG systems.</p>
Risks Associated with Improving the Capacity of Provinces (Component 1)			

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Ref	Area of Risk	Impact	Mitigation
5.	Changing leadership of the DPLGA, provincial administrators and other chief executives.	Impact on program sustainability. Loss of key relationships. Loss of internal knowledge on PLGP components. Loss of momentum Replacement with officer less committed to the programme's aims and objectives.	Support for effective counterpart agency succession planning. Engage with deputies and senior management Ensure knowledge of PLGP is captured in the knowledge management system and the counterpart agencies' records Advisers support officers appointed to acting positions during the replacement phase and substantive appointees during initial phase..
6.	DPLGA unable to fully implement new structure and corporate plan.	Disengagement by divisions in DPLGA or provinces Blockages put in place to slow progress towards PLGP aims and objectives. Loss of morale within DPLGA personnel	Advisers to provide a high level of support for internal organisational capacity building including diagnostics and additional resources. Effective and open communication between Contractor, AusAID and DPLGA and senior officers. Identification of emerging issues and timely advice to counterpart.
7.	The new concept for PPIL as core business does not receive support within DPLGA, particularly the Capacity Building Division, PLLSMA, the Performance Monitoring Division, Policy and Legal and Local Government Services.	Loss of engagement and enthusiasm across DPLGA and some senior managers withdraw GoPNG does not provide funding for PPIL incentives and DPLGA to do its job. PPIL once again perceived a function of one division. Frustration of provinces held back in phase two Loss of confidence in and commitment to the program . Partnership with province jeopardised.	During transition ensure DPLGA is supported to integrate PPIL Support DPLGA to invest in its new corporate plan Ensure AusAID and program engagement is through Secretary and deputies Take all opportunities for DPLGA divisions to work together with provinces as a single entity Work with all divisions to take part in annual planning process DPLGA to develop and communicate the criteria for moving between PPIL phases.

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Ref	Area of Risk	Impact	Mitigation
8.	GoPNG fails to provide the development budget contribution for DPLGA to co-finance revised PPII implementation available to take up current PPII Phases 1 and 2 cash support.	<p>Loss of face with provinces.</p> <p>Constrains the program budget's ability to advance the Phase 3 incentive phase.</p> <p>'Traps' AusAID into a recurrent budget situation with all provinces expecting incentive funds.</p>	<p>Demonstrate PPII successes and report achievements in service delivery improvements.</p> <p>Market design for PPII across government.</p> <p>Build a wide constituency for PPII as core business through the annual planning process and engaging with core central agencies.</p> <p>Market and build support for PPII at the political level with Ministers and governors and administrators.</p>
9.	<p>Central and Northern provinces not engaging and taking a lead for the KDP.</p> <p>ABG losing focus on the need to drive service delivery improvement to meet the objectives of the <i>Bougainville Peace Agreement</i> through strengthen public administration</p>	<p>Kokoda Development Program becomes a donor project not integrated into government.</p> <p>Increasing resentment from the provincial authorities who abandon the areas and their people leaving services to donors.</p> <p>Civil unrest and disruption in Bougainville if services are not provided</p> <p>Poor administrative performance creating tension and unrest.</p>	<p>Engagement with the two provinces and advocacy with the Kokoda Initiative for the provinces to be central in dealing with the people and their needs in all aspects, not just KDP.</p> <p>Funding the provinces to undertake the projects and service delivery/</p> <p>Continue to reinforce Bougainville leadership and identification of priorities.</p> <p>Adjusting inputs from the program to meet local priorities and needs.</p> <p>Providing through the whole AusAID aid program a balance of direct assistance and local capacity building activities.</p> <p>Maintaining strong and effective personal as AusAID representatives in Bougainville to coordinate the local aid program.</p>

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Ref	Area of Risk	Impact	Mitigation
10.	The level of demand and expectations from provinces not able to be met within the available resources.	Loss of face. Frustration with DPLGA and AusAID.	Being very careful during planning and engagement not to raise expectations. Being very careful to be realistic in dialogue and planning what aid on its own can achieve. Manage the program to achieve value for money. In PNG a little can go a very long way. Seek ways to increase GoPNG resourcing to meet local demand and use that demand to advocate for resources
Risks Associated with Increasing the Demand for Evidence of Service Delivery Improvement (Component 2)			
11.	PLLSMA fails to receive increasing support from key GoPNG agencies its legitimacy fades within government.	Opportunity missed for whole of government monitoring of performance System remains fragmented	Program support encouragement and leadership over a five to ten year period to build PLLSMA's performance and through achievement legitimacy Support for DPLGA to organise PLLSMA events professionally to show case performance
12.	PLLSMA being able to attract competent staff and adequate resources.	Poor performance Failure to meet deadlines Loss of legitimacy in eyes of key govt stakeholders	Individual capacity development for PLLSMA support staff Program support encouragement and leadership over a five to ten year period to build PLLSMA's performance and through achievement legitimacy Support for DPLGA to organise PLLSMA events professionally to show case performance

Provincial and Local-Level Governments Program
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Ref	Area of Risk	Impact	Mitigation
13.	Provincial administrators and district administrators leading the demand for improved data and reporting particularly in key areas such as the MPAs for health, education and transport.	<ul style="list-style-type: none"> Ineffective monitoring and evaluation Analysis based on incomplete data Review and planning activities affected	<ul style="list-style-type: none"> Development, use and strengthening of GoPNG Monitoring systems Adviser education in M&E processes and the advisers' role in supporting data collection. ISP to work closely with the M&E Adviser to support MEF implementation and to ensure that personnel understand the rationale for data collection and provide incentives for system support.
14.	Provincial administrators and district administrators not able to bring political leaders to the table for dialogue on planning and performance.	Undermines support for PPII and PLGP. Impacts on capacity development outcomes and use of government systems for program operations. Significant missed opportunities to bring resources controlled by politicians to priority developments. Missed opportunity to build legitimacy of sub-national government in the eyes of leaders.	Clear and open communication by DPLGA and provinces on benefits of the program and provincial government working properly. Analysis of reasons for lack of engagement including attitudinal research. Improve reporting of performance to local constituencies including politicians.
15.	Failure of research on service delivery to be relevant to improving future implementation.	Waste of time, money and effort. Loss of an opportunity particularly given that research takes time.	Careful preparation of terms of reference and outputs and all subject to peer review. Research managed by expert on operational research.
Risks Associated with Encouraging a Whole-of-Government Approach to Service Delivery (Component 3)			

Provincial and Local-Level Governments Program
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Ref	Area of Risk	Impact	Mitigation
16.	Central agencies not willing or have limited ability to engage with DPLGA to help provinces during program implementation.	Provinces do not get access to GoPNG capacity building skills and engagement with the agencies that are responsible for govt systems. Central agencies frustrated and withdraw.	Clearly define what the need is and what the province wants and what the central agency can provide.
Risks Associated with Management			
17.	PLLSMA and the PLLSMA Development Programs Sub-committee do not perform their roles effectively.	Delays. Delays, Delays. Lose of interest within govt. Program branded an 'AusAID project' AusAID and Contractor forced into program implementation roles.	Engage with key PLLSMA members on objectives, performance and their wishes. Arrange meetings to suit key members; organise meetings professionally; support DPLGA to get papers and logistics organised early. Ensure PNG 'in the front' minimising Contractor and AusAID footprint in being the face of the program
18.	The annual planning process is not introduced smoothly.	Program partners become frustrated and disengage. Some partners do not participate due to ignorance of the process. PLLSMA unable to bring together a total budget for the program. Program becomes totally demand driven and loses coherence.	Engagement with departmental heads to start the process and during it to ensure that their priorities are being attended to, NOT those on the agency and the program committees. Develop and publish clear program guidelines. Awareness and training and briefings, and if people think enough has been done, do it again. Capacity development to use the GoPNG project formulation documentation. Capacity development for PLLSMA and its subcommittee on how to c=screen to achieve a coherent program direction.

Provincial and Local-Level Governments Program
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Ref	Area of Risk	Impact	Mitigation
19.	Provincial and other partner capacity does not meet expectations or is weakened by resignations and staff turnover.	Impact on program sustainability. Loss of key relationships. Loss of internal knowledge on PPII. Loss of momentum at provincial level Replacement with officer less committed to the programme's aims and objectives	Support DPLGA to have regular performance dialogue with provinces and others Support Provinces to develop succession planning. Engage with multiple counterparts
20.	Channelling of provincial incentive grants through the updated trust account mechanism, and possibly at a later date direct funding through country PFM system, and meeting AusAID's fiduciary standards.	Loss of funds from intended purpose. Loss of confidence and trust in counterparts. Compromising of the integrity of the programme	Robust financial management policies and procedures. Establish trust funds in accordance with PNG law. Financial Agreements with Provinces, Regular internal and external audits, Power to freeze trust accounts, Timely notification to AusAID and DPLGA of potential breaches.

Provincial and Local-Level Governments Program
Program Design Document 2012-2017

Ref	Area of Risk	Impact	Mitigation
21.	Having the right combination of technical assistance and a quality cadre of advisers increasingly being managed by counterparts; and	<p>Poor planning leads to poor assessment of priorities and poor implementation.</p> <p>Advisers lack clarity on expectations for their roles which impacts on achievement of work plan activities.</p> <p>Opportunity cost of wasted funds and resources</p> <p>Loss of confidence by counterpart agency in the programme and/or the adviser.</p> <p>Potential for dispute and disharmony</p> <p>Timeliness and quality of inputs and broader program objectives compromised.</p>	<p>Introduce new annual planning arrangements to openly and transparently test activities and their value.</p> <p>Observe and report on what works and what does not work.</p> <p>Advisers prepare workplans in conjunction with their counterparts who sign off on the workplan as an agreed document. Workplans are checked against TORs and programme objectives. Progress against workplan is reported in each adviser's quarterly report. Progress against workplan is verified at six monthly performance appraisals.</p> <p>Introduce Strong M&E framework around adviser performance management and other forms of technical assistance.</p> <p>Do not assume counterparts can manage technical assistance. Provide capacity development to increase local management capacity.</p>
22.	Collecting data and managing M&E and reporting is not well managed.	Stakeholders lose confidence in the program and it likelihood of achieving its objectives	<p>Make M&E a program wide theme.</p> <p>Resource M&E and seek to make it relevant to leaders..</p> <p>Invest in local M&E data collection and story telling.</p>

Focussed Fiduciary Risk Assessment – Annex 11

Preparation of SNP phase 2 (also known as the Provincial and Local-Level Governments Program)

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Port Moresby, September 2011

Focussed Fiduciary Risk Assessment

Preparation SNP phase 2

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John Piel
Christian Hiddink

Port Moresby, September 2011

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Glossary of Abbreviations

ABG	Autonomous Bougainville Government
ADB	Asian Development Bank
AGO	Accountant General Office
ANS	Assessment of National Systems
AusAID	Australian Aid Cooperation
AUSD	Australian Dollar
BC	Budget Classification
CoA	Chart of Accounts
CP	Corporate Plan
CPB	Capacity Building Plan
CSTB	Central Supply and Tender Board
DA	District Administrator
DAC	Development Assistance Committee
DFID	Department for International Development, United Kingdom
DMT	District Management Team
DNPM	Department of National Planning and Monitoring
DoF	Department of Finance
DPLGA	Department of Provincial and Local Government Affairs
DPA	Deputy Provincial Administrator
DPM	Department of Personnel Management
DSG	District Services Grant
DSIP	District Services and Improvement Program
EPSP	Economic Public Sector Program
EU	European Union
FEFM	Framework for Fiscal Management
FRA	Fiduciary Risk Assessment
GDP	Gross Domestic Product
GIF	Governance Implementation Fund
GoPNG	Government of Papua New Guinea
GST	Goods & Services Tax
ICT	Information and Communication Technology
IFA	Incentive Fund Agreement
IFMS	Integrated Financial Management System
IFT	Incentive Fund Team
ILPOC	Integrated Local Purchase Order and Claim Forms
IPBS	Integrated Planning and Budgeting System
ISP	Implementing Service Provider
JDPBPC	Joint District Planning and Budget Priorities Committee
JPPBPC	Joint Provincial Planning and Budget Priorities Committee
K	Kina
KRA	Key Result Area
LLG	Local Level Government
MBP	Milne Bay Province
MG	Management Group
MPA	Minimum Priority Activities
MTDP	Medium Term Development Plan
MTDS	Medium Term Development Strategy
NCOBA	National Coordination Office for Bougainville Affairs
NEFC	National Economic & Fiscal Commission
NZAID	New Zealand Aid Cooperation
NZD	New Zealand Dollar
OA	Organisational Assessment
OECD	Organisation of Economic Co-operation and Development
OLPGLLG	Organic Law on Provinces and Local Level Governments
PA	Provincial Administrator
PCaB	Provincial Capacity Building
PEFA	Public Expenditure and Financial Accountability
PER	Provincial Expenditure Review
PEC	Provincial Executive Council
PFM	Public Finance Management
PFMA	Public Finance Management Act
PGAS	Provincial Government Accounting System
PGS	Partner Government System
PSG	Provincial Services Grant
PI	PEFA Indicator

PIF
PMT
Team
PNG
PNG-IF
PPII
PSTB
RIGFA
SAP
SBS
SMG
SNP
SNS
ToR
UNCAC
UNDP

Provincial Incentive Fund
Provincial Management

Papua New Guinea
Papua New Guinea – Incentive Fund
Provincial Performance Improvement Initiative
Provincial Supply and Tenders Board
Reform to Intergovernmental Financing Arrangements
Strategic Action Plan
Sector Budget Support
Sub Management Group
Sub National Program
Sub National Strategy
Terms of Reference
United Nations Convention against Corruption
United Nations Development Programme

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Preface

We would like to thank the following persons who made time available to provide valuable insights (in alphabetical order on surname): Matthew Greenwood, Dickson Guina, Larry Helm, Roselyn Kenneth, Archie Mai, Rei Melepia, John Mooney, Madeleine Moss, Vincent Moses, Dr Ken Ngangan, Karen Samo, and Pos Tekopiri.

We would like to thank David Chick and Heather Rich for their comments on earlier drafts of the report. We also would like to thank Tim Drown for his inputs he provided to target this fiduciary risk assessment to maximise the use and minimise the required assessment work.

This focussed fiduciary risk assessment reflects the results of the draft ANS. This draft ANS is not made public yet. Publication of the fiduciary risk assessment for the SNS program is subject to release of the ANS.

Furthermore, it should be noted that the risk assessment of the GIF or Bougainville is mainly a desk study. The assessment analyses whether mitigating measures are taken, but does not assess the implementation of the measures. A more in depth review (including field work) is scheduled in October 2011. The planned review will complement and verify the desk study reflected in this Chapter.

An additional review of the SNS Financial Mechanisms and SNS Accounts is also scheduled for October/November 2011. This review should also be taken into account to obtain a full understanding of the funding mechanisms under the SNS program.

John Piel
Christian Hiddink

Executive Summary

Introduction

The SNS program is preparing for the next phase of support to PNG. The next phase will start in July 2012. With the PPII financing instrument the SNS program is currently partly using PGS. AusAID requires a fiduciary risk assessment as part of the preparation of program design if (parts of) PGS is used. It was decided that a 'targeted' risk assessment will be sufficient in preparation of SNP phase 2, as SNS is already using parts of the PNG PFM system in its current approach.

This report presents a highly targeted risk assessment focuses on the risks of the current PPII and GIF financing instruments; their use of PNG PFM systems, the risk mitigating measures taken, and advice on possible additional measures for managing the risks. This risk assessment also puts forward some points of attention with regard to fiduciary risks for the new Provincial Incentive Fund (PIF). The focussed risk assessment is using the recently issued AusAID guidelines for fiduciary risk assessments, but will not fully comply with all format requirements.

This assessment does not make a full assessment of the development benefits that arise from using PGS in PNG, which legitimise taking some fiduciary risks. 'Taking' fiduciary risks in the context of development gains is a subjective venture and is the responsibility of AusAID management.

Benefits of using PGS

Experience with the GIF in Bougainville indicated that the alignment dialogue helped the ABG government to identify/confirm weaker links in their PFM system and the need to address them. It also helped the donors to increase their understanding of the ABG PFM system and target their actions and support activities more. Experience with PPII indicated that the use of PGS enables the SNS advisers to have more information and a better understanding of problem areas in the provincial PFM system which can help them focus their advisory work. Furthermore, using provincial PGS provides SNS advisers and AusAID provincial representatives leverage when it comes to PFM improvements.

Risks and risk mitigation for PPII

Findings

PPII risk management framework consists of 3 types of measures:

- Phase 1 and phase 2 entry criteria (see Annex I)
- Measures in the context of trust account management (also reflected in the funding agreements)

- SNS capacity building activities

PPII has a relatively robust risk management framework. In most cases fiduciary risks are decreased through adequate short term control and medium term capacity building mitigating measures. However, there are some improvements in the risk management framework to bring down risks to even more acceptable levels.

Recommendations

Recommendation 1: The PFM related Phase 2 entry criteria are an important aspect of risk management. As long as AusAID is (partially) financing phase 2 PPII, it is recommended that these entry criteria be strictly applied. Some PFM related phase 2 entry criteria could be more specifically defined to support unambiguous monitoring. DPLGA is responsible for monitoring corporate plan implementation and phase 1 & 2 entry criteria. It is recommended that AusAID requests DPLGA to strengthen monitoring on the PFM related phase 2 entry criteria.

Recommendation 2: For both phase 1 and 2 provinces the provincial procurement system is used. Fiduciary risks with procurement procedures are considered to be high. If possible within the current framework, it is recommended to introduce a phase 2 criteria specifically related to procurement; a credible³⁴ procurement improvement plan/policy for provinces and districts should be in place, supported by capacity building activities by the SNS finance advisers.

Recommendation 3: SNS finance team will focus more on improving provincial procurement in their capacity building activities, especially in phase 2 provinces where larger development projects related to improvement of service delivery are procured.

Recommendation 4: Risk related to halting provincial financial control measures is considered to be high. It is recommended to introduce 'conditional payments' directly related to compliance with financial control measures already compulsory under the PNG PFM Act for both phase 1 and 2 provinces. If a province does not comply with the required control mechanisms such as monthly bank reconciliation and expenditure reports³⁵, it is advised that the province will not be eligible for the next quarterly instalment. This requires phased transfers from the head trust account to the provincial trust accounts.

Recommendation 5: It is recommended to strengthen provincial internal audit units through capacity building to initiate the 'preventive' effect internal audit can have on internal control compliance.

Recommendation 6: Fixed asset registers are not always in place, both in phase 1 and 2 provinces. Introduction of operational fixed asset registers for all provincial assets will take some time. It is recommended to intensify the support to provinces to establish fixed asset management, at least for PPII financed purchases. It is not recommendable to make the existence of provincial fixed asset registers (as part of the financial control measures) subject to conditional payments of PPII tranches, as the implementation of fixed asset management in the province will take time.

³⁴ Implementation of the improvement plan has started.

³⁵ In a discussion paper it is suggested that the monthly and six-monthly expenditure reports are replaced by quarterly reports

Suggestions for alignment improvement for PPII under SNP2

Suggestion A: Assess, in close cooperation with SGP, on an annual basis whether capacity at Trust Division within the Department of Finance has improved to take up control of the monthly bank reconciliations. If capacity is thought to be insufficient, analyse together with EPSP/SGP what support activities can be suggested to improve the capacity over time.

Suggestion B: Consider whether the provincial trust accounts for phase 2 provinces can be replaced by a system of direct quarterly transfers from the head trust account at DPLGA to the provincial operating accounts on the basis of an annual cash plan, aligned with quarterly PPII expenditure reports. This suggestion should only be considered after DPLGA has demonstrated effective management of the main trust account without help from ISP for at least 1 year.

Suggestion C: Investigate options for improved alignment with the provincial annual reporting framework. For example, investigate the option of a PPII report as annex to the S114 report and/or investigate the option of a Capacity building report in Governance Chapter or as annex to the S119 report.

Suggestion D: Investigate options to re-establish monthly provincial financial control measures, through PCaB, Department of Finance, SGP, and/or through assistance through SNS financial adviser team.

Suggestion E: Assess options to strengthen provincial internal audit units under the SNS program. For example, assess if it is possible that in the provinces that do have an internal audit unit, these units can be involved in the ISP internal audit activities. Second, SNS could assess together with Department of Treasury, DPLGA, SGP, and the EPSP how the provincial internal audit framework can be strengthened. Currently EPSP has a facility in place to support internal audit units which established an Audit Committee. Third, assess options for targeted capacity building activities through the financial advisers. The medium term objective should be that phase 2 provinces can implement their own internal audits.

Suggestion F: Assess the possibilities that AusAID and DPLGA have to further align PPII funding to the budget calendar of the provinces. This implies strictly 'annualizing' PPII funding (through the capacity building plan) and commit PPII funding when the provincial budgets are prepared.

Risks and risk mitigation for the PIF

A preliminary outline of the PIF is reflected in the draft design of SNP phase 2. Aspects where more clarity is needed in the coming months to further identify risks, possible mitigating measures, and 'prior actions' are:

- Will the IF framework be 'copied'? Or will the PIF build upon PPII?
- What will be the level of involvement of AusAID with the execution of the PIF? Managed by a contractor? Or will the PIF be managed by DNPM or DPLGA?
- Will the PIF focus on financing institutional reforms and/or investment projects?

This assessment provided some ideas of 'prior actions' (mostly focussing on capacity building) and possible mitigating measures based on the assumption that the PPIL phase 2 is a starting point of discussion and AusAID has the ambition to work together with PNG to increase the use of the PNG PFM system for the PIF. A full fiduciary risk assessment at this moment in time with clearly defined mitigating measures is not possible as the PIF is expected to be launched in 2014 and only accessible for a selected group of high performing provinces which require separate assessments per province. The final mitigating measures need to be determined on the basis of a provincial PFM assessment half a year prior to the start of the PIF.

Risks and risk mitigation GIF – Bougainville

The risk assessment of the GIF or Bougainville is mainly a desk study. The assessment analyses whether mitigating measures are taken, but does not assess the implementation of the measures. A more in depth review (including field work) is scheduled in October 2011. The planned review will complement and verify the desk study reflected in this Chapter.

Findings

Initial risk levels of using the ABG PFM systems can be qualified as 'high'. The head trust account is managed by the ISP and not part of the PNG PFM system. The subsidiary ABG account is part of the ABG PGAS system. However, AusAID has created parallel systems to manage the GIF and is not actually using the ABG PFM system, so fiduciary risks of using PGS are low:

- **Planning:** Separate work plan is required which is not part of the ABG planning framework
- **Budgeting:** Separate work plan is required. The ADG budget is not used as a budgeting tool. The GIF is reflected as a line item in the budget
- **Internal audit:** As the ABG does not have an internal audit unit operational, the ISP is responsible for auditing the GIF.
- **External audit:** The ISP is managing the external audits (commissioning independent external auditor).

The GIF is partially using the ABG **procurement, accounting & financial control**. For accounting and financial control AusAID has duplicated the procedures; having a parallel accounting system, signing cheques issued through the PGAS system, the GIF officer (ISP) is responsible for preparing the monthly bank reconciliations. Although technically the ABG systems are operational for the subsidiary account, de facto nearly all procedures are duplicated by the ISP. As for procurement, the ABG procurement procedures are used for GIF financed activities. The ABG procurement function is supported by a procurement adviser providing hands-on assistance and capacity building activities.

Conclusions

Fiduciary risks are moderate to low, as the GIF is making limited use of the ABG PFM system and most PFM functions for the GIF are managed by the contractor. Based on this desk study it can be concluded that additional mitigating measures do not seem to be necessary. The planned GIF review in October should indicate whether the current mitigating measures are sufficient.

Limited use of PGS is from a fiduciary risk point of view explainable and recommendable. However, it should be noted that the GIF guideline state: "*The ISP administers the GIF, under the Subsidiary*

Arrangement. As the capacity of the implementing agencies increases, responsibilities for administration of the GIF will be progressively transferred to them". As some improvements are noted in the ABG PFM system, it is recommendable to discuss possible medium to long term timing and phasing of transferring responsibilities ('exit strategy' for the contractor); which actions are necessary and what are the minimum requirements.

The GIF lessons learned paper indicated that aligning with ABG PFM systems is a long term process and small steps are taken. In 2010 valuable lessons have been learned as to how to reflect the GIF funds in the ABG budget. The paper also indicated that a new format for GIF quarterly meetings was introduced to align to the ABG budget review cycle. Furthermore, in 2010 the local planning and budgeting process was used to make the GIF work plan, leading to a much more transparent GIF work plan.

The paper concludes that *"The iterative process maintained momentum for the GIF alignment process and promoted ABG leadership and ownership of the GIF."* *"It facilitated ... entry points for engagement with the ABG and its systems which led to stronger working relationships between ABG and donors."* The paper also stated that *"The alignment encouraged greater ABG counterpart funding of GIF activities"*. The ABG committed to fund 45% of the total cost of GIF funded activities in 2010, compared to 10% in 2009.

The attempts to increase GIF budget alignment also had some interesting side effects. *"It also highlighted the need to further integrate DSIP and other donor support with ABG systems to support the ABG to plan against its entire budget envelope"*.

The paper seems to suggest that GIF alignment to the ABG PFM systems triggers system improvements and even increasing opportunities for a better development impact. It should be noted that alignment is an ongoing, iterative process, especially when the PFM system needs considerable improvements, which will need continuous attention.

Suggestions to improve alignment for GIF under SNP phase 2

Suggestion G: The GIF guideline state: *"The ISP administers the GIF, under the Subsidiary Arrangement. As the capacity of the implementing agencies increases, responsibilities for administration of the GIF will be progressively transferred to them"*. As improvements are noted in the ABG PFM system, it is suggested to discuss possible medium to long term timing and phasing of transferring responsibilities ('exit strategy' for the contractor); which actions are necessary and what are the minimum requirements.

1 Introduction

1.1 Introduction

The SNS program is preparing for the next phase of support to PNG. The next phase will start in July 2012. Currently AusAID is discussing a draft design for the next phase..

With the PPII financing instrument the SNS program is currently partly using PGS. AusAID has in February 2011 launched new guidelines on how assess risks and judging the benefits of using PGS.

The guidelines indicate a phase-in period of twelve months from its release date. The twelve month 'phase-in period' is provided to give programs time to become familiar with the new guidance and complete an assessment of national systems (ANS), where required.

The guidelines state that a fiduciary risk assessment should be part of the preparation of program design if (parts of) PGS is used. Detailed instructions are provided on how to make a fiduciary risk assessment.

In discussion with Canberra AusAID-SNS has decided that a 'targeted' risk assessment will be sufficient in preparation of SNP phase 2, as SNS is already using parts of the PNG PFM system in its current approach. Furthermore, it would not be possible to have separate PFM assessments of all 19 PNG provinces in accordance with the guidelines.

The highly targeted risk assessment focuses on the risks of the current PPII and GIF financing instruments; their use of PNG PFM systems, the risk mitigating measures taken, and advising possible additional measures for managing the risks. The SNS program is considering the introduction of a Provincial Incentive Fund (PIF). This risk assessment also analyses fiduciary risks of this approach. However, as the actual design of the Incentive Fund has not been determined yet and is subject to discussion with the PNG counterparts. The assessment will put forward some points of attention with regard to risks.

This focussed risk assessment builds upon available PFM assessments on national and sub national level, as it will not be possible to make these assessments within the current scope of the assignment. Therefore, the assessment will take the draft ANS 2011 as a starting point for its assessment, including a PFM assessment of Bougainville from 2009. There are no provincial PFM assessments available for all provinces. To identify the quality of the provincial PFM systems and to take account of the differences, the risk assessment clearly differentiates between phase 1 and 2 provinces for which the PPII instrument applies.

1.2 Objective of this assessment

The fiduciary risk assessment reflected in this paper, focuses on:

1. Current PPII (phase 1 and 2 provinces) funding. This funding is channelled through DPLGA (manager of the head trust account) and the provinces (through imprest accounts for phase 1 provinces and through provincial trust accounts and provincial operating accounts for phase 2 provinces). It is intended to phase out AusAID PPII financing over the coming years and phase in PNG PPII financing.
2. An incentive fund. AusAID intends to finance an incentive fund for projects that are improving service delivery in the provinces. Provinces can apply for project financing through the Provincial Incentive Fund (PIF). It is intended that the PIF will run parallel to the PPII-PNG programme and will make use of PGS (at national and provincial level) as much as possible.
3. The Bougainville Governance and Implementation Fund.

2 Fiduciary risk assessment methodology

2.1 Introduction

Risk management is defined as “the activities and actions that are taken to ensure an organisation is conscious of the risks it faces, makes informed decisions in managing these risks, and identifies and harnesses potential opportunities”³⁶. In development cooperation different risks can be identified (see box text below). In this assessment we focus on fiduciary risks. A fiduciary risk assessment (FRA) is defined as a “qualitative exercise rating the levels of risk associated with weaknesses in a country’s national, sectoral or sub-national PFM systems.”³⁷

Box text: Definition of risks

Fiduciary risk is the risk that aid or government funds: i) are not used for unauthorized purposes; ii) do not achieve value for money; or iii) are not properly accounted for. The realisation of fiduciary risk can be due to a variety of factors, including lack of: capacity; appropriate procedures and systems; competency or knowledge; bureaucratic inefficiency; or active corruption.

Development risk is the risk that development assistance or government resources will not achieve development objectives including economic growth and poverty reduction and enabling objectives such as reform and capacity development. Development risk is influenced by the level of administrative burden placed on governments by donors as well as compliance costs associated with complex donor procedures that do not match technical capacities of individuals and institutions. There is a position that capacity development, reform and transaction costs (e.g. additional procedures, reporting and meetings) can be more efficiently supported by appropriate use of various country PFM system components. The idea is centred on the principle that “to improve a system you should use the system”.

Sovereign financial risk is the risk that assistance provided in the form of a loan will not be repaid in full or on time. The risk is a lending risk and is assessed differently through fiscal and debt sustainability analysis and other tools. Credit ratings agencies constantly form and modify opinions on a Government’s credit worthiness. Management of sovereign risk is handled differently to fiduciary risk management, though good management of both risks mitigate both.

Reputation risk is the perceptions real or otherwise that risk of poor management of funds or poor levels of development effectiveness will have adverse consequences. Reputation risk applies to both donors and country

³⁶ AusAID (2009), Risk Management Policy

³⁷ AusAID (2011), Assessing and using partner government systems for public financial management and procurement, 23 February 2011.

governments. In terms of donors, adverse consequences include: i) deterioration in the level of support for foreign aid by tax payers, central agencies, members of parliament, development ministers and cabinet; ii) criticism of aid management arrangements by the same stakeholders as well as national and international Non-Government Organizations and international institutions and other governments; and iii) deterioration in diplomatic relations with a partner country. In terms of country governments, reputation risk is relevant as they are ultimately accountable to their citizens for the efficient and effective use of all national resources.

2.2 Methodology

2.2.1 Guidelines

AusAID has issued guidelines for “*assessing government partner’s financial management capacity, and associated risks and benefits for proposed assistance to a country involving possible use of government systems.*”³⁸ The guideline describes, amongst other aspects, the various components of partner government financial management systems, one or more of which AusAID may decide to use when funding a program and sets out AusAID’s approach to the identification and mitigation of risks.

The guidelines for making a fiduciary risk assessment:

- Suggest using PEFA as a diagnostic tool for assessing the partner’s country PFM system. Present a diagnostic tool that is designed to guide and assist consultants to identify the potential development benefits that could accrue through the channelling of development assistance through a partner government entity’s PFM system.
- Presents a template for presenting the capacity and capability assessment and how to present the risk assessment.
- Includes the AusAID Risk Matrix (see Annex V)

The risk guidelines indicate the following intensity of supervision and required actions with the indicated risks levels:

- (VH) Very High risk – detailed treatment plan with close oversight by the Executive with formal reporting to, and monitoring by the Executive on a quarterly basis through the Quarterly Executive Report process
- (H) High risk – detailed action plan with close management oversight by Branch and Division Heads through Quarterly Business Unit Reviews
- (M) Moderate risk – management should monitor and review response action as necessary
- (L) Low risk – accept and manage through normal monitoring and control procedures

The guidelines suggest looking at short term control measures and medium term capacity development measures. If parallel systems are created and executed by contractors we assume low risk which requires normal monitoring and control procedures.

2.2.2 Targeted Approach

The ToR requires this not be a full fledged risk assessment as reflected in the guidelines, but an assessment that focuses specifically on fiduciary risks of the suggested funding flows. This targeted approach implies the following:

- The assessment will take the current use of PGS as a starting point for the analysis and will focus on how to improve risk management.

³⁸

AusAID (2011), Terms of Reference for assessing PFM at sector and agency level.

- Risk assessment is normally based on: (1) Assessment of the national PFM context, (2) Assessment of the context of the specific instrument. This assessment will only focus on the context of the specific instrument, as the national PFM context is addressed in the ANS which is currently being drafted.
- The risk assessment will build upon *existing* assessment reports. No additional PFM related assessments will be implemented, other than a capacity assessment of DPLGA to manage the head trust account and the mitigating measures implemented which supported the transfer of head account management from DNPM to DPLGA.

The focussed risk assessment will use the guidelines, but will not fully report in the formats as required by these guidelines, and will not present a detailed analysis of possible benefits of using PNG PFM systems. Furthermore, the guidelines require full mapping of judgement on 'likelihood', to be added in tables as annexes. Likelihood judgements have been made by the experts, on the basis of the draft ANS, the Higgins study, the draft MBP PFM assessment, and their expertise related to PFM and PNG. The rationale for classifying a certain likelihood is reflected in the main text. The mapping tables are not included.

Results

- Conclusions on the most important fiduciary risks at provincial level
- Suggestions for changes to current mitigation measures for PPII at provincial level
- Suggestions for new mitigation measures for PPII and for the new incentive fund (management structure, eligibility criteria).

2.3 Some benefits of using PGS

This focussed FRA is not assessing the potential benefits of using country systems for PPII and GIF. Nevertheless, without having the objective of making a complete overview of the benefits of using PGS, we would like to indicate some findings.

In Bougainville AusAID is currently only limitedly using PGS, but AusAID intention to use more PGS initiated in August 2010 a dialogue was taking place to increase alignment. Some clear advantages of the dialogue for using PGS were listed in a discussion paper³⁹. The discussion paper stated that the alignment discussion facilitated;

- 1) stronger working relationship between the government of ABG and donors
- 2) greater understanding among ABG officials of the GIF modality
- 3) helped the ABG government to improve existing planning and budgeting systems
- 4) helped to increase the focus of advisory support through the AusAID SNS program
- 5) increased the ABG counterpart funding of GIF activities
- 6) The GIF planning improved because there was better understanding of what the ABG planning process and capacities
- 7) Better understanding at AusAID side of when to make funding available
- 8) initiated a discussion on division of responsibilities between at each level of government and donors with regard to service delivery

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AusAID (2010), SNS paper No 3: "Lessons learned from the alignment of Australian and New Zealand aid with the Bougainville Government's systems", Edwina Betts, AusAID representative AROB

- 9) indicated areas which need to be strengthened, such as the joint monitoring and evaluation framework of GIF, ABG's own monitoring and evaluation activities, and how these can be better linked to the ABG planning activities.
- 10) better understanding at both sides that further integration of donor funding in the ABG budget also requires further integration of DSIP
- 11) better understanding of the PGAS system by donors and what the trust account modules can and cannot deliver when it comes to line item reporting.
- 12) Helped to identify and address the need to smoothen coordination between the national government, the ABG government, and donors especially on health and education.

To summarize, the dialogue helped the ABG government to identify/confirm weaker links in their PFM system and the need to address them. And it helped the donors to increase their understanding of the ABG PFM system and target their actions and support activities more.

Recently a SNS financial advisers' workshop took place in which the SNS internal audit activities were discussed⁴⁰. The financial advisers underlined the value added of using PGS in PPII for their work. The use of PGS enables the advisers to have;

- 1) better understanding of the provincial PFM's strengths and weaknesses for focused assistance in capacity building
- 2) leverage when it comes to PFM improvements: a place around the provincial 'table' and a legitimate 'voice' for providing advice when PFM improvements are discussed, because AusAID funding is also partly going through the provincial PFM system. It enables financial advisers to better understand the provinces overall planning and budgeting process and the linkages between them.

During a workshop with the AusAID provincial representatives⁴¹ these advantages of using provincial PGS were acknowledged for their work. Using PGS provides the representatives with information on weaknesses of the provincial PFM systems which they can use as leverage in their dialogue on capacity building.

International experience has listed potential benefits of using PGS in general. Benefits that may accrue through the channelling of development assistance can be categorised as follows⁴²:

⁴⁰ SNS internal workshop, 21st of July 2011

⁴¹ PFM afternoon seminar provided by the PFM adviser for AusAID provincial representative staff on 28th of July.

⁴² See AusAID (2011), Tool Terms of Reference (ToRs) for assessing PFM at sector or agency level, Annex 2

Table 1: Potential benefits of using partner government systems

Category	Potential benefits
Policy alignment	Improved alignment with partner government policies, enabling dialogue and capacity to focus on those policies rather than on the often narrower objectives of donor support initiatives.
Systems alignment	Greater alignment with partner government systems (financial management, procurement and/or performance assessment systems), enabling dialogue and capacity to focus on those systems
Ownership and accountability	Increased partner government ownership of policy and the development agenda, where donor funds align with government policy and development plans. Improved domestic accountability through increased focus on the government's own accountability channels (most likely if supported by demand for good governance initiatives).
Strengthening systems	Can strengthen PFM, procurement and reporting systems (in the medium to long term). Can improve the efficiency of public expenditures.
Good donorship	Higher potential for overall impact (encourages broader dialogue, streamline process of formulating reforms). Greater predictability of funding (mixed evidence on how much this happens in practice). Improved harmonisation among donors, enabling scarce capacity to focus on the domestic system rather than meeting fragmented accountability demands from donors. Greater sustainability of donor programs.
Transaction costs	Lower transaction costs for partner government (only at implementation, not up-front). Lower transaction costs for donors (limited evidence). Increases the partner government's absorptive capacity.

Source: AusAID (2011)

2.4 How to position risk management?

2.4.1 AusAID guidelines: using country systems

The guideline suggests that risk mitigating measures should be incorporated in the capacity development approach: *“The most sustainable way to mitigate the risks of using PGS is to work with the partner government to strengthen its systems.” “Risk mitigation should prioritise medium-term capacity development: Ideally, safeguards should support the progressive and sustainable reduction of fiduciary risk through ongoing capacity development measures directed at the government’s own PFM reform plan.”*

The guidelines also suggest focusing specifically on PFM and using an incremental approach in the capacity building activities. *“In all cases, AusAID may continue to reduce risk over the medium to long term by providing capacity development activities that support ongoing reform of PFM and procurement systems.” “Diagnoses of the scope for strengthening a PGS should address the basics first and then target incremental improvements. An incremental approach that is sustained over a period of years will generally be more successful than a ‘big bang’ approach seeking to achieve ‘best practice’ quickly”*

The guidelines also state that AusAID should be explicit on what to achieve in the area of capacity development and how progress is going to be monitored.

“Agreed capacity development measures should be specified in the delivery strategy and/or implementation arrangements. The delivery strategy and/or implementation arrangements should also identify performance benchmarks and monitoring arrangements, preferably taken from the government’s own reform strategies and development plans”.

The mitigating approach and measures need to be reflected in the implementation arrangement of design document. *“When AusAID funds are to use downstream components of PGS, the grant agreement with the partner government needs to be carefully drafted in parallel with the implementation arrangement (or design document). It needs to detail the long and short-term risk mitigation measures agreed with the partner government”.*

2.5 Risk Tolerance and trade-offs

The AusAID risk policy states that *“It is important in considering the level of risk to a particular program, strategy, modality, etc. to also consider the potential opportunities and benefits that can be achieved.”* The independent review of aid effectiveness also underlines the importance of some tolerance to risk: *“It is important to stress that robust, fiduciary risk–management should not be equated to zero risk”*⁴³.

The independent review also clarified that *“It is important to recognise the trade–offs involved in managing different types of risk. Over–emphasis on the reduction of fraud can increase the risks related to development effectiveness. The aid program needs to foster a culture that is focused on results, but accepts the possibility of failure, and rewards innovation”*⁴⁴ The independent review provided the following recommendation to AusAID, which has been accepted.

Recommendation 33: The aid program should foster a culture of risk management rather than risk aversion by balancing various forms of risk and ensuring they are well understood across AusAID as the program grows. It should increase the relative importance of risks to development effectiveness as compared to other risks. There should be a greater focus on results and reward for innovation and acceptance that in a big program some activities will fail.

⁴³ Independent review of Aid Effectiveness (2011), P.277

⁴⁴ Independent review of Aid Effectiveness (2011), P. 30

3 PFM assessments; national, provincial and ABG

3.1 Introduction

Three PFM assessments are relevant for this focussed fiduciary risk assessment:

- 1) Assessment of National PFM system (ANS)
- 2) Assessment of provincial PFM systems
- 3) Assessment of the PFM system of the Autonomous Region of Bougainville.

There is a draft ANS 2011⁴⁵ available, in addition to the ANS 2008. Section 5.2 reflects the main findings of the draft assessment. Unfortunately there are no recent PFM assessments available for the provincial PFM systems. Section 5.3 explains how we are addressing this omission. And Section 5.4 presents a high level PFM assessment of the Autonomous Region of Bougainville from 2009 which was made as part of a fiduciary risk assessment.

3.2 Main findings of the draft ANS

This section reflects a summary of the draft ANS report. The summary is provided by mainly quoting the draft report, with some reformulation to streamline the text.

3.2.1 Why using PNG PFM?

The continued use of parallel systems for aid delivery does little to drive systematic financial management improvement. Where parallel systems are used they need to support strengthening of GoPNG systems and be used as a temporary mechanism for aid delivery

3.2.2 Main findings

The legislative and institutional framework for public financial management in PNG is considered to be sound. On paper, the PFM institutional structure also provides for the appropriate checks and balances for the use of public resources. The most recent PEFA assessment confirmed that GoPNG's basic PFM structures are satisfactory. The actual implementation of the legislation and the functioning of the institutions are the causes of concern.

PNG has received credit for pursuing a major PFM reform program since 2003 which has contributed to progress in a number of critical areas, most notably in areas related to fiscal strategy, supported by a sound legislative and regulatory framework. The government achieved success in improving budget stability and processes, especially through the publication of the Medium Term Fiscal Strategy 2008-12, the publication of a Budget timetable and significant improvements in the comprehensiveness of recurrent Budget documentation.

⁴⁵

Although the public financial management improved from 2004 to 2008, in practice the stronger areas of GoPNG's PFM cycle are clustered in the "front-end" of budget estimation, formulation and dissemination while the accounting, reporting and audit phases of the PFM cycle are underperforming. Implementation and critical monitoring and evaluation of the Budget remains weak. Utilisation of PFM systems and enforcement of PFM rules remains lax, resulting in inefficient and ineffective deployment of public resources. The PNG government's performance in recordkeeping and financial reporting is notable for its degree of underperformance. For 2008, only 6 agencies received unqualified audit reports with the remainder receiving disclaimers of opinion⁴⁶ (28) or adverse opinions⁴⁷ (2).

Procurement systems and procedures in PNG fall well short of international good practice. The 2010 OECD-DAC PNG Procurement Assessment Report found that "the current functioning of public procurement in PNG does not safeguard and promote neither transparency nor equal treatment, and in the end, value for money and good service delivery to the citizens of PNG."

The 2009 fiscal year was characterised by a significant failure of fiscal discipline. Spending from trust funds in 2009 was equivalent to around 8% of GDP or twice the limit set under the medium term fiscal strategy. Expenditure from the trust funds was not transparent and it remains unclear where most of these funds have been applied.

In 2010, the Government released a series of long and medium term planning documents, including the Strategic Vision 2050, the Development Strategic Plan 2010-30, and the Medium Term Development Plan 2010-2014. At this stage it is unclear whether sub-national planning is aligned with the national framework. But more importantly, it is unclear whether the national plans are realistic and can be implemented.

3.2.3 Decentralised context

The decentralization of PNG's service delivery responsibilities to provinces and districts has exposed severe problems in sub-national PFM systems. There is little fiscal capacity for service delivery. Many facilities are remote from provincial and district treasuries – the result is that service delivery is insufficient and inequitably distributed in favour of urban centres. District financial management systems also do not link with province or central government making reporting and performance monitoring difficult.

3.2.4 Reform commitment at national level

⁴⁶ A disclaimer of opinion may be provided where the auditor is not in a position to express a specific opinion on the overall status of the financial records of the client. A disclaimer of opinion may be issued when there is any type of irregularity that the auditor is not able to reconcile to his or her satisfaction.

⁴⁷ An adverse opinion may be provided by an auditor if the records and statements are found to not be in compliance with

recognized accounting standards. The issuance of this type of opinion is generally considered to be extremely serious, and is only done when the lack of documentation and verifiable accounting is so pervasive that there is no way to reconcile the conflicting records.

The Papua New Guinea Government's public financial management reform program has had considerable ownership at the bureaucratic level, but appears to have lacked political ownership. And while the Government has shown a willingness to sign on to various strategies or commitments, it has not always stuck to them.

In January 2010, Secretary Tosali from the Department of Treasury endorsed the narrower objectives of a Framework for Fiscal Management (FEFM). The FEFM focuses on: (1) managing volatility by maintaining long term fiscal sustainability and safeguarding windfall revenue; (2) strengthening service delivery through budget expenditure prioritization and effective implementation, and (3) reinforcing the integrity of Budget systems and processes by delivering comprehensive, transparent and accountable budgets. While the reform programs have had considerable ownership at the bureaucratic level they appear to have lacked political ownership.

The draft ANS states that the introduction of an integrated financial management system (IFMS) has been unsuccessful. An ADB-financed Financial Management Project operated from 1999 to 2008. At the time of loan closure, US\$60 million had been expended and the expected financial management system is operational in only three departments (Finance, Treasury, and Planning). It is unlikely to be in place and fully functional at the national level any time soon.

The Provincial Capacity Building Programme II (PCaB) was developed to build PFM capacity at the sub-national level. PCaB is a joint programme of Department of Finance (DoF), UNDP and AusAID which focuses on capacity building in sub-national treasury functions. A recent mid term review of PCaB found that it was making good progress towards its objectives.

We can draw on the lessons learned from previous reform efforts:

- 1) **Sequencing** should be carefully designed to focus on the most urgent weaknesses first – previous reform efforts showed it was difficult for the Government to move forward with multiple reform measures. The immediate focus should be on enforcing existing expenditure controls and **re-imposing financial discipline** – only once financial discipline is firmly established should systems improvements be addressed⁴⁸.
- 2) PFM support should be **measured** and with **realistic** and **achievable** targets over long engagement timelines. Design of reform measures should be based only on technically correct, evidence-based positions. The political economy of reform and resistance needs to be carefully examined and understood. Supervision and guidance need to be very strong reflecting the

⁴⁸ Betley M 2005, Public Financial Management Performance Report and Performance Indicators, Mokoro Ltd.

complexity and challenges of managing and monitoring assistance. Staff need to have strong relevant technical backgrounds⁴⁹.

3.2.5 Corruption

According to Transparency International, corruption in PNG is characterised as more political than bureaucratic in nature.⁵⁰ PNG ranks poorly on international measures of corruption perceptions — in 2009 it ranked in the bottom 4th percentile in the World Bank's World Governance Indicators⁵¹ and equal 154th (out of 180 countries) in Transparency International's Corruption Perceptions Index⁵². PNG has ratified the UN Convention against Corruption (July 2007) and has endorsed the ADB-OECD Anti-Corruption Action Plan for Asia-Pacific (November 2001). PNG's implementation of the UNCAC is scheduled to be peer reviewed shortly⁵³. In 2007, Global Integrity rated PNG as "weak" in its anti-corruption performance.⁵⁴ While PNG has many of the necessary conditions in place to reduce corruption, compliance and enforcement is lagging.

3.2.6 Fiduciary risks

Overall, PNG systems carry a high level of fiduciary risk. These risks arise from weaknesses in the GoPNG PFM and procurement systems or governance. In the absence of any improvement, it is likely that donor funds channelled through GoPNG systems would not be deployed in an optimal way with respect to donor

⁴⁹ Asian Development Bank 2010, Completion Report – Papua New Guinea Financial Management Project, ADB.

⁵⁰ Transparency International, Global Corruption Report 2009, page 285, http://www.transparency.org/publications/gcr/gcr_2009#6.3.

⁵¹ http://info.worldbank.org/governance/wgi/sc_chart.asp

⁵² http://www.transparency.org/policy_research/surveys_indices/cpi/2009/cpi_2009_table

⁵³ In November 2009, the Conference of the States Parties to the United Nations Convention against Corruption agreed to undertake peer reviews of implementation of the UNCAC. The exact timing of these reviews is unclear, though PNG has been included for a peer review in the first year of the four-year review cycle. For more info see: http://www.unodc.org/documents/corruption/Microsoft_Word_-_Country_pairings_-_Year_1-4.pdf and <http://www.unodc.org/unodc/en/treaties/CAC/IRG.html>.

⁵⁴ Papua New Guinea (PNG) received an overall "Weak" rating in the 2007 Global Integrity Index. Oversight and regulatory institutions such as the Audit Institution, Ombudsman, and tax collection agencies rate particularly well, while anti-corruption and rule of law mechanisms perform moderately to very strong. Nevertheless, PNG suffers from significant weaknesses. Government accountability, particularly in the legislative branch, can be improved while the country's performance in regulating the civil service and procurement is poor. Although whistle-blowing mechanisms are in place, their implementation remains weak. <http://report.globalintegrity.org/Papua%20New%20Guinea/2007>.

expectations or community benefit, mainly as a result of inefficient and ineffective GoPNG systems.

Drawing on the PEFA and fiduciary risk and corruption analyses it suggests that, to reduce the risks posed by using PGS, there is a need to focus on the following areas of very poor PFM system performance:

- 1) effectiveness of expenditure controls for non-payroll expenditure;
- 2) procurement processes;
- 3) effectiveness of internal audit;
- 4) timeliness and quality of reporting on finances and service delivery; and
- 5) effectiveness of external audit.

3.3 National system: Findings and conclusions

The table below summarizes the main findings as reflected in the draft ANS. The quality of the national PFM system is generally qualified as low with high levels of fiduciary risks if PNG PFM systems were used. The ANS underlines that incremental improvements have been made to improve the PFM system. Improvements are evident in the budget preparation process. However, no significant improvements have been noted since 2008 (date of the last PEFA) in the area of transparency, internal control and budget execution, accounting and reporting.

Table 2: Summary of risks of the National PFM system

Dimension	Risk-level	Comments from draft ANS
Credibility of the budget	Substantial	While basic controls are in place, non-compliance appears to be a regular occurrence. weak control of budget composition
Transparency and comprehensiveness	High	Large extra-budgetary expenditure. Off budget expenditure not accounted for. No clear trend of improvement
Policy based budgeting	Moderate	Improvements are evident, especially in budget preparation process. However, improvements highly adviser driven. Multi-year budget framework requires more work.
Predictability and control in budget execution	High	Compliance and enforcement of existing legislation is weak throughout the budget financial cycle. Ineffectiveness of internal audit. There appears to be a lack of commitment and/or capacity.
Accounting, recording and reporting	High	Inadequate information available on programme outputs. Little evidence of any improvement in capacity
External scrutiny and audit	High	Compliance with reporting and audit requirements is low. Not adequate resources for effective scrutiny of public finances and outcomes on a timely basis. Agencies are not committed to transparency.

3.4 Assessment of Provincial PFM systems

3.4.1 Introduction

Ideally a fiduciary risk assessment starts with an assessment of the provincial PFM systems the aid instruments are going to use. Unfortunately there is no encompassing PFM assessment available which includes all provinces. There are some partial or outdated PFM assessments on provincial level available:

- In 2003 the provincial financial management & accountability systems were assessed⁵⁵. Although some findings are still relevant for the current situation, some observations are outdated.
- There is a comprehensive Milne Bay PFM assessment (in draft) which is based on the PEFA methodology and is enhanced by the use of the EU assessment tool "Institutional Assessment". However, Milne Bay is not representative, as it is one of the better performing provinces.
- There are 2 recent procurement studies available of which 1 study includes 2 case studies on provincial level.
- There is a Budget Score Card study available, comparing the province budget practice on some critical points.

Although the legal PFM framework for all provinces is the same, the PFM practice per province seems to be quite different. Some provinces demonstrate good policy implementation and a willingness to implement required institutions and procedures for a good functioning PFM system, whereas other provinces are clearly lagging behind. One summarized assessment of provincial

PFM systems will therefore not be possible, as it does not take into account these variances. In addition, insufficient information is available to reflect all variances.

Box text: Provinces differ

The Public Expenditure Review (PER) published annually by the NEFC provides an overview of fiscal performance of the provinces. The key performance indicators used to measure provincial performance are:

- Timing of 4th quarter expenditure (on grants and internal revenue)
- Internal revenue allocated to MTDS
- Deviation between what the 4 MTDS sectors 'need' and what the sectors get
- Spending trends: increases or decreases
- Spending levels relative to NEFC cost estimates
- Amounts unspent at the end of the year
- Spending in accordance with intended purpose
- If salary payments are done from the functional grants

Base on these performance indicators a ranking of provinces is made. For 2009 the assessment resulted in the following ranking:

- 1) Sandaun (115 points)
- 2) Oro (113 points)
- 3) Central (109 points)
- 4) Simbu (107 points)
- 5) Milne Bay (103 points)
- 6) Western Highlands (101 points)
- 7) East Sepik (101 points)
- 8) East New Britain (98 points)
- 9) New Ireland (95 points)
- 10) Western (93 points)
- 11) Southern Highlands (88 points)
- 12) Madang (81 points)
- 13) Eastern Highlands (80 points)
- 14) Gulf (79 points)
- 15) Enga (74 points)
- 16) West New Britain 72 points)
- 17) Morobe (68 points)

Most indicators reflect policy choices to which the provincial PFM system is instrumental. Especially the differences in scores on indicators reflecting timing of 4th quarter expenditure, spending in accordance with the intended purpose, and to some extent also amounts unspent at the end of the year also reflect quality difference of the provincial PFM systems.

Source: NEFC (2011), The PER Trend Data Book

Without having the ambition to make a full PFM assessment of the provinces, in this section we highlight some main findings and developments at provincial level which are important background information for our more specific directly instrument related assessment of risks in Chapter 5 when we look at PPII and the incentive fund. The legal framework and institutional set up is not reflected in this section. For a complete overview we refer to the publications listed above, the PFM Act 1995 and the Intergovernmental Relations (Functions and Funding) Act 2009, The Organic Law on Provincial Governments and Local-level Governments (OLPGLLG), and the Fiscal Responsibility Act 2006.

3.4.2 Planning

The provinces have two important planning frameworks:

- 1) Policy planning, reflected in sector plans and a five year development plan⁵⁶.
- 2) Corporate planning, reflecting institutional and capacity development

Policy planning

The 5 year development plan at provincial level is for most provinces not constrained by hard medium term funding constraints; not based on a binding resource envelop. Provinces do not receive medium term expenditure ceilings from the national government⁵⁷.

Corporate planning

For capacity development the Corporate Plans (CPs) are an important planning tool. CPs mostly have a duration of 2 to 3 years. Not all provinces have a CP or an up to date CP. There is a template for corporate plan, identifying subjects to be addressed. But template is not binding, and not all plans have right level of detail.

The culture of corporate planning is relatively new in the PNG provincial public sector. Effective implementation and timely monitoring of the CP remains a challenge; a task that the DPLGA is currently expanding. One of the main challenges of the Corporate Plan will be to clearly demonstrate how the Corporate Plan outcomes have a direct impact on the performance indicators of the Development plans.

3.4.3 Budgeting

PGAS does not have a budget module. Most Provincial Budgets are prepared with the use of excel. The quality of the budget and the budget preparation process varies per province. Provinces use an annual budget framework. Provincial budgets are monitored by the Department of Treasury. Some provinces have implemented an Integrated Planning and Budgeting System, leading to a better structured budget preparation process.

In most provinces budgeting is often an incremental process: last years' budget is extrapolated. Budget transparency is a cause of concern for all provinces. NEFC with the assistance of the PPII program has in recent year's advocated PFM improvements with the introduction of the Reforms in Inter-Government Financing Arrangements (RIGFA), better presentation of the budget, improved linkages to sector policy, and the introduction of Minimum Priority Activities (MPAs). Some provinces have taken up these reform challenges with support of SNS financial advisers. In these provinces there have been some improvements in budget quality and timing as well as budget framework.

The budget Quality Scorecard introduced by NEFC can be a good indicator to illustrate the different budget practices. The scorecard assesses the provincial budget documents on different dimension; timeliness, transparency, completeness, correct budgeting of grants receipts and expenditure, degree of rolled over unspent grants, use of MPA in the budget (specific BC/CoA for MPAs), etc. In the dimension "overall" the following aspects are assessed:

⁵⁶ As required in the Organic Law

⁵⁷ Also finding of Higgins in 2003 and confirmed by the authors and recent MBP PFM assessment

- Timeliness of submission (max 5 points)
- High level budget summary available (max 5 points)
- Cross sectoral issues are appropriated for (max 4 points)
- Realistic own resource estimates (max 5 points)
- Actual second year prior revenues/expenditures are disclosed (max 2 points)
- Estimated prior year revenues/expenditures are included (max 2 points)

The provinces can receive a maximum of 23 points. The lowest scoring province received zero points and the highest scoring province received 12 points. A total of 7 provinces were scoring 0 to 5 points, 6 provinces were scoring 6 to 9 points, and 3 provinces were scoring 10 to 12 points.

3.4.4 Budget execution: expenditure

Higgins identified in 2003 several budget execution mechanisms which were not working properly:

- The lack of implementation planning and preparation
- Lack of capacity in agencies limiting their ability to implement the intended function
- Inadequate operational funding for implementing their intended function
- Inadequate in-year monitoring
- PGAS not in support of generating in-year reports suitable for budget management
- Inappropriate use of supplementary budgets.

The assessment Higgins made has, to our knowledge, not been repeated for all provinces after 2003. However, some of the PER fiscal performance indicators can indicate whether budget execution mechanisms encounters problems. The relevant PER indicators are:

- 1) Timing of 4th quarter expenditure - grants: indicating percentage spending in 4th quarter
- 2) Timing of 4th quarter expenditure – internal revenue: indicating percentage spending in 4th quarter
- 3) Unspent functional grants; percentage of unspent funds year-end (resp. health and education)

The table below presents the provincial scores on the listed PER indicators for 2009. We have divided the provinces in 4 groups. Ideally provinces would spend around 25%⁵⁸ of their grants and internal revenue Q4 and no unspent functional grants (group 1). Group 2 presents provinces with relatively good performance (spending between 20% and 40% spending in Q4) and < 10% unspent functional grants. Inadequate fiscal performance could be reflect with high Q4 spending levels (< 20 % or > 40%) and/or high unspent grants (> 10 %) (group 3). And group 4 represents provinces with high grant Q4 spending but around 25% internal revenue spending and low unspent functional grants. Group 4 could reflect not timely release of functional grants by the national government which could lead to >40% grant spending, with internal revenue spending reflecting good performance.

The table below seems to indicate that most provinces (11) struggle with recurrent expenditure capacity. These indicators seem to suggest that there is 1 province with good results on the selected indicators and 2 provinces with satisfactory performance. For 3 provinces fiscal performance on selected indicators might be the result of not timely transfers of national grants as expenditure performance on internal revenue is satisfactory and these provinces do not have high levels of unspent functional grants⁵⁹.

Table 3: Provincial fiscal performance on budget execution in 2009

	Grants % exp. in Q4	Internal Rev % exp. in Q4	% unspent functional Grants year-end	
			Health	Education
Group 1				
Simbu	29	14	1	0
Group 2				
Gulf	35	0	7	3
Manus	37	29	4	2
Group 3				
East New Britain	44	30	1	2
Southern Highlands	8	26	0	1
Central	33	50	6	14
Eastern Highlands	43	45	4	14
Enga	29	43	8	17
East Sepik	49	14	18	35
Madang	42	44	14	8
New Ireland	28	20	21	17
Oro	41	50	0	0
Western	66	41	0	100
West New Britain	47	48	6	36
Sandaun	48	24	10	8
Group 4				
Western Highlands	46	39	0	0
Milne Bay	45	25	1	5
Morobe	48	28	4	2

3.4.5 Budget execution: procurement

The quality and procedures of procurement on provincial level differs substantially. Provinces do not have their own procurement procedures. The provinces have to rely on the CSTB Good Procurement Manual which is often too broad for provinces to take ownership and observe. Administrative capacity of Provincial Supplies and Tenders Boards (PSTB) are often weak and lack

⁵⁹ It should be noted that the functional grant spending data is based on the financial statements of the provinces. The provincial S114 are not consolidated with the district financial data. Therefore provincial S114 reflect transfers, not expenditure, when districts execute the expenditure.

transparent evaluation process. Uncoordinated procurement by different agents within the provincial administrations amounts to high risk of procurements with less value for money.

In 2010 AusAID commissioned a procurement study in the education sector⁶⁰. In this study procurement arrangements of two provinces were assessed: Milne Bay province and West New Britain. The study identified a series of deficiencies both in the legal framework and in the practice of the DOE at national and provincial levels. The implementation problems on provincial level were, according to the study, related to incomplete national legal framework which contains only a weak enforcement mechanism.

Despite the weak framework, the draft EU assessment of Milne Bay Province seems to suggest an improvement of the provincial procurement practice, especially procurement managed by the PSTB (for procurement between K 300,000 and K 3 million. The assessment indicated that procurement at district level is still quite cumbersome.

3.4.6 Budget execution: internal control

The provincial internal control system consists of:

- Implementing the standard forms for expenditure (requisition and expenditure forms (FF3 & FF4), ILPOC, etc)
- Compliance with internal control rules; implement segregation of duties, transaction authorization procedures,
- Making monthly bank reconciliation reports and use them adequately on a timely basis
- Having quarterly expenditure reports (in line with budget classification)
- Having scheduled quarterly internal performance review process
- Having clear in-year budget review procedures
- Having an operational a fixed assets management system which delivers credible asset registers.
- Having functioning internal audit division
- Having a functional filling system

There is no comprehensive assessment whether all provinces comply with this internal control framework on provincial expenditure. However, because PPII uses (part of) the internal control systems of the province (especially for phase 2 provinces), some indications of the quality of internal control in some provinces are available. Section 4.7 reflects the main system instruments in internal control compliance for PPII, such as bank reconciliation, in year expenditure reports, and fixed asset register.

Internal audit findings on internal control processes

The table below summarizes the main findings with regard to compliance to internal control procedures for PPII expenditure for 7 provinces. As table 4 illustrates, performance differs substantially. PPII expenditure performance between provinces differs substantially. Milne Bay Province, East New Britain, and Central seem to be performing somewhat better than the other provinces.

⁶⁰

Charles Kendall & Partners (2010)

Table 4: Internal audit findings January – June 2010

	EHP	Simbu	WNB	MBP	Sandaun	ENB	Central
Poor filing – maintenance of records	X ⁶¹	X	X			X	X
Missing or variances in supporting documents for payment	X	X			X		X
Non acquittal of advances and allowances	X	X			X	X	X
No copies of issued cheques	X		X				
No 3 quotes obtained (or no written explanation)	X	X	X		X		
Incomplete FF3/FF4	X				X		
Double dipping on travel allowances		X					
Commitment clerk not signing off FF3 to confirm funds committed in PGAS			X				
Cash book not updated for transactions other than cheques				X			
Variances noted in Cash balance between Manual Cheque register and PGAS cashbook							X
Non remittance of GST return	X	X	X	X	X	X	X

Source: ISP summary report internal audits

Higgins (2003) concluded that internal control mechanisms such as bank reconciliations, division of duties, procedural manuals, internal audit, and holding officers accountable have failed to a greater or lesser extent in provinces (and LLGs). Higgins concluded that “*the failure of many of these internal control mechanisms is symptomatic of broader capacity and skill limitations in financial management in GoPNG*”. The MBP PFM assessment confirms the failing of district bank reconciliation and provincial internal audit. However, bank reconciliation for MBP, division of duties, and holding officers accountable seem to work in this province. It should be acknowledged that this is one of the better functioning provinces.

3.4.7 Budget execution: Grant transfers and fund activation

Transfers of grants from the national government to the provinces encounter considerable problems with regard to the timing of the transfers and the slow transfer and activation process. The wrong timing of grant transfers was already identified in 2003 (Higgins). In 2011 this problem was again acknowledged in the MBP PFM assessment: 60% of the functional grants were transferred in September 2010. The slow transfer and fund activation process was also acknowledged in the MBP PFM assessment: delays on national level of several weeks⁶², and at provincial level it also takes 4

⁶¹ Related to procurement

⁶² First tranche 2011 for MBP was delayed also because the budget was not approved yet by the Minister of Finance & Treasury.

to 6 weeks to activate the funds in PGAS at district level. These findings were confirmed in a mini tracking survey for 5 provinces⁶³. On average the whole transfer and activation time took between 8 and 12 weeks, of which the more than half of the processing time is caused by delays at provincial/district level, indicating serious weaknesses in PFM procedures and PFM discipline.

It should be noted that timely salary payment for government staff (administration, health workers and teachers) is not jeopardized, as these payments are made directly from DPM. Payroll records for government administration staff are managed at the national level by the Department of Personnel Management (DPM). The payroll system (called Alesco payroll) is located in Port Moresby. The province is responsible for maintaining the employee records.

3.4.8 Accounting & reporting

Accounting

PGAS is the accounting system used in the provinces. PGAS is a robust and effective accounting framework. The AGO reports conclude that accounting practice is in most provinces of low quality.

Expenditure is debited against an incorrect appropriation, or expenditure is journalised against an incorrect vote by error or on purpose (to create funds in another vote)⁶⁴. There are exceptions. Recent PFM assessment of MBP concluded that accounting practice on provincial level is on acceptable levels. However, at district level there are more complications with the accounting practice due to various reasons including poor enabling environment at the districts.

Some improvements in the accounting framework have recently been introduced with emphasis of the classification, reflecting Minimum Priority Activities (MPA) with the assistance of PPII finance advisers. This improves the policy orientation in the budget classification and chart of accounts. The NEFC identified that some provinces successfully introduced this classification in recent years⁶⁵. It should be noted that the provincial PGAS does not hold information on government salaries⁶⁶.

Higgins (2003) also highlighted the widespread use of trust accounts which make expenditure less transparent and delay the preparation of end of year financial statement. The MBP PFM assessment also revealed problems with reconciling trust accounts and trust accounts having negative balances, significantly affecting transparency and jeopardizing financial discipline.

Reporting

The most important provincial reports are:

⁶³ Mini tracking survey on the delays in processing time of the functional grants on national and provincial level for the last tranche in 2010 and first tranche in 2011 for the provinces: Sandaun, Manus, Central, ENB, and MBP.

⁶⁴ Accounting malpractice was also signalled in Higgins (2003)

⁶⁵ See PER of NEFC

⁶⁶ Casual worker and provincial staff salaries are reflected

- 1) Annual Financial Statement (S114 financial report); to be reported by the Provincial Treasury to the Department of Finance
- 2) Performance report (S119); to be reported by the Provincial Administration to the Department of Provincial and Local Government Affairs

The PEFA 2008 assessment concluded that there are problems with regard to reporting, reflected in low PEFA scores on PI-22 to PI-25. On provincial level there are also problems with reporting. Financial statements in accordance with national S114 templates are available for most provinces. However, there are often long delays and the quality of the reports is considered to be low (see AGO reports). Most of quarterly performance reporting and the annual reports are compliance reporting to suit legislative requirements and are not used by internal management to assess their own performance. National agencies receiving these reports rarely provide feedback to provinces including national agencies commenting on their performance⁶⁷.

Performance reports are submitted by 17 out of 19 provinces. However, most of the provinces do not report within the 6 months after the end of the year. Furthermore, there are substantial issues with regard to the quality of the presented information in the reports⁶⁸.

3.4.9 Internal Audit

To our knowledge a recent comprehensive assessment of internal audit at provincial level is not available. In 2007 the AGO reported that 18 out of the 19 provinces did not have a properly established internal audit function. Since 2007 a number of provinces Audit Committees have been established, strengthening the audit function (with assistance of SGP). In Milne Bay province a lack of proper equipping and funding of the internal audit unit through annual appropriations weakens the functioning of the unit. In MBP internal audit is mostly seen as 'investigators/ financial policy' and not as an essential unit to maintain and ensure observance of internal financial controls.

3.4.10 External Audit

External audit for provinces is executed by the AGO through its regional offices based in four regions. The AGO has approximately 100 staff members and officially 519 entities to audit, putting the AGO under severe capacity constraints. External audits are performed with considerable delay⁶⁹. To illustrate: The 2009 the provincial audit was completed but the audit opinion has yet to be officially released as it has not yet been tabled in parliament yet. The AGO has performed a District audit in 2010, which is not yet available. External audits at the District and Local-level Government (LLG) levels are not performed annually due to capacity constraints at the AGO level.

⁶⁷ Based on expert judgment and findings in the PFM MBP assessment

⁶⁸ Information based on observations of the SNS adviser to DPLGA supporting the implementation of S119 reports

⁶⁹ As identified in the draft Milne Bay PFM assessment

3.5 High level PFM assessment ABG

As part of the Review of Governance and Implementation Fund 2004-2008 (April 2009) a fiduciary risk assessment was undertaken. Part of this “Limited Fiduciary Risk Assessment of the Bougainville Public Financial Management System” was an assessment of the ABG PFM system. This assessment was not meant to be a comprehensive PFM assessment, but to provide a sense of the capacity of the ABG PFM system. The high level assessment was based on interviews with stakeholders, external audit findings, and AGO (2007) findings. The next sections of this report quotes the findings from this high level PFM assessment. In addition, some telephone interviews have been conducted with AusAID staff in the ABG, with the GIF officer, the ISP financial adviser, and written comments from the ISP budget and planning adviser. These interviews focused on verifying whether the findings in the 2009 study are still current or substantial improvements can be identified. These interviews are not meant to provide a full PFM assessment.

3.5.1 Planning

The 2009 study stated: *“The Autonomous Bougainville Government has developed a Strategic Action Plan (SAP), which although comprehensively details proposed activities for the period 2006 – 2010, it is not based upon the financial resources currently available to the ABG (i.e. a wish-list). The planning environment, although progressing, is not presently conducive to enable effective budgeting to occur”*.

The ABG also developed a Corporate Plan (CP) and is currently implementing the CP. The Corporate Plan expires in 2011 and is now under review to be completed by December 2011.

Telephone interviews indicated that the SAP and the MTDS for 2011 and beyond are currently in development and have encountered some delay. It is expected that the plans will be finalized at the end of the year.

The interviewees confirmed that the planning environment with a lack of clear objectives, clear timeframes and missing monitoring and evaluation frameworks was not supporting effective budgeting. However, the interviewees stated that the planning environment is improving especially the last year.

A more consultative and a bottom-up approach is being used for drafting the new SAP. The next SAP is due for completion in 2011. The SAP experienced some delay, because the ABGs 2011-2015 MTDP had to be completed first. The MTDP is given precedence, as its completion is conditional and linked to the increased National Funding for the ABG over the next 5 years. To date (July 2011), the ABG MTDP is almost completed (first draft completed), and work progressed on the SAP. All priority ‘High Impact Projects’ in the SAP will be aligned to the National Planning Office’s MTDP.

The ISP budget and planning adviser indicated that planning has been criticised for not driving implementation. Recently the capabilities within Planning have increased in the last year, as additional highly skilled staff was hired, and more professional work methods were introduced; bottom up planning and project management approaches. The ISP budget and planning adviser concluded that the ABG planning regime has improved over the last year.

The challenge the ABG administration will have is to make the new plans resource based and instrumental to the budget process. In addition, in implementing the new plans the ABG administration has to demonstrate that it will implement monitoring and evaluation activities, a framework which is currently under comprehensive consideration⁷⁰.

3.5.2 Budgeting

The 2009 study stated: *“An annual budget is prepared by the ABG for submission to the National Government for approval through the National Parliament. The budget is compiled manually*

⁷⁰

Information from the ISP Budget and Planning adviser

(outside of PGAS)⁷¹. It specifies revenue (GoPNG grants, internally generated income and donor funds) and the proposed expenditure across the respective ABG Divisions/Cost Centres.

Through discussion, indications are that the ABG is having difficulties fully expending their Budget due largely to the inadequate capacity of both the ABG and external parties (eg. suppliers, contractors, etc) to utilise/absorb the funds. As a result outputs from activities specified within the budget are not fully reflective of the Government's intentions.

Donor funds, although represented within the Annual Budget, are not clearly aligned to priorities, nor are they detailed as to their intended purposes."

In 2010 a comprehensive review has been made of the ABG 2010 budget⁷². The review presented a public expenditure review. The review also concluded that the budget document is comprehensive and detailed and contained approximately 250 pages and noted that an executive summary was missing. It also identified a large amount of re-appropriations as a serious issue for ABG. Re-appropriations are unspent amounts carried forward from one fiscal year to the next.

Telephone interviews confirmed that ABG continues to have difficulties expending their budget, and also the GIF work plan, undermining budget credibility. It should be noted that improvements in expending are made. For example, the ABG expended 43% of the 2010 GIF work plan between January and June this year, compared to 14% expenditure of the 2009 work plan at the same time last year⁷³.

The causes for not fully expending the budget as identified in the 2009 study still apply. There also continues to be a difference in the activities specified within the budget and the actual results. The ISP budget and planning adviser indicated the following underlying concerns which explain this variation:

- concerns involving project tendering processes
- lack of monitoring & evaluation of projects
- insufficient preparation of PIDs and PFDs (also ensuring the management and administration components for projects are factored into total costings)
- Ministerial requests to have funds re-allocated requires Administrative intervention to ensure greater awareness by Ministers of legislative intent and obligations involving the transfer of funds
- misuse/inefficient use of funds.

The GIF work plan was fully integrated in the ABG budget in 2009. In 2010 the budget reflected GIF as a line item (revenue) in the 'blue pages' of the budget book reflecting donor funds.

The ISP budget and planning adviser stated that the 2011 budget process included some improvements. Project management fundamentals are introduced (milestones, objectives, timeframe), a budget calendar was designed, and there is broader divisional participation in the budget process improving active information exchange which was lacking before 2010. The adviser

⁷¹ It should be noted that this finding does not only apply to the ABG, but also for all provinces of PNG

⁷² Cairns, A (2010), Review of Budget 2010 Autonomous Bougainville Government, September 2010.

⁷³ SNS paper # 3, August 2010

indicated ownership from the ABG administration to take the budget process seriously and address the weaknesses.

3.5.3 Procurement

The 2009 study stated: *“The procurement framework detailed within the Finance Management Manual and Good Procurement Manual largely satisfies the procurement requirements of AusAID as specified within the Financial Management and Accountability Act 1997, however, the procurement regime undertaken by the Bougainville Administration has significant deficiencies as follows:*

- *Non compliance with advertising, bid opening and presentation to the Supply and Tenders Board (inadequate segregation of functions);*
- *Tendering procedures are weak;*
- *Composition of the Supply and Tenders Board is outside of legislative requirements;*
- *Limited documentation for quotations obtained (either verbal or written), nor evidence clearly detailing the evaluation and justification for the selection of a particular supplier;*
- *ILPOCs are not accepted by local suppliers;*
- *Capacity of contractors questionable in terms of managerial and technical knowledge;*
- *Poor contract management/supervision (capacity of personnel – skills and numbers);*
- *Infrastructure contracts not being completed on time or at all;*
- *Technical Services Division is not highly regarded by the public.”*

The interviewees confirmed that there are still a substantial number of procurements for which the ABG is not following its own procedures. Some improvements have been made such as the composition of the Supply and Tenders Board is now according the legal requirement. The interviewees also indicated that procurement procedures of projects financed through the GIF has substantially improved.

3.5.4 Accounting and financial control

The 2009 study stated: *“The financial management controls of the Autonomous Bougainville Government have been identified as being deficient across various areas of the PFMS including:*

- *Inadequate segregation of duties for handling of cash, either during receipting/banking, as well as for cash payments made to contractors on mainland Bougainville.*
- *Management of cash advances paid to Administration personnel is poor with many advances not properly acquitted.*
- *Management of assets is not maintained nor are the assets register being updated on a regular basis.*
- *Payroll is not being reconciled on a fortnightly basis (with some instances noted whereby ABG personnel were paid an incorrect salary)*

There is a system of in-year reporting. Although revenue and expenditure is reported internally within the Administration, as well as to the National Government at quarterly Budget Review Committee meetings, variations between budgeted and actual revenue and expenditure are not well identified and explained.”

The telephone interviews confirmed that internal control remains weak. Cash advance management continues to be poor, and although asset management has been addressed in the past year through capacity development activities, it is not clear whether these activities have actually led to improvements.

The interviewees confirmed that the in-year reporting system is still operational. The interviewees observed only limited use of in-year budget adjustment across activities in the last budget reviews. Furthermore, not all quarterly budget reviews seem to have taken place. For example, the 4th quarter 2010 review has not taken place.

3.5.5 Reporting

The 2009 study stated: *“The reporting is a manual process which is the result of PGAS not maintaining budgetary information. The Annual Report 2007, compiled by the Chief Administrator for presentation to the Bougainville House of Representatives, highlights the efforts of the ABG in implementing the Bougainville Objectives and Directive Principles in the Bougainville Constitution; and performance by Divisions of key impact programs/Report on Operations. However, the Report does not present financial statements.”*

The telephone interviews identified substantial improvements in reporting by treasury. The ABG is making annual financial statements, and on time. The draft financial statement 2010 was submitted to the department of Finance in March 2010. The department of Finance is providing feedback on the quality of the statement⁷⁴.

3.5.6 Internal audit

The 2009 report stated: *“The Bougainville Administration does not have an Internal Audit Division (Unit) and as a result internal audit inspections have not been carried out since establishment of the Autonomous Government in 2005.”*

Telephone interviews indicated that the Internal Audit Division is under development. The positions have been created, the funds are available in the 2011 budget, but the positions have not been filled yet. The interviewees confirmed that this could take somewhat longer, since the ABG administration is undergoing a restructuring with a freeze on recruitment.

3.5.7 External audit

The 2009 report stated: *“The Auditor General’s Office undertakes annual financial statement audits (including interim audits focusing on internal controls) of the ABG which are reported to the Administration as well as the National Parliament. The audits are largely up-to-date with the completion of the 2005 and 2006 financial statement audits of the ABG accounts and an interim audit conducted for the financial year ended 31 December 2007 with many audit observations identified within the Management Letter to the Administration.”*

The observations raised within the AGO Management Letter, although acknowledged by the Bougainville Administration, have not been appropriately actioned.”

⁷⁴

An AusAID EPSP adviser is providing feedback on the financial statement

The telephone interviews indicated that the 2007 external audit report of the ABG is publicly available (see AGO website). The 2008 external audit has been finalized, but awaiting publication. The interviewees confirmed that ABG follow up on AGO reports remains a challenge.

3.5.8 Summary: findings and conclusions

A comprehensive PFM assessment of the ABG was not part of this analysis. Therefore, we rely on the PFM assessment from 2009 as a basis for the fiduciary risk assessment of the GIF complemented with information provided by the AusAID representative in Bougainville and the ISP financial advisers.

The assessment findings and risk qualifications of the 2009 study are summarized in the table below. As this assessment was done before the AusAID guidelines on FRA were issued, the risk qualification 'substantial'⁷⁵ does not coincide with the risk categories in the AusAID guidelines. Based on the assessment findings 'substantial' can be translated to 'High' in the current framework.

The telephone interviews do not seem to indicate substantial changes in the ABG PFM system over the last 1.5 years which could lead to systematic improvement in the PFM system and changes in the perceived risk levels. However, it should be noted that the interviews seem to indicate some improvements especially in the area of Planning & Budgeting, and Reporting & Monitoring. The planning framework seems to be re-established substantially and a budget calendar including improvements in the budget process has been recently introduced. Furthermore, annual Financial Statements are made and the system of quarterly budget reviews continued since the end of 2008 with some procedural improvements. However, these improvements are introduced in the last year and still need to prove their sustainability. Furthermore, the interviewees indicated capacity development activities in the areas of procurement, asset management, and planning.

⁷⁵

DIFD uses 'substantial' to indicate risks in-between 'moderate' and 'high'

Table 5: Summary of high level PFM assessment Bougainville in 2009

Risk level	Description
General conclusion	
Substantial	The structure of the PFM (including procurement) system falls short of good practice in a number of areas and/or there are numerous and/or material weaknesses in compliance with many of the controls within the system. Reform plans need to be strengthened and prioritised.
Dimensions of the PFM system	
Transparency and accountability	
Substantial	Transparency and Accountability processes fall short of good practice.
Planning and Budgeting	
Substantial	The Planning and Budget processes of the ABG are not well developed and fall short of good practice in a number of areas.
Budget execution: accounting and financial control	
Substantial	The Financial Management Control processes fall short of good practice in a number of areas and/or there are numerous and/or material weaknesses in compliance with many of the controls within the system.
Budget execution: procurement	
Substantial	Procurement processes show a significant divergence from good practice and/or there is widespread lack of compliance with many of the controls within the systems.
Reporting and Monitoring	
Moderate	The Reporting and Monitoring processes broadly reflect good practice, although there are some gaps or inefficiencies. There is basic compliance with controls within the system but regular exceptions occur. There is a credible commitment to addressing key weaknesses by the Administration.
Internal and external audit	
Substantial	Internal Audit is not functioning. The External audit reports highlight numerous and/or material compliance control weaknesses.

Source: Review of Governance and Implementation Fund 2004-2008 (2009)

4 Risks and Risk mitigation: PPII

4.1 Introduction

Based on the ANS and the high level provincial PFM assessment, an initial risk assessment is made for the SNP phase 2. The SNP phase 2 main financing mechanisms which could potentially use PNG PFM systems are:

- PPII financing
- Proposed Incentive Fund financing

This chapter assesses the fiduciary risks of using PNG PFM systems for both the PPII financing instrument and the incentive fund financing instrument.

4.2 Current financial support AusAID for PPII

PPII has been an instrument under the SNS support program for a number of years now. PPII financial support scheme has entry criteria a province must meet before being eligible to take part (either preparatory, Phase 1 or Phase 2). For the entry criteria, see Annex I. When it initially started only 3 provinces were piloted. It gradually increased with another 5 provinces bring the number to 8 p over the years as provinces seek to achieve the entry criteria. PPII is available for all provinces which can comply with the entry criteria. PPII is not catering for the Autonomous Region of Bougainville. AusAID designed a specific financing modality for ARB; the Governance Implementation Fund.

Since 2008 to date a total of approximately K 15.6 million has been disbursed, of which K 12.1 million to phase 2 provinces and K 3.5 million to phase 1 provinces.

There are currently 3⁷⁶ provinces in preparatory phase, 7⁷⁷ Phase 1 provinces and 2 new phase 1 provinces (East Sepik and Enga). And there are currently 5⁷⁸ Phase 2 provinces. Every phase 1 is eligible for K 500,000⁷⁹ and every phase 2 province is eligible for K 1 million⁸⁰. 14 out of the 19 provinces are now part of the PPII phase 1 and 2 support activities.

⁷⁶ Southern Highlands, Western Highlands, Gulf

⁷⁷ West New Britain, New Ireland, Morobe, Madang, Manus, Oro, Simbu

⁷⁸ Milne Bay, Sundaun, Central, East New Britain, and Eastern Highlands.

⁷⁹ For a period of 2 years

⁸⁰ Annually

Based on the current number of phase 1 and 2 provinces, the maximum financial support AusAID could provide on an annual basis through PPII is currently K 7.25 million. It should be noted however, that on an annual basis this is in reality lower, as provinces first have to expend their PPII annual funding before they can apply for the next instalment.

4.3 DPLGA: managing the head trust account

Head trust account

In April – May 2011 management of the main trust account has been transferred from DNPM to DPLGA. In July the first transfers to provinces have been executed by DPLGA. Currently there is limited practice to judge whether DPLGA has sufficient capacity to manage the head trust account.

We have interviewed the Director of the Capacity Building Division of DPLGA and Director of the Finance and Administration Division of DPLGA who will be responsible for managing the head trust account. Based on our interviews, we have the following observations:

- There is a clear sense of ownership of the head trust account by DPLGA
- DPGLA, with assistance of ISP, has been able to transfer funds in July to the provincial trust accounts. In 2010 the DNPM was not able to transfer any funds.
- The Director of the Finance Division indicated that DPLGA has had some delay in its monthly bank reconciliations of their operational account as a result of outstanding cheques. Last bank reconciliation was for October 2010.
- DPLGA has PGAS operational. The finance division currently has 7 staff members⁸¹ and 4⁸² more are expected to be recruited within the next 2 months under its restructure.
- The financial staff of the DPLGA seems to be qualified staff.
- The Secretary and the two Deputy Secretaries are the authorized Section 32 officers with financial power limited to K20,000 per transaction.
- The Director of the Division indicated that ISP countersigns all outgoing cheques.
- DPLGA recently recruited an internal auditor. The Director confirmed that the chief auditor/controller will also be required to pre-audit any transactions from the PPII head trust account.

Risks

There are no expenditure risks related to the head trust account, as no direct expenditures are executed from the head trust account. However, there is a possible risk for fraud: funds disappear from the head trust account. However, based on our assessment above we judge fraud from the head trust account as rare. If fraud would occur the consequences for AusAID could be qualified as 'major'. Therefore the initial risks can be qualified as 'moderate'.

Fiduciary risks for PPII funds	Likelihood	Consequence	Initial risk	Residual risk
Fraud: funds disappear from the	Rare	Major	Moderate	Moderate

⁸¹ Head of Division, accountant, principal budget officer, commitment clerk/paying officer, examiner, certifying officer, system administrator.

⁸² Commitment clerk, reconciliation clerk, budget officer, payment officer

head trust account				
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Risk mitigating measures

Furthermore, as DPLGA has a role model function for the provinces with regard to management of the PPII head trust account, it can be expected that DPLGA will execute all trust account management requirements on time. We judge the capacity at DPGLA as sufficient to manage the head trust account. A strong risk mitigating measure is already in place:

- ISP countersigns all outgoing cheques.

Furthermore, the trust account team at ISP is in close contact with the Finance and Administration division of DPLGA.

Additional mitigating measures are not necessary. However, to create more alignment with the PNG PFM system, it is recommendable that DPLGA's internal audit division, once fully operational and providing sufficient quality, will gradually take over the ISP internal audit of the head trust account. We acknowledge that this will be a medium term objective. When this recommendation is implemented, AusAID/ISP should be able to request/have access to DPLGA internal audit reports.

4.4 Provincial risk assessment

ISP has drafted its own internal risk assessment of the PPII provinces that currently receive support. The risk assessment is based on the dimensions relevant for controlling PPII funding, such as:

- Internal controls
- Financial reporting
- Procurement, and
- Disbursement.

Table 6: Summary of ISP internal risk assessment based on Audit findings (2010)

Theme of risk based on audit findings	Name of Province / Overall assessment of risk based on audit findings						
	Eastern Highlands	Simbu	West New Britain	Milne Bay	Sandaun	East New Britain	Central
Internal Controls	H	H	H	M	M	M	H
Financial Reporting	H	H	H	L	M	M	H
Procurement	H	H	H	M	M	L	H
Disbursement	M	H	H	L	L	L	H
Overall Rating	H	H	H	M	M	M	H

4.5 Planning

Current mitigating measures

There are two Phase 1 PPII entry criteria that mitigate the risk of poor planning on capacity building at provincial level⁸³:

⁸³ Quoted from DPLGA (2007), Guide to Services and Performance Requirements under the Provincial Performance Improvement Initiative

1. Province must have a finalized Corporate Plan
 - a. The PMT has undertaken the Corporate Planning Workshop sponsored by DPLGA
 - b. The Corporate Plan has been approved by the Provincial Administrator and has been presented to the PEC. (PEC endorsement is highly desirable)
 - c. Copy of the Corporate Plan has been sent to DPLGA
2. Province must be able to demonstrate that *implementation of the Corporate Plan has begun*
 - a. A Corporate Plan Committee is appointed to coordinate implementation
 - b. Other sub committees (as required) to facilitate implementation have been appointed and are operating
 - c. The PMT has already initiated key actions under the Corporate Plan

In addition, PPII requires a capacity building plan and an expenditure plan (implementation schedule). The expenditure plan should identify what activities are expected, associated costs and implementation timeframe. For phase 1 provinces the capacity building and expenditure plan functions as a planning and budgeting framework. For phase 2 provinces, the capacity building/expenditure plan requirement functions as a bridge between the corporate plan and the annual budget.

Furthermore, the SNS program also has advisers available to support the development of CP.

Risks

Ideally, a plan includes a medium term expenditure framework in which costs of the objectives and available resources are presented. Currently the corporate plans do not reflect a form of medium term expenditure, but the capacity building/expenditure plan reflects this function. Without the capacity building/expenditure fiduciary risk of the corporate plans (only) is high if AusAID would have (co)financed the corporate plans only (see PFM assessment Chapter4). The PPII measures such as the requirements to have a capacity building plan and an implementation schedule mitigate the fiduciary risks.

Fiduciary risks for PPII financing	Likelihood	Consequence	Initial risk	Residual risk
No proper costing, compromised credibility of plan implementation	Likely	Moderate	High	Moderate
Funds allocated for spending outside the scope of PPII	Possible	Moderate	High	Moderate

4.6 Budgeting

Mitigating measures

The PPII framework has implemented a set of short term control mitigating measures:

- Phase 1 provinces are required to make a separate expenditure plan and cost the activities. The activities should not be integrated into the provincial budget, but presented separately.
- In phase 2 of PPII the budget framework will be used. To mitigate the risks, the following entry criteria have been introduced:

1. The province must have an Integrated Planning and Budgeting Processes so that the annual budget reflects clear links to the 5 year development / Sector plan and MTDP
2. The province must have an annual budget that integrates all sources of funding – national grants, internal revenue, special support grants, GST, mining etc
3. The province must have an annual budget that clearly indicates allocations for services district by district

Phase 2 provinces should include their PPII financed activity plans as part of the provinces overall annual activity planning and budgeting process. The PPII funding is integrated into the province's budget. Also, medium term mitigating measures are implemented. SNS has made available budget and expenditure advisers in the following phase 2 provinces:

- Central
- East New Britain
- Sandaun

Phase 1 provinces can apply for short term advisory services from the SNS financial team as well. We conclude that the mitigating measures limit the risk levels to moderate.

Risks

Phase 1 provinces do not use the provincial budgeting framework. Expenditure is budgeted in the separate expenditure plan which is approved by the PPII secretariat (of which AusAID is a member). Therefore, fiduciary risk for phase 1 provinces is low.

Phase 2 provinces also make a separate expenditure plan. However, this expenditure plan is annualized in the provincial budget, in line with the provincial budget classification. The expenditure plan (often longer than 1 year) functions as a bridge between the corporate plan and the budget, decreasing the risks of inadequate 'translation' of the corporate plan to the budget. The translation to the annual budget is done by the province, which includes 'moderate' residual risks.

Fiduciary risks for PPII financing	Likelihood	Consequence	Initial risk	Residual risk
Phase 1: PPII financed activities are not planned for intended purpose	Likely	Major ⁸⁴	High	Low
Phase 2: PPII financed activities are not planned for intended purpose	Likely	Major	High	Moderate

4.7 Budget execution: procurement

Risks and mitigating measures

Both for phase 1 and phase 2 provinces PPII uses the provincial procurement system. There are no ex-ante mitigating measures other than one gateway criteria for phase 2 provinces:

1. Provinces should have an asset acquisition / procurement policy and procedure is approved and operation

However, considering the fact that the procurement system is already used for phase 1 provinces, this gateway criterion is more focussed on supporting capacity development in the area of procurement than on mitigating risks.

⁸⁴ There are currently 7 provinces in Phase 1 plus 2 additional provinces ready to enter phase 1. With a total value of K 2.25 million on an annual basis, equal to A\$ 925,000

Risks

The internal & external audits (by ISP and external bodies) limit the risk of procurement corruption. The audits can detect only limitedly corruption (ex post). However, the audits itself will probably also have a preventive effect. Currently, there are no medium term mitigating measures taken within the PPII framework which directly target procurement improvements.

Fiduciary risks for PPII financing	Likelihood	Consequence	Initial risk	Residual risk
Procurement				
Phase 1 & 2: Procurement: lack of value for money	Possible	Minor	Moderate	Moderate
Phase 1 & 2: Corruption with procurement	Possible	moderate	High	High

4.8 Budget execution: & internal control

Risks and mitigating measures

There is a strong focus on internal control. First, there are two entry criteria for phase 2 provinces focussing on in-year reporting;

1. The province has in place a functioning performance management system for operations as a whole, which entails (among others);
 - Divisions and DMTs submit monthly progress reports to the PA and DPAs
 - Sector program work progress (including expenditure) are monitored, by district, and reported to the PMT and PEC every quarter.

Second, the following additional measures were introduced which require parallel reporting to the ISP:

- Monthly bank reconciliations have to be sent to ISP; within 7 days after the end of the month⁸⁵
- Fixed asset register has to be sent to ISP
- Monthly and six-monthly expenditure reports have to be sent to ISP
- In year budget adjustments (of the work plans) need to be approved by PPII secretariat
- Internal audit is executed by ISP
- External audit is managed by ISP
- Having a separate filling for PPII related receipts and payments.

Quarterly program monitoring and annual program evaluation is performed by DPLGA. Their monitoring activities focus on implementation progress on the provincial corporate plans and the annual evaluation also take into account the phase 1 and 2 criteria. DPLGA has developed a straightforward monitoring tool for their monitoring activities. It should be noted that quarterly and annual monitoring activities have not been implemented in the last year, mainly as a result of staff shortage. DPLGA indicated it is resuming monitoring activities and is expecting to have a fully operational monitoring section in the new year.

An additional risk mitigating measure is the introduction of provincial trust accounts. The provincial trust accounts function as a 'regulating' mechanism to allow controlled flows to the operational account. The ISP does not allow one annual transfer to the operational account. This regulating mechanism function as limiting the risks of exposing high level of funds to the provincial PFM systems, as funds are exposed to the provincial PFM system by controlled flows instead of an annual flow, but the actual risk impact is nearly the same.

Another risk mitigating measure on internal control is the internal audits implemented by the ISP. The internal audits can have a 'preventive' effect on internal control compliance.

Findings on the internal control function

ISP has produced a summary report of provincial trust account internal audits conducted between January 2010 and mid May 2010. At the moment of writing 7 external audit reports were made available (July 2011).

The internal & external audit reports focus on the following shortcomings in internal control:

⁸⁵ Requirement of PFM Act 1995, section 19 (4) (c) to send bank reconciliation to department of Finance.

- Monthly bank reconciliations were not drafted, with the exception of 1 province. Mostly the ISP makes the bank reconciliation for the trust account on behalf of the province. However, this jeopardizes the function of the bank reconciliation; bank reconciliations should be used as management tool by provincial administrator to check. And then for second check to Department of Finance.
- Monthly expenditure reports are not always made available.
- Fixed asset registers are not available for all provinces.

Table 7: Audit findings on control mechanisms for risk management (Jan-June 2010)

	Monthly bank reconciliation	Monthly expenditure report	Asset register
Eastern Highlands			Not available
West new Britain			Not available
Milne Bay		Outstanding (august 2009 to January 2010)	
Sandaun	Non submission	Non submission	Not available
East new Britain		Non submission	Not available
Central	Non submission	Non submission	Not available

Source: ISP summary report

When a cell is empty the summary report did not reflect information with regard to this issue.

External draft audit reports are available for 7 provinces. Based on the draft audits reports, following findings can be listed for 4 provinces⁸⁶:

Table 8: Findings from the draft Audit reports over 2010.

	Monthly bank reconciliation	Monthly expenditure report	6-monthly expenditure report	Asset register
East New Britain	Submitted	Submitted	No reports in 2010	Available
Eastern Highlands	No submissions	No submission	No reports in 2010	Not available

⁸⁶ The external audit reports for Sundaun, West New Britain, and Milne Bay were implemented by another external auditor than the external audit reports for ENB, EH, Central and Simbu. The audit reports focussed on transaction compliance, not so much on procedural compliance

Central	No submission	No submission	No reports in 2010	Available
Simbu	No submission	No submission	No reports in 2010	Partly available

Source: External audit reports.

Findings on non-complaint spending

In the last 3 years there have been 3 main incidents of non-compliant PPII expenditure identified by internal audit:

- **West New Britain Province:** the internal audit over the period May 2008 – February 2009 identified non-compliant expenditure of K 30,424.10. The funds were used for payment of staff overtime. Staff salary payments are not allowed under PPII. The audit finding relating to the misapplication of PPII funds has been treated as an error rather than fraud. The matter was resolved after 10 months in January 2010 when the WNB Provincial Administration refunded the same amount into the subsidiary account. It took 10 months to settle, because DPLGA had insufficient capacity to directly provide follow up to the issue. This was resolved in October 2009 when DPLGA allowed the ISP to directly contact the provinces regarding audit issues. Freezing of the account was considered but not deemed appropriate for this situation.
- **Simbu Province:** the internal audit over the period May 2008 – March 2009. In Simbu a number of non-complaint expenditure was identified of a total of K11,414. There were also other incidents which led, together with the non-compliant spending, to freezing the trust account in October 2008:
 - non-refund of bond deposits paid for motor vehicle hire
 - spending of PPII funds prior to signing of funding agreement
 - Payment of K14,000 as travel allowances with no proper acquittals for K12,500 of this amount
 - Spent a total of K70,000 on various training costs where a portion of fuel money totalling K1,500 was misused without proper records/justification
 - Spending K13,000 on closing ceremonies for training conducted on alcohol and other non-essential items
 - Double dipping on travelling allowances and meals provided during training etc.

Simbu Provincial Administration reacted on the audit findings in August 2009. Simbu Provincial Administration repaid the funds in full in October 2010 and the freeze on the trust account was lifted.
- **Eastern Highlands Province:** The internal audit in November 2010 discovered that certain expenditures were non-compliant⁸⁷. The province was asked to respond to the audit queries detailing expenditure totalling K28,886.61 through a letter from the Secretary DPLGA dated 3 February 2011. The EHP Administrator responded and agreed to reimburse the PPII Trust Account on the 22 March 2011. Eastern Highlands administration deposited in K 28,886.61 in the PPII SNS Trust Account on 10 June 2011.

In total these three cases of serious non-compliance amounted to approximately K 71,000 on a total of K15,600,000 PPII funding disbursed.

⁸⁷ The external audit report confirms the internal audit findings. The external audit report refers to funds applied for personal emoluments of K 13,059 and a total of K 14,215 on expenditure vehicle hire, fuel costs, and workshop bills not in accordance with the implementation plan

Risks

ISP is in most cases making the monthly bank reconciliation. Fraud can be detected in an early stage, decreasing fiduciary risks. However, the ISP is taking over a task the Provincial Administration together with the Department of Finance should execute.

Residual risks on unauthorized expenditure are judged equal to the initial risk. This is because the short term mitigating control measures have limited impact due to non-compliance with the trust account requirements. If the trust account requirements were rigorously implemented, likelihood could be adjusted to 'unlikely' and residual risks could be adjusted to 'moderate'.

Fiduciary risks for PPII financing	Likelihood	Consequence	Initial risk	Residual risk
internal control				
Fraud: PPII funding disappears	Possible ⁸⁸	Major	High	Moderate
Not spending on authorized expenditure	Possible ⁸⁹	Moderate	High	High ⁹⁰
Fraud: goods purchased by PPII funding disappear	Possible ⁹¹	Moderate	High	High ⁹²

4.9 Accounting and reporting

Mitigating measures

Accounting and reporting are two sides of the same coin. Here we differentiate between accounting as 'the quality of financial data in the reports' and reporting as the document itself; frequency, timeliness and quality.

Within PPII there is some, although limited considering the challenges, medium term capacity building under the SNS focussing on improving the quality of financial data through the financial advisers. The SNS program has a much stronger focus on planning, budgeting, HRM and ICT. It should also be noted that PCaB advisers in the provinces (also partly financed by AusAID) have a clear focus on accounting and reporting. Short term control measures monitoring closely the quality of financial data are the financial internal and external audits, checking accounting practice of individual transactions (see internal and external audit sections).

PPII has introduced a parallel reporting system for PPII expenditure. The trust account manual states that: *"The ISP will provide financial reports to AusAID on a quarterly basis on 31 March, 30 June, 30 September and 31 December each year. The reports will include the actual funds spent, the budgeted payments and the approved budget amounts for each activity. Each account will be listed separately and will show the balance of bank account at the report date"*.

For Phase 1 provinces PGAS CoA is not used. Phase 1 provinces need to keep a manual cash book. The income and expenditure codes in the manual cashbook should be consistent with the provinces' work plan and are reflected in a 'parallel' spreadsheet maintained by the ISP. The provinces need to report monthly on their transactions as reflected in their manual cashbook.

⁸⁸ The draft external audit reports 2010 available indicated in some provinces differences between cashbook balances and bank statements which could not be explained (which does not imply that fraud has been committed). The amounts are limited: Simbu: K 17,145.77, Central: K129, Sandaun: K6,849.98 and West New Britain: K6,849.98.

⁸⁹ Unauthorized spending has been detected in occasions during audits.

⁹⁰ Lack of internal control, because the extra control measures are not working adequately

⁹¹ Based on corruption and fraud analysis in draft ANS and Technical Working Paper. External Audit 2010 for Central Province indicated that 5 laptops have been stolen by employees. The costs of the laptops is being deducted from their salaries

⁹² Based on lack of specific PPII asset registers, despite additional ISP control

For phase 2 provinces the provincial accounting system is used. It is required that phase 2 provinces apply the chart of accounts which is consistent with the province's PGAS chart of account. Phase 2 provinces are also required to send an expenditure report to the ISP which consolidates expenditure in a 'parallel' spreadsheet.

Phase 2 PPII expenditure is executed through the provincial operating account, so all PPII expenditure is captured in PGAS. Therefore, PPII expenditure is 'automatically' reflected in the S114 report. It should be noted that the S114 report is a financial statement report only. It reflects the balances of the trust accounts, so also the PPII trust account. However, no explanation is given on the executed expenditure in S114, nor is expenditure presented according to sector and/or programme. Therefore, the structure of the S114 report currently does not cater to include an overview of PPII expenditure.

For Phase 2 provinces the following entry criteria is applied; the province has been submitting Section 119 Provincial Performance Report to DPLGA on a timely basis. The S119 report provides a sector breakdown of expenditures and presents sector information and key sector performance indicators. Any effect PPII expenditure has on the indicators is captured. However, the S119 do not make any specific reference PPII expenditure and their effects.

The SNS program has 2 advisers available supporting improvement in S119 reports from provinces. The advisers, based at the DPGLA, currently focus on developing and introducing a management tool for performance information. It is planned to link the excel based tool to the quarterly budget reviews enabling performance data to be entered on quarterly bases, which can generate an S119 report at the end of the year. The management tool will include MPAs and also enable benchmarking against the NEFC baseline for service delivery performance. The medium term objective is to review the format of S119 and increase the auditing activities of the DPLGA on S119 reports to increase accountability. There are no short term or medium term mitigating measures applied with regard to the S114 financial reporting within the SNS program. However, it should be noted that some support to S114 reporting is provided through the PCaB program which is also supported by AusAID.

Risks

Internal and external audit reports indicate that the likelihood of errors in financial accounting is considered to be high in phase 1 provinces. For phase 2 provinces findings are mixed; for one province the risk of errors is considered to be low, for 2 provinces the risks are medium, and for 2 provinces the risks are considered as high⁹³. The internal and external financial audits executed by ISP mitigate the fiduciary risks as a result of low quality of accounting practice for both phase 1 and 2 provinces.

Residual fiduciary risks on reporting are low, as ISP reports to AusAID for both phase 1 and 2 provinces. However, for a complete understanding of risks using country systems the initial risk assessment for reporting is reflected below.

Initial risks for reporting for phase 1 provinces are high. The main risks using PGS reporting is that within PGAS the trust accounts do not work with a CoA. Transactions through the trust account will be reflected in the trust account section of S114, but as expenditure is not administered through the provincial operating account the S114 report will not reflect expenditure. In addition, PPII expenditure will not be reflected in the sector summaries of S119 as it is not captured in the

⁹³

See Section 5.4

provincial accounting system. Possible effects on the performance indicators will be reflected, but without reference to PPII expenditure.

We do not have detailed information with regard to timeliness and quality of the S114 reports. However, based on the national PFM assessment we can state that there probably will be delays and quality issues. We have clear indications that S119 has serious timing and quality issues for both phase 1 and phase 2 provinces.

Phase 2 provinces 'use' both S114 and S119 reports. However, both reporting requirements may not be up to standards to cater for the transparency required from a fiduciary risk perspective. Furthermore, it is not clear whether the phase 2 provinces do their S114 reporting on time. It is clear that also phase 2 provinces have quality and timeliness issues with S119 reporting. Considering the substantial quality constraints, especially with regard to the data, the medium term mitigating measure will probably not be able to decrease the residual risks.

Fiduciary risks for PPII financing	Likelihood	Consequence	Initial risk	Residual risk
Phase 1 provinces				
Quality of accounting practice is low leading to not credible accounts	Likely	Moderate	High	Moderate
S114 reporting is not on time, of low quality or not happening at all.	- ⁹⁴	Moderate	-	Low
S119 reporting is not on time, of low quality or not happening at all	Likely	Moderate	High	Low
CoA cannot capture the program expenditure or will not be applied	Almost certain	Moderate	High	Low
Phase 2 provinces				
Quality of accounting practice is low leading to not credible accounts	Possible	Major	High	Moderate
S114 reporting is not on time, of low quality or not happening at all.	- ⁹⁵	Major	-	Low
S119 reporting is not on time, of low quality or not happening at all	Likely	Major	High	Low
Budget classification cannot capture the program expenditure or will not be applied	Unlikely	Major	Moderate	Low

4.10 Internal & external audit

Mitigating measures

ISP is executing the internal and external audit function for all phase 1 and 2 provinces. It is executing 6-monthly audits of the imprest and provincial trust accounts and initiates external audits, executed by independent auditors. These are a very effective risk mitigation measures but it should

⁹⁴ No information available on timely S114 reporting and quality of the report

⁹⁵ No information available on timely S114 reporting and quality of the report

be noted that this instrument is not contributing to improving the internal audit function on provincial level and the external audit function on national level (or AGO regional branches level).

Another mitigating measure is reflected in the ToR of the financial advisers under the SNS program. The finance advisers have the responsibility to monitor follow up of internal (and external) audits:

- Assist provinces to implement audit recommendations (PPII and Provincial internal audits and Auditor General's Office external audits)

Currently there are 4 phase 2 provinces⁹⁶ and the Autonomous region of Bougainville which have a full time Financial Adviser. In addition, the phase I provinces can have access to short term financial advice at ISP which have the same ToR requirement. The focus on follow up of PPII audit reports are clearly activities in the context of fiduciary risk management.

There are no medium term mitigating measures reflected in the framework related to internal & external audit within the SNS program.

Risks

ISP is executing the internal audits and managing annual external audits. Through this short term control mechanism the national and provincial PFM system is not used. Through this parallel control system residual risks can be downgraded to moderate. Furthermore, monitoring follow up activities of internal audit reports has been added to the ToRs of the financial advisers. This will decrease the likelihood of no follow up from 'likely' to 'possible', decreasing the risk level to 'moderate'.

Fiduciary risks for PPII financing	Likelihood	Consequence	Initial risk	Residual risk
Internal audit				
No timely or no internal audit on provincial trust accounts	Likely	Moderate	High	Moderate
No follow up of internal audit findings	Likely	Moderate	High	Moderate
External audit				
No timely or no external audit on Provincial financial statements	Likely	Moderate	High	Moderate
No follow up of external audit findings	Likely	Moderate	High	Moderate

4.11 Findings and conclusions

4.11.1 Recommendations for improved risk management

PPII risk management framework consists of 3 types of measures:

- Phase 1 and phase 2 entry criteria (see Annex I)
- Measures in the context of trust account management
- SNS capacity building activities

⁹⁶

These provinces are: 1) Central, 2) Sundaun, 3) East New Britain, and 4) Manus.

PPII has a relatively robust risk management framework. In most cases fiduciary risks are decreased through adequate short term control and medium term capacity building mitigating measures. However, there are some improvements in the risk management framework to bring down risks to more acceptable levels.

The use of provincial PFM systems is greater for phase 2 provinces, therefore fiduciary risks could be higher. The PFM related entry criteria are an important aspect of risk management. As long as AusAID is (partially) financing phase 1 and 2 PPII, it is recommended that these entry criteria are to be strictly applied. In addition, it should be noted that some criteria could be more specifically defined to support unambiguous monitoring (for suggestions, see Annex II). Currently DPLGA is responsible for monitoring corporate plan implementation and phase 1 & 2 entry criteria. It is recommended that AusAID requests DPLGA to strengthen monitoring on the PFM related phase 2 criteria.

The table below summarizes the main findings of the fiduciary assessment for PPII. To conclude, four additional mitigating measures are suggested:

- **Procurement:** For both phase 1 and 2 provinces the provincial procurement system is used. Risks of corruption with procurement procedures are considered to be high. It is recommended to introduce medium term capacity building measures. If possible within the current framework, it is recommended to introduce a Phase 2 criteria specifically related to procurement; a credible⁹⁷ procurement improvement plan/policy for provinces and districts should be in place. . It is also recommended SNS finance team will focus more on improving provincial procurement in their capacity building activities, especially in phase 2 provinces where larger projects related to improvement of service delivery are procured.
- **Internal control:** For phase 1 and 2 provinces introduce 'conditional payments' directly related to compliance with financial control measures already compulsory under the PNG PFM Act. If a province does not apply the required control mechanisms such as monthly bank reconciliation and expenditure reports⁹⁸, it is advised that the province will not be eligible for the next instalment. This requires phased transfers from the head trust account to the provincial trust accounts (see box text below).
- **Internal control:** For phase 1 and 2 provinces the provincial fixed asset registers are not always in place. Introduction of an operational fixed asset management system on provincial level will take some time. Therefore it is not recommendable to make provincial fixed asset registers (as part of the financial control measures) subject to conditional payments of PPII tranches, as the implementation of a fully operational fixed asset management system will take time. It is recommended to intensify the support to provinces to establish fixed asset management systems.
- **Internal control/Internal audit:** It is suggested to strengthen provincial internal audit through capacity building to initiate the 'preventive' effect internal audit can have on internal control compliance.

⁹⁷ Implementation of the improvement plan has started.

⁹⁸ In a discussion paper it is suggested that the monthly and six-monthly expenditure reports are replaced by quarterly reports

Box text: Introduce 'conditional payments'

One of the recommendations is to introduce 'conditional payments'. How can this recommendation be implemented? Different implementation models can be suggested. This box text provides some examples on how conditional payments can be operationalised. Some of the key design aspects which need to be decided upon are: (1) Phasing of the transfers, (2) The criteria on which next instalment will be released, (3) Who will monitor the criteria, (4) Who will make the decision to disburse the next instalment.

Phasing of the transfers

Currently PPII funding is transferred to the provinces annually. It can be considered to break up the annual transfer in monthly, quarterly or half year payments. Monthly payments would not be recommendable, as this will result in high administrative costs with limited value added. Quarterly or half year payments seem to be a more realistic phasing. It can also be considered to start with half year disbursements in year 1 and move to quarterly disbursements in year 2.

Criteria for releasing next instalment

There are more options that can be considered. To illustrate:

Option 1: Instalments will be released upon compliance with PPII control mechanisms (so monthly PPII bank reconciliation and PPII expenditure reports (quarterly or half year expenditure reports)

Option 2: Instalments will be released if the province complies with PFM Act control mechanisms for all provincial expenditure (so monthly bank reconciliation for all provincial accounts

Option 3: Release of instalments on the basis of acquittal reports; the next transfer will only be initiated if the previous instalment is expended.

The objective of the conditional payment scheme is to improve the internal control mechanisms for PPII. However, PPII is partly using the provincial PFM system because it also wants to contribute to improvements of the provincial PFM system. Therefore, option 2 seems an interesting option. However, this option requires close consultation with the Departments of Finance and Treasury who receive the provincial bank reconciliation and expenditure reports. It is important that DPGLA avoids creating parallel systems within the PNG PFM system. Option 1 would probably be easier to manage from a DPLGA perspective. Option 3 suits a different objective: verifying the expenditure and safeguarding the pace of implementation/spending. It should be noted that in numerous instances (DSIP, schools subsidies, etc) acquittal report have increased the administrative burden substantially without direct control or management gains.

Who will monitor?

Currently control mechanisms related to the PPII accounts are monitored by the ISP of SNS (Coffey). If option 1 is considered, the ISP can provide the necessary information to DPLGA (Finance and administration Division). If option 2 is considered, close relations should be established with Departments of Finance and Treasury. If option 3 is considered, the Monitoring Division at DPLGA will need to assess the acquittal reports.

Who will decide on release?

If we consider realising instalments as a technical decision (compliance with the requirements or not), then the decision can be made on an administrative level (by the Finance and Administration Division of DPLGA in consultation with the Capacity Building Division of DPLGA and the ISP). If other aspects need to be considered, then the PPII steering committee could be considered. However, it should be noted that transfers should not be delayed because of incompatibility with the PPII steering committee meeting schedule.

Critical implementation factors are:

- The capacity to administer conditional periodic transfers at the Finance and Administration division of DPLGA

- The monitoring and control capacity available at DPLGA

Table 9: summary of fiduciary risks of the PPII instrument and recommendations for change or additional mitigating measures

Fiduciary risks for PPII financing	Initial risk	Residual risk	Changes to or additional mitigating measures?
Planning			
No proper costing, compromised credibility of plan implementation	High	Moderate	No additional measures necessary. Risk framework suggests monitor and review activities
Funds allocated for spending outside the scope of PPII	High	Moderate	No additional measures necessary. Risk framework suggests monitor and review activities
Budgeting			
Phase 1: PPII financed activities are not planned for intended purpose	High	Low	No additional measures necessary.
Phase 2: PPII financed activities are not planned for intended purpose	High	Moderate	Suggestion: Specify in Phase 2 entry criteria that PPII expenditure has to be broken down on basis of PGAS Budget classification/Chart of Accounts.
Procurement			
Phase 1 & 2: Procurement: lack of value for money	Moderate	Moderate	No additional measures necessary. Risk framework suggests monitor and review activities
Phase 1 & 2: Corruption with procurement	High	High	Recommendation: Introduce Phase 2 criteria related to procurement, preferably a medium term mitigation measure: A credible ⁹⁹ procurement improvement plan/policy for provinces and districts should be in place. Recommendation: SNS finance team will focus more on improving provincial procurement in their capacity building activities, especially in phase 2 provinces.
Internal control			
Fraud: PPII funding disappears	High	Moderate	Suggestion: SNS program explores options to reinstall monthly bank reconciliations by provinces, through the department of Finance, PCaB, SGP, and/or through assistance through SNS financial advisers team
Not spending on authorized expenditure	High	High ¹⁰⁰	Recommendation: Introduce 'conditional payments'. If a province does not apply the

⁹⁹ Implementation of the improvement plan has started.

¹⁰⁰ Lack of internal control, because the extra control measures are not working adequately

Fiduciary risks for PPII financing	Initial risk	Residual risk	Changes to or additional mitigating measures?
			required control mechanisms (monthly bank reconciliation, expenditure reports ¹⁰¹ , asset register), it is advised that the province will not be eligible for the next instalment (phased transfers to the provincial trust account) Suggestion: it is suggested to strengthen provincial internal audit through capacity building to initiate the 'preventive' effect internal audit can have on internal control.
Fraud: goods purchased by PPII funding disappear	High	High ¹⁰²	Recommendation: Intensify the support to provinces to establish fixed asset management systems (which result in credible asset registers), at least for PPII financed purchases.
Reporting			
<i>Phase 1 provinces</i>			
Quality of accounting practice is low leading to not credible accounts	High	Moderate	No additional measures necessary. Risk framework suggests monitor and review activities
S114 reporting is not on time, of low quality or not happening at all.	High	Low	No additional measures necessary.
S119 reporting is not on time, of low quality or not happening at all	High	Low	No additional measures necessary.
CoA cannot capture the program expenditure or will not be applied	High	Low	No additional measures necessary.
<i>Phase 2 provinces</i>			
Quality of accounting practice is low leading to not credible accounts	High	Moderate	No additional measures necessary. Risk framework suggests monitor and review activities
S114 reporting is not on time, of low quality or not happening at all.	High	Low	No additional measures necessary.
S119 reporting is not on time, of low quality or not happening at all	High	Low	No additional measures necessary.
Budget classification cannot capture the program expenditure or will not be applied	Moderate	Low	No additional measures necessary.
Internal audit			
No timely or no internal audit on provincial trust accounts	High	Moderate	No additional measures necessary. Risk framework suggests monitor and review activities
No follow up of internal audit findings	High	Moderate	No additional measures necessary. Risk framework suggests monitor and review activities
External audit			

¹⁰¹ In a discussion paper it is suggested that the monthly and six-monthly expenditure reports are replaced by quarterly reports

¹⁰² Based on lack of asset registers, despite additional ISP control

Fiduciary risks for PPII financing	Initial risk	Residual risk	Changes to or additional mitigating measures?
No timely or no external audit on Provincial financial statements	High	Moderate	No additional measures necessary. Risk framework suggests monitor and review activities
No follow up of external audit findings	High	Moderate	No additional measures necessary. Risk framework suggests monitor and review activities

4.11.2 Room for improved alignment?

Although outside of the scope of the fiduciary risk assessment, some suggestions for SNS to assess room for improved alignment:

- consider whether the provincial trust accounts for phase 2 provinces can be replaced by a system of direct quarterly transfers from the head trust account at DPLGA to the provincial operating accounts on the basis of an annual cash plan, aligned with quarterly PPII expenditure reports. This should only be considered after DPLGA has demonstrated effective management of the main trust account without help from ISP for at least 1 year.
- closely monitor and support DPLGA's internal audit division which is currently being institutionalized. Once operational and demonstrated its functioning, the internal audit division should be closely involved with the ISP internal audit of the head trust accounts. A medium term objectives should be that the internal audit division will take over the internal audits on the head trust account.
- investigate the option of a PPII report as annex to the S114 report.
- investigate the option of a Capacity building report in Governance Chapter or as annex to the S119 report.
- investigate options to re-establish monthly provincial financial control measures, either through PCaB, department of Finance, or through assistance through SNS finance team.
- Assess options to strengthen provincial internal audit units under the SNS program. For example, assess if it is possible that in the provinces that do have an internal audit unit, these units can be involved in the ISP internal audit activities. Second, SNS could assess together with Department of Treasury, DPLGA, SGP, and the EPSP how the provincial internal audit framework can be strengthened. Currently EPSP has a facility in place to support internal audit units which established an Audit Committee. Third, assess options for targeted capacity building activities through the financial advisers. The medium term objective should be that phase 2 provinces can implement their own internal audits.
- Assess the possibilities that AusAID and DPLGA have to further align PPII funding to the budget calendar of the provinces. This implies strictly 'annualizing' PPII funding (through the capacity building plan) and commit PPII funding when the provincial budgets are prepared.

5 Risks and risk mitigation: Provincial Incentive fund

5.1 Introduction

In the draft SNP phase 2 design document presents the concept of a Provincial Incentive Fund (PIF). Section 5.2 presents the outline of the PIF. As there is only a preliminary outline of the PIF available, the fiduciary risk assessment in this chapter is highly conditional upon the actual design decisions to be taken. In addition, it is expected that the PIF will become operational 2 years after SNP phase 2 will start; 2014. The assessment reflected in this chapter is based on the *current* state of the provincial PFM systems, not on the actual provincial PFM systems in 2 years time. Thirdly, the PIF will only be available a small selection of high performing provinces. Therefore, specific provincial PFM assessments will be required to assess the actual fiduciary risks.

This assessment does not address development or fungibility risks.

5.2 Draft outline for the PIF

5.2.1 Draft outline as presented in the draft SNP (version 8 June)

“An additional initiative will be set up to cater for higher performing provinces that are ready to go beyond corporate capacity development to address operational and technical capacity challenges, especially at the district level, that currently constrain service delivery, drawing as far as possible on the findings of existing diagnostic work such as SDMM, SIP, District Case Study etc.

Graduation to this initiative is expected to be based on a set of gateway and organisational criteria that will take into consideration the readiness of provinces to lead a more intensive change process at district and field levels, based on detailed plans.

The main feature of this initiative will be a competitive incentive fund offering successful provinces a development budget to implement their proposed program. Largely discretionary, the budget which could run up to a maximum of Kina 2 million per annum per province and potentially running over a 3 year period will however need to comply with a set of implementation guidelines specifying the areas around which expenditure is permissible. One condition for the provision of incentive funding will be the allocation of a proportion of DSIP and provincial funds to the proposed program and the publication within the relevant district/s of expenditure decisions of the JDPBPC.

Subject to an assessment of risks and appropriate measures in place, the incentive fund would be disbursed through provinces own systems. Provinces, moreover, would be responsible for procurement of advisory and other technical services. As such, there would be no “free” advisory services. DPLGA's role will be to ensure compliance, assist in monitoring and capacity assessment, and provision of selected guidance/ advise as and when necessary.

DPLGA will invite development partners including AusAID to provide technical and financial support in the initial piloting of this new initiative for high performers.

SNP will play a major part in taking forward this new initiative. This will likely include:

- *Fully funding the envisaged incentive fund for the duration of SNP phase 2, though it is unlikely to come into place before the end of year 2*
- *Providing technical assistance to DPLGA to monitor and refine modalities, and to support provinces to prepare, monitor and review their capacity development plans as basis for participating in the incentive fund.*
- *Providing targeted support related to component 2 objectives (see further below) on strengthening performance monitoring at provincial and district levels and preparation of annual provincial performance report.”*

5.2.2 Interpretation of the presented draft outline

Based on this outline of the PIF, we are making the following assumptions with regard to the design of the PIF:

- Provinces can submit projects and/or programmes for financing
- Projects and programmes that are eligible are projects and programmes that *“go beyond corporate capacity development to address operational and technical capacity challenges, especially at the district level, that currently constrain service delivery”*. And projects/programmes that *“strengthen performance monitoring at provincial and district levels”*. Based on these statements we assume that physical investments ('hard-ware') projects such as schools, health centres, aid posts, roads, and jetty's can be eligible for support as they fall under “technical and operational capacity challenges at district level”, next to more capacity development ('soft-ware') projects in the area of performance monitoring and reporting.
- Gateway criteria will be applied to be eligible for PIF financing
- Maximum of K 2 million per province per year for a maximum of 3 years is suggested (so projects/programmes of maximum K 6 million over 3 years are possible).
- Allocation of a proportion of DSIP and provincial funding is required and so is *“publication within the relevant district/s of expenditure decisions of the JDPBPC”*. We assume that the latter implies that co-financing has to be reflected in provincial and district budgets with JPPBPC and JDPBPC supporting decisions for multi-year co-financing commitment.
- DPLGA will play an important role in managing the PIF.

5.3 Use of PGS?

The outline of the PIF in the draft design is not clear to what extend PGS is intended to be used. Reference is made to the framework of the PNG Incentive Fund (PNG-IF). This framework works with imprest accounts, separate accounting, reporting and audit requirement. Therefore this framework makes limited use of PGS. The draft design also mentions that *“subject to an assessment of risks and appropriate measures in place, the incentive fund would be disbursed through provinces own systems”*. This statement seems to assume that the PIF would make use of the provincial PFM system

The assessment presented below is based on the assumption that the use of provincial systems will be equal to or more than the current PPII phase 2.

5.4 Management structure of the PIF?

The draft outline of the PIF does not clarify the financing framework. The draft outline refers to the PNG – Incentive Fund (PNG-IF). The IF works with a head trust account, an Incentive Fund Agreement (IFA), and subsidiary Imprest Accounts. The PNG-IF is effectively managed by a contractor (Coffey International). For more details, see text box below. It could also be an option that the PIF will be managed by DPLGA (or DNPM) such as PPII currently is.

A fiduciary risk assessment of both approaches will differ substantially. Managing a fund outside of government structures will probably have less fiduciary risks than managing a fund within government structures. However, the capacity development impact of both approaches will be different as well.

Box text: Overview of managing structure of the IF

The Management Group (MG) approves projects to be funded. The Management group consists of three independent members and a representative of each of AusAID and the PNG Department of National Planning and Monitoring. The MG is supported by an Incentive Fund Team (IFT). The IFT is responsible for effective support, relationships and communication with funded organisations and for technical and financial monitoring of projects.

The current IF works with IFA subsidiary Imprest Accounts. Organisations are required to open a separate 'project' account. Expenditure is made directly out of the Subsidiary Imprest Account and IF specific accounting and reporting requirements are prescribed. The IF requires the following reporting & monitoring requirements:

- Monthly project reports (monthly expenditure reports, monthly reconciliation of the IFA subsidiary trust account, goods & services tax return, and narrative report on progress made)
- Quarterly project reports
- Project completion reports

The IF is managed by a contractor (Coffey International). Internal audit is executed by Coffey and external audits are done by approved external auditors commissioned by Coffey.

5.5 Planning

The PIF will offer substantial financial resources for most provinces. To illustrate: Milne Bay province spent approximately K 32 million (excluding salaries), of which about K 5 million was financed by own resources (GST and local revenues, excluding roll over funds and PPII funding). A K 2 million per annum additional budget is equivalent to the health or education grant for this province¹⁰³.

If the focus of the PIF is on strengthening institutional capacity of the provinces, then the corporate planning framework will be the relevant framework. If the PIF also focuses on physical projects in health, education, and/or infrastructure, then the provincial sector plans and/or an integrated provincial development plan will be the relevant planning framework. Whether or not the PNG planning framework will be used is not indicated in the outline in the draft design.

¹⁰³

Based on actual expenditure of MBP in 2009

Co-financing is also suggested in the draft outline of the PIF. If co-financing is implemented, it should already be addressed in the planning stage.

Risks and possible risk mitigating measures

The corporate planning framework has improved significantly under the current PPII framework. The introduction of the Capacity Building Plan & expenditure plan has compensated some of the weaknesses in the corporate planning framework. If the PIF will focus on strengthening institutional capacity, the provincial corporate planning system can be used, using the current Capacity Building Plans & expenditure plans to focus on systematic institutional improvements.

As the PFM assessment illustrates (see Chapter 4), the current sector planning framework on provincial level is quite weak. Often the sector plans represent a wish list without a clear medium term financial framework: medium term cost estimates of the objective/activities and resources available.

If the PIF will focus on investment projects and if the PIF wants to use the provincial and district planning system, it is suggested to introduce/require provincial medium term capital expenditure framework as part of the provincial and district development plan. In order to use the provincial planning framework, closer integration of district planning (especially DSIP) and provincial planning is also required. Furthermore, it should also be analysed how the PNG PIP process relates to the PIF process, especially if the PIF will be managed by DPLGA and the PIP will continued to be managed by DNPM.

5.6 Budgeting

Based on the draft outline of the PIF we assume that PIF financed activities should be reflected in the provincial budget. To minimise risks, we suggest the following mitigating measures.

Possible risk mitigating measures

It is suggested to apply the same entry criteria as phase 2 PPII provinces in relation to budgeting¹⁰⁴:

- The province must have an Integrated Planning and Budgeting Processes so that the annual budget reflects clear links to annual activity plans that are directly derived from the Corporate or Development / Sector plan and MTDP
- The province must have an annual budget that integrates all sources of funding – national grants, internal revenue, special support grants, GST, mining, DSIP, DSG, PSG, donor funding, etc
- Has an annual budget that uses economic, functional, activity based (such as the MPAs), and geographic budget classification and presents budget summaries in accordance with these classifications. The budget summaries should at least present a functional breakdown of the budget per district.

Furthermore, once the province is eligible and the activity(ies) has/have been approved, the following requirements should be applied once the project/programme has been awarded:

- The project/programme must be fully reflected in the budget; full break down in accordance with the functional, economic, and geographical classification

¹⁰⁴

Reformulated criteria, in line with formulation as suggested in Annex II

5.7 Budget execution: procurement

If we assume that the PIF will use of the provincial procurement system, then the fiduciary risks could be higher than under PPII as more funding will be used through the provincial government procurement procedures. Currently fiduciary risks of the provincial procurement system are considered to be high. As the risk assessment of PPII indicated, additional mitigating measures are advisable.

Risks and possible risk mitigating measures

An improved procurement practice at provincial and district level is a medium term objective. If under PPII phase 2 more emphasis is put on improving provincial procurement practice, some improvements will probably be noticeable in 2 years time before the PIF starts, but not full compliance with international good practice. Therefore, strict entry on the basis of 'good practice' procurement will probably be limiting possible eligibility for the PIF too much.

If the PIF is going to use the provincial procurement, it is suggested to initiate the following 'prior actions' by SNP in the period 2011-2014, preparing for a smooth transfer of provinces to the PIF:

- Stimulate the provinces to improve procurement practice, as suggested for PPII phase 2 provinces (including PPII advisers to emphasis strengthening procurement processes).
- Assess with EPSP whether and how CSTB can be assisted to strengthen the PSTB.
- Analyse options together with EPSP to assist PNG government to repair the identified omissions¹⁰⁵ in the current legal procurement framework.

If the PIF wants to use the provincial procurement system, the following mitigating measures could be considered:

- The province has to be a phase 2 province, illustrating the willingness to reform and capacity to improve.
- The province should have a credible procurement improvement plan for provinces and districts should be in place and demonstrate implementation¹⁰⁶. This should included provinces having their own procurement policies to suit their administrative arrangements. Such policy should be consistent with the CSTB Good Procurement Manual and the PFMA and the Financial Management Manual.

The following requirements could be applied once the project/programme has been awarded:

- All procurement up to K 5 million related to the project/programme should be executed by the PSTB (even if the project is executed by a district)¹⁰⁷.
- AND/OR: all incentive fund related provincial procurement will be subject to a project/programme specific ex post compliance audit: provincial internal audit (if internal audit is functioning) or by an independent external audit.

¹⁰⁵ See procurement assessments

¹⁰⁶ As suggested under PPII phase 2

¹⁰⁷ It should be noted that according to the law all procurement between K 300,000 and K 5 million should be executed by the PSTB. Above K 5 million the CSTB should procure and under K 300,000 the division, district or LLG can execute its own procurement).

5.8 Budget execution: financial control

As indicated in the PPII risk assessment, fiduciary risks would be high if AusAID would fully rely on the current halting provincial financial control mechanism in most provinces. In the current PPII framework the national in-year reporting requirements are duplicated for PPII expenditure and even these are not fully complied with. To strengthen PPII risk management, it is recommended to introduce conditional tranche payments to strongly incentivise the necessary in-year reports which are part of the financial control system. In addition, it is recommended to increase capacity building activities in the area of financial control.

The current PNG-IF also requires separate IF-project specific reports which are sent to the contractor:

- Monthly project reports (monthly expenditure reports, monthly reconciliation of the IFA subsidiary trust account, goods & services tax return, and narrative report on progress made)
- Quarterly project reports
- Project completion reports

The PNG-IF internal control measures seem to be less aligned with the PNG PFM system than PPII.

Risks and possible mitigating measures

Based on the current assessment, there does not seem to be scope to fully use the provincial financial control system with mitigating measures other than duplicating the financial control measures.

If the PIF is going to duplicate/create parallel provincial financial control measures, it is suggested to implement the PPII recommendations. Possible entry criteria for PIF could be:

- The province needs to be a phase 2 province.
- The province has demonstrated¹⁰⁸ full compliance for 2 years with the internal control measures as part of the PPII framework.

If the second suggested entry criterion is going to be used, it is advisable to make this criterion public at least 2 years prior to the start of the PIF.

5.9 Accounting and reporting

Accounting

PPII uses the provincial accounting system for phase 2 provinces, as funds are channelled through the provincial operating account. Phase 1 provinces and the IF are using a similar approach: no use the accounting systems. Expenditure is made directly out of the Subsidiary Imprest Account and separate accounting requirements are prescribed separately (no expenditure reporting within PGAS, only trust account transaction reporting).

Reporting

As indicated in the PPII assessment, the current provincial annual reporting framework presents high fiduciary risks to be fully rely on. PPII does not make use of the provincial reporting frameworks. PPII phase 2 introduced a parallel reporting requirement.

¹⁰⁸

Internal and external audit report can be used as independent reference source.

Risks and possible mitigating measures

Under the condition that the phase 2 criteria are strictly applied and monitored (at least the PFM related)¹⁰⁹, the PIF would continue to use the provincial accounting system and channel funds through the provincial operating accounts. Possible additional mitigating measures could be:

- Only PPIL phase 2 provinces are eligible.
- Internal and external PPIL phase 2 audits concluded high level of financial accounting accuracy

If AusAID has the intention to align the PIF with the provincial reporting framework, it is suggested to initiate the following prior actions in the period 2011-2014;

- Department of Finance (Provincial Division and Accounting Framework Division), DPLGA, SNS-AusAID, and EPSP-AusAID initiate a work group to assess and determine the medium term improvements necessary to improve transparency and accountability in the current provincial reporting framework

Based on the current assessment of the reporting framework it is recommended to apply a parallel annual reporting system for PIF financed activities.

5.10 Internal Audit

Based on the current assessment of internal audit in the provinces, it can be concluded that fiduciary risks are high and do not accommodate reliance on provincial audit systems. At this stage in time separate internal audits are recommended.

If the PIF wants to align and use the provincial audit units, it is suggested that under PPIL 'prior action' activities are initiated to support the development of provincial internal audit units:

- As suggested in the previous chapter, to create more alignment: In the provinces that do have an internal audit unit, involve the internal audit unit with the ISP internal audit activities. In the medium term joint ISP/Provincial Internal Audit reports can be produced to build capacity of the internal audit unit. The medium term objective should be that phase 2 provinces can implement their own internal audits.
- SNS and EPSP discuss with department of Treasury (PDFMD and the Internal Audit Division) and DPLGA whether the department of Treasury (with support of DPLGA, SNS, EPSP, or SGP) can improve the internal audit capacity in all provinces.

If these supporting activities are successful in the next 2 years, it could be considered to use the provincial internal audit function and apply the following entry criteria:

- Provinces need to have an adequately¹¹⁰ staffed internal audit unit which has demonstrated¹¹¹ in the last year it can implement internal audits according to international audit standards

¹⁰⁹ See recommendation under PPIL

¹¹⁰ Needs to be clearly defined what 'adequate' means

¹¹¹ Needs to be clearly defined what 'demonstrated' means

5.11 External Audit

The AGO has severe capacity constraints. Provincial external audits are performed with considerable delay. The delay is not only caused by capacity constraints of the AGO; is also caused by a lack of control culture: Parliament is not pro-actively requesting audit reports, is slow in discussing reports, and limited follow up is given. Currently the PNG external audit function cannot be relied on for effective (on time, including all provincial expenditure) external audit.

PPII introduced parallel external audit for PPII expenditure. It is not to be expected that the external audits can be relied on in the short to medium term prior to the start of the PIF, even with increased capacity building efforts targeting AGO. Based on our personal observations, using the PNG external audit is a medium to long term objective.

Based on the current situation, it can be expected that the PIF will have external audit managed through the PIF fund manager and executed by private external auditors.

If the PIF wants align and use the PNG external audit function in future, 'preparatory actions' are suggested:

- AusAID (SNS, DG and EPSP) assess together with other donors how external accountability of government function. The assessment should take into account the function of the AGO, parliament and media.
- SNS should discuss with AGO to what extend the AGO regional branches can be (and want to be) involved in the external audits for PPII

5.12 Findings and conclusions

A preliminary outline of the PIF is reflected in the draft design of SNP phase 2. Aspects where more clarity is needed in the coming months to further identify risks, possible mitigating measures, and 'prior actions' are:

- Will the PNG-IF framework be 'copied'? Or will the PIF build upon PPII?
- What will be the level of involvement of AusAID with the execution of the PIF? Managed by a contractor? Or will the PIF be managed by DNPM or DPLGA?
- Will the PIF focus on financing institutional reforms and/or investment projects?

This assessment provided some ideas of 'prior actions' (mostly focussing on capacity building) and possible mitigating measures based on the assumption that the PPII phase 2 is a starting point of discussion and AusAID has the ambition to work together with PNG to increase the use of the PNG PFM system for the PIF. A full fiduciary risk assessment at this moment in time with clearly defined mitigating measures is not possible as the PIF is expected to be launched in 2014 and only accessible for a selected group of high performing provinces which require separate assessments per province. The final mitigating measures need to be determined on the basis of a provincial PFM assessment half a year prior to the start of the PIF.

6 Risk and risk mitigation: GIF – Bougainville

6.1 Introduction

The Governance and Implementation Fund (GIF) was established in 2004 as a multi-donor funding mechanism to support the implementation of autonomy and public administration reform in Bougainville. The GIF is a multi donor trust fund. In the period 2008 to date a total of K 52.6 million has been disbursed through the GIF main trust account.

In 2010 AusAID disbursed A\$ 4 million and NZAID disbursed NZ\$ 2 million. The GIF is an important source of financing for Bougainville. To illustrate, the 2010 ABG budget was about K 120 million (recurrent + development expenditure, excluding donor finance). The GIF for 2010 was K 10,297,355¹¹², about 9% of ABG's own budget.

This assessment only focuses on the GIF funds that are channelled through the ABG imprest account. First, 90% of the funds are executed through the ABG imprest account as part of the PFM system of Bougainville. And second, the NCOBA imprest account is part of the national PNG PFM system, for which the assessment of the national PFM system is the right context

The risk assessment of the GIF or Bougainville is mainly a desk study (see literature list). A limited number of interviews were conducted with AusAID staff and advisers which support the ABG. The assessment analyses whether mitigating measures are taken, but does not assess the implementation of the measures. A more in depth review (including field work) is scheduled in October 2011. This planned review will complement and verify the desk study reflected in this Chapter.

6.2 Management of the main trust account

The GIF exists of one main trust account managed by the ISP and two imprest accounts. One subsidiary account is used for NCOBA activities and the other account for activities of the ABG. Co-financing of ABG or NCOBA activities will be directly transferred to the subsidiary accounts.

As the main trust account is managed by the ISP, no fiduciary risks exist as a result of using the PNG-PFM system for the main trust account. The external audit report of the main trust account confirms compliance with the controls set in the GIF manual.

6.3 Planning

Current mitigating measures

The GIF requires an annual GIF work plan which details the activities and expenditure. The GIF manual describes that the annual work plan should be prepared by ABG and NCOBA annually for

¹¹²

GIF main trust account external audit report 2010

presentation to the Review Body¹¹³. The work plans are assessed and approved by the review body. Furthermore, AusAID finances two full time advisers to improve the capacity of planning & policy development of Bougainville: one policy development & analysis adviser and one budget & planning adviser. Their work focuses on Bougainville policy development, planning and budget, not so much on the GIF

Risks

Bougainville has a 5 year planning framework reflected in the Strategic Action Plan (SAP). A SAP was drafted for the period 2005-2010. For 2011-2015 currently no SAP is available. ABG is working on sector plans and an ABG MTDP, but during the assessment this plan is not completed yet.

ABG has a planning framework in place. However, there are some delays in the SAP (see PFM assessment). It should also be noted that the GIF was not reflected in the SAP 2005-2010. Based on these factors it can be expected that if the GIF would have used the ABG planning framework, it would be likely that the planning framework would not have guided the GIF expenditure. However, the separate required GIF work plan, which is assessed by the Review Body, mitigates these planning risks substantially, leaving a residual risk level of 'low' as a parallel planning system is introduced.

Fiduciary risks for GIF financing	Likelihood	Consequence	Initial risk	Residual risk
Funds allocated for spending outside the scope of the GIF	possible	Major	High	Low

6.4 Budgeting

Mitigating measures

The ABG has to submit a work plan for all the GIF financed activities, indicating the activities and the expected costs (see 'planning'). In parallel, AusAID finances a full-time Budget and Planning adviser to support capacity building in the area of policy based budgeting to strengthen Bougainville budgeting system.

Risks

In 2009 the risk level of the ABG PFM system on budgeting was qualified as substantial. Furthermore, in 2010 the GIF was reflected in the budget (as a line item) and the GIF work plan as an annex to the budget document¹¹⁴. Unfortunately for 2011 the GIF work plan is not reflected in the budget. Based on the 2009 risk level of the PFM system and the experience of the last three years it can be likely that the GIF activities would not have been reflected in the ABG budget with a high risk of expenditure not being budgeted for the intended purposes (or budgeted at all) if the GIF would have used the ABG budget.

¹¹³ Review body consists of a representative of AusAID, NZAID, ABG, and the government of PNG (mostly represented by NCOBA)

¹¹⁴ SNS paper #3, August 2010.

The mitigating measure creates a parallel budget document, limiting the risk that activities will not be budgeted for intended purposes, as it is reviewed separately by the Review Body. The 2010 external audit report of the AGB imprest trust account confirms that all validated payments were in line with the work plan. The advisory support should contribute to further capacity building on budgeting in the medium term.

Fiduciary risks for GIF	Likelihood	Consequence	Initial risk	Residual risk
GIF financed activities are not budgeted for intended purpose	Likely	Major	High	Low

6.5 Budget execution: procurement

Mitigating measures

AusAID has appointed a full time procurement and contract adviser in 2009. The adviser assists the ABG on ongoing tenders, helps finding contractors, and assists in improving procurement procedures.

Risks

In 2009 the risk level of the ABG PFM system on procurement was qualified as substantial. The July 2009 internal audit report indicated some instances of non-compliance with procurement procedures (22% of expenditure of first half 2009 only had 1 quote in stead of 3 quotes without explanations) which could jeopardize value for money. It should be noted that these internal audit findings were before the procurement adviser started his activities. The procurement adviser focuses mainly on hands-on assistance and capacity building activities. The full time assistance of an adviser can limit the likelihood of lack of value for money and major corruption incidence in the procurement procedures. Telephone interviews indicated that since 2010 a substantial improvement in procurement practice of GIF financed activities, which according to the interviewees can be contributed to the procurement adviser. The interviewees seem to confirm that residual risks can be indicated as 'moderate'.

Fiduciary risks for GIF	Likelihood	Consequence	Initial risk	Residual risk
Procurement: lack of value for money	Possible	Moderate	High	Moderate
Corruption with procurement	Possible	Major	High	Moderate

6.6 Budget execution: Financial control

Mitigating measures

The GIF manual reflects the following additional mitigating control measures:

- All PNG PFM requirements¹¹⁵ are applicable to the ABG imprest trust account transactions.
"To provide a level of assurance that GIF transactions are properly accounted for through PGAS, the documentation raised by implementing agencies will be copied and form the source documentation for entry into a parallel accounting system operated by the ISP"
- "NCOPA and ABG will advise the ISP of each transfer" from the subsidiary account

¹¹⁵ Such as for example applying the three quotes procedure, the FF3 and FF4 forms, ILPOCS, having an cash book and advance register, in year reporting, etc

- An asset register will be maintained by ISP. The manual states that: *“Fixed assets and project expenditure/capital costs will be maintained outside the parallel system, in Excel worksheets. The Excel worksheet will be maintained in Buka by the GIF Finance Officer”*
- Quarterly GIF *project* reports are required for each funded activity to be submitted to the review body quarterly meeting.
- The GIF Finance Officer in Buka has to maintain a transfer register next to the ABG transfers registered in PGAS.
- The manual states that the GIF Finance Officer (ISP) is responsible to prepare the bank reconciliation. The ABG has to forward the bank statements to Finance Officer and based on the parallel accounting system bank reconciliations are made.
- *“Cash advances will be initiated by a General Expense Form (Finance Form 4). This will require approval of the ISP’s delegate prior to a PGAS generated cheque being issued.”*

Whether these mitigating measures are operational in practice could not be verified fully during this desk study. The GIF review planned in October 2011 will provide more detailed information.

Based on the telephone interviews additional mitigating measures can be identified in day to day practice. First, the GIF officer administers separately cash advances (creating a parallel control system). Second, no advances are provided through GIF, only daily allowances. Third, the finance adviser is addressing the advance and acquittal problems through workshops to improve the practice. Fourth, the finance and procurement advisers have conducted Asset Management workshops to support improving the system as medium term mitigating measures. Fifth, as complication occurred with the purchase of cars, the GIF stated that no cars can be purchased.

Risks

The ABG PFM assessment concluded in 2009 that the risks of using the financial control system are substantial. The mitigating control measures duplicated the ABG internal control system on transaction level, per month (the ISP is making the monthly bank reconciliations), per quarter (additional project progress reports are introduced), and the ISP is maintaining the fixed asset register.

Although the duplicated control system is working sufficiently, it should be noted that it is not optimal. The draft audit report 2010 indicated that there were some delays in the monthly PGAS bank reconciliations (the December 2010 bank reconciliation was made in March 2011). Furthermore, the monthly reports (transactions through PGAS and expenditure through the parallel accounting system) were not provided to the auditors. These slippages in control measures could lead to risk of fraud and unauthorized expenditure. However, since the trust account has a parallel accounting system in place which allows day to day control by the ISP, the likelihood of fraud and unauthorised spending are unlikely, decreasing residual risks to moderate.

Fiduciary risks for GIF	Likelihood	Consequence	Initial risk	Residual risk
Financial control				
Fraud: GIF funds disappears	Possible	Major	High	Moderate
Not spending on authorized expenditure	Possible	Moderate	High	Moderate
Fraud: goods purchased by GIF funding disappears	Possible	Moderate	High	Moderate

6.7 Reporting

Mitigating measures

The GIF manual reflects the following short term control measures; an annual financial report should be submitted to the Review Body “*containing receipt and payment statements and other reports that readily explain the financial position and results of funding activities*”.

Risks

Reporting on GIF is parallel to the ABG PFM system. The external audit report 2010 indicated that the annual GIF report was submitted by the GIF office. As the ISP is responsible for reporting, residual risks are all decreased to ‘Low’.

Fiduciary risks for GIF financing	Likelihood	Consequence	Initial risk	Residual risk
CoA cannot capture the program expenditure or will not be applied	Possible	Moderate	High	Low
S114 reporting is not on time, of low quality or not happening at all.	Possible ¹¹⁶	Major	High	Low
Performance report is not on time, of low quality or not happening at all	Possible	Moderate	High	Low

6.8 Internal audit

Mitigating measures

Trust account manual states that internal audit will be executed by ISP as there is no internal audit function in place in the ABG. Furthermore, monitoring follow up on internal and external audit reports is now part of the terms of reference of the procurement adviser (added to their ToR mid 2011).

Risks

As a parallel internal audit function has been introduced, there are low fiduciary risks. No follow up on internal audit findings can only have fiduciary risks for procurement and financial control, as these are the only dimensions of the PFM system which are partially used. Results of the internal and external audits are also shared with the procurement adviser, decreasing residual risks.

Fiduciary risks for GIF financing	Likelihood	Consequence	Initial risk	Residual risk
No internal audit on ABG trust accounts	Almost certain	Moderate	High	Low
No follow up of internal audit findings	Almost certain	Moderate	High	Moderate

¹¹⁶ The 2009 study indicated the likelihood as ‘likely’ while the recent telephone interviews seem to indicate that financial statements are published. Therefore, the likelihood has been decreased to ‘possible’

6.9 External audit

Mitigating measures

The manual states that “An external audit of GIF financial statements will take place annually and be conducted by an independent auditor. The donors reserve the right to request additional audits at other times as required”.

Risks

External audit has been identified as ‘substantial’ risk, mainly because there is considerable delay in the audit reports (see PFM assessment). Though the likelihood of the risks is high, the short term consequences for AusAID (related to delays in service delivery, financial impact, or reputational damage) as a result of late or no external audits and no follow up can be considered as minor. A parallel system of external audit has been introduced. Therefore the residual risks are low.

Fiduciary risks for GIF financing	Likelihood	Consequence	Initial risk	Residual risk
No, or late, external audit on ABG trust accounts	Likely	Minor	Moderate	Low
No follow up of external audit findings	Likely	Minor	Moderate	Low

6.10 Findings and conclusions

6.10.1 Findings

Initial risk levels of using the ABG PFM systems can be qualified as ‘high’. The head trust account is managed by the ISP and not part of the PNG PFM system. The subsidiary ABG account is part of the ABG PGAS system. However, AusAID has created parallel systems to manage the GIF and not actually using the ABG PFM system, so fiduciary risks are low:

- **Planning:** Separate work plan is required which is not part of the ABG planning framework
- **Budgeting:** Separate work plan is required. The ADG budget is not used as a budgeting tool. The GIF is reflected as a line item in the budget
- **Internal audit:** As the ABG does not have an internal audit unit operational, the ISP is responsible for auditing the GIF.
- **External audit:** The ISP is managing the external audits (commissioning independent external auditor).

The GIF is partially using the ABG **procurement, accounting & financial control**. However, for accounting and financial control AusAID has duplicated the procedures; having a parallel accounting system, signing cheques issued through the PGAS system, the GIF officer (ISP) is responsible for preparing the monthly bank reconciliations. Although technically the ABG systems are operational for the subsidiary account, de facto nearly all procedures are duplicated by the ISP. As for procurement, the ABG procurement procedures are used for GIF financed activities. The ABG procurement function is supported by a procurement adviser providing hands-on assistance and capacity building activities.

Fiduciary risks for the GIF	Initial risk	Residual risk	Changes or additional mitigating measures necessary?
Planning			
Funds are allocated for spending outside the scope of GIF	High	Low	No additional measures necessary
Budgeting			
GIF financed activities are not budgeted for intended purpose	High	Low	No additional measures necessary
Procurement			
Lack of value for money	High	Moderate	No additional measures necessary. Risk framework suggests monitor and review activities
Corruption with procurement	High	Moderate	No additional measures necessary. Risk framework suggests monitor and review activities
Financial control			
Fraud: GIF funds disappear	High	Moderate	No additional measures necessary. Risk framework suggests monitor and review activities
Not spending on authorized expenditure	High	Moderate	No additional measures necessary. Risk framework suggests monitor and review activities
Fraud: goods purchased by GIF funding disappears	High	Moderate	No additional measures necessary. Risk framework suggests monitor and review activities
Reporting			
CoA cannot capture the program expenditure or will not be applied	High	Low	No additional measures necessary
S115 reporting is not on time, of low quality or not happening at all	High	Low	No additional measures necessary
Performance report is not on time, of low quality or not happening at all	High	Low	No additional measures necessary
Internal audit			
No internal audit on ABG trust account	High	Low	No additional measures necessary
No follow up of internal audit findings	High	Moderate	No additional measures necessary. Risk framework suggests monitor and review activities
External audit			
No, or late, external audit on ABG trust account	Moderate	Low	No additional measures necessary
No follow up of external audit findings	Moderate	Low	No additional measures necessary

6.10.2 Conclusions

Fiduciary risks are moderate to low, as limited the GIF is making limited use of the ABG PFM system. No additional mitigating measures are necessary.

From a fiduciary risk point of view this is explainable and recommendable. However, it should be noted that the GIF guideline state: *“The ISP administers the GIF, under the Subsidiary Arrangement. As the capacity of the implementing agencies increases, responsibilities for administration of the GIF will be progressively transferred to them”*. As improvements are noted in the ABG PFM system, it is recommendable to discuss possible medium to long term timing and phasing of transferring responsibilities (‘exit strategy’ for the contractor); which actions are necessary and what are the minimum requirements.

The GIF lessons learned paper indicated that aligning with ABG PFM systems is a long term process and small steps are taken. In 2010 valuable lessons have been learned as to how to reflect the GIF funds in the ABG budget. The paper also indicated that a new format for GIF quarterly meetings was introduced to align to the ABG budget review cycle. Furthermore, in 2010 the local planning and budgeting process was used to make the GIF work plan, leading to a much more transparent GIF work plan.

The paper concludes that *“The iterative process maintained momentum for the GIF alignment process and promoted ABG leadership and ownership of the GIF.” It facilitated ... entry points for engagement with the ABG and its systems which led to stronger working relationships between ABG and donors*. The paper also stated that *“The alignment encouraged greater ABG counterpart funding of GIF activities”*. The ABG committed to fund 45% of the total cost of GIF funded activities in 2010, compared to 10% in 2009.

The attempts to increase GIF budget alignment also had some interesting side effects. *“It also highlighted the need to further integrate DSIP and other donor support with ABG systems to support the ABG to plan against its entire budget envelope”*.

The paper seems to suggest that GIF alignment to the ABG PFM systems seems to trigger system improvements and even increasing opportunities for a better development impact. It should be noted that alignment is an ongoing, iterative process, especially when the PFM system needs considerable improvements, which will need continuous attention.

7 Main findings and recommendations

7.1 Introduction

This assessment focuses on the fiduciary risks only of three main financing mechanisms: PPII, GIF, and the new PIF to be introduced in phase 2 of SNP. The report does not assess the development benefits from using PGS, which legitimise taking some fiduciary risks. The fiduciary risks reflected in these reports are based on AusAID guidelines, assisting a more or less objective qualification of risk levels. However, 'taking' fiduciary risks in the context of development gains is a subjective venture and is the responsibility of AusAID management.

This assessment presents fiduciary risks and current risk mitigating measures of PPII and GIF financing modalities. It also presents possible risk mitigating measures for a future PIF, including preparatory activities to enable a higher level of alignment with the start of the PIF.

It is recommended that AusAID actively shares and discusses their fiduciary risk perception of using provincial PFM systems with DPLGA, DoF, the Department of Treasury, and the provinces in which AusAID is involved in policy dialogue.

7.2 Risk management for PPII under SNP 2

PPII has a relatively robust risk management framework. In most cases fiduciary risks are decreased through adequate short term control and medium term capacity building mitigating measures. Some improvements in the risk management framework are recommended to address some weaknesses in the risk management framework.

Recommendation 1: The PFM related 2 entry criteria are an important aspect of risk management. As long as AusAID is (partially) financing phase 2 PPII, it is recommended that these entry criteria are to be strictly applied. Some PFM related phase 2 entry criteria could be more specifically defined to support unambiguous monitoring. DPLGA is responsible for monitoring corporate plan implementation and phase 1 & 2 entry criteria. It is recommended that AusAID requests DPLGA to strengthen monitoring on the PFM related phase 2 entry criteria.

Recommendation 2: For both phase 1 and 2 provinces the provincial procurement system is used. Fiduciary risks with procurement procedures are considered to be high. If possible within the current framework, it is recommended to introduce a phase 2 criteria specifically related to procurement; a credible¹¹⁷ procurement improvement plan/policy for provinces and districts should be in place, supported by capacity building activities by the SNS finance advisers.

Recommendation 3: SNS finance team will focus more on improving provincial procurement in their capacity building activities, especially in phase 2 provinces where larger development projects related to improvement of service delivery are procured.

¹¹⁷

Implementation of the improvement plan has started.

Recommendation 4: Risk related to halting provincial financial control measures is considered to be high. It is recommended to introduce 'conditional payments' directly related to compliance with financial control measures already compulsory under the PNG PFM Act for both phase 1 and 2 provinces. If a province does not comply with the required control mechanisms such as monthly bank reconciliation and expenditure reports¹¹⁸, it is advised that the province will not be eligible for the next quarterly instalment. This requires phased transfers from the head trust account to the provincial trust accounts.

Recommendation 5: It is recommended to strengthen provincial internal audit units through capacity building to initiate the 'preventive' effect internal audit can have on internal control compliance.

Recommendation 6: Fixed asset registers are not always in place, both in phase 1 and 2 provinces. Introduction of operational fixed asset registers for all provincial assets will take some time. It is recommended to intensify the support to provinces to establish fixed asset management, at least for PPII financed purchases. It is not recommendable to make the existence of provincial fixed asset registers (as part of the financial control measures) subject to conditional payments of PPII tranches, as the implementation of fixed asset management in the province will take time.

7.2.1 Suggestions to improve alignment for PPII under SNP2

Suggestion A: Assess, in close cooperation with SGP, on an annual basis whether capacity at Trust Division within the Department of Finance has improved to take up control of the monthly bank reconciliations. If capacity is thought to be insufficient, analyse together with EPSP/SGP what support activities can be suggested to improve the capacity over time.

Suggestion B: Consider whether the provincial trust accounts for phase 2 provinces can be replaced by a system of direct quarterly transfers from the head trust account at DPLGA to the provincial operating accounts on the basis of an annual cash plan, aligned with quarterly PPII expenditure reports. This suggestion should only be considered after DPLGA has demonstrated effective management of the main trust account without help from ISP for at least 1 year.

Suggestion C: Investigate options for improved alignment with the provincial annual reporting framework. For example, investigate the option of a PPII report as annex to the S114 report and/or investigate the option of a Capacity building report in Governance Chapter or as annex to the S119 report.

Suggestion D: Investigate options to re-establish monthly provincial financial control measures, through PCaB, Department of Finance, SGP, and/or through assistance through SNS financial adviser team.

Suggestion E: Assess options to strengthen provincial internal audit units under the SNS program. For example, assess if it is possible that in the provinces that do have an internal audit unit, these units can be involved in the ISP internal audit activities. Second, SNS could assess together with Department of Treasury, DPLGA, SGP, and the EPSP how the provincial internal audit framework can be strengthened. Currently EPSP has a facility in place to support internal audit units which

¹¹⁸ In a discussion paper it is suggested that the monthly and six-monthly expenditure reports are replaced by quarterly reports

established an Audit Committee. Third, assess options for targeted capacity building activities through the financial advisers. The medium term objective should be that phase 2 provinces can implement their own internal audits

Suggestion F: Assess the possibilities that AusAID and DPLGA have to further align PPII funding to the budget calendar of the provinces. This implies strictly 'annualizing' PPII funding (through the capacity building plan) and commit PPII funding when the provincial budgets are prepared.

7.3 Risk management of the future Provincial Incentive Fund

A preliminary outline of the PIF is reflected in the draft design of SNP phase 2. Aspects where more clarity is needed in the coming months to further identify risks, possible mitigating measures, and 'prior actions' are:

- Will the IF framework be 'copied'? Or will the PIF build upon PPII?
- What will be the level of involvement of AusAID with the execution of the PIF? Managed by a contractor? Or will the PIF be managed by DNPM or DPLGA?
- Will the PIF focus on financing institutional reforms and/or investment projects?

This assessment provided some ideas of prior actions (mostly focussing on capacity building) and possible mitigating measures based on the assumption that the PPII phase 2 is a starting point of discussion and AusAID has the ambition to work together with PNG to increase the use of the PNG PFM system for the PIF. A full fiduciary risk assessment with clearly defined mitigating measures is not possible as the PIF is expected to be launched in 2014. The final mitigating measures need to be determined on the basis of a provincial PFM assessment half a year prior to the start of the PIF

7.4 Risk management of the ABG GIF

It can be concluded that fiduciary risks are moderate to low, as limited the GIF is making limited use of the ABG PFM system. No additional mitigating measures are necessary. The head trust account is managed by the ISP and not part of the PNG PFM system. AusAID has created parallel systems (planning, budgeting, internal audit and external audit) to manage the GIF and is not actually using the ABG PFM system. The GIF is partially using the ABG **procurement, accounting & financial control**. However, for accounting and financial control AusAID has duplicated the procedures; having a parallel accounting system, signing cheques issued through the PGAS system, the GIF officer (ISP) is responsible for preparing the monthly bank reconciliations.

7.4.1 Suggestions to improve alignment for GIF under SNP phase 2

Suggestion G: The GIF guideline state: "*The ISP administers the GIF, under the Subsidiary Arrangement. As the capacity of the implementing agencies increases, responsibilities for administration of the GIF will be progressively transferred to them*". As improvements are noted in the ABG PFM system, it is suggested to discuss possible medium term timing and phasing of transferring responsibilities; which actions are necessary and what are the minimum requirements.

Annex I: PPII Phase I & 2 criteria¹¹⁹

Criteria for New Provinces to enter Phase 1 of the PPII

1. Must have a *Finalized Corporate Plan*
 - a. The PMT has undertaken the Corporate Planning Workshop sponsored by DPLGA
 - b. The Corporate Plan been approved by the Provincial Administrator and has been presented to the PEC. (PEC endorsement is highly desirable)
 - c. Copy of the Corporate Plan has been sent to DPLGA
2. Able to demonstrate that *implementation of the Corporate Plan has begun*
 - a. A Corporate Plan Committee is appointed to coordinate implementation
 - b. Other sub committees (as required) to facilitate implementation have been appoint and are operating
 - c. The PMT has already initiated key actions under the Corporate Plan
3. Has in place a *functioning Provincial Management Team*
 - a. It meets regularly;
 - b. Meeting minutes are maintained;
 - c. Follow up of PMT decisions are tracked and reported
4. Has formally agreed with DPLGA on the *Capacity Building Needs* that it wishes to address with the assistance of DPLGA and AusAID
 - a. Has formally written to DPLGA in this regard

Criteria for Provinces to move from Phase 1 to Phase 2 of the Expanded PPII

(These also serve as the key ‘targets’ for Phase 1 Provinces, in addition to the implementation of its Corporate Plan)

¹¹⁹ From: DPLGA (2007), Guide to Services and Performance Requirements under the Provincial Performance Improvement Initiative

1. Has in place a *functioning Provincial Management Team*
 - It meets at least monthly
 - Meeting minutes are maintained
 - Follow up of PMT decisions are tracked and reported

2. Has in place *functioning District Management Teams*
 - There is a functioning DMT in each district
 - Regular meetings are scheduled and held
 - Meeting minutes are maintained
 - Follow up of DMT decisions are tracked and reported

3. Has *integrated the Planning and Budgeting Processes* so that the annual budget reflects clear links to the 5 year development / Sector plan and MTDS

4. Has an annual budget that *integrates all sources of funding* – national grants, internal revenue, special support grants, GSAT, mining etc

5. Has an annual budget that *clearly indicates allocations* for services district by district

6. An up-to-date *staff database* has been established
 - There is a clear record of *permanent and casual staff* within the province.

7. *Job descriptions* of all positions have been accomplished

8. Has put in place a performance-oriented *staff performance planning and appraisal system*, which focuses on outputs to be delivered by each staff.
9. Has in place a *functioning performance management system* for operations as a whole:
 - Sector division heads and the DAs submit their annual program of outputs and objectives to be achieved
 - Divisions and DMTs submit monthly progress reports to the PA and DPAs
 - Sector and District Programs for the year are printed and available for the PEC, the JPPBPC and the JDPBPCs.
 - Sector program work progress (including expenditure) are monitored, by district, and reported to the PMT and PEC every quarter.
 - Section 119 Report and Reporting on NMA Indicators for each year is submitted by March the following year.
10. Has been submitting *Section 119 Provincial Performance Report* to DPLGA on a timely basis
11. The PMT provides *regular policy-briefs* and *issue-briefs* to the PEC and the Sector Chairmen of the PEC on relevant issues.
12. An *inventory of all key assets* of the province has been established. In particular:
 - Buildings, equipment, vehicles
 - A system for maintaining the asset register is operational
13. An *asset maintenance program* has been developed and is operational
 - A clear budget is allocated for maintenance
 - Staff are assigned clear maintenance duties
14. An *asset acquisition / procurement policy and procedure* is approved and operational

Annex II: More specific formulation of PFM related phase 1 & 2 criteria

Criteria for New Provinces to enter Phase 1 of the PPII

Criteria 2 c):

“The PMT demonstrated implementation of key actions under the Corporate Plan”

Criteria for Provinces to move from Phase 1 to Phase 2 of the Expanded PPII

Criteria 3:

“Has Integrated the Planning and Budgeting Processes so that the province can demonstrate that the annual budget reflects clearly links to the annual activity plans derived from the 5 year development / Sector plan and MTDP”

Criteria 4:

*“Has an annual budget that **reflects** all **available** sources of funding in one budget book. **Reflecting** available sources of funding implies including all sources of funding even though these funds may not be executed by the provincial administration but are presenting expenditure in line with the provincial responsibilities. All **available** sources of funding on provincial level are for example: national grants, internal revenue, special support grants, GST, DSG, DSIP, PSG, mining, donor funding, etc*

Criteria 5:

“Has an annual budget that uses economic, functional, activity based (such as the MPAs), and geographic budget classification and presents budget summaries in accordance with these classifications. The budget summaries should at least present a functional breakdown of the budget per district.”

Criteria 9:

“Has in place a functioning performance management system for operations as a whole:

- *Sector division heads and the DAs submit their annual program of outputs and objectives to be achieved*
- *Has an effective internal quarterly performance review process with results presented to the quarterly reviews conducted by Dept of Treasury*
- *Sector and District Programs for the year are printed and available for the PEC, the JPPBPC and the JDPBPCs.*
- *Section 119 Report and Reporting on NMA Indicators for each year is submitted by March the following year.”*

Criteria 10:

“Has been submitting (a copy of the) Section 114 Financial Statement and Section 119 Provincial Performance Report to DPLGA on a timely basis.”

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Annex IV: Risk assessment national PFM system

The following risk assessment was reflected in a technical working paper on assessing fiduciary and development risks of using the national PFM system.

Nr.	Indicator	PEFA Rating 2008	Fiduciary risk	Development Risk ¹²⁰
	Credibility of the Budget			
PI-1	Expenditure outturn compared to approved budget	C	M	H
PI-2	Composition of expenditure out-turn compared to original approved budget	B	L	
PI-3	Aggregate revenue out-turn compared to original approved budget	A	VL	
PI-4	Stock and monitoring of expenditure payment arrears	-	L	M
	Comprehensiveness and Transparency			
PI-5	Classification of the budget	B	VL	
PI-6	Comprehensiveness of information included in budget documentation	A	VL	
PI-7	Extent of unreported government operations	D+	H	
PI-8	Transparency of inter-governmental fiscal relations	D+	H	

Nr.	Indicator	PEFA Rating 2008	Fiduciary risk	Development Risk ¹²⁰
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	D	VH	
PI-10	Public access to key fiscal information	B	M	
	Policy Based Budgeting			
PI-11	Orderliness and participation in the annual budget process	A	L	
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C+	M	
	Predictability and control in Budget execution			
PI-13	Transparency of taxpayer obligations and liabilities	B	M	
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	B	L	
PI-15	Effectiveness in collection of tax payments	D+	H	
PI-16	Predictability in the availability of funds for commitment of expenditures	C+	M	
PI-17	Recording and management of cash balances, debt and guarantees	C	H	
PI-18	Effectiveness of payroll controls	C+	M	
PI-19	Competition, value for money and controls in procurement	D+	H	

Nr.	Indicator	PEFA Rating 2008	Fiduciary risk	Development Risk ¹²⁰
PI-20	Effectiveness of internal controls for non-salary expenditure	D+	H	
PI-21	Effectiveness of internal audit	D+	H	
	Accounting, recording and reporting			
PI-22	Timeliness and regularity of accounts reconciliation	D	VH	
PI-23	Availability of information on resources received by service delivery units	D	VH	
PI-24	Quality and timeliness of in-year budget reports	C+	L	
PI-25	Quality and timeliness of annual financial statements	D+	M	
	External scrutiny and audit			
PI-26	Scope, nature and follow-up of external audit	D+	H	M
PI-27	Legislative scrutiny of the annual budget law	D+	L	
PI-28	Legislative scrutiny of external audit reports	C+	L	M

Annex V: Risk Policy and Risk Matrix AusAID

(VH) Very High risk – detailed treatment plan with close oversight by the Executive with formal reporting to, and monitoring by the Executive on a quarterly basis through the Quarterly Executive Report process

(H) High risk – detailed action plan with close management oversight by Branch and Division Heads through Quarterly Business Unit Reviews

(M) Moderate risk – management should monitor and review response action as necessary

(L) Low risk – accept and manage through normal monitoring and control procedures

AusAID Risk Matrix Likelihood	Consequences				
	Negligible A NEGLECTIBLE IMPACT on AusAID which should be possible to be handled at the operational level.	Minor A MINOR IMPACT on AusAID. It could involve such things as: • Minor delays in providing services or achieving objectives • Minor dissatisfaction of clients or stakeholders • AusAID suffers a minor adverse financial impact (<\$50K) • Minor breach of public sector accountability requirements	Moderate A MODERATE IMPACT on AusAID. It could involve such things as: • Significant delays in providing services or achieving key objectives • Limited dissatisfaction of clients and stakeholders • A minor breach of physical or information security • AusAID is exposed to minor criticism and adverse publicity • AusAID suffers minor damage to its reputation • AusAID suffers a moderate adverse financial impact (\$50-250K) • Moderate breach of public sector accountability requirements	Major A MAJOR IMPACT on AusAID. It could involve such things as: • Major delays in providing services or achieving key objectives • Significant dissatisfaction of clients and stakeholders • A major breach of information security which adversely affects relationships with other agencies • A physical security incident resulting in injury to an employee • AusAID is exposed to significant criticism and moderate adverse publicity • AusAID suffers moderate damage to its reputation • AusAID suffers a significant adverse financial impact (\$250-500K) • AusAID breaches legislative or contractual obligations • Major breach of public sector accountability requirements	Severe A SEVERE IMPACT on AusAID. It could involve such things as: • A critical business failure resulting in non-achievement of key business objectives • Extensive loss of stakeholder support • Loss of Government confidence in and/or support for AusAID • An extensive breach of information security which damages Australia's interests • A breach of physical security resulting in the death of an employee • AusAID is exposed to extensive criticism and adverse publicity • AusAID suffers extensive damage to its reputation • AusAID suffers a major adverse financial impact (>\$500K) • Extensive breaches of legislative or contractual obligations by AusAID • Extensive breach of public sector accountability requirements • Establishment of Parliamentary or other external inquiry
Almost Certain Expected to occur in most circumstances	Moderate	Moderate	High	Very High	Very High
Likely Will probably occur in most circumstances	Moderate	Moderate	High	High	Very High
Possible Could occur at some time	Low	Moderate	High	High	High
Unlikely Not expected to occur	Low	Low	Moderate	Moderate	High
Rare May occur only in exceptional circumstances	Low	Low	Moderate	Moderate	High

Annex VI: ToR focussed Risk Assessment

Terms of Reference for Risk Assessment & Mitigating Measures

1. Introduction

AusAID-PNG is preparing a second phase of its Sub National Program. As part of the preparatory activities the AusAID corporate guidelines require a risk assessment when PGS are used or intended to be used.

SNP phase 2 intends to channel funds through the following mechanisms:

1. Current PPII (phase 1 and 2 provinces) funding. This funding is channelled through DPLGA (manager of the head trust account) and the provinces (through impress accounts for phase 1 provinces and through provincial trust accounts and provincial operating accounts for phase 2 provinces). It is intended to phase out AusAID PPII financing over the coming years and phase in PNG PPII financing.
2. An incentive fund. AusAID intends to finance an incentive fund for projects that are improving service delivery in the provinces. The incentive fund is intended to be managed by DPLGA and provinces can apply for project financing. It is intended that the incentive fund will run parallel to the PPII-PNG programme and will make use of PGS (at national and provincial level) as much as possible.
3. The Bougainville Global Infrastructure Fund.
4. The Kokoda Development Program.
5. Central Agency Support Mechanism which is envisaged for any central agency that provides support to provinces.
6. Policy and Research Funding. There is a possibility that a pool of funding can be available for agencies engaged in decentralisation policy and research.

The exact institutional design of both the PPII in SNP phase 2 and the incentive fund have not been determined yet. This risk assessment will provide inputs for the institutional design which will take place in the coming months¹²¹.

2. Risk assessment

It has been determined that the overall assessment work for the design can take place as separate pieces of work and between different teams of people. This is therefore the first in a series of assessments and will **focus on mechanisms 1 and 2**. It will be conducted jointly by the PPII Lead **Finance Adviser John Piel** and **SNS PFM Adviser Christian Hiddink**.

The risk assessment can be identified for the following levels:

1. Risk assessment at the level of DPLGA for; (1) managing the head trust account for PPII (for phase 1 and phase 2 provinces), (2) managing the incentive fund.
2. Risk assessment at the level of provinces: (1) receiving PPII financing, and (2) receiving incentive fund financing.

¹²¹ The final 3 mechanisms are envisaged future support and will require further thinking before undertaking risk assessments.

It will not be a full fledged risk assessment, but focus specifically on the suggested fund flows. This targeted approach implies the following:

- The assessment will take the current use of PGS as a starting point for the analysis and will focus on how to improve risk management.
- Risk assessments are normally based on: (1) Assessment of the national PFM context, (2) Assessment of the context of the specific instrument. This assessment will only focus on the context of the specific instrument, as the national PFM context is addressed in the ANS which is currently being implemented.
- The risk assessment will build upon existing assessment reports. No additional PFM related assessments will be implemented, other than a capacity assessment of DPLGA to manage the head trust account and the mitigating measures implemented which supported the transfer of head account management from DNPM to DPLGA.

3. What risks?

The risk assessment mainly focuses on fiduciary risks¹²²:

- risk as the risk that funds are not used for the intended purposes;
- do not achieve value for money;
- and/or are not properly accounted for.

The realisation of fiduciary risk can be due to a variety of factors, including lack of capacity, competency or knowledge; bureaucratic inefficiency; and/or active corruption

4. Risk assessment DPLGA

Approach

The following work flow is suggested:

- Assessment of the current PPII instrument and the requirements for head trust account management.
- Assessment of the current risk mitigation measures in place.
- Assessment of the auditor reports of PPII head trust account management by DNPM.
- Analysis of DPLGAs capacity to manage the PPII head trust account. As DPLGA is in the process of implementing head trust account management since 2nd quarter of 2011,

Results

- Conclusions on the most important fiduciary risks
- Suggestions for changes to current mitigation measures for PPII head trust account management
- Suggestions for new mitigation measures for PPII head trust account management and for the new incentive fund (management structure, eligibility criteria).

5. Risk assessment Provinces

Approach

The following work flow is suggested:

- Assessment of the current phase 1 and 2 PPII criteria.
- Assessment of the PPII instrument the current risk mitigation measures in place.
- Assessment of the auditor reports of the phase 1 and 2 provinces.

¹²²

DFID (2009), "Managing fiduciary risks when providing Financial Aid"

Results

- Conclusions on the most important fiduciary risks at provincial level
- Suggestions for changes to current mitigation measures for PPII at provincial level
- Suggestions for new mitigation measures for PPII and for the new incentive fund (management structure, eligibility criteria).

6. Team and reporting

The assessment team will include John Piel, lead finance adviser, and Christian Hiddink, PFM adviser. John's extensive knowledge and experience of PFM in PNG and Christian's expertise on international PFM & risk assessments will provide the necessary skills for this assignment.

The team will deliver a maximum 20 page paper with main recommendations as inputs for management of the PPII SNP phase 2 and the proposed incentive fund. The report is due on August 1st the latest.

7. Key counterparts and documents for the assessments

Counterparts

- Director of the Capacity Building division, Mr. Dickson Guina of DPLGA
- Head of Finance department managing the head trust account at DPLGA
- The ISP controllers, supervising PPII funding and audit assessments.

Reports

- PPII provincial Audit reports
- PPII head trust account reports
- PEFA 2008
- Procurement assessment on sub national level
- Draft EU PEFA/Institutional assessment Milne Bay province
- PER – NEFC