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PUBLIC SECTOR REFORM IN PAPUA NEW GUINEA¹

Progress with Public Sector

First, I am grateful for the opportunity provided by the Advisory Support Facility to talk about public sector reform with so many people actually involved in the day-to-day improvement of organisations in the Papua New Guinea public sector.

Secondly, I am indebted to Dr David Kavanamur and Dr Henry Okole for their excellent research and analysis to produce the Institute of National Affairs (INA) publication *Understanding Reform in Papua New Guinea: An Analytical Evaluation*. It has brought together the history of reform in Papua New Guinea over the last three decades. Their conclusion seems to be that very little of what has been done so far in the way of reform has been successful. In some instances changes seem to have made things worse, not better.

It is disconcerting to read this research and to reflect on the lost opportunities of the past fifteen years. The publication should be compulsory reading for all political and bureaucratic leaders.

I have been invited to speak about where we are up to with public sector reform.

When we talk about public sector reform what do we mean?

Public sector reform efforts in Papua New Guinea can be broadly categorized into two areas:

- organisation reform – improving the systems, processes and people in organisations and
- institutional reform – improving the underlying institutional rules and regulations which shape the incentives that drive behavior, performance and expectations.

Much of Papua New Guinea's public sector reform work in the past has focused on correcting organisational weaknesses. Organisational reform is of course important, but the bigger picture within which organisations exist – the institutional setting – is equally important. Institutional reform must advance at the same time as organisational reform. We need to identify both the improvements needed in technical competence in organisations and the institutional changes that are needed to allow the technical improvements to work.

The government's Medium Term Plan of Action for Public Sector Reform in Papua New Guinea 2000–2003, one of the most comprehensive reform plans prepared in Papua New Guinea, adopted strategies to advance organisational and institutional reforms concurrently.

BILL KUA

The contribution of AusAID to this series is acknowledged with appreciation.

- Organisational reform was supported by a program of functional expenditure reviews (FERs) to identify in each organisation what improvements should be pursued. The FERs were in effect to serve as the reform strategy in each organisation. The Services Improvement Program (SIP), which offered direct support to departments and provinces to improve service delivery, was to complement this work.
- Institutional reform strategies set direction for improving the performance of the underlying framework of budgeting, planning, policy development, resource management, probity and accountability, and leadership.

How Successful was this First Plan?

I think it is true to say that line departments included in the FER program, to a greater or lesser extent, did use the FER findings and recommendations to launch their own internal reforms. I will point to some examples.

- The numbers in the Defence Force were substantially reduced and the role of defence reoriented, with consequent budget savings and improved logistical support.
- The cost of Foreign Affairs was reduced and a number of expensive overseas properties sold.
- The number of staff in the National Fisheries Authority was reduced by two thirds and revenue increased.
- The staff of the Government Printing Office was reduced by over 100, its premises refurbished, revenue increased and it now operates competitively with the private sector.
- The law and justice agencies and the judiciary formed the National Coordinating Mechanism and have developed a comprehensive and integrated reform planning process.

I would like to particularly mention the Department of Works and the Department of Lands and Physical Planning. These are two excellent examples of organisations that have

built medium-term internal reform on the FER work and are getting results.

The SIP program was an interesting exercise in capacity building and was warmly welcomed by the national organisations and the provincial administrations where the program was implemented. Its goal was to provide organisations with the skills needed to evaluate their practices and procedures. Unfortunately, funding for the program in 2005 was withdrawn.

When people assess progress with public sector reform, they often overlook the extent of what is happening across individual departments and agencies.

Large-scale capacity building and reform programs are in place in the health sector, the education sector and the law and justice sector. Smaller-scale programs exist in many other areas, for example Department of Works, Department of Transport, National Forestry Authority, National Disaster Centre, Department of Community Development, Provincial and Local Government Affairs, Bougainville Administration, Department of Minerals, Department of Agriculture and Livestock to name a few.

Not all FERs were taken up with enthusiasm. The central agencies were slow to react and this has had a serious impact on the implementation of and timetable for institutional reforms.

A number of the FERs in departments highlighted how the weak capacity in central agencies and the poor institutional practices across the public sector impacted adversely on both the pace and extent of reform implementation at the organisational level.

Under the Enhanced Cooperation Package (ECP) program, capacity-building support is being provided in economic, financial and public sector reform areas. The type of assistance sought and provided under the ECP is clear recognition by both the government and donors that weak institutional practices are impeding both economic recovery and reform across government.

At the institutional level, the progress made so far has helped to develop the groundwork for continuing improvement in fiscal management and control, human resource management, probity and accountability, and merit appointment.

A recent initiative has been taken to set up a structure for the long-term development and training of the public sector workforce.

Of particular interest are the following institutional level achievements.

- The roll out of the new Payroll/Human Resources (HR) system is complete, after more than two years of work. Initial data checking and verification has produced several million kina of savings by reducing overpayments and ghost employees. It has also provided the basis for reviewing and substantially reducing the number of casual staff employed. More detailed and accurate checking of payroll details is expected to provide a secure payroll system, prevent unauthorized employment and provide reliable data for budget preparation and management.
- Probity and accountability are being strengthened through capacity building projects in the Auditor General's Department, the Ombudsman Commission and the Electoral Commission.
- High standards of ethical behavior have been reinforced with the development of a code of conduct. Penalties for breach are enshrined in legislation.
- The General Orders which direct and support HR management throughout the public sector have been completely revised and are now available on CD ROM.
- The Central Supply Tender Board has been reviewed and support is being provided to the Board to implement the recommendations.
- New procedures for recruitment and dismissal of department heads and provincial administrators have been put into legislation to overcome almost a decade of interference by politicians in the process and to bring about a greater level of stability in the leadership of the public sector.
- New legislative requirements for managing the performance of department head and provincial administrators have been adopted and a trial of new contractual arrangements is about to commence.

- Improved budget processes and budget planning in Treasury and the many initiatives being taken to improve control over budget spending will help to secure long term improvement in expenditure control.
- Funds made available in the Papua New Guinea budget during 2004 enabled about 700 unattached public sector staff to be retrenched.
- A critical review and continuing strict control has reduced the number of casual employees by 150.

An important institutional reform has been the establishment of the Central Agencies Coordinating Committee (CACC) and the strengthening of the role of the Chief Secretary to direct public sector reform and manage the performance of department heads.

The CACC, made up of the Chief Secretary and the central agency heads is the key interface between the public sector and government on planning, policy and budgets. It is there to provide leadership and direction in these areas, to ensure the implementation of NEC decisions, to coordinate national plans, to review and report on performance of departments and agencies, and to coordinate and oversight structural reform, including public sector reform.

The role of the CACC needs to be nurtured and strengthened. A priority under the

2003-2007 public sector reform strategies is to improve the way the CACC carries out its role. This will come about in a number of ways, including strengthening the capacity of the central agencies and improving the performance of line organisations in corporate planning, policy development, budgeting and financial management. The Public Sector Reform Management Unit (PSRMU) needs to improve its capacity as well to support the CACC more effectively.

The Chief Secretary is working on changes within the Department of Prime Minister and NEC to improve its capacity and response to policy. An Office of Strategic Policy is under consideration that will bring together all existing mechanisms involved in strategic policy advice, including the PSRMU. For the PSRMU, this will mean focusing more on providing strategic advice on direction and

progress of reform and working more directly with key players on these issues.

One of the beneficial outcomes of work carried out over the past few years has been the collection of a large volume of data on the problems. Since 2000, extensive diagnostic work has been commissioned to underpin public sector reform and to guide government planning and decisions. Without such work, it would be impossible to understand the problems fully and respond effectively. The main work undertaken includes the following.

- Some seventeen Functional Expenditure Reviews (FER) have been completed in departments and agencies. This program is continuing, with a wide-ranging review of the Agriculture sector in progress.
- The Public Expenditure Review and Rationalisation (PERR) exercise was completed in 2003. The findings of the review have heavily influenced government budgeting and fiscal planning and have provided a blueprint for what needs to be done to reduce and reshape government expenditure. The PERR Implementation Committee continues to work through a program to implement the recommendations of the review.
- The review of intergovernmental financial arrangements by the National Economic and Fiscal Commission (NEFC) commenced in 2003 and, with the extensive data being collected and analysed, will play a critical part in reforming relationships between national and sub-national levels of government and implementing effective funding arrangements for sub-national services. Some early findings of the review are already influencing budget planning.

Reforming the public sector is a big undertaking and it will take a great deal of time for any changes to take effect. The time it takes to get reform in place is governed by many different factors. Reform is not popular, it is difficult to secure widespread support politically and in the bureaucracy and many reforms rely on approval and support from international donors. A huge impediment to rightsizing the public sector has been the lack of funding for redundancies.

Public Sector Reform Management (PSRMU)

As director general of the Public Sector Reform Management Unit set up under the prime minister in 1999/2000, I have been involved at the centre of government for over five years in the reform program. PSRMU is a small group within the Department of Prime Minister and NEC with seven professional staff and a small clerical support team. We have one full-time adviser and one part-time adviser.

The PSRMU was set up to support the reform program in various ways:

- by advising the Chief Secretary and CACC on reform policy and progress;
- as a catalyst for driving change, and
- to support the work of agencies.

It was explicitly stated in the first reform policy that the Unit did not implement reform, a position reiterated in the revised public sector reform policy (A Strategic Plan for Supporting Public Sector Reform in Papua New Guinea 2003–2007).

This is not to say that we haven't got involved in reform implementation. Our direct intervention has been a catalyst to get reforms under way in key high priority areas. The PSRMU has had to work well beyond its original charter to get at least some of the key institutional reforms in place. As well, PSRMU has directly managed and delivered aspects of the program including FERs, the SIP and more recently the CBSIP.

While people sometimes ask what PSRMU has been doing when things are not happening, implementing reform is the primary responsibility of departments and agencies. We can draw attention to lack of progress, we can work with agencies to get things started and moving along but we do not have the line authority to actually go out and implement work program to effect changes.

Implementing reform is a whole of government exercise and the government's strategic plan sets it out as follows.

- The NEC will provide political leadership and direction.
- The CACC will provide strategic oversight of the public sector reform process.

- Departments, agencies and provincial administrations are responsible for implementing public sector reform, with central agency support.
- PSRMU is an expert unit available to assist central agencies, line agencies and provincial administrations.
- Public Sector Reform Advisory Group (PSRAG) provides input from external stakeholders to the public sector reform process.

Where a reform initiative is launched by Government, departments, agencies and provincial administrations are expected to take necessary action to implement the reform. PSRMU support is available to advise on the implementation issues.

The roles of the CACC in relation to public sector reform include:

- Providing input to strategies and plans.
- Providing coordination of implementation.
- Ensuring that linkages are made between public sector reform and budget, policy and planning processes.
- Monitoring and reviewing progress in implementation.

There are a couple of ongoing whole-of-government reform implementation processes that I would like to mention because their work will have far reaching impact across the public sector.

PERR Implementation Committee (PERRIC)

PSRMU has supported the formation, structure, development of work plans and the ongoing work of PERRIC, a committee of senior central agency representatives under the chairmanship of the Treasury, charged with implementing the priority recommendations of the PERR. Implementation is the responsibility of the respective central agencies.

This process is proving to be a successful mechanism for identifying work and responsibilities and keeping to a timetable. As a mechanism for engaging central agencies in a cooperative exercise and for monitoring

progress and reporting to the CACC, it has proved extremely useful.

Referring briefly to the scope of the Committee's work, PERRIC has established nine projects and it is sufficient that I just mention the names of these projects as I think they are self-explanatory.

1. Improve budget stability.
2. Improve budget processes.
3. Secure the payroll and appointments process benefits.
4. Reduce spending on salaries.
5. Control and prioritize spending on procurement and improve oversight of spending.
6. Expenditure adjustment and prioritization Phase I – short term, 2005–2006 (i.e. reduce public spending by critically reviewing opportunities for greater efficiency and better prioritization).
7. Expenditure adjustment and prioritization Phase II – medium term, 2006-2008 (now the rightsizing project).
8. Improve non-tax revenue.
9. Improve fiscal and governance oversight of statutory agencies.

Rightsizing

I want to say something about where we are up to with the rightsizing exercise, something that will eventually impact on all government organisations as adjustments are made to roles and structures and of course the overall number of public sector employees.

We have had a history of governments that showed little interest in improving the efficiency of the public sector, or went about it in a way that probably made things worse, not better.

The critical fiscal position that emerged in Papua New Guinea during the 1990s was a driving force in focusing the attention of political leaders, bureaucrats and donors on correcting underlying causes of the crisis.

We have learnt a lot in the short time since 2000. The PERR exercise in 2003 was a wake-up call that drastic, fundamental and sustained

change was needed if the country was to return to a stable financial position. Drastic reductions and adjustments in government spending had to be part of this plan.

Rightsizing is not just about reducing public sector employee numbers, but, in the Papua New Guinea context, reducing numbers is of course an integral part of the exercise. In the 2004 budget, brought down in November 2003, the government announced that it wanted to reduce the number of public servants over the ensuring three years by 'at least 10 per cent'.

In the subsequent development of a response to this policy, the Chief Secretary made it clear that it was not downsizing for downsizing sake. It was about getting the overall role, structure and size right within the affordable limits set by Papua New Guinea's fiscal policy. His term was rightsizing.

In a short-term phase of the response to this policy, action was taken under the PERRIC leadership to rationalise the employment of casuals and, with money made available in the Papua New Guinea budget, to pay out redundancy to as many as possible of the permanent staff already identified as surplus to requirement (some had been in this position for more than three years). Together with adjustments made possible through the first phase of the data cleansing exercise for the new payroll system, a small dent has been made in the salary costs for government.

Through rightsizing we have to redress the legacy of uncontrolled growth in the number of agencies and the number of public servants; the duplication and overlap that have grown out of this unmanaged process; the disparity between the availability of funding and the roles assigned to provincial and local level governments, and finally the structural imbalances in the budget between funding for staffing and funding for goods and services.

In a nutshell, we have to adjust our overall level of spending to make government affordable within the fiscal limits set in the budget and we have to spend what is available in a more efficient and productive way.

The government established a Public Sector Rightsizing Working Group (PSRWG) under an independent chairman and with a number of outside persons on the group. It is due to report in July 2005. A number of consultants have been out talking to departments and

agencies assessing their roles, spending and the priority of their functions and will report back to the PSRWG. It is anticipated that any decisions by the NEC on recommendations by the Working Group will be incorporated into the construction of the 2006 budget.

The PSR Framework – Organisation and Institutional Reform

I hope by now that you have all had a chance to study the 2003-2007 public sector reform plan, launched in February 2004. This plan is intended to link a set of strategies to the goal of good governance in the Medium Term Development Strategy (MTDS) and provides a guiding framework for implementing reforms in organisations.

Some might think that the reform plan has little to do with line agencies and provinces – that it is essentially a plan for the central agencies and what we call institutional reform.

This is not so. Just take one example. The plan calls for setting clear direction and the strategies call for a number of things to be done, including better support to the CACC and NEC in policy advice and implementing government decisions.

How will this be done? First consider where much of the policy advice is formulated and where responsibility for implementation lies. Yes, they both rest with departments and agencies. How do you improve policy advice to a minister? Some examples include improving capacity for analysis and improving data. So, in your organisation's corporate plan, we could expect to see improving policy skills and capacity identified as an activity. We would also expect to see activities that will lead to improvement in managing implementation, improving monitoring and improving reporting to the minister and the CACC.

A good example of how organisation reform is linked to the public sector reform strategies is to be found in the planning undertaken by the secretary for Works. His recent report to the CACC is a model of what can be done and is a clear demonstration of the relevance of the PSR Strategic Plan to reform planning of every organisation.

Conclusion

While much of what David Kavanamur has said is of deep concern to me as a senior public servant, I am heartened by his statement that: Observing the trends over the last thirteen years of reform, it is imperative to say that there is a sense of urgency to do something substantive at least over the last six years.

He adds:

it is encouraging to note that both Sir Mekere and Sir Michael have seen the need to come up with workable homegrown reform programs. Homegrown initiatives should be the solutions that have full public acknowledgment and backing.

Perhaps a lesson for all of us is what Kavanamur says about donors and Papua New Guinea:

it matters to the success of reforms undertaken anywhere that a recipient country is on amicable terms with the donor community.

In closing I should say that I have not attempted to cover every aspect of what has been happening but at least I hope I have touched on the important matters underway and what lies in store over the next year or so.

There is no doubt that the rightsizing exercise will have a major impact on all of us as the government proceeds to implement changes to departments, agencies and provinces.

Organisations need to see this period as an opportunity to secure support for rational reform. There will be winners and losers amongst us as there is in any change, but the ultimate beneficiaries will be the citizens of Papua New Guinea.

Author Note

Mr Bill Kua, MBE is Director General, Public Sector Reform Management Unit, Department of Prime Minister and NEC, Papua New Guinea.

Footnotes

¹ This paper is based on an address to a workshop on 'Public Sector reform' attended by Advisory Support Facility advisers and Papua New Guinea officials, at the Holiday Inn, Port Moresby, 29 June 2005.

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The State, Society and Governance in Melanesia Project comprises four Fellows (Dr Sinclair Dinnen, Dr Nicole Haley, Dr Abby McLeod, Mr Anthony Regan), a Convenor (Mr David Hegarty) and an Executive Officer (Ms Sue Rider).

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Research School of Pacific and Asian Studies
The Australian National University

State, Society and Governance in Melanesia Project

Research School of Pacific and Asian Studies

Australian National University

Canberra ACT 0200

AUSTRALIA

Telephone: +61 2 6125 8394

Fax: +61 2 6125 5525

Email: ssgm@coombs.anu.edu.au

<http://rspas.anu.edu.au/melanesia>