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Solutions to poor service delivery in Papua New Guinea

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Abstract

The paper discusses the problems that have plagued service delivery in Papua New Guinea—both over the long term and with the rollout of the District Development Authority Act of 2014. Various principal/agent and moral hazard problems are identified as well as the persistent poor delivery of national government funds to the local level; the difficulty of recruiting civil service skills into positions in local-level government; and confirmation that the power to make decisions at the district level remains much the same as before with the composition and influence of the District Development Authority Boards little changed from the former arrangements. Looking at service delivery from a supply–demand perspective, ways are suggested in which improvements may be realised. It appears more likely that improvements will come from an emphasis on increasing the demand for better governance of service delivery rather than from continuing to seek improvements in the supply side of service delivery.

KEYWORDS

devolution, District Development Authority Act, land tenure, PNG, service delivery

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1 | INTRODUCTION

Service delivery in Papua New Guinea (PNG) clearly needs significant improvement. As a recent study noted: “Despite significant increases in resourcing over the last two decades, service delivery in Papua New Guinea is still failing to reach most citizens.” This conclusion was drawn following a review of governance and service delivery that, in part, was undertaken to “assess the international literature on decentralisation and subnational governance and review the history of subnational governance in PNG” (Reilly, Brown, & Flower, 2015:1).

A key question addressed by the review was “whether the decline in service delivery is causally related to the country’s political architecture.” The review concluded that

none of the basic institutional features of its system of government can be held directly responsible for service delivery failures ... Rather it is the way the institutions are used, and in some cases abused, that is the key issue. (Reilly et al., 2015:2)

Reilly et al. (2015) reviewed the development of subnational government in PNG from 1977, covering the period of operation of the *Organic Law on Provincial Government* (OLPG) to the adoption of the *Organic Law on Provincial Government and Local Level Government* (OLPGLLG) in 1995 and up to the present. They observed that provincial administrators generally failed to perform responsibly; provincial accountability mechanisms were severely weakened by the OLPGLLG; provincial governments lacked resources and oversight of what happens in districts; and legal arrangements had minimal impact on the behaviour of politicians and bureaucrats in ways that would improve service delivery. Other detailed studies of decentralisation and service delivery in PNG have also found that efforts to decentralise appear to have failed, resulting in poor service delivery outcomes (Gelu, 2008; Gelu & Axline, 2008; Ketan, 2013; NEFC, 2005; NEFC, 2010; Standish, 2013).¹

Based on his first-hand observations over a decade and a half, Ketan (2013) described service delivery by the Western Highlands Provincial government as “a woeful record of administrative ineptitude, dreadful financial management and political interference with public service functions” (2013:1). The details of poor governance at the provincial level, which Ketan believed was rife throughout the country, included lack of administrative capacity for planning and policy implementation, lack of commitment by bureaucratic staff to their work, lack of incentives for staff to attend work on a regular basis, politicisation of appointments, political interference in administrative matters, excessive expenditure on salaries and emoluments, and the high number of staff in acting positions and casual appointments since 2002.

Wide-ranging changes in national and subnational governmental arrangements have been undertaken in PNG in recent years with the aim of improving service delivery at all levels of government. Since 2012, there has been a major allocation of public resources, through Services Improvement Programs (SIPs), to the provinces through the Provincial Services Improvement Program (PSIP), to districts through the District Services Improvement Program (DSIP), and to Local Level Governments (LLGs) through the Local Level Government Services Improvement Program. These SIP grants are intended as funding for projects and are not available for recurrent expenditure such as salaries and wages. However, as SIP funds are delivering services

¹For example, NEFC (2005) listed the following examples of deteriorating service delivery: buildings deteriorating to the point where they have to be closed, health services closed or lacking basic drugs and equipment, and road maintenance neglected to the point that the poor quality of the roads reduces accessibility to districts.

in the form of infrastructure supporting services such as transport, they are also of concern as regards the effectiveness of services delivery.

In February 2014, the PNG Parliament amended the OLPGLLG to remove the Joint District Planning and Budget Priorities Committees. These were replaced, under the *District Development Authority Act*, passed in December 2014, with District Development Authorities (DDAs) as the mechanism for the expenditure of development funds in districts and LLGs. A DDA is a statutory authority, a legal entity that can enter into contracts for works and services, hold property, sue, and be sued. A DDA retains the functions of a JDP&BPC but is also responsible for any service delivery functions and other responsibilities specified in a national Ministerial Determination (a legal document that sets out the responsibilities for each level of government with respect to the funding and delivery of services).² DDAs were rolled out in most districts across PNG in 2015.

Under the new arrangements, part of the provincial budget may be allocated to districts, and the district administrator—also now the chief executive officer (CEO) of the DDA Board—may be delegated power by the relevant minister over district services such as law and justice, education, health, infrastructure, water supply, and agricultural extension. The financial delegation (approvals of expenditure) for CEO/district administrators was increased from K5,000 to K500,000. However, the DDA does not replace the provincial government and cannot perform any of its functions in a way that is inconsistent with the plans or work of the provincial government.

The Provincial and Local Level Services Monitoring Authority will monitor the performance of the DDAs and the implementation of the DDA Act and give advice to the relevant minister to improve the performance of DDAs.

A DDA board, to which the CEOs/district administrators report, is chaired by the district's Open Member. Open Members appear to be setting up DDAs quite differently from each other. These differences, if continued, will likely make it more difficult to establish benchmarks for monitoring and comparing district performance.

This devolution in revenue and expenditure control to the district level, which is unprecedented in PNG's history, raises important issues that have not been researched in detail. First, as noted, DDAs differ in terms of their administrative arrangements. What are these arrangements and how well are they working? Second, a considerable burden is now placed on district and LLG staff to deliver the services for which DDAs are responsible. One of the main challenges facing provincial and district administrators/CEOs is to build human resource capacity, given that housing, schools, medical facilities, transport, water and sanitation, and banking and postal facilities often leave much to be desired. In many districts, it is likely that deficiencies in capacity will mean that there will be little improvement in service delivery for a considerable time.

If service delivery problems are as deep and as widespread as reports suggest, understanding the reasons for the poor performance over such a long period is critical. Drawing on the international and PNG literature on the issues of decentralisation and service delivery, we look at what may be the contributing causes.³ We also discuss ways in which improvements in service delivery may be implemented.

²See also Section 6 of the DDA Act.

³The paper is also informed by a survey undertaken in August 2016 of the rollout of the DDA in two districts in each of two provinces and discussions with national government departments. The survey report is published by the National Research Institute in Duncan, Cairns, and Banga (2017).

2 | THE HISTORY OF DECENTRALISATION AND SERVICE DELIVERY IN PNG

From independence in 1975, when the provincial government system was established under the OLPG, until 1995, when the OLPGLLG was adopted, there was confusion over the roles and responsibilities of national and provincial agencies.⁴ The transfer of staff and functions also remained unclear. Both issues had an adverse impact on service delivery in the provinces. Axline (1986) argued that the OLPG was an attempt to create a federal system of government in PNG. In contrast, he defined PNG as a highly decentralised unitary state wherein the provinces are a creation of the national government, their powers are derived from the national government, and they can be changed or eliminated by the national government.

The OLPG had established the structure of provincial governments in respect of the composition of their administrative staff. However, many of the functions transferred to provincial governments were not accompanied by financial transfers. For example, all nonnational roads were the responsibility of the provincial governments, but low funding levels, poorly skilled labour, and confusion over the role of each level of government resulted in poor road conditions countrywide. It could be argued that the imbalance between responsibility and funding was the source of the deterioration in service delivery in the provinces from preindependence conditions.

However, the establishment of provincial government under the OLPG also led to the emergence of provincial politicians, who competed with national politicians over funds distributed to the provinces and LLGs. It now seems clear that provincial politicians' threat to national members of Parliament (MPs) was the key reason for the enactment of the OLPGLLG, and not poor performance on the part of provincial governments, as many claimed at the time. Under the OLPGLLG, provincial politicians were eliminated and provincial governments were comprised mainly of national politicians and local government leaders. National politicians also became provincial politicians and therefore did not have to compete with provincial politicians for funds to create favours for members of their electorate. But the OLPGLLG created new sets of rivalries: between national politicians with national goals and backbench MPs in provincial governments who supported provincial interests (Axline, 1993); and between national MPs and bureaucrats in central agencies resisting decentralisation (Hoban, 2006).

Standish (2007:149) also argued that the OLPGLLG was undertaken on the pretext of decentralising power, while it had the opposite effect of recentralising power over the bureaucracy and giving MPs "virtually untrammelled control over district operating funds and strong influence over staffing." The OLPGLLG maintained a national public service with officers assigned to the provinces. Unfortunately for the development of capacity at the local level, training of officials continued to take place at the national level and was effectively limited to bureaucrats in Waigani.

As evidenced above, there was limited improvement in service delivery following the 1995 reforms. An analysis of those reforms by Simonelli (2003) sounds eerily like the way that this latest reform in the form of the DDAs is shaping up: It began by identifying the same problems (poor service delivery, location of politicians and public servants in cities and isolated from rural populations, poor support infrastructure, and lack of experienced and capable staff). Simonelli concluded by arguing that the shortcomings of the 1995 reform stemmed from several problems, notably (a) the reforms were not sufficiently well defined; (b) there was no overall statement of

⁴Much of the material for this section was drawn from Gelu and Axline (2008).

intent; (c) not enough was done to secure the understanding and support of all stakeholders; (d) implementation was rushed; and (e) the implementation strategy was poorly prepared.

Similar to the questions over the genesis of the 1995 OLPGLLG is the question of the origins of the DDA concept. Hoban's analysis for the NRI (2006:19) stated: "... existing local government units are not appropriate in scale, finances, or functions to assume a lead role in the national development project;" Hoban argued that the 2006 system (18 provincial governments, 299 LLGs, four community governments, and 87 administrative districts) was too fragmented to enable the national government to fund a full range of services through it.

3 | THE INTERNATIONAL LITERATURE

While federalism is an old concept, the emphasis on decentralisation, devolution, or subsidiarity in developing countries is only a few decades old. Much of the pressure on developing country governments, and on international financial institutions and bilateral donors, to place greater emphasis on fiscal decentralisation came from developing-country communities themselves. This pressure stemmed from the idea that transferring funding and responsibility for services from the centre to the periphery would give local communities more oversight and control over spending priorities and better transparency and accountability to deal with corruption and ensure effective priority setting and expenditure (Bird & Smart, 2002). But as Scott (2005) has noted, subnational governments can also be susceptible to corruption, as local government personnel are likely to have personal connections with constituents and capacity may be weaker than at the national level. These problems may be counterbalanced by the increased flow of information between government and citizens.

Therefore, attempts at decentralisation or devolution of responsibility for expenditure raise questions about how spending priorities are set, how effectively spending is directed to the priority areas, how well vested interests and corruption are controlled, and how effectively the fungibility of the transferred revenues is controlled.⁵

As a result of the emphasis on decentralisation, there has been an explosion in recent years of research into intergovernmental transfers in developing countries. This review covers only part of this literature. We focus on the administrative arrangements of the decentralisation process, the forms of intergovernmental transfers, and the incentives that can be built into the system to try to ensure good performance.

The fiscal decentralisation literature recognises four approaches to fiscal allocations to local governments:

- 1 The "origin" approach returns some or all of the tax revenue to the subnational government where the tax was collected (e.g., a value-added tax, collected centrally, can be distributed in this way to provide an incentive for subnational governments to promote economic activities in their sphere).⁶

⁵Morrissey (2002) distinguished three kinds of fungibility: (a) general fungibility, which arises when funds intended for one purpose are used for another; (b) categorical fungibility, which refers to the transfer of funds intended for one purpose to another purpose; and (c) nonadditionality, that is, the possibility that even if the funds are used for the intended purpose, they may free up other funds originally allocated to that purpose for use elsewhere, so that allocations for the intended purpose do not increase by the full amount of the transfer.

⁶See, for example, Ma (1997).

- 2 “Formula” allocations, which can help to minimise bargaining or lobbying by vested interests and promote stronger local fiscal performance (Ma, 1997). They also allow the central government to use different formulas to promote specific policies in particular areas, such as education grants based on the number of school-age children in an area or health grants based on the population of an area or on its health characteristics (Schroeder & Smoke, 2002). It is also argued that central governments can use formula-based grants to induce sound fiscal performance in local governments, such as increased revenue mobilisation (Lewis & Smoke, 2017).
- 3 Cost-reimbursement transfers fully or partially reimburse local governments for expenditures on specific activities (Bahl & Linn, 1992). The choice of full or partial reimbursement can affect local fiscal performance. Partial cost reimbursement can increase local tax effort and enhance local ownership of the ways the monies are spent. However, it can also lead to locally inefficient outcomes, such as fungibility of local expenditures. On the other hand, full cost reimbursement will not necessarily create an incentive for local governments to improve local services and does not respect local autonomy.
- 4 Ad hoc decisions, which are usually based on the thinking behind the central government's annual budget.

Both conditional and unconditional grants can have perverse effects on local governments. Although unconditional transfers provide greater flexibility, they can dampen local revenue mobilisation and local spending (Smart, 2007). But conditional transfers do not guarantee local government spending, due to the possibility of fungibility. Hence, outcomes depend on the incentives—positive or negative, intended or unintended—incorporated into the system (Smart, 2007). Grant eligibility can also include incentives such as conditionalities on local governments to meet predefined performance targets (Timofeev, 2011).

As Reilly et al. (2015) noted in their report, there has been a recent shift in emphasis with respect to intergovernmental fiscal transfers from so-called “first-generation” to “second-generation” fiscal federalism. The earlier focus was on equity and efficiency, but due to the generally poor outcomes, the emphasis has shifted to identifying incentives that can be built into the transfer system to improve outcomes.

Incentives can take monetary and non-monetary forms (such as rules and regulations). Bjornestad (2009) identified four kinds of fiscal incentives:

- 1 Fiscal resources, which are fiscal transfers from the central government, for example, additional grants for marginalised regions or prioritised areas.
- 2 Fiscal responsibility, which is the provision of increased responsibility for revenue collection and delivery of services.
- 3 Fiscal autonomy, which is the provision of increased power to promote or respond to local needs and preferences for public spending.
- 4 Fiscal accountability, which builds into the system mechanisms to ensure that decision makers are held to account by their constituents.

The last of these four, in the form of outcome-based incentives and accountability mechanisms, has received most attention from researchers and policymakers in efforts to devise ways to improve local government performance by overcoming fungibility problems, mismatches of priorities between central and local governments, principal/agent problems, and moral hazard problems (see, e.g., Eldridge & Palmer, 2009; Leiderer, 2012; Shah, 2006).

Leiderer (2012) emphasised the importance of principal/agent problems in the relationship between central and local governments. In this case, the central government (the principal) is transferring funds to the local government (its agent) in order for it to deliver certain services. However, operating at the local level, the local government officials will always have more information than the central government about the arrangements undertaken—a situation of information asymmetry. Therefore, working with less information, the central government will always be at a disadvantage in trying to ensure the services are delivered efficiently.

From a principal/agent viewpoint, conditionality—a “carrot” or a “stick” to encourage better performance from the agent—may be seen as a means for the central government to offset the information asymmetry problem. Conditionality may also help to counterbalance the resistance to good performance posed by vested interest groups. Bird and Smart (2002) argued that conditionality must also be a feature of a fiscal transfer system to counter fungibility. They argued that the outcome indicators used to measure the performance of local governments can enhance central government understanding of local government performance and thereby, over time, reduce the information asymmetry inherent in the relationship.

4 | CHALLENGES FACING SERVICE DELIVERY IN PAPUA NEW GUINEA

Here, we look at the challenges to effective service delivery in PNG and possible ways in which these challenges can be overcome. In doing so, we examine whether the latest attempt to improve service delivery performance—in the form of the DDA Act—will help matters.

It is useful to think about these issues in terms of a supply and demand framework. That is, in essence, there is a range of mechanisms behind the delivery of services (the supply of services), while there is the demand for the effective delivery of those services. What can be done to improve the functions behind the delivery of services and what can be done to enhance the demand for improved services and improved delivery of government services?

4.1 | Supply-side issues

A recent study (World Bank, AusAID and NEFC, 2013) examined the effectiveness of provincial expenditure from 2006 to 2010 on three indicators: operation of rural health facilities, integrated health outreach patrols, and drug distribution. The analysis also covered the spending on patient transfers to hospital care, the provision of water supply to rural villages, and supervisory visits to rural health facilities. The study found that the release of funding from the Treasury to the provinces was inconsistent and was often disbursed too slowly or too late to be spent effectively. Questions were raised as to whether and how the funds could go directly to the relevant facilities in order to improve the flow of funds and make their expenditure more effective.

A follow-up study of provincial health expenditure in 2011 and 2012 (Cairns & Hou, 2015:19) found that the disbursement of funds from Treasury continued to be “highly variable.” Provincial spending increased on health facilities, outreach patrols, and the distribution of drugs and other medical supplies. On the other hand, there was ongoing confusion over the division of responsibilities between the national and provincial levels, and there was little expenditure on the supervision of health activities.

In its 2015 annual report reviewing the 2014 progress of provinces in managing the administration of function and administration grants, the National Economic and Fiscal Commission

noted that some provinces had difficulty implementing their budgets with a particular problem being their low spending rates (NEFC, 2015). However, it was pointed out that this problem was “exacerbated by slow cash flow to Provinces from the National Government, making it difficult for provinces to effectively plan their spending” (NEFC, 2015:3).

While the DDA Act reduces the opportunities for principal/agent problems by reducing the government levels through which the fund transfers take place (excluding the provincial governments), principal/agent problems will always exist with the remaining national government to district government transfer unless mechanisms can be implemented to reduce their severity. As recognised by Bird and Smart (2002), Smart (2007), Timofeev (2011), and Reilly et al. (2015) above, monitoring of outcomes by the local-level governments must be an integral part of the decentralisation system (the “second generation” approach to service delivery). Hence, it is important that the national government develop benchmark indicators to measure outcomes of expenditure at the local level and monitor these consistently. The monitoring can be reinforced by “carrots” and “sticks” to reward (good) and sanction (poor) performance.

While sanctions may work in some countries, they are unlikely to be effective in PNG or in the Pacific island countries because of what we call the “small country” problem. Where hirings into the civil service are more than likely to be of family or clan members, it is very difficult to have effective sanctions. Therefore, “carrots” are more likely to work than “sticks.”

One way to do this is to use what have been called “tournament-based” approaches (Zinnes, 2009)—implementing a form of competition among local governments and rewarding (say, with additional funds) those that perform well. These approaches also require the development of indicators measuring performance and making them public—which, of itself, creates peer pressure for improved performance.

Planning for service delivery and the implementation of plans is another area in which service delivery performance has failed. The 1995 OLPLLG provided the overarching framework for the planning and budgeting of local project delivery. Within this broad framework, a detailed set of cascading plans and budgets are mandated, starting at the bottom with the wards. Each ward elects a ward councillor, who sits on the LLG assembly. Each ward is also meant to have a ward development committee and prepare a ward development plan outlining the development priorities for the ward. Each LLG assembly is tasked with preparing 5-year LLG-level plans, taking account of the ward development plans in their area. District-level plans are then prepared incorporating the plans of the constituent LLGs (Zahid, Philip, & Nicholas, 2011).

However, planning and implementation appears to be still failing at the DDA Board level. Prior to the establishment of the DDA Boards, the Joint District Planning and Budget Priorities Committees were responsible for overseeing all aspects of planning, prioritisation, and budgetary considerations at the district level. But from the survey it appears that the composition of the DDA Boards has not changed—only the name has changed; which also implies that the influence of the DDA Board has not changed. The structure of the Board membership enables MPs who represent the open electorates to largely control the budget allocations and override heads of LLGs. Political clientism very much overrides district priorities and remains a challenge for PNG. It was obvious from the four districts visited that the outcomes of board meetings are mostly determined (influenced) by the district MP. The symptoms were obvious from the consultations, with incomplete projects undertaken without proper coordination, planning, and budgeting. Moreover, there was a high probability that the Ward Development Plans and LLG plans were rarely considered when implementing service delivery. These kinds of problems may also be remediated by the setting of outcome indicators for service delivery and

constant monitoring. However, with the Open Members in such a strong position in respect to planning and implementation, there will be significant resistance to such measures.

The DDA arrangements appear to create unnecessary moral hazard problems, with the CEO reporting to the DDA Board, which is chaired by the Open Member, and as the District Administrator also reporting to the Provincial Administrator. From this perspective, the complications in having both the national government, in the form of the Open Member, and the Provincial government involved in the management of district affairs have not been resolved.

Moreover, additional moral hazard problems have been created in that some public servants have other masters to report to apart from the CEO/district administrator. The police and nurses, for instance, report directly to the province under a stand-alone arrangement, which questions the role of the CEO/district administrator with respect to hiring and firing.

Now that responsibility for the delivery of most services to districts has been transferred to the local level, the problem of local capacity arises. When the survey was undertaken to observe the rollout of the DDA, it was clear that the severe national budget problems had meant that the technical staff at the district level were hamstrung because of the lack of funding, even for travel within the districts. However, there was also a shortage of staff to undertake service delivery functions even if the budgeted funds were available. The staff shortages arise in part because of the difficulty of enticing skilled staff to move to the districts. This is a problem arising from the fact that skilled people have for years moved in the opposite direction—to the national civil service—“because that’s where the money is.” Enticing them to move back to the districts because service delivery has been transferred to the local level is, ironically, made more difficult because local services have improved little. Hence, teachers, engineers, medical staff, etc. are reluctant to move because district services are poor.

It is envisaged under the DDA Act that each district will establish its own district works units where it deems fit and ready. To do so will require significant resources, including but not limited to civil engineers, draftsmen, and mechanical engineers. The challenge is obvious. Kokopo district, for example, had sourced technical people from the Department of Works and Gazelle Restoration Authority on a short-term basis (Duncan et al. 2017). If Kokopo, the fourth largest city of PNG and biggest urban centre in the Niugini Island, faces human resource shortages, what is the possibility that other districts in PNG can acquire the needed qualified people?

4.2 | Demand-side issues

Another dimension of the so-called second-generation approach is to place more emphasis on the demand side of the governance equation by involving local communities more in the monitoring of local government performance. As the World Bank (2004:1) noted, service delivery can be made effective “by putting poor people at the centre of service provision, by enabling them to monitor and discipline service providers, by amplifying their voice in policymaking, and by strengthening incentives for providers to service the poor.” Enabling community monitoring of service delivery requires development of local capacity to undertake monitoring, publication of input and outcome information with respect to the services provided, and the development of performance (outcome) indicators.

Encouragingly, there has been an effort to build this kind of mechanism in PNG. The Consultative Implementation and Monitoring Council (CIMC), which is chaired by the Minister for National Planning and Monitoring, funded by the National Government, and reporting to the National Planning Committee, has implemented the Budget Tracking Initiative (BTI). The

BTI is designed to assist communities to understand clearly the government budget processes and be able to monitor the expenditure of the allocated funds. The CIMC said that the BTI training program works with LLG Presidents and Ward councillors, Ward development committee members, community leaders, NGO leaders, church leaders, and women and youth leaders to equip them to establish expenditure priorities, understand, develop, and review Ward plans, use the appropriate laws and budget information to access funds for development projects at the local government level, and understand key concepts of monitoring and the use of report cards in monitoring and reporting on government activities at the provincial and local level.

However, given the low levels of literacy and numeracy in rural PNG, it will be a long and resource-intensive process to train people to the required levels in all provinces. Ironically, because the education system has performed so poorly over many years, the resulting poor educational outcomes makes the task of improving service delivery outcomes—including education—even more difficult.

There is a question about the extent to which this attempt to encourage community involvement will improve the prioritisation and transparency of expenditure, given the involvement of the Open Member in the key role of DDA Board chair and the problem areas developing as a result. Something is needed to counteract this bias in the process. Below, we describe how there is now an inbuilt process for heightened community involvement and demand for improved service delivery.

We believe that there has been an underlying issue inhibiting service delivery outcomes in PNG. Most Papua New Guineans, and especially those in the rural areas, do not hold any individual assets to which the delivery of services would add value. For example, if a person/firm owns land in a remote part of the country and a road is built that allows access to other basic services such as markets, schools, and medical centres, the land would immediately become more valuable. Therefore, there is a strong incentive for the landowner to lobby government to ensure that the road is maintained in good order and the delivery of services is effective. Fortunately, the 2009 revision of the laws⁷ relating to the rights to custom land allows the long-term leasing of customary land by individuals or corporations. Hence, for all Papua New Guineans, there is now the possibility of holding secure, long-term leases to customary land. When this right is exercised, individuals will own an asset (the leasehold to land) and the value of services delivered by governments (infrastructure, education, etc.) will be *capitalised* into the value of their land. Thus, the demand for effective delivery of services should increase. Individual households will have an incentive to monitor how effectively the funds that are budgeted for such services are spent and the growth of individual leases to customary land should complement the CIMC in their efforts to improve the effectiveness of government expenditure on services.

Because all people hold an asset in the form of human capital, it may be asked why this does not lead Papua New Guineans to demand better education and health services to add value to their human capital. However, the value of such services will depend upon the use that can be made of the improved human capital. Most people in PNG have little opportunity to exploit their human capital as employment opportunities are so poor. This point is illustrated by the difference in attitudes towards education in Samoa and Tonga as compared to PNG. While people in Samoa and Tonga have few local employment opportunities, they have long had the opportunity to work overseas and remit money to their families. As a result, education

⁷Incorporated Land Groups (Amendment) Act of 2009 and Voluntary Customary Land Registration (Amendment) Act of 2009.

outcomes in these Pacific island countries are much better than in PNG. Most people in PNG have no opportunity for overseas employment.

The ownership of individual leasehold title should also boost local tax revenues, which in turn should improve transparency of expenditure on services. The improved land access should boost business opportunities at the local level and reduce the informal sector and thereby bring more economic activity into the formal sector and boost tax revenue. Funds generated at one level of government and spent at another level raises a moral hazard problem, in which those spending someone else's money do not have as keen an interest in how well it is spent as when they raise the funds themselves. LLGs in PNG should be encouraged to raise more of their own revenues and thereby develop more ownership of outcomes from expenditure on services.

5 | CONCLUSIONS

Efforts to improve service delivery in PNG by devolving the activities to the provincial or district level have long suffered the widespread problem of a mismatch between the allocation of responsibilities and the flow of funds from the central government to the periphery authorities to carry out their responsibilities. Thus, it appears that whatever the form that the devolution of responsibilities takes, improvements in service delivery will not eventuate unless reliability can be built into the transfer of funds from the national government. Periphery governments need to know in advance the funds to be transferred and that they will be delivered on time.

Unfortunately, the rollout of the DDA Act occurred at a time the national government suffered a sharp downturn in its revenues. It is clear the national government needs to improve the flow of funds to the district authorities. However, the district authorities should do more to raise their own revenues. The new land legislation makes this more likely and provinces and LLGs should encourage individuals/firms to take advantage of the opportunities for long-term leasing of customary land to enhance their own tax revenue streams.

Principal/agent problems are always likely in the devolution of responsibilities and funds. However, the opportunities for such problems have been reduced with the DDA Act as it mostly cuts out one level of government, the provinces. But the controlling role of the Open Member in the new process creates its own set of problems. Some of these may be reduced through improved transparency and adoption of inter-district competition stimulated by the use of “carrots.” Peer pressure is a useful mechanism for boosting performance. It is unlikely that “sticks” in the form of sanctions will work in PNG due to what we call the “small country” problem.

The DDA Act has created a huge demand for skills at the local government level, which means a reversal of a long-term process whereby skills have gravitated from the local level to the centre because of central control over revenue streams. Ironically, hiring of skills at the local level has been made more difficult by the ineffectiveness of service delivery over so many years.

Many of the problems experienced in the supply of services may be counter-balanced by improving demand-side pressures for better governance in service delivery. The so-called “second generation” approach to devolved service delivery has been taken up in the form of the CIMC, which is endeavouring to develop local skills to monitor all aspects of the service delivery process.

However, we suspect that this will be a long-term process that will experience difficulty in maintaining pressure on the relevant authorities. Our hope is that the take-up of long-term leases of customary land for business opportunities will become an in-built mechanism for

maintaining such pressure. If more and more Papua New Guineans hold an asset in the form of a long-term lease on which an investment has been made and a business built, they will have a continuing interest in seeing that the services that add value to their asset are delivered and delivered effectively. This shift will likely take considerable time. But without it, the future will look very much like the past.

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