

Australian Government
Papua New Guinea Sub-National Strategy
2007-2011

Final Design Document

August 2006

Executive Summary

The **Sub-National Strategy** is Australia's mechanism to support agreed Government of Papua New Guinea initiatives that aim to improve service delivery through strengthening day to day public administration at the Sub-National level, and through the improvement of intergovernmental financing systems, the legal structures for inter-government management and the co-ordination, monitoring systems and capacity building provided by the National Government. It is also Australia's mechanism to inform the aid program of constraints to service delivery, particularly at a Sub-National level, in order to improve the effectiveness of our sectoral programs, and our assistance to special case Provinces and Bougainville.

The Sub-National Strategy supports the **Papua-New Guinea – Australia Development Co-operation Strategy 2006-2010**, with a particular focus on the third core area, improved service delivery and stability, and with contributions to the first core area, improved governance and nation building and the fourth core area, strengthened, coordinated and effective response to the HIV/AIDS epidemic.

The Sub-National Strategy's approach is consistent with that articulated in the White Paper, **Australian Aid: Promoting Growth and Stability**, and the **Agency Business Plan 2006 to 2010**, in particular:

- utilising new approaches to aid delivery, including co-locating AusAID staff in the key National Government department responsible for improving the capacity of Sub-National government and in Provincial Administrations;
- working in close partnership with partner government agencies and supporting their systems and processes;
- supporting whole-of-partner-government engagement in key areas affecting service delivery;
- engaging with other donors to realise complementarity between programs;
- recognising the value that can be added by whole-of-Australian-government approaches, particularly through coordination with the Enhanced Cooperation Program support to central agencies in PNG;

- using incentive and performance-based approaches to encourage and reward improvements in hard areas, including reforming Provincial administrative systems and planning, budget and monitoring cycles;
- recognising the value of robust monitoring and evaluation systems that feed into both the Sub National Strategy and also into improving the coherence and effectiveness of the aid program in improving the delivery of services.

The Sub-National Strategy has been informed by the pilot **Sub-National Initiative (SNI)**, which operated from 2003 to 2006, a primary component of which has been provision of support for the PNG Government's pilot Provincial Performance Improvement Initiative (PPII). Through the PPII, the Department of Provincial and Local Government Affairs (DPLGA), in partnership with the Department of National Planning and Monitoring (DNPM) and AusAID, provided intensive support to Eastern Highlands, East New Britain and Central Provinces. This included the co-location of AusAID officers in the Provincial Administrations.

In jointly reviewing the pilot PPII, the Governments of PNG and Australia found that it has helped strengthen incentives at the Provincial level for improved planning and coordination. There is a high level of enthusiasm and demand for PPII within the national and Provincial levels of government in PNG, and AusAID and GoPNG have jointly participated in planning for its roll-out. AusAID has also learnt how to better capitalise on our Provincial engagement through SNI to improve the effectiveness of its aid program to PNG.

As a result of lessons learnt through the pilot PPII and SNI, key changes under the new PPII include:

- Assistance will be offered to Provinces in three phases, with the first phase focused on improving corporate systems, the second on service delivery and the third on consolidating improvements and ensuring their sustainability;
- Criteria will be developed that Provinces, and later Districts, will need to meet to move between phases, with incentives offered to progress to the next phase. Acceptable standards in administrative efficiencies, planning, budgeting and financial management, and staff productivity, as well as effective relationships between the administrative and executive arms will need to exist before a Province can receive a larger package of support, including financial support and co-located AusAID officers;

- The scope of the PPII will broaden at a Provincial level from a focus on improving administrative systems to include elected leaders and civil society;
- In recognition of the fact that all levels of government and administration have service delivery responsibilities under Papua New Guinea's decentralised system, engagement will also include assistance to increasingly lower levels of government and administration, progressing over time from Provinces, to Districts and finally to Local Level Government (LLG);
- The PPII Steering Group will broaden its focus to include structural issues effecting service delivery, including the intergovernmental financing system, the intergovernmental management structures under the Organic Law on Provincial and Local Level Government, the monitoring of Provincial performance regarding progress towards National development priorities and the co-ordination of National engagement with Sub-National government and administration;
- To support this, the Steering Group will be expanded to include representatives from each of the Central Agencies, the National Economic and Fiscal Commission (NEFC) and Provinces.

AusAID has also recognised that there are both administrative and management efficiencies to the support for 'special case' Provinces (defined as Provinces of national interest to both Papua New Guinea and Australia) and support to Bougainville being brought under the banner of the Sub-National Strategy. This will assist the sharing of lessons learnt from engagement with well performing Provinces.

A key feature of interest in the SNS is the **co-location** of both locally engaged and Australian AusAID officers in Provincial Administrations and in the DPLGA. While presenting a number of logistical challenges, feedback on the co-location of AusAID staff has been very positive in terms of developing strong partner relationships, and improving both AusAID and GoPNG understanding of each others constraints and challenges. A major benefit is co-located officers being increasingly being better able to feed back information on PNG systems and processes to the AusAID PNG program, enabling better tailoring of the program at the Sub-National level. Co-located officers also increase and inform the profile of AusAID in PNG.

The use of **incentives** in the pilot PPII has yielded valuable lessons for redesign of the program and the overall Sub-National Strategy. Assistance under the new PPII must be requested by a

Province, which will then enter phase one of the program. Phase one involves strengthening the corporate management processes at the Provincial and District levels. The Management Teams at these levels must achieve minimum acceptable standards in administrative efficiencies, planning, budgeting and financial management, and staff productivity prior to accessing a larger package of support, including financing for service delivery. Clear criteria must be met before a Province progresses between phases.

AusAID sees the SNS as a long term commitment of partnership with the government of Papua New Guinea, recognising that improving the delivery of services is one of the key ongoing challenges for the Government. The Sub-National Strategy places AusAID in a position to partner with the Government of PNG in key initiatives in this area. It also gives AusAID an opportunity to better understand government systems and to work with the government on mainstreaming key issues including gender and HIV/AIDS to ensure increasingly better development outcomes.

Government of Papua New Government (GoPNG)

Government of Australia (GOA)

Provincial Performance Improvement Initiative (PPII)

Managed By	Work Area
Dept Prov. And Loc Govt Affairs (DPLGA) /Provincial Management Teams	Targeted Provincial Assistance • 3 Phase • Administrations, civil society, private sector, elected leaders
DPLGA	Coordination of National Agencies • Strengthening of the National Monitoring Authority
National Ec. and Fiscal Com	Review of inter-government financing arrangements (RIGFA)
DPLGA/National Research Institute	Review of the Organic Law on Provincial and Local Level Government
	Other initiatives as agreed by GoPNG & GoA

SUPPORT


**SUB NATIONAL
STRATEGY
(SNS)**
Special Case Provinces and Bougainville

Managed By	Work Area
Aut Bougainville Govt/Bougainville Peace and Restoration Office	Bougainville
Inter-departmental committee (IDC)	Southern Highlands
IDC	Western
	Other

SUPPORT



INFORM

**AusAID Program**

AusAID Sectoral Programs
Whole of Government engagement in Australia
Engagement with other GoPNG programs
Engagement with other donors

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AHC	Australian High Commission
AIDS	Acquired Immune Deficiency Syndrome
ASF	Advisory Support Facility
AUD	Australian Dollars
AusAID	Australian Agency for International Development
BPRO	Bougainville Peace and Restoration Authority
CA	Central Agencies
CACC	Central Agencies Coordinating Committee
CP	Central Province
CLRC	Constitutional and Law Reform Commission
DAC	Development Assistance Committee
DMT	District Management Team
DNPM	Department of National Planning and Monitoring
DoF	Department of Finance
DoH	Department of Health
DoT	Department of Treasury
DPLGA	Department of Provincial and Local Government Affairs
DPM	Department of Personnel Management
DS	Development Specialist (AusAID)
DSIP	District Services improvement Program
ECP	Enhanced Cooperation Program
EHP	Eastern Highlands Province
ENB	East New Britain
FMIP	Financial Management Improvement Program
GIF	Governance and Implementation Fund (Bougainville)
GoPNG	Government of Papua New Guinea
GST	Goods and Services Tax
HDI	Human Development Indicators
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
HR	Human Resources
IGR	Inter-Government Relations

ISP	Implementing Service Provider
JDPBPC	Joint District Planning and Budget Priority Committee
JPPBPC	Joint Provincial Planning and Budget Priority Committee
LICUS	Low Income Country Under Stress
LLG	Local Level Government
MoA	Memorandum of Agreement
MTDS	Medium Term Development Strategy
NAC	National AIDS Council
NHASP	National HIV/AIDS Support Project
NEC	National Executive Council
NEFC	National Economic and Fiscal Commission
NMA	National Monitoring Authority
NRI	National Research Institute
OLPLLG	Organic Law on Provincial and Local Level Government
PAC	Provincial AIDS Committee
PATTAF	Papua New Guinea Australia Targeted Training Facility
PEC	Provincial Executive Council
PERR	Public Expenditure Review and Rationalization
PFMTP	Provincial Financial Management Improvement Program
PM&NEC	Prime Minister and National Executive Council (Department of)
PMD	Performance Monitoring Division
PMT	Provincial Management Team
PMU	Project Management Unit
PNG	Papua New Guinea
PNGIF	Papua New Guinea Incentive Fund
PPII	Provincial Performance Improvement Initiative
PSRMU	Public Sector Reform Management Unit
PSRS	Public Sector Reform Strategy
PSU	Program Support Unit
RIGFA	Review of Intergovernmental Financing Arrangements
RSE	Responsibility Specification Exercise

SDS	Senior Development Specialist (AusAID)
SHP	Southern Highlands Province
SIP	Service Improvement Program
SNI	Sub-National Initiative
SNS	Sub-National Strategy
SPO	Senior Program Officer (AusAID)
TOR	Terms of Reference
WDI	Workplace Development Initiative
WoGoA	Whole of Government of Australia

1. Introduction

A key concern for effective development in Papua New Guinea (PNG) is access to basic services. Due to the decentralised system of governance, the responsibility for service delivery largely lies at the Sub-National level, which is with Provincial, District and Local Level Government, and the Provincial and District Administrations. In many Provinces these bodies are struggling to meet their mandated responsibilities, leading to significant gaps in service delivery. This has been articulated as a major concern by the Government of Papua New Guinea (GoPNG) in its Medium Term Development Strategy (MTDS), leading to the development of several programs focused upon building the capacity of Sub-National government and administration so that they are better equipped to fulfil their service delivery responsibilities.

This document first provides a situation analysis of the policy and program context in PNG and an analysis of the development situation, including lessons learnt from AusAID's pilot Sub-National Initiative (SNI), and options for the new Sub-National Strategy (SNS). Second, it describes the SNS, noting that there are two foci; support for GoPNG initiatives aimed at improving Sub-National governance, in particular public administration, to improve service delivery, both under the banner of the Provincial Performance Improvement Initiative (PPII) and in a group referred to as 'Special Case Provinces', and contributing to aligning AusAID's ongoing programs in PNG so that they are more responsive to service delivery challenges at the Sub-National level.

Third, the management of the SNS is outlined. To date, activities under the SNI have been funded from a range of existing programs. The design of the SNS presents an opportunity to consolidate the set of services that the SNS will require, including recruitment of advisers, management of finances, monitoring and research assistance, and to tender for a single Implementing Service Provider (ISP) to support the Strategy. It is important to note that most of the initiatives supported by the SNS are GoPNG initiatives. Under the new design, most of these initiatives form the components of the ongoing PPII, which has a steering group chaired by the Department of Provincial and Local Government Affairs (DPLGA), co-chaired by the Department of National Planning &

Monitoring (DNPM) and AusAID, and with other central agencies, the National Economic Fiscal Commission (NEFC) and Provinces also represented. Finally, this document considers the areas of feasibility, sustainability and risk.

The SNS aid modality to be utilised is ‘Support to Partner Programs’¹ – the primary purpose of the Sub-National Strategy is to re-establish efficient and effective public administration in the decentralised context of PNG by providing resources, policy and technical advice and AusAID staff support for the programs which are implemented by the Government of Papua New Guinea under the new PPII², and in Special Case Provinces and Bougainville. The second purpose is to influence the wider Australian aid program so that it becomes more efficient by better aligning itself with the structure of governance and administration in Papua New Guinea.

As noted above, it is proposed that a single ISP be engaged under AusAID management to support the SNS. Many of the initiatives being brought together under the SNS are currently funded from different sections of the aid program, which mitigates against a coherent framework for implementation and assessment of the support provided, and against information being shared between initiatives. A design structure is required that recognizes the synergistic relationship between these various change processes and brings them together in a way that enables better management and assessment of the overall process, and an improved opportunity for lessons to be shared.

¹ “Support to partner programs” is a recognised aid modality which seeks to maximise partner government ownership, ensure coherence between the partners policies, spending and results and reduce transaction costs, using partner government systems to as large extent as possible. AusGUIDELINE 31. ‘Principles of Activity Design’, October 2005, AusAID.

² Support to Partner Programs may still involve some external management and financing inputs such as having a contractor manage AusAID’s inputs or using some external technical advice. The intention is to as far as possible have the Partner Government in control of the policy and direction underlying the activity. AusGUIDELINE 31. ‘Principles of Activity Design’, October 2005, AusAID.

2. Situation analysis

2.1. Policy and Program Context

2.1.1. Poverty reduction in Papua New Guinea – priorities under the Medium-Term Development Strategy

Papua New Guinea is going forward as a nation but continues to face significant development challenges. While it has enjoyed modest economic growth since 2003 and has made substantial improvements in some key social indicators³, human development indicators remain poor relative to per capita growth⁴ and poverty levels in the country are increasing.⁵

The Government of Papua New Guinea demonstrated a clear concern with these issues in the priorities identified in the Medium Term Development Strategy 2005-2010 (MTDS),⁶ and articulated the underlying the problems of poverty in Papua New Guinea as inefficient use of natural resources, weak governance, lack of economic and financial growth opportunities, and inefficient delivery of, or lack of access, to basic services.⁷ Significantly the MTDS identifies dysfunctional service delivery systems as one of the key threats to growth and development.⁸

In outlining its program to address service delivery challenges, the MTDS specifically refers to the partnership with AusAID on the PPII,⁹ stating:

³ AusAID (2003) 'The Contribution of Australian Aid to Papua New Guinea's Development 1975-2000', ix

⁴ Core Group recommendations report for a White Paper on Australia's aid program, Companion Volume, page 9-4, December 2005

⁵ Ibid pg 9-12

⁶ Government of Papua New Guinea The Medium Term Development Strategy 2005-2010 November 2004. The expenditure priorities for the MTDS are

1. basic education
2. primary health
3. transport infrastructure and maintenance
4. law and order
5. income-generating activities (especially in rural areas).

⁷ Ibid pg 9-12

⁸ Ibid pg 10

⁹ Ibid pg vi and 63

Commencing with the 2005 Budget, the Government has further strengthened its partnership with the decentralised governments through the introduction of the Provincial Performance Improvement Initiative (PPII)...the PPII is a major initiative that is designed to improve planning, budgeting and implementation capacity at the Provincial level. Its end objective is to significantly improve service delivery. With the support of AusAID, the PPII will initially be piloted in three Provinces, Central, East New Britain and Eastern Highlands. Following the pilot stage, the initiative will be rolled out to all Provincial governments.

2.1.2. Australian Aid program – SNS and the key policy frameworks of the White Paper on Australian Aid and the Papua-New Guinea – Australia Development Cooperation Strategy 2006 – 2010.

The Sub-National Strategy supports the objectives outlined in the two key Australian policy frameworks which are relevant to Australia's engagement in Papua New Guinea; the White Paper on Australia's overseas aid program and the Papua New Guinea – Australia Development Cooperation Strategy 2006 – 2010.

In line with the White paper and AusAID's Agency Business Plan: 2006 to 2010, the SNS:

- utilises new approaches to aid delivery, including co-locating both Australian and locally engaged AusAID staff in the key National Government department responsible for improving the capacity of Sub-National government and in Provincial administrations;
- works in close partnership with the GoPNG and supports its systems and processes;
- involves increased engagement between GoA and GoPNG officers, with technical, management and administrative support from an ISP;
- supports whole of government engagement in key areas effecting service delivery;
- recognises the need to engage with other donors to realise complementarity between programs;

- recognises the value that can be added by whole of government partnership, particularly through engaging with ECP advisers in central agencies in PNG;
- supports the use of incentive and performance-based approaches through the PPII to encourage and reward improvements in areas of public administration which directly affect service delivery such as planning, budgeting and monitoring systems;
- recognises the value of robust monitoring and evaluation systems that feed into both the SNS and also into improving the cohesiveness of the aid program and its effectiveness in improving the delivery of services.

Consistent with the themes of the White Paper, the objective of the Papua-New Guinea – Australia Development Cooperation Strategy 2006-2010 (the Development Cooperation Strategy) is to assist Papua New Guinea to reduce poverty and promote sustainable development. This directly supports the Government of Papua New Guinea’s MTDS. The Development Cooperation Strategy has a specific focus on four core areas:

- o Improved governance and nation building
- o Sustainable broad-based growth economic growth and increased productivity
- o Improved service delivery and stability
- o Strengthened, coordinated and effective response to the HIV/AIDS epidemic

The Sub-National Strategy primarily contributes to core area three, improved service delivery and stability, but also makes a contribution to core area one, improved governance and nation building, and core area four, strengthened, co-ordinated and effective response to the HIV/AIDS epidemic. In particular, the SNS:

- Works in partnership with GoPNG to improve their systems and processes aimed at service delivery; and
- Seeks to identify opportunities to mainstream HIV and gender throughout the strategy, and to contribute Sub-National experiences to our response to the HIV/AIDS epidemic.

2.2. Analysis of the development situation

2.2.1. Papua New Guinea's decentralised system

Papua New Guinea's system of decentralization is articulated in the 1995 Organic Law on Provincial Government and Local Level Government (OLPLLG),¹⁰ and it is this law that delegates primary responsibility for the financing and delivery of many core services to Sub-National levels of government.¹¹

International experience¹² 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, but that these gains are unlikely to be realised if certain preconditions aren't met, including fairly designed inter-government transfers, robust financial mechanisms for channelling money to Sub-National governments and good accountability of local governments and the capacity of their management systems.¹³ Arguably, these preconditions are not currently met in PNG. 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, and political focus on local needs.

Several reviews and reports on PNG link inadequate service delivery with poor implementation of the decentralised system. The Public Expenditure Review and Rationalization (PERR) 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

¹⁰ 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 OLPLLG resulted from frustration with the previous arrangements including under-funding by the national government.

¹¹ See Annex 1 for the NEFC snapshot of responsibilities of different levels of government for the key MTDS priorities.

¹² East Asia Decentralises, World Bank, 2005 at 1

¹³ East Asia Decentralises at 4

deployed and accounted for. Reforming public expenditure systems and procedures at the Provincial and District levels therefore warrants priority attention.¹⁴

However, GoPNG has clearly articulated its commitment to its decentralised system. It has also recognised the need for it to be improved, if service delivery is to improve. The MTDS states:

PNG's decentralised system of government is here to stay. It is a manifestation of the Nation's cultural diversity and the demands of Papua New Guineans to be actively involved in the process of government, particularly as it affects their village and region. However, if the MTDS is to achieve its objectives, the system of decentralised government must be made to function far more effectively. Under the public sector reform program, and with the advice and guidance of the Department of Provincial and Local Government Affairs, the National Monitoring Authority and the National Economic and Fiscal Commission, the Government will intensify its efforts to identify practical solutions to address the current problems of the decentralised system, and the impediments to service delivery in particular.¹⁵

Australia recognises the commitment of GoPNG to improve its decentralised system, and is keen to support these improvements. The SNS enables Australia to be responsive to requests from the government for assistance in this area, and places Australia in an informed position, to improve the effectiveness of its aid program. This engagement is consistent with previous reviews of aid to Papua New Guinea, including the Development Assistance Committee (DAC) review in 2004, the Joint Review of the Australian Aid Program to Papua New Guinea in 2004¹⁶ and the Review and Evaluation of Foreign Aid

¹⁴ Papua New Guinea Public Expenditure Review and Rationalization Overview of Discussion Papers September 2003 at 16.

¹⁵ The Medium Term Development Strategy 2005-2010 at 10.

¹⁶ Lepani, C. Morris, A. and Tuioti, E. Joint Review of the Australian Aid Program to Papua New Guinea 31 August 2004

to Papua New Guinea conducted for the Government of Papua New Guinea in 2003,¹⁷ all of which underscored the importance of a greater focus by donors on Sub-National levels of government if service delivery in Papua New Guinea is to improve.

2.2.2. Service delivery at the Sub-National level

The decentralised system of government in Papua New Guinea has implications for both the political and administrative structures of government. As the diagram below indicates, the decentralised political system is intended to increase local level participation and voice in governance. It is also intended to provide a direct link between planning and service delivery at the local level. The decentralised administrative structure is intended to correspond and integrate with the decision making and planning undertaken in the political structures. Coordination is also intended to be vertical with the policy setting and national decision making being reflected in local level planning and service delivery.¹⁸

¹⁷ Lepani, C. and Williame-Igara (UNDP) The Review and Evaluation of Foreign Aid to Papua New Guinea Conducted for the Government of Papua New Guinea December 2003

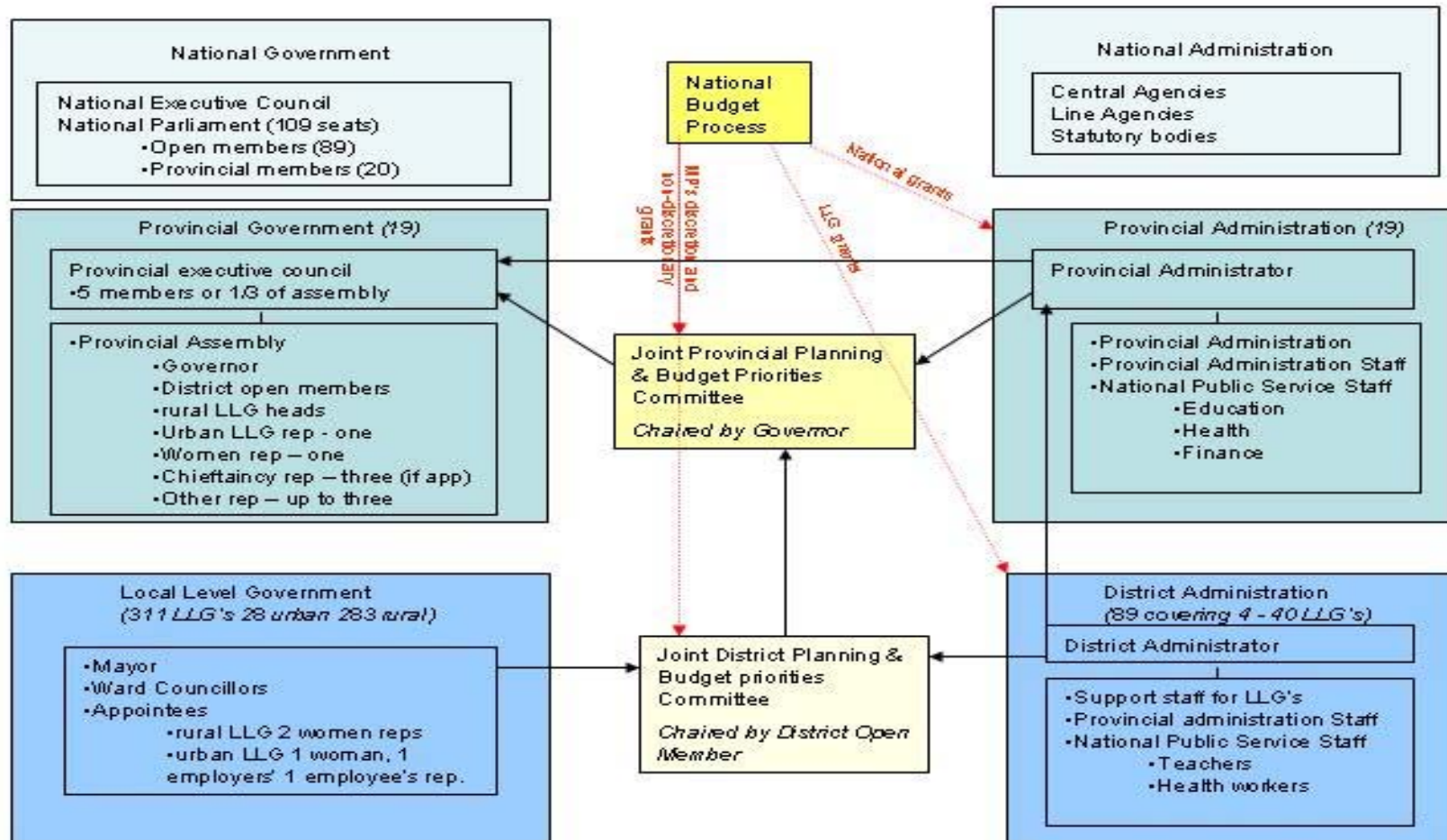
¹⁸ This diagram does not include the new District Authority, which is a statutory body comprised of

- MP representing open electorate;
- Rural-LLG heads;
- DA & Dis Treasurer (ex officio);
- 3 others (-church; women & chamber of commerce)

and whose functions include:

- assist in administration & management of District;
- assist in the maintenance of all government services;
- in consultation with the DA, to assist the JDP & BPC

Sub-National Government – Political and Administrative Structure



However, the decentralised government system has not been able to support effective service delivery in Papua New Guinea. There are various reasons for this which arise from problems with both administrative and political arms of the government. Key problems include:

- a breakdown in the nexus between central government agencies and those located at Provincial, District and LLG levels;
- confusion of roles between the administrative and executive arms of government at the Sub-National level; and
- a lack of adequate and predictable funding to meet new and recurrent budget needs for service delivery.

Related to all these issues is that of capacity. In particular the Sub-National and intergovernmental systems are inadequate and in many cases people lack the knowledge, resources and skills to be able to address the challenges they face.

It is clear that unless these issues are addressed and the system of decentralisation is enabled to work effectively, the key problem of inadequate service delivery will remain.

2.3. Lessons learned from the pilot SNI

In 2003, AusAID developed the Sub-National Initiative (SNI) as a framework for supporting the Government of Papua New Guinea in its endeavours to improve service delivery, and for better informing our aid program of the challenges to service delivery in PNG's decentralised system.¹⁹ Substantial lessons were learnt during the pilot phase, and a summary of them is contained in Annex 2. Under the SNI, the most substantive area of support was the pilot Provincial Performance Improvement Initiative.

¹⁹ The SNI had three components:

Component 1 - Support National Agencies in their functions of co-ordinating and facilitating sub national government performance

Component 2 – Support Provincial and Level Governments in improving their public administration and strengthening their planning, budgeting, implementing and monitoring cycle so they are better able to provide services and create an environment conducive to economic growth

Component 3 - Better alignment of Australia's program with Papua New Guinea's decentralised system

In 2004, the Central Agencies Co-ordinating Committee (CACC) directed DPLGA, in partnership with DNPM and AusAID, to pilot the PPII in three Provinces that had demonstrated their willingness to reform their systems, Central, Eastern Highlands and East New Britain.

The PPII is the most intensive capacity building program of support from DPLGA. It requires a commitment from the Provincial and District Administrations to improve systems and processes, including opening up budget and planning processes, with a full-time AusAID-funded budget adviser co-located in each of the pilot Provinces, as well as full-time co-located AusAID officers.

Assistance under the PPII varies to meet the needs of each Province, with tools (including long and short term advisers, direct funding support, workshops, facilitating co-ordination with other national departments, and improved links with AusAID sectoral programs) used, as appropriate, to assist a Province to improve its corporate systems and structures so it is better positioned to deliver services. Under these initiatives, support must be requested by the Provincial administration to the DPLGA before assistance is given. Typical requests emerging from the Provinces include:

- support in improving corporate systems, such as human resources (HR), legal and policy drafting, planning and budgeting, monitoring and evaluation and information management;
- support in engaging with National Departments on areas effecting the performance of Sub-National government and administration, such as the Department of Personnel Management (DPM) on confirming appointments, and the Department of Treasury (DoT) on the timely release of funds;
- better co-ordination of national capacity building programs, a reduction in generic “workshop” assistance and an increase in on-the-job technical support to help improve the systems in the Province;
- improved linkages between Provincial, National and donor programs;
- recognition of the fact that they do not have sufficient funds to deliver a basic suite of services, and the need for closer links between funding and function;

- recognition of the fact that a lack of enabling legislation under the current OLPLLG restricts them from generating income
- Recognition of the fact that some of the management arrangements mandated under the OLPLLG hinders effective management at a sub national level.

With support under the pilot PPII, improvements in administrative systems have been made in each pilot Province. Provinces started with the initiative from a different position of competence, so improvements vary, but include:

- strengthening the planning and budgeting cycle, and introducing efficiencies into the quality review process, including training and mentoring of staff responsible for the process;
- more timely submission of Provincial budgets, with increased policy consultation supporting their development, and the development of budget implementation plans;
- the strengthening of each Province's Provincial Management Team (PMT), including the development of a corporate plan, and improvements in human resource systems, legal and policy areas;
- the quality of advice PMTs provide to their Provincial Executive Councils (PECs) including identification and focus on Provincial priorities and the presentation of targeted, affordable budgets to Provincial Assemblies;
- Formulation and implementation of Provincial Administration strategies for improving management systems in the Provinces, for example, the management of assets through the establishment of fixed assets registers and coordination across different Districts and sectors;
- Strengthening the relationship between DPLGA and the Provinces and between key national agencies and core Provincial corporate divisions of planning and HR;
- Ensuring that cross cutting development issues, in particular HIV/AIDS are considered as part of planning and budgeting processes.

Several non-pilot Provinces have sent requests to DPLGA for the PPII to start in their Province and the Government of Papua New Guinea has indicated that it is keen to respond positively to these requests.

There have been extensive consultations and engagement throughout the pilot phase with the PPII Provinces. The pilot Provinces have reported that they are pleased to have been involved with the pilot, but that the reform has been difficult, and that Provinces need to be ready to commit to change if the PPII is to be able to assist. The AusAID officers involved in the SNI have felt that the PPII tackles some of the hard issues involved in improving service delivery, and is a useful program, but agree with the pilot Provinces that without a commitment to reform by the administration the impact of the initiative is limited.

The second key function of the Sub-National Initiative was to feed a better understanding of the Sub-National constraints to service delivery into the rest of AusAID's aid program. Due to staff resource constraints, this has been ad hoc during the pilot phase, and has mainly consisted of co-located AusAID officers being resources to sectoral programs in their efforts to better engage at the Sub-National level, by providing information about Provincial and District administrative systems and facilitating visits and scoping missions in the Provinces in which they are based.

Feedback from the AusAID sectoral areas has been that this area needs to be better resourced, and to become more structured. Suggestions have included clear linkage points between the sectoral and SNS teams, including during designs and reviews. More work has also been requested on clarifying what the SNI program does, and what it does not do. This is particularly relevant in areas such as civil society and public sector reform, where there are clear overlaps between these programs and the SNS. Internal work within AusAID on strengthening this area under the SNS has begun.

2.4 Peer Review

In an AusAID peer review of the pilot SNI undertaken in November 2004 it was concluded that the SNI was a valuable approach but needed further development and definition.²⁰ This current design addresses the concerns of the peer review, by development of the expanded design known as the Sub-National Strategy²¹.

A peer review on the SNS took place in Canberra in May 2006. It reviewed the design of the SNS. The peer review endorsed the approach being taken by the SNS team as described in this design document.

2.5 Summary

The Government of Papua New Guinea is concerned about the deteriorating service delivery in the country and has moved to address the problems through a series of programs directed at both National Government agencies as well as at the Sub-National level. The demand for assistance from the Provinces for PPII also demonstrates strong Sub-National commitment to the programs. The Australian Government supports the intended outcomes of these programs and has provided support for them through the pilot SNI.

²⁰ *A good framework had been developed ...[however] the approach needed greater definition/structure and that this needed to be articulated in the SNI documentation.*

More specifically:

- *there was a need for clarification of the objectives of the SNI;*
- *it was important to better articulate how the SNI related to the rest of the program;*
- *a greater focus was needed on measuring impact and outcomes and identifying what would be achieved over a set timeframe - in this context it would be important to have appropriate sequencing of activities and clear performance indicators;*
- *a review mechanism for support to the Provinces was needed - this would provide a trigger for the decision as to whether to support expanding the pilots;*
- *more work was required on the management of the Initiative and ameliorating the risks (ensuring the program remains coherent, developing appropriate processes for co-locating staff and management lines).*

AusAID Sub-National Initiative peer Review Meeting, 17 November 2004

²¹ The term 'strategy' does not imply a particular aid modality. It is used as a general term to convey the fact that it does not fit a project or program design mechanism. Rather it operates dynamically to provide support and create opportunities for a more enabling environment as they become available over the life of the strategy.

Lessons learned suggest that there is considerable merit in continuing this ‘Support for Partner Programs’, with a broadened, more cohesive scope and introducing more incentives for improved performance.

The new design needs a flexible approach that allows for ongoing development of the SNS as lessons continue to be learned about the nature of governance at the Sub-National level and its relationship to service delivery, and these lessons must be systematically fed into the wider aid program.

Currently the package of assistance to be addressed under this design receives funding from several sources within the Australian aid program. Three of the major sources are the Advisory Support Facility (ASF), the Papua New Guinea Incentive Fund (PNGIF) and financial and budgetary services to the Bougainville Administration related to the Governance and Implementation Fund (GIF) and associated advisory support. While this has served the pilot stage of development effectively, this arrangement does not support expansion and more coherence across the response. The new design needs to be funded as one Activity within a coherent management arrangement. Further, a design structure is required that recognizes the synergistic relationship between these various change processes and brings them together in a way that enables better management and assessment of the overall process.

It is also AusAID’s intention that other areas of support, such as monitoring and evaluation and research, together with the technical support logistical arrangements and financial management previously provided by the a range of Managing Contractors will be packaged together to be managed by a single Implementing Service Provider.

3. Sub-National Strategy description

3.1. Key elements of the new design

3.1.1. Title and overview

This design outlines the Sub-National Strategy.²²

The **Goal** of the SNS is

**Improved service delivery for the men, women and children of Papua New
Guinea**

Contribution to this goal is achieved through the support of:

- Government of Papua New Guinea initiatives that aim to improve public administration and governance processes related to enhanced service delivery (the PPII); and
- Improved performance in Provinces of national interest to both governments (special case Provinces)

And through informing:

- The alignment of AusAID's ongoing programs in PNG so that they are more responsive to service delivery challenges at the Sub-National level.

Under this design, AusAID is building on the experience gained from SNI.²³ Under the SNI, AusAID targeted its support, as requested by GoPNG, directly at a range of stand alone government initiatives that aimed to improve service delivery. The new Sub-National Strategy will support a coherent and expanded package of activities which have been demonstrated to be both feasible and successful in addressing key issues of Sub-

²² The term strategy is used deliberately to explain the approach of this Activity. The Activity intends to provide the most effective means of support for Partner Programs. Therefore the Activity does not have a predetermined design but will be dynamic and adaptive, utilising strong management and monitoring strategies to ensure that it provides the most appropriate and effective support mechanisms.

AusGUIDE recommends that a strategy should clearly articulate

- the key issues to be addressed
- what types of steps will taken to those address those issues
- the rationale for selecting these issues, and those types of steps, and
- an operational framework for addressing those issues with those steps.

AusGUIDELINE 2.1 'Program Strategies toolkit', AusGUIDE 2005.

²³ See Annex 3 for a summary of the difference of features between the SNI and the SNS and the pilot PPII and new PPII.

National governance. Consistent with the “Support for Partner Programs” model, the SNS seeks to maximise partner government ownership, ensure coherence between the partner’s policies, spending and results and reduce transaction costs, using partner government systems to the greatest extent possible.

3.2 Timeframe

The clear lesson from Australian Government program work in Papua New Guinea in general ²⁴ and the experience of the pilot PPII and SNI in particular, is that governance reform is a slow and complex process. It does not fit short term frameworks of three to five years.

The SNS is to be considered a long term strategy of the Australian Government aid program, stretching over at least ten to fifteen years. The current design applies to the first phase and is intended to cover a period of five years. Following completion of this phase a review will be scheduled to examine the achievements and learning from the first phase in order to redesign the next phase of the SNS.

3.3 Detailed design outline of the Sub-National Strategy

3.3.1 Areas of work

Work area 1: Support for the expanded Provincial Performance

Improvement Initiative

The primary focus of the SNS is support for the Government of Papua New Guinea’s PPII. This support will be broad ranging, and targeted as required to ensure improvement to service delivery systems. It will include co-located AusAID staff and advisors, financial resources, short term technical assistance, training, a research facility and improved linkages with AusAID’s sectoral programs. There will be a strong orientation towards building capacity of both systems and people within the support provided for PPII. (see Annex 4 for details on this approach).

²⁴ AusAID (2003) ‘The Contribution of Australian Aid to Papua New Guinea’s Development 1975-2000’

The expanded PPII brings together several work areas of the Government of Papua New Guinea. It has an overall focus on improved Provincial, District and Local level governance performance through programs with a range of different stakeholders. It is envisaged that work areas may change over time, as blockages to service delivery at the Sub-National level are better understood, and as progress is made. It currently has four programs, each of which addresses specific problems within the decentralised service delivery process. These are described below (see annex 5 for more detailed information on each activity):

1. Provincial, District and Local level Government Performance Improvement Initiative.

This program is based on the original PPII work among the pilot Provinces. Responding to lessons learned, this program will now be in three phases. The first phase focuses on improving internal corporate administrative systems, the second on service delivery and the third on financial consolidation. Criteria must be met to progress between phases, and incentives are offered to meet these criteria. As well as engaging with administrations, it includes a focus on elected leaders and civil society and the key complementary role they play in ensuring that services are delivered. Over time, engagement will increasingly move to include a District and Local Level Government focus. Under the new PPII, the current pilot Provinces will be seen as phase two Provinces, with new Provinces (around 10 by the end of 2007) entering as phase one Provinces. The option of co-locating AusAID officers in selected Provinces is a key component of the second phase of PPII engagement.

2. Co-ordination of National Agencies in their support to Provincial, District and Local Level Government areas and monitoring of Sub-National contribution to national development priorities.

This program responds to requests from Sub-National government and administration for National agencies to better co-ordinate their assistance. Various existing mechanisms, including the National Monitoring Authority, are being considered to facilitate this co-ordination and ensure that the capacity building support to Provinces provided by national agencies becomes increasingly better planned, targeted,

sequenced and co-ordinated. The NMA is also looking at developing a system to monitor the contribution of Sub-National government to national development priorities.

3. Review of Intergovernmental Financing Arrangements

This program, managed by the National Economic and Fiscal Commission (NEFC) will provide the basis for longer term reform of intergovernmental financing arrangement in order that Provinces and Districts have adequate resources to provide a basic set of services. The NEFC also provides information in areas such as the cost of service delivery in each Province, specification of service delivery responsibilities, and options on better linking funding with functions.

4. Review of the Organic Law on Provincial and Local Level Government (OLPLLG)

The OLPLLG, introduced in 1995, is widely held responsible for the declining standard and reach of service delivery in Papua New Guinea. Issues include ambiguities in roles and responsibilities across the levels of government and administration, inappropriate commitments to funding levels and weak intergovernmental accountability mechanisms. DPLGA, in partnership with the National Research Institute (NRI) is currently managing a review of this Organic Law, with recommendations expected to be prepared for presentation to government in the third or fourth quarter of 2007.

Work area 2: Special-Case Provinces and Bougainville²⁵

The AusAID support for Provinces of national interest to both the Government of Australia and the Government of Papua New Guinea (special case Provinces), such as Southern Highlands Province and Western Province, as well as AusAID's support to the Autonomous Region of Bougainville, will be provided through the SNS so that lessons learnt will be cross-fertilised between the PPII Provinces and Special Case Provinces. Inclusion as a special case Province does not preclude a Province from becoming a PPII Province.

²⁵ See annex 6 for detailed information on the Special Case Provinces and Bougainville.

The eligibility of a Province for inclusion as a Special Case Province will be determined based on the following criteria:²⁶

- The existence of significant political, economic and/or security issues that have led to a marked deterioration in the quality of and access to services compared with the rest of the country;
- Instability, or a history of instability, where targeted interventions can be expected to improve the situation in the short, medium or long term;
- The existence of appropriate partners to work with, be they from government, industry, non-government, Church or civil society;
- The strategic relevance of the Province or area to the Governments of Papua New Guinea and Australia and/or the region.

Specific strategies will be developed and implemented under this work area for each Province and for Bougainville. As for the PPII program, activities under these strategies will be developed in partnership with relevant Sub-National government administrations; elected leaders; communities, NGOs and private companies; and national government offices, as appropriate.

For the first year, existing or new strategies under this work area will address the Autonomous Region of Bougainville, Southern Highlands Province and Western Province.

Work area 3 – Support the aligning of AusAID’s programs to better fit Papua New Guinea’s decentralised system of governance

1. Better alignment of AusAID’s program with PNG’s system of governance

Australian aid contributes significantly to the resources available at the Sub-National level. However, the traditional focus on sectors at the National level has meant that there has been inadequate coordination of programs at the Provincial level and inadequate

²⁶ These criteria may change over time.

tailoring of programs on a Province-by-Province basis, resulting in significant transaction costs at the Sub-National level. At the Sub-National level, programs of assistance are generally not adequately sequenced to ensure that the maximum benefits can be gained; there are large overlaps in the content of some programs in generic areas of public administration; and administrative requirements, including trust account management, are repetitive between programs. Opportunities for efficiencies between programs, for example through the sharing of resources, are often not realised.

This program requires considerable analytical work, which will begin over the next six months. The current design establishes the mandate for this process and allocates staffing resources to begin the development of specific engagement strategies. While many of the problems have become clearer during the pilot phase of the SNI, solutions will need to be carefully considered, as will the role of the SNS team vis-a-vis the other AusAID teams, in particular the public sector reform and civil society sectors.

2. Other complementary assistance

AusAIDs improved understanding of the decentralised system of service delivery will facilitate it to:

- Create linkages with other Government of Papua New Guinea programs focused on service delivery in the decentralised system, such as the District Services Improvement Program (DSIP), and with District Authorities;
- Create useful linkages with other Australian Government Departments engaging in Papua New Guinea, including under the ECP (for example around the treasury quarterly reviews); and
- Inform complementarities between AusAID and other donor initiatives focused on improving governance for improved service delivery at the Sub-National level.

3.4 Additional features of the design

Research and lessons learned

A key design feature of the pilot PPII was the process of learning from experience. As engagement at the Sub-National level has been enhanced, there has been increasing knowledge developed within the Australian aid program about how to work more effectively at this Provincial level. Lessons about how to develop and influence other programs, both those of the Australian Government and the Government of Papua New Guinea, to refocus their work at this level have also begun being identified. This also potentially provides valuable insights for the monitoring and assessment of programs which work through government systems and sectors.²⁷

The new design seeks to continue this learning process in order to both support the development of the monitoring and evaluation framework proposed for the Strategy and also to offer the opportunity for systematic assessment of the programs and processes which will make a significant contribution to the link between Sub-National governance and service delivery for people.

For this reason it is proposed that the SNS include as one of its operational strategies a focus on research and analysis of key lessons learned for effective working at Sub-National level. The areas of research will be identified as part of the information made available during the monitoring and evaluation of the whole Activity. It will then be the responsibility of the SNS to decide which areas of research to commission. The research can be undertaken by research groups within Papua New Guinea, in collaboration with Australian and Papua New Guinea Government staff and would be available to both the Government of Papua New Guinea and the aid program.

²⁷ International research suggests that while it is possible to measure inputs into Sector wide programs and to assess the final outputs in the provision or otherwise of services, it is very difficult to gather useful and reliable information about the 'middle' the way in which partner government system actually operate to lead to service delivery. The SNI actually focuses on this area, improvement of the 'middle' and therefore offers a very valuable opportunity for learning that may apply to other Australian Government and donor programs.

Co-location of AusAID staff

One of the unique features of the SNI program has been the co-location of AusAID staff in the Department of Provincial and Local Government Affairs, and in the PPII pilot Provinces. Feedback on this strategy from the Government of Papua New Guinea has been largely positive, as it has generated a better understanding on the part of both Provinces and AusAID of each other's systems, strengths and challenges, has improved information sharing and has improved relationships. Consultations suggest that this management strategy should continue, but would be improved by clear and widely distributed information regarding the role of the AusAID officers, clear management arrangements for joint activities and clear lines of responsibility for advisers and other contracted staff.

Flexibility

One of the important lessons from the pilot stage was the need for flexibility and development of strategies according to need. The environment in Papua New Guinea is dynamic and engagement in the critical area of governance at the Sub-National level inevitably brings considerable challenges which are difficult to anticipate in advance. The new design utilises systems of management, monitoring and review that allow for identification and response to the changing context of the Strategy. It retains a flexible and emergent approach in order to allow for additional work areas and new strategies as these are required.

Other

Other notable features of the design are the partnership approach to management, including the AusAID Minister Counsellor as a member of the PPII Steering Group, the use of incentives and the focus on developing relationships between officers from GoA and GoPNG.

3.5 Overall design structure

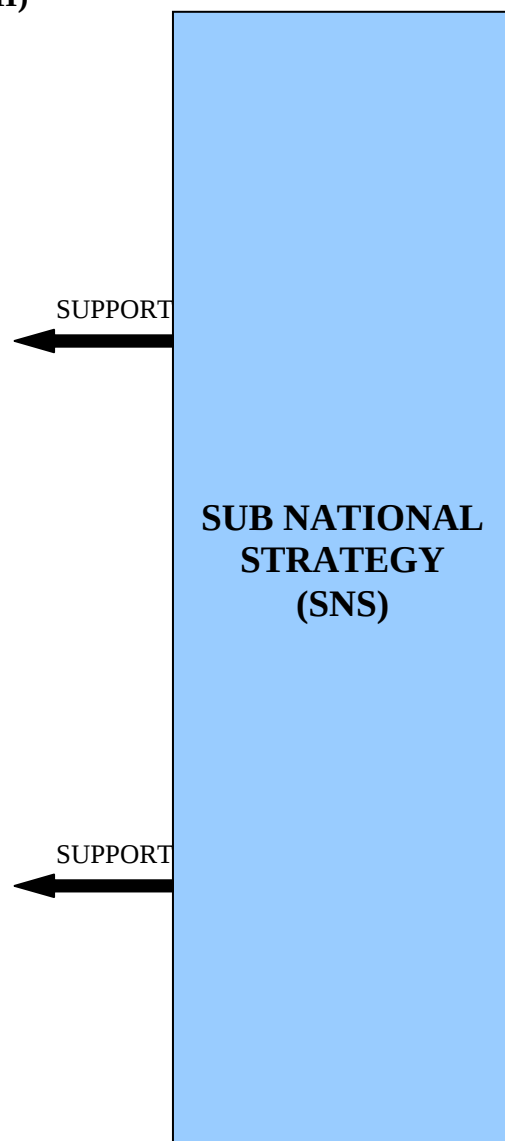
The diagram below captures the areas of the overall design structure for the new SNS.

SUB NATIONAL STRATEGY

Government of Papua New Government (GoPNG)	Government of Australia (GOA)
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Provincial Performance Improvement Initiative (PPII)

Managed By	Work Area
Dept Prov. And Loc Govt Affairs (DPLGA) /Provincial Management Teams	Targeted Provincial Assistance • 3 Phase • Administrations, civil society, private sector, elected leaders
DPLGA	Coordination of National Agencies • Strengthening of the National Monitoring Authority
National Ec. and Fiscal Com	Review of inter-government financing arrangements (RIGFA)
DPLGA/National Research Institute	Review of the Organic Law on Provincial and Local Level Government
	Other initiatives as agreed by GoPNG & GoA



Special Case Provinces and Bougainville

Managed By	Work Area
Aut Bougainville Govt/Bougainville Peace and Restoration Office	Bougainville
Inter-departmental committee (IDC)	Southern Highlands
IDC	Western
	Other

AusAID Program
AusAID Sectoral Programs
Whole of Government engagement in Australia
Engagement with other GoPNG programs
Engagement with other donors

4. Management

4.1 Coordination and Management of the SNS and PPII

SNS will be managed by AusAID. AusAID is also represented on the PPII Steering Committee by the Minister Counselor.

Detailed management arrangements need to address a number of requirements including:

- Australian Government partnering arrangements through the SNS
- Clear accountabilities for expected results
- Government of Papua New Guinea leadership and ownership of the PPII
- Effective coordination between Government of Papua New Guinea agencies, AusAID and the Implementing Service Provider
- Compliance with Government of Papua New Guinea and Australia program requirements, including for financial management
- Effective performance monitoring and assessment.

There are several key stakeholders for the SNS. This leads to a complicated set of possible relationships which needs to be managed under the new design.

Principles stakeholders include the following:

- ⇒ Government of Papua New Guinea departments with responsibility for Sub-National linkages, in particular the Department of Local Government and Provincial Affairs (DPLGA) including the National Monitoring Authority (NMA) and the Department of National Planning and Monitoring (DNPM)
- ⇒ Other Government of Papua New Guinea agencies, including the Department of the Prime Minister and the National Executive Council (PM&NEC), the Department of Personnel Management (DPM), Treasury and the Department of Finance (DoF)
- ⇒ Other Government of Papua New Guinea agencies with sectoral responsibilities that impact on the Sub-National level, including Departments of Health (DoH),

- Education (DoE), Transport (DoT), Agriculture (DAL), Community Development (DCD) and Law and Justice
- ⇒ The Provincial (PMT) and District (DMT) management teams
 - ⇒ The elected leaders responsible for Sub-National governance including leaders at Provincial, District and local level governments
 - ⇒ District Authorities
 - ⇒ NEFC
 - ⇒ NRI
 - ⇒ Other Australian Government programs that impact at the Sub-National level
 - ⇒ Civil society organizations and Churches
 - ⇒ Other donors
 - ⇒ Private sector agencies in particular Provinces

The management framework needs to include approaches to engaging these stakeholders and ensuring that clear communication is maintained with all the relevant groups. Ideally the management arrangements will increase opportunities for partnership and collaboration in order to maximize influence and outcomes at the Sub-National level.

4.2 Detailed management arrangements

4.2.1 SNS Structure

SNS Team

The SNS team of staff was developed for the pilot SNI and will be retained and expanded for the new Activity.²⁸ The AusAID SNS Team will manage the areas of work and will also manage the contractor who will be employed to provide support and assistance to the SNS. As part of this responsibility AusAID SNS team will liaise with relevant

²⁸ The SNS team is currently comprised of:

DPLGA –	Senior Development Specialist Development Specialist
Eastern Highlands –	Development Specialist Senior Program Officer
Central Province -	Development Specialist Program Officer
East New Britain -	Development Specialist Senior Program Officer

Government of Papua New Guinea departments to authorize release of resources as required and according to agreed work plans.

The SNS team reports to the Senior Development Specialist. Quarterly monitoring reports will be submitted by each Provincial Team²⁹ to the Senior Development Specialist, and monitoring visits to the PPII Provinces will take place on a regular basis.

The SNS team will be closely linked to AusAID in the Australian High Commission and when in Port Moresby will attend relevant A-based and Whole of AusAID Team Meetings. Communication between the SNS Team and Canberra will be primarily through the Senior Development Specialist. The Senior Development Specialist is a member of the AusAID Senior Management Team and is directly responsible to the Minister Counselor. Lessons and achievements will be discussed in the weekly Senior Management Meeting, with a formal report on activities being provided to the Minister Counselor on a quarterly basis.

There will be substantial engagement with sector programs as required both with the SNS team in DPLGA and in the Provincial Administrations. Guidelines for engagement with the SNS team will be developed, suggesting useful points in program management for engagement, such as during new designs and program reviews. A primary role of the SNS team will be to ensure the lessons learned related to effective Sub-National engagement are communicated on a regular basis to the wider AusAID and Australian Government program in Papua New Guinea.

The SNS Team will expand under this new design and continue in their dual role of support for partner programs and development of the AusAID strategic engagement at the Sub-National level. The proposed new staffing for the SNS and their integration with the PPII is outlined in the following diagram. In particular it is noted that:

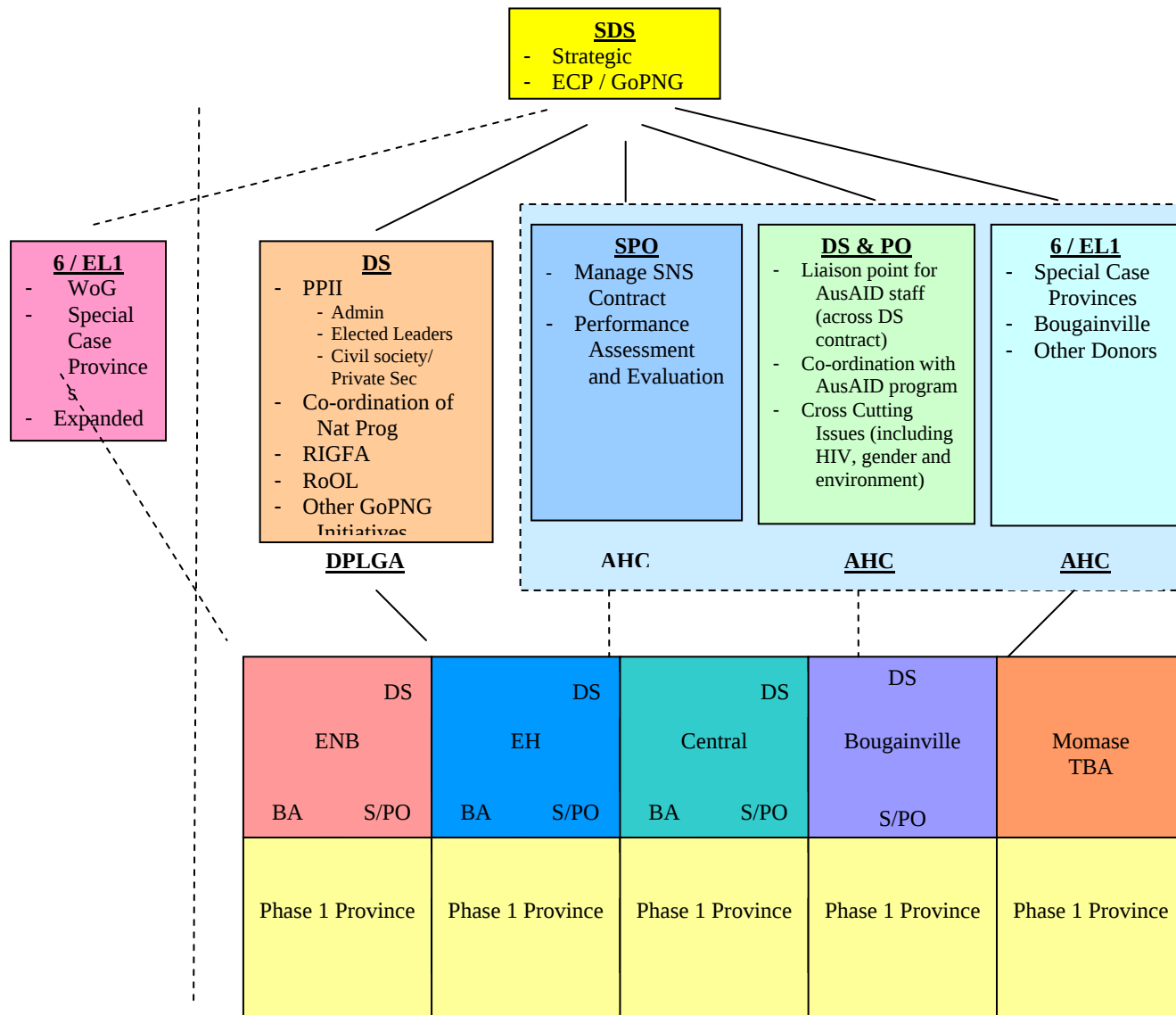
- A new development specialist will work out of the AHC, with three primary tasks
 - engagement with the rest of the AusAID program, support to the co-located

²⁹ Currently comprised of a Development Specialist and Senior Program Officer.

- staff, including with the strategic development and focus of their roles, and supporting SNS staff to ensure that HIV and gender are consistently mainstreamed throughout the program;
- An additional senior program officer has been included to manage the ISP and the oversight of the MEF for the SNS;
 - A program officer position has been added to support the AHC team;
 - The number of co-located staff in the Provinces will increase over time, with teams currently located in the pilot PPII Provinces and a team currently mobilising for collocation in Bougainville;
 - And staff for the area of Special Case Provinces and Bougainville have been added to the existing staff complement.

Note: The number of Provinces in each phase is not confirmed and will depend on Province's interest and ability to meet entrance criteria.

SNS MANAGEMENT DIAGRAM



Co-Located Officers

The SNI Team piloted a new implementation approach involving co-location of staff in three Provinces and in the Department of Provincial and Local Government Affairs.

The role of these co-located officers has focused on both the support for the activities of PPII and increased coordination and coherence of the Australian aid program. It is proposed this implementation approach with a dual focus be initially retained under the new Activity. However over the life of the Activity, it is anticipated that the DPLGA will increasingly take over the support of the PPII, and the role of the co-located officer will shift to focus more solely on improved co-ordination of the aid program.

Initially, the primary role of the co-located staff in the Provinces will include all of the following, moving to a greater focus on areas 4-6 over the life of the SNS:

1. Support the PMTs of each Province in the review of their administrative processes and in developing a reform agenda for more effective service delivery;
2. Act as a liaison through which PMTs can more easily access advisory resources that they need to assist them with their respective reform processes;
3. Assist in overseeing the implementation of the SNS and PPII and the performance of the contractor and technical advisors in the Province, ensuring that these are indeed responsive to the needs and priorities of the PMT;
4. Act as focal points within each Province on behalf of AusAID, to provide AusAID with an ongoing needs analysis of Provincial, District and LLG requirements;
5. Assist in maintaining a focus on key cross cutting areas within the Sub-National level of the AusAID program including gender and HIV/AIDS;
6. Help coordinate linkage between various AusAID-supported programs within the Province and the PMT, so that these programs fit within the coordinated development process of the Province.

Currently the co-location arrangement has one Senior Program Officer (SPO) and one Development Specialist (DS) placed together as part of the team in the Province. They work with the budget advisor and other advisors as required and with the staff from DPLGA and DNPM to provide a team approach for supporting the change process undertaken by the PMTs. This appears to have been a highly successful aspect of the PPII program and of the support offered by the AusAID Strategy. This co-location arrangement is strongly supported by both Provincial stakeholders and by the DPLGA and DNPM.

The co-location arrangements have been effective due to a number of key aspects which need to be retained under the new SNS design. The SPO are experienced AusAID locally engaged staff who are able to bring experience and knowledge of AusAID together with well developed activity management skills and well developed skills in working across government and donor systems. Their experience also allows them to work as effective partners with the DS.

The DS is an Australian AusAID staff member. As such they are able to complement the skills of the SPO, having experience in AusAID policy issues. They are also, as Australian staff members, able to take on official representation of AusAID as required.

The team approach to the arrangement allows considerable sharing and support for staff that are required to co-locate to more remote areas. This is a particular issue for women in Papua New Guinea. Due consideration to safety, including health, will need to be given to any new proposals for co-location as the PPII expands.

Having the co-located teams placed in the Provinces has been critical to the establishment of working relationships. Stakeholders consulted during this design process consistently pointed to the access and communication benefits of having people located within work areas and requested further development of this feature³⁰.

³⁰ Requests were made to expand this aspect of the program to have people located at District level as well. The expansion of permanent AusAID staff down to Districts is probably unfeasible at this time, and it is also noted that with the expansion of the PPII program there will be some difficulty

The co-located teams currently make a specific contribution to the PPII and to SNS. As discussed above, their role will evolve over time, however, it is the intention of AusAID to maintain such Provincial representation for the aid program for the foreseeable future. With the agreement of the Government of Papua New Guinea the co-location of AusAID officers will continue, albeit with a considerable change in focus.

In order to allow assessment of the role of the co-located officers and in response to lessons from the pilot phase, Terms of Reference for these roles will be updated and made widely available. These will be one part of a Human Resources strategy for the co-located roles of AusAID staff that will be developed before the extension of the PPII. This Human Resource strategy will address the key issues of staff recruitment for the expanded PPII and the wider SNS work, staff development, retention and preparation for co-location, and the issues of safety, including health, as identified above.

4.2.2 Management of the Work Areas

Provincial Performance Improvement Initiative

The strategic management of the pilot PPII was a partnership arrangement between the Governments of Papua New Guinea and Australia. This was operationalised through a joint Steering Committee, chaired by DPLGA, and with DNPM and AusAID as members. A decision has been made by that Steering Committee to expand its membership in line with the broader scope of the expanded PPII program. The Steering Committee will retain overall strategic management of the expanded PPII, with the following membership:

- DPLGA (CHAIR)
- DNPM (Deputy Chair)
- AusAID (Deputy Chair)
- Department of Treasury

in having enough DS and SPO staff to form teams in all the new Provinces. However at a minimum it is recommended that an experienced locally engaged staff member be assigned to every Phase two PPII Province, with a DS shared between two or three Provinces. The suggestion to move to regionalization of the DS role appears unfeasible if the same outcomes and relationships are sought from the co-location arrangement.

- Department of Finance
- Department of Prime Minister and the National Executive Council
- Department of Personnel Management (DPM)
- NEFC
- Provincial representation

The Steering Committee will meet twice a year to provide high level strategic oversight of the expanded PPII. The responsibilities of the Steering Committee will include the following:

- Strategic guidance to the PPII;
- Ensuring that key National agencies are appropriately coordinated with respect to their involvement and contributions;
- Providing continued and high level assessment of outcomes;
- Approving areas of focus, the annual budget³¹ and component allocations for each work area of the PPII;
- Determining any new work areas that should be added to the PPII as required to make a contribution towards the overall Goal of the PPII;
- Coordination and problem solving for the Initiative, especially where this involves intergovernmental issues.

The Steering Committee will provide information reports to the Central Agencies Coordinating Committee (CACC).

A PPII Core Group will comprise the following membership:

- Deputy Secretary DPLGA (Chair)
- Deputy Secretary DNPM
- AusAID
- Provincial representation as required

The Core Group will meet as required and will have responsibility to manage the key issues and ongoing challenges of the expanded PPII. They will report to the

³¹ Provided that the contribution allocated to AusAID is within the approved allocation for the Initiative. It is noted that GoPNG may make an increasing budget allocation towards the PPII.

Steering Committee and will work to identify the strategic high level issues appropriate for consideration at this Committee.

The expanded PPII work areas will be managed by the Government of Papua New Guinea through the respective Government departments which are responsible for the work being undertaken. These include:

1. Provincial District and LLG performance improvement: PPII program

This area of work is implemented by the Provincial Management Teams (PMTs), together with the Capacity Building Division (CBD) of the DPLGA and the DNPM, with support from other national agencies as appropriate.

The management responsibility for the work being undertaken rests with the PMTs. Support programs are managed by the DPLGA and the DNPM.

2. Co-ordination of National Agencies

This work area will be implemented and managed by the National Monitoring Authority, and its secretariat, the Performance Monitoring Division (PMD), and the CBD of the DPLGA, in close liaison with the DPM&C and DNPM.

3. Review of Intergovernmental Financing Arrangements

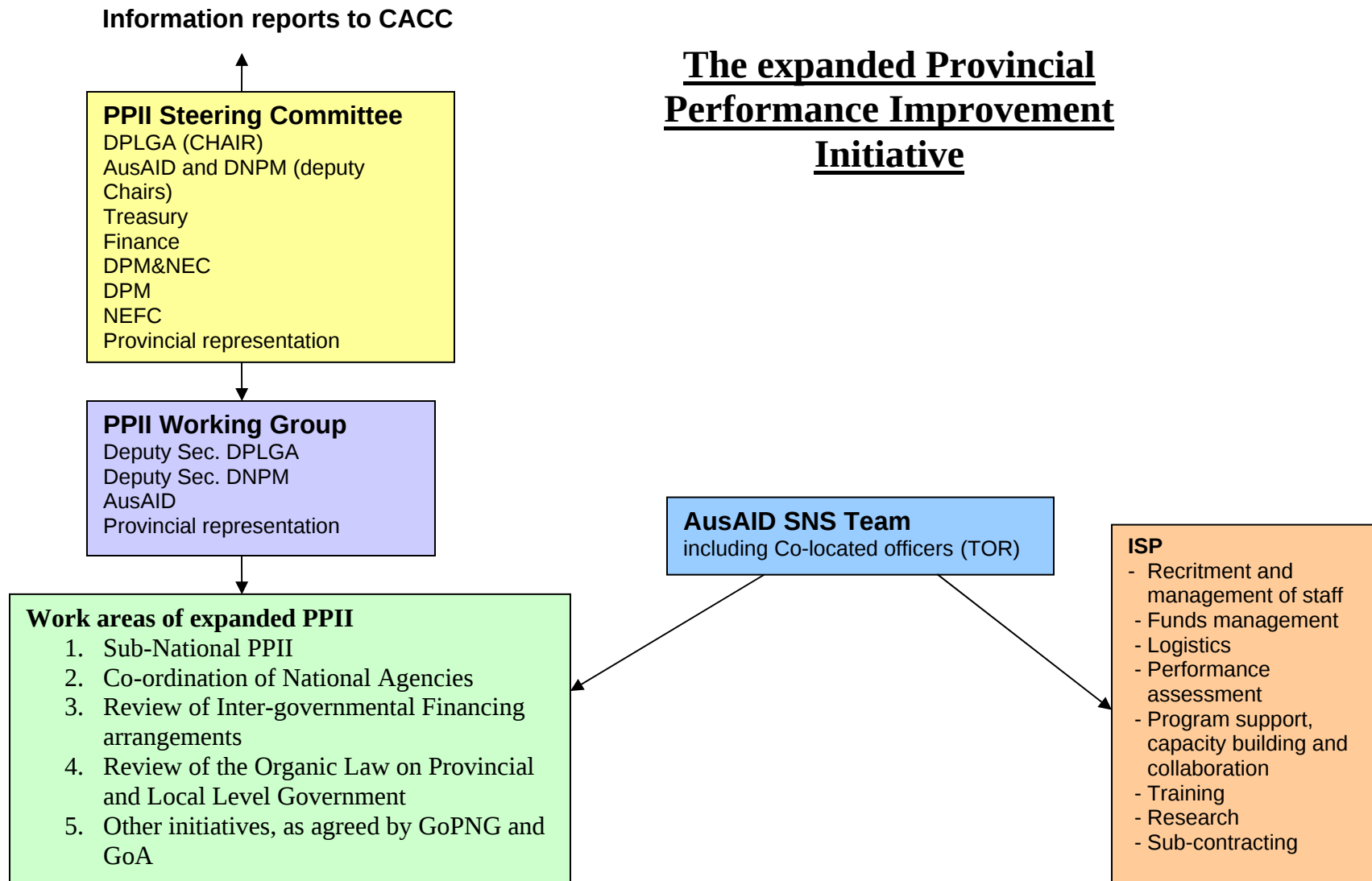
This work area will be implemented and managed by the NEFC, until the implementation of the reform process. At that time the management arrangements will be reviewed.

4. Review of the Organic Law

This work area will be implemented and managed by the Policy and Legal Division of the DPLGA, in partnership with NRI.

The overall management arrangements for the PPII are outlined in the following diagram:

The expanded Provincial Performance Improvement Initiative



Special Case Provinces and Bougainville

The management responsibility for Special Case Provinces will vary depending upon the partnership relationship developed under the assistance plan. It is expected that management responsibility will be taken in some situations by PMTs or their delegates, or by other Government of Papua New Guinea administrative arrangements. In some cases management responsibility may be given to NGOs, community service providers or private sector groups.

Support to Bougainville will continue through the Governance and Implementation Fund (GIF), with AusAID support to the Autonomous Bougainville Government managed by an AHC based diplomatic officer, and overseen by the SNS SDS. Once collated, assistance will be provided by the collocated AusAID team in Bougainville.

Alignment of AusAID's programs

The other work area currently identified under the SNS, in addition to support for the PPII and Special Case Provinces, is contributing to aligning AusAID's ongoing programs in PNG so that these are more responsive to service delivery challenges at the Sub-National level. These work areas will be implemented and managed by the SNS staff team, including the Canberra based AusAID staff. Under the new structure, this is a key work area of the AHC based DS.

4.2.3 The Implementing Service Provider

The proposed ISP will be a contracted agency able to provide logistical, organizational and other support to the SNS. The role will be one of facilitation and support rather than management. It is intended that the ISP will organise some of the areas of assistance provided by the Australian Government to the PPII, but the management of the PPII itself will rest with the Government of Papua New Guinea. Likewise the management of the SNS will remain with AusAID.

The role of the ISP is outlined in the Scope of Services, but will include:

- Identification, employment and human resource management of the technical advisers required for the expanded PPII. Lessons from other programs in PNG, such as the Advisory Support Facility, highlight how critical strong

selection, recruitment and management processes are and this will be a core responsibility of the ISP;

- Logistical, security and all other support required for the technical advisers;
- Secretarial support and management of all reporting and information requirements for the PPII Steering Committee and the PPII Core group and the SNS Team as required;
- Procurement of training, as requested;
- Identification and management of appropriate researchers to undertake targeted research;
- Management of the performance information system for the SNS, and support as required by GoPNG for the management of the performance information system for the PPII and Special Case Provinces, based upon existing Government of Papua New Guinea systems with development of additional systems as required ;
- Assistance with design and development of new work areas of the PPII or the SNS as required;
- Management of the budget and allocation of funds for the various work areas of the PPII according to direction from the Steering Committee.

4.2.4 Specialist advisers

In addition to the co-located AusAID officers and the role of the DPLGA in Provinces, Districts and LLGs, the pilot PPII was implemented with the assistance of a group of technical advisers. This has included advisers in human resource management, legal drafting, policy, finance and budget, monitoring and evaluation and organizational development.

The experience of these advisers suggests that there has been considerable advantage in having technical specialists who are able to respond flexibly to requests for assistance from the Provinces. It is of advantage to have technical specialists who are able to assist with detailed and focused advice and support rather than just provide general information. It is also of advantage to have the advisors working as a team delivering a consistent package of assistance, and able to build experience in Sub-National governance.

For the expanded PPII it is proposed that these advisors are used more deliberately to contribute to identification of problems and building of knowledge about areas of administration and governance at the Sub-National level. While under the management responsibility of the ISP, they are intended to be part of the capacity building strategy of the SNS, recognising the ownership, and supporting the management of the PPII by the Government of Papua New Guinea.

It proposed that advisers will increasingly be sought from local rather than international locations. As part of the sustainability strategy for the SNS it is also expected that advisers will contribute to the development of the required expertise in relevant national government agencies in order that these agencies are able to increasingly undertake the role of capacity development and technical support for the administration structures at the Sub-National level.

In order to support this approach, terms of reference will be developed by the ISP in consultation with GoPNG and AusAID for the roles of the technical advisors. The management of these roles will be guided by these TOR, which will be available to counterparts and stakeholders.

4.3 Protocols

Given the complexity of relationships within the SNS, protocols for communication and clear lines of responsibility for the Development Specialists, Senior Program Officers, technical advisers and the ISP will be developed for their respective interactions with PPII.

5. Monitoring and Evaluation

To assess progress in the SNS there needs to be appropriate attention given to monitoring and evaluation. The Monitoring and Evaluation Framework (MEF) should be based on several quality attributes which are required of Australian Government funded aid programs.³² In addition this particular Activity requires attention to several key principles and lessons learned. These include:

- ⇒ The intention of the SNS is to support and further develop the systems of the Government of Papua New Guinea. The MEF should reflect this intention as far as possible.
- ⇒ It is the intention of the SNS to build sustainability and outcomes beyond the life of the activity. The MEF needs to promote performance measurement approaches which can be continued beyond the Activity with minimal technical or other support.
- ⇒ The SNS seeks to promote transparent and accountable governance as a contribution to the enabling environment for service provision. Therefore the MEF must enable information and assessment to be accessible and available to all stakeholders. It also needs to provide opportunity for those stakeholders to be participants within the assessment process.
- ⇒ The SNS includes work areas as well as relationship development and policy and program contribution and input. The MEF needs to be designed to assess the varying contributions of each aspect as well as how well work areas met their objectives.
- ⇒ There are various implementers in the SNS. Their roles and performance needs assessment in light of the objectives of the Initiative.
- ⇒ The PPII is owned of the Government of Papua New Guinea. This should be supported by the MEF.

³² The AusAID M&E Quality Frame identifies six attributes of quality M&E frameworks:

1. Coverage adequate for the particular purpose or situation (**what data**)
2. Method clearly specified (**how & when**)
3. Responsibilities & resourcing defined (**who**)
4. Lesson learning & accountability needs (**balance**)
5. Consultation & ownership (**commitment**)
6. Capacity building of partner organisation (**sustainability**)

⇒ The PPII is supported by the SNS in a way which goes beyond the transfer of resources. This support, characterized as the development of an enabling environment, should also be subject to monitoring and review.

5.1 Monitoring the goal of the SNS

The SNS proposes to make a significant contribution to the Goal of:

Improved service delivery for the men, women and children of Papua New Guinea

The Goal matches the objectives of the Australian Government Country Strategy for Papua New Guinea and the objectives of the Government of Papua New Guinea Medium Term Development Strategy. As such, progress towards improved service delivery will be measured under the performance assessment provisions of both these frameworks and this information can be used by the SNS and the PPII to identify any progress towards Goal achievement. Similarly progress recorded in the SNS framework can feed into the higher level performance assessment frameworks.

The critical issue for the SNS Management Team will be to assess the **contribution** made by the SNS, including its support for the PPII, to any achievements at Goal level. There will be many factors, beyond the control and influence of the SNS which will determine if service delivery improves in Papua New Guinea over the next five years. The intention of the SNS is to support the Government of Papua New Guinea to make a reasonable and significant contribution to such improvement, and to improve the effectiveness of AusAID's support towards this goal. So the assessment need for the SNS at this level is for measurement of that **contribution** relationship. In other words, has the SNS, including the implementation of the PPII, made a significant contribution to improving service delivery, and why or why not?

Methodology

The method to be used for this process will be contribution analysis. Contribution analysis relies upon several sources of data that allow for reasonable hypothesis to be developed about the contribution made by activities towards a higher order

objective³³. The various results of the work areas and data from other sources will be required to develop the basis for this overall assessment process.

5.2 Monitoring the Sub-National Strategy outcomes

The SNS has three key work areas and a number of key features. All need to be considered within the Activity MEF.

Monitoring of the SNS work areas

Monitoring of the two work areas of PPII and Special Case Provinces is the responsibility of the PPII Steering Committee and the management bodies established for each Special Case Province, respectively. SNS will rely upon this information to give a clear picture of the outcome of its support for these areas. Details of how this monitoring will be undertaken can be found in Annex 7.

The work area of coordination with other Australian Aid programs to PNG will be highly varied. Overall, however, the key measurement for this work area is the satisfaction of the other Australian Government program areas with SNS engagement and collaboration.

Therefore the Australian Aid programs which seek to work with and be supported by the SNS will be asked to establish mutually agreeable plans for achievement of coherence at the Sub-National level. These would serve as the agreed indications of success or otherwise for each program. Each program area would report on their satisfaction or otherwise with the support and facilitation received by the SNS. The ISP would assist in facilitating this process although the responsibility for assessment and analysis would rest with the relevant Australian Government Program area.

As other work areas are approved by the SNS Management Team for inclusion in the SNS their methods for monitoring will also be assessed.

³³ Mayne, J. (1999) "Addressing Attribution Through Contribution Analysis: Using Performance Measures Sensibly", Office of the Auditor General of Canada.

Monitoring of the SNS process

In addition to assessment of what was achieved through the support provided to partner programs, it is also important to consider the quality of that support itself. This includes assessment of the scope of the support, its match to the identified needs, its development according to the context into which it was channelled and its limitations. This is a qualitative assessment which needs to be undertaken with all key stakeholders.

It is proposed that a Quality Review Group be established to assess the overall quality and effectiveness of the SNS on an annual basis. Specifically this group will look to the nature of the support offered by the SNS, the efficiency and effectiveness of that support and the outcomes that have been able to be delivered as a result of the support.

The Quality Review Group will comprise two or three people who will bring the following skills/knowledge in an appropriate combination:

- Governance in Papua New Guinea, especially experience at the Sub-National level
- Capacity building within the Papua New Guinea context
- Cross cutting issues of HIV/AIDS and gender
- Familiarity with AusAID systems and quality standards

The Quality Review Group will be employed and managed by the ISP. The Group will prepare a report on the SNS quality and effectiveness on an annual basis for the SNS Management as well as the PPII Steering Committee and the senior AusAID management in Papua New Guinea.

5.3 Other areas for monitoring³⁴

There are a number of specific service providers and stakeholders within the SNS who will be critical to their effective operations. For this reason these stakeholder groups also need to be monitored for performance and quality. They include the ISP, the technical advisors and the members of the SNS staff team co-located to

³⁴ Monitoring for the expanded PPII is covered in annex 7.

the Provinces and to DPLGA. There are also overall areas which have to do with the intent of the SNS which should be assessed on a regular basis, including the changing policy and program context for Sub-National intervention in Papua New Guinea and any adjustments that need to be made to the design in light of those changes.

Each of these areas needs specific consideration, utilising various methodologies. The overall approach to measurement of management can be summarised as follows:

Measurement areas:	Methodology for measurement
• The ISP undertakes all required tasks and develops and maintains required relationships and processes.	Contractor performance assessment
• The technical advisors provide high quality technical advice and contribute to the overall SNI intent and development	Performance assessment against contract, according to TOR
• The co-located SNS team is able to undertake their dual role of representation of AusAID and facilitation of PPII effectively and adequately.	SNS Management Team assessment drawing from stakeholder consultations
• SNS remains relevant within PNG and Australian Government policy and program contexts	Sector and context assessment Risk management

This section outlines each of the tasks in more detail and proposes areas of performance assessment.

The Implementing Service Provider

The ISP plays a critical role in the SNS. While not responsible for managing the Strategy, the ISP is responsible for a high level of facilitation and support through the various work areas. The ISP needs to operate in a flexible and responsive manner, be able to understand the overall intent of the SNS, including each area of the PPII, and be able to support movement towards that intent in all activities. The

ISP needs to be able to identify new innovations in approach or management which would assist the SNS and be able to assist in development of new approaches as required. The ISP must be very able to work towards development of the PPII recognising it is a program owned by the Government of Papua New Guinea.

The performance management of the ISP will be the responsibility of the Australian Government through AusAID. Performance assessment will be a continuous process but will be undertaken formally on a biannual basis with a view to assessing the contribution the ISP has made to the overall process and progress of the SNS. While a final contract performance assessment framework is to be finalised, the suggested areas of performance to be included in this assessment process include the following.

- Completion of all tasks as required, as outlined in the design document and according to the associated Scope of Services.
- Establishment and maintenance of effective working relationship with key stakeholders including:
 - o The DPLGA and NMA
 - o Provincial and District administration staff as appropriate
 - o SNS staff team
 - o Other Papua New Guinea Government agency staff as required.
- Support for the ownership and control by the Papua New Guinea Government of the PPII.

The ISP will be expected to report on progress against performance requirements on a six-monthly basis. This will be in addition to other reporting requirements for activities under the SNS.

Specialist Advisers

The technical advisors provided by the SNS for the PPII play an important role in providing specialised and focused technical advice. Under the new design they will also be expected to expand their role in two ways: first, to undertake assessment together about the areas of progress and development within the PPII

within their responsibility and to make recommendations and suggestions about these areas; and, second, they will be asked to assist National agencies to develop their capacity to more directly serve the technical needs of the Provinces and Districts.

For this reason the advisors will be assessed on a regular basis on their ability to both provide quality technical advice and to expand their role to other areas. TOR for these roles will be developed within their contracted obligations and performance against contract will be assessed on a six-monthly basis by the ISP. The monthly reports from the advisors will be expanded to include detail on these areas to serve as a basis for performance assessment.

The SNS team

The performance of the SNS team, especially the co-located staff, is a critical aspect of the SNS support for the PPII. The co-located staff play a key role in both representing the Australian Government in the Sub-National system and also facilitating the specific ends and objectives of the PPII within that system and beyond.

The SNS staff are individually assessed through the AusAID staff performance assessment system. However their overall contribution as a team and within these specific and complex roles also needs to be assessed. They are required to report quarterly about their activities and this can be utilised as the basis for the overall assessment of the contribution of co-location to SNS performance. It should be considered by the Quality Review Group in their Assessment as well as the ongoing performance considerations made by the SNS management team.

Assessment of the ongoing relevance of the SNS

The SNS has been designed based upon a thorough analysis of the existing policy and program context of both the Papua New Guinea and Australian Governments. However these contexts are continually changing. For example there is a government election to be held in Papua New Guinea in 2007 which may impact upon the current policy and program structures of that country. Further, recent Government of Papua New Guinea initiatives, including the introduction of

District Authorities and the District Service Improvement Program, need to be considered in the implementation of the SNS.

Good quality aid provides for regular and frequent monitoring of the context of that aid delivery to ensure that the changes have not affected the relevance of the particular design. Contextual monitoring is in part undertaken through risk management and monitoring. It also requires some ongoing attention to other factors which may not have been identified as specific risks at the beginning of the design.

The SNS Management Team is responsible for regularly considering the changing context and for developing and implementing any new approaches or work areas as appropriate. The ISP will be tasked with regular gathering of information about the context on behalf of the SNS as required. The ISP will also report on updating of the risk assessment and management strategy as a complement to this wider context assessment.

5.4 Evaluation

The SNS is an Activity which is expected to expand and develop over its life time as well as be reprogrammed beyond the five years of this design phase. In order to ensure that the Strategy is sufficiently contributing to improving service delivery in PNG, and also that the current design remains relevant in the changing context of Papua New Guinea, it is proposed that there be a mid-term review of the SNS in its support for the PPII and other work areas.

The review will be managed and implemented by the ISP, utilising external and independent evaluators, with some overlap with the Quality Review Group. They will be expected to draw upon the extensive monitoring systems of the PPII and the SNS as well as undertake additional data collection to assess the progress and relevance of the PPII and the SNS at the mid term.

At the end of the five year phase of this Activity a full evaluation will be undertaken.

6. Feasibility, Sustainability and Risk

The consideration of feasibility, sustainability and risk are appropriately grouped for this Strategy. Support to Partner Programs is an aid modality which is expected to be more feasible and sustainable, but is also inherently risky. The purpose of supporting a partner government's program is to ensure a closer match to surrounding conditions and capacities, and therefore to increase the likelihood of sustainable outcomes in the longer term. However the lack of donor control leads to additional risk.

The sustainability of, and risks for, the SNS are largely inherent in the major work areas to be supported under the Strategy. SNS can be expected to be effective if the key work areas of PPII, Special Case Provinces and alignment with Australian Government programs are themselves effective. Therefore these work areas form the major part of the discussion about risk and sustainability.

Feasibility analysis

The feasibility of the SNS has been tested through an extensive pilot phase. Review of that phase suggests that the Strategy is both highly feasible and also highly relevant within the Papua New Guinea context. The ongoing assessment of the relevance of the SNS, including the quality and effectiveness of the support to the PPII and Special Case Provinces as proposed in the section on performance monitoring will be critical to checking and maintaining this technical feasibility over time.

From the perspective of the design feasibility, the SNS is a flexible design, described by the aid modality 'Support for Partner Programs'. The key point underlying the design is to construct the work areas and policy engagement in a way which will most effectively support and develop the systems and capacities of the Government of Papua New Guinea. The design feasibility lies in its greater alignment and integration with those systems and capacities, rather than a prescribed aid model. Consistent with good practice, it also focuses on learning lessons to improve the way AusAID operates in Papua New Guinea.

The new design has proposed more opportunity for this alignment through expanded management and monitoring processes which emphasize partner government leadership and responsibility. However this aspect of the feasibility needs to be carefully monitored. There is some danger of being so responsive and flexible that the Strategy is unable to identify and maintain its specific contribution. The SNS could be expected to service so many needs that it loses its focus on key areas of support. Regular attention will need to be given to the operations of SNS to ensure it maintains its focus and coherence.

The development feasibility of the major work area supported under the SNS, PPII, is based upon an analysis of the decentralised system of governance in Papua New Guinea and how it can effectively be influenced towards improved performance. The hypothesis has been made that intervention at the Provincial level and from there down to the District and LLG level is appropriate. A further underlying assumption is that the PMTs should be the primary leader of the change process for the PPII. Other assumptions are also made about the expected outcomes of the review of the Organic Law and the RIGFA process and their complementary and synergistic relationship to the rest of the PPII program.

This analysis is based on the information and experience of the Government of Papua New Guinea and is therefore valid under the current conditions within the country and the available evidence to date. However these conditions may change and some of the PPII design assumptions may be incorrect upon further application. In turn this will challenge the feasibility of the SNS design and the likelihood of successful outcomes. Ongoing attention to the outcomes and progress of the PPII is critical to the continued relevance and feasibility of the SNS. The proposed mid-term review should also be understood as a key opportunity to reconsider the developmental hypothesis of the PPII and therefore the SNS and where necessary redevelop this to more closely fit experience and required outcomes.

Sustainability analysis and management

The SNS has been designed with a strong orientation towards achieving sustainable outcomes. The analysis undertaken for the development of the PPII

and the work on Special Case Provinces identified that several factors underlie the failure to deliver services to men, women and children in Papua New Guinea. These included the decentralisation process mandated under the Organic Law, the accompanying shift in responsibilities and roles to Provincial, District and LLG areas, and the lack of capacity, resources and assistance from Central agencies to enable this process to operate. It also includes the ongoing inadequate support offered by many of the key central agencies to Sub-National administrations. It includes problems with the level of finances to provide services and the lack of recurrent financing to maintain and upgrade key human services. Finally it is recognised that the administrative and political arms of Government do not always function effectively together and attention needs to be given to building this engagement in order to support functioning governance that will lead to improved service delivery. The role that civil society plays in ensuring this also requires further consideration.

The expanded SNS provides support for Government of Papua New Guinea programs which specifically address each of these key problem areas. Further, the SNS has been developed to support the Government of Papua New Guinea's work on improving service delivery in its decentralised environment, with attention being given to how AusAID, the donor, operates and how the donor programs will support or inhibit the changes sought under the PPII. In addition SNS has flexibility to address emerging programs or issues of both the Government of Papua New Guinea and the Government of Australia or other donors.

Therefore the key element of managing sustainability for the SNS will be effective management of the Strategy itself. It has widespread work areas and many separate actions. Feeding lessons and creating synergies between the various areas and understanding their mutual influences will be critical to ensuring SNS is providing the most effective support to the PPII and other work areas.

In addition the other aspect of sustainability which has been recognised in this design is that the change sought will not happen in the short term. It is considered that fifteen years will be a minimum timeframe in which to assess the sustainable progress of support for improved performance at the Sub-National level (albeit

with considerable design changes expected over that time). Therefore while it is possible to monitor for progress towards sustainability, support for reform and development of Sub-National systems can be expected to be required for a considerable period.

A key threat to sustainability will be failure by PPII to engage the wider Government of Papua New Guinea political and administrative arms (especially at National agency level). A further threat would be SNS failure to engage the wider Australian aid program and other donors. If PPII and SNS are not able to promote these engagements and therefore advance their change mandate their contribution to effective service delivery may remain minimal.

Another aspect of the sustainability of the PPII, and therefore the SNS, will be its support for engagement beyond the political and government systems to the communities and private sector actors. The SNS will support the development of a PPII communication strategy specifically designed to start this process but in addition it is expected that civil society engagement in monitoring and assessment of Activity progress, together with engagement in PPII work areas will be critical to building a general level of support for the intentions and approaches of the PPII. Other strategies will also need to be developed for the engagement of civil society and private sector actors in the Special Case Provinces. Failure of such engagement will likely undermine the achievements of this work area.

Finally a serious risk to the sustainable outcomes for the SNS will be the impact of HIV/AIDS in Papua New Guinea. It is not possible to consider development in Papua New Guinea at this time without recognition of this impact. Therefore the progress of the epidemic and the ways in which it limits opportunities for change and improvement at the Sub-National level need to be considered in managing for sustainability.

In light of these considerations it is proposed that sustainability be monitored for this SNS across seven domains. These are:

- The implementation, management and monitoring of the SNS in a way which supports coherence and synergy between and within work areas;

- The continued support for and development of Partner Government Programs during this first phase and beyond, demonstrating a responsive and relevant engagement with the key issues related to service delivery at Sub-National level;
- The successful engagement with both Government of Papua New Guinea and Government of Australia systems and programs in a way which changes their orientation towards both governance and service delivery at the Sub-National level;
- The successful engagement with civil society and the private sector in a way which increases their level of understanding, their level of commitment and where appropriate their engagement in the intentions and work areas of SNS;
- The successful engagement with other donors, and improvement in the complementarity of programs;
- The development of strategies as required in order to mitigate the impact of HIV/AIDS upon the SNS goal;
- The development of strategies to recognise the importance of an increased focus on gender on development outcomes.

These domains will be developed under the sustainability monitoring plan which will attach to the MEF. Assessment of sustainability will be made through qualitative exploration of these domains on a regular basis, drawing upon stakeholder and external views. It will be the responsibility of the ISP to develop the methodology for this assessment process which will be reported each six months to the SNS Management Team and made available to the PPII Steering Committee.

Risk analysis and management

As implied, this Strategy has considerable risks. These include risks to the SNS as a whole as well as specific risks within each of the work areas. Critically, risks need to be seen as inevitable consequences of the type of aid modality utilised for this design. In addition risks need to be understood as areas for further

management rather than problems which will stop achievement of the desired outcomes.

As identified above, the SNS sits within a fluid and dynamic environment in Papua New Guinea. While it is designed to be flexible and responsive to that environment, major contextual changes will threaten the relevance of the Strategy. Regular monitoring of political, economic and social context will be critical to managing this risk.

In addition the complexity of the SNS design raises some risk. The proposed performance monitoring is a minimum requirement for ensuring that it is able to proceed. Inadequate management and monitoring will risk losing the focus of the SNS and therefore the coherence and integration which is its base. This in turn is likely to lead to limited contribution towards the Goal.

The overall engagement and commitment of the Australian Government to the SNS, while very high at this time, needs to be maintained over a long time frame in order to achieve the proposed outcomes. There is some risk that failure to demonstrate achievement in the short term might undermine support for the SNS, diverting resources and attention elsewhere.

Probably the most significant risk however is that SNS might fail because the work areas supported under the strategy are unable to achieve their own objectives. The SNS intentions are largely to be achieved by the key work areas of PPII and Special Case Provinces. If they fail to achieve, then SNS will also be considered to have failed. Identifying the key risks of these work areas therefore becomes important to understanding the critical risks of SNS.

The main risks for SNS together with the specific risks which arise from the key work areas are outlined in the Risk Management Strategy at Annex 8.

Risks assessment and management of the overall risk strategy will be the responsibility of the ISP. This will include attention to development of risk management strategies for the key work areas under SNS in collaboration with the

Government of Papua New Guinea and staff. The ISP will be responsible for tracking the identification and the management response to the risk and will assist with reporting on this area on a six-monthly basis to the PPII Steering Committee and the SNS management Team.

Management of risks around the better alignment of the AusAID program to Papua New Guinea's decentralised system will be the responsibility of the SNS team, assisted by the ISP as above.

MTDS PRIORITIES

WHO IS RESPONSIBLE?

**REHABILITATION &
MAINTENANCE OF
TRANSPORT
INFRASTRUCTURE**

National – National Roads (40% of roads)
Provincial/District – trunk and feeder (60% of roads)

**PROMOTING OF
INCOME EARNING
OPPORTUNITIES**

Provinces/Districts/Community Boards –
Agricultural extension
National/Provincial – Fisheries extension

BASIC EDUCATION

Provinces/Districts/LLGs
Elementary/Primary schools

**DEVELOPMENT-
ORIENTED
INFORMAL ADULT
EDUCATION**

National/Provinces – Distance education
Provinces – Vocational centres

**PRIMARY HEALTH
CARE**

Provinces/Districts/LLGs
Rural health facilities and programs

**HIV/AIDS
PREVENTION**

National – Policy
Provincial – HIV/AIDS awareness

LAW AND JUSTICE

National – Courts/Police/Corrections
Provincial – Village Courts

National Economic and Fiscal Commission (NEFC) Consultation Paper on the Review of
Intergovernmental Financing Arrangements at 8.

Annex 2 – Lessons Learnt in the pilot Sub-National Initiative

The SNI undertook to ensure regular reports were kept of the various activities with an emphasis upon lessons learned. The review undertaken as a preliminary step for this design was able to utilise these extensive reflective reports as a primary data source. In summary key learning from these reviews include the following:

a) Relationships

- Relationships between levels of government are important. The opportunity for improved service delivery is contingent upon Government of Papua New Guinea national agencies being able to work effectively with Provincial and District structures and visa versa.
- The role of DPLGA as the link between national and Sub-National government is therefore critical.
- Likewise the relationship between political and administrative structures of government is important for effective governance at all levels. At the Sub-National level there is often misunderstanding and confusion about roles and responsibilities between these functions which in turn creates significant problems with planning and delivery of services.

b) Capacity

- Provinces vary considerably in their resources, capacity and ability to absorb and sustain assistance. Any activities directed at Provinces must be able to address the reality and complexity of each Province rather than try to present a single blueprint approach to improvement.
- In turn the Districts and Local Level Governments within each Province themselves vary and Provincial performance and resourcing must be considered at this level. While Provinces are largely responsible for co-ordination and resourcing of service delivery it is at District level where services are actually delivered. Work must be undertaken at all service delivery levels.

- Both increased resources and increased capacity are critical strategies of creating the enabling environment at Sub-National level which will support improved service delivery. Without such capacity the elected representatives take up areas of work which are outside their mandate.

c) Ownership

- Ownership by the PMT of its accountability for coordinating service delivery, and mobilizing the required change and improvements in management is fundamental to sustained efforts at the Provincial and District level for performance improvements. In the current decentralised system of government in Papua New Guinea, the PMT plays the pivotal role in service delivery. While National agencies and elected leaders have sometimes tended to usurp this role, it is essential to empower the PMT to own and assert itself in this role. Creating the environment for change and opportunities for PMT ownership of planning, budgeting service delivery and performance monitoring is essential to the process of both improved service delivery and improved governance.

d) Coordination

- The implementation of Australian Government programs and those of other donors at the Sub-National level can have considerable impact upon the capacity and performance of Provincial and District governance structures. Failing to recognize capacity and other demands, failure to work through appropriate Sub-National structures (as opposed to simply imposing on them or creating parallel systems) and failure to create local ownership all undermine the environment for change and improvement which is essential for improved service delivery.
- There is expected to be increased demands placed on Provinces and Districts to undertake and implement new reforms, especially in areas of public sector reform and fiscal management. In addition there are programs planned for service delivery improvement. While this

approach is appropriate under the decentralised system of government in Papua New Guinea, experience strongly suggests that without further support for the governance and other structures at the Sub-National level these reforms will not be taken up effectively in all locations.

- Apart from reform pressures, opportunities also exist for partnerships and additional development at Sub-National level. While civil society has been identified as one set of potential partners, other partnerships with private sector and other donors are also possible. In order that the Sub-National level is able to take up and lead in these potential development partnerships they need to be supported to develop their capacity across several areas.

e) Flexibility

- The new design must take account of the fact that each Province has differing capacities and operating contexts which impact on the ability of that Province, the Districts and the LLGs to deliver services. Thus the new design cannot present a detailed scope of activities in advance for each Province. Each Province must be allowed to own the process of its capacity building, define its own pace, identify specific solutions to its needs and work through a process towards these. A flexible design approach is required allowing for development of annual plans with each Province which in turn provide the details of the required inputs and expected outcomes from that Province.

f) Information and monitoring

- Information is important. At present information appears to be either not available, especially at Sub-National level or not utilised for various reasons. Ensuring the transparent use and availability of information is a critical aspect of creating an enabling environment for policy and planning.
- While there is much interest in performance monitoring, the ability of the NMA to provide consistent and reliable information on Provincial

and District performance is still being developed. Any future activities need to support and further develop this critical function.

Annex 3

Key areas of difference between the pilot and new design

Sub-National Initiative 2003 - 2006	Sub-National Strategy 2006 -
Objective	
Improved service delivery through improved public administration at the Sub-National levels of government	Improved service delivery for the men, women and children of Papua New Guinea
Focus areas	
Three components: Component 1 - Support National Agencies in their functions of co-ordinating and facilitating sub national government performance Component 2 – Support Provincial and Local Level Governments in improving their public administration and strengthening their planning, budgeting, implementing and monitoring cycle so they are better able to provide services and create an environment conducive to economic growth Component 3 - Better alignment of Australia's development program with Papua New Guinea's decentralised system	Three work areas: 1. Support to the extended PPII 2. Support to Special Case Provinces and Bougainville 3. Support aligning Australia's development programs to better fit Papua New Guinea's decentralised system of governance
Management of support	
AusAID directly responded to requests by GoPNG supporting service delivery under the decentralised system, Component 1 – support provided for the Review of the OLPLLG, the review of intergovernmental financing, reactivating the NMA, support to DPLGA Component 2 – support provided for the pilot PPII and other DPLGA initiatives at the SN level, including the PMT capacity building initiative Component 3 – ad hoc inputs as requested by AusAID sectoral programs	The expanded PPII Steering Group to co-ordinate both assistance at the Sub-National level and structural issues, in particular: 1. The expanded PPII assistance with Provinces, Districts and LLGs 2. Better co-ordination and monitoring of national programs to the Provinces 3. Review of inter-governmental financing 4. Review of OLPLLG Within the AusAID program, the SNS team will manage Australia's support to Bougainville and Special Case Provinces to ensure we are sharing lessons etc. More emphasis will be placed on engaging with AusAID's sectoral programs and improving their efficiencies by informing them about the decentralised system, with this being a primary

	role of an officer based in the AHC.
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Pilot PPII 2004 - 2006	Expanded PPII 2006
Objective	
The purpose of the PPII was to improve Provincial public administration and the integrity of planning and budgeting systems for better service delivery.	Improved public administration and governance at the Sub-National level in order to improve service delivery for the men, women and children of Papua New Guinea.
Focus areas	
Improving Provincial public administration systems, with a focus on the planning and budget cycle	Focuses on all levels of government and administration, recognising that they each have a role in service delivery, as well as elected leaders and civil society. At the Sub-National level - focuses on administration, elected leaders and civil society, recognising their inter-relationship to improved service delivery. Also looks at key structural issues, including intergovernmental financing, the OLPLLG, co-ordination of national agency inputs to Sub-National government and administration, and monitoring.
Steering Group	
Sec DPLGA (Chair), Minister Counselor AusAID and Sec DNPM	Sec DPLGA (Chair), Minister Counselor AusAID and Sec DNPM (co dep chairs), PM&NEC, DoF, DoT, DPM, NEFC, Provincial representation
Assistance to Sub-National Government and Administration	
All assistance must be requested by the	All assistance must be requested by the

Province to DPLGA. Three pilot Provinces (Eastern Highlands, East New Britain and Central), with some limited District engagement in those Provinces.	Province to DPLGA. Phased approach, with around ten Provinces entering phase 1 by the end of 2007, and the current pilot Provinces in phase 2. Increased focus on Districts, followed by LLGs.
Use of incentives	
Incentives trialled to encourage engagement – K1 million/year per Province to sign up to improving public administration systems.	More structured use of incentives. Clear criteria must be met to move between phases, incentives used to encourage criteria to be met.

Annex 4

The Underlying Theme of Capacity Building in the Sub-National PPII

At a Sub-National level, the PPII is about building the capacity of Provincial, District and Local Level Governments to deliver services more efficiently and effectively. It is also about building the capacity of DPLGA to better support the Sub-National governments and administrations in the fulfilment of their functions related to service delivery.

Effective service delivery depends fundamentally on two assumptions – (i) adequate budgets are available for key services, and (ii) an efficient administration is in place to use and manage budget to deliver services efficiently and effectively. Ideally, a monitoring system is also in place that informs future planning and budgeting.

The national government plays a key role in the allocation of budgets for service delivery through various grant mechanisms to sub national governments. Currently the grants given to Provinces for service delivery are inequitably distributed, with thirteen Provinces receiving substantially less than they need to deliver a basic level of services, and five Provinces receiving less than 30% of what they require. The NEFC is working to assist GoPNG rationalize this issue and equalise and increase the grants provided to Sub-National levels of government for services. However, the Provincial/District/Local Level Governments also have responsibilities for both raising local revenues to complement the National grants, and efficiently and effectively using all of these monies for service delivery.

The effectiveness with which Provincial/District/Local Level Governments fulfil their service delivery responsibilities is a function of their administrative capacity. It has been widely acknowledged that since the 1995 OLPLLG decentralization process was initiated, service delivery functions and responsibilities were delegated to Provinces, Districts and Local Level Governments without systematic, planned and complementary capacity support or financial resources. With the shift in accountabilities in 1995, National service delivery agencies

withdrew large numbers of technical staff responsible for service delivery, and left this responsibility largely to Provincial administrations. The Provincial administrations were unprepared for these responsibilities. Long established systems thus gradually fell apart, and service delivery has consistently deteriorated since then.

The primary objective of the PPII is to support functioning service delivery systems and the related capacity of Provincial/District/Local Level Governments. It is also focusing on strengthening the links and responsiveness of National agencies to Sub-National administrations in support of improving service delivery.

Key Provincial and District Management Competencies

The PPII will thus focus on building or strengthening the core competencies of Provincial and District management which are considered particularly critical for effective functioning and service delivery. These include -

1. *Strategic Planning and Results-Based Management* applied to all of the Provinces' and Districts' development and public administration processes
2. More effective *Budget Management*
3. Effective *Team Work and Managing People*
4. Working Effectively with *National Sectoral Agencies and Donors*
5. Effective *Interface with Clients and Stakeholders*

These are considered core competencies, irrespective of a Province's or District's size, location or other characteristics.

Competency 1 - Strategic Planning and Results-based Management

- Establishing baseline development data and benchmarks
- Identifying client expectations and priorities
- Developing strategic result areas and targeted outcomes and outputs
- Examining constraints to delivery of outcomes and outputs

- Developing an internal corporate plan to address the constraints
- Establishing management systems for performance monitoring and review, reporting and assessment

Competency 2 - Managing the Budget More Effectively

- Linking the budgeting process to the strategic planning process
- Linking budgets with targeted outputs and outcomes
- Whole resource envelope budgeting
- Integrating and complementing various revenue streams
- Budget discipline and monitoring
- Effective management of approved warrants, CFCs, cash transfers, expenditures, acquittals.

Competency 3 - Team Work and Managing People

- Critical factors for successful teamwork
- Managing roles and coordination within the PMT and DMT
- Variables influencing staff/people's performance
- Motivating people for greater productivity
- Approaches to instilling discipline

Competency 4 -Working Effectively with National Sectoral Agencies and Donors

- The PMT and DMT – manager and coordinator of the Province's and District's development process
- Coordination with two key partners – sectoral agencies & donors
- The sector approach as applied in a decentralized setting
- Integrating local and sectoral budgets
- Understanding donor requirements

Competency 5 - Effective Interface with Stakeholders and Clients

- Working with elected officials
- Working with business interests and civil society organizations
- Managing differing points of view and conflicting interests
- Maintaining channels of communication

- The key role of feedback; feedback mechanisms

Key DPLGA Competencies

DPLGA is required to play a critical linking role. DPLGA is the National agency whose primary function it is to link National and Sub-National administrations, thereby facilitating the effective implementation of national policies and the efficient delivery of essential services. Unfortunately, it has long been starved of adequate budget, staff, technical expertise and has only recently received donor assistance. However, GoPNG has recently recognised the key linking role played by DPLGA, and is working with AusAID to strengthen it in this regard.

Thus, the expanded PPII's second program, *Co-ordination of national agencies in their support to Provincial, District and Local Level Government areas and monitoring of Sub-National contribution to national development priorities* has a primary focus of capacity building focus is DPLGA. It must assist DPLGA in effectively fulfilling its role and functions. These are best reflected by the 2006 Objectives that DPLGA set itself as part of its strategic planning process in late 2005.

Key Result Area 1 - Operationalise the National Monitoring Authority and facilitate better support from National Agencies to the Provinces and Districts

- *Institutionalise the NMA operations* with regard to its functions, its quarterly meetings, inter-departmental coordination, relations with the Provinces, and reporting to the Minister – IGR and the NEC.
- *Finalise the Performance Delivery Standards Document* to be developed for Provinces, Districts and LLGs in close consultation with central and line agencies.
- *Consolidate a Summary of Key National Policy Directives* for dissemination to Provinces to guide them on implementation.

- *Consolidate a summary of National Development Programs* for dissemination to Provinces and LLGs to guide them in their operations
- *Consolidate Provincial Development and Improvement Plans* for the consideration of the NMA – focus in 2006 will be on the PPII Provinces.
- *Review Year-End Performance Reports from the Pilot Provinces* as a key function of the NMA.
- *Organize a Governors' and Provincial Administrators' Conference* to review national-Provincial relations, and discuss matters related to improving Provincial performance.

Key Result Area 2 - Support the Capacity Development of Provinces, Districts and LLGs

- *Support the Implementation of the Provincial Performance Improvement Initiative* in the three pilot Provinces (ENB, EHP and Central)
- *Roll out the PPII to additional Provinces* based on their eligibility.
- *Strengthen the roles of the Provincial Management Teams (PMTs) and District Management Teams (DMTs)* in each Province, with regard to improving their capacities in governance and performance management.
- *Assist the PMTs coordinate National agency and donor assistance* in each Province so that these link in smoothly with the development priorities and processes of each Province.
- *Develop and institute a Monitoring System* to chart progress in performance and to report the same to the NMA.
- *Support training of Elected Leaders* at Provincial and LLG level so that they work more effectively with the administration.
- *Collaborate with the Workforce Development Initiative* in addressing *the Public Service Competency Enhancement Needs* of Provinces, Districts and LLGs.

Key Result Area 3 - Support National and Provincial Agencies on Policy and Legal issues related to Provincial and LL Government matters

- Support the comprehensive *Review of the OLPLL*.
- Finalize and disseminate *Policy on Establishment and Expansion of LLGs*
- Prepare and circulate a *Reference Handbook of National Policies* for Provincial and District Administration
- Develop an Initial Draft of a *Layman's Guide to the Organic Law* for easy reference by the national and Provincial agencies.
- Complete the *Handbook on Legislative Procedures* and *Model Provincial Assembly Standing Orders* for dissemination to Provinces.
- Begin development of various pieces of *Enabling Legislation under the Organic Law* that have been pending.
- Undertake *Provincial Legal Officers Training*

1. Key Result Area 4 - Strengthen Internal Capacity of DPLGA

- *Institutionalize the Performance Management System* that has emerged from the Corporate Plan and work to making DPLGA increasingly results-focused and service-oriented.
- *Implement the Staff Development Plan* which targets internal competencies within DPLGA
- Strengthen *divisional management, internal communications, filing systems,* and DPLGA's *interface with the Provinces, Districts and LLGs.*

Annex 5

Detailed information on each PPII Activity

1. Provincial, District and Local Level Government Performance Improvement Program.

Effective service delivery is contingent on well functioning and coordinated systems and processes at the Provincial, District and LLG level. These systems and processes range from performance and financial management to the effective management of public service staff in the fulfilment of their responsibilities. For all practical purposes, public administration systems and process in many Provinces have broken down. They need to be systematically rehabilitated. The ongoing PPII program therefore has an objective of contributing to improved service delivery through more efficient and effective public administration. The specific objective of the PPII program will be developed for each Province as part of their negotiation to become a PPII Province.

The original PPII program has been piloted in three Provinces, Central, East New Britain and Eastern Highlands. In October 2005, the PPII Steering Group determined, on the basis of lessons learnt and the achievements made during the pilot phase of the PPII, interest that has been shown by other Provinces to “become PPII Provinces”, and the National Government’s enhanced focus on Sub-National levels of government and their ability to delivery services, that the PPII should continue in the three pilot Provinces in 2006³⁵, and expand to other Provinces according to a planned and phased approach.

Stakeholders:

For the PPII program, three key stakeholders need to be supported. These are – (i) the Provincial, District and Local Level Government Administration in each Province (best represented by the Provincial Management Team), (ii) the Elected Leaders at the Provincial and local level, and (iii) Civil Society Groups such as the Churches, NGOs and community groups who are involved in both service delivery (for example, Churches deliver around half of health services with direct funding

³⁵ This involves maintaining the expenditure advisers and AusAID co-located staff, and a further K1 million per Province to be planned and budgeted for in the context of the Province’s total resource envelope.

from government) as well as holding government accountable for essential services.

Provincial Management Teams (PMTs) of each Province will be assisted to strengthen their key corporate management and service delivery systems and processes. Particular focus will be devoted to -

- (i) Internal coordination between the Province, Districts and LLGs;
- (ii) Planning, budgeting, tendering, implementation and financial management processes in each Province, District and LLG;
- (iii) Policy making and drafting local legislation;
- (iv) Performance management and reporting processes and systems;
- (v) Human resources management and related staff productivity; and
- (vi) Asset Management

Phasing

The support for this area will be phased. The first phase will focus on strengthening the corporate management processes within the *Provincial Management Team* and the *District Management Team* so that they achieve minimum acceptable standards in administrative efficiencies, planning, budgeting and financial management, and staff productivity. This phase will also focus on supporting PMTs and DMTs to work effectively with their Joint Provincial Planning and Budget Priority Committee (JPPBPC) and Joint District Planning and Budget Priority Committee (JDPBPC), and District Authorities, to develop an integrated approach to activity planning and budgeting.

Provinces entering the PPII program will be expected to negotiate their commitment and identify their areas of need, and demonstrate an understanding of the support that can be made available to them. This will be recorded in a compact which will be the basis for ongoing development of the PPII program in that Province. It is expected therefore that specific activities under this phase will be developed within the identified needs and capacities of each Provincial wide area, however the experience of the pilot PPII suggest they are likely to include several of the following indicative activities:

- Advisory assistance to PMTs/DMTs to assist with developing and implementing their Corporate Plan
- Assistance to the JPPBPCs and the JDPBPCs to work more effectively with the PMTs/DMTs
- Capacity strengthening support in budget/financial management, HR, performance management etc
- Support for linking with various national agencies and donor programs as needed
- Modest budget support for strengthening corporate management systems and administrative facilities that are directly related to service delivery (contingent on development of a Corporate Plan and Capacity Building Plan)
- Support for development of Provincial wide plans to address the impact of HIV/AIDS.

The focus in phase two is primarily on the strengthening of specific services (and related outputs and outcomes) as per priorities identified by each Province, District and LLG, and consistent with national priorities as identified by the MTDS. Corporate management strengthening, begun under Phase 1, will continue. Indicative activities are likely to include several of the following:

- Advisory assistance on service delivery performance analysis and related ‘gap analysis’
- Tailored advisory assistance to strengthen gap-related service delivery systems and processes
- Additional budget support to the Province/Districts for priority service delivery outputs and outcomes.

Movement between the two phases will be dependent upon a Province satisfactorily meeting the graduation and performance criteria negotiated as part of their entry into the PPII program.

There will be a final phase focusing on consolidation and sustainability, the focus of which is to ensure all of a Province’s public administration systems, processes, linkages with elected leaders and national agencies etc are operating smoothly and

efficiently. Income earning opportunities could also be considered under this phase.

Incentives

Support for Provinces will be based on an incentive structure. In discussion with current PPII Province and District stakeholders it was made clear that the key incentive for entering the PPII program is the desire by administrative staff and others to make a difference for their communities. This commitment is a prerequisite for the PPII being successful. For this reason, Provinces need to request their inclusion in the program.

The key incentive in the PPII program is movement between phases, which offer increasingly attractive packages of support. As noted above, the initial phase of the PPII, improving corporate management, will require minimum acceptable standards in administrative efficiencies, planning, budgeting and financial management, and staff productivity to be met before a Province moves to the second phase, which will include financial support for service delivery. Movement to the third phase, which includes assistance with generating income, will require minimum standards to be met in service delivery, within the Provinces current resource envelope.

Consultation during the design phase of this Activity indicated that financial incentives has been important to current PPII Provinces, but not the most critical reason for their participation. They felt that the wider incentive of a functioning Sub-National administrative system which could be seen to be publicly achieving its mandate and also successfully attracting the support and resources of central agencies was the most important reason for participating in the PPII program. Financial incentives will remain, but in the context of a broader package of support, and should not be overestimated in their influence.

Elected leaders at the Provincial and local level can potentially play a key role in supporting effective service delivery. This is by providing the administration with clear policies at a local level, as well as via their budget allocation decisions through the JPPBPC and the JDPBPC. This should also include the more effective

use of the ‘discretionary grants’ available to the elected leaders, by integrating these grants into the Province-wide budget and working with the administration to apply them for sustained benefits.

Relationships between elected leaders and the administrations at the Provincial, District and LLG levels are in many cases poor. This activity therefore focuses on supporting more effective linkages between local elected leaders and the Provincial and District administrations through -

- (i) Supporting understanding of and adherence to the provisions of the Organic Law with respect to the roles and responsibilities of elected leaders and their relationships with the administration;
- (ii) Coordination between the PEC, JPPBPC and the JDPBPC on the one hand, and the administration on the other in regard to integrated and Province-wide budget planning, allocation and disbursements; and
- (iii) Assisting the administration to support leaders with quality policy advice and a robust planning/budgeting system.

Key activities for strengthening the linkages between local elected leaders and the Provincial and District administrations will include:

- (a) A Capacity Building Program for the PECs, JPPBPCs and JDPBPCs which targets the competencies of these bodies in development planning and budgeting, including guidelines for use of special support grants. This is one of the highest priorities; and
- (b) An Elected Leaders Program on the OLPLLG. Its focus is particularly on informing elected leaders on the provisions of the OLPLLG with respect to their governance roles and responsibilities and their relationships with the administration.³⁶

Civil Society Groups will be assisted in various ways to strengthen their cooperation with the administration, and their support for improved service delivery. The PMT’s will be challenged to identify the ways in which they can

³⁶ Assistance will be co-ordinated with existing programs in this area, including PSRMU.

most effectively engage with civil society and other actors. This would potentially include³⁷ –

- (i) Support for PMTs to improve networking with private sector/civil society bodies, aimed at more effective collaboration,
- (ii) Assistance to civil society groups to establish better monitoring and accountability systems for public monies entrusted to them for service delivery, and
- (iii) Assistance to civil society groups to undertake periodic monitoring of the effectiveness of service delivery, and providing fora for discussions with PMTs and DMTs on options for improvement.

This last area is considered one of the essential elements of building longer term sustainability for the PPII. While it will require careful planning it is anticipated that the AusAID program focused on civil society partnerships (the Democratic Governance Program) will be able to assist with development of this program area.

2. *Co-ordination of National Agencies in their support to Provincial, District and Local Level Government areas and monitoring of Sub-National contribution to national development priorities.*

Provinces cannot operate effectively without consistent, coordinated and effective support from national agencies. The typical areas of support sought by Provincial and local level governments from national agencies include -

- o Policy direction
- o Technical support
- o Public service policies and process which impinge on the management of their staff, including the impact of HIV/AIDS
- o Capacity building to enable them deliver services effectively
- o Co-ordination

³⁷ Specific activities under this focus will be developed following consultation with the Government of Papua New Guinea and the AusAID Sectoral program on Civil Society.

This component will bring together a set of activities to enhance this necessary support from national agencies to the Provinces. In particular, this component will focus on:

- (i) **National Monitoring Authority (NMA)** in regard to its role of monitoring Provincial performance, and providing the link between the national agencies and the Provinces with respect to their role in service delivery.
- (ii) **DPLGA**'s ability to analyse issues and respond to Provinces, Districts and LLGs on -
 - o Addressing anomalies in the Organic Law
 - o Coordinating National policy directions to the Provinces and LLGs
 - o Communicating to National agencies the needs and concerns of the Provinces and LLGs
 - o Supporting Provinces in communication with National agencies, and
 - o Supporting the capacity building of Sub-National governments.
- (iii) **Central Agencies** and their support to the Provinces and LLGs -
 - o Department of PM/NEC in its overall coordinating role
 - o Departments of National Planning, Treasury, Finance in their role of supporting the planning and budgeting processes
 - o Department of Personnel Management in its role of supporting HR management
 - o NEFC in its role to encourage increased and more equitable resource allocation to the Provinces
- (iv) **Sector Agencies** (such as the Departments of Health, Works and Education) in providing required policy direction, clarity of accountabilities, coordination and technical support for related service delivery functions. This includes strengthening National Sector Agency Representatives operating at the Provincial level, so they cooperate and support the PMTs more effectively,

Various activities will be undertaken through this work area, within the foci described above.

Under this area, National agency programs such as the Public Sector Reform Program, the District Services Improvement Program (DSIP) (including the District Treasury Program), the Workforce Development Initiative (WDI) and the Financial Management Improvement Program (FMIP) will be linked to the PPII program so that an integrated package of assistance is provided to Provinces, Districts and LLGs for strengthening their administrations

3. *Review of Intergovernmental Financing Arrangements*

RIGFA - the Review of Intergovernmental Financing Arrangements

In late 2001, the National Executive Council determined that NEFC should review the system of financial grants and transfers from the National Government to Provincial and Local-Level Governments. NEFC is undertaking a broad analysis of the whole system, focusing on:

- fiscal affordability
- funding-related causes of service delivery deterioration
- collating better information about Provincial and Local-Level Government fiscal performance, needs and administrative capacity.

In May 2003 the RIGFA Interim Report was released. The report made some initial findings and observations about the current system of fiscal decentralisation. The Interim Report contained proposals for short term reforms to the current system, while the NEFC finalises proposals for a more permanent system.

The RIGFA is mostly about answering 2 questions:

First, how much should Provinces and LLGs get from the nation's total revenues?

Second, how should we divide this share up among the Provinces and LLGs?

The NEFC has taken six key steps to answer these questions:

Step 1: Find out what Provinces are responsible for funding

RIGFA Activity: Responsibility Specification Exercise

Step 2: Determine what those responsibilities cost

RIGFA Activity: Cost of Services Study

Step 3: Estimate how much revenue Provinces have the capacity to raise on their own to pay for these responsibilities

RIGFA Activity: Tax and Revenue Study

Step 4: Determine if Provinces can raise more revenue

RIGFA Activity: Tax and Revenue Study

Step 5: Should more (or less) of the national resource envelope be given to Provinces?

RIGFA/Department of Treasury activity: Splitting total resources between National, Provincial and Local-Level Governments

Step 6: How should the Provincial share be divided between Provinces?

RIGFA Activity: Designing intergovernmental grants and transfers

The focus of this work area is on addressing the key issue of adequate finance being available for the level of government mandated with service delivery. The work of the RIGFA process so far has identified significant problems with the levels of finance available to many Provinces and also with the distribution of the available resources between and within Provinces. The ongoing work will further identify the issues and develop a process of reform. The review has an overall objective:

Develop and maintain fair, equitable and transparent intergovernmental financing arrangements that support improved quality of life for all Papua New Guineans.

In order to achieve this overarching objective the RIGFA process has developed seven objectives which guide a strategic workplan. The seven objectives include:

1. Generate broad acceptance of the need for fundamental reform of the intergovernmental financing system.
2. Expenditure responsibilities of different levels of government are accepted as a basis for designing financing arrangements
3. The fiscal gap between Provincial and local costs and revenues is quantified and understood
4. Resources are appropriately distributed between levels of government and across sectors.
5. Resources for Provincial and Local Level Governments are distributed in a way which equalizes their capacity to meet their expenditure requirements.
6. Resources for Provincial and Local Level Government are used for improving delivery of core services.
7. NEFC has the mandate and capacity to support the ongoing administration of the intergovernmental financing system.

On 21 June 2006, the NEC approved the intergovernmental financing system proposed under RIGFA. The submission was presented to the NEC jointly by three Ministers— then Planning Minister Patrick Pruaitch, then Treasurer Bart Philemon and then Intergovernment Relations Minister Melchior Pep. Over the remainder of the year, NEFC will draft the required amendments to the OLPLLG and the ordinary act for the consideration of Parliament.

Under the PPII, support will be continued for this program. The RIGFA work can enrich the PPII both in terms of potentially improving the intergovernmental financing system but also in terms of informing levels of government and administration about their responsibilities, and the makeup their budget would need to have to be able to deliver on those responsibilities.

Monitoring of progress in this area will be critical in order to assess the ongoing feasibility for improved service delivery through PPII more widely.

4. *Review of the Organic Law on Provincial and Local Level Government (OLPLLG)*

Background

Soon after Independence, PNG adopted a system of government based on decentralisation. The first Organic Law on Provincial Government came into effect in 1977, and introduced a three level system of government - the national government, Provincial governments and local governments. By the late 1980s, services were deteriorating. The Parliamentary Bi-Partisan Select Committee on Provincial Government was established, and the committee toured the nation and recommended improvements to the then current system of decentralisation.³⁸ In 1995, the Organic Law on Provincial and Local Level Governments (OLPLLG) was enacted. Consultations with stakeholders suggest that this law has failed to improve service delivery.

Some deficiencies of the OLPLLG include:

- The roles and responsibilities of different levels of government are not clearly articulated. Neither does the OLPLLG provide a link between funding and functional responsibility. Confusion about roles continues to be an ongoing and significant issue, and directly undermines the ability to hold different levels of government accountable;
- Grants based largely on kina per head calculations are not sustainable. They are not related to costs of functions, national revenue or internal revenue. It is understood that the national government only ever fully paid these grants in 1997;
- The funding arrangements of the OLPLLG do not include a number of other funding arrangements such as GST and mining royalties. As a result, available resources are not equitably distributed;
- Because it was driven from a legal base, policy statements to facilitate interpretation and refinement are often lacking;
- Administrative implication were not considered in the OLPLLG's formulation, so effective consideration was not given to the comparative advantage of differing levels of government, accountability systems, affordability of specified funding or international experience; and

³⁸ Improved Decentralisation, the Second Report of the Public Sector Reform Advisory Group July 2005 at 8.

- An implementation strategy was not established or resourced.

In 2005, the then Minister for Inter-government Relations asked AusAID for assistance in addressing the problems facing the government in this area of decentralization. His request was based on the NEC Directive (62/2004) that instructed the Minister IGR to draft Terms of Reference for NEC approval to govern a review by the new Constitutional and Law Reform Commission (CLRC)³⁹ of a set of three inter-related issues:

- i. The current system of Provincial and local government (which is interpreted as indicating a review of the underlying decentralization architecture);
- ii. The effectiveness of the Organic Law (which is interpreted as a review of the Law's implementing machinery and operation); and
- iii. The linkages between the existing law and system and the ENB Autonomy initiative, and in particular its ramifications on other Provinces.⁴⁰

The Review of the OLPLLG

The objective of this review is to equip the Government of Papua New Guinea with a comprehensive base of information on the problems, analysis of these, and alternative solutions, and to take informed ownership of a partial or comprehensive review or reform of the OLPLLG and the PNG system of decentralization.

³⁹ The CLRC was established in August 2005.

⁴⁰ In a Provincial Executive Council submission to the NEC dated August 26, 2004, the ENB Provincial government requested the National Government to agree to negotiate on a proposed autonomy package for ENB Province. The request noted the disincentives of the OLPG and failures in implementing the Law. It emphasized that the request followed consultations with the wider community and that the autonomy concept represented the best approach to developing a strong and progressive PNG through unity in diversity. GoPNG is still considering possible responses to this request.

The initial stages of this review have begun. It is led by DPLGA and assisted by the National Research Institute. Other public and private bodies will be involved as appropriate as the work progresses.

Concurrent to the fundamental review of the OLPLLG, the Secretary of the DPLGA has suggested that consideration should be given to a series of additional amendments to the OLPLLG or administrative actions (such as government circulars) be considered to address management issues caused by anomalies in that Law. The corporate planning process that has been undertaken by Provincial administrations with the assistance of the DPLGA has highlighted the significance of these management issues.

Annex 6

Detailed information on Special Case Provinces and Bougainville

1. Introduction

At the inception of the Sub-National Initiative pilot, strong linkages were identified between the strategy for providing incentive-based support for Provinces under PPII and strategies for better engagement in ‘special case’ Provinces.

2. Special Case Provinces and Bougainville

The eligibility of a Province for inclusion as a special Province will be determined based on one or more of the following criteria:

- The existence of significant political, economic and/or security issues that have led to a marked deterioration in the quality of and access to services compared with the rest of the country;
- Instability, or a history of instability, where targeted interventions can be expected to improve the situation in the short, medium or long term;
- The existence of appropriate partners to work with, be they government, industry, non-government, Church or civil society;
- The strategic relevance of the Province or area to the Governments of Papua New Guinea and Australia and/or the region.

DPLGA has started initiating work on special case Provinces with a view to developing strategies for better engagement. Under the Sub-National Strategy, AusAID will support DPLGA to take forward effective initiatives in these Provinces. AusAID will also continue to support the work of GoPNG agencies and the Autonomous Government of Bougainville to strengthen governance and consolidate the peace.

2.1 Southern Highlands Province

Background

Southern Highlands Province (SHP) is PNG's worst performing Province. Despite abundant natural resources and one of PNG's largest Provincial budgets, services barely operate and human development indicators are amongst the lowest in the country. Southern Highlands Province has been in a state of serious decline and localised civil conflict since 1994. The 2002 national elections failed in many electorates and political stability has not been secured prior to the 2007 elections. The Province is resource-rich and taxation revenues generated from mining are of strategic economic importance to GoPNG.

Significant analytical work preceded the development of AusAID's Southern Highlands Strategy, which identified opportunities to work with the national government, reformers within the Provincial administration, service delivers, NGOs and the private sector to support demand for change and enhance support for essential service delivery. However, the Strategy noted that without decisive and sustained action by the Government of PNG to address governance issues in SHP, the situation would continue to deteriorate.

Several modest initiatives under the strategy have been implemented through existing AusAID mechanisms. Further implementation, however, has been slow and requires attention and commitment on behalf of the national government, particularly with respect to putting in place the necessary arrangements for a partnership with the resource companies in SHP to assist with basic service delivery. In the meantime, the political situation has become more unstable, due to the movement for a separate Hela Province and preparations for the 2007 election.

Southern Highlands Province

The objective of including Southern Highlands under the Sub-National Strategy is to support GoPNG initiatives to arrest the deterioration of service delivery and to contribute to improved stability and governance in the Province.

In 2004, AusAID developed a *Proposal to Increase AusAID Engagement in the Southern Highlands Province*, through supporting functioning organisations in the Province, both government (though not the Provincial Administration) and non-

government (civil society, Churches and resource companies).

A partnership between AusAID, GoPNG and resource sector companies is a feature of this proposal and is presently in draft form awaiting the filling of an advisory position in DPLGA and joint sign-off by the three parties. Through the partnership, AusAID intends to provide funding on a non-profit basis (actual costs plus management fee) to resource companies, which already have significant community programs in Southern Highlands, to undertake high priority interventions in support of service delivery.

2.2 Western Province

Background

Western Province shares borders with both Australia and Indonesia. Western Province is largely underdeveloped and, like Southern Highlands Province, is considered to have an extremely weak Provincial Government despite its high per capita level of Provincial Government resources. Like Southern Highlands Province, Western Province has relatively high revenues due to its resource endowments, but poor public administration has led to deteriorating services.

At the inception of SNI, GoPNG had expressed interest in Western Province being included in PPII. Since then, the PNG Sustainable Development Program Ltd—the majority shareholder in Ok Tedi Mining Ltd set up to fund sustainable development projects in Western Province and the rest of PNG—has expressed a strong interest in partnering with DPLGA to provide support under PPII to Western Province. The Governor and PA of Western Province have also visited the DPLGA to better understand involvement in the PPII.

Western Province

The objective of including Western Province under the Sub-National Strategy is to support GOPNG develop and implement a strategy for supporting improved performance in Western Province.

Key stakeholders, including DPLGA, AusAID, parts of the Provincial Government, the Sustainable Development Program, Churches and NGOs could be involved with the development of a strategy to improve Western Province's performance.

DPLGA and the Sustainable Development Program have also discussed Western Provinces' potential inclusion in PPII in the future.

2.3 Bougainville

Background

Australian support for Bougainville is presently guided by the *Strategy for Australian Development Assistance to Bougainville (2004-2007)*, which sets out the principles, goals and objectives for Australian development assistance. The four objectives of the present strategy are:

- Consolidating the Peace
- Implementing Autonomous Government and Reform
- Improving Essential Service Delivery
- Promoting Economic Growth

Over time, AusAID is seeking to mainstream its assistance to Bougainville through national, sectoral programs in PNG. The intention is for the Governance and Implementation Fund (GIF)—which largely addresses the second of the four strategic objectives—to remain the only Bougainville-specific program through which AusAID will provide assistance. GoPNG will remain a key implementing partner in the GIF.

The purpose of the GIF is to provide a financing mechanism (the GIF imprest account) to GoPNG and the Bougainville Government to help implement autonomy, improve good governance and implement necessary public sector reform in Bougainville. Both AusAID and NZAID provide funding through the GIF. Priorities for GIF expenditure are agreed on an annual basis. AusAID has committed to provide up to K5 million annually in 2004, 2005 and 2006, and has

Ministerial approval to provide funding through the GIF to the end of 2007. At the inception of the SNI pilot, the potential over the medium term for integrating the GIF under SNI and PPII was noted.

A 2005 mid-term review of the GIF found that the GIF had worked well to achieve its objectives. It recommended that a second phase of GIF should be supported for an additional three years from September 2006 subject to conditions. On the basis that these conditions are being met, AusAID has planned a second phase of the GIF.

The GIF mid-term review recommended that the links between the AusAID's Sub-National Strategy and the GIF be formalised to allow for linkages to be created and maintained between the two programs. The GIF MTR also recommended that AusAID place a Program Development Specialist in Bougainville on a full-time basis to strengthen coordination of AusAID programs in Bougainville and oversee GIF implementation.

Autonomous Region of Bougainville

Elements of AusAID's support to Bougainville will be transitioned to management under the Sub-National Strategy, including integration of the following initiatives:

- Provision of financial and budget advisory support and administration of the GIF imprest account
- Provision of further advisory support in planning and public administration
- Deployment of an AusAID Development Specialist and possibly a Senior/Program Officer to Bougainville

Governance and Implementation Fund

The 2005 mid-term review of the GIF recommended that it be extended for a further three years. The initial contract for management of the GIF is due to end in 2006, and management of the GIF main and subsidiary accounts to be incorporated into the services of the new SNS ISP when the present contract expires.

Expenditure priorities for the GIF are set out in a *Joint Working Plan*, and are determined by Bougainville Government and the Bougainville Peace and Restoration Office, on behalf of GoPNG, in consultation with the GIF donors (AusAID and NZAID). Although DPLGA retains some responsibility for Bougainville within the National Government, Bougainville affairs remain a separate Ministerial portfolio from that of intergovernmental relations, and BPRO is responsible to the Minister for Bougainville Affairs.

Each quarter a GIF Review Body meeting is attended by representatives from the Department of National Planning and Monitoring, BPRO, Bougainville Administration, Treasury and donors.

Advisory support

Provision of further advisory support in planning and public administration will be available to Bougainville under SNS, and the mix of advisers will be flexible to respond to Bougainville's needs, priorities and absorptive capacity.

Deployment of an AusAID Development Specialist to Bougainville

As further AusAID officers are deployed to support the SNS, at least one of the new positions, a Development Specialist, will be in Bougainville and there may also be scope for a Senior/Program Officer to be deployed as well. The deployee(s) role will be similar in scope to that of other SNS deployees in PNG.

Annex 7

Monitoring the PPII

Data collection

A number of work areas will operate under the PPII and each will have its own process for monitoring and reporting on progress against objectives, as outlined in the next section. The role of the PPII Steering Committee will be to review progress in each of these work areas and consider how they collectively have made a contribution to improved service delivery.

In addition it is proposed that other assessment procedures are developed to complement this information about the work areas and therefore provide the Steering Committee management with a broader basis for assessing PPII contribution to the Goal. Two methods are proposed, designed to build upon the use of existing local systems and also to complement the overall objective of improving governance and accountability.

The first will be **an annual review process** which will bring together the key Provincial-wide stakeholders from administration and political structures. This will be facilitated as an assessment workshop and chaired by Steering Committee members⁴¹. The purpose will not be to assess progress in the Province specifically (this is covered within the lower level monitoring in the specific work areas of the PPII) but to assess stakeholder satisfaction with the progress towards improved service delivery and the degree to which stakeholders attribute any changes to the work of the PPII. It will provide an important voice and assessment from those who are intended to be the immediate beneficiaries of much of the PPII activity.

Finally, a complementary process which would be initially piloted in one Province but then is able to be extended, as would be **a community assessment** of achievements and change across the Province. This system would require some engagement with the Provincial processes in advance so that communities had some understanding and appreciation of the intentions of the PPII program.⁴²

⁴¹ An annual Governors and Administrators Conference is already functioning. This proposed process could be appended to that existing meeting.

⁴² Such engagement has already been proposed in the Australian Government Civil Society

Working from a partnership model, communities and their organizations could then come together for an assessment workshop to consider their measurement of the changes in service delivery and their recommendations for further development. Men and women would be expected to attend and their perceptions identified separately as required. The workshop would be chaired by Steering Committee members but would include observation by Provincial, District and LLGs appropriate.

Analysis of data

The data from these additional methods would need to be brought together for initial analysis and then reported to the Steering Committee for assessment about the progress of the PPII on an annual basis. This would complement the reports on progress for each of the work areas.

It is expected that this analysis process will be a critical process of reflection, further inquiry and extensive debate which will provide a basis for both annual assessment and also for ongoing planning and management of the PPII.

Additional research

The research strategy provides for occasional commissioned research as required by either the PPII Steering Committee or the SNS Management Team. This resource would be available to complement the process as described above, with areas of concern or potential achievement being targeted during the year for further investigation.

Roles and responsibilities

Responsibility for the PPII MEF rests with the Government of Papua New Guinea, supported by the ISP. The ISP will provide support with designing, implementing and managing the processes of data collection, collating the data and facilitating the presentation of this data. They could also be responsible for assisting with facilitation of the analysis process.

Monitoring the work areas of the expanded PPII

As discussed above the MEF also needs to be concerned with the specific progress towards objectives of each of the work areas under the PPII. For the expanded PPII there are four work areas to be considered. Each has a distinct strategy and objective of its own and therefore the MEF needs to consider each in turn.

Provincial level PPII Program Monitoring

The PPII program is concerned with administration and governance improvement within Provinces, Districts and LLGs. However it is recognized that each Province is different, and that PPII is focused on supporting Provinces to improve according to their own development agendas. The MEF at this work area needs to provide for individual assessment of each Province, under a broad arrangement that provides some comparative framework across the entire PPII program.

For this reason a detailed framework has been developed which allows for Provinces to organize their own assessment, but also ensures the same types of assessment are undertaken across Provinces.

In developing the MEF for the Provincial level PPII program the following principles were considered:

- Keeping the criteria as simple and straightforward as possible;
- Using existing Papua New Guinea monitoring systems (such as Treasury's quarterly budget reviews and the Department of Provincial and Local Government Affairs (DPLGA) Performance Monitoring Processes, which includes the National Monitoring Authority's (NMA) Service Delivery Indicators);
- Not increasing the reporting burden on Provinces, while still tracking the effectiveness and efficiency of the Provincial level PPII program;

The following framework summarizes the monitoring for the Provincial level PPII program:

Monthly	i) Narratives on achievements, challenges and lessons from
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	the PPII Advisers and AusAID co-located team ii) Monthly tracking of financials
Quarterly	ii) Participation in quarterly Budget Reviews (conducted by Treasury)
Bi-annual	i) Physical audit on use of PPII funds
Annually	i) Performance against established indicators based on their Provincial Corporate Plan/Reform Agenda (see below) ii) Financial audit on use of PPII funds iii) Progress on NMA Service Delivery Indicators which will be used to track service delivery (see below)

Performance against established indicators

In Phase 1, each Province will be requested to establish indicators of achievement for improvements in their corporate systems and processes which will be assessed together with the PPII team on an annual basis. The broad areas of this assessment have been established through the pilot stage of the PPII, and are:

- Internal Management and Coordination and Guidance
- Mobilizing Support of Key Provincial Management Stakeholders
- Budgeting and Financial Management
- Human Resource Management, including attention to HIV/AIDS impact upon human resources
- Physical Assets Management
- Technical Systems – support for frontline services

Improvement demonstrated through this internal Provincial assessment, which will include District level desegregation, will be the basis for ongoing support for Provinces and for graduation from first to the second phase of support from the PPII program. The requirement for the process will be included in the Compact negotiated by Provinces which want to enter the PPII program.

Progress on NMA Service delivery indicators

The NMA is required by the OLPLLG to monitor and assess the performance of Provinces on the delivery of services. Accordingly, DPLGA, which is the

secretariat for the NMA, is working with Provinces to develop a shortlist of key service indicators, covering their contribution to MTDS priorities in critical sectors such as health, education, infrastructure, law and justice. These indicators have been tested in selected Provinces and were approved by the NMA in its February 2006 meeting for immediate application across all Provinces. The process of implementing the monitoring is still being refined so it is relevant and useful to a Province's own performance management.

In addition, the NMA has provision for undertaking periodic performance audits of Provinces with respect to their service delivery performance. While these are yet to be initiated, it is the intention of the NMA to undertake such performance auditing through DPLGA of at least two Provinces per year starting 2007.

The processes outlined above will need to be complemented by analysis and reporting which ensure that different but related information is regularly brought together to provide stakeholders with a comprehensive picture of the progress within and between Provinces. This process will be the responsibility of DPLGA, supported by the ISP as required.

Regular reports will be made available to the Provinces and to the PPII Steering Committee

Monitoring of Support for National Government Agencies

The objective of this work area is the coordination of National agencies in order to increase their support to Provincial, District and Local Level Government areas.

Indicators of achievement against the objective need to be developed in consultation with key stakeholders. This will be a responsibility of the CBD of the DPLGA, and can be expected to include both measurements of specific change areas and stakeholder satisfaction assessment.

The ISP will assist in facilitating this process and will assist in developing the data collection methods for the process. Data analysis and reporting will be the responsibility of the DPLGA to PPII Steering Committee via the Core group.

Monitoring of the Review of Intergovernmental Financing Arrangements

Monitoring of the progress of the RIGFA and the ongoing work which arises from this program will be a critical aspect of assessment of feasibility and sustainability for the wider PPII. RIGFA related monitoring needs to include use of the information produced by the process as well as assessment of the ongoing achievements under the program.

The RIGFA process is managed by the NEFC and has an established work plan with indicators for achievement, which it monitors objectives through measurement of the patterns of expenditure of the functional grants. It also monitors Provincial expenditure.

While these systems are intensive and require considerable resources to operate they provide important information not only about the progress of the RIGFA process but also about the comparative financial ‘health’ of the Provinces. This information will be useful more widely for the Steering Committee to consider the overall work areas and contribution to change of the expanded PPII. As part of the PPII monitoring this information will be made available to the PPII Steering Committee each six months.

The assessment of the actual achievements of the RIGFA is currently made through several mechanisms. The NEFC has access to a high level advisor who regularly provides assessment of the progress of RIGFA. They also receive oversight and review from World Bank Fiscal Decentralisation specialists.

The NEFC will be asked to report on progress for the PPII Steering Committee utilising these existing review mechanisms. The ISP will assist in developing methodologies of analysis and reporting for this purpose.

As the RIGFA process moves from review to implementation a new operational plan will be developed with appropriate monitoring strategies.

Monitoring the Review of the Organic Law

As above, the Review of the Organic Law is being managed according to an established work plan. The review is managed by the PLD of the DPLGA, and regular reports will go to the CACC.

The DPLGA will be asked to report on progress against the work plan for the Review to the PPII Steering Committee via the Core group. The ISP will be tasked with providing any assistance in analysis and reporting required for this task.

Monitoring the strategy for support to Special Case Provinces and Bougainville

The monitoring of change under this work area will be dependent upon the work plans developed for each Province and for Bougainville. A requirement of those work plans will be that clear indicators of change are negotiated with stakeholders and that measurement processes are included within the work plan. Analysis and assessment of the data will be a process undertaken by the systems established to manage this strategy and reported via the Core group to the PPII Steering Committee.

The ISP will provide technical assistance for the development of the MEF for this strategy and will assist with facilitation of the analysis process.

Annex 8

Risk identification and management matrix

Area of risk	Impact	Likelihood	Risk rating	Strategy to Manage Risk
National Level				
Political instability at the sub national level	Medium	Medium	High	- Engage with political, bureaucratic and civil society participants involved in public expenditure management and budget processes – such as joint planning and budget priority committees - Utilisation of aid resources to influence effective decision making - Utilise lessons from PPII pilot - Continual engagement with National and Sub-National levels of government on managing these risks - Awareness of the upcoming elections and adjustment of expectations during election period.
Pushes for alternate decentralisation reforms	Medium	Medium	High	- Maintain dialogue on all reform proposals - Promote the existing work done to develop comprehensive reforms - Support central agencies co-ordinate and access expertise in responding to proposals
Key national agencies and government departments are changed under the rightsizing program	High	Medium	High	- Maintain information flow about implications of rightsizing process - Focus on the key roles required for PPII and SNS rather than only the specific departments - Maintain discussion at Steering Committee about appropriate location of responsibilities.

Area of risk	Impact	Likelihood	Risk rating	Strategy to Manage Risk
DPLGA's capacity to provide leadership and meet responsibilities	High	Medium	High	• Ongoing support to implement the new corporate plan focused on core tasks • Continue phased assistance that provides technical advice as well as skill development • AusAID presence within the Department focused on establishing relationships and including a monitoring and support role • Effective communication with the Department to ensure that the Initiative is developing at an appropriate pace • Utilise Corporate Planning advisor to monitor this with DPLGA • Actively promote local ownership directed and lead by DPLGA
Lack of coordination between national agencies on Sub-National engagement	Medium	Medium	High	• Expanded PPII Steering Group to discuss issues arising from Provinces, and regular reporting to CACC to encourage accountability • Support DPLGA's secretariat role to the NMA that includes broad CA representation • Support the NMA's role in Sub-National monitoring and use their systems where possible • Support DPLGA's policy responsiveness and advice to CACC and specific agencies as required • Support DPLGA to provide the co-ordination role for Sub-National inputs from National Government Agencies
GoPNG commitment to decentralisation not supported by adequate financial flows.	High	Medium	Extreme	• Continue support for the NEFC RIGFA process to establish required financial flows. • Continue support for implementation process emerging from RIGFA in order to maximise opportunity for changed financial flows. • Monitor this area regularly and report to both PPII Steering Committee and SNS management.
Risks related to overall design				

Area of risk	Impact	Likelihood	Risk rating	Strategy to Manage Risk
HIV/AIDS and gender	Medium	High	Extreme	- Information about the increasing impact of HIV/AIDS and appropriate response strategies will be mainstreamed by co-located staff - The impact of HIV/AIDS on the wellness of government staff and their turnover will be considered as part of PPII/SNS strategy development - Ensuring that HIV/AIDS and gender are mainstreamed through the SNS is a responsibility of every SNS officer, with support in this area being a primary role of the AHC based DS
SNS may operate successfully, but service delivery may not improve due to other factors	High	High	Extreme	- Identify the actual achievement of SNS and the consequent limits to change - Identify the areas that are impacting service delivery and consider development of new work areas - Encourage the PPII Steering Committee to push for appropriate political attention and intervention - Develop civil society knowledge and understanding to generate support for reforms
GoPNG monitoring systems are insufficient to allow assessment of key change areas	High	Medium	Extreme	- Ensure support for development and implementation of GoPNG monitoring systems through ISP. - Additional monitoring systems to complement GoPNG systems for high level monitoring
Sub-National Level				

Area of risk	Impact	Likelihood	Risk rating	Strategy to Manage Risk
Probity of assistance at the sub national level	Medium	Low	Medium	• Placement of expenditure monitoring advisors in Provinces • Support and engage with Treasury Quarterly reviews - formal monitoring implementation of budget and improvement plans linked to budget reviews • AusAID officers located in Provinces for ongoing liaison and monitoring • AusAID presence in DPLGA for joint oversight • Monitoring, including independent financial audits
Impact of addressing accountability issues	Medium	Medium	High	• Recognising the impact of working on accountability and “whole of budget” issues in a Papua New Guinean social context including the important social services provided through this system. • Working incrementally to reduce informally managed parts of the Sub-National budgets by demonstrating outcomes and positioning Sub-National government to provide services to its people • Understanding that accountability and social issues will vary from area to area and managing these flexibly and appropriately

Area of risk	Impact	Likelihood	Risk rating	Strategy to Manage Risk
Provinces are overwhelmed by the various programs being rolled out from national level	High	High	Extreme	• Use PPII process to manage program roll outs as far as possible • Monitor impact of program rollouts and use Steering Committee to feedback the information • Advocate for changed schedules and slower implementation of programs where possible • Use PPII as a prerequisite for new programs in a Province • Need to improve the sequencing and coordination of programs, and establish protocols for engaging with Provinces • The PMTs need to be strengthened to communicate with national agencies about their needs
PPII specific risks				
Inconsistent government understanding and support for the PPII	Medium	Medium	High	• Clearly articulate how the PPII supports the Government of Papua New Guinea deliver its MTDS responsibilities • Implement a deliberate engagement strategy to maintain support from Government of Papua New Guinea • Involve and support effective DNPM District development planning responsibilities and linkages with the PPII
Poor leadership in the Provinces. Lack of 'champions'.	High	Medium	High	• Assess each Province prior to engagement in PPI to ensure there are committed leaders available and require assistance under PPII to be requested, not offered to Provinces • Continue to monitor commitment of leadership as part of PPII Provincial performance assessment

Area of risk	Impact	Likelihood	Risk rating	Strategy to Manage Risk
Poor relationship between Provincial Administrator and the Governor in a Province	High	High	Extreme	• Focus on elected leaders at the same time as building capacity of Administration in Provinces • Use opportunities to promote information flow and shared platforms for change • Use co-located staff to build communication channels.
Limited capacity of staff in the Provinces	High	High	Extreme	• Work with DPM to consider Province specific personnel issues, including reducing the periods that officers are in acting roles • Highlight personnel problems through Core group and Steering Committee • Utilise adviser support to identify actual human resource needs and solutions and support Provinces to action these. Share these in liaison with DPM.
Provinces may have limited absorptive capacity	High	Medium	High	• Adjust timing and expectations to fit Provincial capacity. • Make available technical resources to assist capacity gaps and build capacity. • Highlight overloading on Provinces by other programs and ask Steering Committee to assist.
Resistance from political leaders to engage with PPII	High	Medium	High	• Utilise the communication strategy to highlight the positive benefits of PPII and therefore attract political support. • Ensure political leaders are part of the negotiation process around a Province entering PPII • Discuss the needs with political leaders to ensure programs directed at them meet their issues.

Area of risk	Impact	Likelihood	Risk rating	Strategy to Manage Risk
Provincial commitment to reform may be rhetorical	High	Low	Medium	• Ensure Provinces are selected following careful negotiation process • Provinces enter into Compact as part of commitment to PPII • Provinces are not given financial incentives unless they are able to meet agreed performance targets
Provincial commitment may be passive	Medium	Low	Medium	• Engage Provinces in negotiation prior to their entry to PPII • Have Provinces enter into Compact prior to entry to PPII • Ensure Provinces determine their own performance and change plans and establish their own performance indicators • Have a process in place to cease engagement with Provinces if they are not willing to be an active partner in PPII
Provinces focus on the financial support rather than the reform and change process	High	Low	Medium	• Ensure clear negotiation with Provinces prior to their entry to PPII • Ensure there are ‘champions’ for change in the Province • Provide financial incentives after change and reform has commenced in the Province
Ineffective coordinating with Central Agencies on PPII	Medium	Medium	High	• Support DPLGA’s secretariat role to the NMA that includes broad CA representation. • Joint AusAID-NMA monitoring of the PPII • Support DPLGA’s policy responsiveness and advice to CACC and specific agencies as required
NEFC has insufficient capacity to manage expectations and influence financial reform	Medium	Medium	High	• Maintain responsive assistance to the review of intergovernmental financing arrangements (RIGFA) • Support and promote utilisation of NEFC analysis into program and engagement with GoPNG • Be responsive to the resource requirements of NEFC • Provide high level strategic advice to NEFC

Area of risk	Impact	Likelihood	Risk rating	Strategy to Manage Risk
Lack of political will for NEFC RIGFA recommendations	High	High	Extreme	• Need to ensure that proposals are carefully constructed to appeal to the majority of political stakeholders • Continue public and individual information process • Develop solutions that initially stay within the existing system • Demonstrate the benefits for Provinces of even small change of funding levels
Risks associated with Management				
Inconsistency between AusAID and WoG response to PNG's decentralisation	Medium	Low	Medium	• Implementation of joint post-desk strategy involving others as appropriate • Keep SNS team briefed on key messages and policy directions so they can be responsive to the needs of the Australia Government • Communication strategy to address internal AusAID communication of the sub national strategy team, with other program areas and other whole of government partners on findings, analysis and progress of the PPII/SNS. • Regularly brief stakeholders and develop a Framework Paper and a summary paper to inform interested stakeholders • Ensure all of AusAIDs program areas are aware of the PPII and SNS and how it effects their sector, and can discuss the SNS in WofG forums • Co-ordination with the rest of the AusAID program is a primary task of the SNS

Area of risk	Impact	Likelihood	Risk rating	Strategy to Manage Risk
Monitoring of impact across diverse work areas is disjointed and leads to inconclusive findings	Medium	Low	Medium	• Placement of AusAID presence in DPLGA and the PPII Provinces for joint monitoring • Development of SNS, PPII and SCP specific monitoring approaches with clear connections between each • Incorporation into monitoring approach of PNG program
Failure of collocation as a management strategy for AusAID	Low	Medium	Medium	• Work with relevant sections of the agency, including staffing and feed back lessons learnt to continually improve the process • Establish regular reporting back to the Post and Canberra to ensure two way communication that informs co-located staff of the policy direction of the Government of Australia, and informs the Australian aid program of insights gained through working in partnership with the Government of Papua New Guinea.
Diversity of Programs contributing to the SNS leads to lack of focus and inconsistent responses from various work groups	Medium	Low	Medium	• Clear lines of communication and accountability developed and agreed to by stakeholders, including ISP, Advisers and co-located officers. • Regular meeting with stakeholders on their vision for the PPII and for SNS to ensure consistency and discuss next steps.
SNS has limited mandate to proactively work with other Australian Government programs	High	Medium	High	• Propose clear mandate for SNS engagement in Australian Aid program – this is a primary role of the SNS • Enter into agreements with other sectoral program as required • Monitor the impact of Australian Government Programs at Sub-National level and make this information available to the Australian Aid program

Area of risk	Impact	Likelihood	Risk rating	Strategy to Manage Risk
Overlaps with other donor programs	High	Medium	Medium	- Proactively engage with other donors to co-ordinate assistance and maximise efficiencies of inputs. - This is a primary role of the AHC based Diplomatic officer.