



NEFC Chairman, Nao Badu

# Work of the National Economic and Fiscal Commission



**Background**

In 2001, Cabinet instructed the Commission to review the formula for grants to Provincial Governments, on the basis that the current legally-mandated grants are unaffordable for the National Government. The Commission then carried out a wide-ranging review incorporating an examination of Provincial Government revenues as well as national grants and transfers for recurrent goods and services.

The main change introduced by the new intergovernmental financing system will be to replace the existing kina-per-head grants with an amount determined in accordance with need. Need is the difference between how much it costs to deliver the service delivery functions that have been assigned to the Provincial Government, less the amount of the provincial Government already has from other revenue sources.<sup>1</sup>

● **Objective of the proposed new system**

This new system aims to reduce the difference between each Provincial and Local-level government's costs and how much internal revenues they have. Ultimately, the intention is to share what funding is available for Provincial Governments equitably, so as to bring all Provinces to a similar level of fiscal capacity to meet their costs.

● **How the new system will work**

At this stage the Commission has concentrated on funding for recurrent goods and services not funding for development or capital projects. As a first step we need to maintain what we have and concentrate on providing basic health and primary education to all citizens. This means the review of intergovernmental finance has been concerned only with the delivery of goods and services.

The key principle of intergovernmental financing that the Commission is advocating is that **funding should follow function**. This means Provincial Governments and Local-level Government should receive funding which is calculated on the basis of the services they are responsible to pay for. In order to form any view about what are the problems of intergovernmental financing, the Commission first had to gather some basic data on:

- What it **costs** to deliver provincial service delivery responsibilities;
- What internal **revenues** Provincial Governments have to pay for the cost of these responsibilities.

The Commission found that some Provincial Governments had far more revenue than they needed to deliver services whilst most had no where near enough funding. Equal kina per head was not very equal. It costs far more to deliver the same services in different parts of the country. A fairer way to distribute funding is through **equalization**.

**A proposed new intergovernmental financing system**

● **Difference between the current and proposed new system**

Each year an amount (called the 'equalisation amount') will be made available out of the total revenues of the country to be shared among Provincial Governments and Local-level Governments. This amount will be determined on the basis of a specified percentage of net national revenues (likely to be somewhere around 6-8%).

The previous NEC agreed that it would increase this amount annually for the first



five years of the system up to a total additional amount of around K50 million.<sup>2</sup>

Each Provincial Governments share of the equalization amount will vary depending on how much they already receive in other revenues. For the first five years of the new system (called the 'transition period') each Provincial Government will be guaranteed to receive no

● **Legislative amendments required**

This new system is advanced through two proposed legislative instruments;

1. Amendments to the *Organic Law on Provincial Governments and Local level Governments*. This contains the framework and broad principles for the new system.
2. A new law – *Intergovernmental Relations (Functions and Funding) Bill*. This ordinary Act of Parliament will contain all the necessary detail.

The previous NEC approved the main principles of the new intergovernmental financing system designed by NEFC, but did not sign off on the detailed design contained in the draft new Act. This means that the new system will require comprehensive endorsement by the new Government.

*1 includes shares of GST collected in the province, mining and oil royalties and dividends, and proceeds of provincial government fees, charges, taxes and investments.*

*2 The actual additional amount will be more, because the value of K50 million in 2006 terms will increase each year.*

*3 Most Provincial Governments actually received more than 60% of the GST collected in their Province. A number of arrangements have been entered into which ensured that each Provincial Government received no less than they did in 2003 or previous years. In the proposed new system there will be no any extra amounts paid. However, during the transition period Provincial Governments will receive extra funding to ensure they receive no less.*

At the moment the National Government shares 60% of the GST collected in each province with that Provincial Government.<sup>3</sup> This arrangement will continue. In the proposed new system, Provincial Governments will receive 100% of the bookmakers tax collected in their Province. Provincial Governments will continue to retain any royalties that they may be entitled to received under MOAs.

● **Provincial Government and Local-Level Government taxing powers**

In the proposed new system it will be easier for Provincial Government and Local-level Government to impose taxes, fees and charges. Provincial Government and Local-level Government will be able to set their own rates of tax

## National Economic and Fiscal Commission Information Day

National Economic and Fiscal Commission hosted its Information Day on 29th September 2008 at Holiday Inn, Port Moresby.

Purpose of the Information Day was to showcase the work of NEFC including its mandatory role since its inception, its current activities including previous publications and projects in light of the Review on Intergovernmental Financing Arrangements.

Chairman and CEO, Nao Badu in the introductory speech said NEFC started some 10 years ago from a one-man to a staff strength of 10 and is currently expended in order to accommodate for the need to improve policy so as to improve service delivery to people.

He said the National Economic & Fiscal Commission is responsible for providing policy sound policy advice to the Government on funding arrangements for provincial governments and local - level government.

Other contemporary projects included the Unit Costing Model, Cost of Services Study, and Development Expenditure Review.

Highlight of the day was the launching of the Review of Provincial Revenues 2004 - 2007 by Acting Prime Minister and Minister for Treasury and Finance, Patrick Pruaitch.

NEFC also launched its DVD on the Revenue Report to coincide with the official launching. It has also produced a similar DVD for the Provincial Expenditure Review.

Those who attended the Information Day included representatives from the various government departments, related agencies, mineral resource companies and key stakeholders and members of the diplomatic mission.

Chairman and CEO of NEFC wishes to thank all those who took time out from their busy schedules to attend and learn something about National Economic & Fiscal Commission.



## Speech to launch the NEFC Review of Provincial Revenues 2004-2007

Monday 29 September 2008, Holiday Inn



**Thank you distinguished guests, ladies and gentlemen.**

I am delighted to attend this important occasion opening up to major partners and stakeholders the diverse and important work undertaken by the National Economic and Fiscal Commission under the leadership of Nao Badu.

The National Economic and Fiscal Commission has a critical role in advising Government on ways to improve intergovernmental financing so that we can better ensure the right amount of money is available at the right time, in the right place and for the right purpose.

And that right purpose is better service delivery to our people – whether it is making sure our children have access to good schooling in good conditions, or our rural majority have access to the necessary medicines and vaccines from regular health patrols and properly functioning aid posts or our farmers learning better techniques to improve food and commodity production or that our people and our goods are being transported on adequately maintained roads, bridges and airstrips.

The Review of Provincial Revenues 2004-2007 helps us understand for, the first time, the types of revenues each Provincial Government, the National Capital District Commission and the Autonomous Region of Bougainville collects, which of these Governments collects more revenue than others and why, and where revenues have been

increasing or decreasing over time. The analysis also offers Provincial Governments information about how they can improve revenue collection and devote more money to service delivery. The report also offers some practical tips to Provincial Governments about addressing budgeting and revenue management issues such as the accurate recording of revenue information and ways to better forecast revenue.

I commend this report to everyone interested in improving service delivery to our people. The National Parliament recently passed Organic Law amendments that remove the requirement of Provincial Governments needing national enabling legislation so that they can raise revenue. The removal of such a significant obstacle to revenue rising highlights the determination of this Government to do more to ensure that there is increasingly the right amount of money is available at the right time, in the right place and for the right purpose. That is, more service delivery.

I am proud to put my name to this important contribution to public policy making in Papua New Guinea and commend the National Economic and Fiscal Commission on its continuing high-level efforts to successfully spotlight ways to improve service delivery through a more transparent and evidence based intergovernmental financial system.

I am proud to officially launch the National Economic and Fiscal Commission's Review of Provincial Revenues for 2004 to 2007.

