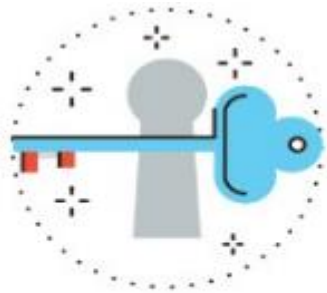


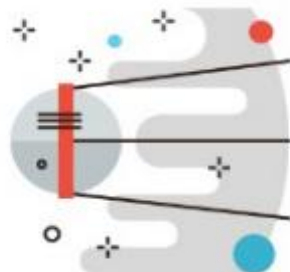
National Economic and Fiscal Commission

2014 Provincial Expenditure Review

Game Changer



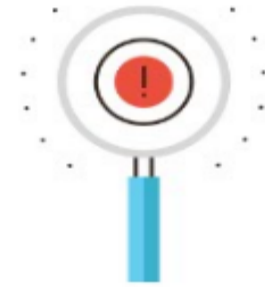
OPEN



EXPLORE



BUILD



KNOW

NEFC mandate



- NEFC's mandate is to provide independent advice on inter-governmental finance
- Focus has been on service delivery as per RIGFA
- Non-mineral GDP growth rate predicted as 3.6% in 2017 (Asian Development Bank Outlook, 2016)
- Spending on Medium Term Development Plan (MDTP) enablers such as Health, Education, Infrastructure has nearly doubled to 50 per cent between 2011 and 2014, largely due to interventions such as increase in spending on Tuition Fee Free subsidies in Education

Why *Game Changer*?



Being responsive to political, economic and strategic changes

- Provincial budget appropriations are higher than ever before in 2014 and will continue to grow in 2016 and possibly, 2017
- Coming to the end of the transition period
- Emergence of the **District Development Authorities**, Urban Authorities etc.
- **Changes in** how PNG generate **revenues** – looking for other sources of revenue generation to reduce volatility of economy
- NEFC has recognised the trends in how goods and services are funded across provinces. They sometimes use development grants to fund goods and services (called the **co-mingling** of funds)

Pivotal point for *Game Changer*



Changes in format and how expenditure and rankings are calculated to maintain equity when calculating rankings

- NEFC has improved the way it calculates the PER scorecard calculation system to maintain a fair approach to all provinces, creating a **composite index** to strengthen the quality and measurement of expenditure against service delivery
- **Development funding** is being disaggregated to understand the co-mingling of funds
- Increased focus on MPA spending in PER index

Summary of findings at a glance



- Co-mingling of funds and the use of development funds is occurring in a big way, particularly for infrastructure, community development and agriculture sectors
- Timely release of warrants is still an issue for most provinces
- Spending from internal revenue and grants still occurs primarily in the 4th quarter
- With the new methodology of existing KPIs (same KPIs as before), an emphasis has been laid on actual spending against MPAs; provinces that do better on the 2014 rankings are those that spend more on MPAs



PER 2014

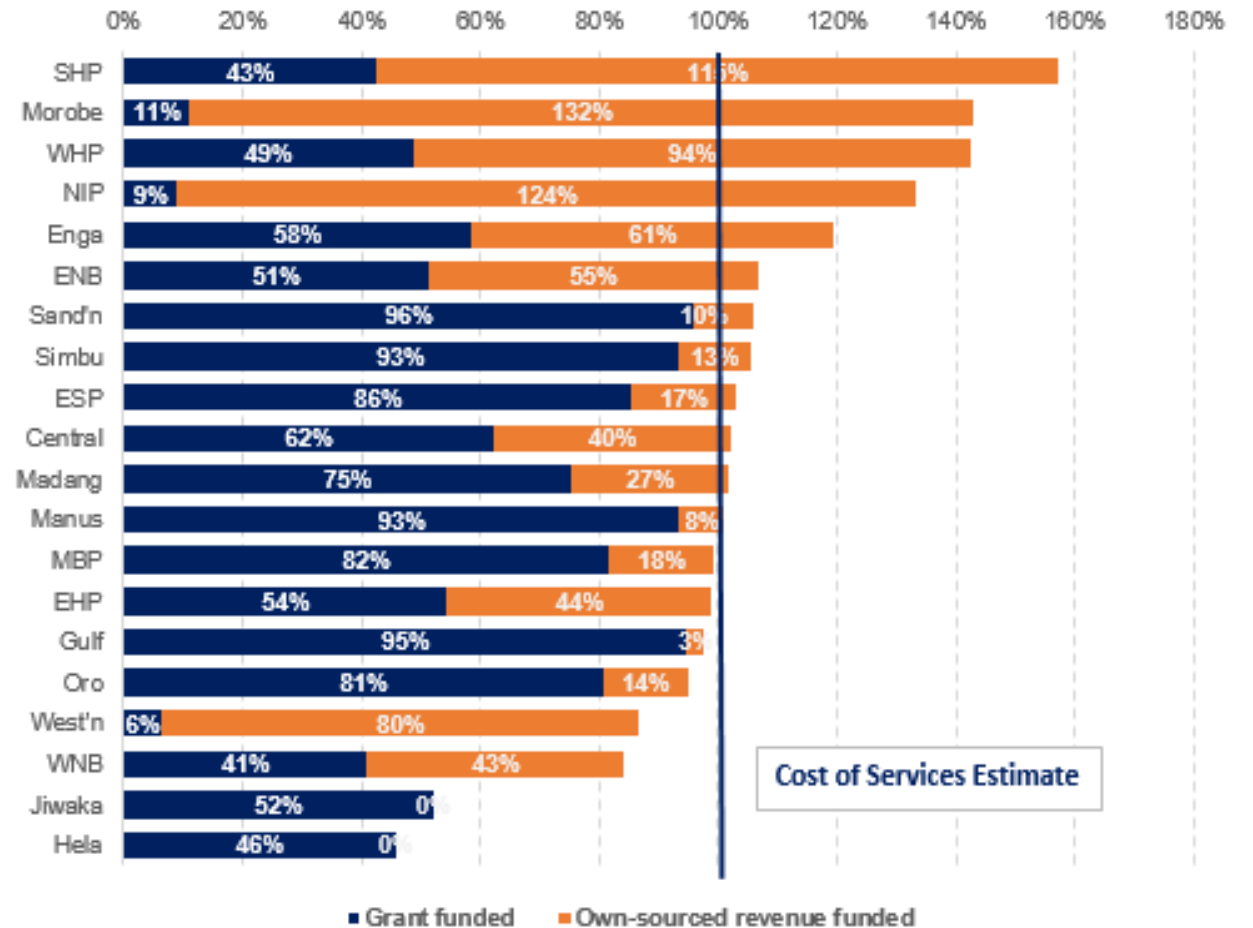
KEY LEARNINGS

Measuring fiscal capacity



LEARN

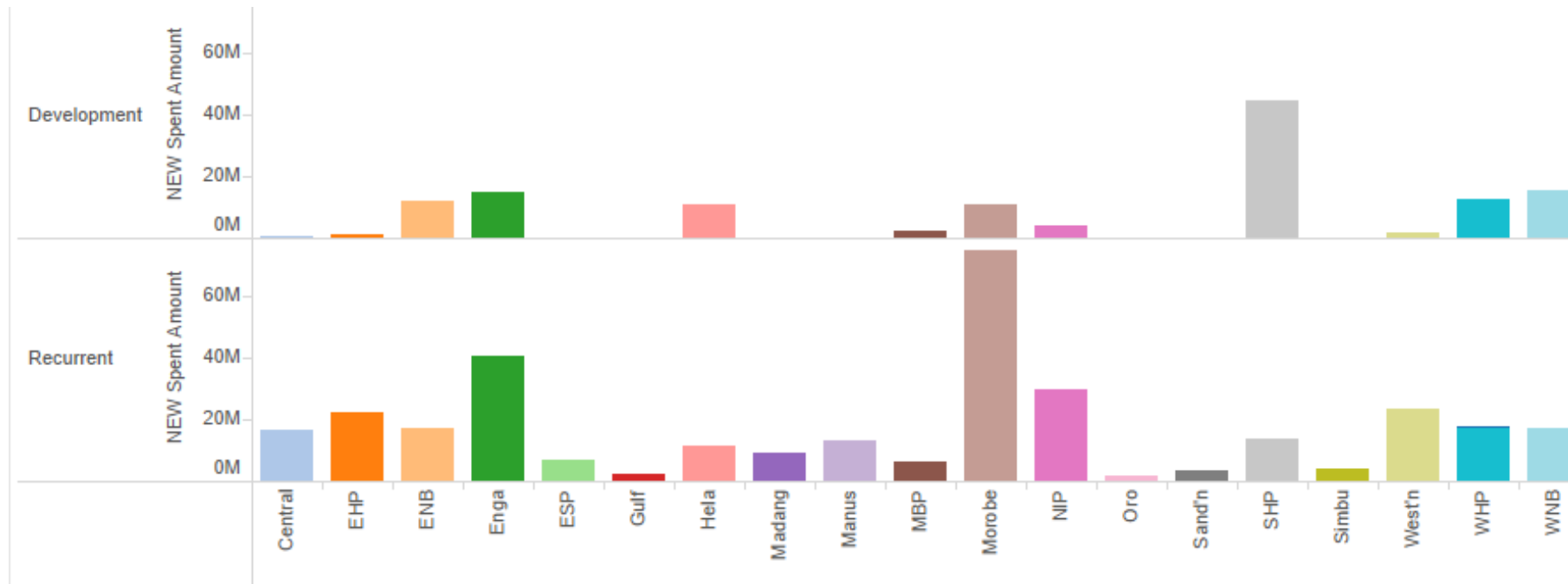
- The calculation of **fiscal capacity** is *revenue* divided by *total estimated costs* for a province to deliver basic services
- **Fluctuations** in fiscal capacity is driven by a change in grants and internal revenue (macro-economic context is volatile with commodity prices expected to remain weak)
- **Thirteen** provinces are able to meet their fiscal needs in 2014



Overall Spending from Internal Revenue



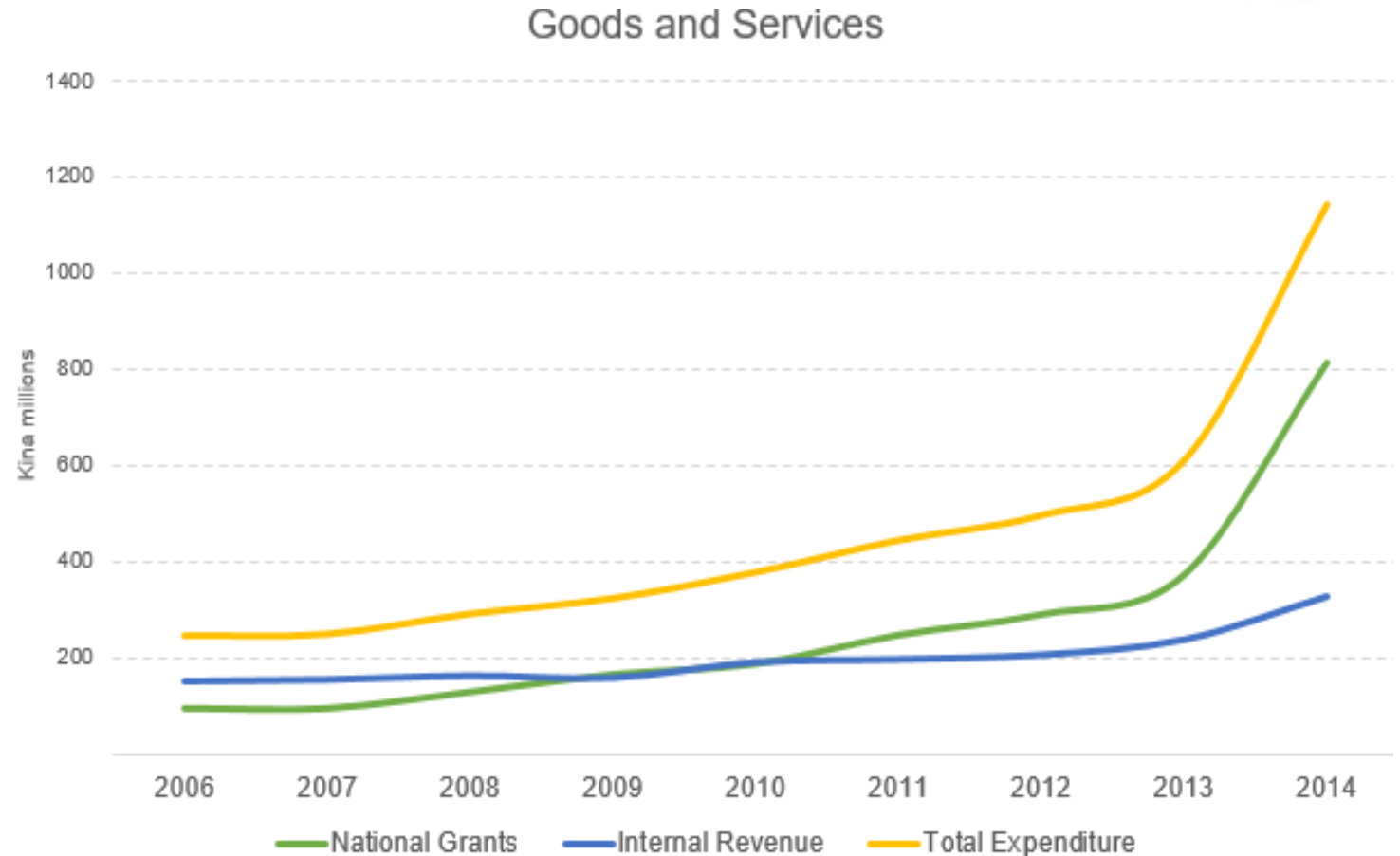
- Enga highest spender because of TFF grant being included (outlier)
- Southern Highlands province spends from the development budget on service delivery more than the recurrent budget



Spending on Goods and Services (G&S)



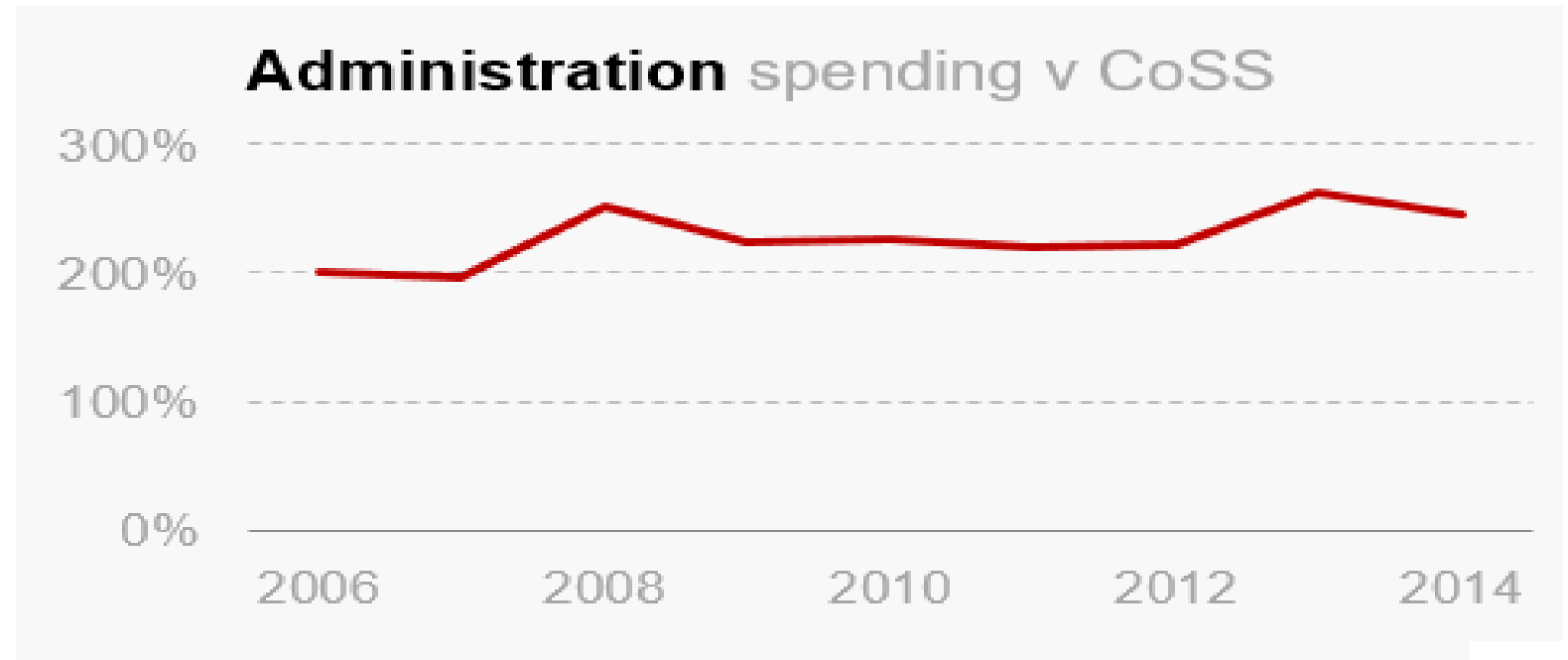
- G&S spending has significantly risen: upward spike from 2013 on national grants and total expenditure
- Caveats include the definition of G&S changing over time (pre 2013 and in 2014)



Spending trends against CoSS



- Administration continues to be at least double of what is estimated by NEFC CoSS

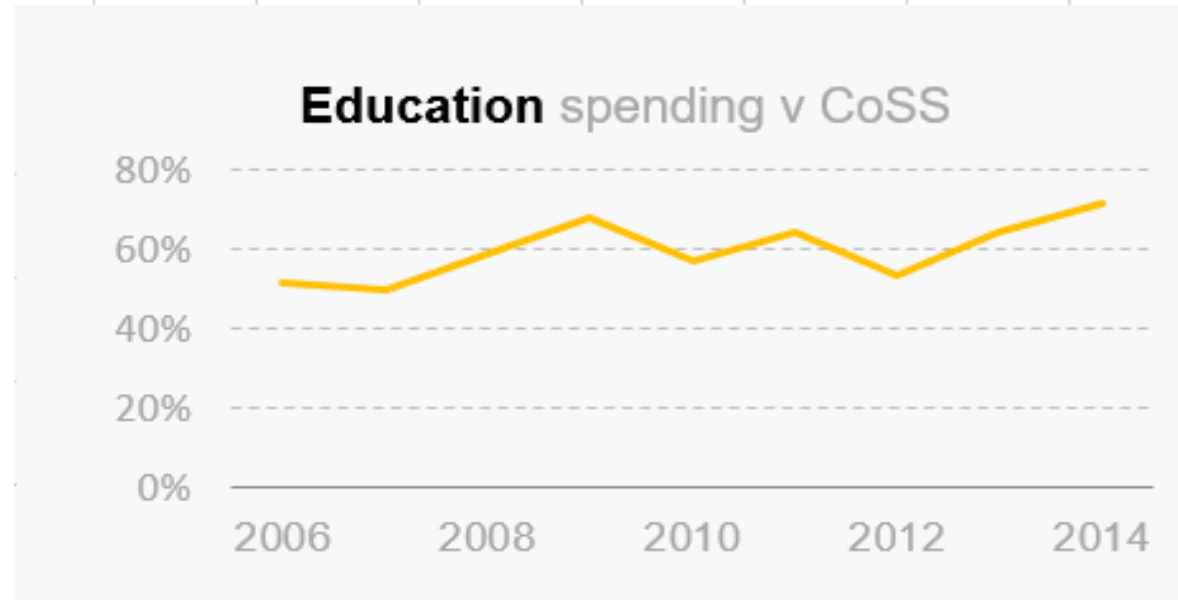




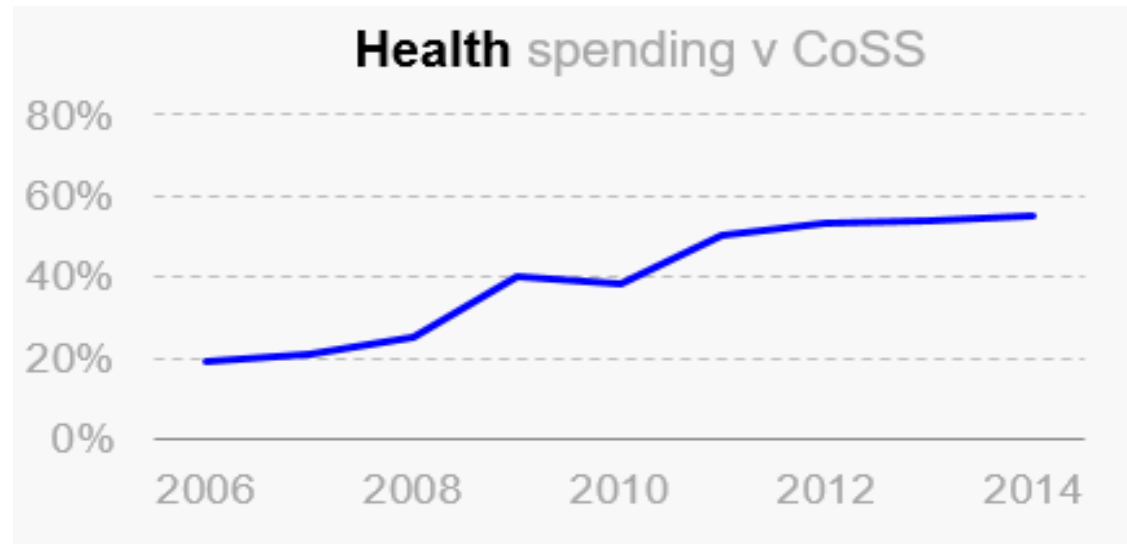
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Spending versus CoSS 2014

- On avg., **70%** of what is deemed necessary by CoSS is being spent on **Education**. Highest spenders include East Sepik, Sandaun and Simbu.



- Over **57%** is spent on **Health** against CoSS estimates for 2014; East Sepik, Milne Bay and Simbu are the highest spenders when only considering G&S



Overall spending versus CoSS 2014



LEARN

- Infrastructure is on a **steep incline** from 2012; High spenders include East Sepik, Madang and Western provinces
- Agriculture spending is the **highest** its ever been in the past 8 years; **high spenders** include East Sepik and Sandaun Province

Infrastructure spending v CoSS



Agriculture spending v CoS

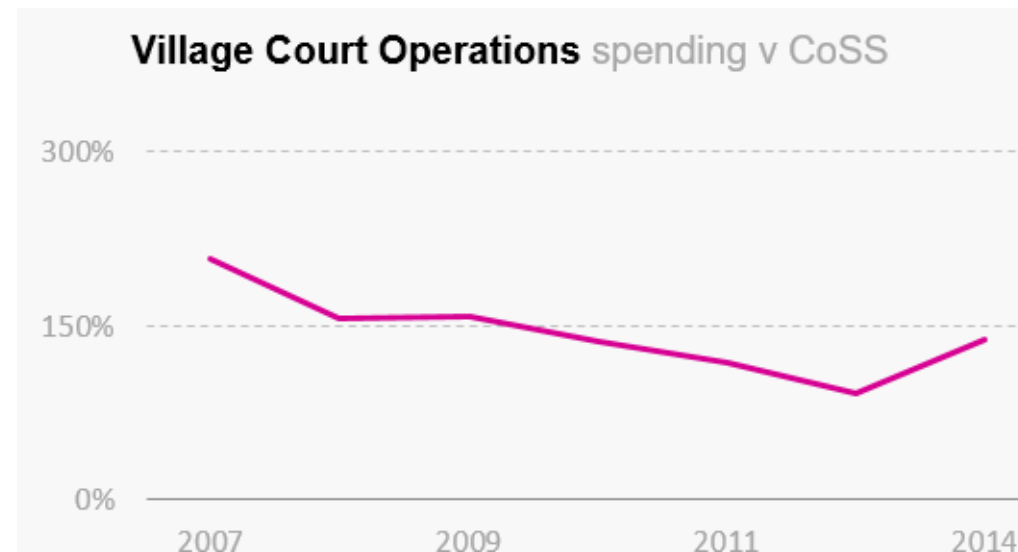
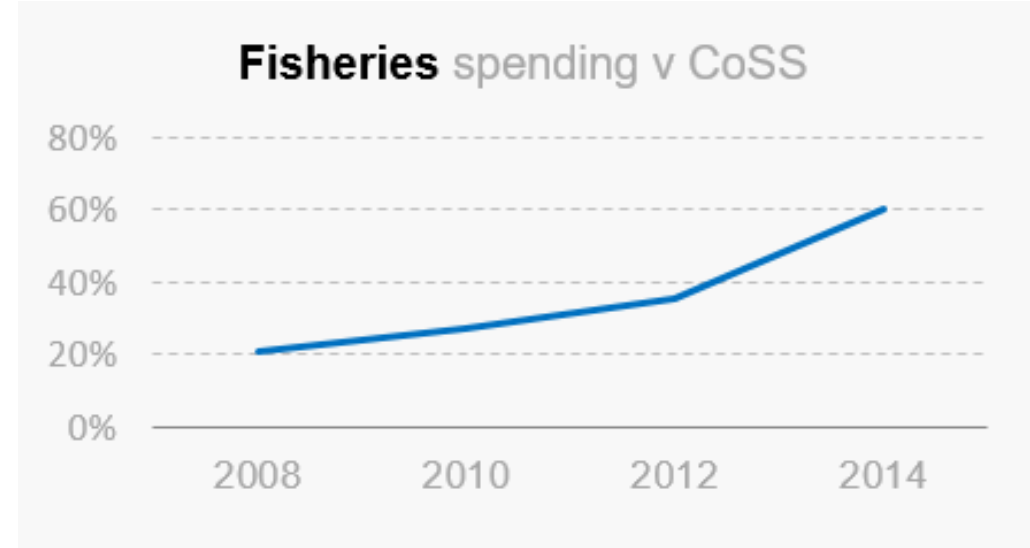


Overall spending versus CoSS 2014



LEARN

- **Fisheries** is yet another sector where 2013 was a pivotal point for spending against CoSS; Western province is the highest spender
- **Village Court operations** spending increased in 2014 after a steady decline in spending from 2009 - 2013

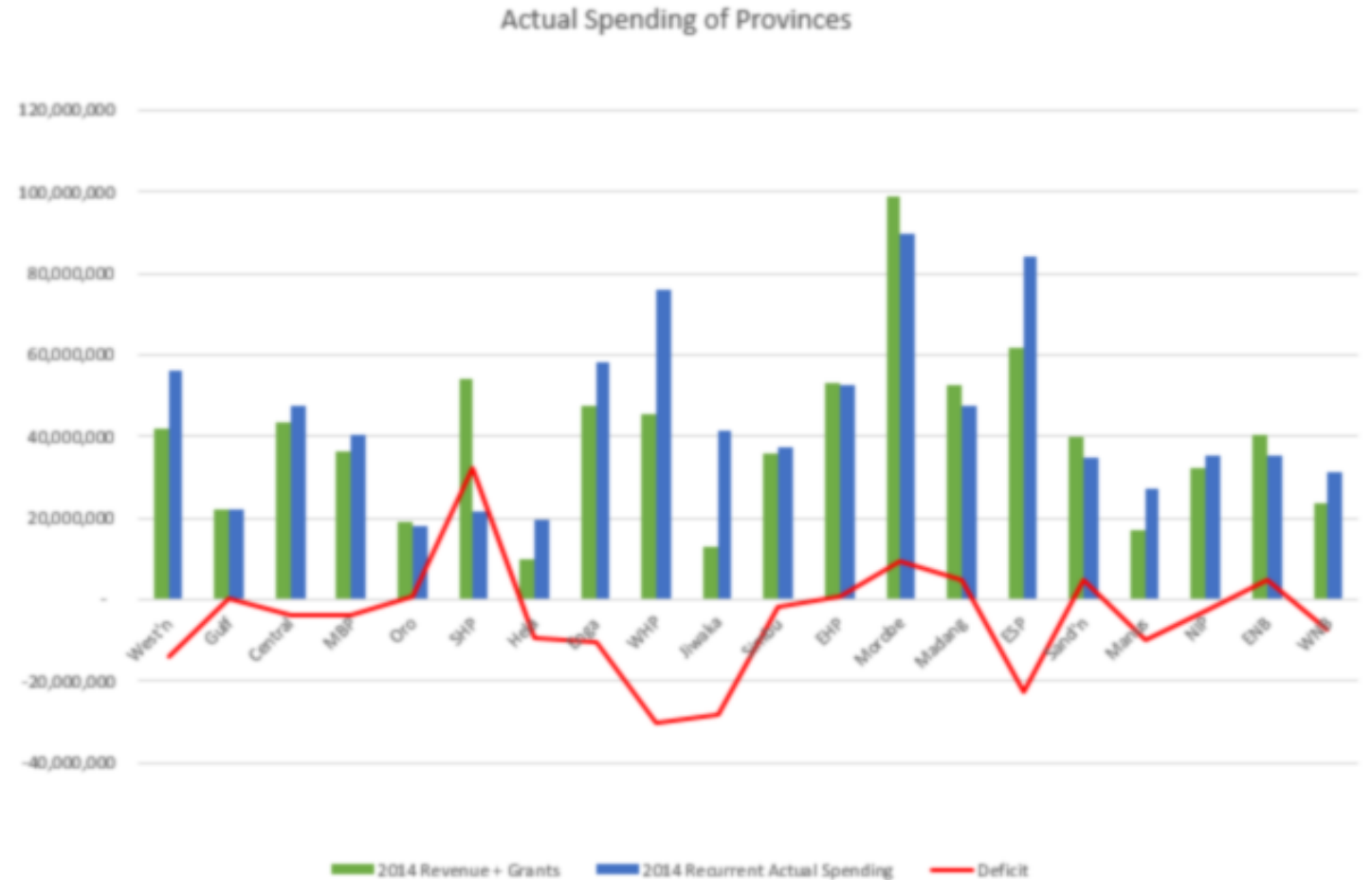




LEARN

Deficit spending

- PGAS shows deficit spending for East Sepik, Western Highlands province, Manus Enga, Hela and Jiwaka
- What is a deficit? A deficit is spending in excess of revenue and grants

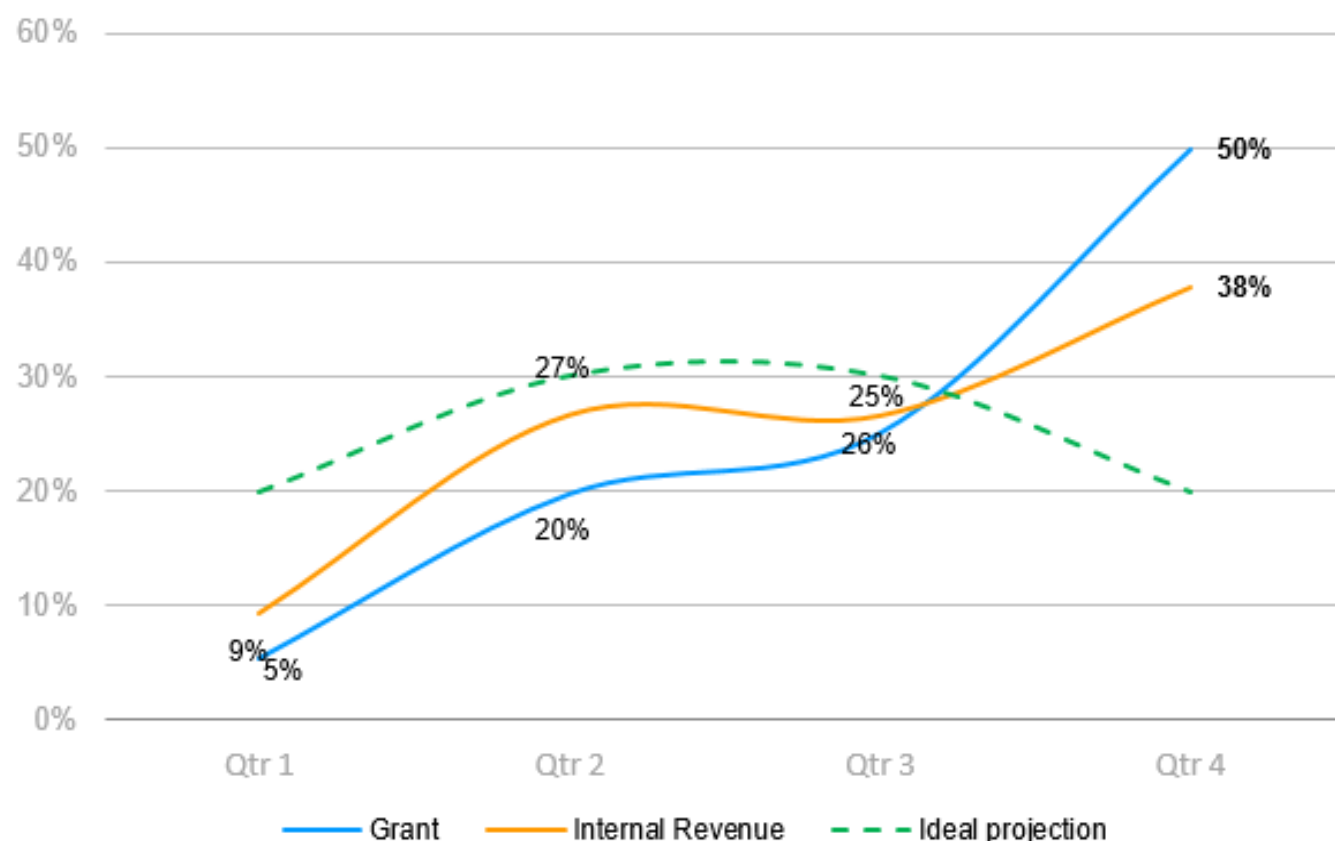


Grant and internal revenue spending later on in the year (Q4)



- Reinforcing previous year findings, provinces spent more in the **final quarter** of the year, according to PGAS

	Qtr 1	Qtr 2	Qtr 3	Qtr 4
Grant (Avg)	5%	20%	25%	50%
Internal Revenue (Avg)	9%	27%	26%	38%

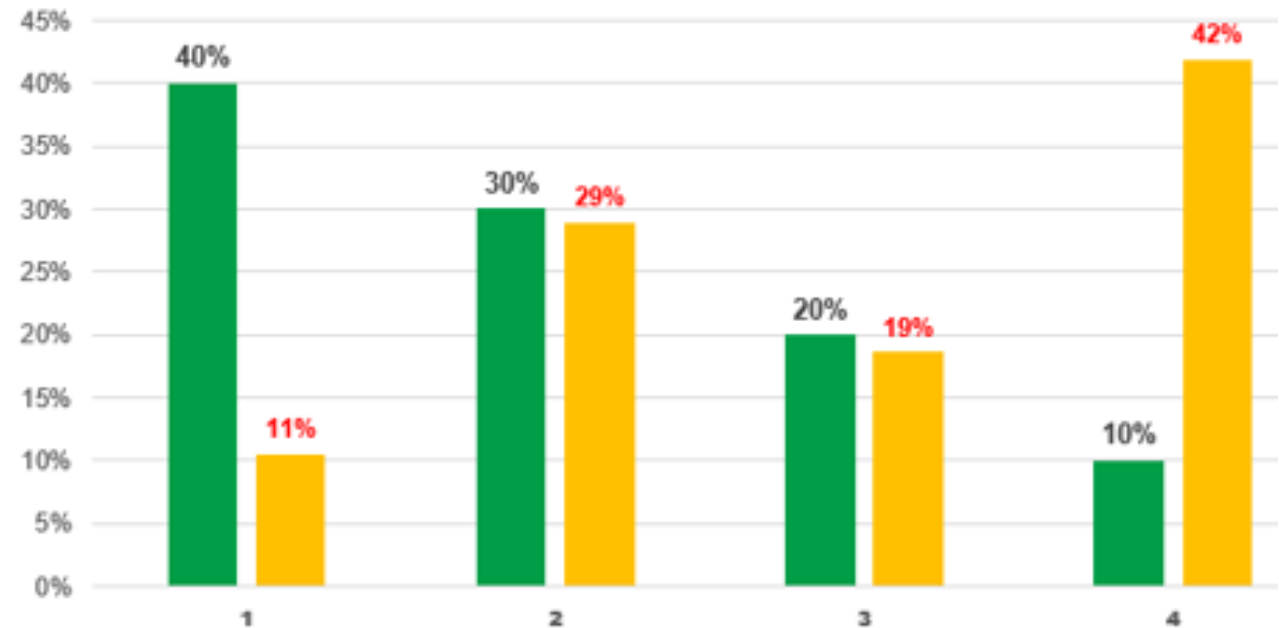


Q4 spending highest and Q1 spending lowest due to delay in warrant releases

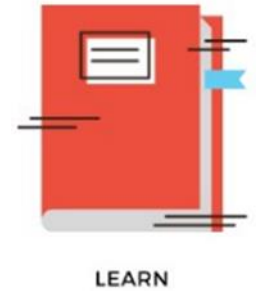


LEARN

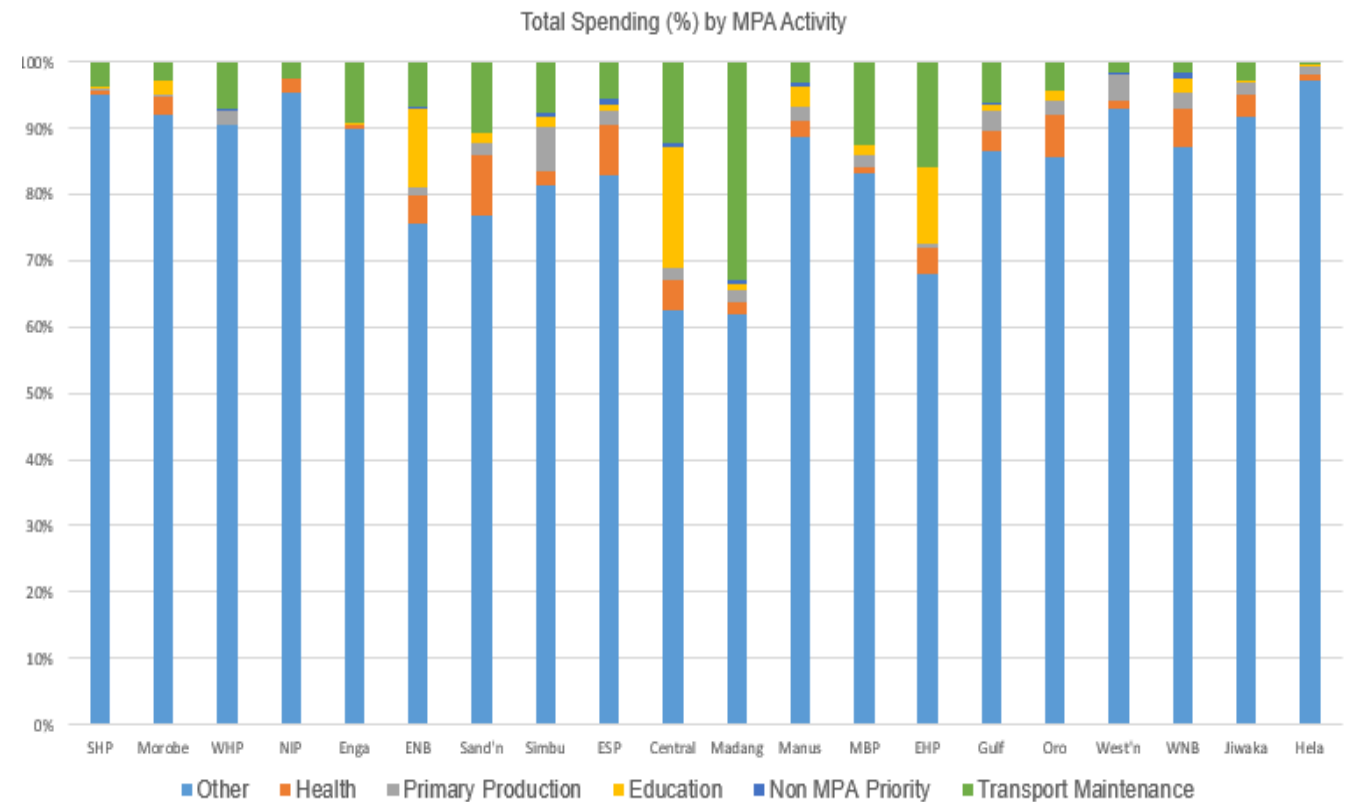
- It is important to note that the release of funding does not adhere to the 40,30,20,10 precedent set by the Governor's conference and is almost **inverse**



A highlight from MPA findings: spending on transport maintenance highest from MPAs



- Spending on **Transport Maintenance** highest among MPAs, second highest Education
- Need to introduce **floors** for MPAs when calculating grants
- Disclaimer/caveat is that **compliance** against **CoA** is of issue and as such, it is difficult to estimate the exact impact of non-compliance on CoA in PGAS



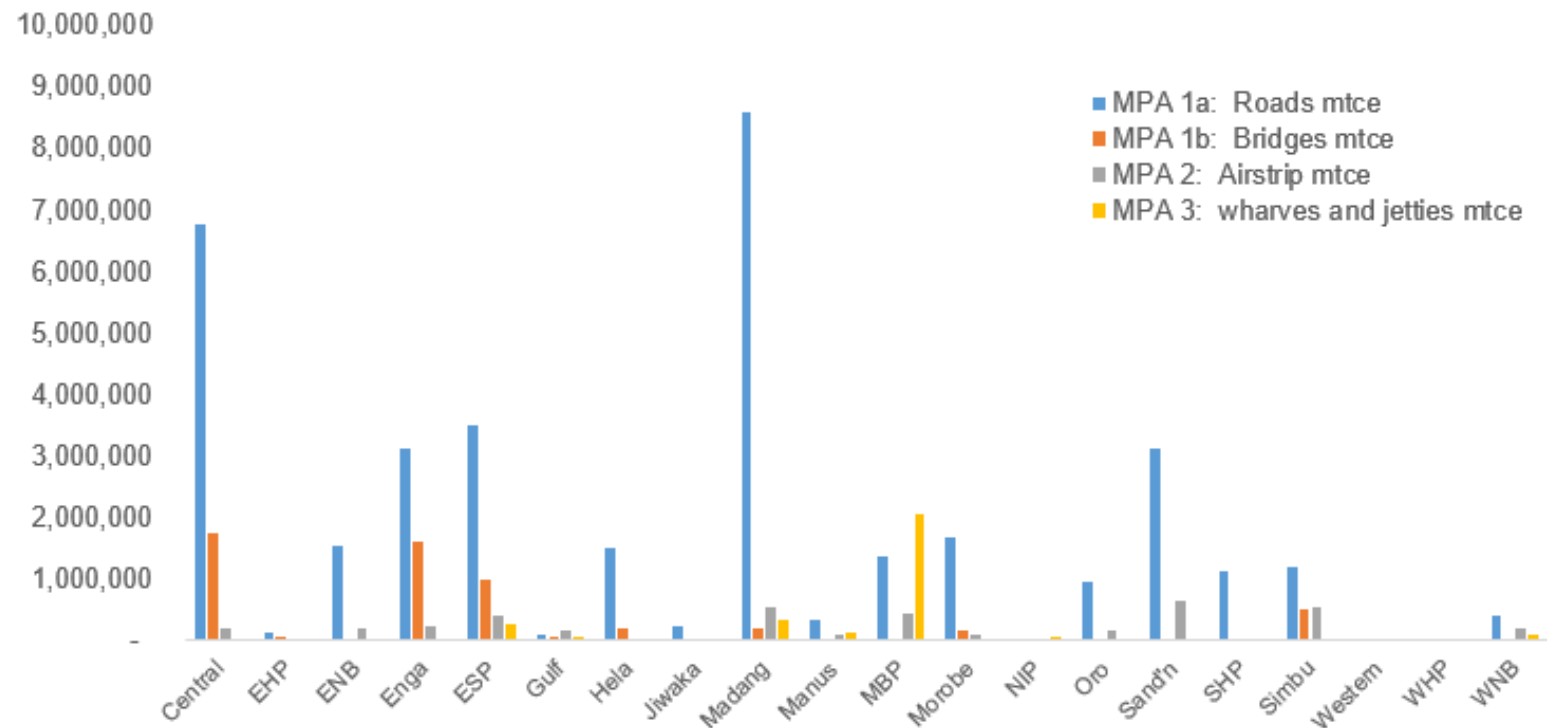
MPA highlight: road maintenance



LEARN

- Spending in transportation is primarily on **Roads Maintenance**

Spend on Minimum Priority Activities in Transportation



Game Changer Highlight: Integrating Outcome Indicators against Expenditure

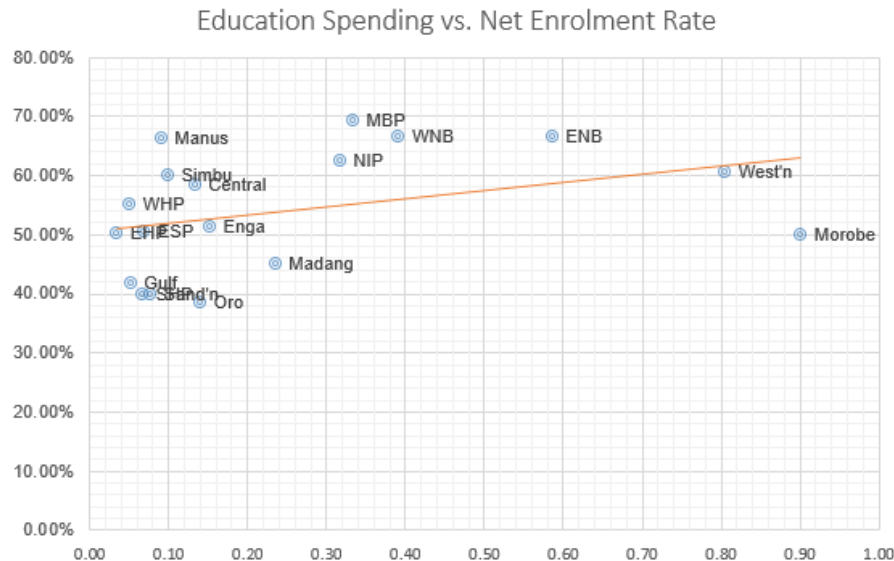


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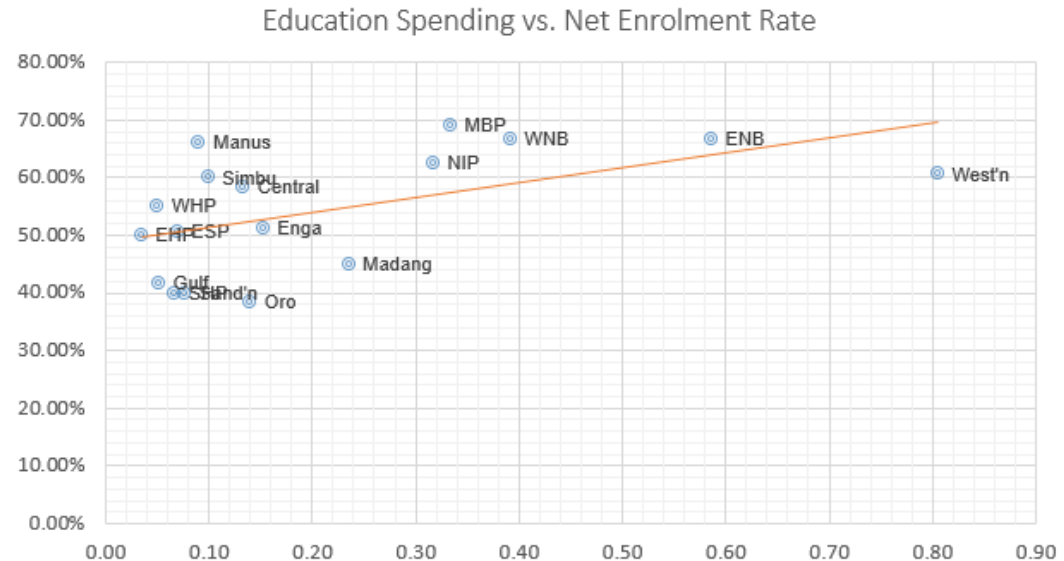
Education

- There may be a relationship between spending higher on **education** (ages 6 – 14) and an increase in net enrolment rates; Morobe an outlier.
- Caveats include Net Enrolment rates taken from NRI in 2009/2010 and not 2014

With Morobe



Without Morobe

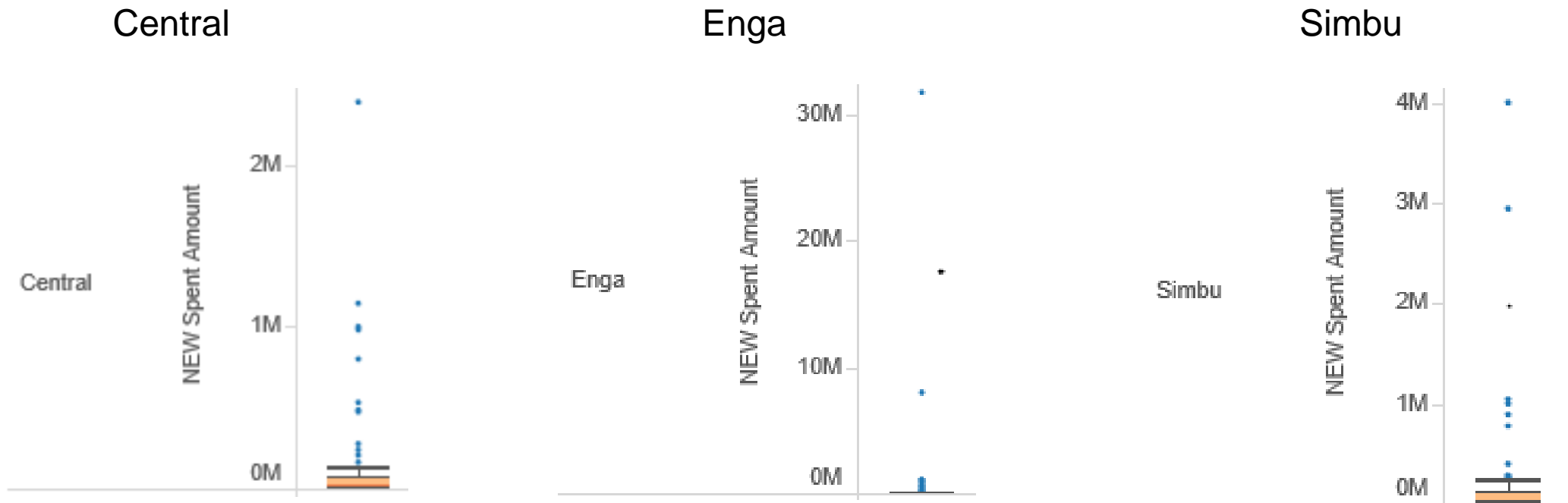




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Spending Patterns in Education

- Central vs Simbu vs Enga spending on Education; Enga stands out because of the higher spending on the resourcing of schools (outlier spending = 30+ million on TFFs)

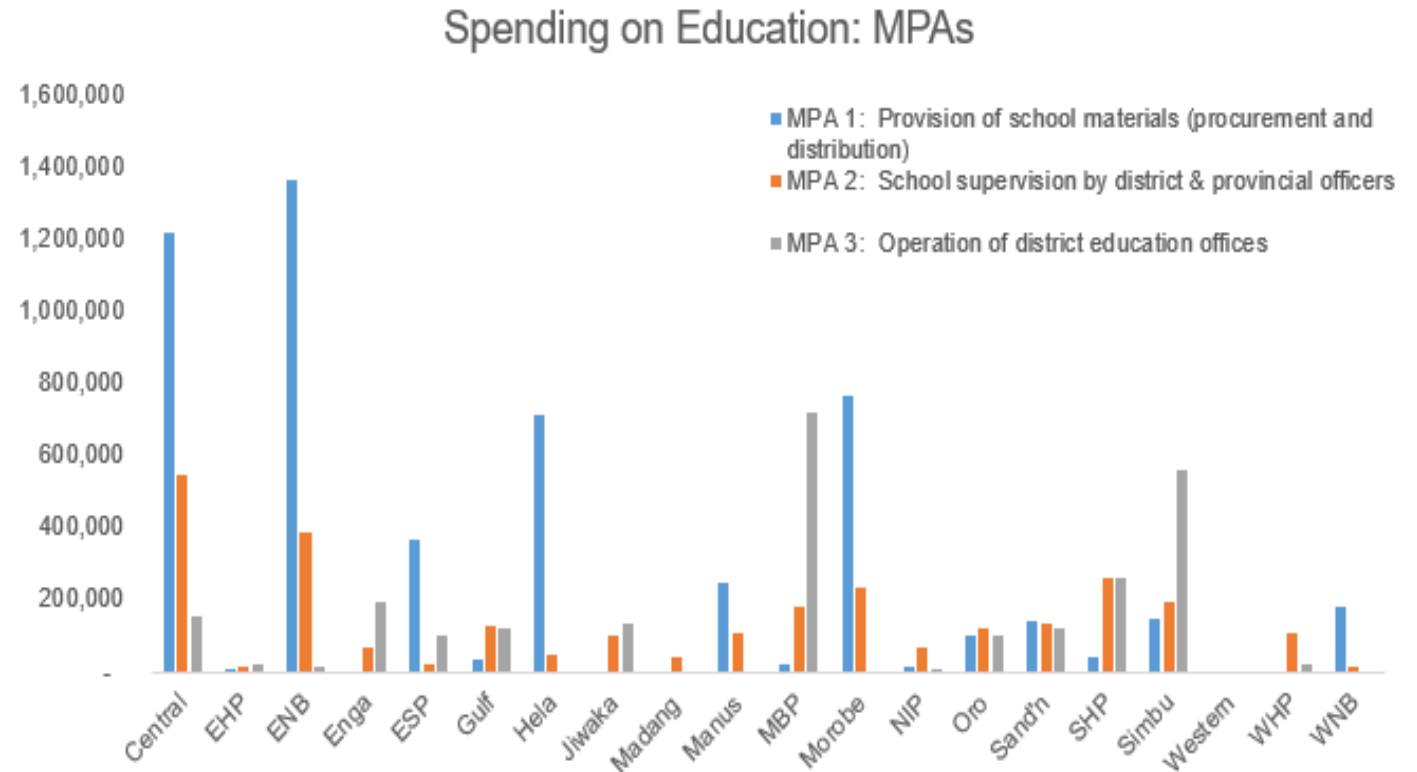


High Spenders on Education MPAs



LEARN

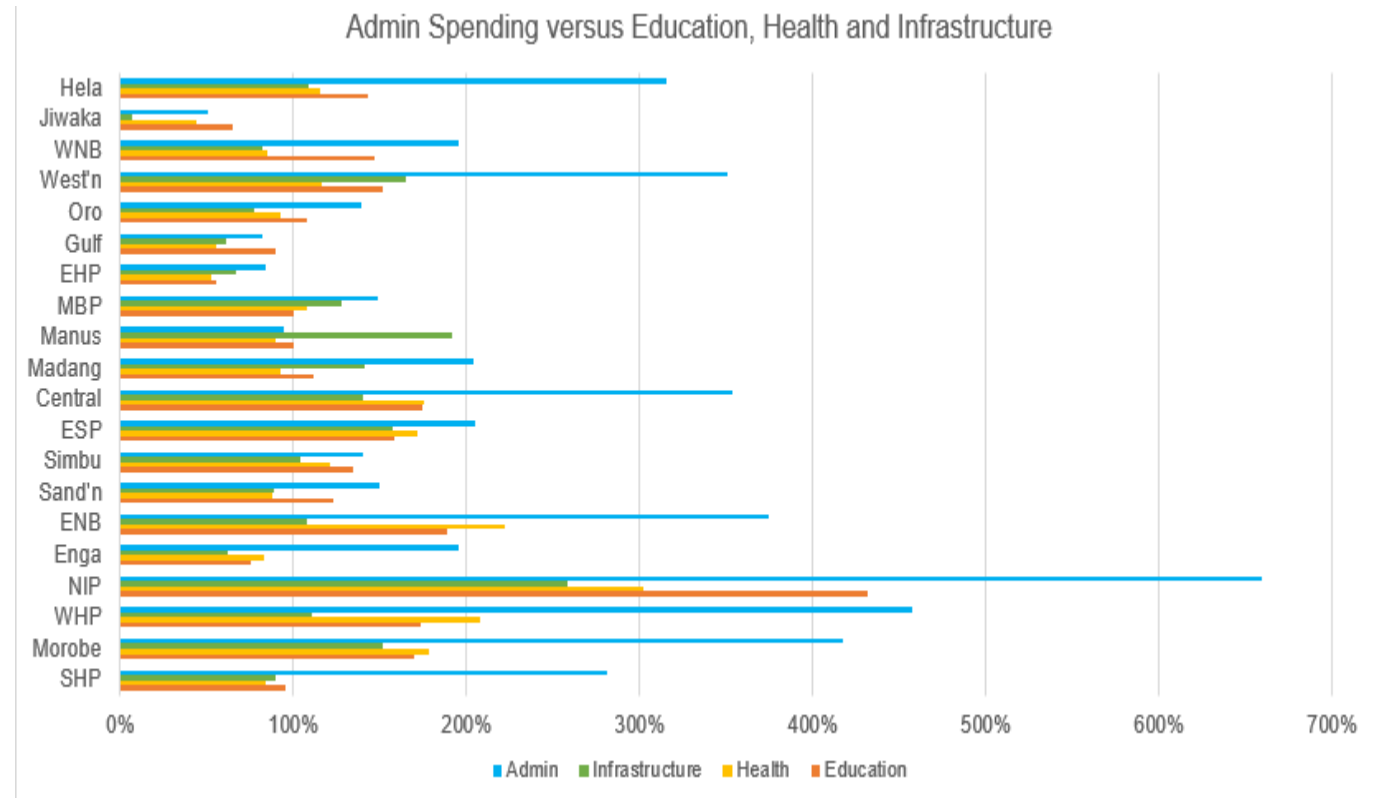
- Spending on provision of school materials (**MPA 1**) substantially more than other MPAs for Central, East New Britain and Hela
- Issues with MPA coding and complying to CoA; Western has not coded practically anything to MPAs



Administration spending highest among provinces with highest fiscal capacity



- The **higher** the fiscal capacity, it is more likely that provinces spend more on **Administration**.
- **Negative correlation** (increase in one variable and decrease in the other) between Administration and Health, Education, Infrastructure and Agriculture (limitation: sample size)
- Chart shows Admin spending vs Education, Health and Infrastructure



Provincial Rankings (2014): adjusted for three year average



LEARN

- Simbu ranked first, based on three year average
- Why use an average? An average over time is used to smoothen out volatility

3 year avg ranking	Position
Simbu	1
ENB	2
MBP	3
Manus	4
Central	5
Madang	6
EHP	7
ESP	8
Hela	9
Gulf	10
Jiwaka	11
WNB	12
Morobe	13
Oro	14
Sand'n	15
Enga	16
WHP	17
West'n	18
SHP	19
NIP	20

	2011	2012	2013	2014
Simbu	74	70	71	65
Madang	76	74	61	43
MBP	76	71	63	58
Manus	81	68	53	60
ENB	63	59	73	46
Central	78	61	54	78
Sand'n	70	54	66	46
WHP	78	67	41	40
EHP	65	63	57	31
Jiwaka			60	28
Oro	67	56	54	55
Morobe	61	61	55	37
WNB	60	60	53	47
Hela			57	52
ESP	62	59	47	60
SHP	65	42	58	27
Gulf	63	54	46	66
West'n	66	50	47	30
Enga	55	51	47	36
NIP	72	45	35	36

Rankings for 2014: not adjusted for three year average



- Provinces do better on the rankings if they spend more on MPAs
- Central** ranked **#1** in 2014 largely due to dedicated spending on MPAs

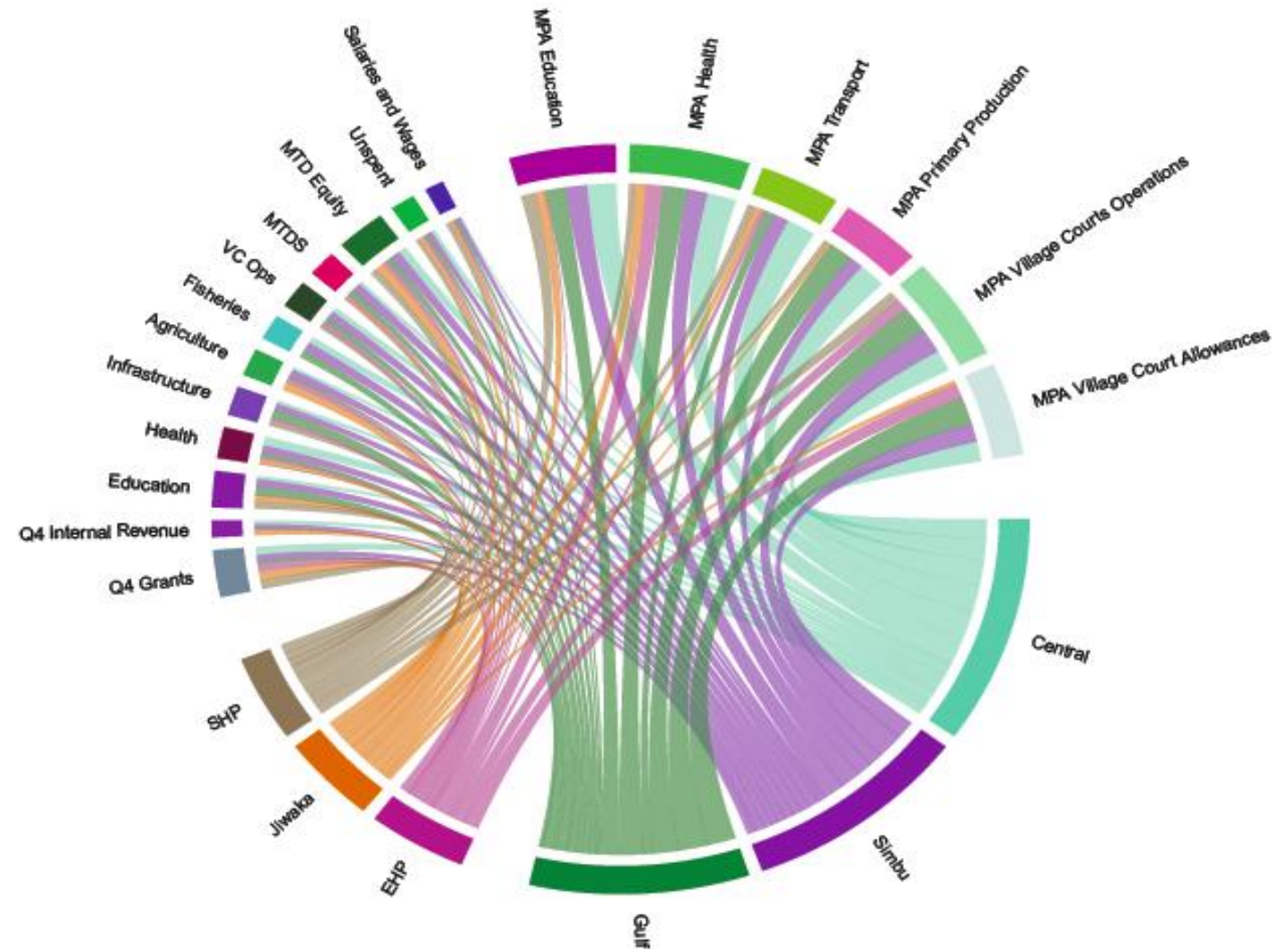
Province	Final Score
Central	78%
Gulf	66%
Simbu	65%
ESP	60%
Manus	60%
MBP	58%
Oro	55%
Hela	52%
WNB	47%
Sand'n	46%
ENB	46%
Madang	43%
WHP	40%
Morobe	37%
NIP	36%
Enga	36%
EHP	31%
West'n	30%
Jiwaka	28%
SHP	27%

	2011	2012	2013	2014
Simbu	74	70	71	65
Madang	76	74	61	43
MBP	76	71	63	58
Manus	81	68	53	60
ENB	63	59	73	46
Central	78	61	54	78
Sand'n	70	54	66	46
WHP	78	67	41	40
EHP	65	63	57	31
Jiwaka			60	28
Oro	67	56	54	55
Morobe	61	61	55	37
WNB	60	60	53	47
Hela			57	52
ESP	62	59	47	60
SHP	65	42	58	27
Gulf	63	54	46	66
West'n	66	50	47	30
Enga	55	51	47	36
NIP	72	45	35	36

Spending patterns against Key Performance Indicators



- The spread and volume of spending in highest ranking provinces is a substantial amount of spending against KPIs
- Simbu, Gulf and Central are also visibly demonstrating spending against MPAs which is part of the reason they score highly in the 2014 rankings

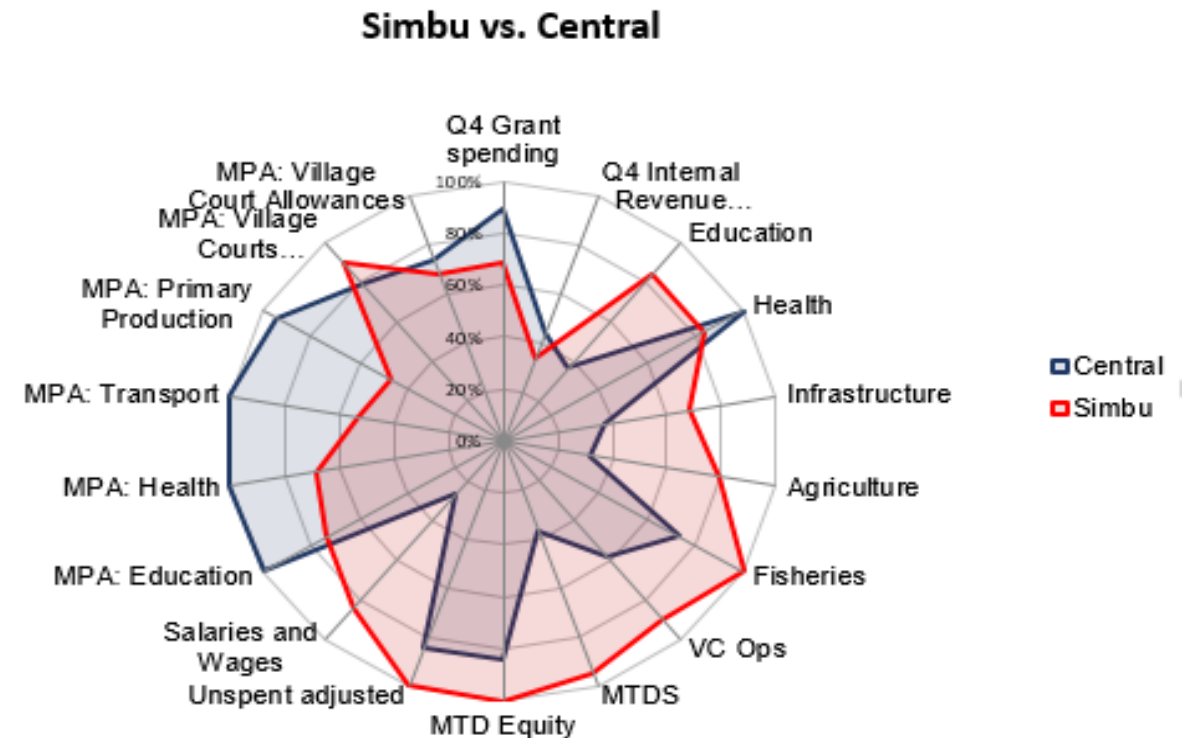


Spending patterns against Key Performance Indicators



LEARN

- Good spending characteristics would include spending on MPAs, spending from internal revenue consistently throughout the year
- Adjusted score provided out of 100
- Note differences in spending patterns between Central vs. Simbu (no one way of spending well although spending on MPAs very important)





RECOMMENDATIONS & NEXT STEPS



Recommendations from *Game Changer* for NEFC for future PERs



- Each province faces unique challenges in providing service delivery; the NEFC ranking system aims to account for these challenges as much as possible. 2014 will be the Game Changer (base) year to account for these challenges and to move towards an individual scoring system for provinces that will be out of a 100% as opposed to a ranking based system. Increased focus on MPA spending.
- Policies and interventions need to be made on available evidence (evidence-based thinking) - NEFC is taking a step in this direction (tying in of outcome indicators)
- Identify how much co-mingling of funds is impacting expenditure trends through trend analysis
- Re-assess feasibility of MPAs for each province based on needs to understand whether it is a match or whether more or different MPAs should be added
- Improve process for retrieving data from districts to further understand spending flows (done through NEFC's District Expenditure Review as well)
- Continue to advocate for compliance against CoA



Recommendations from *Game Changer* for provinces



- Is there a way for provinces to structure spending on service delivery from internal revenue in the first quarter?
- A province may be spending a lot from internal revenue but may not be spending on the things that maximise service delivery (e.g.: MPAs). It is important for provinces to focus on spending against MPAs and also important for NEFC to recognise priority activities on an individual case by case basis
- Recognise that funding should follow function and that the function grants are meant to be used in combination with internal revenue to provide service delivery
- Strengthen compliance against CoA and coding MPA spending
- Improve expenditure data sharing between districts and provinces



Thank you

Department of Finance for sharing the PGAS data,
Department of Health, provincial administrators,
regional workshop attendees and NEFC policy analysts
for their contributions