



**National Economic & Fiscal Commission**

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**COST! CAPACITY! PERFORMANCE!**

**REVIEW OF ALL EXPENDITURE IN 2005  
BY PROVINCIAL GOVERNMENTS**

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**FULL REPORT**

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## **FORWARD**

More money is the cry from many if not all provinces. But do we need it? How do we spend the money we already have? And is it spent on basic services that are critical to the wellbeing of our people?

This report seeks to answer those questions.

By drawing upon analytical and field work conducted by the NEFC (and partner agencies) we paint a picture of how provinces spend their money. We then compare how they spend their money to a costing study that identified how much they need to spend to provide basic services within their province. This reveals how well we are doing, how close we are to supporting the Medium Term Development Strategy (MTDS) priority sectors (of health, education, agriculture and infrastructure maintenance....). And finally we consider the impact of each province's resource envelope – not all provinces are equal so our performance expectations have to vary according to the fiscal capacity of each province.

So this report draws together the three threads of cost, fiscal capacity and spending performance and enables us to review our progress by comparing performance;

- within a province
- across all provinces
- across provinces with a similar fiscal capacity
- within sectors, and
- across sectors

Ultimately we are all interested in improved outputs and outcomes. We want to see improved health care and a healthier population, improved schooling and educational attainment for our children, a road network that is maintained and that enables the flow of people and produce, and a developing agricultural sector that provides income for the many. However these are the outcomes of a range of activities; like regular health patrols to rural areas, aid posts that function and are stocked with medical supplies, schools that are maintained and have basic materials and school books, roads that are regularly maintained and not left to degrade, and extension patrols that support agriculture development. These and many other similar activities that support and enable the delivery of services are the responsibility of provincial governments.

Each of the activities we have listed needs money to make it happen. Fuel is needed for transport, medical supplies need distributing, school materials need to be purchased – everything has a cost. These costs are commonly referred to as 'recurrent goods and services'. Without funding for goods and services to support these activities the outcomes we are seeking will not occur. These costs must be adequately budgeted for and the money must then be applied for that purpose.

What we have found is that the pot of money that is made available for these activities is decreasing whilst the range of activities we are trying to support is increasing. Money that could be allocated to recurrent goods and services is consumed in staff costs and development activities. But additional staff means that even more recurrent funds are required to effectively support their activities. And increased 'development' (or capital costs) often means additional recurrent funding is then required to support and maintain the new school, road or health clinic.



Funding for recurrent goods and services is the most important priority to achieve service delivery. Without spending on these essential inputs, it is very unlikely that outputs (actual services) will be delivered. It is for this reason that we see the need to focus firstly on goods and services expenditure. Without adequate recurrent expenditure on existing activities the level of service delivery will decline. And ironically the more that is invested in additional staffing and new development the faster this erosion will occur.

Please join with me on the quest to better understand our progress and how close we are to supporting the MTDS priority sectors – particularly health, agriculture, education and infrastructure maintenance.

**Nao Badu**

Chairman and CEO

National Economic and Fiscal Commission

October 2007

## **EXECUTIVE SUMMARY**

### **COST! CAPACITY! PERFORMANCE!**

Ninety five percent (95%) of people in Papua New Guinea live outside the capital city Port Moresby. Eighty five percent (85%) of people live outside the main urban centres. We are very much a rural based people spread widely throughout our country's borders. The government's key challenge is to deliver core services to these people on an ongoing basis. These services include the priority sectors identified in the medium term development strategy of health, education, agriculture and infrastructure maintenance.

We need to meaningfully review our progress in meeting this challenge. How close are we to achieving our aim of delivering these basic priority services throughout Papua New Guinea? What approach can we take to measuring this progress? Do we know how much delivering these services will cost? And do we know how much we are spending compared to what we need to spend? Have we enough money? And are we spending in the right areas? We know intuitively that some provinces are better off than others. But how wide is the gap? And what does this mean in terms of delivering services?

These are fundamental questions that we need to ask, and answer.

Under its mandate NEFC has been asking these questions for a number of years. During this time we have conducted extensive analysis to establish the cost of delivering services throughout this diverse country. We have then conducted further analysis to establish the spending patterns of provincial governments – we have identified how much each province spends and in which sectors they spend it in. This information provides the first indication as to how close we are in achieving our objective of delivering priority services to our people.

But the analysis cannot end there. We have also reviewed the revenue available to each province – the resource envelope. The resource envelope determines how much a province can achieve. It is the natural bar to delivering services. If you only have 35% of the amount you need you cannot deliver 100% of priority services. Our analysis seeks to illustrate and compare the huge differences across provinces.

So, we seek to address and provide answers to these three key questions:

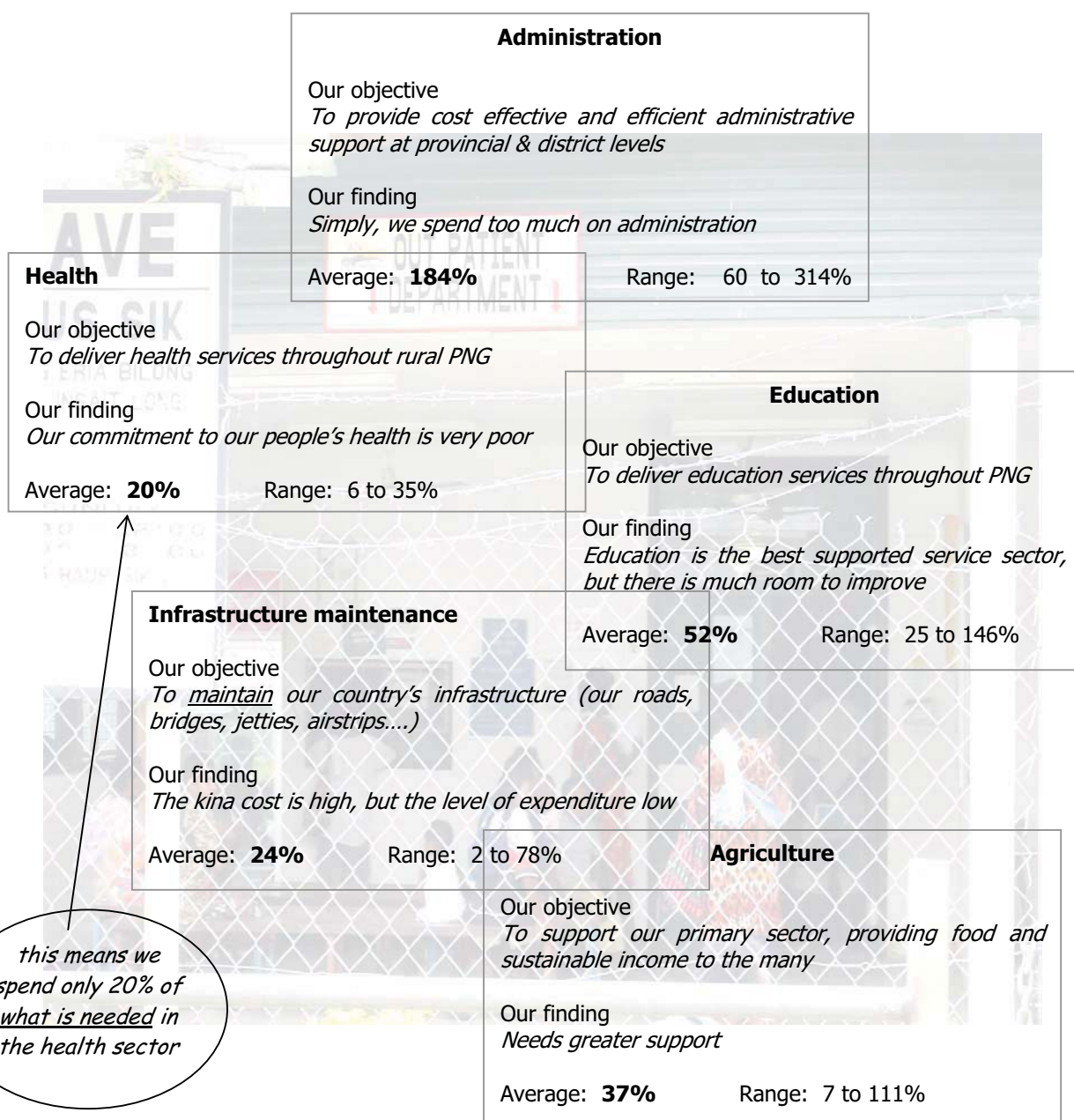
<b>COST</b>	How much does it cost to deliver priority services in each province?
<b>CAPACITY</b>	What is the impact of each province's resource envelope?
<b>PERFORMANCE</b>	Does provincial spending support service delivery?

In undertaking such a review we have identified many issues of significance. This report records these issues in a systematic way. By recording these issues it provides vital information to government agencies and partner organisations that are committed to improving the delivery of services throughout our country.

In summary what are the broad findings of this review?

- There is a funding gap – that can only be addressed by redesigning the way PNG's resources are shared.
- There is a priority gap – that can only be addressed by provinces choosing to spend their available funding on priority sectors. This may mean reducing spending in one area (such as administration) and redirecting it to another (such as health).
- The current level of spending on recurrent goods and services in priority areas is too low and inadequate. The implications are dire for service delivery if this trend continues.

## SECTOR BY SECTOR



How then can we make progress when the challenge appears so big? Real progress is possible:

- National Government needs to address the funding gap by implementing intergovernmental financing reform which will direct more resources to the low-funded provinces.
- Provinces need to address the priority gap by choosing to reallocate their spending to support the priority sectors.
- Provinces and central agencies can use the NEFC cost of services study as a guide to how much recurrent funding is required to deliver core services across PNG.
- Control and reduce spending in low priority areas. These include administration, projects, and casual wages.
- The whole provincial resource envelope (both grant funds and internal revenue) should be seen as one and available for allocating to supporting recurrent spending in priority areas.
- Utilise all means at a provinces disposal to support priority areas, e.g. currently the health sector HSIP program makes available recurrent funding for select health activities – use it.
- We need to consider the impact of new infrastructure development. New infrastructure development places increasing demand on the recurrent goods and services budget. Effectively new infrastructure development that is not matched with an increased recurrent budget will reduce service delivery.
- Similarly, we need to consider the impact of employing additional staff. Increasing staff numbers places more demand on the recurrent goods and services budget. Effectively increasing staff numbers that are not matched with an increased recurrent budget will reduce service delivery.

## TABLE OF CONTENTS

<b>FORWARD .....</b>	<b>i</b>
<b>EXECUTIVE SUMMARY .....</b>	<b>iii</b>
<b>1 Introduction to the Provincial Expenditure Review .....</b>	<b>1</b>
1.1 Background to the Review.....	1
1.2 The 2005 Function Grant Review.....	4
1.3 Provincial Expenditure Review Methodology .....	6
1.4 Expenditure Data Problems.....	14
<b>2 Cost of Services Study – the Benchmark .....</b>	<b>15</b>
2.1 Overview .....	15
2.2 A Cautionary Note about the NEFC Costing Study .....	18
<b>3 Fiscal Capacity .....</b>	<b>19</b>
3.1 How much has each Province got to spend? .....	19
3.2 Fiscal Capacity: From high to low.....	20
<b>4 Expenditure Overview .....</b>	<b>23</b>
4.1 Spending from Internal Revenue versus Grants.....	23
4.2 How important are Grants? .....	24
4.3 Our focus – Recurrent Goods & Services .....	25
4.4 Spending on Personnel Emoluments and Capital .....	26
<b>5 Where was the Money Spent?.....</b>	<b>27</b>
5.1 Overview of where the money went .....	27
5.2 Impact of Expenditure from Internal Revenue .....	28
5.3 Expenditure on MTDS priorities.....	29
<b>6 Measuring Performance .....</b>	<b>30</b>
6.1 How we Measured Performance .....	30
6.2 Performance Overview .....	31
6.3 Ranking & comparing Provincial priorities .....	32
6.4 Review Results by Funding Group .....	34
6.5 The Provincial MTDS Scorecard .....	35
<b>7 Education focus .....</b>	<b>39</b>
7.1 Introduction.....	39
7.2 Benchmarking .....	41
7.3 Issues in Education .....	43
<b>8 Health &amp; HIV focus .....</b>	<b>47</b>
8.1 Introduction.....	47
8.2 Benchmarking .....	50

---

8.3	Issues in Health .....	52
<b>9</b>	<b>Infrastructure Maintenance focus .....</b>	<b>58</b>
9.1	Introduction .....	58
9.2	Benchmarking .....	61
9.3	Issues in Infrastructure Maintenance.....	63
<b>10</b>	<b>Agriculture focus .....</b>	<b>65</b>
10.1	Introduction .....	65
10.2	Benchmarking .....	68
10.3	Issues in Agriculture .....	70
<b>11</b>	<b>Village Courts focus.....</b>	<b>71</b>
11.1	Introduction .....	71
11.2	Benchmarking .....	72
11.3	Issues in Village Courts .....	74
<b>12</b>	<b>Administration focus .....</b>	<b>75</b>
12.1	Introduction .....	75
12.2	Benchmarking .....	78
12.3	Issues in Administration.....	80
<b>13</b>	<b>Other Findings.....</b>	<b>81</b>
13.1	Under spending National Grant Funds .....	81
13.2	Is Late Spending a Problem? .....	82
13.3	Transfers to Local Level Governments (LLGs).....	84
<b>14</b>	<b>Conclusion.....</b>	<b>87</b>
<b>Appendix 1: The 2005 Function Grant Scorecard.....</b>		<b>88</b>
<b>Appendix 2: Understanding the Methodology .....</b>		<b>89</b>
<b>Appendix 3: A Cautionary Note about the NEFC Costing Study .....</b>		<b>93</b>
<b>Appendix 4: Cost of Services Study: Sectors and Activities.....</b>		<b>96</b>
<b>Appendix 5 Scorecard Methodology.....</b>		<b>99</b>
<b>Appendix 6: Table of Teacher Leave Fares.....</b>		<b>101</b>
<b>Appendix 7: Provincial Health Cost Estimate Table .....</b>		<b>102</b>
<b>Appendix 8: Provincial Health Facilities Cost Estimate Table.....</b>		<b>103</b>
<b>Appendix 9: Cost of Services Estimate Table (in Kina).....</b>		<b>104</b>
<b>Appendix 10: Cost of Services Estimate Table (as a % of total costs) .....</b>		<b>105</b>
<b>Appendix 11: 2005 Provincial Revenue Table (in Kina).....</b>		<b>106</b>
<b>Appendix 12: 2005 Provincial Revenue Table (as a % of total revenue).....</b>		<b>107</b>
<b>Appendix 13: Expenditure Data Tables.....</b>		<b>108</b>



## **LIST OF GRAPHICS**

Graphic 1: The 2005 Function Grant Scorecard .....	4
Graphic 2: What's in & What's out .....	13
Graphic 3: The Cost of Services Estimates by Sector for all Provinces.....	16
Graphic 4: The Cost of Services Estimates by Province (in Kina) .....	17
Graphic 5: Fiscal Capacity – Costs v Revenue in 2005.....	19
Graphic 6: Fiscal Capacity .....	20
Graphic 7: Grouping by Fiscal Capacity .....	21
Graphic 8: 2005 Provincial Expenditure (18 Provinces) .....	23
Graphic 9: Internal Revenue v Grant - spending proportions .....	24
Graphic 10: Levels of Recurrent Goods & Services Spending .....	25
Graphic 11: Expenditure on Recurrent Goods & Services v PE & Capital.....	26
Graphic 12: How Provinces use their Grants & Internal Revenue .....	27
Graphic 13: Provincial Priorities Comparison Table .....	33
Graphic 14: Results by Funding Groups .....	34
Graphic 15: Provincial Scorecard – Supporting MTDS Priorities .....	36
Graphic 16: Why we aren't supporting MTDS priorities .....	37
Graphic 17: Education Gap: Actual Expenditure v Cost of Services Estimate.....	41
Graphic 18: Health Expenditure in Kina.....	49
Graphic 19: Health Gap Health Expenditure (excl Church) v Cost of Services Estimate (excl Church health costs) .....	50
Graphic 20: HSIP funds accessed by Provinces (in Kina) .....	53
Graphic 21: Goods & Services funding for church-operated health facilities compared to cost estimate (in Kina).....	56
Graphic 22: Goods & Services funding per church-operated health facility.....	57
Graphic 23: Infrastructure Gap: Actual Expenditure v Cost of Services Estimate .....	61
Graphic 24: Infrastructure Gap: Including Development & Recurrent Expenditure v Cost of Services Estimate .....	63
Graphic 25: Agriculture Gap: Actual Expenditure v Cost of Services Estimate.....	68
Graphic 26: Village Courts Gap: Actual Expenditure v Cost of Services Estimate .....	72
Graphic 27: All Administration Expenditure by Source.....	77
Graphic 28: Administration Gap: Actual Expenditure v Cost of Services Estimate .....	78
Graphic 29: Under spending national grant funds in 2005.....	81
Graphic 30: The Level of Spending in each Quarter.....	82
Graphic 31: Transfers to Local level Government.....	84

## LIST OF ABBREVIATIONS

<b>Abbrev.</b>	<b>Meaning</b>
200 series	Expenditure from National Government grants
700 series	Expenditure from internal revenue
AP	Aid Post
CoS	Cost of Services Study
DPE	Department of Petroleum & Energy
DoF	Department of Finance
DoM	Department of Mining
DoT	Department of Treasury
FGR	Function Grant Review
GoPNG	Government of Papua New Guinea
GST	Goods and Services Tax
HC	Health Clinic
IRC	Internal Revenue Commission
K	Kina
LLG	Local level Government
MOA	Memorandum of Agreement
MTDS	Medium Term Development Strategy
MV	Motor Vehicle
NEFC	National Economic and Fiscal Commission
PFMA	Public Finance Management Act
PG	Provincial Government
PGAS	PNG Government Accounting System
PNG	Papua New Guinea
PIP	Public Investment Program
SSG	Special Support Grant
TMS	Treasury Management System
VBA	Village Birth Attendants

# 1 Introduction to the Provincial Expenditure Review

## 1.1 Background to the Review

In recent years the NEFC has undertaken a range of activities that collectively have sought to promote a greater understanding of progress in delivering core services to our people in each province throughout Papua New Guinea.

In 2004 the NEFC commissioned a Cost of Services study that identified how much it would cost to provide core government services in each province. That is, how much would it cost to provide education, health, transport infrastructure, village courts, agriculture etc in each and every province throughout PNG. The study identified the unique cost attributable to each District in each Province – it was not a generic broad-brush approach but rather one with a robust and considered methodology.

In 2004, Function Grant funding was introduced to encourage spending on priority service delivery areas. It achieved this by ring-fencing funds for spending on the core government priority areas of education, health, transport infrastructure, village courts and agriculture. These are the sectors where Provincial Governments have important service delivery responsibilities.

The NEFC commissioned Function Grant Expenditure Reviews covering the 2004 and 2005 fiscal years which provided a mechanism for monitoring and developing accountability. The reviews assessed the impact of the Function Grant funding methodology and formed a picture, backed by provincial visits and robust analysis, as to how effectively each Province had used the Function Grant funding it received from central government.

What became evident at the conclusion of the 2005 Function Grant Expenditure Review was that the picture was incomplete. The expenditure reviews focused solely on how the grant funds provided by national government were spent and did not consider how provinces used other funds at their disposal. These other funds are commonly referred to as *internal revenue* and form a significant proportion of each province's resource envelope.

Internally generated revenue is a highly significant portion of the Provincial budget. To date, there has been a lack of understanding and transparency on how this money is used. Was it allocated to support core service delivery areas? Or was it largely spent on costs that have little direct impact in providing services to the people?

This report builds on the analysis and findings of the 2005 Function Grant Expenditure Review. While the 2005 Function Grant Expenditure Review focused more on compliance and systemic issues this review expands our focus to one of service delivery prioritisation across the provinces. It achieves this by comparing actual expenditure to an independent benchmark – the Cost of Services estimates for each Province. It compares each Province against the Cost of Services benchmark applicable to that province and then compares provinces against each other. This multi-dimensional approach allows us to form a considered opinion of each province's performance and their individual priorities.

In considering the findings of this report we need to be mindful that many (13 of 18 provinces<sup>1</sup>) cannot afford to fund 100% of the Cost of Services estimates. For the 5 who can the question is “*do they*” and for the 13 who cannot the question is “*what are their priorities given their limited resources?*”

By understanding how much it costs to deliver core services in each Province, and then comparing that to the resource envelope available to each province, and how much each province actually spends in core areas, we are better able to gauge Provincial priorities.

This study is our attempt to bring a level of clarity to this area and thereby form a more comprehensive view of the money spent to further the priority objectives of Government throughout Papua New Guinea in the Provinces.

### **1.1.1 Why focus on expenditure?**

Ultimately we are all interested in improved outputs and outcomes. We want to see improved health care to the majority who are in the rural areas, improved schooling for our children, a road network that is maintained and that enables the flow of people and produce, and a developing agricultural sector that provides income for the many. However these are the outcomes of a range of activities; like regular health patrols to rural areas, aid posts that function and are stocked with medical supplies, schools that are maintained and have basic materials and school books, roads that are regularly maintained not left to degrade, and extension patrols that support agriculture development.

Each of the activities we have listed needs money to make it happen. Fuel is needed for transport, medical supplies need distributing, school materials need to be purchased – everything has a cost. These costs are commonly referred to as ‘recurrent goods and services’. Without funding for goods and services to support these activities the outcomes we are seeking will not occur. These costs must be adequately budgeted for and the money must then be applied for that purpose.

What we have found is that the pot of money that is made available for these activities is decreasing<sup>2</sup> whilst the range of activities we are trying to support is increasing. Money that could be allocated to recurrent goods and services is consumed in staff costs and development activities. But additional staff means that even more recurrent funds are required to effectively support their activities. And increased ‘development’ (or capital costs) often means additional recurrent funding is then required to support and maintain the new school, road or health clinic.

Funding for recurrent goods and services is the most important priority to achieve service delivery. Without spending on these essential inputs, it is very unlikely that outputs (actual services) will be delivered. It is for this reason that we see the need to focus firstly on expenditure. Without adequate recurrent expenditure on existing activities the level of service delivery will decline. And ironically the more that is invested in additional staffing and new development the faster this erosion will occur.

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<sup>1</sup> Bouganville and NCD are not included in this review.

<sup>2</sup> Decreasing in nominal and real terms since the late 1990s - real values adjust for differences in the price level between years.



### **1.1.2 Questions we are seeking to answer**

In undertaking this review we have sought to provide answers to questions that we believe are critical to understanding and improving service delivery throughout PNG, these questions include:

- How much did each Provincial Government spend on goods and services to provide core essential services?
- How does this level of spending compare with what the NEFC has estimated **needs** to be spent in order to achieve a basic level of service delivery?
- What are the priorities of Provincial Governments?
- How do provincial priorities align with national government priorities (MTDS)?
- How close do Provinces get to adequately funding priority sectors?
  - Does internal revenue support service delivery?
- Do higher funded Provinces out-perform lesser funded Provinces?
- What obstacles can we see to improving service delivery?
- Do Provinces need more money?

## 1.2 The 2005 Function Grant Review

Every year over K100 million is distributed as grants to Provincial Governments to provide services to their people. The Government has allocated a substantial amount of these funds to the priority areas of basic education, rural health and transport infrastructure maintenance through function grants. But how were these funds used? Were they spent on achieving the priority objectives the Government is seeking to achieve for the people of Papua New Guinea?

The 2005 Function Grant Review summarised our findings and sought to answer those questions.

We reviewed Provincial financial data and conducted Provincial visits. We asked questions like:

- Did you spend all the money?
- Did you spend the money in a timely manner?
- Did you spend the money as intended, on things that help deliver services to your people?

We checked if the cash was released to the Provinces in a timely manner. And we asked questions about information, communication and relationships in the Provincial Administrations.

We then gathered all our findings together and collated them in a table that we have called the Function Grant Scorecard. The scorecard is a way of pulling the information together and illustrating how the Provinces are doing.

“How are we doing compared to other Provinces?” We were asked this question a lot. So the scorecard goes some way to providing an answer. The full scorecard is displayed in Appendix 1.

It paints an interesting picture of how well the function grants are being used by the Provinces. The full scorecard provides a breakdown of the individual key performance indicators that together form the score.

For all organisations the challenge is to improve.

**Graphic 1: The 2005 Function Grant Scorecard**

Rank	Province	SCORE
1	West New Britain	44
2	Simbu	39
3	Manus	39
4	Enga	38
5	Gulf	36
6	East New Britain	35
7	Milne Bay	34
8	Sandaun	33
9	Western	30
10	Oro	30
11	Eastern Highlands	29
12	East Sepik	27
13	Madang	27
14	Southern Highlands	27
15	Morobe	25
16	Western Highlands	24
17	New Ireland	19
18	Central	16
Total score possible		48
Pass score		30

But we need to know the areas in which to improve. By establishing some basic performance standards and measuring ourselves against them we are identifying the areas in which we need to improve. The function grant scorecard is not the full story but it helps us to address the fundamentals. We are conscious however that Provinces use their own internally generated revenue to supplement expenditure in the priority service areas and this expanded review explores the impact of this.

In summary, the Function Grant Review established that Provinces can more effectively use the function grant funds by:

- By spending all the money they receive
- By spending the money in a timely manner
  - avoiding 'holding' the money until the end of the year
- By spending the money on the purposes for which it was given
  - avoiding spending the function grants funds on wages, building maintenance and non-essential items
- By sharing financial information with Program Managers and discussing implementation problems
- By including the Provincial Treasurer as part of the management team
- The Provincial Treasury must make financial data available to the Provincial Administration

### **Acknowledgement**

The NEFC acknowledges the Provinces for their assistance during the review process. We also acknowledge the agencies that partnered with us on the review; the Department of Treasury and the Department of Provincial and Local Government Affairs, and to the Department of Finance for its assistance.

## 1.3 Provincial Expenditure Review Methodology

### 1.3.1 Scope of the Study

This study reviews the spending performance of 18 Provinces<sup>3</sup>. By covering all of Papua New Guinea's provinces (with the exception of Bougainville and NCD) we were able to paint as complete a picture as possible of the spending patterns and priorities across the Provinces of Papua New Guinea.

### 1.3.2 Differences from the Function Grant Review

How does the 2005 Provincial Expenditure Review differ to the 2005 Function Grant Review?

- **More expansive:** The PER reviews expenditure performance from all sources of provincial revenue (both grant and internal revenue). The FGR focused only on the three main function grants of; Health, Education & Transport Infrastructure.
- **More sectors:** The PER reviews expands the focus to include Administration, Agriculture & Village Courts.
- **More on Health:** The PER review considers the impact of Church grants and HSIP funding. The cost of providing HIV related health services are included in the overall health total.
- **Benchmarking:** The PER compares actual spending from all sources against the NEFC Cost of Services estimate for each Province.
- **Revenue capacity:** The PER review acknowledges that revenue varies between Provinces and illustrates this capacity variation in the review.
- **Shift in focus:** Whereas the FGR measured compliance the PER highlights provincial spending priorities and how close we are to adequately supporting service delivery.

### 1.3.3 Our Approach<sup>4</sup>

Our approach in conducting the Provincial Expenditure Review has been to integrate three key elements that reflect cost, capacity and performance:

- **Cost:** The Cost of Services Study estimated the cost, or the amount required to provide basic services in that particular Province.
- **Capacity:** A province's fiscal capacity is restricted by its resource envelope. The resource envelope is the amount of money (revenue) it has available for recurrent purposes from all sources.
- **Performance:** Performance is reflected through expenditure – the amount that the province actually spent during the fiscal year and the area (or sector) they actually spent it on.

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<sup>3</sup> However, the expenditure results of the Southern Highlands Province and Western Province were not included in the inter-provincial comparisons refer to section 1.4.

<sup>4</sup> Readers should refer to the series of slides in the Appendix on page 89 which assists in understanding the methodology followed in this review.



Why are all three elements critical? We will consider each aspect in turn in the sections that follow. The resource envelope determines how much each Province has available to spend, the cost of services estimate provides an independent benchmark as to what it costs to provide services in that particular Province, and the actual expenditure shows us how close each Province is in supporting the delivery of Government priority services in their Province. It is only by considering all three elements that we can form an objective opinion on how well we are doing.

### 1.3.4 The Resource Envelope

Not all provinces are equal!

**Resource Envelope** – is a term that describes all revenues available to a Province

We need to be really clear on this point from the start. Not every Province has the same ability to provide basic services to its people. A Province's ability to provide basic services to its people is largely determined by two factors. The first is the amount of funds it receives from all sources, and the second is the amount it costs to deliver services in that particular Province. We will talk more about this later but at this stage it is important to note that the amount of money available (called the *resource envelope*) varies significantly between Provinces.

Why is this important? When considering a Province's performance we must make allowance for how much money they had available to them and **then** consider what they did with it. How did we address this in the review? In the review we took account of only those revenue sources which a Province could spend on non-salary recurrent goods and services.

What revenue do Provinces receive? Provinces receive revenue from a variety of sources. Importantly not all Provinces receive revenue from the same sources. All Provinces receive grants from the National Government, a share of GST, and revenue generated from their own activities (own-sourced revenue). In addition to these common sources, Provinces with mining and petroleum activities within their provincial boundaries can receive royalties and dividends. The following table sets out the various types of revenue that a province may receive. The third column indicates whether the revenue has been included in the calculation of a Provinces fiscal capacity.

Revenue Type	Source of Data	Treatment in Review
<b>Funding available for <u>recurrent</u> spending</b>		
Own Sourced Revenue	Provincial PGAS (DoF)	Included
Goods & Services Grants	Dept of Treasury	Most are included
GST	IRC	Included
Royalties	DoM & DPE	Included
Dividends paid to PGs	MRDC	Included
<b>Funding available for <u>development</u> spending</b>		
SSG's, PIP's & Dev Levies	n/a	Excluded
Donor funds	n/a	Excluded
DSG/DSIP	n/a	Excluded
Less Dev Dist Grant	n/a	Excluded

**Source of information:**<sup>5</sup> Revenue data is compiled from a number of sources. All reasonable effort has been taken to obtain data from the most reliable and efficient source. The second column of the above table sets out the sources for the revenue data that have been used in this review.

**Own-sourced Revenue:** Provinces can derive revenue from a variety of activities that supplements their total resource envelope. Own-sourced revenue is included in calculating the Provinces' fiscal capacity. Note however, that revenue and appropriations carried over from former years are excluded when calculating the Provinces' fiscal capacity.

**Grants:** The National Government provides Provinces with a range of grants each year to support a variety of core activities. The way of deriving the amount of each grant varies between grants and results in differing amounts for each province. The following grants are specifically excluded in calculating the Provinces' fiscal capacity.

- Staffing grants for teachers and public servants
- LLG grants (being secretariat, town & urban, and rural)

By excluding these grants we are ensuring an '*apples with apples*' comparison with the cost of services estimates, which do not include the cost of either staffing or supporting other levels of government.

**Members funds:** Members funds (District Support Grants) have not been included in calculating the Provinces fiscal capacity. Our analysis indicates that DSGs are more often applied to project expenditure of a discretionary nature rather than recurrent goods and services and excluded accordingly.

**GST:** Provinces receive their portion of the national GST collection which is included in calculating the Provinces fiscal capacity.

**Royalties:** Provinces with mining and petroleum activities within their provincial boundaries may be entitled to royalties. Royalties are included in calculating the Provinces' fiscal capacity as long as they are not legally tied to a development project. Most royalties can be spent at the discretion of the provincial government.

**Dividends:** Provinces with mining and exploratory activities within their provincial boundaries may also be entitled to dividends that are held at MRDC.

**SSGs & development levies:** Some Provinces receive Special Support Grants and development levies in respect of mining and oil projects they host. SSGs are paid by the national government pursuant to MoAs whereas development levies are paid by developers under the Oil and Gas Act.

**Public Investment Program:** Most (if not all) Provinces receive the benefit of projects under the PIP. Sometimes these are funded through development grants to the provincial government itself, other times the project may be managed by a national agency. Any development grants received by provinces under the PIP have been excluded from the resource envelope because they do not meet recurrent expenses.

**Less Developed District Grant:** from 2004 to 2006 this grant was distributed directly to schools in the districts identified as less developed. Because this grant was intended to fill a development purpose—supplementing school running costs so that schools could lower school fees - it has not been counted.

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<sup>5</sup> We have selected the data source we consider most reliable. For example; royalty data has been sourced from DoM & DPE due to the incomplete recording of royalty revenue in PGAS by some Provinces.

**Donor funds:** Some donor funding is available to help Provincial Governments meet their recurrent goods and services cost of service delivery. The report includes HSIP funding in assessing what percentage of the cost of health services each province can meet. No other donor revenues have been included at this stage, for two reasons.

- Firstly, donor expenditure is often directed toward what would have been classified as capital expenditure in the costing study, and therefore not included.
- Secondly, it is very difficult to obtain data on donor expenditure by Province. This is an area that deserves further work.

### 1.3.5 The Cost of Services

The purpose of the Cost of Services study was to examine in detail what provincial and local governments should be spending if they are to deliver services in these vital sectors.

It must be emphasized that the Cost of Services study was not a study of what is being spent. Rather, the intention was to set a detailed benchmark for assessing how much needs to be spent, and on what.

**Cost of Services:** an NEFC study that estimated how much it costs to support service delivery within a

The cost of services estimates cover the recurrent goods and services costs of service delivery and administration overheads. Only those costs of service delivery which provincial governments are expected to meet from their non-salary grants and other revenues have been included. In some cases these are not the full costs of delivering a particular service. For example, provincial governments are only expected to pay for the costs of maintaining *provincial* roads, so the road maintenance cost estimates do not reflect the full cost of road maintenance for the whole country—which would include national roads as well.

The original cost of services study included three different salary and personnel emolument costs even though salary costs were generally not covered by the study. The three costs that were originally included were: provincial politicians salaries and allowances; any teacher leave fares in excess of the grant received from the national government, and the cost of village court officials' allowances. For the purposes of comparing costs to expenditures in this analysis, only the village court allowance costs have been included.

The cost estimates were arrived at by developing an ideal 'zero-based' budget for each provincial government and local-level government. Costs that should be incurred at the district level were separately identified so that the provincial government estimates include discrete estimates for each district administration.

The methodology to develop this zero-based budget began with a set of assumptions about what services each provincial government and local-level government is responsible for delivering. The appendix on page 96 provides a general overview of the areas of service delivery which were covered by the study. These assumptions about the service delivery responsibilities of provincial and local-level governments were based on detailed studies of service delivery by three different provincial governments.

As part of these preliminary surveys, we identified all the individual activities involved in delivering each service, and the expected service levels currently prescribed by national plans or commonly understood practice. For example, we assumed that immunisation activities would involve 6 health extension patrols per year by staff of health centres, because this is the frequency which the National Department of Health recommends.

In some cases where no national output standard exists, we used common sense and an understanding of what is normal in PNG to develop assumptions about output standards.

The cost of services study separately identified costs relating to the provision of HIV related health care. Unfortunately HIV related health expenditure in PGAS is not consistently identified. As a result we are unable to compare HIV actual expenditures to the HIV cost estimates. Rather we have included HIV as part of total health actual expenditures and cost estimates.

Where possible, we made assumptions which would ensure services reach the people of PNG equally. For example, we assumed that health extension staff travel on patrol to sufficient clinic extension points to enable all people in PNG to reach a clinic point within 2 hours walk. Similar assumptions were used to determine how far agricultural extension patrols would have to travel. Where services are related to specific facilities (eg., running a health centre or aid post), we developed cost estimates based on the actual numbers of infrastructure, facilities and staff, and the actual length of roads, in each province and district. We used this approach because we wanted to first determine whether the existing service network is actually affordable. Only once this is better understood will it be possible to adjust assumptions to reflect a more equitable distribution of services.

The assumptions about what services are delivered were used to build up a detailed costing of the inputs that need to be funded in order to deliver each service effectively. A significant proportion of these inputs relate to the costs of travel for public servants. Travel is required for three main groups of activities involved in delivering services: extension patrols by district staff, supervisory patrols by provincial staff, and transport of materials and supplies like school books and drugs out to rural facilities. Accordingly, the study sought to collect very accurate information on the patrols that need to be conducted in each district. That information was used to develop detailed and accurate estimates of the costs of travel involved in delivering each kind of service in each sector, in each province and district.

Extension patrols are the backbone of service delivery in PNG. Because 85% of PNG's population lives in rural areas, many of them in remote areas, provincial health workers, didimen and didimeris and other public servants need to travel great distances to reach people. The cost of service study attempted to capture an accurate picture of how these distances vary from district to district. We mapped each patrol

The appendix on page 96 sets out the list of sectors and activities that have been included in the cost of services study.

### **1.3.6 A note about assumptions**

The methodology we have used in this study of provincial expenditure - comparing actual expenditure with the NEFC's cost estimates - gives a useful broad indication of how well provinces are resourcing service delivery. However, conclusions need to be drawn with some caution.

First, comparing available revenues with total recurrent non-salary goods and services costs implies that provincial governments will spend all their available revenues on recurrent goods and services, and nothing on wages or capital or project expenditure. This is not a realistic assumption, but it can be justified, at least in broad terms. If provincial governments cannot pay meet the routine, annual costs of basic service delivery, then whatever they spend on capital or wages is much more likely to be wasted – on either staff or on more facilities that are likely to be under-utilised because they lack operational funding.



Second, just because a Province spends close to what we estimate it should on a particular sector, this does not necessarily mean that services are being delivered. This study does not attempt to examine the quality of expenditure or efficiency of spending within sectors, except at a crude level by excluding spending on wages and capital expenditure. In many cases, we can observe that although a province is spending money (on health, for example), it may not be spending that funding on the kinds of things that are likely to produce services. A good example in the health sector is the large amount of spending on funeral expenses which we identified in the 2005 Function Grant Review. This spending is not contributing to delivering the kinds of services that were costed as basic service delivery.

### 1.3.7 Analysing Actual Expenditure

Analysing actual expenditure included an analytical review of all provincial PGAS expenditure data comprising both expenditure from national government grants (commonly referred to as the 200 series) and expenditure from internal revenue (commonly referred to as the 700 series). Our objective was to match actual expenditure to the cost of services study estimates.

**Goods and services** – spending which is directed to purchasing the regular routine operational supplies and services, transport costs and routine maintenance of buildings. Does not include capital, project or wage spending.

Expenditure data was analysed and where necessary recoded to achieve a higher level of consistency between provinces in categorisation. In analysing and recoding data the following principles were applied:

- **Give Credit:** The review compared the cost of services study estimates against a province's actual expenditure on recurrent goods and services. We wanted to portray as favourable a picture as we could and to ensure that provinces were given credit for recurrent spending in the priority sectors of education, health, infrastructure, village courts, and agriculture. This meant we classified as much expenditure as appeared reasonable to recurrent goods and services in service sectors.
- **Development Expenditure (capital and projects):** In instances where expenditure was coded as 'development'<sup>6</sup> yet looked recurrent in nature it was recoded and treated as recurrent for the purposes of this review. The cost of services estimated the cost of goods and services only. It did not include spending on capital items and projects.
- **Personnel Emoluments:** The cost of services study estimated the cost of goods and services only. It did not include spending on personnel emoluments at the provincial level (such as casual wages and leave fares). Accordingly when comparing actual expenditure against the cost of services estimates, expenditure on personnel emoluments was removed. The exception to this was with the payment of village court allowances. In some instances village court allowances were coded as personnel emoluments and in such cases the expenditure was included when comparing actual expenditure against the costing study.
- **Transfers to LLGs:**<sup>7</sup> Provincial Administrations receive various National Government grants that they in turn on-pay (transfer) to Local Level Governments. These amounts are not treated as expenditure by the Province for the purposes of this review.

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<sup>6</sup> Development expenditure in PGAS is typically coded as '2' in the indicator field.

<sup>7</sup> Refer to section 13.3.

- **Other:** Most Provinces record their expenditure under the 7 major sector classifications of Administration, Health, Economic, Education, Law & Order, Infrastructure, and Community Development. In addition to these major sector classifications there are also funds transferred to Local-level Governments, and an amount we will describe as 'other' expenditure. Other expenditure comprises expenditure on smaller sectors and importantly expenditure on arrears. Analysis shows that arrears can be a highly significant proportion of provincial spending. Unfortunately arrears spending is recorded under a single line item in the budget and therefore provides no transparency on what area the spending was on.

Why is consistency of coding important? Our objective is to paint a picture that shows the level of progress we have achieved in supporting the delivery of core services. To do this we need to know whether we are spending our money on activities that support service delivery in priority areas.

By ensuring that all expenditure is coded with a high level of consistency under appropriate sector heads we reflect as accurate a picture as possible of what a Province has spent across sectors. Ultimately spending reflects priority.

Another reason for ensuring that a high level of coding consistency is achieved is to enable a meaningful comparison across provinces. For instance, to compare spending in health across provinces we need to ensure that all health expenditure has been recorded under the health sector head. Often provinces may include some health spending under the administration and infrastructure sector heads. These amounts need to be recoded and included under the health total thereby showing a complete picture of health spending in the province. Once this complete picture has been achieved across provinces we can then compare provincial performance with a greater level of assurance.

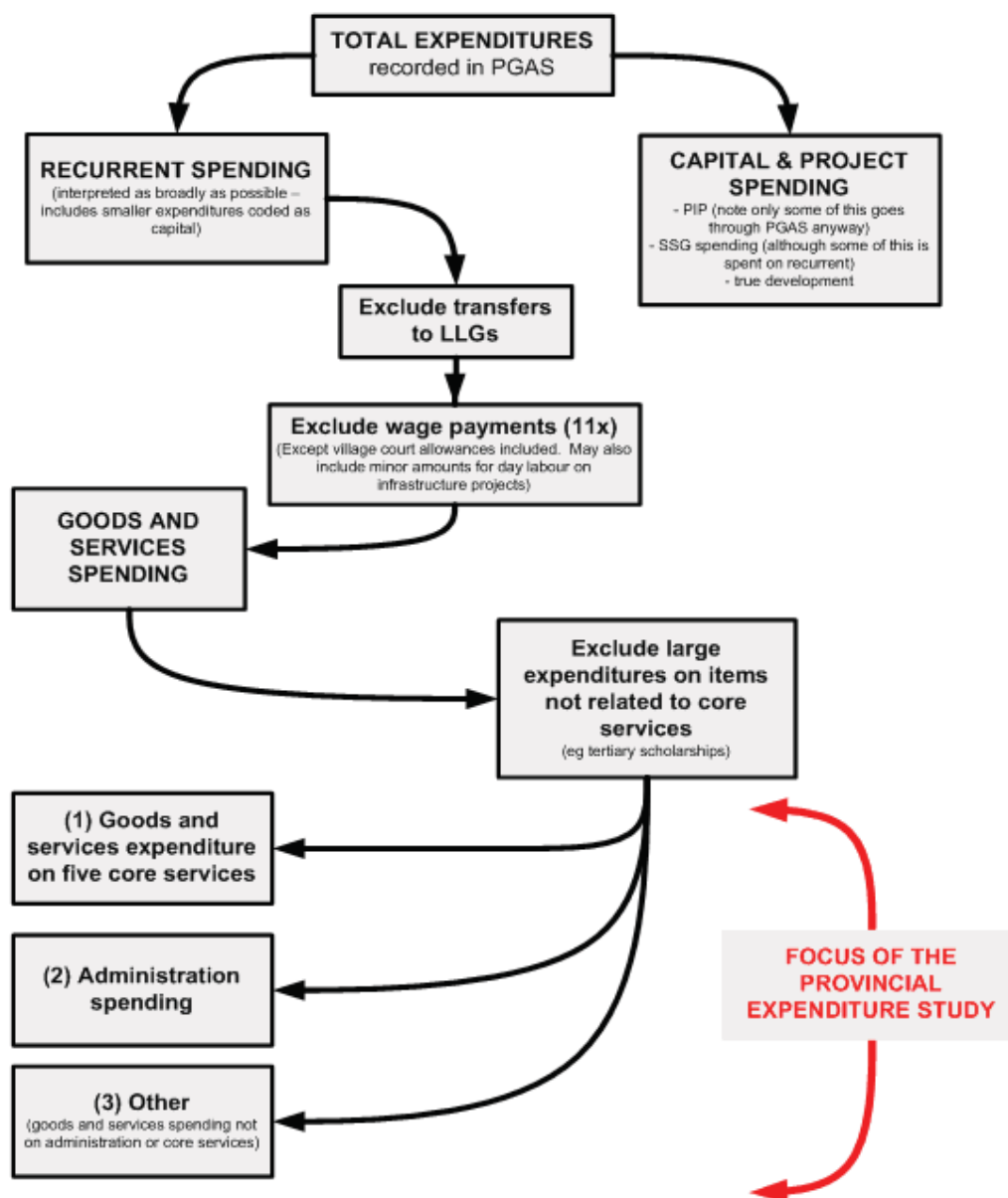
**Source of information:** Expenditure data is compiled from a number of sources. All reasonable effort has been taken to obtain data from the most reliable source.

Expenditure Type	Source of Data	Sectors impacted
National Government Grant (series 200)	Dept of Finance PGAS archives	All
Internal Revenue (series 700)	Dept of Finance PGAS archives	All
Church Health Grants	2007 Budget Volume 2 Part 1 vote 241	Health only
HSIP funded expenditure	Division of Planning & Administration, NDoH <sup>8</sup>	Health only

<sup>8</sup> PNG Public Health Sector 2005 Expenditure, May 2006.

The following diagram illustrates what expenditure is included in the provincial expenditure study – and then compared against the cost of services estimates – and what is excluded. It is important to be clear that we are reviewing expenditure on recurrent goods and services, the spending that supports the delivery of services to our people.

**Graphic 2: What's in & What's out**



## **1.4 Expenditure Data Problems**

Our PGAS data review highlighted substantive issues with the PGAS expenditure data in two provinces, being Western Province and Southern Highlands Province. Accordingly we have excluded the expenditure data for these two provinces when comparing results across provinces. To have included the data in the provincial comparative analysis may have communicated an incorrect picture of the relative performance of those provinces.

### **1.4.1 Western Province**

The expenditure data recorded in the Western Province PGAS files appeared extremely low when compared to the revenue data that the NEFC has compiled for the province.

Why is this the case? We cannot tell. It is possible that not all expenditure has been recorded in PGAS. If spending on service delivery is occurring, but we do not have access to that data, our study might paint an unfairly bleak picture for the province. If expenditure did occur outside of PGAS (e.g. through a trust account) this is in breach of GoPNG financial instructions which require all provincial government monies to be recorded and transacted via the Provincial (or District) Treasury through PGAS the GoPNG accounting system.

If the low level of expenditure is correct it raises questions as to where the unspent funds are held and why they have not been expended. Critically it also raises the question as to why those funds were not used to support the delivery of core services within the Province during the fiscal year. Western Province is blessed with significant resources and based on our analysis is well able to meet the minimum levels of expenditure identified through the Cost of Services study.

### **1.4.2 Southern Highlands Province**

When analysing the data recorded in the Southern Highlands Province PGAS files we were unable to adequately identify how significant sums had been expended. An example of this was the large amount (some K17m) paid to Districts under the description of road maintenance. This amount represents a series of individual payments of around K100,000 paid to District Administrators.

It appears that these funds are being transferred to districts and then expended through district treasuries, without the final use of the funds being reported back into the provincial PGAS. Through our desk top analysis we are unable to identify how these amounts have been spent at the district level. While all provinces records show some transfers to districts, the amounts were much larger in Southern Highlands. Given the highly significant sums involved we cannot include this data in our comparative analysis unless we have more information about how the money was used. Anecdotal evidence from the province in the 2005/6 period would cast doubt on whether K17 million was spent on road maintenance at the district level in Southern Highlands Province.

For this and other similar reasons relating to data veracity we have excluded the Southern Highlands in our cross provincial analysis.



## **2 Cost of Services Study – the Benchmark**

### **2.1 Overview**

Provincial, district and local-government level service delivery is crucial to PNG's development. PNG's plan for economic development, the Medium Term Development Strategy (MTDS), places emphasis on primary health care, basic education, rural transport infrastructure, and the promotion of income earning opportunities for rural Papua New Guinean's. Achieving the Government's development objectives in these areas depends on service delivery which is funded and managed mainly by provincial and local-level governments.

The purpose of the Cost of Services study was to examine in detail what provincial and local governments should be spending if they are to deliver services in these vital sectors. It must be emphasized that the Cost of Services study was not a study of what was being spent. Rather, the intention was to set a detailed benchmark for assessing how much needs to be spent, and on what.

The appendix on page 96 contains a summary listing of what services and activities that have been costed as the responsibility of provincial and district government in the Cost of Services Study. Examples of these activities for the main sectors are:

- Health activities include; health extension patrols, operational costs for government run health facilities, delivery of drugs to rural health facilities and emergency patient transfers....
- Education activities include; provide basic educational and replacement curriculum materials to schools, provincial education administration, & secondary school maintenance....
- Infrastructure activities include; maintenance for - provincial roads (60% of all roads), bridges jetties & wharves, not buildings or rehabilitation.
- Agriculture activities include; agriculture administration, extension patrols, farmer training & awareness....

It can be seen from the above list that the responsibilities of provincial and district governments in the MTDS areas are crucial to the delivery of core services in PNG.

There appears to be general agreement in Papua New Guinea that service delivery is deteriorating, but no clear agreement about why. The question is often asked, "is there enough money?" Lower levels of government argue that they don't have enough money; the National Government argues that provinces have enough – they just don't spend it on the right things. Without knowing how much provinces should spend to deliver services properly, we cannot know whether the problems of service delivery are because there is not enough funding, or because there is enough funding, but it is being spent on the wrong things. What we do know is that if the funding is completely inadequate, no other public sector reform measures will help to improve service delivery until that problem is fixed.

The purpose of the Cost of Services study was to help answer the question; "is there enough money for service delivery?" We did that by developing a reasonably detailed estimate of what it costs—what needs to be spent—to deliver basic services. By establishing how much needs to be spent, we can then turn to address some questions which flow on from that:

- If some provinces don't have enough, how can we ensure they do?
- If provinces do have enough, how can we ensure they spend that money on the right things?

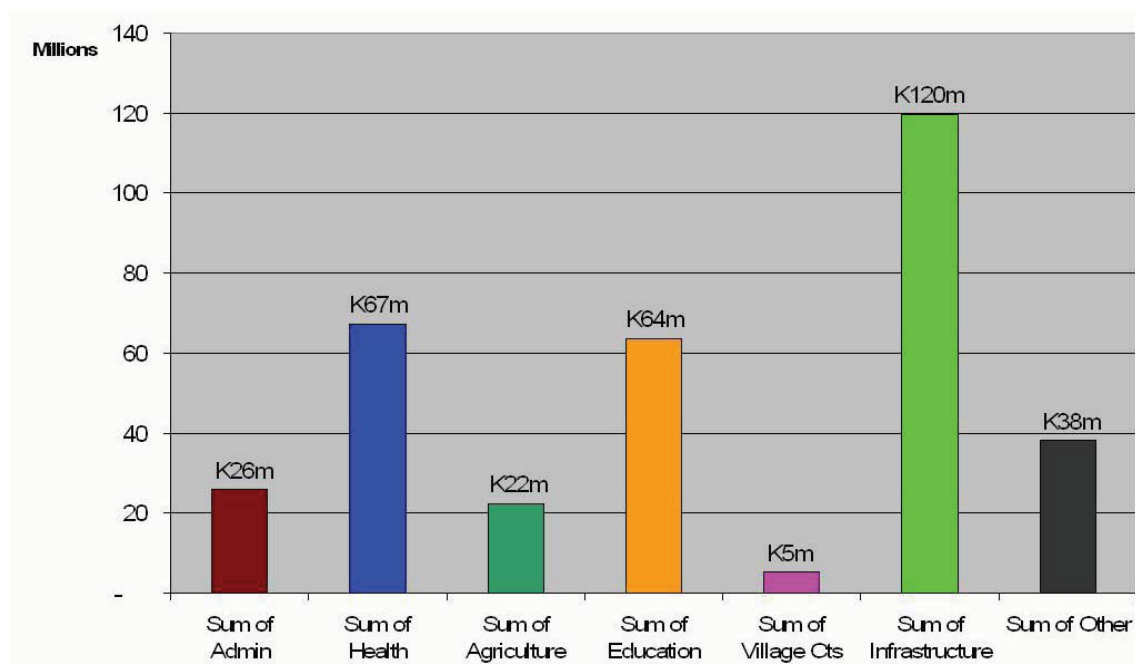
- If the existing standards of service delivery seem to be too expensive, how can we reduce costs to make them more affordable?

It is hoped that the information in the Cost of Services report will make a contribution to improved service delivery in a number of ways:

- Helping provinces to understand what they should be budgeting to provide basic services;
- Clarifying how much funding each province needs to be able to afford a standard set of basic of services;
- Demonstrating which provinces have enough, but are spending on things other than the core costs of basic service delivery.

The chart that follows illustrates the estimated total cost for each major sector. The last bar 'other' represents the accumulated cost of all other 'small' sectors that the Provincial Administration is responsible for.

**Graphic 3: The Cost of Services Estimates by Sector for all Provinces<sup>9</sup>**



Of the service sectors you can readily see that the infrastructure sector has the highest estimated cost by some way. The next highest are the education and health<sup>10</sup> sectors with estimates that are similar.

The agriculture sector is the fourth major sector with the village courts sector following some way behind. Individually the sectors grouped as 'other'<sup>11</sup> are small but their combined total is a significant cost.

<sup>9</sup> Covers the recurrent non-salary costs of service delivery by provincial and district administrations with the following exceptions, it does not include; (a) the cost responsibilities of LLG's, (b) teachers leave fares, (c) provincial assembly politician allowances. Village Court allowances are included.

<sup>10</sup> Health includes the costs of providing HIV services and for running Church health facilities.

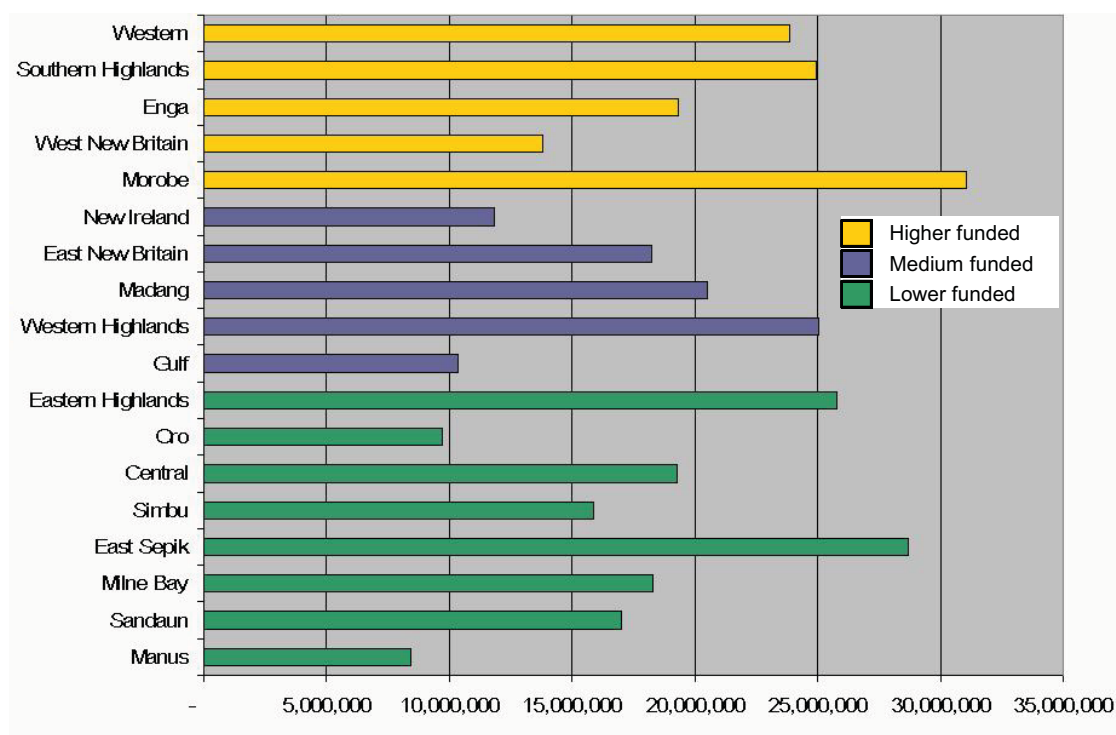
The first bar is the administration sector and represents the costs necessary to administer the provinces – it is a significant cost. Administration, Health (including HIV), Agriculture, Education, Village Courts and Infrastructure collectively represent approximately 80% of Provincial costs. The analysis in this review focuses on these six sectors.

The graphic that follows illustrates the cost of services estimates for each province in Kina. It shows that in Morobe Province the cost of providing basic services is estimated at K31 million, whilst in Manus Province the cost of providing basic services is estimated at just over K8 million. It also groups and displays the results according to a provinces fiscal capacity – high, medium and low. We will discuss this concept further in the next section.

When reviewing the graphic it is good to remember:

- The costs are not simply population driven. Other factors influence the cost, such as; the number of roads and facilities a province has, the remoteness and difficulty in getting services to the people, and the costs of goods in that province.
- These costs are minimum costs (for recurrent goods & services) that will support the provision of basic services within a province. There are other additional costs that provinces need to meet.
- The sum of these costs is equal to the sum of the costs in Graphic 3.

**Graphic 4: The Cost of Services Estimates by Province (in Kina)<sup>12</sup>**



<sup>11</sup> Other includes shared costs of 3 national government functions (NBC, Police & Prison operations) which Provincial Governments were directed to jointly fund in 1999 and other sectors such as commerce, community development, lands and natural resource management.

<sup>12</sup> Covers the recurrent non-salary costs of service delivery by provincial and district administrations with the following exceptions, it does not include; (a) the cost responsibilities of LLG's, (b) teachers leave fares, (c) provincial assembly politician allowances. Village Court allowances are included.

## **2.2 A Cautionary Note about the NEFC Costing Study**

It may be tempting to assume that by funding provincial governments up to the level of the NEFC cost estimates, they should be adequately resourced to meet all their expenditure mandates. That assumption would be incorrect.

The costing study was prepared for the purpose of establishing relativities between provinces in terms of the cost of their expenditure mandates, as a basis for dividing up a limited pool of funding from the National Government. Thus it was less important to be accurate about the total quantum than it was to be accurate about the differences between the cost of the same service being delivered in different districts and provinces.

At the time the costing study methodology was designed, PNG was experiencing some budgetary stress. It seemed highly unlikely that provincial funding would come even close to the total cost of expenditure mandates in the foreseeable future. Since both funding and actual expenditure had fallen so grossly short of any reasonable levels, it was decided that a conservative approach represented the most appropriate first step in establishing new benchmarks for both funding and expenditure.

**This topic is further discussed in the appendix on page 93.**

### 3 Fiscal Capacity

#### 3.1 How much has each Province got to spend?

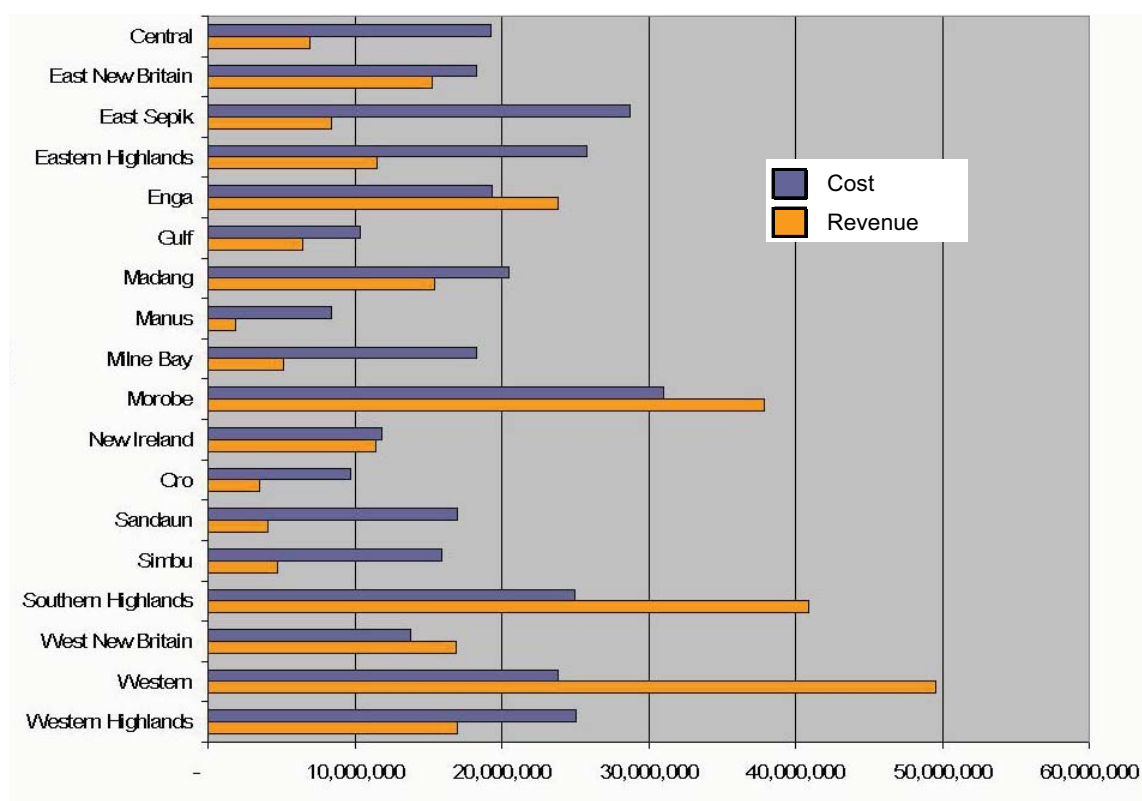
Not every Province is equal.

**Fiscal Capacity** – is a term that describes a Province's ability to meet its costs

Some Provinces have a greater, some a much greater resource envelope from which to spend. In reviewing Provincial expenditure it is essential to first consider what resource envelope is available to each Province from which to spend. Those Provinces with a high resource envelope are in a better position to allocate funds to support service delivery than those Provinces with a lower resource envelope. So the higher the resource envelope the higher the expectation that priority sectors are being adequately funded within the Province.

The following chart compares the revenue available to each province to its costs (the amount they need to spend to provide basic services).

**Graphic 5: Fiscal Capacity – Costs<sup>13</sup> v Revenue<sup>14</sup> in 2005**



<sup>13</sup> Costs refer to the cost estimates in the Cost of Services Study conducted by the NEFC.

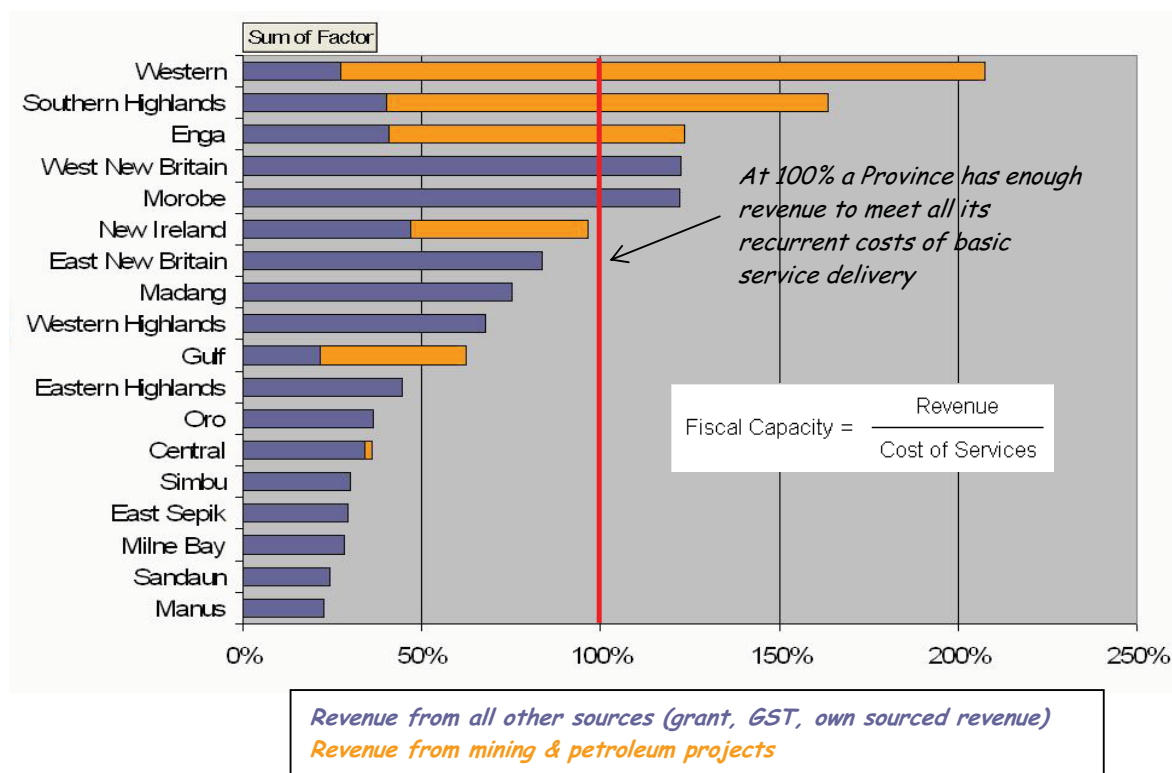
<sup>14</sup> Revenue refers to all 2005 revenues but excludes revenue specifically designated for development activities, staffing grants and grants to Local Level Governments, and carried over revenue such as former year appropriations.



So how do we compare the funds available to each Province in a meaningful way?

One approach is to calculate what percentage of each Province's cost of services<sup>15</sup> estimate can be met from provincial revenue for that Province. For example; a Province may receive K30 million in revenue each year. In that Province the cost of services estimate for providing services to its people may be K15 million. That would mean this Province has a fiscal capacity of 200% - or K2 for every K1 of cost it needs to meet.

**Graphic 6: Fiscal Capacity**



The above chart shows the fiscal capacity for each province. By comparing each province's revenue base to their cost of services estimate we can identify who is comparatively well funded and who is not. The chart illustrates that Western Province is best positioned and Manus Province is worst. Accordingly, one would ordinarily expect Western Province to outperform Manus Province by allocating much more to priority service delivery sectors – but is this the case? Read on....

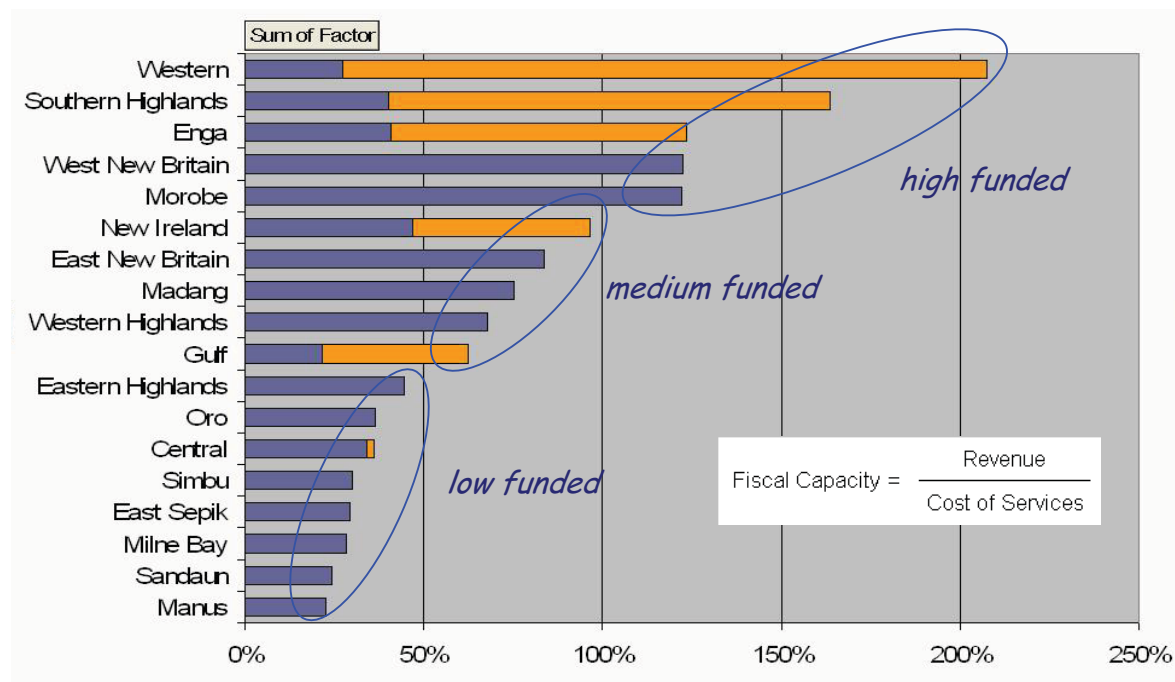
### 3.2 Fiscal Capacity: From high to low

We can see from the fiscal capacity table above that provinces fall into three main groupings that we can describe as low, medium and high. In the 'low' group are those Provinces who have less than 50% of what they need to spend to support the delivery of core services. That is, they have less than half the money they need to fund core services.

<sup>15</sup> Cost of services in this context means the cost of services estimate for the Province which includes costs for all sectors at provincial & district levels but excludes; assembly costs and costs at LLG level.

Next is the 'medium' group who have between 50% and 100% of what they need to spend to support the delivery of core services. And lastly we have the 'high' group, those with more than 100% of what they need to spend to support the delivery of core services. Let's look at our chart again, this time circling the three main groupings – high, medium and low.

**Graphic 7: Grouping by Fiscal Capacity**



Obviously our expectations need to differ between groups. Those in the lower-funded group have difficult decisions to make on how to spread their limited funds and best deliver services to their people. Those in the medium-funded group are also faced with these same choices albeit with a greater level of funding and therefore a greater ability to fund priority services. And finally the higher-group, those who are comparatively well off and who have sufficient funds from which to fund the delivery of priority services to their people.

Lower-funded (less than 50%)	Medium-funded (between 50% and 100%)	High-funded (over 100%)
Eastern Highlands	New Ireland	Western
Oro	East New Britain	Southern Highlands
Central	Madang	Enga
Simbu	Western Highlands	West New Britain
East Sepik	Gulf	Morobe
Milne Bay		
Sandaun		
Manus		

It is important to understand what percentage of costs in each sector are being met from current expenditure by provinces. This gives a basis for understanding how well a province is supporting service delivery or not. For example, if spending on health goods and services is only 10% of what NEFC has estimated are the basic goods and services costs, then it is likely that a very low level of health services are being delivered.

However, we also need to take into account that eight provinces could only meet less than 50% of total costs, even if they used every toea of their revenues well. A further five cannot reach the 100% benchmark. These provinces simply cannot allocate more until the national government gives them more funding<sup>16</sup>. Those provinces that do have sufficient funding to meet 100% or more of costs also show a poor record of spending what is needed to meet basic recurrent costs. Their problem is not the lack of revenue, the problem is that they choose to give a low priority to spending on basic service delivery.

Accordingly this analysis highlights these two very different problems which result in insufficient funds to meet basic service delivery: first the funding gap, which can only be solved through intergovernmental financing reform which will direct more resources to the low-funded provinces. The second problem we describe as a priority gap - provinces have sufficient resources but are choosing not to direct them to the core costs of basic service delivery. We hope that illuminating the choices they have made through this report may help provinces to refocus their budgeting and expenditure.

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<sup>16</sup> The only other possibility is for provinces to increase their internally generated revenue.

## 4 Expenditure Overview

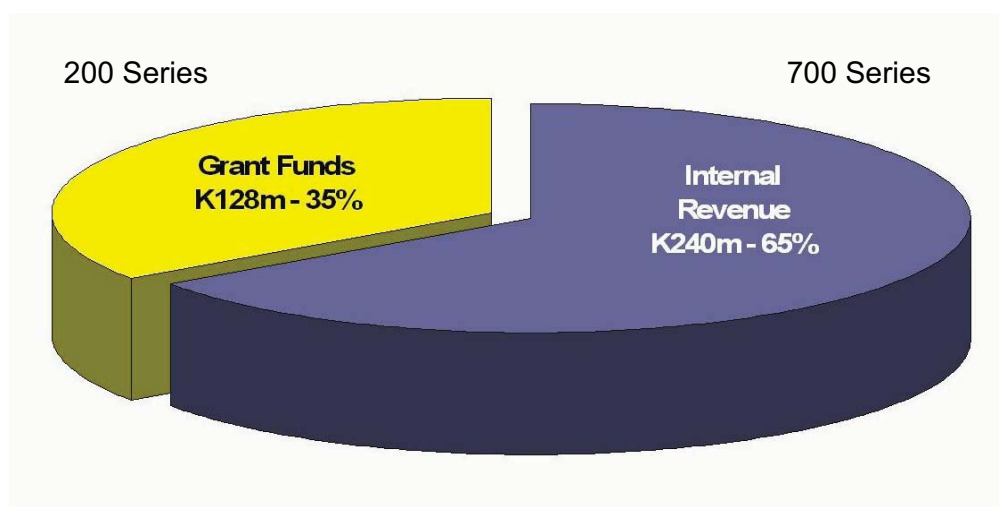
### 4.1 Spending from Internal Revenue versus Grants

We have already discussed that provinces receive funding from a number of sources. Typically these are grouped under two categories (or buckets) and expenditure that is made is recorded as coming out from one of the two buckets. So what are the two buckets? The first is National Government grants and the second is internal revenue<sup>17</sup>. In the analysis that underpins this review we look at spending from both buckets and seek to paint a comprehensive picture.

The following chart illustrates how much expenditure<sup>18</sup> occurred in 2005, and from which bucket it came. We can see that Grants formed approximately one-third of all spending and the other two-thirds was from internal revenue. Clearly we need to understand how Provinces used their internal revenue funds if we are to have a more complete understanding of how close Provinces are to appropriately funding priority service delivery sectors.

**Graphic 8: 2005 Provincial Expenditure (18 Provinces)**

(This reflects all expenditure from PGAS – both recurrent & development – note 17)



What is the key message from this chart?

- Expenditure from internal revenue is twice as big as from grants
- Given the limited resources across the country internal revenue needs to have a significant impact on funding priority services in the Provinces
- When interpreting this chart it is important to note that internal revenue is not shared evenly across provinces. A few provinces receive the lion's share of internal revenue

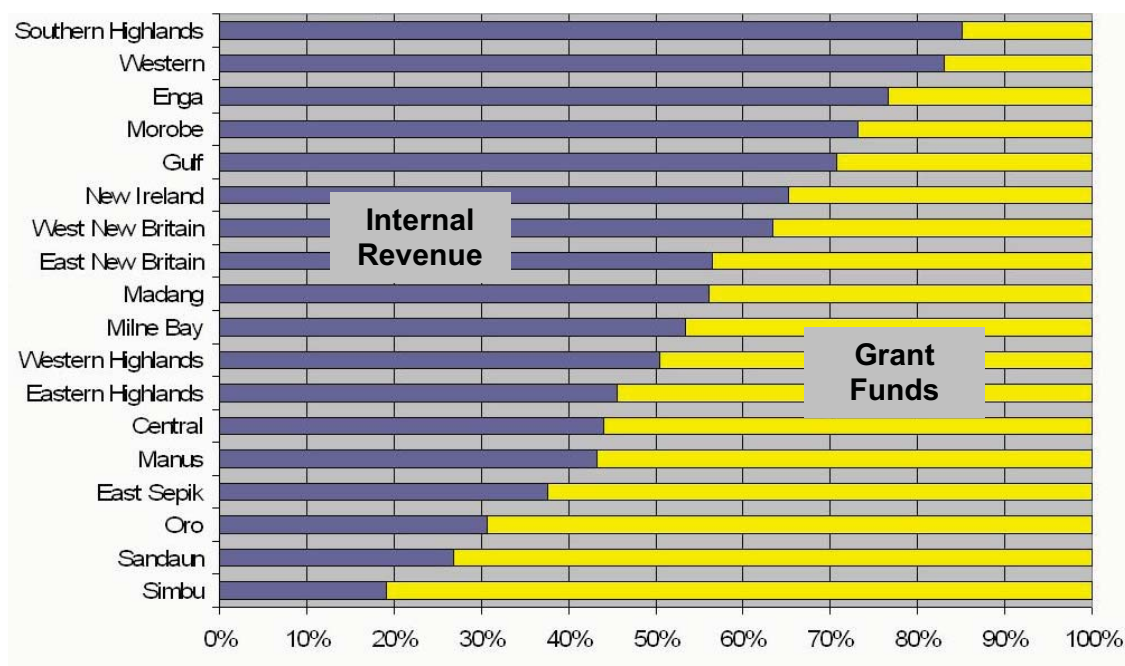
<sup>17</sup> For a list of what internal revenue comprises refer to the table in section 1.3.4.

<sup>18</sup> This reflects all spending from PGAS records – both recurrent & development. It includes amounts subsequently transferred to LLG's but does not include salary grants.

## 4.2 How important are Grants?

Whilst spending from grant funds is only a third of internal revenue, the following chart illustrates just how important that third is for most provinces given that the internal revenue is not shared evenly across provinces. The yellow bars illustrate that for most Provinces grant funds form a key component of their spending.

**Graphic 9: Internal Revenue v Grant - spending proportions<sup>19</sup>**



What are the key points?

- Grant funds are still critical to most Provinces
- Provinces do rely heavily on National Government Grants – some more than others.
- Internal revenue is not spread evenly across Provinces – only a few Provinces have high levels of internal revenue

<sup>19</sup> This reflects all spending from PGAS records – goods & services, personnel emoluments and capital & projects. It excludes transfers to LLG's.

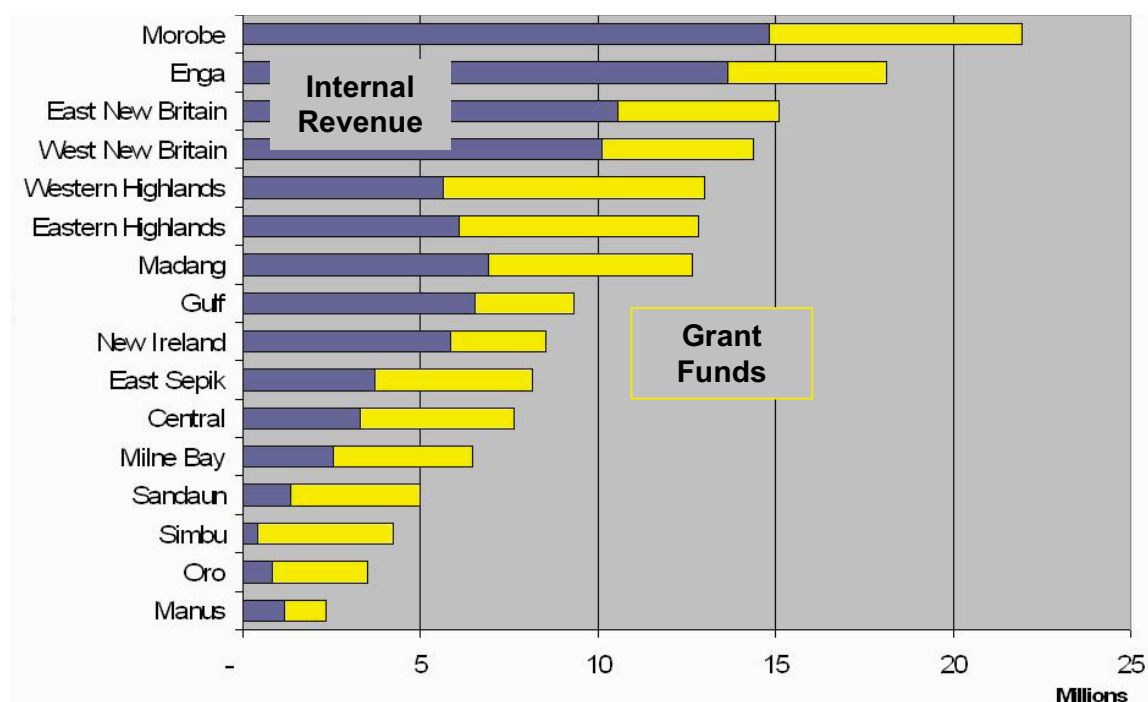
### 4.3 Our focus – Recurrent Goods & Services

Recurrent goods and services are a critical component in supporting the delivery of services throughout the provinces. For various reasons the focus on recurrent goods and services has dimmed over time with a preoccupation on development expenditure. The result has been a diminishing pool of funds being allocated to the activities that actually result in core services being delivered.

From a time series analysis of national budget allocations it is possible to see that recurrent goods and services funding to most services declined over the decade from 1993 to 2003, and in some cases has not increased much since then. Provincial and local level government recurrent non-salary grants have also declined – from K244 million in 1998 down to around K120 million in 2007 (these figures exclude Bougainville). The decline in real terms is significantly more – provincial and local level governments would need around K506 million in grants today to compare to the K244 million received in 1998.<sup>20</sup>

The focus of this review is to establish how much spending Provinces are allocating on goods and services in priority service delivery sectors. The following chart illustrates the Kina amounts spent on recurrent goods and services from grants and from internal revenue. Later in the analysis we will see what portion of the recurrent spending was on priority service delivery sectors and what portion was on non-service areas such as administration.

**Graphic 10: Levels of Recurrent Goods & Services Spending<sup>21</sup>**



What are the key points?

- Note the range in levels of spending, from K2.3 million (Manus) up to K22 million (Morobe)

<sup>20</sup> The amount of K506 million is derived using CPI data provided by the Department of Treasury (source NSO).

<sup>21</sup> Data does not include personnel emoluments. Data on the Southern Highlands and Western Provinces are not included in this comparison.



- The higher spending Provinces have higher levels of internal revenue
- Note that in most Provinces significant levels of both grant and internal revenue are spent on recurrent goods & services

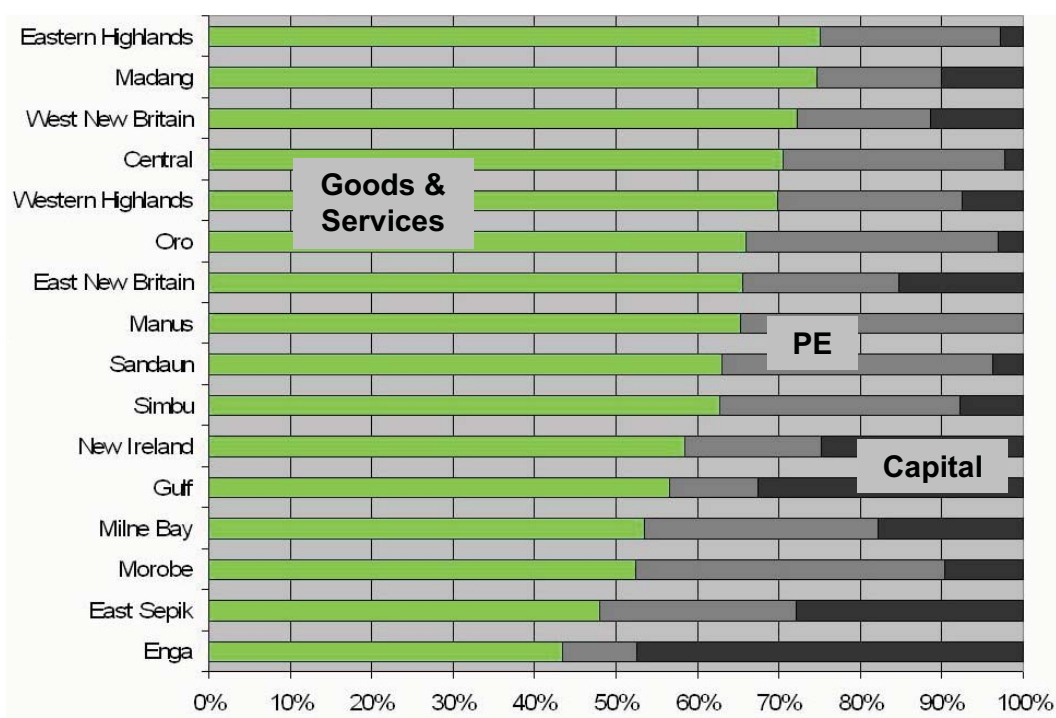
#### 4.4 Spending on Personnel Emoluments and Capital

The following graph illustrates the split in spending between what we see as critical to service delivery – being recurrent goods & services, and other spending such as personnel emoluments, capital items and project activities. The more funds allocated proportionately to personnel emoluments, capital and projects – the less that is available for recurrent goods and services and supporting service delivery.

**Personnel emoluments** – includes salaries, wages, allowances, retirement benefits and gratuities.

**Capital** – spending to acquire or upgrade physical assets such as buildings, roads, and equipment.

**Graphic 11: Expenditure on Recurrent Goods & Services v PE & Capital<sup>22</sup>**



You will remember that the measure of a province's fiscal capacity assumes that all available revenues are spent on recurrent goods & services. This graph shows that this is clearly not the case. Provinces spend significant sums on personnel emoluments, capital and projects and therefore their fiscal capacity is lower than we have estimated.

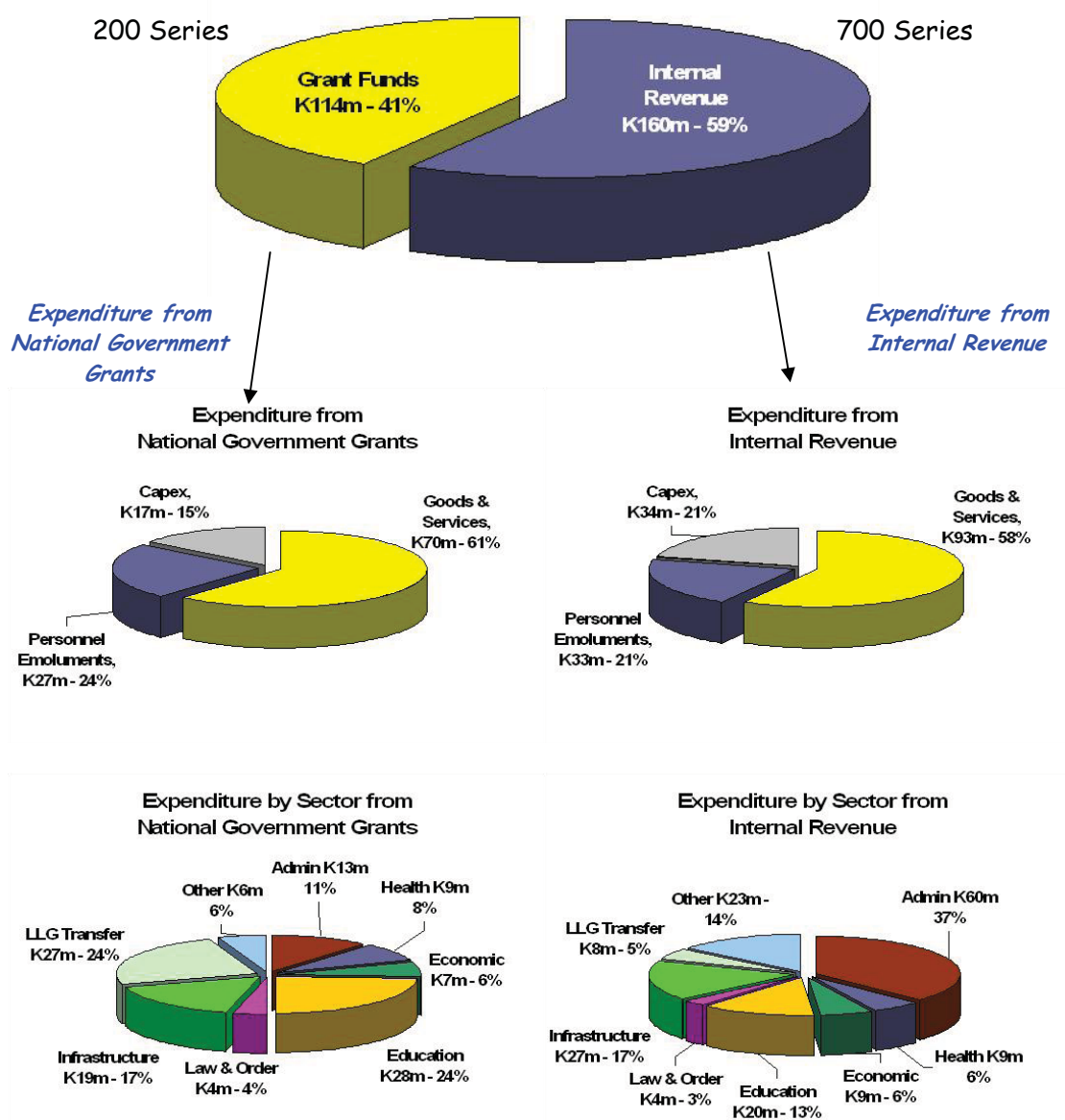
<sup>22</sup> This graph is comparing the proportion spent on recurrent goods & services (the focus of the review) to the proportion spent on personnel emoluments, capital & projects.

## 5 Where was the Money Spent?

### 5.1 Overview of where the money went

The series of charts below illustrate where money spent by Provincial Administrations was spent. The first pie chart illustrates the split between the sources of the funds, what was spent from grant funds and that spent from internal revenue. The second row of charts then illustrates the allocation between goods & services, personnel emoluments and capital items. The third and final row of charts illustrates the allocation across sectors.

**Graphic 12: How Provinces use their Grants & Internal Revenue<sup>23</sup>**



<sup>23</sup> Data reflects NEFC reclassification to achieve consistency. Data on the Southern Highlands and Western Provinces are not included in these graphs (unlike the graphic in section 4.1 which included data for these provinces).

## 5.2 Impact of Expenditure from Internal Revenue

One of the key motivators for conducting this review was to answer the question *is provincial internal revenue spent on service delivery?* And more specifically on recurrent goods & services in the priority service delivery areas. We wanted to go beyond common speculation and address this question in a more substantive manner.

Let's remind ourselves that in 2005 spending from internal revenue was twice as much as spending from grant funds.<sup>24</sup> Spending from internal revenue amounted to K240 million – a highly significant sum. If the K240 million is not supporting service delivery then it represents a huge opportunity lost to the country.

Interestingly when we remove the internal revenue spending for Western Province and Southern Highlands Province, the K240 million reduces to K160 million. This supports the assertion that internal revenue is not evenly divided amongst the provinces and highlights the critical need for a change in the way that provinces are funded to ensure a more equitable division of the country's wealth and resources.

The analysis shows that of the 16 Provinces analysed<sup>25</sup> only K30m or 19% of their K160 million internal revenue spending was directed at recurrent goods & services in the priority sectors of health, economic, education and infrastructure.

The following table provides a high-level break-up of where the K160 million was spent.

**Where was Internal Revenue Spent?**

Expenditure Type	All Spending	MTDS Sectors (health, economic, education, infrastructure only)
Recurrent Goods & Services	K93m	<b>K30m</b>
Personnel Emoluments	K33m	K8m
Capital Items & Projects	K34m	K26m
<b>Totals</b>	<b>K160m</b>	<b>K64m</b>

So is supporting service delivery from internal revenue a priority for provinces? When only 19% of internal revenue spending is on recurrent goods & services in priority sectors the conclusion one is drawn to is “no”. The use of internal revenue funds to support service delivery is not currently a priority of provincial governments.

<sup>24</sup> Excluding salary grants.

<sup>25</sup> Western Province and Southern Highlands Province have been excluded, refer to section 1.4.

### 5.3 Expenditure on MTDS priorities

The following table details how much was spent on the MTDS priority sectors from both national grant funds and internal revenue. Spending on recurrent goods and services is highlighted (because recurrent goods and services support the delivery of services). We can see that there is a spending shortfall of K161 million across the 16 provinces included in the comparative review. Some of this shortfall can be met by better allocating our resources whilst the remainder can only be met by redistributing the nation's resources on a more equitable basis.

What is clear is that significant improvements in providing a base level of services throughout PNG requires a significant effort to refocus funding on recurrent goods and services and to address the shortfall of K161 million. We are currently spending less than one third of what is needed to support health, education, agriculture and infrastructure in the provinces.

**Total expenditure on MTDS Sectors by expenditure type  
(grants and internal revenue)<sup>26</sup>**

Expenditure Type	Grant Exp	Internal Revenue Exp	Total Exp	Cost of Services Est.	Shortfall
Recurrent Goods & Services	<b>K38m</b>	<b>K30m</b>	<b>K68m</b>	<b>K229m</b>	<b>K161m</b>
Personnel Emoluments	K14m	K8m	K22m		
Capital items & Projects	K11m	K26m	K37m		
<b>Sub-Total (MTDS)</b>	<b>K63m</b>	<b>K64m</b>	<b>K127m</b>		

The next table completes the expenditure picture by including expenditure on non-MTDS sectors such as administration and smaller service delivery areas such as community development. It is worthy of note that non-MTDS spending exceeded spending on the priority MTDS sectors.

**All Expenditure by MTDS and non-MTDS sectors**

Expenditure Type	Grant Exp	Internal Revenue Exp	Total Exp
MTDS Sectors	K63m	K64m	K127m
non-MTDS Sectors	K51m	K96m	K147m
<b>Total</b>	<b>K114m</b>	<b>K160m</b>	<b>K274m</b>

<sup>26</sup> Excluding expenditure data on Western Province and the Southern Highlands Province.

## 6 Measuring Performance

### 6.1 How we Measured Performance

Having analysed how provincial governments spent their money we are now in a position to compare that expenditure against what we believe they need to spend to provide a basic level of service to their people. Did they spend enough in the right areas? Or was the money spent in non-priority areas? To answer these and other questions we have collated the findings of this review in a series of tables and charts. Each graphic captures and illustrates the data differently and thereby helps to answer different questions. The four graphics are:

- The Provincial Priorities Comparison Table
- The Provincial Scorecard – Supporting MTDS Priorities
- The Twin Gaps of Priority & Funding
- Results by Funding Group

The following table is a quick reference on the four graphics and the questions they help to answer.

#### Answering questions about performance

Table / Chart	Helps to answer
Provincial Priorities Comparison Table	<ul style="list-style-type: none"> <li>▪ Which sector is first priority, second priority, etc?</li> <li>▪ How much each province has spent in each sector as a % of what they need to spend</li> </ul> <p>Results can be viewed; either province by province, or by group, or overall</p>
Provincial Scorecard – Supporting MTDS Priorities	<ul style="list-style-type: none"> <li>▪ How well is each province supporting the MTDS sectors given its fiscal capacity?</li> <li>▪ Provinces are scored and ranked to reflect how their performance compares to other provinces</li> </ul> <p>Results can be viewed; either province by province, or by group, or overall</p> <p>NB: the results have been adjusted to reflect each province's fiscal capacity</p>
The Twin Gaps of Priority & Funding	<ul style="list-style-type: none"> <li>▪ What can we achieve by redirecting spending to priority areas?</li> <li>▪ Do we need more funding?</li> </ul>
Results by Funding Group	<ul style="list-style-type: none"> <li>▪ Which group performs better</li> <li>▪ Whether certain sectors are better supported by certain groups</li> <li>▪ Provides a big picture overview</li> </ul>

## 6.2 Performance Overview

### Results by funding group

- Higher funded provinces have the ability to do better. Generally they fall well short of adequately funding priority service sectors. They can improve by redirecting money from low priority areas such as the administration sector to service delivery sectors particularly health, agriculture & infrastructure.
- Medium funded provinces also need to redirect more spending from low priority areas such as administration to the health & infrastructure sectors.
- The health & infrastructure sectors in low funded provinces require an immediate injection of funding.
- Higher funded provinces spend a much higher proportion of expenditure on staffing and development, which means that even more funding for goods and services are required to support new staff and new capital projects.
- Provinces spend a relatively higher proportion of expenditure in the fourth quarter (refer to section 13.2 for further discussion on this).

### Priorities<sup>27</sup> – the Provincial MTDS Scorecard

After adjusting the results to reflect that some Provinces have more funding and some have less, we found:

1. Administration – is the no.1 priority across all provinces. Spending in this sector needs to be reduced and controlled. Most provinces fund this sector at the expense of providing services to their people.
2. Education – is the no.2 priority across almost all provinces. But there is still much room to improve. Higher education is often favoured over basic education (primary, elementary and community schools).
3. Agriculture – is the no.3 priority for medium & lower funded provinces. But not for higher funded provinces.
4. Infrastructure – is the no.4 priority across all provinces. But infrastructure maintenance is expensive and requires greater levels of funding. If left unchecked hugely expensive rehabilitation costs are certain to eventuate.
5. Health – is the last priority of most provinces. The low levels of spending in health are dire. Health services will not be delivered without a dramatic increase in health spending.

### The twin gaps

- There is a funding gap – that can only be addressed by redesigning the way PNG's resources are shared.
- There is a priority gap – that can only be addressed by provinces choosing to spend the amount required on priority sectors. This may mean reducing spending in one area (such as administration) and redirecting it to another (such as health).
- The current level of spending on recurrent goods and services in priority areas is too low and inadequate. The implications are dire for service delivery if this trend continues.

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<sup>27</sup> The *Provincial Comparison Table* in section 6.3 also displays provincial spending priorities. However these results are not adjusted for fiscal capacity.



### 6.3 Ranking & comparing Provincial priorities

The table on the following page seeks to illustrate how provinces prioritise their spending. Which sector is best funded and which is worst?

The colours illustrate the ranking, from 1 to 5, the darker the colour the higher the spending (and priority) in that province on that sector – dark green is first priority and white is fifth priority (or last)

The percentages represent how close the province came to spending what they need to spend according to the cost of services estimate in that particular sector.<sup>28</sup>

#### 6.3.1 Reading the Ranking of Priorities Provincial Comparison Table

The matrix format of the Provincial Comparison Table enables the reader to review priorities in a number of different ways.

- By Province: Follow along the row to see each Province's priorities and how close they came to the Cost of Services estimates in each sector
- By Sector: Follow down each column to form a picture of how highly Provinces prioritised that sector
- By Percentage: Look at each percentage to see how close a province came to the Cost of Services estimates in a sector
- By Funding Group: Look at each funding group to see their priorities
- By Trend: Look at the table as a whole to see which sectors received priority in spending and which didn't.

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<sup>28</sup> Note that some Provinces are simply unable to spend what is estimated in the cost of services study due to their fiscal capacity – lack of funding.

Graphic 13: Provincial Priorities Comparison Table<sup>29</sup>

Rank by Funding	Province	Priority Sectors					non-Priority
		Health/HIV (200/700)	Agriculture	Education	Infrastructure	Admin	
High Funded Group							
3	Enga	25%	9%	146%	25%	314%	1
4	West New Britain	34%	34%	79%	78%	183%	2
5	Morobe	18%	16%	35%	40%	265%	3
Medium Funded Group							
6	New Ireland	18%	111%	82%	10%	181%	4
7	East New Britain	12%	47%	57%	62%	310%	5
8	Madang	23%	84%	97%	12%	190%	
9	Western Highlands	35%	78%	28%	40%	198%	
10	Gulf	22%	10%	38%	31%	242%	
Low Funded Group							
11	Eastern Highlands	26%	81%	41%	22%	219%	
12	Oro	11%	13%	45%	19%	86%	
13	Central	10%	27%	25%	2%	209%	
14	Simbu	18%	7%	38%	6%	60%	
15	East Sepik	10%	9%	34%	3%	97%	
16	Milne Bay	6%	39%	30%	12%	115%	
17	Sandaun	6%	19%	27%	19%	94%	
18	Manus	26%	13%	28%	10%	79%	

% =

Actual Expenditure

Cost of Services estimate

Order of priorities

$$\% = \frac{\text{Actual Expenditure}}{\text{Cost of Services estimate}}$$

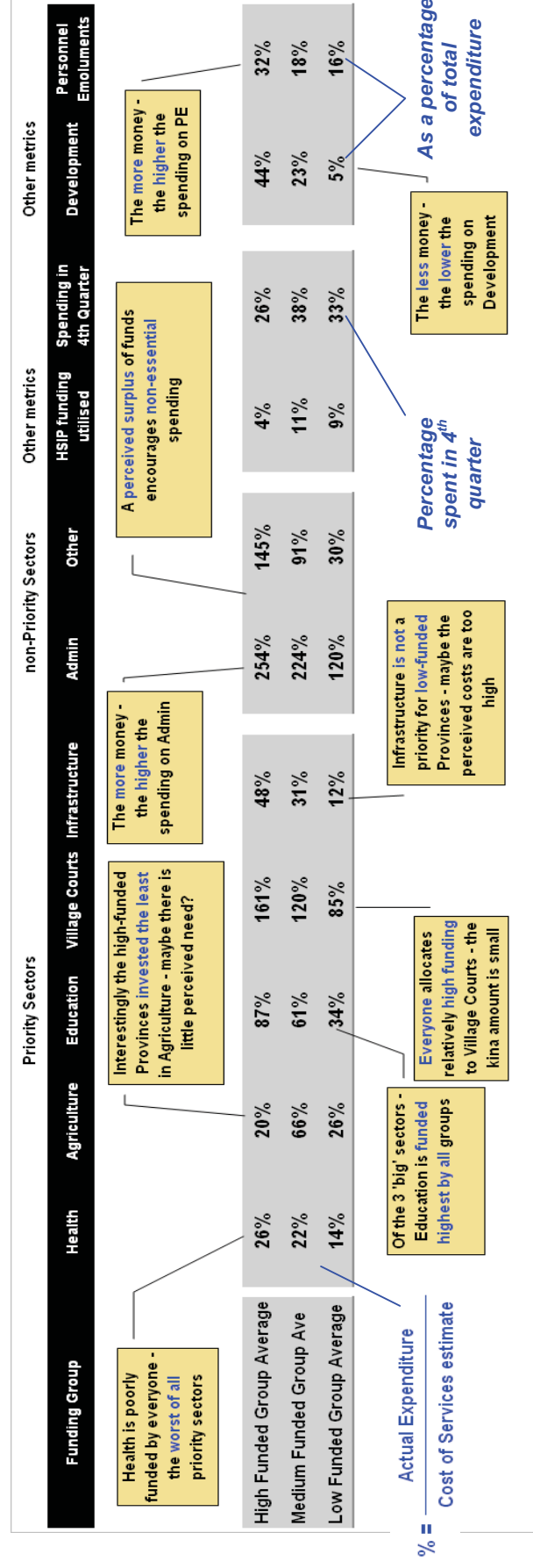
<sup>29</sup> This table illustrates and compares each provinces priorities – it shows that all provinces give Administration their first priority, whilst Health & Infrastructure are normally bottom. Comparative figures for Western Province and Southern Highlands Province have been excluded – refer to section 1.4.

## 6.4 Review Results by Funding Group

This table collates and reports the results of the review, compares the results between provinces by 'funding group'. This is a useful starting point to convey our overall findings. What should you remember when perusing the table and reviewing the comments?

- The higher funded groups should outperform the lower funded groups – if they didn't the question is why not
- Sector percentages compare actual spending against the Cost of Service Study estimate – remember that lower funded provinces simply cannot meet the Cost of Service Study estimate. Even so, it is essential that their findings are accurately reported.
- Compare the high percentages on non-priority areas to the low results in priority sectors

Graphic 14: Results by Funding Groups<sup>30</sup>



<sup>30</sup> The percentages in the first 8 columns (sectors) compare actual spending against the Cost of Service Study estimate for that sector. The percentages in the last 3 columns are compared against total spending.

## 6.5 The Provincial MTDS Scorecard<sup>31</sup>

The table on the following page seeks to illustrate how well Provinces are supporting the Governments key MTDS priority sectors – being Health, Agriculture, Education and Infrastructure. Which sector is best funded and which is worst? To make the comparison fairer we have adjusted the results to reflect that some Provinces have more funding and some have less.

The colours illustrate the ranking, high, medium and low, a ‘high’ score is better meaning the Province is closer to spending an appropriate amount in that sector.

Adjusted: We have adjusted the results to reflect how much each Province can afford given their revenue base and fiscal capacity. So if a Province has only 50% of what is needed then only 50% is expected to be achieved. As an example; if a Province has a fiscal capacity of 50% and spends 50% of what is necessary on Education per the Cost of Services estimates then their percentage would be adjusted to 100% (because they have spent what they could afford) and they would score a ‘high’.

The matrix format of the MTDS Scorecard enables the reader to review priorities in a number of different ways.

- By Province: Follow along the row to see how each Province performed by MTDS sector against the Cost of Services estimate as a benchmark
- By Sector: Follow down each column to form a picture of how Provinces performed across that sector
- By Score: Look at the third column, the Score, to see how each Province performed overall
- By Funding Group: Look at each funding group to see how each group performed – does more money lead to better performance?
- By Trend: Look at the table as a whole to see which MTDS sectors received priority in spending and which didn't.

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<sup>31</sup> We are mindful that some Provinces provided their LLG's with funding well above the level of the national government grants intended for the LLG's. It is possible that some of these amounts were used to implement provincial service delivery responsibilities. If this is the case, our analysis should have counted that LLG expenditure in order to provide a fair comparison with other provinces who met all these service delivery costs entirely from their own expenditure. Unfortunately there is no way to identify the purpose for which that additional funding was used.

Graphic 15: Provincial Scorecard – Supporting MTDS Priorities<sup>32</sup>

Priority MTDS Sectors								
Rank by Fiscal Capacity	Province	SCORE	Rank by Score	Fiscal Capacity %	Health + HIV	Agriculture	Education	Infrastructure
High Funded Group								
3	Enga	46	12	123%	Low	Low	High	Low
4	West New Britain	50	9	122%	Low	Low	Medium	Medium
5	Morobe	25	16	122%	Low	Low	Low	Low
Medium Funded Group								
6	New Ireland	54	7	97%	Low	High	High	Low
7	East New Britain	50	9	84%	Low	Medium	Medium	Medium
8	Madang	63	5	75%	Low	High	High	Low
9	Western Highlands	63	5	68%	Medium	High	Medium	Medium
10	Gulf	42	15	62%	Low	Low	Medium	Medium
Low Funded Group								
11	Eastern Highlands	71	2	45%	Medium	High	High	Medium
12	Oro	54	7	36%	Low	Low	High	Medium
13	Central	46	12	36%	Low	Medium	Medium	Low
14	Simbu	50	9	30%	Medium	Low	High	Low
15	East Sepik	46	12	29%	Low	Low	High	Low
16	Milne Bay	71	2	28%	Low	High	High	Medium
17	Sandaun	67	4	24%	Low	Medium	High	Medium
18	Manus	75	1	23%	High	Medium	High	Medium

The results of  
Provinces with less  
funding than they  
require have been  
adjusted to reflect  
their fiscal capacity

80% +  
High

40-79%  
Medium

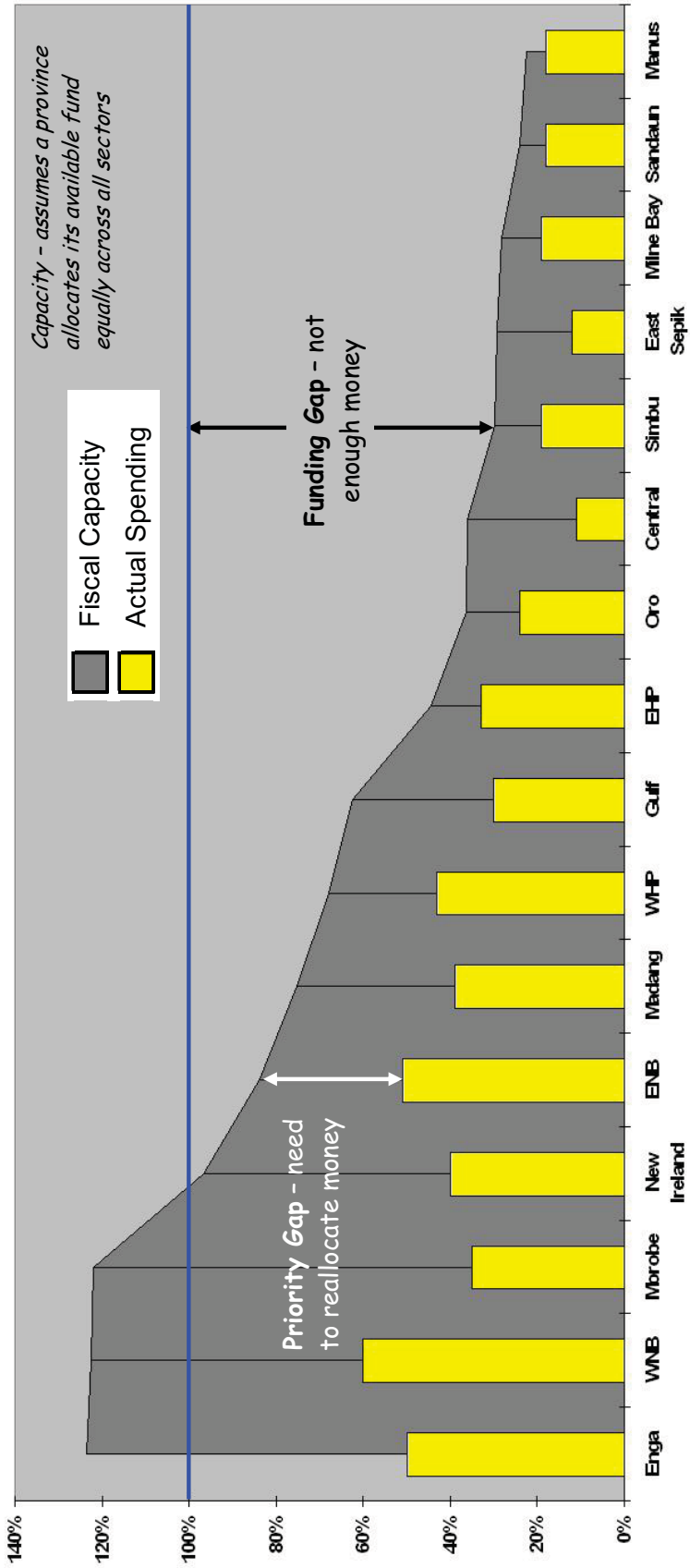
40% -  
Low

<sup>32</sup> This table illustrates and compares provincial performance in supporting the Governments key MTDS priority sectors – the scores are adjusted to reflect fiscal capacity. Comparative figures for Western Province and Southern Highlands Province have been excluded – refer to section 1.4.

6.5.1 The Twin Gaps of Priority & Funding

The following chart collates all provincial spending on the MTDS priorities and compares this against the cost of fully funding the MTDS priorities. This chart demonstrates the twin hurdles we face in improving the delivery of services throughout the provinces. The first is a matter of provincial choice, that is, something provinces individually have the power to change by more effectively allocating money within their province – we call this the priority gap<sup>33</sup>. The second is a matter of funding, many provinces simply do not have sufficient funding – we call this the funding gap.

Graphic 16: Why we aren't supporting MTDS priorities



<sup>33</sup> All provinces allocate some of their spending to staffing and development, this is not taken into account in determining the priority gap.



## **PERFORMANCE BY SECTOR**

Provincial governments have a key responsibility to provide basic services to their people. This review focused on the priority MTDS sectors of education, health, infrastructure, agriculture, and village courts. We also reviewed the administration sector which, as suspected, attracts more than its fair share of provincial funding.

Sections 7 – 12 that follow discuss the detailed findings of the review on a sector by sector basis.

## 7 Education focus

**“Literacy, basic numeracy and problem solving skills are key determinants of a person’s capacity to take advantage of income-earning opportunities....”**

(MTDS 2005 - 2010)

### 7.1 Introduction

#### 7.1.1 What is Education?

The National Government provides funding to schools in PNG through the education subsidy distributed by the National Department of Education. Provincial governments are responsible for the administration of elementary, primary, secondary schools (including provincial high schools), and vocational centres. The costs of this sector which provincial governments are expected to meet include: teacher recruitment and deployment; payroll administration; distributing and supervising marking of exams; pre-service elementary teacher training; secondary school maintenance; storage and distribution of curriculum materials; district supervisory and coordination patrols to elementary and primary schools; annual resumption visits (to ensure teachers are in place before being re-entered onto the payroll); in-service training for teachers; meetings of the Provincial Education Board and running both provincial and district education offices.

The National Education Policy and National Education Act assign responsibility for the maintenance of elementary and primary schools to LLGs. Accordingly, these costs were not included as provincial costs in the costing study. Nevertheless, it is apparent many LLGs do not meet these costs.

Provincial Governments are also expected to contribute to the running costs of elementary, primary, secondary and high schools and vocational centres by providing an additional subsidy payment. For the purpose of the costing study, it was assumed that the amount of the education function grant (K20 million) was sufficient to cover the provincial contribution to school running cost. However, it is likely that this is a substantial under-estimate. The costing study also included a component covering the supply of very basic educational materials (pens, pencils and exercise books) to all students once a year. The total cost of these basic materials for all provinces was around K25 million.

The cost estimates for education do not include; personnel emoluments and development (capital & projects) expenditure. No cost was allowed for funding of tertiary scholarships, as this was not considered to be a provincial responsibility related to basic service delivery.

It should also be noted that the cost estimates for the education sector do not include the cost of replacing curriculum materials every 3-5 years, even though the National Curriculum Materials Policy delegates this cost responsibility to provincial governments. It is apparent from our study that some provincial governments are using almost all their education funding to cover this cost. Maintenance of elementary and primary schools and teacher housing was also not included, on the basis that this cost is assigned by the National Education Plan to Local-level governments. However, it is apparent that few local governments can or are meeting these costs, and that in some cases provincial governments fill the gap.

Total provincial costs in the education sector (not including leave fares) were estimated in the cost of services study at K63.6 million for all provinces except Bougainville. National government funding to provinces to meet these education costs in 2005 came from the Education Function Grant. The value of this grant in 2005 was K19.8 million, so provincial governments were clearly expected to meet most of these costs from other sources of revenue.

### 7.1.2 Caveat over Education Cost Estimates

As noted above, the NEFC cost of services estimates for the education sector have been premised on existing funding levels which are low. The full operational cost of running schools has not been accurately estimated, and the substantial costs of replacing curriculum materials have also not been included.

What does this mean? It means that more accurately estimated costs for providing education throughout PNG are likely to be higher than the NEFC numbers. It follows that the gap between what is being spent on education and what needs to be spent on education is likely to be even bigger than has been revealed by the comparisons in this report.

### 7.1.3 Overview of Spending

The following table details the spending in education across the 16 provinces included in the comparative analysis.

**Spending in Education (16 provinces)**

Expenditure type	Grant Funded		Internal Revenue		Overall
Recurrent Goods & Services	16,344,732	59%	10,747,068	53%	56%
Personnel Emoluments	10,978,812	39%	653,569	3%	24%
Capital & Projects	489,895	2%	8,873,719	44%	20%
<b>Total</b>	<b>27,813,439</b>	<b>100%</b>	<b>20,274,356</b>	<b>100%</b>	<b>100%</b>

### 7.1.4 Impact of expenditure from Internal Revenue

One important question we wanted to answer in this review related to the impact that the spending of internal revenue had on providing core services. We wanted to know did Provinces use 'their' money to support service delivery, and if so to what level? Analysis shows that K10.7m of internal revenue was allocated and spent on *recurrent goods & services* in the Education Sector. This compares to the K16.3m spent by Provinces on recurrent goods and services in the education sector from National Government grants.

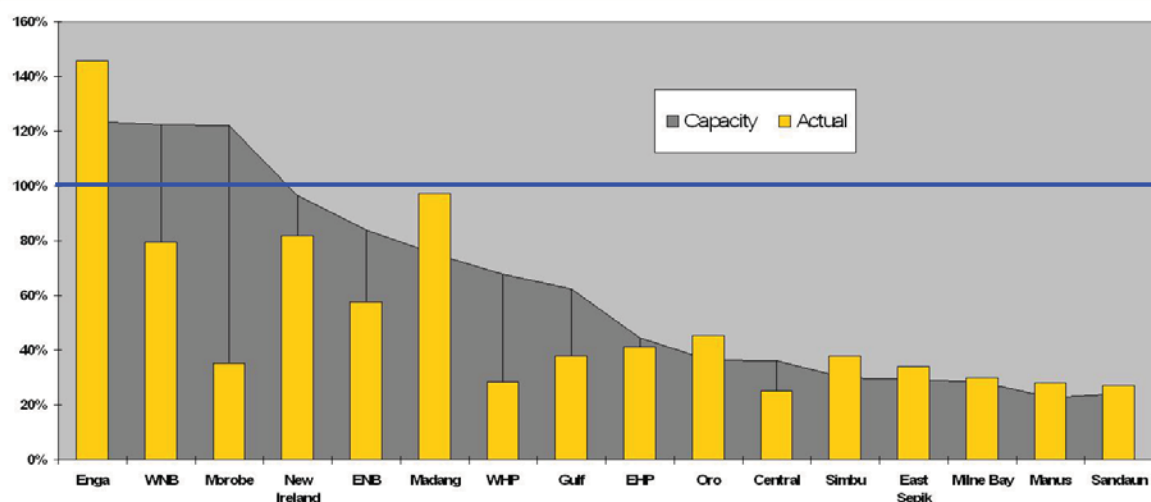
So when compared to the level of spending from grant funding, spending from internal revenue in this sector is significant. Critically this internal revenue spending is mostly found in the medium and higher funded Provinces. It was noted that most low-funded Provinces spent only between 0-2% of their internal revenue spending on education – i.e. not much, reflecting their low resources.

## 7.2 Benchmarking

### 7.2.1 Against the Benchmark<sup>34</sup>

The following chart illustrates the performance of each Province using the Cost of Services estimate as a benchmark. For example, the chart illustrates that East New Britain spent 57% of what is required to support a minimum standard of education within the Province. In East New Britain's case they need to increase their spending in education by 43% to adequately fund the sector to a minimum level.

**Graphic 17: Education Gap: Actual Expenditure v Cost of Services Estimate**



The overall average of all 16 Provinces reviewed was 52%. That means that the Provinces across PNG allocate and spend approximately half of what is required on education. Indeed a closer look at the chart shows the story is somewhat worse, if we remove the top 4 spenders (being Enga, Madang, New Ireland and West New Britain), the remaining 13 Provinces average just 36% of costs. That means most Provinces allocate not much more than a third of the NEFC costs estimate for the education sector within their Province. When we consider that these are a substantial under-estimate the picture of how well education service delivery is being supported in provinces may even be worse.

### 7.2.2 Implications of the benchmarking comparison in Education

So what are the key lessons that we can learn from the benchmarking comparison?

- When the Education sector in 13 Provinces receive on average only 36% of what they need it is inevitable that schools will struggle to provide a basic standard of education to their children.
- In most Provinces throughout PNG education services are inadequately funded.
- National Government needs to consider the level of funding allocated to lower-funded Provinces who simply cannot stretch their limited funds across all priority sectors.
- Most provinces do not spend a higher amount than their fiscal capacity.

<sup>34</sup> Refer to page 89 for a step by step explanation of the methodology

- However, it must be noted that whilst the spending on the education sector is well below what is required, education as a sector is clearly the best funded across all Provinces after administration.
- Some high cost expenses such as curriculum materials and secondary school maintenance have been assigned to lower levels of government without regard to their capacity to pay these costs (if a province also has to meet these costs because of low fiscal capacity at lower levels of government, this province's expenditure would be meeting an even lower percentage of its actual costs).

### **7.2.3 Performance by Funding Groups**

We know that not all Provinces receive the same level of funding and that the cost to provide the same level of service varies from district to district. Therefore we need to consider performance with an eye on how much each group can afford. How do our three broad groups compare in education spending? The following table shows relatively predictable results in that the higher the level of funds available to the group the higher the amount allocated and spent on education.

<b>Groups (by fiscal capacity)</b>		<b>Education Result</b>	<b>Number of Provinces in Group</b>
High	(above 100%)	87%	3 Provinces <sup>35</sup>
Medium	(50-100%)	61%	5 Provinces
Low	(below 50%)	34%	8 Provinces
Overall Average		52%	

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<sup>35</sup> Excluding the results from Western Province and the Southern Highlands Province.

## 7.3 Issues in Education

### 7.3.1 Scholarships

The analysis revealed at least three instances of significant spending on university scholarships. Morobe allocated approximately K2 million, Enga K1 million and Western K0.6 million.

In Morobe's case they allocated only K2.2 million in recurrent goods and services for the education sector (including both primary and secondary schools) which equates to meeting 35% of what the sector needs to provide a basic level of service. Yet they allocated a similar amount, K2 million, for university scholarships which are not identified as a government priority.

### 7.3.2 Priority spending on Secondary Education over Basic Education

The National Government priority in education is basic education (being primary, community and elementary schools). However that message has yet to be reflected in the spending patterns of some of the better funded Provinces. The analysis indicates that medium and higher funded Provinces spent a higher proportion of their spending on non-basic education (high, secondary and vocational schools....and sometimes universities) rather than basic education.

This comparison is all the more striking when one considers the total numbers of enrolled students in PNG in 2005 at each level of the education system:<sup>36</sup> Over 90% of students in PNG are in elementary or primary schools.

Educational Level	Number of Students	
Elementary and Primary Schools	973,000	91%
Secondary and High Schools	80,700	7%
Vocational Centres	18,030	2%
Open and Distance Learning Centres <sup>37</sup>	4,220	0.3%
Total	1,075,950	100%

The lower funded Provinces generally showed a greater awareness of the need to give priority to basic education despite their limited resources.

<sup>36</sup> Source: preliminary 2005 enrolment data, National Department of Education.

<sup>37</sup> New student enrolments.



### A closer look at Education in a higher-funded Province

**Enga Province** (population 295,031 per 2000 census)

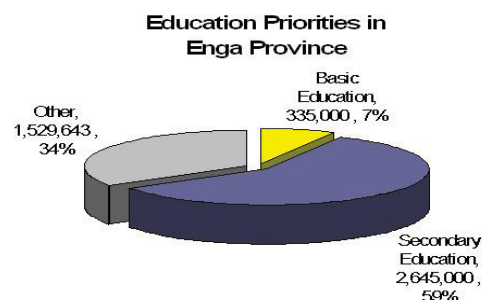
Total education expenditure: K10 million

Provincial Priority: Secondary education

Enrolled students: 41,989 elementary and primary; 4,801 secondary

Enga Province made a significant allocation of internal revenue to the education sector (K3.6 million). This amount together with the K0.8 million function grant indicated a high investment of recurrent spending in the education sector (146% of the CoS estimate).

What was noted however, as the chart to the left clearly shows, is that only 7% was specifically allocated to basic education – whilst 59% was on secondary education and after examining transactions of the 34% classified as ‘other’ we determined much of this was not related to basic education.



It was therefore unclear as to how the basic education level schools were funded in 2005.

The Province allocated some K1 million as university scholarships and a further K4.7 million on capital expenditure of which at least 72% was targeted at secondary education (these amounts are not included in the pie chart).

### A closer look at Education in a lower-funded Province

**East Sepik Province** (population 343,181 per 2000 census)

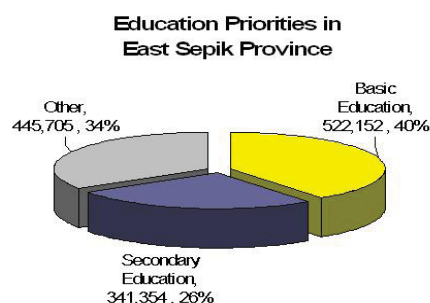
Total education expenditure: K2 million

Provincial Priority: Basic education

Enrolled students: 62,634 elementary and primary; 4,490 secondary

The Province relied wholly on the function grant monies (K1.3 million) to support the education sector with spending on *recurrent goods and services*. No funds from internal revenue were allocated in to education.

The chart shows that 40% was specifically allocated to basic education compared to 26% on secondary education. Of the 34% ‘other’ much went on administration costs, wages and leave fares.



It was noted that 62% of expenditure occurred in the 4<sup>th</sup> quarter. Almost all funding for basic education schools was released in Quarter 4 – why so late?

No capital expenditure on education was identified.

### 7.3.3 Strategy for Spending in Education

Not all Provinces adopt the same approach in managing their expenditure and delivering services to their people in education. The Function Grant Review established that there are three broad approaches adopted by Provinces in spending their education function grants as follows:

- Distribute the funds directly to individual schools (12 Provinces)
- Expend the funds centrally on various items (4 Provinces)
- Expend the majority of the funds on a major supply contract (2 Provinces)

Through our analysis and meetings with six Provinces and their Education staff the following issues were identified:

Spending approach	Issue	Remedy
Distributing funds to schools	Significant delays in paying the money to the schools – average 14 weeks	Reduce the time it takes to transfer funds to schools – target 8 weeks
Expending all funds centrally from PHQ	Is this an effective way of supporting schools?	Ensure that schools get the materials they require
Major supply contract	Delays in tender process	Start the process early – even the year before
	Lack of contract management to ensure adequate performance	Ensure that the delivery of goods & services under the contract occurs

### 7.3.4 The Adverse Impact of Delayed Spending

Funding needs to be released to the schools in a timely manner by the Provincial Administrations. Analysis shows that it takes 3.5 months to raise a cheque to get the funds from the Provincial Administration to the schools. That's a long time. The 2005 Function Grant Review established that the source of the problem was not Waigani.

This delay in spending is particularly important for schools. Given that most Provinces simply advance the funds to the schools and it is the schools who then buy the goods and services there would seem to be no reason for such a delay. Often Elementary, Community and Primary schools received the majority of their funds in the 4<sup>th</sup> quarter. This gave them little opportunity to put the funds to good use.

### 7.3.5 The Adverse Impact of Unfunded Leave Fares

Teachers leave fares are intended to be funded by provinces using a grant from the National Government. As a consequence, in theory at least, there should be no need for leave fares to be paid from either internal revenue or function grant monies. Notwithstanding this, the analysis revealed instances of leave fares being funded from votes not intended for such purposes. Given the large amounts of funding involved, this expenditure on teacher leave fares has a major impact on the fiscal capacity of provinces to meet goods and services costs relating to the administration of the education system and provision of subsidy funding to schools.

The table in the appendix on page 101 sets out the amount of the leave fare grant paid to each province in 2005 and the actual expenditure for 2005 together with two other figures which represent different ways of estimating the actual cost of teacher leave fares. The first estimate of actual cost is based on the Teaching Services Commission formula for calculating leave fares and the second figure for estimated cost is the submissions made by individual provinces to the TSC (not all provided submissions).

The first observation to be made is that there are substantial variations between the different estimates of leave fares, and the amount of the grant paid. The teacher leave fare grants for 2007 were, with one exception, increased from the 2005 grants by 18%. In other words, there has been no attempt to determine a more accurate basis for calculating the grants for 2007. This suggests that accurate estimation of leave fare costs, and incorporation of reasonable funding levels into the national grants to provinces, is still a major problem:

- The grant amount appears to be particularly low in Simbu, which has a population of 259,703<sup>38</sup> spread over six districts. The teacher leave fare grant of K287,800 was less than that of Manus (K386,700) which has a population of 43,387 in one district. Simbu received the lowest leave fare grant of any province, despite being one of the larger provinces.
- Central province, with a population of 183,983 in four districts, received a grant of just over K1 million. This was reduced to K900,000 in 2007. This appears to be unusually high. Other provinces with comparable populations received grants around 30% less.
- Gulf, with a population of 106,898 in two districts, received a grant of K666,000. It only spent K300,000 of this grant in 2005, yet it still received the same amount, K600,000, for its 2007 grant.
- Morobe, with a population of 539,404 spread over eight districts, received a grant in 2005 of K732,400, only slightly more than was paid to Gulf (with a population only 20% that of Morobe). East New Britain (population 220,133 in four districts) and West New Britain (population 184,508 in two districts) also received the same grant – K732,400.

The second observation that can be made is that most provinces spend exactly what they were given in the grant. Given the first observation – that the amount of the grant may not be related to the number of teachers or any reasonable estimation of their leave fare needs – this suggests that there are many teachers in PNG who are not receiving leave fares that they are entitled to.

One province did pay leave fares substantially over the amount of its grant. Morobe, with a population of 539,404 spread over eight districts, received a grant of K743,700, but spent K1.8 million on leave fares in 2005. To fund this additional K1.1 million in expenditure, K700,000 of the Education function grant and K500,000 of internal revenue were used to pay teacher leave fares. Using the conservative TSC formula for estimating leave fares, Morobe's teacher leave fare costs should have been around K1.2 million. This suggests the grant was probably too low and expenditure may have been too high. It is likely that the province is having difficulty with calculating its estimates and its payments accurately.

Teacher leave fares are equal to over 10% of the total goods and services grant funding paid by the National Government. If leave fares are poorly estimated, already impoverished provinces are left holding the baby – either underpaying entitlements to their teachers, or starving programs of goods and services funding so that they can meet the full cost of leave fares.

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38 2000 census, not adjusted.

## 8 Health & HIV focus

**“Investment in primary health care is a fundamental requirement for both social and economic development.....with priority accorded to services in rural areas”**

(MTDS 2005 - 2010)

### 8.1 Introduction

#### 8.1.1 What is Health?

Provincial governments are expected to administer rural health services, which comprise all those health facilities outside provincial hospitals. These facilities include health centres (which may be described as district or rural hospitals), rural aid posts and urban day clinics. As noted below, slightly more than half the health centres across PNG are operated and staffed by church health agencies. These agencies receive a direct grant from the national government to cover the costs of their operations.

The majority of publicly-funded staff at the provincial level are health workers, and most work in health facilities situated in relatively remote areas. The cost of services study found that there are around 450 health administration staff in provincial and district administrations, and a further 8,900 health workers in health facilities (not including provincial hospitals). A substantial proportion of these staff (perhaps 35-40%) are not public servants. They are engaged directly by the church health agencies.

Provincial costs incurred in running the provincial health system include: funding the operational costs of government health facilities; rural health centre transportation; maintenance of health centre equipment including radios, refrigerators and medical equipment; transport costs of out-reach patrols; distribution of medical supplies to health facilities; delivering health programs such as maternal and child health, environmental health, health awareness and disease control; training village birth attendants; supervision of district and facility staff; in-service training; collection and reporting of health information; running provincial health boards and district health management committees, and administration costs of the provincial health office and district health offices. Funding for rural water supplies is also included as a health cost.

Patient transfers (emergency referrals from rural facilities to provincial hospitals) are also a significant cost. On the basis of the emergency referral numbers provided by the Department of Health, the initial estimates for this were well over K120 million. Since this was clearly unrealistic (it would have accounted for more than the total amount of government funding to both provincial and local-level governments), it was decided to cap the estimate of this cost at just under K20 million for the whole country. This is clearly well short of the potential need.

The National Health Administration Act assigns responsibility for maintenance of aid posts, and assisting with their operational costs, to Local-level Governments. Accordingly, these costs were not included as a provincial cost responsibility in the costing study. Nevertheless, it is apparent that many LLGs do not meet these expenses and provincial governments sometimes fill the gap.

The costing study estimates did not include; personnel emoluments and development (capital & projects) expenditure, other than for very small-scale village water supply projects. Correspondingly, expenditure on capital items was excluded from the comparison.

Casual wages are a significant cost in some Provinces.<sup>39</sup> Any casual wages coded to item 112<sup>40</sup> were removed from the comparative analysis, whilst any coded to non-salary codes such as item 135<sup>41</sup> are included.<sup>42</sup>

The total cost of provincial responsibilities in the health sector is estimated at K62 million (excluding Bougainville) with an additional K4.9 million for HIV. As noted below in section 8.3.3, a small proportion of these costs are attributable to the operation of church health facilities. These costs would be covered by the national government grants paid to church health agencies through NDoH. Provincial governments would be expected to meet the remaining costs of some K56 million plus the K4.9 million in costs for HIV related health activities.

The total national government funding directed to cover these provincial costs is the Health function Grant. In 2005 the total value of this grant to all provinces was K11.8 million (for 16 Provinces). The expectation is that Provinces will meet the additional funding required in the health sector from their internal revenue. Meeting this shortfall is a highly significant cost.

### 8.1.2 Overview of Spending

The following table details the spending in health across the 16 provinces included in the comparative analysis.

**Spending in Health (16 provinces)**

Expenditure type	Grant Funded		Internal Revenue		Overall
Recurrent Goods & Services	7,300,796	78%	2,739,115	31%	55%
Personnel Emoluments	1,646,275	18%	4,939,750	56%	36%
Capital & Projects	339,990	4%	1,208,766	13%	9%
<b>Total</b>	<b>9,287,061</b>	<b>100%</b>	<b>8,887,631</b>	<b>100%</b>	<b>100%</b>

### 8.1.3 Health Expenditure in Kina

- The chart below shows the actual kina value of the spending. The following observations can be made;
- Provinces' allocations are small.

<sup>39</sup> In theory at least, casual wages should rarely exist. All staff remuneration should be paid centrally from Waigani under the government payroll.

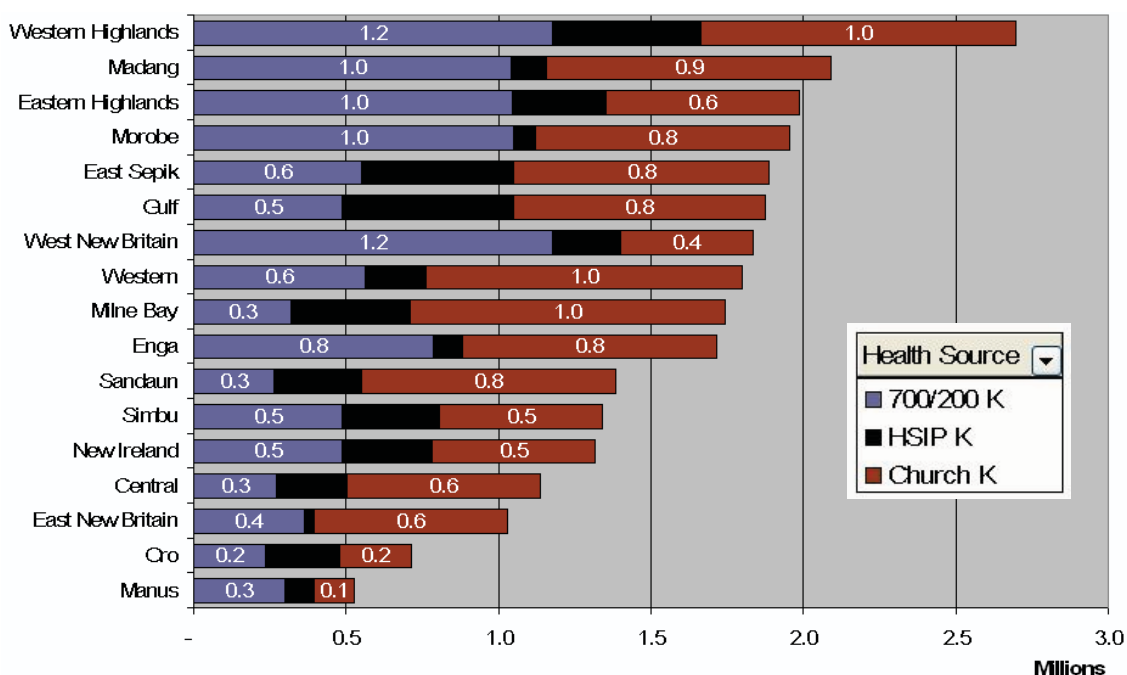
<sup>40</sup> Item 112 is the PGAS account code allocated to 'casual wages'.

<sup>41</sup> Item 135 is the PGAS account code allocated to 'other operational expenses'.

<sup>42</sup> A systematic review of casual wages paid through non-salary codes has not been conducted.

- Church grants are often larger than the Provinces' spending on health from the function grant and internal revenue allocation combined. Yet these grants are covering only a small proportion of total costs of health service delivery in provinces.
- Provinces access differing amounts of HSIP funds.

Graphic 18: Health Expenditure in Kina



#### 8.1.4 Impact of expenditure from Internal Revenue

One important question we wanted to answer in this review related to the impact that the spending of internal revenue had on providing core services. We wanted to know did provinces use 'their' money to support service delivery, and if so to what level? Analysis shows that K2.7 million of internal revenue was allocated and spent on recurrent goods & services in the health sector. This compares to the K7.3 million spent by provinces on the health sector from their health function grant on recurrent goods & services.

- 8 provinces allocated none (or less than half a percentage point) of their internal revenue funds to health recurrent goods & services.
- The remaining provinces allocated between 1% and 5% of their internal revenue spending to health. West New Britain allocated the most – 5%.
- As is discussed further below, provinces allocated K4.9 million of internal revenue to personnel emoluments (casual wages) compared to the K2.7 million for goods & services.

## 8.2 Benchmarking

### 8.2.1 Against the Benchmark<sup>43</sup>

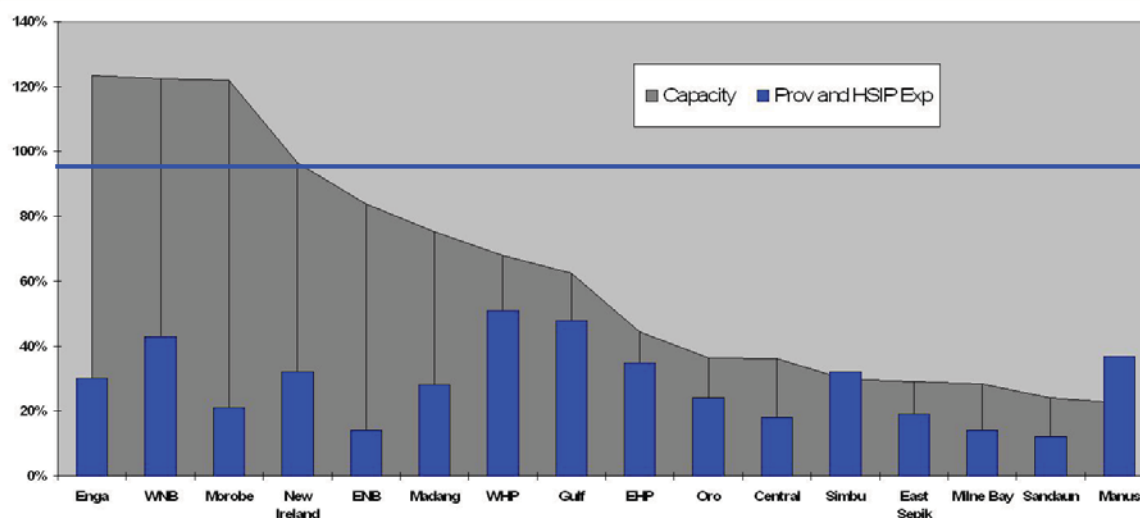
Two points before we begin:

- Provincial spending on health includes HSIP donor funds that are available for spending on some but not all recurrent activities. This expenditure is included in the following graphic.
- Provincial spending on health also includes services provided by churches (but funded by national government grant). Church-run health facilities are dealt with separately as a sub-set of health expenditure under Section 8.3.3. Accordingly any such expenditure is not included in the following graphic.

The following chart illustrates the performance of each province using the Cost of Services estimate as a benchmark. For example, the chart illustrates that West New Britain spent 43% of what is required to support a minimum standard of health services within the province. The 43% comprises 36% from national grant & internal revenue funding and 7% from HSIP funds. In West New Britain's case they need to increase their spending in health by the remaining 57% to adequately fund the sector to a minimum level.

The overall average of all 16 provinces reviewed was 29% of estimated costs (or 20% if HSIP funded expenditure is excluded). That means that the provinces across PNG allocate and spend just over one quarter of what is required on health. Whilst the average is 29% of estimated costs, many provinces fall short of this level.

**Graphic 19: Health Gap Health Expenditure (excl Church) v Cost of Services Estimate (excl Church health costs)**



### Implications of the benchmarking comparison in Health

So what are the key lessons that we can learn from the benchmarking comparison?

<sup>43</sup> Refer to page 89 for a step by step explanation of the methodology



- Provinces contribute the least to Health of the three main sectors (the others being education & infrastructure). On average Provinces directly contribute just 20% of the spending required in Provincial health.
- Provinces with a higher fiscal capacity do not meet a higher percentage of costs.
- Provinces need to review their budget priorities and expenditure control mechanisms to ensure that more funding is directed to this priority sector. This is particularly the case for Provinces that are relatively well funded.
- National Government needs to consider the level of function grant funding allocated to lower-funded Provinces who simply cannot stretch their limited funds across all priority sectors.
- On average HSIP funds contributed 9% of what was required by Provinces in the health sector.
- Is it a concern that Church facilities receive K12 million whilst Provincial Government allocates only K10.6 million to fund more facilities and in addition to fund other Province-wide health activities?
- There is a risk that the presence of HSIP funds and Church Grant funded services masks the need for Provinces themselves to contribute appropriately to this core sector.

### 8.2.2 Performance by Funding Groups

We know that not all provinces receive the same level of funding and that the cost to provide the same level of service varies from district to district. Therefore we need to consider performance with an eye on how much each group can afford. How do our three broad groups compare in health spending?

The following table shows the results – they are not entirely what we would predict. One would expect that the higher funded provinces would allocate more to the sector. This is not the case. The medium group achieved the same result as the high group at 24%. Predictably the lower funded provinces results were lower at 15%.

It raises the question why don't relatively well funded provinces place a higher priority on health?

#### Health Expenditure by Funding Groups

Groups (by fiscal capacity)		% of Health Costs met from Internal Revenue & Function Grant	% of Health Costs met from HSIP	Number of Provinces in Group
High	(above 100%)	26%	4%	3 Provinces
Medium	(50-100%)	22%	11%	5 Provinces
Low	(below 50%)	14%	9%	8 Provinces
Overall Average		<b>20%</b>	<b>9%</b>	

## 8.3 Issues in Health

### 8.3.1 Spending on Casual Wages

What needs to be noted is that K6.6 million was spent on casual wages in health from internal revenue and grant funding. This represented 10% of the total spending (K60 million for all provinces) on wages from all sources of provincial revenue.

#### Health Expenditure on Casual Wages (& other PE)

Expenditure Type	Grant Exp	Internal Revenue Exp	Total Exp
Personnel Emoluments	K1.6m	K5m	K6.6m

The issue of spending on casual wages is even more extensive than the K6.6 million would suggest. Analysis of the data reveals that some provinces use other vote items such as item 135 (other operational expenses) to pay casual wages. So spending on casual wages is more than K6.6 million. This means that the amount of funding available for recurrent goods and services is less than K10 million indicated through the provincial expenditure coding.

Over half this expenditure of K6 million is accounted for by one province. Morobe's records indicate spending in 2005 of over K4 million on casual wages coded to the health sector. Morobe and three other provinces together account for a total of K5.7 million of the expenditure on health casual wages: East New Britain spent K740,000; West New Britain K530,000 and Southern Highlands K500,000,

It is possible that this is legitimate expenditure on staff who are necessary, but are not accommodated with public service ceilings. This may be a legacy of the processes of transferring casual health staff (aid post orderlies) into permanent public servants (community health workers) which occurred in the early 1990s. Further investigation is needed to determine whether these additional staff are justified, and if so whether they can be moved onto the public service payroll.

Interestingly the same provinces who spent their grant on wages also complained of having inadequate funding to implement the 10 priority health programs in their area. They also complained of having inadequate funds with which to distribute medical supplies throughout their province.

What therefore can we surmise?

- Firstly, some provinces have unresolved staffing issues. Hard decisions need to be made. The alternatives are limited. Either such 'staff' need to be brought officially on to the payroll or be funded from internally generated revenue.
- Secondly, the thinking behind the health function grant and the intention that it to be for goods and services appears sound. Clearly if funds are not ring-fenced for goods and services the pressure to meet the creeping nature of payroll costs is overwhelming.
- Thirdly, effective monitoring is required. Effective monitoring helps identify where money is being spent and provides guidance on where it can more effectively be used.

Interestingly in East New Britain (where wages consumed 84% of the Health grant) only one health program was implemented in 2005 – “Health Promotion”. Health staff without the supporting goods and services equals little or no service delivery in the rural areas. Fortunately we have been advised that ENB has done better in 2007 in allocating goods and services funding to basic health programs.

### 8.3.2 Accessing HSIP funds

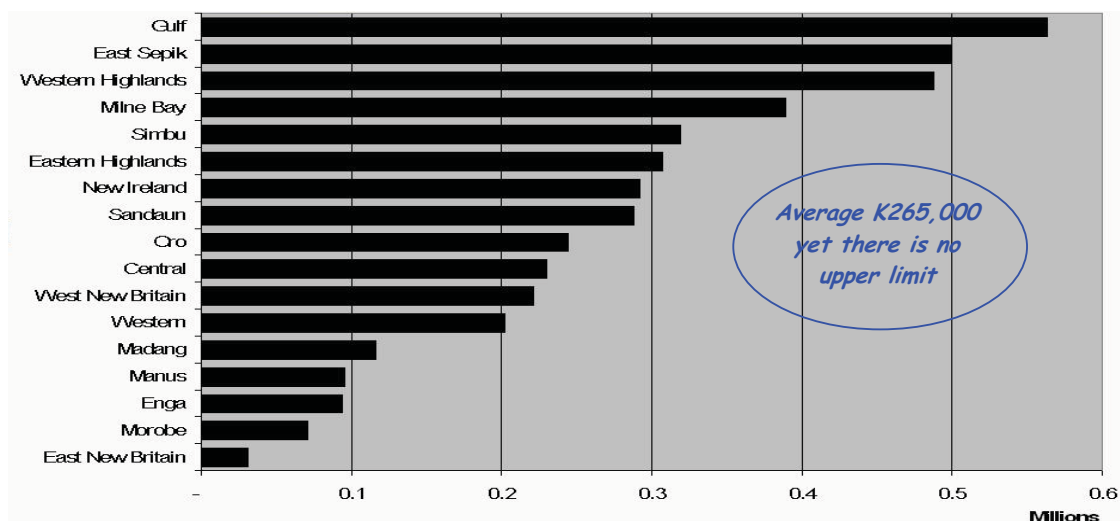
Provinces have access to additional funding for health related matters through the donor funded Health Sector Improvement Program (HSIP). Essentially this is additional ‘free money’ available to provinces for them to access to assist in delivering vital health services to their people. HSIP is available to meet some but not all, recurrent costs of health service delivery.

Whilst it would not be a good outcome for provinces to become dependent on HSIP funding as a source of ongoing budget funding it is nevertheless a source of funding that is presently available to help support specific and targeted health activities.

There are controls around the HSIP funding to ensure that it is used on the appropriate activities and properly acquitted. This would appear reasonable and appropriate. To qualify for funding, there is also a requirement that provinces allocate a minimum amount in their budget to health activities, again this appears reasonable and is designed to ensure that HSIP funding does not displace the provincial government’s own funding.

One would imagine that such an offer would be well used. Surely Provinces would be getting as much of this funding as possible to expand their health service delivery. But that does not appear to be the case. On average, Provinces access enough funding to meet 9% of their estimated costs. The table in section 8.2.2 is surprising, it shows that the high funded group access these funds the least – only enough to meet 4% of their costs.

**Graphic 20: HSIP funds accessed by Provinces (in Kina)**



What are the key points?

- Higher funded provinces use HSIP funds the least – yet their support of the health sector is poor
- HSIP funds are available for spending on a limited range of health activities
- Why are provinces not accessing more HSIP funds?

- Donors are concerned that HSIP funding should not displace the funding provided by government

### **8.3.3 Provincial Government Health Facilities v Church Health Facilities**

Health services in the Provinces are provided in a variety of ways. Facilities such as rural health centres and aid posts are run by either the Provincial Administration or by Churches. The Provincial Administrations fund facilities under their management from national grant and internal revenue monies under their budget. The Churches fund facilities under their management from Church grants provided by the National Government.<sup>44</sup>

It is critical to note however that the Provincial Administrations have a wider portfolio of health funding responsibilities to meet than the Churches. A straight comparison of funding and facilities will not be a realistic 'apples with apples' comparison. In addition to running the facilities under their management the Provincial Administrations are tasked with the responsibility of implementing the Government's 10 health programs within their Province. This encapsulates a range of activities which are broader than merely the running of health facilities under their management. These additional activities include;

- Distributing medical supplies from the regional supply centre to aid posts throughout the Province
- Patient transfers (which can be a substantial cost)
- The maintenance of all health facilities including furniture fittings across PNG (this includes church-run facilities)

There are also other related costs that are not met by the Churches and need to be funded from another source (typically either PHQ, NDoH or LLG's). These include:

- The supply and maintenance of refrigerators, and supply of gas for gas refrigerators
- The maintenance of medical equipment
- The provision of transportation for health centres (patrol vehicles and ambulance)
- The provision of in-service training for staff
- Aid Post maintenance
- Maintenance of health information systems

From our discussions with health officials it appears that the default position is that the Provincial Administration has the primary responsibility but 'if' the Church facility has the ability to perform 'other activities' they do so. We do not know to what extent this happens in practice.

What does seem clear is that Provincial Health (within Provincial Administrations) is funded poorly compared to the Church-run facilities.

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<sup>44</sup> Division 241 of the GoPNG budget, administered by the Department of Health.

The following table details the number of facilities operated by PHQ health & church health in the provinces:

**Summary of Health Facilities Data: Provincial Health v Church Health**

	<b>Provincial Health (PHQ)</b>	<b>Church Health</b>
Health Centres (& Rural Hospitals) <sup>45</sup>	274	302
Aid Posts <sup>46</sup>	1654	273

Based on the estimates developed in the cost of services study, the following table shows the total costs attributable to church health facilities and those which provincial governments are required to meet. This is compared with the funding available from the church health grant, and the funding available from the health function grant.

The table shows a striking difference in the degree to which the two groups of health facilities are funded. Whereas church facility costs are estimated at K7.6 million the funding to meet those costs is K13 million, substantially more than the estimated costs. In contrast, only K13 million in health function grants are provided to meet provincial government health costs of almost K56 million. This is approximately a quarter (25%) of what is required.

**Health Cost Estimate<sup>47</sup>: Provincial Health v Church Health**

	<b>Provincial Health Costs</b>	<b>Church Health Costs</b>	<b>Total Health Costs</b>
Admin allocation (church only) <sup>48</sup>	-	1,265,172	1,265,172
Rural Health Clinics <sup>49</sup>	5,383,670	6,325,858	11,709,529
Aid Posts <sup>50</sup>	-	17,263	17,263
Province-wide Health costs	50,560,077	-	50,560,077
Total Health cost	55,943,748	7,608,294	63,552,041
Funding (from Nat Gov't)	13,000,000	13,000,000	
Surplus (shortfall)	(42,943,748)	5,391,706	

The disparity between costs and funding for church health facilities does not necessarily indicate that they are being over-funded. There is very little data available to show exactly what churches spent the church health grants on.

<sup>45</sup> Health centres include 17 Church-run District/Rural Hospitals. Health centres in Bouganville are not included.

<sup>46</sup> Province-run Aid Posts are the responsibility of Local Level Governments, although the provincial cost estimates include a contribution to their running costs.

<sup>47</sup> A more detailed analysis of the cost estimates is included in the appendices on pages 102 and 103.

<sup>48</sup> Church Health administration allocation assumed to be 20% of costs.

<sup>49</sup> Rural HC costs are a pro-rata based on facility numbers. Refer appendix on page 103.

<sup>50</sup> Aid Posts: Funding for Provincial Government aid posts provided under LLG grants - therefore excluded. Funding for Church-run aid posts included (calculated per CoS est).

Although the churches also received a wage grant of K28.6 million to cover salaries, it is possible that a proportion of their operating grants are also being applied to salaries. (The church wage grant has been increased to K36 million in the 2007 budget, which may indicate a recognition that it was insufficient in the past).<sup>51</sup>

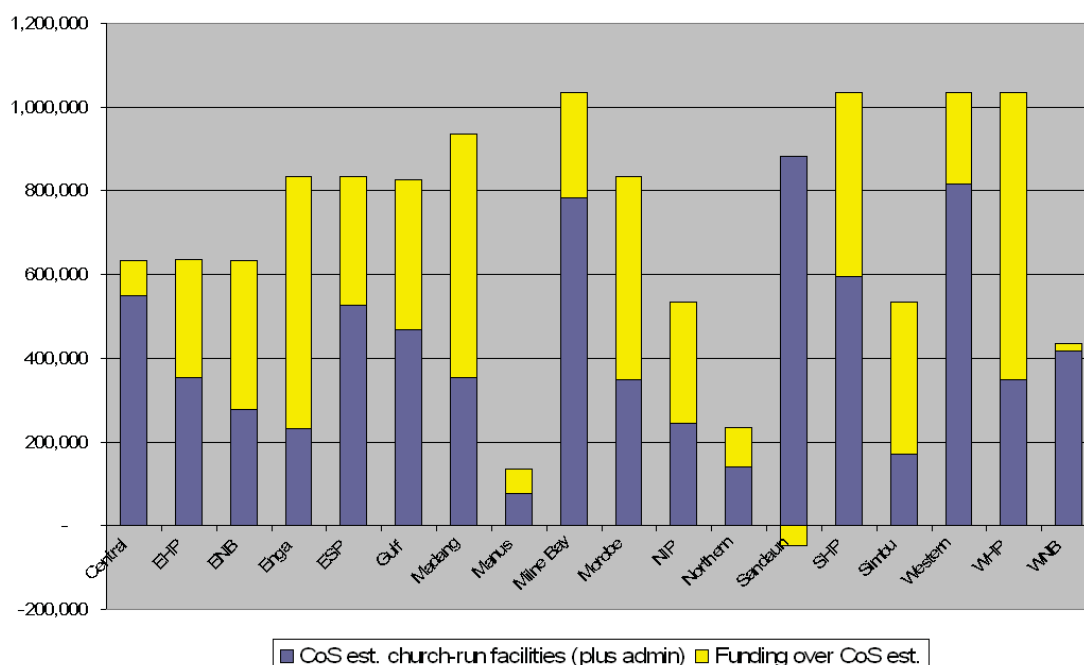
It is also possible that this disparity reflects the fact that the NEFC cost estimates were extremely conservative, and that actual operating costs in the provincial health sector are actually three times what was estimated. If this is true, then the picture for government-run health facilities may be even bleaker.

Church health services are widely regarded as well-performing in PNG. What this data indicates is that it would be unfair to compare the performance of church health facilities with that of government-run facilities while the current funding disparity between the two groups of facilities remains.

The chart that follows compares the estimated cost of operating provincial church health facilities to the actual funding that was provided by National Government. The blue bars represent the cost estimate for each province and the yellow bars represent the amount of funding provided above that estimate. We can see:

- In most provinces the level of funding is higher than the cost estimate.
- Sandaun is the exception, in Sandaun the level of funding is less than the cost estimate.
- The level of funding appears highly irregular and varies widely with Enga, Simbu and Western Highlands receiving more than 3 times the estimated cost required.

**Graphic 21: Goods & Services funding for church-operated health facilities compared to cost estimate (in Kina)**

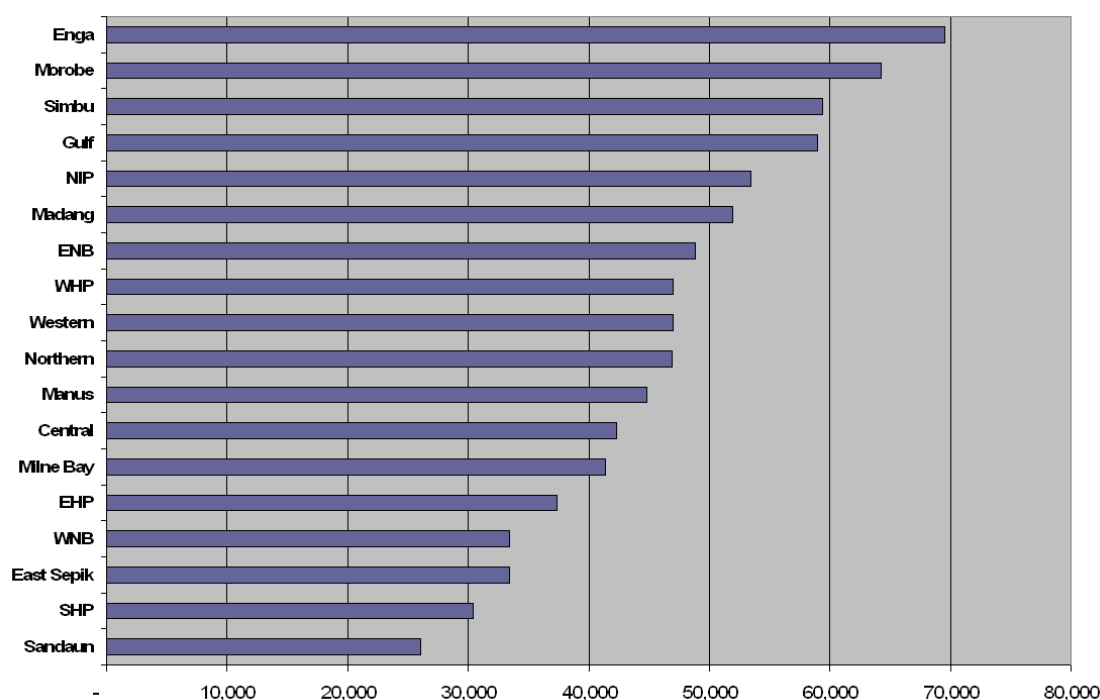


<sup>51</sup> Source: 2007 National Budget papers, actual expenditure for 2005 shown under Division 241.

Another way to illustrate the uneven distribution of funding to provinces for church operated health facilities is to calculate the average amount that is provided for each health facility in a province. In Enga each church operated health facility receives approximately K70,000 whilst in Sandaun each church operated health facility receives K26,000.

The uneven distribution of funding raises a serious question as to the how National Government funds are allocated across provinces. What is the basis for distributing the National Government grant to churches? Why do some provinces receive only K26,000 per facility and others up to K70,000?

**Graphic 22: Goods & Services funding per church-operated health facility**





## 9 Infrastructure Maintenance focus

**“The rehabilitation and maintenance of PNG’s transport system will enable produce to be moved to markets and goods and services to be delivered to village communities....”**

(MTDS 2005 - 2010)

### 9.1 Introduction

#### 9.1.1 What is Infrastructure Maintenance?

For the purposes of this review, infrastructure maintenance is primarily; transport related infrastructure maintenance (on roads, bridges, wharfs...), power infrastructure (for districts without PNG Power services), and works administration costs. All administrative building and facility maintenance costs are allocated to either their sector (e.g. health, education...) or the administration sector.

These costs do not include expenditure on personnel emoluments or development (capital & projects). We have however sought to paint as positive a picture as possible by treating and allocating as much expenditure as reasonably possible as maintenance rather than capital. By allocating it as maintenance we include it in the benchmark comparison against the Cost of Services estimate.

#### 9.1.2 Provincial Responsibility in Infrastructure Maintenance

The NEFC cost of services study estimated that there are around 20,000 km of roads in PNG, of which 11,000 km are the responsibility of provincial and local-level governments. Because the costing study was not able to separately identify provincial, district and local roads, all road maintenance costs were allocated to the provincial level. This is probably appropriate in many cases, because of the limited capacity of local governments to undertake procurement and supervise road maintenance contracts.

Provincial governments are also expected to maintain other forms of infrastructure, including bridges, jetties, wharves (other than Harbours Board) and airstrips (other than CAA-operated airports). The cost responsibilities in the infrastructure sector also include provision of communication facilities (radio or satellite phone) to districts which do not have Telikom land line access, and operation and maintenance of generators in district headquarters which do not have access to the PNG Power electricity grid. Provinces are also responsible for regulation of land transport and administration of provincial building boards.

#### 9.1.3 Routine Maintenance v Rehabilitation

The majority of provincial roads are in poor condition and need major rehabilitation. Because of the lack of data, it was not possible to provide any estimate of this capital cost, which is probably more than K1 billion. The costing study therefore focused on estimating the annual routine maintenance costs of the existing road network, assuming that all roads are in good condition and require only regular routine maintenance to keep them that way.

While this is a very unrealistic assumption in the PNG context, it serves a useful purpose. PNG’s roads are in a bad state because for many years the recurrent maintenance has been neglected.

The Government and donors are now making major investments in rehabilitation. In recent years, this support has extended to provincial roads as well as national ones. However, if provincial governments do not have enough recurrent funding to meet even these basic annual costs of maintenance, then it is almost certain that the cycle of deterioration and rehabilitation will begin all over again.

The costings for annual road and bridge maintenance were developed on a very conservative basis. It is assumed that the cost of routine maintenance of an unpaved road is K10,500 per km, and K7,500 for a paved road. On this basis, the total provincial government cost of maintaining roads, bridges is K116 million for all provinces, and a further K3.6 million is needed for routine maintenance of grass airstrips and jetties.

The total cost of only annual routine maintenance of roads alone would absorb the entire amount of grant funding currently being provided to provincial governments in PNG. Expecting provincial governments to look after more than half of the country's road network is unrealistic in this funding context.

#### **9.1.4 Caveat over Infrastructure Cost Estimate**

The Cost of Services estimate for infrastructure was premised on the need for Provinces to undertake regular *routine maintenance* on assets for which they are responsible (such as roads, bridges, wharves...). In many Provinces some such assets have degraded to a level where routine maintenance is no longer sufficient and more intensive and substantive maintenance work is required to bring them up to an acceptable condition. The Cost of Services study has NOT provided for such 'additional' costs. What does this mean?

- The infrastructure maintenance cost estimates should be read as an absolute minimum. There is likely to be the need for significant additional costs to be incurred in certain cases where major rehabilitation is required.
- It is not possible to estimate such rehabilitation costs with the accuracy this review requires.

In some cases undertaking routine maintenance work on roads that are badly degraded may be in effect throwing good money after bad – if the gravel surface has been washed away, for example, the impact of grading a road is very short. The cost-effective nature of expenditure on routine maintenance is demonstrated when the annual maintenance cost of K10,500 per km is contrasted with the estimated average cost of rehabilitation, of between K1 million and K1.5 million per km.

### 9.1.5 Overview of Spending

The following table details the spending in infrastructure maintenance across the 16 provinces included in the comparative analysis.

**Spending in Infrastructure Maintenance (16 provinces)**

Expenditure type	Grant Funded		Internal Revenue		Overall
Recurrent Goods & Services	10,493,757	56%	13,417,137	49%	52%
Personnel Emoluments	131,713	1%	1,333,730	5%	3%
Capital & Projects	8,245,639	44%	12,589,011	46%	45%
<b>Total</b>	<b>18,871,109</b>	<b>100%</b>	<b>27,339,878</b>	<b>100%</b>	<b>100%</b>

### 9.1.6 Impact of expenditure from Internal Revenue

One important question we wanted to answer in this review related to the impact that the spending of internal revenue had on providing core services. We wanted to know did Provinces use 'their' money to support service delivery, and if so to what level? Analysis shows that K13.4 million of internal revenue was allocated and spent on *recurrent goods and services* in the infrastructure sector. This compares to the K10.5 million spent by Provinces on the infrastructure sector from National Government grants.

- Three Provinces spent between 22-25% of their internal revenue funds on infrastructure maintenance which represented a highly significant commitment of funds (Eastern Highlands, Western Highlands, East New Britain).
- Five Provinces allocated very little (between 0-2%) of their internal revenue funds on infrastructure maintenance.

Whilst spending on capital items from internal revenue funds was significant in total it was largely spent by 6 Provinces (see later section) – and is not representative of Provincial priorities as a whole.

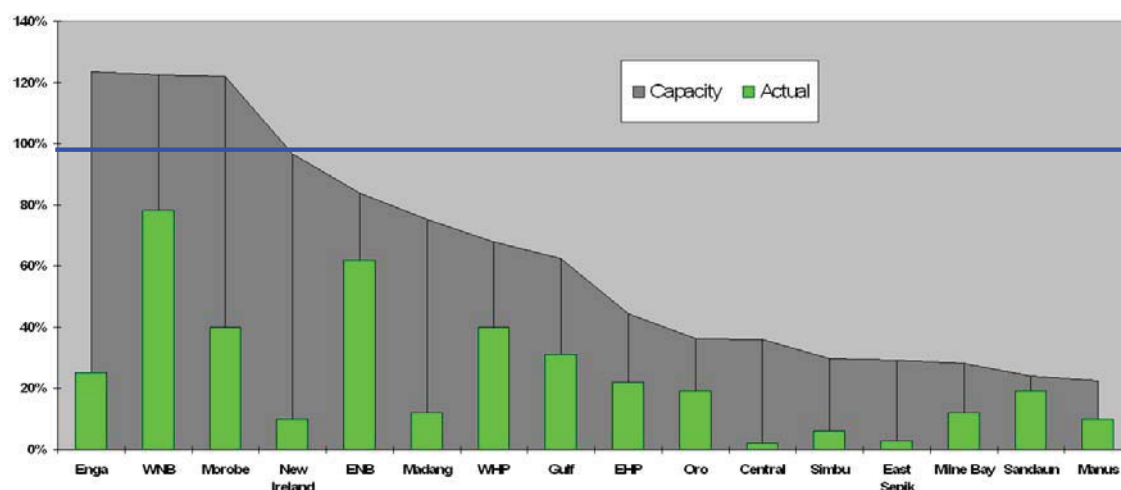
## 9.2 Benchmarking

### 9.2.1 Against the Benchmark<sup>52</sup>

The following chart illustrates the performance of each Province using the Cost of Services estimate as a benchmark. For example, the chart illustrates that Morobe spent 40% of what is required to support a minimum standard of infrastructure maintenance within the Province. In Morobe's case they need to increase their spending in infrastructure maintenance by a further 60% to adequately fund the sector to a minimum level.

The overall average of the 16 Provinces reviewed was 24% of estimated costs. That means that the Provinces across PNG allocate and spend approximately one quarter of what is required on infrastructure maintenance. Whilst the average is 24% many Provinces fall well short of this level. Interestingly both West New Britain and East New Britain showed relatively strong results – reaching 78% and 62% of estimated costs respectively.

**Graphic 23: Infrastructure Gap: Actual Expenditure v Cost of Services Estimate**



### 9.2.2 Implications of the benchmarking comparison in Infrastructure Maintenance

The findings of the review raise serious questions over the sustainability of the current approach to maintaining the country's transport infrastructure. Whilst donors are funding some major rehabilitation efforts this is neither sustainable nor cost effective, if the institutions responsible for ongoing maintenance have a totally insufficient level of funding to meet ongoing recurrent costs. If an appropriate amount cannot be directed to regular recurrent maintenance the condition of the nations roads, wharves and bridges will continue to deteriorate to a level where major costly rehabilitation is required.

So what are other key lessons that we can learn from the benchmarking comparison?

- Infrastructure maintenance is expensive. According to the Cost of Services estimate in Kina terms it is the most expensive sector to fund, even when only basic annual routine recurrent maintenance is counted.
- Provincial spending falls well short of meeting the minimum benchmark set by the Cost of Services estimate. On average Provinces allocate just 24% of the spending required to maintain Provincial assets (in roads, bridges...).

<sup>52</sup> Refer to page 89 for a step by step explanation of the methodology

- The results indicate that only two Provinces prioritise significant levels of expenditure toward infrastructure maintenance.
- Capital spending on infrastructure is significant in Kina terms, but is restricted to 6 of the 16 Provinces included in the review.
- The findings of the 2005 Function Grant Review indicate that a significant amount of funding intended for transport related maintenance is diverted to building maintenance. In one instance the only infrastructure spending undertaken by the province related to the governors' residence – no spending on transport related infrastructure maintenance.
- National Government needs to consider the level of funding allocated to lower-funded Provinces who simply cannot stretch their limited funds across all priority sectors.

### 9.2.3 Performance by Funding Groups

We know that not all Provinces receive the same level of funding and that the cost to provide the same level of service varies from district to district. Therefore we need to consider performance with an eye on how much each group can afford. How do our three broad groups compare in infrastructure maintenance spending?

The following table shows the results – they are low but predictable, in that the higher funded Provinces allocated more to the sector than the lower-funded Provinces.

Groups (by fiscal capacity)		Infrastructure Result	Number of Provinces in Group
High	(above 100%)	48%	3 Provinces
Medium	(50-100%)	31%	5 Provinces
Low	(below 50%)	12%	8 Provinces
Overall Average		24%	

Two things make an immediate impression. Firstly, the overall low level of funding given to the sector as a percentage of what is needed, and secondly that low-funded provinces appear to allocate the least money proportionately (only 12%) to the infrastructure sector out of all sectors.

Why is this?

- Could it be that the perceived cost of infrastructure maintenance is so large that the funds available appear woefully inadequate to address the work required to be done?
- Has the condition of infrastructural assets in the Provinces (their roads, bridges...) degraded to such an extent that rehabilitation not routine maintenance is often what is required? The costs of rehabilitation are significantly higher than routine maintenance.

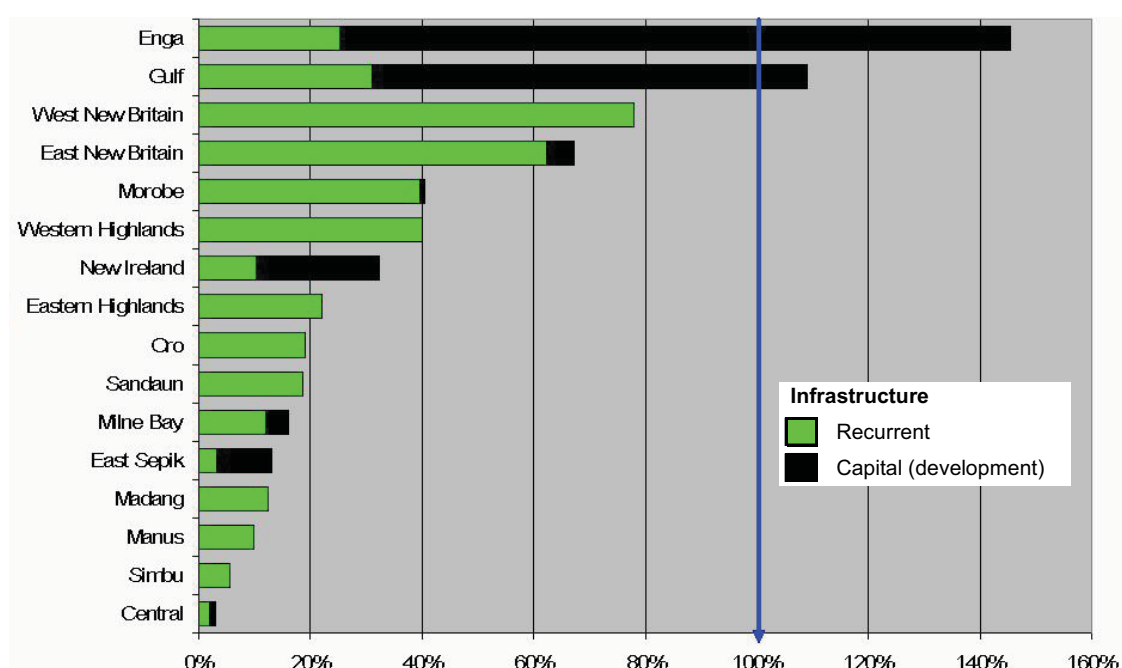
Whilst such sentiments may be understandable the fact remains that routine maintenance work is still required in every Province throughout the country. Preventative maintenance on roads and bridges (and other related assets) will ensure they can still be used and stop the loss of value in these vital assets.

## 9.3 Issues in Infrastructure Maintenance

### 9.3.1 The Impact of Capital Expenditure in Infrastructure

From a macro level, drawing a line between expenditure that is *maintenance* and expenditure that is *capital (or development)* in infrastructure is problematic. This review has sought to paint the best picture possible by treating and allocating as much expenditure as possible as maintenance. By treating this expenditure as routine maintenance we include it in the benchmark comparison against the Cost of Services estimate.

**Graphic 24: Infrastructure Gap: Including Development & Recurrent Expenditure v Cost of Services Estimate<sup>53</sup>**



The preceding chart includes both recurrent and capital expenditure in infrastructure and gives us a more comprehensive picture of the funds allocated by Provinces to the infrastructure sector. It also helps to garner an understanding of the total amount of funding that is directed at infrastructure by Provinces across PNG.

What conclusions can we draw?

- Infrastructure (recurrent and development) is not a high priority in most Provinces
- Provinces are required to maintain 55% of PNG's road network. The Cost of Services study's conservative estimate is that K120m per year is required to provide basic maintenance to provincial infrastructural assets. The National Government is currently allocating a total of K126m for all sectors. Clearly most Provincial Governments are unable to tackle this problem. This being the case should the responsibility return to the National Government?

<sup>53</sup> Capital expenditure funded under PIP but recorded in PGAS has been removed from East New Britain (Gazelle Restoration Authority – K3 million) and East Sepik (Wewak Stormwater Drainage project – K3 million).

- Improving spending in routine maintenance will require diverting funds from other areas (in all but 3 Provinces moving funds from development to recurrent is not the answer)
- Most of the capital spending occurred in only a few Provinces (Enga, Gulf & New Ireland)
- Provinces with royalty funding favour spending on major capital works projects.
- Predictably, large capital spending occurred in Provinces with higher-funding.<sup>54</sup>
- Prioritising (new) capital spending over recurrent spending will perpetuate the cycle of build and neglect. Whereby over time the country's stock of infrastructural assets increases but the rate of deterioration increases. By spending money on new capital assets (new roads etc) it exacerbates the problem. Why is the problem made worse? For every new road that is built the province is required to set aside even more recurrent funding for ongoing preventative maintenance. This is not being done and so the overall state of the country's infrastructural assets declines.

### **9.3.2 Lessons from the Function Grant Review**

The 2005 Function Grant Review highlighted a number of important issues and patterns within infrastructure spending:

- Provinces appear to favour spending on building maintenance (both office and residential) over maintenance to transport infrastructural assets such as roads and bridges.
- Discussions with provincial personnel indicated a 'project mindset'. The attraction appeared to be to undertake major infrastructure projects over the smaller but necessary maintenance work required.

Both of these factors contribute to the poor level of funding directed toward basic maintenance to transport infrastructural assets.

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<sup>54</sup> PIP funded capital spending was recorded in the PGAS data of East Sepik Province with the ongoing Stormwater Drainage Project and East New Britain with the GRA Project – both have been removed to ensure data consistency.



## 10 Agriculture focus

**“Papua New Guinea has a long and noble tradition as an agricultural society and primary industries remain the bedrock of the modern day economy.”**

(MTDS 2005 - 2010)

### 10.1 Introduction

#### 10.1.1 What is Agriculture?

The NEFC cost of services study took a conservative approach to estimating the cost of delivering agriculture services in PNG. Although many provincial governments are investing in agricultural projects to try to stimulate private sector development, the costing study assumed that this kind of expenditure (which is not actually compensating for a market failure) would take a backseat compared with services for which there is no private sector comparison.

The costing study assumed that the primary role of provincial governments in the agriculture sector would be to provide extension and farmer training to support small-holder development. Some of PNG's agricultural industries operate successfully with little public sector intervention. The oil palm sector operates on a nucleus estate basis, so that most of the extension work is undertaken by the project developer which operates the mill. In other sectors, such as coffee, cocoa and copra, the influence of large-scale plantation development is minimal, and the industries rely on small-holder producers mainly operating at a village level. It was assumed that the majority of these services are provided at district level, and that agricultural extension workers (didimen and didimeris) undertake patrols around the district. In developing the assumptions about agricultural extension service delivery, the costing study assumed that patrols would provide sufficient coverage so that all farmers in PNG could reach an 'extension point' within a two hour walk.

The costing study found that there are 600 provincial administration staff assigned to the agriculture sector, of whom 70% are assigned to the district level. This is around five agriculture staff per rural district. The study also assumed that provincial governments would not provide materials or equipment to small-holders, yet this seems to be a major focus of a number of provincial governments, often at the expense of providing funding for their agriculture staff to undertake patrols.

The costing study estimated the costs of delivering agricultural extension services across PNG at K23.4 million for all provinces. This cost was very accurately built up from measurements of the actual distances required to undertake patrols in each district in PNG, actual travel methods used, combined with the cost of fuel and air transport specific to each province.

No specific funding is provided to cover agricultural extension, but provincial governments receive a Derivation Grant which is calculated on the basis of commodities produced and exported from the province. They are supposed to use this grant to further the development of export commodities or improvement of transport infrastructure to facilitate produce getting to market. The total value of the Derivation grant in 2005 was K11.8 million. Unfortunately the grant is very unevenly distributed, with 21% being paid to West New Britain (because of the high value of its log and oil palm exports). Southern Highlands received only K34,000.

For the purposes of this review spending on agriculture includes; agriculture extension services, supporting the development of cash crops, and agriculture administration. It typically also includes spending on sub-sectors such as copra, cocoa, coffee, oil palm, vanilla and rice which appears to be of a recurrent nature.

Agriculture and livestock were often combined under one program heading therefore expenditure on livestock is included in the review. Expenditure on personnel emoluments, typically casual wages, was deemed necessary in this sector and was included. Overall our approach has sought to be inclusive and to paint as positive a picture as possible of expenditure in this priority sector.

What expenditure did we exclude? Typically significant project-type expenditure or that of a capital nature was excluded. Many provincial governments invest in a range of other economic activities – these included funding for free trade zones and support for small business development. Because the standard function coding for agriculture activities is a general code for economic services, it was not always easy to separate this expenditure out from what clearly relates to agriculture.

### 10.1.2 Agriculture within the Economic Sector

The table below compares each provinces spending on agriculture to its overall spending in the economic sector. You can readily see the wide disparity in agriculture spending with Enga allocating only 6% of its economic spending to agriculture whilst the Western Highlands allocated 100%. It is also apparent that the lower funded provinces allocate a higher percentage than higher funded provinces both in percentage terms and Kina terms.

**Agriculture<sup>55</sup> as a proportion of the Economic Sector**

Provinces	Economic Sector (all expenditure) <sup>56</sup>	Agriculture (recurrent expenditure)	Agriculture as a % of Economic Sector
Western Highlands	1,025,500	1,025,500	100%
Sandaun	323,407	301,699	93%
Eastern Highlands	1,250,600	1,028,600	82%
Manus	87,000	66,600	77%
Central	438,099	307,139	70%
Madang	2,254,510	1,230,068	55%
Simbu	106,900	54,000	51%
Milne Bay	931,182	448,200	48%
East New Britain	1,418,062	577,588	41%
New Ireland	1,934,410	724,587	37%
Oro	268,491	93,367	35%
Morobe	1,122,415	364,494	32%
East Sepik	518,202	140,168	27%
West New Britain	1,559,016	344,091	22%
Gulf	1,206,652	86,459	7%
Enga	1,903,874	115,560	6%
Average High Funded	1,528,435	274,715	20%
Average Medium Funded	1,567,827	728,840	48%
Average Low Funded	490,485	304,972	60%

### 10.1.3 Impact of expenditure from Internal Revenue<sup>57</sup>

One important question we wanted to answer in this review related to the impact that the spending of internal revenue had on providing core services. We wanted to know did Provinces use 'their' money to support service delivery, and if so to what level? Analysis shows that K3.3m of internal revenue was allocated and spent on *recurrent goods & services* in the agriculture sector. This compares to the K3.6 million spent by Provinces on the agriculture sector from National Government grants.

<sup>55</sup> Agriculture includes agriculture extension services, supporting the development of cash crops and agriculture administration. It also includes sub-sectors such as copra, cocoa, coffee, oil palm, vanilla, rice and livestock.

<sup>56</sup> Includes all expenditure within the economic sector being - recurrent goods & services, personnel emoluments and capital & projects.

<sup>57</sup> The Kina amounts exclude Western Province and Southern Highlands Province.

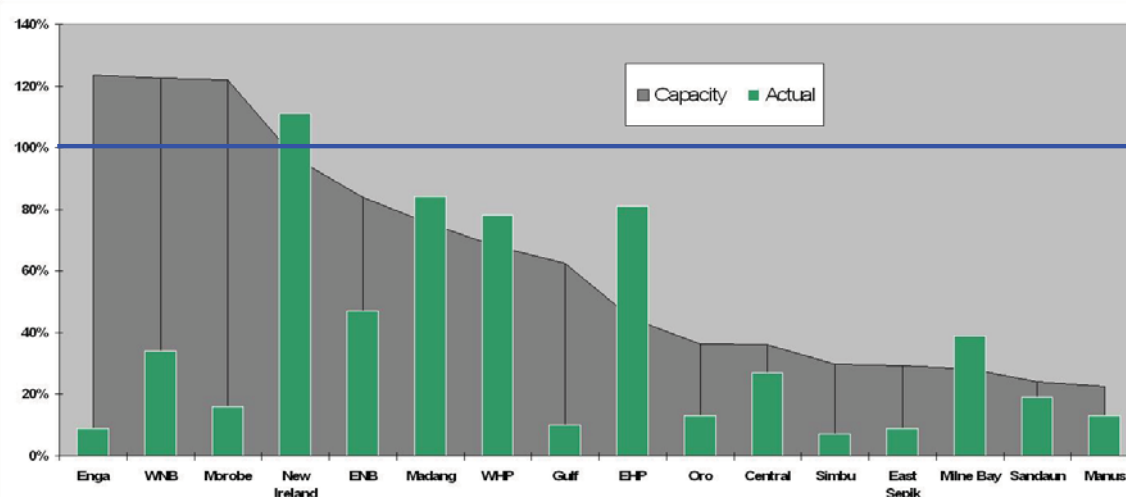
So when compared to the level of spending from grant funding, spending from internal revenue in this sector is significant. Critically this spending is mostly found in the medium and higher funded Provinces. It was noted that most low-funded Provinces spent only between 0-2% of their internal revenue spending on agriculture – i.e. not much, reflecting their low resources.

## 10.2 Benchmarking

### 10.2.1 Against the Benchmark

The following chart illustrates the performance of each Province using the Cost of Services estimate as a benchmark. We have compared each Province's goods and services expenditure against the NEFC cost estimate of what the Province needed to spend to meet all the recurrent goods and services costs of service delivery. For example, the chart illustrates that East New Britain spent 47% of what is required to support a minimum standard of agriculture within the Province. In East New Britain's case they need to increase their spending in agriculture by 53% to adequately fund the sector to a minimum level.

**Graphic 25: Agriculture Gap: Actual Expenditure v Cost of Services Estimate**



The overall average of all 16 Provinces reviewed was 37%. That means that the Provinces across PNG allocate and spend approximately a third of what is required on agriculture. Indeed a closer look at the chart shows the story is somewhat worse, if we remove the top four spenders (being New Ireland, Madang, Eastern Highlands & Western Highlands), the remaining 13 Provinces average just 20%. That means most Provinces allocate only 20% of what is needed to support the agriculture sector within their Province.

### 10.2.2 Implications of the benchmarking comparison in Agriculture

So what are the key lessons that we can learn from the benchmarking comparison?

- All Provinces need to review their budget priorities and expenditure control mechanisms to ensure that more funding is directed to this priority sector. This is particularly the case for Provinces that are relatively well funded.
- National Government needs to consider the level of funding allocated to lower-funded Provinces who simply cannot stretch their limited funds across all priority sectors.

### 10.2.3 Performance by Funding Groups

We know that not all Provinces receive the same level of funding and that the cost to provide the same level of service varies from district to district. Therefore we need to consider performance with an eye on how much each group can afford. How do our three broad groups compare in Agriculture spending? The following table shows relatively predictable results in that the higher the level of funds available to the group the higher the amount allocated and spent on Agriculture.

Groups (by fiscal capacity)		Agriculture Result	Number of Provinces in Group
High	(above 100%)	20%	4 Provinces
Medium	(50-100%)	66%	5 Provinces
Low	(below 50%)	26%	8 Provinces
Overall Average		37%	

The thing that makes an immediate impression is the low level of funding given to the sector by the higher funded Provinces – only 20%. Why is this? Could it be that those Provinces with high levels of funding (mainly from mining) simply do not see the need to promote a viable and sustainable agricultural sector?

Interestingly, the medium-funded Provinces far exceed those of the higher-funded group. Even the results of the lower-funded group with their limited resources exceed the higher funded Provinces.

## 10.3 Issues in Agriculture

### 10.3.1 Agriculture and the Derivation Grant

The table that follows compares the amount Provinces received as a derivation grant to the amount they actually spent on recurrent goods and services in the agricultural sector. The table highlights some large differences between the grant amount and the amount spent on agriculture. Some provinces choose to spend the derivation grant on non-agriculture related activities, some choose to spend the derivation grant received on agriculture activities that are development oriented and some provinces spend more on agriculture than what they receive by way of derivation grant.

- West New Britain receives the highest derivation grant but spent a relatively small amount on recurrent agricultural activities. A further K850,000 was spent on a micro banking project. K1.3 million was spent on other activities.
- A large proportion of East New Britain's agriculture spending was paid from internal revenue. K1 million of the derivation grant was spent on other activities.
- Most of Oro's derivation grant was spent on other activities.
- The majority of Gulf's derivation grant was targeted at 3 development projects.
- Madang, Eastern Highlands and New Ireland allocated significantly more funds to agriculture than they received from the derivation grant.

#### Comparing Derivation Grant to Actual Spending on Agriculture

Province	Derivation Grant	Agriculture (actual recurrent expenditure)	Variance
West New Britain	2,514,100	344,091	(2,170,009)
East New Britain	1,666,600	577,588	(1,089,012)
Western Highlands	1,340,100	1,025,500	(314,600)
Oro	721,500	93,367	(628,133)
Eastern Highlands	667,900	1,028,600	360,700
Milne Bay	566,600	448,200	(118,400)
Gulf	554,000	86,459	(467,541)
New Ireland	513,100	724,587	211,487
Madang	420,100	1,230,068	809,968
Sandaun	331,800	301,699	(30,101)
Morobe	275,500	364,494	88,994
Central	178,900	307,139	128,239
East Sepik	174,900	140,168	(34,732)
Simbu	112,900	54,000	(58,900)
Enga	82,900	115,560	32,660
Manus	73,100	66,600	(6,500)
<b>Total</b>	<b>10,194,000</b>	<b>6,908,120</b>	<b>(3,285,880)</b>

## 11 Village Courts focus

**“....for semi-subsistence village communities the rule of law is an essential requirement for encouraging participation in the market economy.”**

(MTDS 2005 - 2010)

### 11.1 Introduction

#### 11.1.1 What is Village Courts Expenditure?

Village courts represent the first ‘line’ of the government in rural PNG and their importance cannot be under-estimated. There are around 13,000 village court officials across PNG. They typically work irregularly, but they can be required to sit for more than one-two days a week. The gazetted allowance for village court magistrates is around K35 per month—less than one tenth of the allowance rate (K350 per month) payable to local-government councillors.

Prior to 1995 village courts in most provinces were funded by the National Government through the Attorney-General’s Department. From 1995 onwards this funding ceased, with the result that many village court magistrates went for several years without payment. The system of village courts was widely perceived to be in a state of terminal decline. In 2005 this decline was reversed when the National Government introduced a dedicated Function Grant to pay the salaries of the village court officials. An additional amount was included in the grant in 2006 to meet back pay claims (a similar amount was also directed to the same purpose through the Attorney-General’s Department).

In 2007 a second village court grant was introduced to cover the goods and services costs of provincial government administration, supervision and support for the system. In 2005, however, provinces had to meet all costs (allowances and administration) out of one grant.

As a result of these improvements in funding arrangements, in 2007 village courts was the only sector where funding met or exceeded the conservative costs estimated by NEFC. This is reflected in the high levels of support most provinces give to the sector, relative to the cost benchmark, even in 2005 (refer to Section 11.2.1).

For the purposes of this review spending on village courts typically includes the payment of allowances to village court officials. What expenditure did we exclude? Other law and order related expenditure was not included.

#### 11.1.2 Impact of expenditure from Internal Revenue

One important question we wanted to answer in this review related to the impact that the spending of internal revenue had on providing core services. We wanted to know did Provinces use ‘their’ money to support service delivery, and if so to what level? Analysis shows that K1.5m of internal revenue was allocated and spent in the village courts sector. This compares to the K3.3 million by Provinces on the village courts sector from National Government grants.



So when compared to the level of spending from grant funding, spending from internal revenue in this sector is significant. Critically this spending is mostly found in the medium and higher funded Provinces. It was noted that most low-funded Provinces spent only between 0-2% of their internal revenue spending on education – i.e. not much, reflecting their low resources.

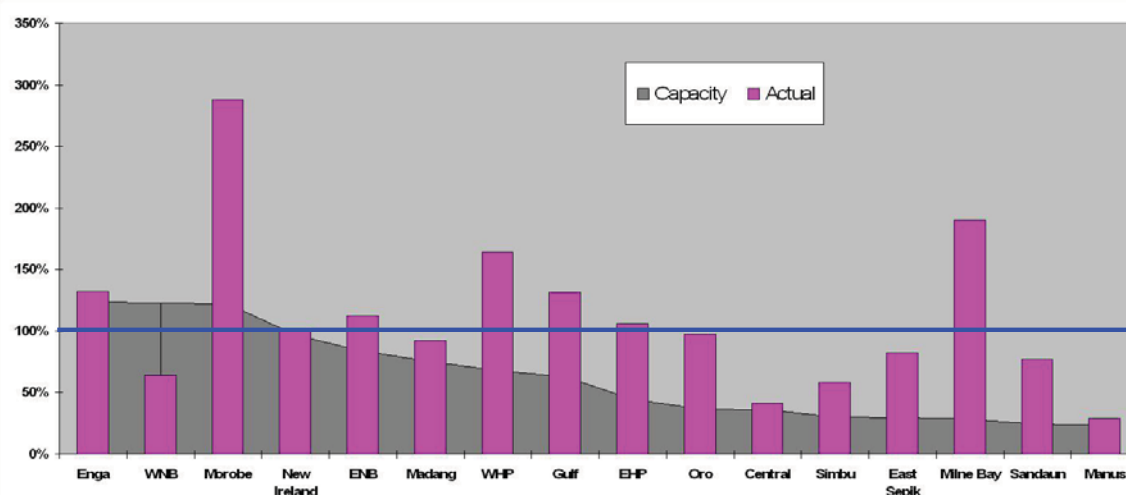
## 11.2 Benchmarking

### 11.2.1 Against the Benchmark

The following chart illustrates the performance of each Province using the Cost of Services estimate as a benchmark. For example, the chart illustrates that Gulf's spending at 131% is more than what was estimated as required for the Province. There may be reasons for this, such as the payment of allowance arrears that relate to preceding years.

The overall average of all 16 Provinces reviewed was 110%. That means that many Provinces across PNG are allocating sufficient funds to the Village Court sector. A closer look illustrates that only 4 Provinces allocated and spent less than 75%.

**Graphic 26: Village Courts Gap: Actual Expenditure v Cost of Services Estimate**



### 11.2.2 Implications of the benchmarking comparison in Village Courts

So what are the key lessons that we can learn from the benchmarking comparison?

- We should note that the village courts sector is the least expensive to fund of the 6 sectors analysed. Therefore achieving 100% is more readily attainable here than in other more expensive (and complex) sectors.
- Seven Provinces allocated and spent more than 100% in this sector. Only four Provinces spent less than 75%.
- Some Provinces spent well over 100% - why would this be the case? As an example we analysed Morobe whose spending was 288% of the estimate. This showed a high level of payments relating to 2004 arrears.
- Every effort should be made to pay village court officials on time.

- Of the few Provinces with low results (Simbu, Central & Manus) – all were in the lower funded group.

### 11.2.3 Performance by Funding Groups

We know that not all Provinces receive the same level of funding and that the cost to provide the same level of service varies from district to district. Therefore we need to consider performance with an eye on how much each group can afford. How do our three broad groups compare in village court spending? The following table shows predictable results in that the higher the level of funds available to the group the higher the amount allocated and spent on village courts.

Groups (by fiscal capacity)		Village Courts Result	Number of Provinces in Group
High	(above 100%)	144%	4 Provinces
Medium	(50-100%)	120%	5 Provinces
Low	(below 50%)	85%	8 Provinces
Overall Average		109%	

The thing that makes an immediate impression is the overall high level of funding given to the sector by all groups.

## 11.3 Issues in Village Courts

### 11.3.1 Is the Village Court Allowance Grant Sufficient?

Does the village court grant provide provinces with sufficient money with which to pay village court officials? The answer is in most cases no. The village court grant for the 16 provinces in the comparative review amounted to K3.3 million whilst the cost estimate is K4.3 million – leaving a shortfall of K1 million (see the last column in the table).

Only two provinces, Enga and Milne Bay, are adequately funded. This means that most provinces need to meet the shortfall from their internal revenue funds. The good news is that many provinces do meet the shortfall from their internal revenue funds. It should be noted however that some provinces have chosen not to pay the whole village court grant to officials – see Manus and Central.

**Village Court Allowance Summary**

Province	Village Court Allowance Grant	Village Court (actual recurrent expenditure)	Variance (grant v actual spending)	Village Court Cost of Services estimate	Variance (grant v CoS estimate)
Enga	432,800	532,031	99,231	403,307	29,493
Eastern Highlands	365,000	493,500	128,500	467,683	(102,683)
Western Highlands	357,400	895,329	537,929	545,074	(187,674)
East Sepik	304,800	323,975	19,175	395,542	(90,742)
Morobe	279,100	871,635	592,535	302,759	(23,659)
Milne Bay	270,400	270,400	0	141,994	128,406
Simbu	259,900	258,900	(1,000)	446,224	(186,324)
Central	202,100	145,901	(56,199)	353,681	(151,581)
Madang	145,900	215,990	70,090	234,201	(88,301)
East New Britain	138,300	163,785	25,485	146,793	(8,493)
West New Britain	126,500	165,262	38,762	257,330	(130,830)
Manus	121,900	46,770	(75,130)	161,943	(40,043)
New Ireland	115,500	135,590	20,090	134,696	(19,196)
Gulf	93,100	156,509	63,409	119,470	(26,370)
Sandaun	93,100	92,965	(135)	120,632	(27,532)
Oro	51,700	78,126	26,426	80,133	(28,433)
<b>Total</b>	<b>3,357,500</b>	<b>4,846,668</b>	<b>1,489,168</b>	<b>4,311,461</b>	<b>(953,961)</b>

## **12 Administration focus**

### **12.1 Introduction**

#### **12.1.1 What is Administration?**

To support their service delivery activities, provincial administrations carry out a range of administration overhead functions at both provincial and district level. The Cost of Services study found that there are 2,600 provincial public servants working in service delivery sectors; a further 8,900 health workers (including both public servants and church health staff) and 1,800 provincial public servants<sup>58</sup> working in areas related to overhead administration.

To develop the cost estimates for administration overheads, NEFC undertook a survey of three national government departments including Treasury and identified their consumption of administrative resources such as computers and other equipment, vehicles, telephone and other utilities and stationery. These actual expenditures by relatively well-resourced national departments were used to determine a standard ratio of staff to office equipment and vehicles, and a standard consumption ratio per staff member for stationery and utilities. Provincial cost estimates for administration were developed on the basis of these standard consumption rates, the actual numbers of public servants in each province, and the prices of input goods and services measured for each province.

For the purposes of this review and comparison to the cost of services estimates, general administration overhead costs comprise: assembly services, provincial administration, revenue collection, finance and planning, human resource management, internal audit, legal services, district & LLG administration, administration building maintenance, and non-specified administration costs. The cost estimates do not include: personnel emoluments and development (capital) expenditure, debt and arrears.<sup>59</sup> Administration costs relating to specific sectors such as health and education were covered under the costs for each sector.

Allowances for provincial politicians were included in the Cost of Services estimates but have been excluded from both costs and expenditure for the purpose of this analysis. The reason for this is to isolate just those costs which relate to the running of the provincial administration itself. Section 12.3.1 comments specifically upon politicians' costs.

Some re-coding of expenditure records was undertaken to make sure that any expenditure which could be related to administration of a *sector*, as opposed to general administration, was excluded and allocated to that sector. This ensures that we are not accidentally over-estimating the amount of expenditure which was applied to general administration. Funding for administration overheads is intended to be covered by the Block Grant. In 2005 the total of the Block Grants payable to the 18 provincial governments was K11.7 million (K9.8 million for the 16 provinces included in the comparative review). The NEFC estimated these costs at K26 million.

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<sup>58</sup> This figure includes public servants in Bougainville.

<sup>59</sup> Debt and arrears are coded to 'other' – typically they relate to various sectors including administration.

### 12.1.2 Overview of Spending

The following table details the spending in administration across the 16 provinces included in the comparative analysis.

**Spending in Administration (16 provinces)**

Expenditure type	Grant Funded		Internal Revenue		Overall
Recurrent Goods & Services	7,817,275	61%	32,521,809	54%	56%
Personnel Emoluments	3,894,043	30%	23,687,120	40%	38%
Capital & Projects	1,086,830	9%	3,538,808	6%	6%
<b>Total</b>	<b>12,798,147</b>	<b>100%</b>	<b>59,747,736</b>	<b>100%</b>	<b>100%</b>

The analysis reveals that in 2005 over K72.5 million was spent on the administration sector.<sup>60</sup> This total includes all administration expenditure; being goods & services, personnel emoluments and capital & projects.

The Chart illustrates that K59.7 million (82%) was funded from Internal Revenue and the remaining K12.8 million (18%) from National Government grants.

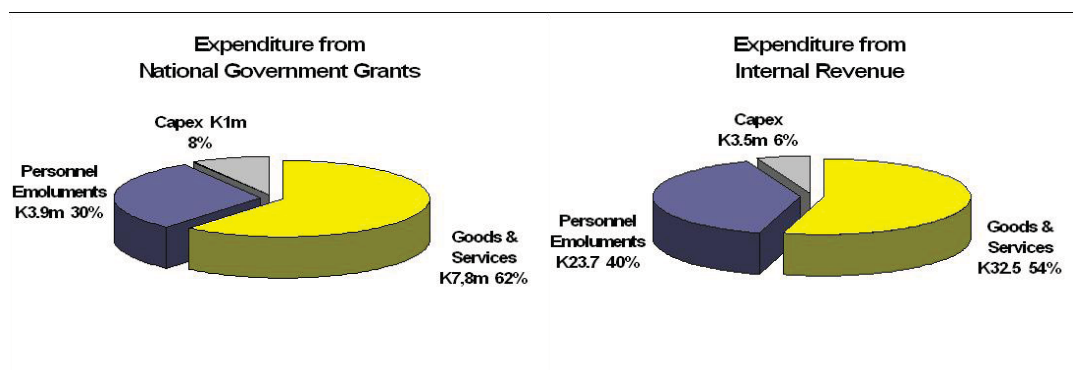
The amount of expenditure from government grants was higher than the total of the block grant. This indicates that provincial governments spent around K3 million (K12.7m less K9.8m) on administration out of funding given to them for service delivery.

Provinces spent K40 million in actual goods & services expenditure versus the K25.8 million cost estimate. That means Provinces spent one and a half times what was estimated on administration costs. In addition to this K40 million a further K32.5 million was spent on personnel emoluments and capital. Out of the K12.7 million expended from national grants, K7.8 million was spent on goods and services and the remainder was spent on capital and personnel emoluments.

What does this mean?

- Administration costs are necessary but need to be controlled.
- Why do we need to control administration costs? Because administration costs do not directly contribute to the delivery of priority services.
- Unfortunately, if not controlled, administration costs have a habit of rising and depriving core service delivery sectors of funding.
- Over-spending in administration may indicate there are too many staff in the administration sector compared to the service delivery sectors.
- It is easier to spend money on administration costs, especially at the provincial headquarters, than it is to spend funds delivering services, especially in remote areas.

<sup>60</sup> Excluding both Southern Highlands Province and Western Province.

**Graphic 27: All Administration Expenditure by Source**

### 12.1.3 Impact of expenditure from Internal Revenue

One important question we wanted to answer in this review related to the impact that the spending of internal revenue had on providing core services. We wanted to know did Provinces use 'their' money on administration at the expense of service delivery sectors? Analysis shows that K32.5m of internal revenue was allocated and spent on *recurrent goods & services* in the administration sector. This compares to the K7.8m spent by Provinces on goods and services in the administration sector from National Government grants.

- The higher-funded Provinces on average allocated 33% of their internal revenue spending to administration.
- The medium-funded Provinces on average allocated a slightly higher 37% of their internal revenue spending to administration.
- Whilst the lower-funded Provinces on average allocated a massive 65% (two thirds) of their internal revenue spending to administration.
- The level of development (capital & projects) spending on administration from internal revenue funds averaged 4% of internal revenue.

In addition to spending on goods & services significant amounts were spent on personnel emoluments (K23.7m) which includes; casual wages, leave fares and allowances.

## 12.2 Benchmarking

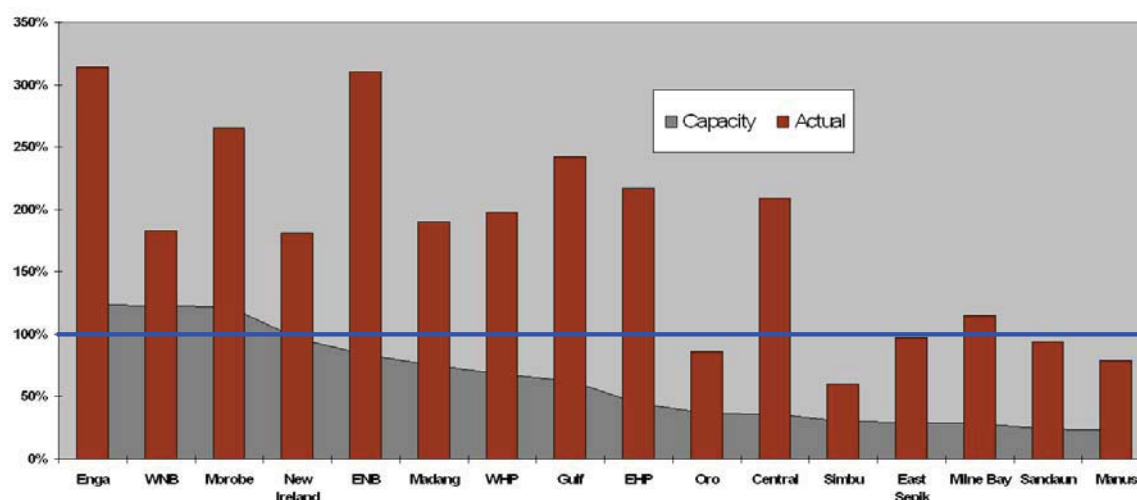
### 12.2.1 Against the Benchmark

The chart that follows illustrates the performance of each Province using the Cost of Services estimate as a benchmark. We have compared each Province's goods & services expenditure against the NEFC cost estimate of what the Province needed to spend to meet all the recurrent goods & services costs in each sector. For example, the chart illustrates that Eastern Highlands spent 219% of what is required to support a minimum standard of administration within the Province.

In Eastern Highland's case the findings suggest they should be able to significantly reduce their spending on administration and reallocate those funds to priority service delivery sectors.

The overall average of the 16 Provinces included in the comparative review was 184% - or 84% above the amount NEFC estimated for administration costs. We can see that 10 of the 16 Provinces across PNG allocate and spend significantly more than what is required on administration – some spent two or three times the amount estimated.

**Graphic 28: Administration Gap: Actual Expenditure v Cost of Services Estimate**



### 12.2.2 Implications of the benchmarking comparison in Administration

So what are the key lessons that we can learn from the benchmarking comparison?

- Administration gets the first bite of the cake and in every case is supported better than the priority service delivery sectors. i.e. there is no "priority gap" as provinces are allocating more funds to administration than their overall fiscal capacity allows.
- In some Provinces administration spending was two or three times the amount NEFC estimated as necessary for those Provinces.
- 10 of the 16 Provinces allocate and spend significantly more than what is required on administration expenditure (between 181% - 314% of estimated costs)
- With limited funds, excessive administration spending is effectively restricting service delivery in key areas such as health, education, infrastructure maintenance and agriculture.



- Most lower-funded Provinces spent less than what is required on administration. However they still met a far greater percentage of administration costs than they did the other priority 'service' sectors.

### 12.2.3 Performance by Funding Groups

We know that not all Provinces receive the same level of funding and that the cost to provide the same level of service varies from district to district. Therefore we need to consider performance with an eye on how much each group can afford. How do our three broad groups compare in administration spending?

The following table shows the results – they raise alarm. The administration sector is the provincial priority.

Groups (by funding level)	Administration Result	No. of Provinces in Group
High	254%	3 Provinces <sup>61</sup>
Medium	224%	5 Provinces
Low	120%	8 Provinces
Overall Average	184%	

The thing that makes an immediate impression is the very high level of spending in the Administration sector by all groups – the more money a Province has typically the more it commits to administration.

Why is this?

- The administration sector is both the seat of decision-making and the controller of the purse strings – does it reflect a propensity to spend money on oneself first?

### 12.2.4 Key points in Administration

So what are the key findings in Administration?

- Administration is the number 1 Provincial priority
- All Provinces favour spending on Administration – above spending on the sectors that directly provide services to the people
- The more funding a Province has available the more it allocates to Administration
- 37% of Internal Revenue spending was on Administration

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<sup>61</sup> Excluding the results from Western Province and the Southern Highlands Province.

## **12.3 Issues in Administration**

### **12.3.1 Spending on Politicians' Allowances**

Although the cost of politicians' salaries and allowances was not included in this analysis of expenditure, it is a significant cost to provincial administrations. The Cost of Services study identified around 460 provincial politicians, including 109 national MPs and a further 300 LLG presidents and appointed members. The salaries of national parliamentarians are paid by the national government, but provincial governments are responsible for paying allowances related to offices the national MPs hold in the provincial government, and for the salaries and allowances of LLG presidents and appointed members who comprise the remainder of provincial assemblies.

## 13 Other Findings

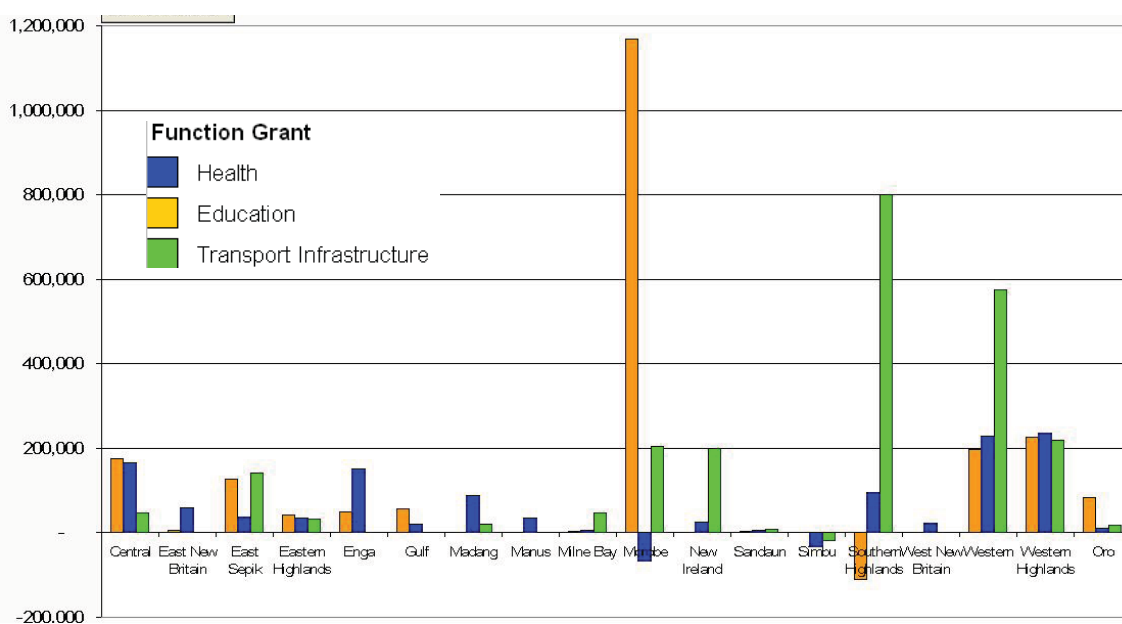
### 13.1 Under spending National Grant Funds

Money unspent represents an opportunity lost and services not provided to the people of that Province.

The following graph highlights the amount of function grant money that each Province did not spend during the 2005 fiscal year. Note that funds transferred to another agency (e.g. to a hospital or to the Department of Works) in late December were also treated as being unspent. The rationale being that the receiving agency would not have had an opportunity to spend the money appropriately by year-end.

Unspent funds at year-end are required to be rolled over into the 700 series budget and to be spent on the same functional area.

**Graphic 29: Under spending national grant funds in 2005**



#### Points of note:

- Under-spending by Morobe Province in education dominates the graph at nearly K1.2 million. Of that amount K700,000 was diverted to pay for teachers leave entitlements. This is not the intention of the function grant. It would appear that in the annual submission process to the Department of Treasury Morobe Province is under-estimating the amount it requires for teachers leave fares (see appendix 6). The Province requested and was given K743,700, yet expenditure was K1.8 million.
- The Southern Highlands (under-spending in transport infrastructure) also catches the eye.
- A pattern of under-spending can be seen in Central, East Sepik, Morobe and Western Highlands.

## 13.2 Is Late Spending a Problem?

### Is Late Spending a Problem?

The timing of when the money is spent during the year in the Provinces is critical to the objective of improving service delivery.

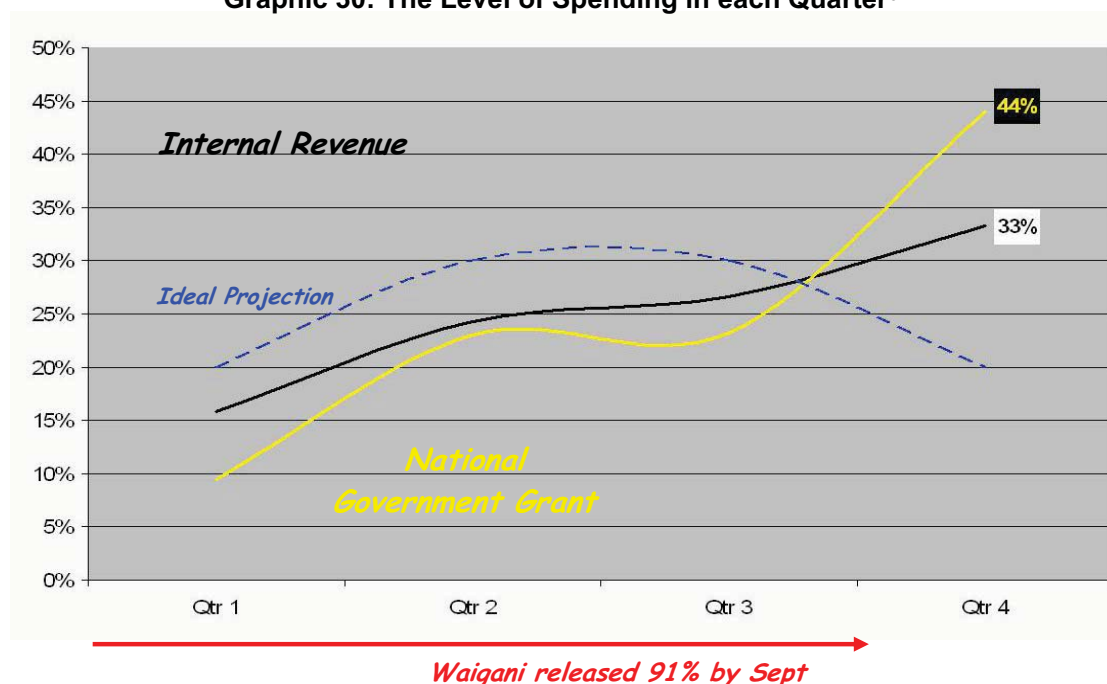
Three effects of late spending:

- Service delivery is delayed, or may not occur.
- The likelihood of wastage and funds being spent on non-critical items is greatly increased.
- Unused funds sitting in bank accounts represent a huge cost to the PNG Government. Unused funds could be used to retire public debt or redirected to other critical areas of service delivery.

### Delayed Service Delivery

In 2005 a massive 44% of Function Grant spending occurred in the 4<sup>th</sup> Quarter of the year (see the graph below). The largest proportion of money provided to the Provinces analysed was not spent until the last Quarter of the year. The question is why? Why spend so late when the funds are provided in a timely manner? How much service delivery can happen during the year when the spending to support service delivery occurs so late?

Graphic 30: The Level of Spending in each Quarter<sup>62</sup>



See explanatory notes on the following page.

<sup>62</sup> Expenditure on leave fares has been removed from this analysis to avoid distortion.

The ideal projection line is a theoretical projection of how overall spending may occur during a fiscal year. A typical spending pattern would start slowly, increase throughout the year as service delivery activities move in to full swing, and taper off toward the end of the year as activities wind down. The pattern of spending in goods & services should mirror the service delivery activities it is there to support and enable.

The red line: By the end of September the Departments of Finance and Treasury had released 91% of grant funds to Provinces. Much of the 9% that remained to be released related to two provinces where central agencies delayed the release of fund due to compliance issues.

### 13.3 Transfers to Local Level Governments (LLGs)

LLGs are a separate level of government not answerable to provincial governments. They receive their funding from national government grants and some limited revenue-raising powers. In 2005 they were entitled to separate funding paid in the form of three grants from the national government totalling K28.2 million:

- Rural LLG grants (K15 million)
- Town and urban services grants (K3.8 million)
- LLG secretariat wage grants (K9.4 million)

All three grants were allocated to provincial governments, which were then expected to pass these grants on as transfers from their own budgets. LLG grant funds are transferred into district bank accounts and from there expenditure is managed by district and local-level leaders and staff. Because there is little transparency surrounding the management of these funds, allegations are often levelled at provincial governments suggesting that they use this as an reason to keep the LLG grants and do not pass them on.

**Graphic 31: Transfers to Local level Government**

<i>Province</i>	<i>2005 National grants to LLGs</i>	<i>2005 provincial transfers to LLGs from 200 series</i>	<i>Variance: Grants v Actual Transfer from 200 Series</i>	<i>2005 provincial transfers to LLGs from 700 series</i>	<i>Transfers to LLG's above level of 2005 National grants</i>
<b>Central</b>	1,244,300	521,700	(722,600)	22,964	(699,636)
<b>East New Britain</b>	1,502,100	1,498,600	(3,500)	504,918	501,418
<b>East Sepik</b>	1,958,300	2,002,795	44,495	660,000	704,495
<b>Eastern Highlands</b>	1,976,200	1,976,200	0	180,000	180,000
<b>Enga</b>	1,580,100	1,678,100	98,000	524,950	622,950
<b>Gulf</b>	830,100	1,023,047	192,947	1,047,736	1,240,683
<b>Madang</b>	1,074,400	1,955,100	880,700	683,041	1,563,741
<b>Manus</b>	514,800	514,800	0	0	0
<b>Milne Bay</b>	795,800	848,100	52,300	884,900	937,200
<b>Morobe</b>	3,864,500	4,457,271	592,771	2,437,500	3,030,271
<b>New Ireland</b>	967,600	2,173,000	1,205,400	182,150	1,387,550
<b>Oro</b>	923,300	1,021,500	98,200		98,200
<b>Sandaun</b>	1,522,200	1,219,400	(302,800)	265,178	(37,622)
<b>Simbu</b>	1,560,100	1,510,300	(49,800)		(49,800)
<b>Southern Highlands</b>	3,293,200	2,997,258	(295,942)	1,509,300	1,213,358
<b>West New Britain</b>	1,171,400	1,077,500	(93,900)	1,671,120	1,577,220
<b>Western</b>	1,359,100	870,600	(488,500)	620,470	131,970
<b>Western Highlands</b>	2,153,800	2,415,800	262,000		262,000
<b>TOTAL</b>	28,291,300	29,761,070	1,469,770	11,194,227	12,663,997

### **13.3.1 Do Provincial Governments pass the grants on to the LLGs?**

Our finding for 2005 is that it is not correct that provincial governments hold on to the LLG grants. As identified in the table above, provincial transfers to LLGs from national grant funds (K29.7 million) exceeded the amount provided by National Government (K28 million).<sup>63</sup> This indicates that provincial governments passed on the full amount of the LLG grants they received from the national government.

It should be noted that four provincial governments did not pass on the full amount of the grants: Central, Sandaun, Southern Highlands and Western. In the case of Central, less than half of the grants were passed on to the LLGs – this is significant. In the case of Western, almost one third of the grants were not passed on to the LLGs. This may be occurring because the salaries of LLG secretariat staff are being paid through a centralised provincial payroll system. The underpayments in Sandaun and Southern Highlands are substantially less than the amount of the LLG secretariat grant, which suggests this is NOT the explanation in these two provinces. However, in Western the amount of the salary grant in 2005 was K461,000. This corresponds fairly closely to the underpayment of K488,000.

Despite these underpayments, the overall level of transfers to LLGs from the 200 series was still higher than the amount provincial governments in total received. Some provincial governments transferred very substantial additional funding from their 200 series. Both New Ireland and Madang transferred amounts in excess of K700,000 in addition to the value of the LLG grants which were appropriated for those provinces. In the case of New Ireland, the LLG transfers were more than double the value of the LLG grants appropriated by the national government.

Provincial governments also provided some support to LLGs from their internal revenue, which they were not required to do. In addition to passing on the national grants, provincial governments gave an additional K11 million in grants to LLGs from internal revenue. This was funding they were not obliged to share with LLGs, but they chose to do so. The table below shows the amount of LLG grants paid by the national government, and the amounts each province transferred to LLGs from both grants and internal revenues.

Four provinces transferred more than a million Kina from their internal revenues to LLGs in their province. The most substantial contribution in kina terms was by Morobe provincial government (K2.4 million). However the amount per LLG was most significant in West New Britain. In 2005 the WNB provincial government made transfers totalling K1.6 million, or K150,000 per LLG from internal revenue, in addition to the national grants it passed on to the LLGs.

### **13.3.2 Does LLG expenditure contribute to service delivery?**

The additional funding some provincial governments gave to LLGs may reflect the delegation of provincial service delivery responsibilities to LLGs. If this is the case, our analysis should have counted that LLG expenditure in order to provide a fair comparison with other provinces who met all these service delivery costs entirely from their own expenditure.

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<sup>63</sup> The additional K3 million may have been sourced from; rollover funds, block grant or function grant funds.



However, it is also possible that these transfers were not contributing to delivery of provincial service delivery responsibility (ie, those that were included in the provincial expenditure analysis). Instead, they may have been used to pay for local-level government councillor allowances, or they might be funding some of the LLG service delivery responsibilities (such as maintenance of elementary and community schools) which were not included as provincial government costs for the purposes of this analysis.

If this was the case it would not be appropriate to count these transfers as contributing to the provincial government's performance (in terms of achieving of funding the cost benchmarks for service delivery).

NEFC is aware that LLGs in a number of provinces expect provincial governments to provide them with funding over and above what they receive in grants from the national government. This is especially so where the LLGs' funding is not enough to even meet the Salaries and Remuneration Commission mandated allowance costs. In some provinces NEFC has been told that the provincial budget incorporates a series of grants paid to LLG Presidents which are for use at their discretion. It seems unlikely that these amounts would be spent on the recurrent costs of service delivery. Since LLG presidents make up the majority of the provincial assembly members, and often dominate the Provincial Executive Council, it is difficult for the provincial administration to exercise any control over how these funds are spent.

However, our analysis draws only on provincial PGAS records. We have not had access to LLG expenditure records because these are contained within the 80 or so district PGAS files. Examining these records was outside the scope of this study. Because these amounts are recorded in PGAS simply as transfers to LLGs, we have no idea how amounts transferred to LLGs (and districts) were actually spent.

Ideally, all service delivery expenditure purchased with provincial funding should be captured by the provincial PGAS. We understand that this is not the case because funds managed at the district level are recorded in the district PGAS. District PGAS machines have a different chart of accounts from the provincial PGAS, which means the transactions recorded at the district level cannot be incorporated into the provincial records.

## 14 Conclusion

By undertaking the 2005 Provincial Expenditure Review and the 2005 Function Grant Review it has enabled us to form a clearer picture of how the Provinces have used the funds available to them from internally generated revenue and National Government grants.

The results have helped us to see more clearly how close we are to achieving our aim of delivering these basic priority services throughout Papua New Guinea? We can see the areas in which we are doing better and the areas that require urgent attention if tangible improvement is to be made.

In summary, how then can we make progress when the challenge appears so big? Real progress is possible:

- National Government needs to address the funding gap by implementing intergovernmental financing reform which will direct more resources to the low-funded provinces.
- Provinces need to address the priority gap by choosing to reallocate their spending to support the priority sectors.
- Provinces and central agencies can use the NEFC cost of services study as a guide to how much recurrent funding is required to deliver core services across PNG.
- Control and reduce spending in low priority areas. These include administration, projects, and casual wages.
- The whole provincial resource envelope (both grant funds and internal revenue) should be seen as one and available for allocating to supporting recurrent spending in priority areas.
- Utilise all means at a provinces disposal to support priority areas, e.g. currently the health sector HSIP program makes available recurrent funding for select health activities – use it.
- We need to consider the impact of new infrastructure development. New infrastructure development places increasing demand on the recurrent goods and services budget. Effectively new infrastructure development that is not matched with an increased recurrent budget will reduce service delivery.
- Similarly, we need to consider the impact of employing additional staff. Increasing staff numbers places more demand on the recurrent goods and services budget. Effectively increasing staff numbers that are not matched with an increased recurrent budget will reduce service delivery.

We would like to take this opportunity to thank Provinces for their assistance during the review process. We also extend our thanks to the agencies that have assisted us at various stages in the reviews; the Department of Treasury, the Department of Provincial and Local Government, and the Department of Finance.

Appendix 1: The 2005 Function Grant Scorecard

Rank	Province	SCORE	Spending Rate Ed	Spending Rate Health	Spending Rate Trans	Rollover % Education	Rollover % Health	Rollover % Transport	Exp Nature Test Ed	Exp Nature Test Health	Exp Nature Test Trans	No Salaries Test	Cash Release %	
1	West New Britain	44	6	12	10	0%	4%	0%	Good	Good	Good	OK	100%	
2	Simbu	39	6	12	8	0%	-7%	-5%	Good	Not Good	Good	Fail	98%	
3	Manus	39	8	14	4	0%	10%	0%	Good	Average	Good	Fail	99%	
4	Enga	38	14	8	8	6%	19%	0%	Average	Good	Good	OK	83%	
5	Gulf	36	11	9	5	12%	4%	0%	Not Good	Average	Good	OK	97%	
6	East New Britain	35	21	9	5	1%	7%	0%	Good	Not Good	Good	Fail	95%	
7	Milne Bay	34	11	12	16	0%	2%	9%	Good	Good	Not Good	OK	100%	
8	Sandaun	33	18	13	16	1%	2%	1%	Good	Good	Average	Fail	96%	
9	Western	30	12	12	7	29%	53%	73%	Good	Good	Average	OK	10%	
10	Oro	30	11	23	15	13%	4%	5%	Average	Good	Good	OK	100%	
11	Eastern Highlands	29	17	14	17	2%	4%	4%	Average	Average	Average	Fail	92%	
12	East Sepik	27	18	10	11	9%	4%	18%	Good	Average	Not Good	Fail	87%	
13	Madang	27	14	12	17	0%	11%	3%	Average	Good	Not Good	Fail	92%	
14	Southern Highlands	27	13	9	27	-10%	4%	71%	Average	Average	Not Good	Fail	60%	
15	Morobe	25	14	16	11	60%	-13%	11%	Not Good	Good	Good	Fail	91%	
16	Western Highlands	24	23	10	13	20%	26%	12%	Average	Average	Average	OK	88%	
17	New Ireland	19	14	22	39	0%	11%	100%	Good	Not Good	Not Good	Fail	100%	
18	Central	16	14	17	26	18%	36%	26%	Not Good	Average	Not Good	OK	97%	
Total score possible														48
Pass score														30
A black score indicates that the Province exceeded the 'pass score'.														KEY  Indicates a good level has been achieved Indicates improvement <b>can</b> be made Indicates improvement <b>needs to be</b> made
Good														
Average														
Not Good														

## Appendix 2: Understanding the Methodology

The analysis and findings in this report are derived by comparing actual expenditure in a particular sector to the estimated cost for providing services in that same sector, while taking account of a province's overall fiscal capacity. The four slides that follow work through an example to assist the reader understand this methodology.

### Comparing Actual Spending to Cost of Services Estimates (slides 1 and 2)

#### 1. Comparing actual spending to cost estimates

- We need to assess how close a province is to adequately supporting service delivery.
- We do this by comparing what a province spent to what we estimate they needed to spend

– We can calculate this as follows:

$$\text{Sector Performance} = \frac{\text{Actual expenditure}}{\text{Cost}}$$

- The percentage that will result shows how close a province comes to spending what is required to adequately support service delivery

#### 2. Let's look at an example:

##### Health in Province A:

- Cost: Cost estimate for province for health is **K4 million**
- Capacity: The province has an overall fiscal capacity of **45%**
- Performance: The province spent **K1 million** on health on recurrent goods & services

We can calculate the province's performance in the health sector as follows:

$$\text{Sector Performance} = \frac{\text{Actual expenditure}}{\text{Cost}}$$

therefore  $\frac{1,000,000}{4,000,000} = 25\%$

Province A spent 25% of what is required to deliver basic health services.  
Yet they had the capacity to spend 45% if all sectors were treated equally.  
Health was a lesser priority

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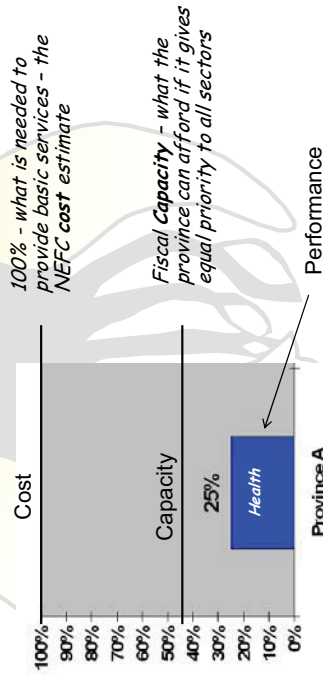
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## Comparing Actual Spending to Cost of Services Estimates (slides 3 and 4)

### 3. Let's illustrate that example:

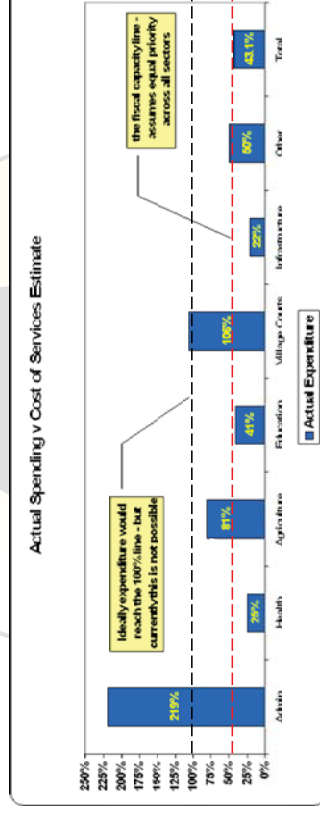
#### Province A:

- Fiscal capacity = 45%
- Health spending = 25%



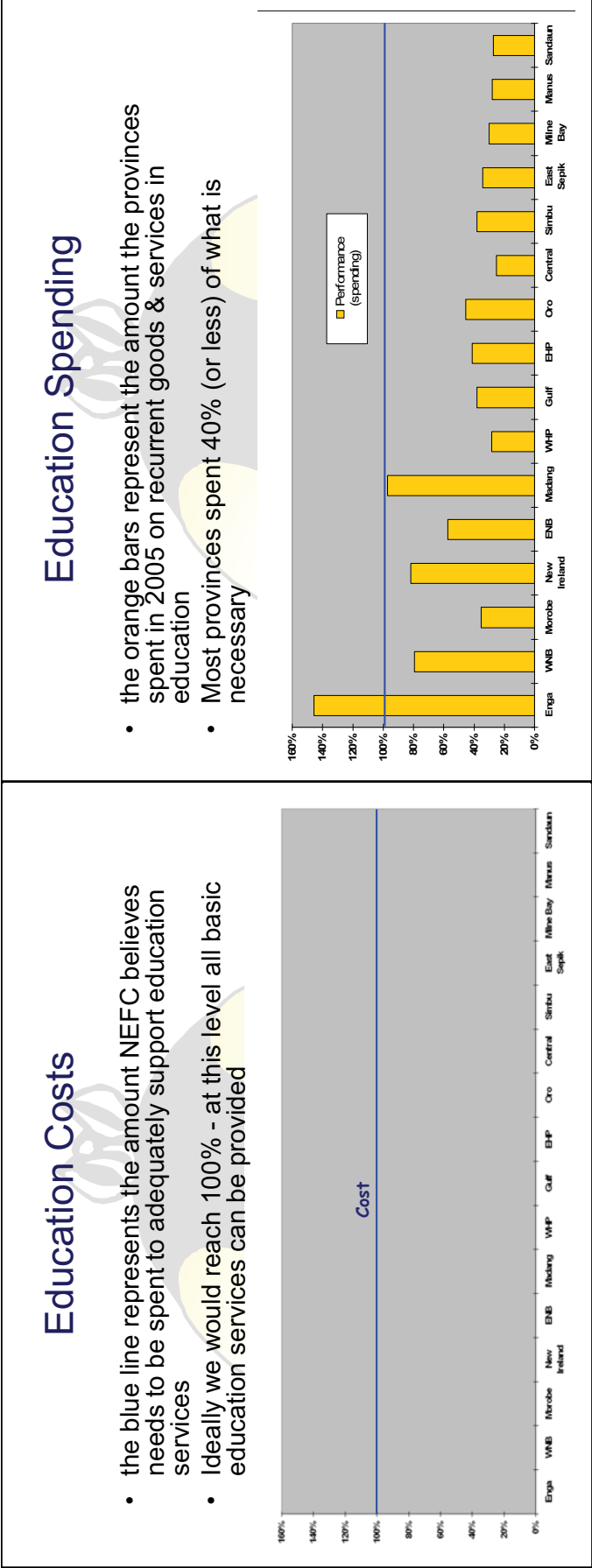
### 4. Let's expand the example further

- The principle of trade-off
- Remember fiscal capacity is 45% - we can't do everything
- If spending in one sector is greater than 45% then the trade-off is spending in another sector must be less



Much of the analysis and findings in this report are presented in a graphical format that compares results by sector across provinces. The graphs bring together the three threads of cost, fiscal capacity and spending performance and enable us to review our progress by comparing performance across provinces. The three slides that follow work through an example to assist the reader understand this methodology.

Performance by all provinces in the education sector (slides 1 and 2)



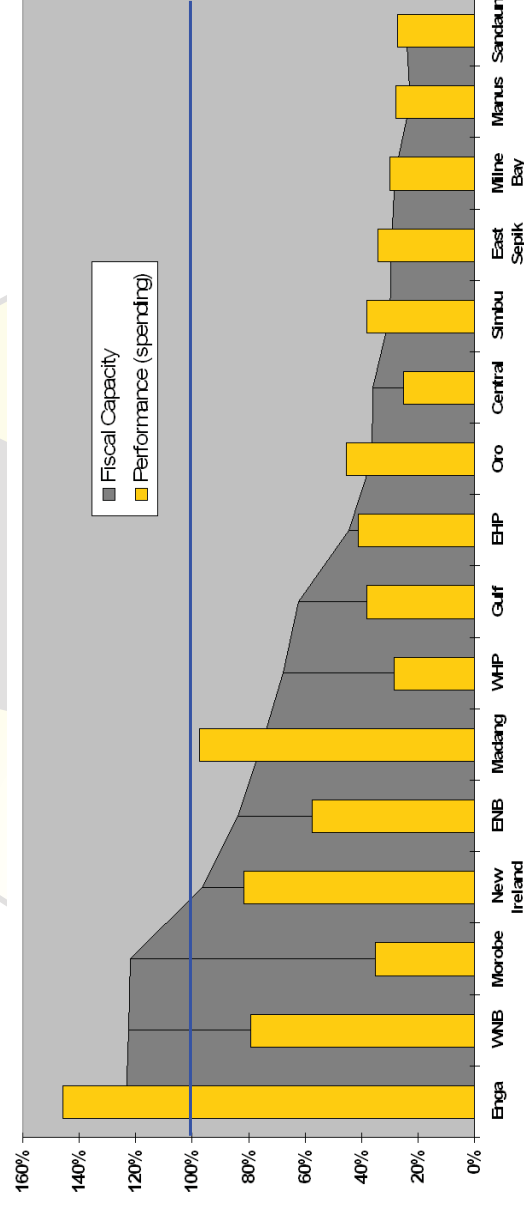
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### Performance by all provinces in the education sector (slide 3)

## Education - Fiscal Capacity

- The dark grey background represents the provinces overall fiscal capacity – what can they afford to do
- If they spend above or below this level they are giving a higher or lower priority to other sectors (trade-off)





## **Appendix 3: A Cautionary Note about the NEFC Costing Study**

It may be tempting to assume that by funding provincial governments up to the level of the NEFC cost estimates, they should be adequately resourced to meet all their expenditure mandates. That assumption would be incorrect.

The costing study was prepared for the purpose of establishing relativities between provinces in terms of the cost of their expenditure mandates, as a basis for dividing up a limited pool of funding. Thus it was less important to be accurate about the total quantum than it was to be accurate about the differences between the cost of the same service being delivered in different districts and provinces.

At the time the costing study methodology was designed, PNG was experiencing some budgetary stress. It seemed highly unlikely that provincial funding would come even close to the total cost of expenditure mandates in the foreseeable future. Since both funding and actual expenditure had fallen so grossly short of any reasonable levels, it was decided that a conservative approach represented the most appropriate first step in establishing new benchmarks for both funding and expenditure.

A primary objective in designing the methodology was to be extremely conservative in the estimates, so that every single element of the costs could be readily justified. We wanted to be certain that we could confidently assert that any reduction in funding below the level of these estimates would certainly result in a reduction in service levels. We were less concerned with being able to confidently assert that this level of funding would certainly be sufficient for the services to be delivered in full. It was always anticipated that the study would provide a basis to build on in terms of understanding what might be appropriate funding levels, rather than the final answer.

Each activity cost is built up from input costs which are extremely conservatively estimated. As an example, the operating budget for a single health centre or rural hospital is comprised of: the following input items:

- 200 litres of kerosene per year
- 18 litres of bleach
- 120 cakes of soap
- 1 mop
- 1 bucket
- 10 x 13kg gas bottles (to power vaccine refrigerator)
- 1% of capital cost as a building maintenance allowance (based on a construction cost estimates of a standard health centre building design provided by Department of Works).

It was assumed that all rural health centres and hospitals operate without electricity, mains water or telephones. There was no allowance for ancillary staff (eg cleaners). It is assumed that patients provide all bedding and food, and medical equipment and drugs are provided by the National Government.

It would be dangerous to assume that this level of funding would actually be adequate to operate a health centre in accordance with PNG standards, particularly the larger rural hospitals which have 20 or 30 inpatient beds and operating theatres.

Some indication of how significantly the NEFC costing study may have underestimated costs can be gained from looking at the current funding levels for church-run health centres and rural hospitals. On the basis of the NEFC costing, the operating costs of running church health facilities in PNG is less than K5 million. The actual funding currently being provided to church health agencies to meet their operating costs (not including the separate salary grant) is K13 million. There is no anecdotal evidence to suggest that church health services are flush with money. Indeed, the opposite is the case. All the evidence is that they do a good job with relatively little resources.

In other words, the actual cost of church health facility operations may well be K13 million, not K5 million. If this is the case, it suggests that the NEFC cost estimates may have underestimated actual costs by as much as 60%.

There are some particular areas where substantial costs of service delivery were not included in the study:

***No capital costs***

No capital costs were incorporated into the costing other than for vehicles, boats and computer equipment. Replacement costs for these assets were allocated over an assumed asset life substantially longer than is usually used.

Provincial governments do have substantial capital cost responsibilities, in particular in relation to roads.

***Road rehabilitation and emergency maintenance costs***

Provincial governments are responsible for between 55% and 65% of the nation's road network. The national Transport Development Plan assumes that the cost of rehabilitating degraded provincial roads is a provincial cost responsibility. A rough estimate of the total capital cost for all provinces is between K7 to K14 billion.

No allowance was made for any capital, rehabilitation or emergency maintenance costs of provincial roads or bridges in the costing study. Only the regular, routine costs of maintenance were included in the costing. The assumed cost was around K10,000 per km per year for a gravel road and K7,000 per km for a sealed road.

***No wage costs***

No casual wage costs were included in the costing study. It was assumed that all necessary staff would be paid as public servants. In some provinces it is possible that there are significant numbers of health workers on the casual payroll. If they were to be no longer employed, this may result in the closure of health facilities. More information is needed before any assessment can be made about whether some essential casual wage costs should in some cases be added into the costing estimates.

***Patient transfers***

Cost estimates for the cost of emergency patient transfers were initially developed on the basis of statistics provided by the Department of Health as to the number of patients requiring emergency transfer from rural areas to provincial hospitals. The first cost estimate for this single expenditure item was over K120 million.

Since this cost represented just one element of the health budget, it was felt that such a large number had the potential to distort budgetary decisions by provinces (ie, that it would justify them spending most of their budget on patient transfers, which the Department advised as already over-prioritised in comparison with preventive expenditures such as adequately funding health centres – which might lessen the need for transfers for far less per capita expenditure). The cost estimates were reduced to around K20 million. Nevertheless, it is recognised that patient transfer expenses are demand-driven and can be very expensive. In determining the cost, it was assumed that transfers were always made by the cheapest possible route. No allowance was made for emergency helicopter flights, for example.

### ***School operating costs***

School operational funding is complicated in PNG because it is funded from four different sources. There has been a general assumption that provincial governments will contribute a total of around K20 million. The national government contributes around K35 million and the remaining costs are met by parents and school fund-raising, or are simply not met.

NEFC did not have the resources to undertake any realistic cost estimate of school operating costs. It was therefore assumed that the existing level of funding for school operations is adequate. It is almost certain that this assumption is not correct. It is hoped that this area of the cost estimates can be revised in future using some of the information collected through the NDoE unit costing study.

### ***Curriculum materials***

Under the national Curriculum Materials Policy, Provincial Governments are responsible for replacing curriculum materials in schools. It is estimated the total stock of school books needs to be replaced every 3-5 years. There was no information readily available on what this might cost, so NEFC simply omitted this cost from the calculation of the total education cost.

We justified not including this cost on the basis that, in the interests of efficient service delivery, this function should be resumed by the national government. In the meantime it is likely that donors will fill the gap. However, we are aware that at least three Provincial Governments spent large amounts of funding (in one case almost all their education funding) on this cost in recent years.

### ***Urban services—water supply and sewerage; urban road maintenance***

A handful of Provincial Governments in PNG are responsible for providing urban services such as water supply and sewerage. We know that they cannot provide these services on a cost recovery basis, because the PNG Waterboard makes a loss in all areas of its operations except its largest district of Lae, revenue from which is used to cross-subsidise its other operations. No cost estimates for these services were included in the costing study because they are asymmetric responsibilities (ie., only undertaken by some provincial government). Road maintenance responsibilities in some of the larger provincial capitals also fall to provincial governments because they are beyond the capacity of local governments.

## Appendix 4: Cost of Services Study: Sectors and Activities

Sector	Services and activities included in costing
Health	<ul style="list-style-type: none"> <li>▪ Delivery of health programs in rural areas (disease control, environmental health, family health, nutrition)</li> <li>▪ Immunisation extension patrols, school visits, training for village birth attendants</li> <li>▪ Operate government-run rural health facilities and urban day clinics</li> <li>▪ Maintain medical and non-medical equipment in all rural health facilities (including vehicles, refrigerators and health radios)</li> <li>▪ Deliver drugs from provincial headquarters to all rural health facilities</li> <li>▪ Provide staff training to &gt;8,000 rural health centre staff</li> <li>▪ Emergency transfer of patients from rural areas to hospital</li> <li>▪ Support establishment and maintenance of village water supplies</li> <li>▪ <i>NOT INCLUDED: aid post and church health worker housing maintenance (included as LLG cost); costs borne by church health agencies in operating church health facilities excluded</i></li> </ul>
HIV	<ul style="list-style-type: none"> <li>▪ Support for HIV committees and grant programs</li> <li>▪ Establish voluntary counselling and testing sites and ensure compliance with national standards</li> <li>▪ Provide voluntary counselling and testing (VCT) training to health workers</li> <li>▪ Maintain and operate rural laboratories</li> <li>▪ Ensure appropriate sharps disposal</li> <li>▪ Distribute condoms and antiretroviral therapy (ART's)</li> </ul>
Education	<ul style="list-style-type: none"> <li>▪ Administer and supervise elementary, primary and secondary education systems including vocational schools: <ul style="list-style-type: none"> <li>➢ approve new school establishment</li> <li>➢ administer examinations</li> <li>➢ assist with inspection visits</li> </ul> </li> <li>▪ Manage teachers (recruitment, deployment, payroll and payment of leave fares where national grant is insufficient)</li> <li>▪ Teacher in-service training</li> <li>▪ Provide education subsidy to schools (Quarter 2 and 4) (existing funding levels assumed to be sufficient)</li> <li>▪ Provide basic educational materials and replacement curriculum materials to schools (only minimal basic ed materials included in costing)</li> <li>▪ Maintain secondary schools (assume 1% of capital cost per year)</li> <li>▪ <i>NOT INCLUDED: Elementary and primary school and teacher housing maintenance (assumed to be LLG responsibility)</i></li> </ul>

Sector	Services and activities included in costing
<b>Agriculture</b>	<ul style="list-style-type: none"> <li>Extension patrols and farmer training to support small-holder agricultural development (including food security and livestock)</li> <li>Provide agency functions to national agricultural agencies including commodity boards and National Agricultural Quarantine and Inspection Authority</li> <li><i>NOT INCLUDED: Extension services for small-scale forestry and fisheries included under those sectors; activities on behalf of National Fisheries Authority not included; government participation in enterprises or funding for projects not included</i></li> </ul>
<b>Infrastructure</b>	<ul style="list-style-type: none"> <li>Maintain 55-70% of PNGs roads (regular, routine maintenance only—K10,500 per km for unsealed roads)</li> <li>Maintain wharves and jetties (except National ports)</li> <li>Maintain rural airtrips</li> <li>Maintain minor power houses</li> <li>Provide communications to districts without Telikom</li> <li>Transport regulation (vehicle registration and licensing; heavy vehicle licensing; small craft safety)</li> <li>Provincial building boards</li> <li><i>NOT INCLUDED: Rehabilitation of roads; maintenance of sector-specific buildings (included under specific sectors) and general admin buildings (included under administration)</i></li> </ul>
<b>Village Courts</b>	<ul style="list-style-type: none"> <li>Pay allowances to 13,000 village courts officials, community police and land mediators</li> <li>Provide flags, badges, uniforms and court forms to village courts</li> <li>Supervise village court operations and undertake audit of financial and court records</li> <li>Fund District Court magistrates' travel for appeals</li> <li>Support provincial law and order committee and enforce Inter-Group Fighting Act</li> <li><i>NOT INCLUDED: support for other law and justice activities including probation and parole (some included under national sectors of CIS, Police)</i></li> </ul>
<b>Administration</b>	<ul style="list-style-type: none"> <li>Office of Governor, Deputy Governor, Administrator, Deputy Administrators</li> <li>Corporate services functions—Budget and revenue collection, Policy and Planning, Human Resources, payroll administration, in-service training, Internal Audit, Legal Services</li> <li>Includes costs of office furniture, computer repair and routine replacement, fax and photocopiers, stationery, utilities, telephone and vehicles or boats</li> <li>Supervision and support for local-level governments</li> <li>Provincial and District Administration building maintenance</li> <li><i>NOT INCLUDED: operating cost of provincial and district treasuries and cash offices; administration overheads of local-level government headquarters and LLG building maintenance</i></li> <li>Politicians' salary, allowances and costs of travelling to meetings are included in main costing study but are not included in the comparison with expenditure.</li> </ul>

Sector	Services and activities included in costing
<b>Other provincial sectors</b>	<ul style="list-style-type: none"><li>▪ Business development: small business training and advisory services</li><li>▪ Community development: family welfare, women, sports</li><li>▪ Land administration: agency functions on behalf of national Dept, liaison over customary land use (see 1999 budget decision)</li><li>▪ Natural resource management and environment: liaison over projects and on behalf of Dept of Environment</li><li>▪ Disaster management: maintain disaster response and mitigation plans and fund disaster response jointly with national government</li></ul>
<b>National sectors</b>	<ul style="list-style-type: none"><li>▪ National Broadcasting Commission: fund operation of provincial radio stations including generator for transmitter as per 1999 budget decision</li><li>▪ Police: provide 25% of provincial headquarters administration cost as per 1999 budget decision</li><li>▪ Correctional services: provide 50% of prisoner detention costs as per 1999 budget decision</li><li>▪ NOT INCLUDED: operating cost of fire services in 12 provinces; operation of urban water supplies and sewerage in some provinces not serviced by Water Board; provision of court infrastructure; provincial and district treasury operations; bilateral arrangements for delegation of responsibilities by individual agencies (eg., birth registration and district integrated community development centres; agency functions on behalf of National Fisheries Authority)</li></ul>

## Appendix 5 Scorecard Methodology

### Provincial Scorecard – Supporting MTDS Priorities

- What sectors did we include in the scorecard?

The 4 MTDS sectors of health (including HIV), agriculture, education & infrastructure

- What do the rankings mean – low, medium high?

High means that a province spent 80% or more in the sector. Medium is between 40% and 79%. Low is below 40%. The calculation is as follows:

$$\frac{\text{Actual expenditure}}{\text{Cost of services estimate (adjusted for fiscal capacity)}}$$

- How did we recognise that not all provinces are equal?

Simply put, if a province received only 50% in revenue of what they need to provide a basic level of service in all sectors then the benchmark for the province would be adjusted to 50% of the cost of services estimate not 100%. In doing this we did not assess and compare it against what it needs to spend but what it can afford to spend.

An example:

Eastern Highlands has a fiscal capacity of 45%. This means it receives 45% of what it needs to provide basic services throughout the province. Let's take health as an example and compare the provinces actual expenditure in health against the NEFC cost of services estimates in health. The calculation in 'A' shows their actual performance without making any adjustment for their fiscal capacity. The calculation in 'B' shows their performance adjusted for their fiscal capacity.

#### A. Performance without adjustment for fiscal capacity

Actual expenditure	1,045,800			
Cost of services estimate	4,076,867	x 100%	=	26%

#### B. Performance adjusted for fiscal capacity

Actual expenditure	1,045,800			
Cost of services estimate	4,000,000	x 45%	=	57%

You can see that Eastern Highlands has spent only 26% of what the NEFC costing study estimates is necessary in health in the province. However, after adjusting the cost estimate by 45%, being the provinces fiscal capacity, we can see that the province achieved a spending level of 57% in the health sector. Whilst this is still well short of the 100% target, it presents a fairer reflection of their performance given their limited capacity. And importantly it enables us to compare provinces of differing capacity by the same measure.

- What do the colours mean?



The darker the shade of green – the better the performance. The darkest shade of green is high, the lightest is low.

- How were the scores calculated?

The maximum score is 100. If a province scored 100 it would mean that they had allocated and spent 100% of what the NEFC cost of services study estimated was required in the four core MTDS sectors. Or for those provinces with a fiscal capacity of less than 100% - they had allocated and spent according to their fiscal capacity. The scoring matrix is set out below.

An example:

In our example above, Eastern Highlands has a fiscal capacity of 45% and achieved an adjusted expenditure level in health of 57%. Accordingly, 57% falls in the medium level 2 band and they would get a score of 13 for health. Their final score would be the cumulative total of all four sectors including health.

The following matrix shows the break-up of the scoring.<sup>64</sup>

#### **Scoring Matrix**

<b>Rank</b>	<b>6 levels</b>	<b>Bands</b>	<b>Health</b>	<b>Agriculture</b>	<b>Education</b>	<b>Infrastructure</b>
High	level 1	101+	25	25	25	25
	level 2	81-100	21	21	21	21
Medium	level 1	61-80	17	17	17	17
	level 2	41-60	13	13	13	13
Low	level 1	21-40	8	8	8	8
	level 2	0-20	4	4	4	4

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<sup>64</sup> The scores in the scoring matrix have been rounded for simplicity of presentation but in reality are a linear series.

## Appendix 6: Table of Teacher Leave Fares

Province	Teacher leave fare grant 2005	Actual leave fare expenditure 2005	Estimated cost of leave fares 2006 using TSC method	Provincial submissions for leave fares 2006	Comment	Teachers Leave Fares 2007	Change 2005-2007
Western	732,400	730,652	600,000	no submission		787,100	107%
Gulf	666,000	300,000	282,500	600,000	2005 Grant is double TSC estimate for 2006. May be higher than normal costs because of remoteness	787,100	118%
Central	1,070,500	1,137,062	663,500	1,200,000	2005 Grant is double 2006 TSC estimate. Would assume higher than normal number of teachers come from province? 2007 grant reduced.	910,600	85%
Milne Bay	732,400	732,400	654,500	774,841		865,600	118%
Oro	605,600	605,600	376,000	286,124	2005 grant is significantly higher than both 2006 submission and 2006 TSC estimate	715,700	118%
Southern Highlands	706,800	706,800	1,123,500	1,194,492	2005 grant is 40% less than both 2006 submission and TSC estimate	835,400	118%
Enga	672,200	672,200	704,000	no submission		794,400	118%
Western Highlands	703,500	703,500	988,000	987,339	2005 grant is 20% less than submission	831,400	118%
Simbu	287,800	287,800	756,000	no submission	No submission, but grant less than half TSC estimate	340,100	118%
Eastern Highlands	769,400	769,400	757,000	no submission		909,300	118%
Morobe	743,700	1,807,012	1,273,500	743,700	Submission is about 40% less than TSC estimate. Grant paid in line with submission.	878,900	118%
Madang	586,300	586,300	870,000	495,188	Submission is about 30% less than TSC estimate.	692,900	118%
East Sepik	732,400	622,705	1,029,000	no submission	2005 grant 30% less than 2006 TSC estimate	865,600	118%
Sandaun	732,400	732,400	588,500	763,688		865,600	118%
Manus	386,700	374,200	232,000	313,699		457,000	118%
New Ireland	657,800	657,800	412,500	626,422		777,400	118%
East New Britain	732,400	732,400	757,000	222,664	2006 submission is 70% less than 2006 TSC estimate, but 2005 grant closer to TSC estimate	859,500	117%
West New Britain	732,400	732,400	628,500	1,302,610	2006 submission is 100% more than 2006 TSC estimate, but 2005 grant closer to TSC estimate	865,600	118%
<b>TOTAL</b>	<b>12,250,700</b>	<b>12,890,631</b>	<b>12,696,000</b>			<b>14,039,200</b>	

TSC method of estimating cost is:  $n(\text{all teachers} - \text{elementary teachers}) \times .25 \times K2000$

Source: TSC and 2007 Budget papers

This table compares the 2005 leave fare grant with 2006 TSC information on (a) the estimated cost of leave fares based on a standard formula applied to the number of teachers and (b) the provincial governments' own submissions on leave fare requirements where those were received. Actual leave fare grants budgeted in 2007 based on that information are shown.

## Appendix 7: Provincial Health Cost Estimate Table<sup>65</sup>

The following table details health costs estimated in the NEFC Cost of Services study. The table supports the discussion on church health facilities in section 8.3.3.

Province	Province-only costs	Cost Prov-run Health Clinics	Total Provincial Costs	Cost Church-run Health Clinics	Provincial & Church Costs (excl Aid Posts & Admin)
<b>Central</b>	2,071,226	61,060	2,132,286	457,951	2,590,237
<b>Eastern Highlands</b>	3,037,665	312,800	3,350,465	295,422	3,645,887
<b>East New Britain</b>	2,201,931	249,897	2,451,828	232,047	2,683,875
<b>Enga</b>	2,378,226	355,083	2,733,309	193,682	2,926,991
<b>East Sepik</b>	4,720,714	280,915	5,001,629	438,930	5,440,559
<b>Gulf</b>	1,614,417	55,625	1,670,041	389,373	2,059,414
<b>Madang</b>	3,405,256	425,970	3,831,226	294,903	4,126,129
<b>Manus</b>	885,695	149,598	1,035,293	64,113	1,099,406
<b>Milne Bay</b>	3,897,160	418,323	4,315,484	653,630	4,969,114
<b>Morobe</b>	4,396,815	650,326	5,047,141	291,526	5,338,667
<b>New Ireland</b>	1,899,402	389,237	2,288,638	204,862	2,493,500
<b>Oro</b>	1,597,642	326,402	1,924,044	116,572	2,040,616
<b>Sandaun</b>	3,445,307	45,966	3,491,274	735,462	4,226,736
<b>Southern Highlands</b>	4,192,320	393,478	4,585,797	495,491	5,081,288
<b>Simbu</b>	2,021,535	346,309	2,367,844	141,672	2,509,516
<b>Western</b>	3,725,551	402,180	4,127,731	680,613	4,808,344
<b>Western Highlands</b>	2,520,307	145,870	2,666,177	291,741	2,957,918
<b>West New Britain</b>	2,548,909	374,630	2,923,539	347,870	3,271,409
	<b>50,560,077</b>	<b>5,383,670</b>	<b>55,943,748</b>	<b>6,325,858</b>	<b>62,269,606</b>

<sup>65</sup> The cost estimates above are based on the NEFC cost of services study.

## Appendix 8: Provincial Health Facilities Cost Estimate Table<sup>66</sup>

The following table details costs for health clinics as estimated in the NEFC Cost of Services study. The table supports the discussion on church health facilities in section 8.3.3.

Province	non-med supplies	MV fuel	boat fuel	fridge op costs	mobile clinics	school visits	VBA training	HC Total	AP supplies	Total
<b>Central</b>	10,475	121,896	79,891	9,265	211,532	68,255	17,697	519,011	4,498	523,509
<b>EHP</b>	22,208	166,756	192,190	14,175	91,475	82,446	38,972	608,222	4,378	612,601
<b>ENB</b>	17,467	198,395	-	11,170	167,954	60,767	26,191	481,944	5,628	487,572
<b>Enga</b>	24,166	150,105	133,856	18,207	132,124	55,021	35,287	548,765	7,747	556,512
<b>ESP</b>	27,143	305,706	-	22,602	245,972	81,345	37,076	719,845	6,753	726,598
<b>Gulf</b>	15,962	37,403	163,134	16,880	150,296	42,449	18,874	444,998	7,283	452,280
<b>Madang</b>	27,825	210,421	65,218	22,091	281,019	72,636	41,662	720,873	8,537	729,410
<b>Manus</b>	6,763	23,767	88,612	2,195	56,974	28,321	7,080	213,711	3,787	217,498
<b>Milne Bay</b>	23,984	116,682	500,997	14,213	288,187	83,431	44,459	1,071,954	7,488	1,079,441
<b>Morobe</b>	22,966	263,725	117,924	18,455	357,639	121,031	40,112	941,852	10,772	952,624
<b>NIP</b>	20,631	111,019	222,657	15,737	145,548	44,808	33,698	594,098	2,419	596,517
<b>Oro</b>	11,002	75,207	116,196	9,532	173,169	42,812	15,057	442,974	3,706	446,680
<b>Sandaun</b>	26,958	160,184	27,501	16,495	343,668	89,153	117,468	781,429	10,149	791,577
<b>SHP</b>	41,260	454,759	-	84,943	140,123	103,379	64,505	888,968	14,407	903,376
<b>Simbu</b>	21,002	288,481	-	12,555	62,339	59,740	43,864	487,981	3,252	491,233
<b>Western</b>	31,639	75,252	471,314	20,202	306,882	115,422	62,082	1,082,793	8,317	1,091,110
<b>WHP</b>	21,694	221,499	-	14,520	92,150	50,383	37,365	437,611	8,415	446,025
<b>WNB</b>	15,350	243,908	199,174	11,880	168,038	52,531	31,619	722,500	4,321	726,821
<b>Total</b>	<b>388,495</b>	<b>3,225,163</b>	<b>2,378,664</b>	<b>335,117</b>	<b>3,415,089</b>	<b>1,253,932</b>	<b>713,069</b>	<b>11,709,529</b>	<b>121,856</b>	<b>11,831,385</b>

<sup>66</sup> The cost estimates above are based on the NEFC cost of services study.

## Appendix 9: Cost of Services Estimate Table (in Kina)

The following table details the cost estimates from the NEFC Cost of Services Study by sector in each Province. Note: the costs relate to recurrent goods & services only.

Province	Admin	Health & HIV	Agriculture	Education	Village Cts	Infrastructure	Other	Total
<b>Western</b>	1,746,294	5,056,853	1,472,173	3,981,783	230,339	9,194,675	2,189,790	23,871,906
<b>Gulf</b>	779,965	2,247,092	847,125	1,842,653	119,470	3,197,527	1,326,620	10,360,451
<b>Central</b>	1,207,633	2,798,848	1,130,913	3,658,149	353,681	7,946,047	2,168,360	19,263,630
<b>Milne Bay</b>	1,471,355	5,186,979	1,147,794	3,712,282	141,994	4,460,770	2,187,365	18,308,539
<b>Oro</b>	1,052,269	2,226,080	739,376	1,740,426	80,133	2,382,030	1,511,071	9,731,385
<b>Southern Highlands</b>	1,663,333	5,735,335	2,016,416	4,691,454	675,632	7,624,697	2,548,367	24,955,234
<b>Enga</b>	1,360,579	3,160,985	1,262,311	3,042,346	403,307	8,069,092	2,008,913	19,307,533
<b>Western Highlands</b>	1,377,627	3,345,712	1,308,939	5,202,482	545,074	11,055,611	2,205,315	25,040,760
<b>Simbu</b>	1,219,970	2,731,618	795,413	3,589,318	446,224	5,465,837	1,645,554	15,893,934
<b>Eastern Highlands</b>	1,311,159	4,076,867	1,270,697	4,709,547	467,683	11,521,819	2,415,537	25,773,309
<b>Morobe</b>	2,175,901	5,751,124	2,269,583	6,375,281	302,759	10,613,094	3,550,605	31,038,347
<b>Madang</b>	1,510,285	4,466,687	1,462,697	2,877,719	234,201	7,318,775	2,642,339	20,512,703
<b>East Sepik</b>	2,124,918	5,757,020	1,563,749	3,891,241	395,542	12,382,320	2,583,125	28,697,915
<b>Sandaun</b>	1,536,576	4,482,424	1,588,437	3,541,442	120,632	4,142,647	1,579,919	16,992,077
<b>Manus</b>	1,092,330	1,160,014	505,738	1,429,070	161,943	2,817,500	1,243,949	8,410,544
<b>New Ireland</b>	1,298,487	2,651,148	652,962	2,137,814	134,696	3,126,126	1,824,364	11,825,597
<b>East New Britain</b>	1,651,272	2,901,154	1,231,512	3,861,513	146,793	6,026,492	2,441,365	18,260,101
<b>West New Britain</b>	1,226,306	3,444,049	1,014,852	3,330,176	257,330	2,390,301	2,128,269	13,791,283
<b>Total</b>	<b>25,806,258</b>	<b>67,179,989</b>	<b>22,280,686</b>	<b>63,614,696</b>	<b>5,217,432</b>	<b>119,735,360</b>	<b>38,200,826</b>	<b>342,035,247</b>

## Appendix 10: Cost of Services Estimate Table (as a % of total costs)

The following table details the cost estimates from the NEFC Cost of Services Study as a percentage of total costs by sector in each Province.  
Note: the costs relate to recurrent goods & services only.

Province	Admin	Health & HIV	Agriculture	Education	Village Cts	Infrastructure	Other	Total
<b>Western</b>	7%	21%	6%	17%	1%	39%	9%	100%
<b>Gulf</b>	8%	22%	8%	18%	1%	31%	13%	100%
<b>Central</b>	6%	15%	6%	19%	2%	41%	11%	100%
<b>Milne Bay</b>	8%	28%	6%	20%	1%	24%	12%	100%
<b>Oro</b>	11%	23%	8%	18%	1%	24%	16%	100%
<b>Southern Highlands</b>	7%	23%	8%	19%	3%	31%	10%	100%
<b>Enga</b>	7%	16%	7%	16%	2%	42%	10%	100%
<b>Western Highlands</b>	6%	13%	5%	21%	2%	44%	9%	100%
<b>Simbu</b>	8%	17%	5%	23%	3%	34%	10%	100%
<b>Eastern Highlands</b>	5%	16%	5%	18%	2%	45%	9%	100%
<b>Morobe</b>	7%	19%	7%	21%	1%	34%	11%	100%
<b>Madang</b>	7%	22%	7%	14%	1%	36%	13%	100%
<b>East Sepik</b>	7%	20%	5%	14%	1%	43%	9%	100%
<b>Sandaun</b>	9%	26%	9%	21%	1%	24%	9%	100%
<b>Manus</b>	13%	14%	6%	17%	2%	33%	15%	100%
<b>New Ireland</b>	11%	22%	6%	18%	1%	26%	15%	100%
<b>East New Britain</b>	9%	16%	7%	21%	1%	33%	13%	100%
<b>West New Britain</b>	9%	25%	7%	24%	2%	17%	15%	100%
<b>Average</b>	<b>8%</b>	<b>20%</b>	<b>7%</b>	<b>19%</b>	<b>2%</b>	<b>35%</b>	<b>11%</b>	<b>100%</b>

## Appendix 11: 2005 Provincial Revenue Table (in Kina)

The following table details the provincial revenues in 2005. Note: revenues that are tagged for specific purposes other than recurrent goods & services are excluded (these revenues include; LLG grants, salary grants, and development funds).

Province	National Government Grants	GST Revenue	Own-Source Revenue	Royalties & Dividends	Total
Western	3,152,600	3,833,700	191,154	42,977,496	50,154,950
Gulf	1,984,000	510,301	300,763	4,216,750	7,011,814
Central	2,381,200	1,071,200	3,708,155	387,815	7,548,370
Milne Bay	2,999,700	2,198,703	622,723	-	5,821,126
Oro	2,321,100	1,355,399	389,243	-	4,065,742
Southern Highlands	6,291,300	1,419,699	3,228,844	30,833,527	41,773,371
Enga	3,455,200	3,174,505	1,823,927	15,981,440	24,435,072
Western Highlands	6,325,100	9,384,004	1,877,376	-	17,586,480
Simbu	3,062,600	1,805,477	585,972	-	5,454,049
Eastern Highlands	5,589,900	5,712,997	772,042	-	12,074,939
Morobe	6,497,300	29,203,603	3,042,161	-	38,743,064
Madang	4,657,900	10,176,197	1,253,296	-	16,087,393
East Sepik	4,226,700	3,002,097	1,988,918	-	9,217,715
Sandaun	2,551,600	1,127,697	1,068,740	-	4,748,037
Manus	942,000	1,099,004	433,676	-	2,474,680
New Ireland	1,888,500	3,789,279	421,916	5,854,791	11,954,486
East New Britain	4,214,800	9,259,193	2,489,283	-	15,963,276
West New Britain	4,647,500	4,362,400	8,406,189	-	17,416,089
<b>Total</b>	<b>67,189,000</b>	<b>92,485,455</b>	<b>32,604,378</b>	<b>100,251,819</b>	<b>292,530,653</b>

## Appendix 12: 2005 Provincial Revenue Table (as a % of total revenue)

The following table details the provincial revenues in 2005 as a percentage of total revenue. Note: revenues that are tagged for specific purposes other than recurrent goods & services are excluded (these revenues include; LLG grants, salary grants, and development funds).

Province	National Government Grants	GST Revenue	Own-Source Revenue	Royalties & Dividends	Total
Western	6%	8%	0%	86%	100%
Gulf	28%	7%	4%	60%	100%
Central	32%	14%	49%	5%	100%
Milne Bay	52%	38%	11%	0%	100%
Oro	57%	33%	10%	0%	100%
Southern Highlands	15%	3%	8%	74%	100%
Enga	14%	13%	7%	65%	100%
Western Highlands	36%	53%	11%	0%	100%
Simbu	56%	33%	11%	0%	100%
Eastern Highlands	46%	47%	6%	0%	100%
Morobe	17%	75%	8%	0%	100%
Madang	29%	63%	8%	0%	100%
East Sepik	46%	33%	22%	0%	100%
Sandaun	54%	24%	23%	0%	100%
Manus	38%	44%	18%	0%	100%
New Ireland	16%	32%	4%	49%	100%
East New Britain	26%	58%	16%	0%	100%
West New Britain	27%	25%	48%	0%	100%
<b>Total</b>	<b>23%</b>	<b>32%</b>	<b>11%</b>	<b>34%</b>	<b>100%</b>



## Appendix 13: Expenditure Data Tables

The reports that follow compare financial data across Provinces<sup>67</sup> and may be useful in providing insight understanding aspects of Provincial priority setting and financial management.

- Expenditure from internal revenue – series 700
- Expenditure from national grant funds – series 200<sup>68</sup>
- Expenditure from both internal revenue and national grant funds

When using the expenditure data tables remember the following:

- The amounts identified as agriculture in this analysis are a subset of the economic category amounts in the data tables that follow. As such the agriculture amounts and the economic category amounts are unlikely to agree.
- The amounts identified as village court allowances in this analysis are a subset of the law & order category amounts in the data tables that follow. As such the village court allowances amounts and the law & order category amounts are unlikely to agree. It is also important to note that Provinces code and record village court allowances in PGAS in a variety of places including; as item 135 recurrent goods and services, and as item 112 recurrent personnel emoluments.

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<sup>67</sup> The financial data comprises data on 18 provinces excluding Bougainville and NCD. Note however that the totals at the foot of each page comprise only the 16 Provinces included in the comparative review – therefore Southern Highlands and Western are not included in the total amounts.

<sup>68</sup> There is a variance of K1.5m between the LLG Transfer total for grant funds (200 series) reflected in certain graphs that present aggregate total provincial expenditure in chapters 4 and 5 within the body of this report and the amount recorded in the data tables that follow. The variance amount has been reallocated, and the amounts recorded in the data tables that follow are correct.

Province	Heading	700 Admin	700 Health	700 Economic	700 Education	700 Law & Order	700 Infrastructure	700 Comm Dev	700 LLG Transfer	700 Other	700 Total
Western	Goods & Services	4,742,028	358,972	608,222	1,290,256	360,783	98,665	287,732	584,031	2,502,451	11,575,211
Western	PE	2,981,283	314,860	101,843	96,566	96,322	98,665	803,651	36,440	-	4,509,631
Western	Capital & Projects	1,040,610	14,840	-	89,400	-	513,268	1,733,138	-	-	3,391,256
Western	Total	8,743,920	688,672	710,066	1,476,222	457,115	1,476,222	2,804,321	620,470	2,502,451	19,476,097
Gulf	Goods & Services	1,303,583	48,896	121,539	191,111	223,842	751,312	770,267	686,535	2,451,908	6,346,239
Gulf	PE	1,256,046	13,111	41,008	97,070	-	2,088,564	1,964	361,202	-	4,376,266
Gulf	Capital & Projects	1,256,046	269,822	41,008	145,707	57,740	2,088,564	1,964	361,202	-	4,376,266
Gulf	Total	3,069,241	318,389	614,652	338,327	281,582	2,794,852	772,231	1,047,736	2,451,908	11,678,888
Central	Goods & Services	1,546,186	18,980	264,822	5,660	408,132	-	714,830	22,964	331,932	3,311,416
Central	PE	1,268,149	-	70,096	-	-	-	3,135	-	-	1,341,380
Central	Capital & Projects	-	-	-	-	-	100,000	-	-	-	100,000
Central	Total	2,814,335	18,980	334,918	5,660	408,132	100,000	717,965	22,964	331,932	4,752,786
Malne Bay	Goods & Services	989,171	28,000	109,298	107,359	11,873	253,041	51,395	884,900	120,654	2,555,651
Malne Bay	PE	1,138,248	261,939	-	-	9,659	-	-	-	-	2,204,071
Malne Bay	Capital & Projects	888,823	31,069	198,724	122,442	-	96,329	130,142	-	300,000	1,707,528
Malne Bay	Total	2,996,242	321,008	307,962	229,800	21,531	1,033,594	181,536	884,900	420,654	4,667,449
Oro	Goods & Services	953,586	5,500	10,000	-	61,927	18,540	34,925	-	109,148	1,062,189
Oro	PE	974,249	-	-	-	-	-	-	-	-	1,062,189
Oro	Capital & Projects	-	-	-	-	-	-	-	-	-	-
Oro	Total	1,537,937	5,500	18,945	-	61,927	18,540	34,925	-	109,148	1,833,585
Southern Highlands	Goods & Services	3,360,884	527,500	532,198	5,043,398	481,068	16,371,213	22,940	1,509,300	20,835,474	48,683,575
Southern Highlands	PE	3,083,958	77,793	280,698	-	1,242,630	14,132	1,267,035	-	-	5,966,246
Southern Highlands	Capital & Projects	988,172	-	60,293	381,265	436,012	170,000	3,295,060	-	-	5,310,509
Southern Highlands	Total	7,413,014	605,293	872,896	5,424,663	2,159,710	16,555,345	4,590,105	1,509,300	20,835,474	59,960,429
Enga	Goods & Services	3,680,057	-	210,851	3,666,543	143,032	1,017,050	823,712	524,950	3,598,312	13,664,507
Enga	PE	1,881,397	-	-	-	-	-	-	-	-	1,881,397
Enga	Capital & Projects	778,416	778,416	1,261,924	4,679,325	68,460	9,418,708	98,280	-	-	16,933,300
Enga	Total	5,561,455	778,416	1,261,924	4,679,325	68,460	9,418,708	98,280	-	-	16,933,300
Western Highlands	Goods & Services	2,538,636	280,000	1,472,774	8,345,865	209,492	10,485,845	1,110,002	524,950	3,598,312	32,353,444
Western Highlands	PE	-	-	-	367,026	57,716	2,237,821	149,851	-	-	5,631,251
Western Highlands	Capital & Projects	1,191,004	-	-	-	935,313	227,656	-	-	-	2,353,974
Western Highlands	Total	3,729,641	280,000	-	1,384,495	993,029	2,465,477	149,851	-	-	9,369,720
Simbu	Goods & Services	388,036	-	-	-	-	-	14,498	-	-	412,534
Simbu	PE	727,040	-	-	-	-	26,400	-	-	-	753,440
Simbu	Capital & Projects	126,500	-	-	-	-	-	-	-	-	126,500
Simbu	Total	1,251,576	-	-	-	-	26,400	-	-	-	1,277,976
Eastern Highlands	Goods & Services	1,906,100	198,300	352,000	77,000	605,000	1,919,000	140,000	180,000	810,000	6,087,400
Eastern Highlands	PE	1,149,500	30,000	8,300	-	100,000	-	125,800	-	100,000	1,555,600
Eastern Highlands	Capital & Projects	-	-	-	-	-	-	-	-	-	225,800
Eastern Highlands	Total	2,955,600	288,300	360,300	77,000	844,000	1,919,000	265,800	180,000	910,000	7,800,000
Morobe	Goods & Services	5,751,059	562,415	331,873	1,462,681	217,159	2,872,830	516,377	2,437,500	653,388	14,805,283
Morobe	PE	7,823,646	3,926,614	167,680	549,717	976	7,200	11,248	-	-	12,487,880
Morobe	Capital & Projects	680,000	-	100,000	2,392,457	4,404,855	141,330	527,625	2,437,500	59,043	3,352,830
Morobe	Total	14,234,706	4,489,028	599,552	4,404,855	218,135	3,021,360	687,652	683,041	712,431	30,645,193
Madang	Goods & Services	2,409,872	353,711	988,783	1,109,658	240,788	94,523	-	-	-	6,899,982
Madang	PE	945,189	50,051	21,850	-	-	-	-	-	-	1,017,090
Madang	Capital & Projects	205,572	67,400	873,767	-	-	-	-	-	-	1,099,032
Madang	Total	3,560,624	477,162	1,084,400	1,109,658	240,788	94,523	-	-	-	9,016,144
East Sepik	Goods & Services	1,650,550	15,000	226,000	6,000	35,000	103,000	-	660,000	1,117,000	3,653,550
East Sepik	PE	-	-	-	-	-	-	-	-	-	1,520,000
East Sepik	Capital & Projects	1,389,000	-	30,000	-	-	834,000	-	-	320,000	1,540,000
East Sepik	Total	2,939,550	15,000	256,000	6,000	35,000	1,037,000	-	660,000	1,437,000	6,382,550
Sandaun	Goods & Services	828,126	50,000	-	189,097	-	-	19,874	265,178	-	1,352,275
Sandaun	PE	766,094	-	-	-	-	-	-	-	-	766,094
Sandaun	Capital & Projects	-	-	-	-	-	-	-	-	-	-
Sandaun	Total	1,594,220	50,000	-	189,097	-	-	19,874	265,178	-	2,118,369
Manus	Goods & Services	822,600	-	13,900	58,000	-	164,500	37,000	-	80,000	1,176,000
Manus	PE	331,400	-	-	-	-	-	-	-	-	368,400
Manus	Capital & Projects	-	-	-	-	-	-	-	-	-	-
Manus	Total	1,154,000	-	13,900	58,000	-	164,500	37,000	-	80,000	1,544,400
New Ireland	Goods & Services	2,327,725	353,711	1,286,531	859,658	166,676	321,315	210,335	182,150	20,674	5,828,777
New Ireland	PE	945,189	50,051	21,850	-	-	-	-	-	-	1,017,090
New Ireland	Capital & Projects	117,683	67,400	626,029	150,000	74,112	321,315	1,635,023	182,150	20,674	2,670,247
New Ireland	Total	3,390,597	471,162	1,934,410	1,009,658	240,788	321,315	1,845,358	296,612	226,871	9,516,114
East New Britain	Goods & Services	4,379,242	153,787	935,318	986,173	224,933	98,726	71,532	-	-	10,559,573
East New Britain	PE	1,574,644	51,846	327,544	100,882	-	-	-	-	-	2,241,247
East New Britain	Capital & Projects	-	-	-	-	-	-	-	-	-	208,306
East New Britain	Total	5,953,886	205,633	1,262,862	1,087,055	224,933	98,726	71,532	208,306	-	13,008,126
West New Britain	Goods & Services	1,029,216	507,259	394,000	1,571,954	240,788	7,989	310,933	1,664,812	2,865,512	10,066,677
West New Britain	PE	1,029,216	507,259	394,000	1,571,954	240,788	7,989	310,933	1,664,812	2,865,512	10,066,677
West New Britain	Capital & Projects	321,620	-	-	-	-	55,000	-	6,679	-	181,697
West New Britain	Total	3,006,916	1,182,063	409,290	1,571,954	240,788	61,989	321,929	1,671,120	3,050,195	12,618,975
16 Provinces	Goods & Services	32,521,809	2,739,115	5,234,130	10,747,068	2,683,794	13,417,137	4,979,135	8,488,071	12,656,641	93,466,900
16 Provinces	PE	23,687,120	4,939,750	698,406	653,569	1,115,752	1,333,730	239,331	368,081	310,357	33,346,095
16 Provinces	Capital & Projects	3,538,808	1,208,766	3,337,719	8,873,719	546,312	12,589,011	3,537,257	208,306	729,043	33,766,681
16 Provinces	Total	59,747,736	8,887,631	9,469,996	20,274,356	4,347,868	27,339,878	7,751,724	9,064,457	13,696,041	160,579,676

Province	Heading	Admin		Health	Economic		Education	Law & Order		Infrastructure	Comm Dev		LLG Transfer	Other		Total
		200	200		200	200		200	200		200	200		200	200	
Western	Goods & Services	157,499	202,256		23,731	483,652		68,928		210,000		279,666	870,600			1,947,716
Western	PE	86,932				736,630									1,166,178	
Western	Capital & Projects	244,431	202,256		23,731	1,214,282		68,928		700,000		279,666	870,600		159,586	
Western	Total	586,430	440,277		247,119	512,216		137,856		1,410,000		559,332	1,741,200		1,599,586	
Gulf	Goods & Services	142,459	13,270		1,200	300,000		82,609		253,018		34,435	364,447			2,799,359
Gulf	PE	333,026													894,138	
Gulf	Capital & Projects	343,680	812,216		140,026	2,833,430		145,901		450,000		34,435	1,023,047		1,446,706	
Gulf	Total	1,081,998	1,624,286		280,026	5,633,860		287,535		900,018		68,465	2,046,047		3,235,982	
Central	Goods & Services	979,619	253,649		136,313	1,431,378		124,836		187,974		11,931	129,600		269,200	
Central	PE	143,123	43,261												577,127	
Central	Capital & Projects	307,338	307,338		307,338	2,063,430		145,901		187,974		11,931	521,700		269,200	
Central	Total	1,229,742	1,604,286		614,651	3,494,808		272,737		376,949		23,862	1,103,300		848,100	
Milne Bay	Goods & Services	698,100	292,200		413,200	1,024,300		270,400		187,974		96,000	848,100			3,921,400
Milne Bay	PE	510,900			40,700	732,400									448,900	
Milne Bay	Capital & Projects	121,500	10,000		169,300	15,000		126,100		7,000		7,000				564,300
Milne Bay	Total	1,330,500	302,200		623,200	2,771,700		407,400		103,000		13,000	848,100			6,104,691
Oro	Goods & Services	336,832	230,999		178,754	788,285		81,972		407,923		9,355	293,100			1,841,596
Oro	PE	91,921				405,400									841,596	
Oro	Capital & Projects	113,569	230,999		70,792	1,193,685		59,372		407,923		9,355	1,021,500		415,946	
Oro	Total	542,322	462,998		249,546	2,394,365		110,762		815,845		19,991	1,892,700		1,000,000	6,890,207
Southern Highlands	Goods & Services	799,501	1,859,387		104,418	1,793,674		303,609		14,927		21,991	1,921,500			2,806,549
Southern Highlands	PE	454,372	420,049		24,861	792,800		4,918		4,992			1,104,558			800,000
Southern Highlands	Capital & Projects															10,496,756
Southern Highlands	Total	1,253,872	2,279,436		129,280	2,586,474		308,527		19,918		21,991	2,987,258		100,000	9,215,800
Enga	Goods & Services	594,900	786,800		98,200	1,681,000		258,900		300,700		52,500	944,700			9,215,800
Enga	PE	157,200													3,827,000	
Enga	Capital & Projects	39,000				324,200									1,243,600	
Enga	Total	791														5,472,600
Eastern Highlands	Goods & Services	1,060,600	847,500		106,900	1,687,000		258,900		300,700		206,000	1,510,300		250,000	5,472,600
Eastern Highlands	PE	514,100	55,000		200,700	793,400		371,500		20,700		13,400	326,500		4,000	7,478,600
Eastern Highlands	Capital & Projects															2,295,300
Eastern Highlands	Total	1,574,700	902,500		890,300	2,655,900		383,500		635,000		22,800	1,976,200		250,000	9,294,900
Monrovia	Goods & Services	13,666	486,952		188,133	778,949		959,547		1,323,916		3,089,178	248,656		254,000	9,294,900
Monrovia	PE	143,310	85,875		324,729	1,340,314		38,386		5,468		10,257	1,388,094		42,255	3,778,688
Monrovia	Capital & Projects															704,630
Monrovia	Total	229,735	572,827		522,863	2,594,157		987,934		1,329,384		52,773	4,457,271		290,912	11,204,831
Madang	Goods & Services	463,500	686,100		149,200	1,690,100		237,600		815,600		191,600	1,476,700		61,100	5,771,500
Madang	PE	244,800	82,800		115,300	614,300		5,500		9,300		12,500	478,400		5,500	1,586,400
Madang	Capital & Projects															105,600
Madang	Total	708,300	768,900		264,500	2,304,400		243,100		824,900		204,100	1,955,100		66,600	7,443,500
East Sepik	Goods & Services	534,406	598,351		370,600	1,321,944		63,328		288,795		62,393	1,322,595		85,211	3,254,302
East Sepik	PE	372,681	39,508		81,701	642,678		313,665		53,745		6,467	560,200			2,584,392
East Sepik	Capital & Projects															3,575,030
East Sepik	Total	1,097,763	939,022		262,202	2,664,622		376,984		3,781,869		93,860	2,002,795		85,211	10,604,338
Sandaun	Goods & Services	613,151	212,038		323,407	773,573		92,965		774,469		147,813	668,200		19,989	3,625,606
Sandaun	PE	508,018	58,677			732,400							551,200		300,000	1,850,295
Sandaun	Capital & Projects															5,775,900
Sandaun	Total	1,121,169	570,715		323,407	1,505,973		92,965		774,469		147,813	1,219,400		19,989	3,625,606
Manus	Goods & Services	43,400	298,300		48,100	341,600		121,900		111,600			189,400		1,154,300	1,154,300
Manus	PE	69,500	74,000		25,000	374,200							325,400			868,100
Manus	Capital & Projects															
Manus	Total	112,900	372,300		73,100	715,800		121,900		111,600			514,800			2,022,400
New Ireland	Goods & Services	18,100	134,900			787,200									1,751,200	2,691,400
New Ireland	PE	143,900	90,000			657,800										1,428,000
New Ireland	Capital & Projects															
New Ireland	Total	162,000	224,900			1,445,000										250,000
East New Britain	Goods & Services	745,600	208,400		129,600	1,332,900		115,500		700,200			929,800		5,070,600	4,327,216
East New Britain	PE	125,100	686,200		25,600	732,400							968,600		249,216	2,181,200
East New Britain	Capital & Projects															3,330,400
East New Britain	Total	870,700	895,200		155,200	1,965,300		138,300		1,408,600			249,216		10,000,000	10,000,000
West New Britain	Goods & Services	617,671	502,430		299,726	1,070,613									4,280,463	4,280,463
West New Britain	PE	102,356	24,112			737,242		126,407								1,382,417
West New Britain	Capital & Projects															
West New Britain	Total	800,027	526,542		1,149,726	1,807,855		126,407		1,084,822			1,072,500		706,674	7,279,553
16 Provinces	Goods & Services	7,300,796	4,188,746		16,344,732	2,294,220		10,545,507		670,945		670,945	18,528,318		1,353,318	69,011,558
16 Provinces	PE	3,894,043	1,646,275		811,763	10,978,812		2,146,379		131,713			7,367,194		47,755	27,107,058
16 Provinces	Capital & Projects	1,086,830	339,990		2,111,973	489,895		8,245,639		145,000			4,306,674		4,306,674	16,726,000
16 Provinces	Total	12,286,147	9,287,061		27,813,439	4,440,589		18,922,859		8,925,639			25,893,212		5,707,747	112,844,615

Province	Heading	2007/00 Admin	2007/00 Health	2007/00 Economic	2007/00 Education	2007/00 Law & Order	2007/00 Infrastructure	2007/00 Comm Dev	2007/00 LLG Transfer	2007/00 Other	2007/00 Total	200 Total	700 Total
Western	Goods & Services	4,899,527	561,228	631,953	1,773,886	360,793	1,070,728	267,732	1,454,631	2,502,451	13,522,927	1,947,716	11,575,211
Western	PE	3,048,215	314,860	101,843	873,218	165,250	98,665	1,083,317	36,440	-	5,675,809	1,166,178	4,509,631
Western	Capital & Projects	1,040,610	14,840	-	89,400	526,043	1,213,268	1,733,138	1,491,070	159,586	4,250,841	859,586	3,391,256
Western	Total	8,988,352	890,928	733,797	2,690,504	892,043	2,382,861	3,084,187	3,084,187	2,662,036	23,449,577	3,973,479	19,476,097
Gulf	Goods & Services	1,890,013	487,173	388,658	692,573	281,259	1,004,330	804,702	1,354,982	2,451,908	9,335,597	2,799,359	6,536,239
Gulf	PE	669,508	15,261	17,298	302,970	82,609	4,894	1,964	715,802	-	1,810,394	884,138	916,256
Gulf	Capital & Projects	1,591,635	269,482	820,696	145,000	57,740	2,488,556	-	-	-	5,373,109	1,146,706	4,226,403
Gulf	Total	4,151,156	771,915	1,206,652	1,440,543	421,608	3,497,870	806,666	2,070,783	2,451,908	16,519,100	4,840,202	11,678,898
Central	Goods & Services	2,525,805	270,639	401,136	927,612	429,197	187,974	726,762	415,064	601,132	6,485,321	3,173,905	3,311,416
Central	PE	1,411,272	43,261	83,121	1,141,378	124,836	100,000	3,135	129,600	-	2,936,602	1,341,360	1,595,242
Central	Capital & Projects	4,500,000	313,900	55,000	2,088,900	554,033	292,314	729,897	544,664	801,132	9,425,633	3,050,000	100,000
Central	Total	8,437,077	1,027,594	541,156	3,159,490	1,106,069	472,314	1,459,694	1,089,328	1,402,232	15,940,554	5,565,365	10,375,189
Milne Bay	Goods & Services	1,697,271	320,200	522,455	1,131,659	282,273	532,141	147,395	1,733,000	120,654	9,425,633	3,050,000	100,000
Milne Bay	PE	1,699,148	261,639	400,724	732,400	794,225	794,225	3,295,060	3,084,071	300,000	11,848,071	1,284,000	2,004,071
Milne Bay	Capital & Projects	980,323	41,069	368,024	137,442	9,659	182,429	137,442	-	-	2,156,428	448,900	1,707,528
Milne Bay	Total	4,326,742	623,208	931,182	2,001,500	291,931	1,508,794	294,536	1,733,000	420,654	12,121,547	5,654,300	6,467,249
Oro	Goods & Services	900,520	236,499	187,699	788,285	70,124	454,586	44,280	728,400	525,094	3,935,487	310,461	3,625,026
Oro	PE	1,066,170	-	10,000	405,400	51,175	18,540	-	293,100	-	1,844,385	841,596	1,002,789
Oro	Capital & Projects	113,569	-	70,792	-	-	-	-	-	-	184,361	184,361	-
Oro	Total	2,080,259	236,499	268,491	1,193,685	121,299	473,126	44,280	1,021,500	525,094	5,964,233	4,130,648	1,833,585
Southern Highlands	Goods & Services	4,160,385	2,386,887	636,616	6,837,072	784,678	16,386,140	44,631	3,402,000	20,935,474	55,573,882	6,890,207	48,683,675
Southern Highlands	PE	3,538,330	497,841	305,560	792,800	19,124	1,247,548	1,267,035	1,104,558	-	8,772,795	2,806,549	5,966,246
Southern Highlands	Capital & Projects	988,172	-	60,000	381,265	4,36,012	970,000	3,295,060	3,295,060	-	6,110,509	800,000	5,310,509
Southern Highlands	Total	8,686,886	2,884,729	1,002,176	8,011,137	2,468,237	17,375,263	4,606,725	4,506,558	20,935,474	70,457,186	10,496,756	59,960,429
Enga	Goods & Services	4,274,957	786,800	309,051	4,434,643	172,032	2,046,350	836,712	1,664,650	3,958,312	18,123,507	4,459,000	13,664,507
Enga	PE	2,038,597	-	-	747,200	432,800	98,280	98,280	538,400	-	3,855,287	1,875,600	1,979,687
Enga	Capital & Projects	-	773,416	1,594,624	4,679,325	66,480	9,648,796	190,000	19,802,820	2,850,000	41,781,614	3,412,900	16,389,920
Enga	Total	6,313,555	1,560,216	1,903,674	9,861,168	671,292	11,695,145	1,125,002	2,203,650	6,446,312	64,965,401	5,360,500	59,604,901
Western Highlands	Goods & Services	2,723,636	1,175,900	1,025,500	1,474,626	61,316	4,418,421	149,851	1,942,500	-	12,991,851	7,360,600	5,631,251
Western Highlands	PE	1,385,504	-	-	1,474,626	1,479,313	227,656	-	473,200	-	4,341,164	1,585,200	2,755,964
Western Highlands	Capital & Projects	-	-	-	1,384,490	-	-	-	-	-	1,384,490	-	-
Western Highlands	Total	4,109,141	1,175,900	1,025,500	3,562,622	1,500,629	4,646,077	149,851	2,415,700	-	18,585,522	9,215,800	9,380,215
Simbu	Goods & Services	736,536	488,000	80,900	1,382,800	258,900	4,646,077	66,988	944,700	-	4,239,534	382,700	4,125,534
Simbu	PE	954,540	59,800	26,000	324,200	26,400	26,400	40,500	565,600	-	1,997,040	1,243,600	753,440
Simbu	Capital & Projects	165,500	-	-	-	-	-	113,000	250,000	-	528,500	402,000	126,500
Simbu	Total	1,856,576	547,800	106,900	1,687,000	258,900	327,100	220,498	1,510,300	250,000	6,765,074	5,472,600	1,292,474
Eastern Highlands	Goods & Services	2,866,700	1,045,800	1,041,600	1,939,500	617,000	2,533,300	149,400	1,829,700	814,000	12,837,000	6,749,600	6,087,400
Eastern Highlands	PE	1,663,600	145,000	209,000	793,400	510,500	20,700	3,265,000	3,782,100	100,000	12,837,000	2,296,300	1,486,800
Eastern Highlands	Capital & Projects	-	-	-	-	100,000	2,554,000	125,800	215,600	250,000	475,800	250,000	225,800
Eastern Highlands	Total	4,530,300	1,190,800	1,250,600	2,732,900	1,227,500	2,588,000	288,600	2,045,300	1,164,000	17,094,900	9,294,900	7,800,000
Morobe	Goods & Services	5,764,725	1,049,366	530,006	2,241,630	1,176,706	4,196,746	558,894	5,056,076	902,045	21,926,795	7,121,512	14,805,283
Morobe	PE	7,966,956	4,012,489	492,409	8,990,951	39,362	12,668	21,504	13,888,094	42,255	15,865,768	3,378,688	12,487,080
Morobe	Capital & Projects	889,735	-	100,000	2,867,352	141,330	141,330	-	6,994,771	59,043	4,057,460	704,630	3,352,830
Morobe	Total	14,621,416	5,061,855	1,122,415	6,999,013	1,216,068	4,300,744	580,398	6,994,771	1,003,343	41,850,023	11,204,831	30,645,193
Nadang	Goods & Services	2,873,372	1,039,811	1,137,993	2,799,758	478,388	910,123	880,382	2,159,741	391,942	12,671,492	5,771,500	6,999,992
Nadang	PE	1,169,989	132,651	137,150	614,300	5,500	9,300	12,500	478,400	-	2,585,490	1,568,400	1,017,090
Nadang	Capital & Projects	4,058,642	1,251,050	2,793,267	3,414,058	483,888	919,423	1,342,453	16,094,832	397,442	16,094,832	7,105,600	8,989,232
Nadang	Total	8,092,003	2,422,512	2,069,209	6,827,106	972,176	1,421,711	1,495,435	17,889,964	794,884	34,862,160	13,645,400	21,216,760
East Sepik	Goods & Services	551,357	366,993	366,993	1,327,944	98,328	390,785	62,983	2,082,985	1,202,211	8,153,556	4,444,006	3,709,550
East Sepik	PE	372,681	69,508	69,508	642,678	313,665	154,745	6,467	580,200	320,000	4,104,302	2,584,302	1,520,000
East Sepik	Capital & Projects	29,990	-	81,701	-	-	-	25,000	4,730,030	-	3,578,030	1,154,000	-
East Sepik	Total	4,034,313	954,022	518,202	1,970,622	411,994	4,818,869	93,860	2,662,795	1,522,211	16,986,888	10,604,338	6,382,550
Sandaun	Goods & Services	1,441,277	262,038	323,407	962,670	774,469	774,469	167,687	933,378	19,989	4,977,881	3,625,606	1,352,275
Sandaun	PE	1,274,112	58,677	-	732,400	-	-	-	551,200	-	2,616,389	1,850,295	766,094
Sandaun	Capital & Projects	-	-	-	-	-	-	-	-	-	300,000	300,000	-
Sandaun	Total	2,715,389	620,715	323,407	1,695,070	774,469	774,469	167,687	1,484,578	19,989	7,894,269	5,775,900	2,118,369
Manus	Goods & Services	866,000	298,300	62,000	399,600	121,900	276,100	37,000	189,400	80,000	2,330,300	1,154,300	1,176,000
Manus	PE	400,900	74,000	25,000	374,200	-	-	37,000	325,400	-	1,236,500	868,100	368,400
Manus	Capital & Projects	-	-	-	-	-	-	-	-	-	-	-	-
Manus	Total	1,266,900	372,300	87,000	773,800	121,900	276,100	74,000	514,800	80,000	3,566,800	2,022,400	1,544,400
New Ireland	Goods & Services	2,345,825	488,611	1,286,531	1,746,858	166,676	321,315	210,335	1,933,350	20,674	8,520,177	2,691,400	5,828,777
New Ireland	PE	1,089,089	140,051	21,850	657,800	115,500	74,112	1,635,023	421,800	-	2,446,090	1,429,000	1,017,090
New Ireland	Capital & Projects	117,683	67,400	626,029	150,000	74,112	700,200	250,000	2,355,160	250,000	3,620,447	950,200	2,670,247
New Ireland	Total	3,552,597	692,062	1,944,410	2,554,658	366,288	1,021,515	1,845,353	2,708,674	500,000	14,586,714	5,070,600	9,516,114
East New Britain	Goods & Services	1,699,744	786,646	353,144	833,262	330,000	3,300,000	71,532	1,496,749	416,032	13,567,749	3,181,200	10,386,549
East New Britain	PE	1,699,744	786,646	353,144	833,262	330,000	3,300,000	71,532	1,496,749	416,032	13,567,749	3,181,200	10,386,549
East New Britain	Capital & Projects	-	-	-	-	-	-	-	-	-	3,506,306	3,000,000	208,306
East New Britain	Total	6,824,566	1,100,833	1,418,062	3,052,355	363,233	3,300,000	568,286	2,003,518	492,159	23,017,542	10,008,416	13,009,126
West New Britain	Goods & Services	2,247,647	1,177,235	684,027	2,642,627	287,715	1,862,021	310,555	2,369,441	2,805,912	14,387,120	4,280,463	10,106,657
West New Britain	PE	1,157,675	531,371	24,989	737,242	157,211	55,000	16,163	194,284	194,284	3,253,114	1,362,417	1,890,697
West New Britain	Capital & Projects	401,620	-	850,000	-	250,000	1,917,021	-	756,674	756,674	2,258,294	1,636,674	621,620
West New Britain	Total	3,806,943	1,708,605	1,559,016	3,379,869	694,927	2,748,620	326,719	2,748,620	1,909,960	19,898,528	7,279,553	12,618,975
16 Provinces	Goods & Services	40,339,083	10,039,910	9,392,877	27,091,800	4,978,015	23,962,644	5,650,080	27,014,089	14,009,960	162,478,458	69,011,557	93,466,906
16 Provinces	PE	27,5											





