



National Economic and Fiscal Commission

CLOSING THE GAP

**REVIEW OF ALL EXPENDITURE IN 2007
BY PROVINCIAL GOVERNMENTS**

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FOREWARD

It gives me great pleasure to introduce ***Closing the Gap***, the Provincial Expenditure Review of 2007. In ***Closing the Gap*** we explore the emerging trends in provincial expenditure patterns. We now have a time series spanning the 2005-2007 fiscal years. Are we improving? Are we maintaining our position? Or are we going backwards? And which provinces and which sectors are seeing changes in their expenditure performance? This report offers an essential starting point for answering these questions and for identifying issues that impact and impede the chain of activities that together enable service delivery.

At the National Economic and Fiscal Commission (NEFC), we have been overwhelmed by the thirst for evidence-based information across the country. People want to know. People want basic services to improve. And people want to know how their community compares to others and what they might learn from others. NEFC's objective is clear: we want to positively contribute to ensuring essential services are delivered to the many, and not the few, throughout our country. Our provincial expenditure reviews identify impediments and promote ways to improve essential service delivery- better healthcare, better schooling, better economic opportunities and better maintained infrastructure including roads, bridges and airstrips that facilitate the movement of people and goods for market.

As I write this at the end of 2008, I look back at a transformative year. On 16 July 2008, the National Parliament unanimously voted the mandatory second time for a fundamental change in the way we distribute funds across our country. Going forward, National Government recurrent goods and service grant funding to Provincial and Local-level Governments is based on need – assisting those Provinces that need more funds to provide basic services to all our people. This transformative reform provides the theme of this report- closing the gap. The intergovernmental financing reforms will help address the **funding gap** of many provinces- that is, provinces lacking anywhere near sufficient funds to provide a minimum set of core services. As part of the reform of the intergovernmental financing arrangements, the Department of Treasury has also issued Budget and Expenditure Instructions that specify *Minimum Priority Activities (MPAs)*- which are selected activities that are essential services that must be funded by Provincial Administrations. If these activities are not funded and carried out, it will undermine all other attempts to provide all services. This is all part of closing the **priority gap**; that is, provinces not prioritising core service delivery in their budgeting and expenditure management decisions. The closing of these twin gaps is essential to ensuring that services are delivered to the many and are discussed in the chapter, *Attacking the Gap – RIGFA*.

But what is service delivery and what are the essential ingredients in making it happen?

As you read the award winning article reproduced from *Post Courier*, remember always that it is people like Esther that the Government is seeking to serve. Providing adequate healthcare to women in childbirth is a fundamental activity – one that impacts at some time on every family in every community. Yet the activity relies on money to make it happen. Money to ensure the aid post is operational and is stocked with basic medical supplies, money to ensure patients who are critically ill can be transferred to a health facility that has properly trained staff and the necessary equipment to attend to their condition, and money to ensure that the health facility they are transferred to is functional. If the right amount of money is not available at the right time at the right place for use by the right people, the consequences to the patient, in this case the mother and child, is literally life and death.

In Esther's story, the resourcefulness of the people involved allowed a happy outcome. As we know, however, this is not always the case. People, whose lives could be saved, die. Papua New Guinea has higher rates of women and children dying in childbirth than was the case a decade ago. Many of us have experienced it within our own communities, perhaps even our own families. In November 2007, NEFC officers visited a health centre in the Markham District and saw for themselves a case very similar to Esther's story. This is not a theory or academic exercise. This is the reality that our people experience.

This is the challenge. We need all tiers of government to better prioritise basic service delivery in their budgeting and expenditure management decisions. We need the right amount of money to reach the right place to enable effective service delivery. I believe we can do this and this report provides evidence of several provinces increasingly improving their spending on core service delivery. These are Western, Morobe, Enga and Milne Bay provinces. As these provinces demonstrate, this requires our using our money wisely and being resourceful like the people in Esther's Story. We can improve the level of service we provide to our people. ***We can and must close the gap.***

Nao Badu

Chairman and CEO

National Economic and Fiscal Commission

January 2009

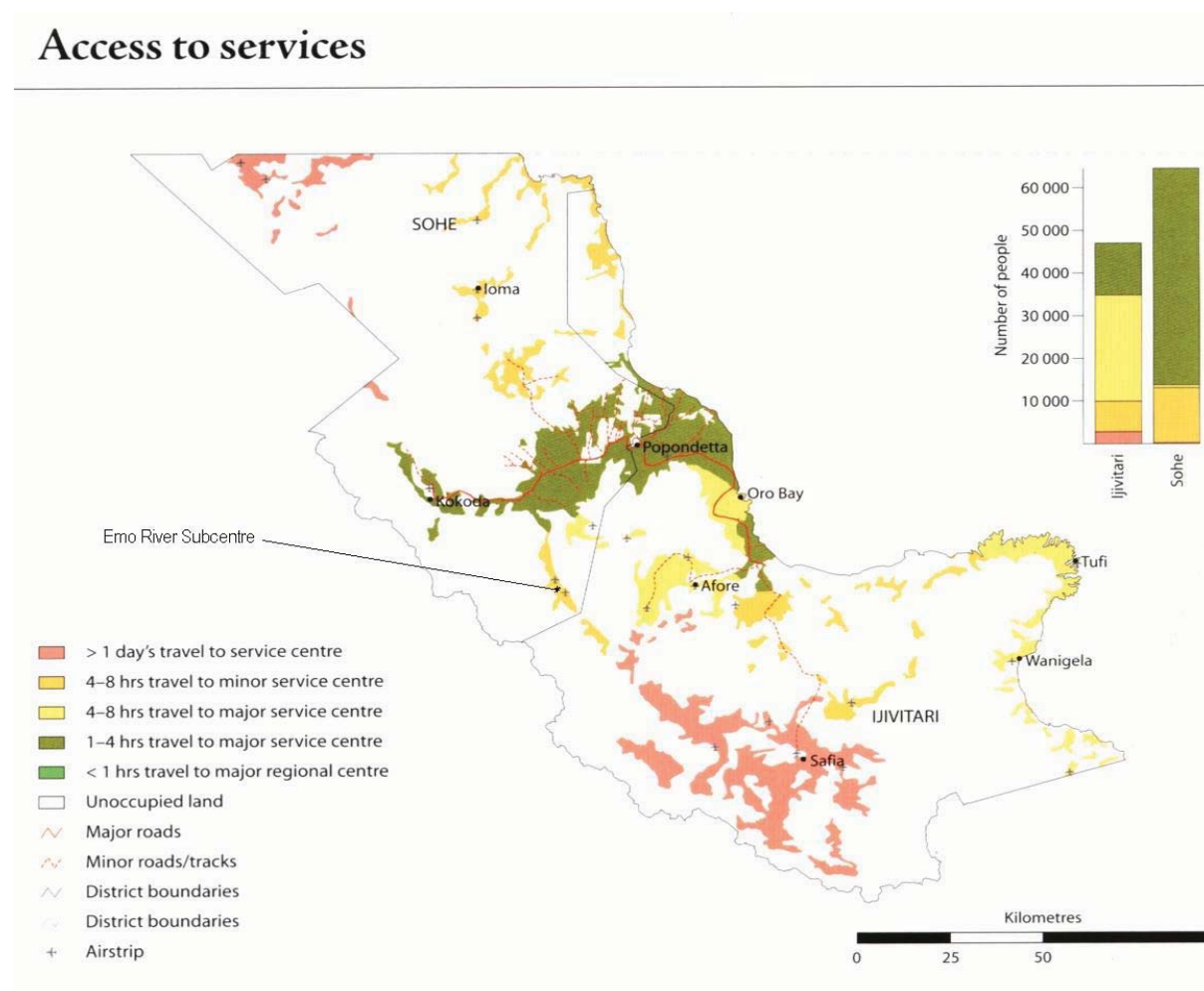
The award winning article that follows is reproduced with permission from the author Simon Erero from the Post Courier.

Rescue 911 – The Fuzzy Wuzzy Angel way

Walking two days non-stop through the difficult country to get a very sick mother to hospital was in itself a rewriting of the story of the famous Fuzzy Wuzzy Angels, Simon Erero writes...

Esther Jobove is a 38 years old mother of 8 children. She comes from Uruambo Village, located about 10, 000 metres above sea level in the Sohe District of Oro Province. To get to her village from Popondetta, she would jump on a PMV; bound for Kokoda and get off at Eivo Village. She then would walk for approximately 3 days before getting to her village.

Access to services



For her recent baby, she was attending the Emo River Sub-Health Centre for her antenatal care. Apart from this being her eighth child making this pregnancy a very “high-risk”, she was also quite anaemic. She received her routine antenatal care. Everyone thought all would go well because her previous seven deliveries were at the Health Sub-centre and were without incident. The Emo River Health Sub-centre is run by a Nursing Officer who is the Officer-in-Charge (OIC).

Esther went into spontaneous labour on the 5th of August, 2008, and delivered a healthy male infant weighing 3.35 kg without an incident at 10 o'clock in the night. Then trouble began.

She could not deliver her placenta; hence began to bleed profusely.

This complication is common among mothers after delivery; and is even more common in those with more than three babies. This condition, known medically as '**post-partum haemorrhage**' (PPH), is a known killer in woman and is a significant contributor to maternal deaths. **Retained placenta** is another complication that further makes PPH worse.

The OIC tried to stop the haemorrhage by resuscitating with intravenous fluids and attempted manual removal. All two failed. At 8 o'clock in the morning the next day (6th August, 2008) he called the Popondetta General Hospital and consulted the Specialist Obstetrician and Gynaecologist. He was given some advice, and was asked to try again with another attempt at manual removal of the placenta. Meanwhile the Obstetrician contacted the Rural Health sector of the Provincial Health and sought ways to get to the mother. The quickest way to get there was by a helicopter.



Attempts to get a helicopter from Port Moresby were made difficult with no funding available or emergency cash to obtain the money for such emergencies. Telephone calls to the Department of Health were being transferred from one section to another, wasting valuable time. The local politician's office was sought for immediate assistance to get a medivac. After several attempts, the OIC was told to do his best and pray that a miracle would happen.

They built the stretcher from the trees and vines from the bush and transported the mother on foot down to Eiwo village near the Kumusi River. They ran for two days through tough mountainous terrain and crossed big rivers to get to the Kokoda Highway. The cyclone Guba had caused extensive damages along their track, however, they had a life to save and therefore ran all the way to the Highway. On arrival at the Highway, they got on a PMV to Saiho Health Centre where they were picked up by the Rural Health Vehicle.

The mother is currently recovering slowly at the Hospital under the care of the Obstetrician and his team. After stabilising her for 48 hours, a manual removal was done. She is doing well. The husband will have vasectomy before they return home.



The story presented here is but one such example of several thousand that occur daily in our country. In PNG, about 3 – 4 mothers are dying daily from such childbirth complications. Not many survive like Esther in this story. The government and the stake-holders, in particular the Department of Health, have recently commented on the very high maternal mortality ratio (MMR) in this country. Whilst it reflects the difficulty in accessing essential obstetric care by our women, the **maternal mortality ratio (MMR)** is also an indicator of a nation's economic wellbeing.

In Papua New Guinea, the politicians are boasting that our economy is improving and is better than in previous years. However, a very high MMR from the recent survey (2006 DHS) says quite the opposite. Rather than improve like the economy, the MMR figures are contradictory and reflect the opposite of a sound economic climate. It is portraying the exact situation faced by the people of this nation; we are struggling.

Our MMR figures are in par with most African countries robbed by civil wars, coups and man-made famines. We fare worse in the Pacific; in particular among our Melanesian brothers and sisters, when we are supposed to be well ahead of them in economic and health matters.

The government has a very high regard for our womenfolk; mothers in particular, as it mentions '**safe motherhood**' as one of its goals to achieve in its **Medium Term Development Goal (MTDG)**. Policies and guidelines to achieve the goal are in place. Yet, something is missing somewhere.

The Health Department, in its recent Corporate Plan has identified '**safe motherhood**' as one of its targets to combat up front. Stake-holders and the Health Department are discussing policies and strategies to take on the mammoth task of reducing the very high MMR; a mission possible. Mothers continue to die as they are discussing.

Difficulties encountered in getting Esther to Popondetta General Hospital just highlighted one fact. That is, there are people dedicated and committed in ensuring mothers do not die from childbirth complications. The clinical knowledge is there. Those on the ground can do whatever is available to ensure mothers are safe. Nevertheless, an urgent practical solution is now mandatory to ensure those who will need urgent referral in such remote places to main hospitals are in place and **operational**.

Considering how challenging and complicated our geography is, one practical solution may be to create a centralised trust account nationally to assist in emergency rescues only and outsourced to private firm to manage. An agreement should also be made with helicopter and airline companies to fly out for medivac and submit papers for payment on completing the task. It will be the responsibility of the firm looking after the trust account to pay the rescue company on time. This may sound foolish, but, that is actually what the people on the ground and who are responsible for those lives think.

Well, that is only one tiny component of the solution, but it is practical and will go a long way in helping reduce the high MMR. As we continue discussing ways to reduce the high MMR, let us allow the money do what it is supposed to do, **save lives** out there in the most remote places now.

EXECUTIVE SUMMARY

Closing the Gap

We must close the gap. But what gap are we referring to? Ultimately the gap is the services we do not provide to our people. And, in part, this is a result of inadequate funding to make these services happen.

There are two reasons for the inadequate funding of service delivery. For some it is due to a lack of funding while for others it is a result of poor prioritisation. Or in some cases it is a combination of both. Closing the gap is about ensuring that we put enough resources into basic services to enable their delivery. We already have the buildings and the staff but they often lack the operational funding to carry out their work. After all, what kind of a health service is one where there is no medicine, no health patrols, no fuel to maintain the refrigeration of vaccines and other medicines, no health promotion materials, no transfers of patients to provincial hospitals and no money to enable school visits?

Health staff in the field without medical supplies simply cannot provide a basic health service – but who funds the distribution of medical supplies? Where is that money allocated in the budget? Medical supplies need to get from Port Moresby to the many remote health facilities. This requires the co-ordination and participation of a number of people and funding available at the right places to make it happen. If funding is not allocated, medical supplies will not get to facilities and people will suffer. People will die from preventable illnesses and other health conditions. We know this is the reality.

Equally, we need funding for agriculture extension patrols. Agriculture officers- didi men- need to travel to districts to provide training and assistance to farmers who are the backbone of the rural economy. But how can extension officers travel without the money to pay for fuel, accommodation and living expenses? The answer is that many don't. This is why services stop. This impedes the economic development of our people.

What about our roads? Roads are very expensive assets to build and if we want to maximise their usefulness, we need to maintain the assets. It is a little like building a house. We know that we have to keep our house clean and properly maintained, tending to problems as these arise, so that we can continue living in the house for as long as possible and not have to undertake major refurbishments just to keep it functional and somewhere we can live. Roads, bridges and airstrips are exactly the same. Periodic maintenance of a road may cost K6,000 per kilometre per year. However if we do not maintain the road and its condition deteriorates, the road requires rehabilitation. Rehabilitation costs are like building the road again. These costs are enormous and may cost upwards of K250,000 per kilometre. These numbers are frightening and the implications disturbing; but this is what we are doing when we let our roads deteriorate without adequate maintenance.

These are the hard choices we face in service delivery. Service delivery happens because we fund it. And it happens because we then monitor that the money was well spent on the intended purpose and that the service was provided.

The Provincial Expenditure Reviews are an important part of making transparent the choices made about service delivery. Is there adequate funding for core service delivery? Is the available funding being used efficiently and effectively?

The Provincial Expenditure Review Series

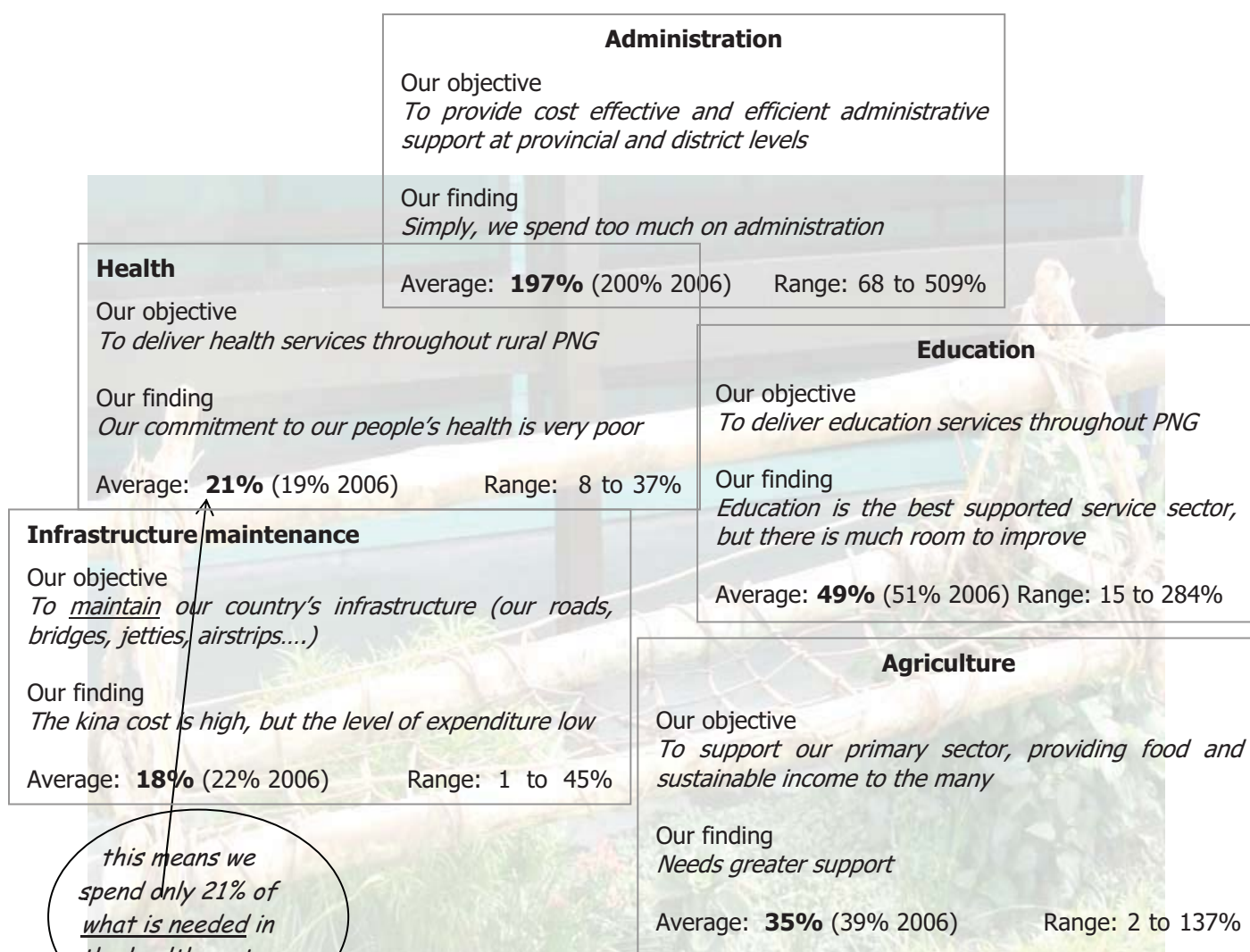
COST	How much does it cost to deliver priority services in each Province?
CAPACITY	What is the impact of each Province's resource envelope?
PERFORMANCE	Does provincial spending support service delivery?

The 2005 Provincial Expenditure Review (PER), *Cost Capacity Performance*, established a methodology for reviewing our progress in a systematic way using an evidence-based approach, approaching the task by answering the three key questions and establishing a baseline for determining future performance.

The 2006 PER, *It's More Than Numbers*, built upon the 2005 review and introduced the start of a trend analysis, reporting our progress year by year toward our objective of improved service delivery. With our 2007 PER, *Closing the Gap*, we can provide a three year time series of data that paints a picture of where we are at, where there are improvements and where we need to more closely examine our commitment to service delivery.

Critically, this report seeks to stimulate discussion around these issues – by considering cost (what we need to spend), fiscal capacity (what can we afford) and provincial expenditure patterns (where are we spending) – we can know how we are doing, who we can best learn from and where we need to change. This report provides vital information to government agencies and partner organisations that are committed to improving the delivery of critical basic services throughout our country.

SECTOR BY SECTOR



What are some of the main findings of the review looking across the years 2005 to 2007?

- The Provinces showing consistent improvement are Western, Central and Milne Bay.
- Southern Highlands, East New Britain and Madang have suffered the largest decreases in spending on core service delivery over the three years.
- The current trend level of spending by provincial administrations on recurrent goods and services in priority areas is too low and inadequate. If this trend continues, this portends serious risks to existing service delivery. Adjusted for inflation and population growth, real spending on the core Medium Term Development Strategy sectors has reduced by 10% across 2005- 2007.
- When Enga's high spending is removed, spending on education by the other seventeen Provinces decreased by more than K3 million. Infrastructure maintenance spending decreased by K5m.
- Health spending increased by K1.7 million, albeit that this is the result of larger National Government health service delivery function grants and increased provincial access to Health Services Improvement Program (HSIP) funds. Administration spending also increased by K1m. Agriculture spending stayed the same.

Are the broad issues established by the 2005 and 2006 reviews still apparent?

- Yes, there continues to be a funding gap – that can only be addressed by redesigning the way PNG's resources are shared. The funding gap is the difference between the revenue a Province receives and the amount it costs to deliver all the basic services the Province has responsibility to provide.

The good news is that in 2008, the National Parliament legislated for a fundamental change in the way we distribute funds across our country. Funding is now progressively based on need – with those Provinces that need more funding to enable basic service delivery receiving greater funding.

- And yes, there continues to be a priority gap – that can only be addressed by Provinces choosing to spend their available funding on priority sectors. The priority gap happens when a Province has the revenue, but chooses to spend its money on other things – not core services. To address this, Provinces have to choose to spend their funds on basic services and this may mean reducing spending in one area (such as administration) and redirecting it to another (such as health).

The introduction of minimum priority activities (MPAs) in the 2009 budget will help ensure that funding is progressively directed to activities that are fundamental to service delivery. Provinces, however, need to improve their own prioritisation.

The NEFC is exploring ways of further assisting Provinces by introducing the *Unit Costing Model*, a tool designed to aid Provinces with their budgeting by making easily accessible the NEFC provincial costing information in ways customised to the needs of individual Provinces, district administrations and local level government administrations.

- And yes, the current level of spending on recurrent goods and services in priority areas continues to be too low and inadequate. If this trend continues the implications are dire for government efforts in providing core social services, such as health and education, and for promoting economic development, through a maintained road infrastructure and by developing a vibrant and sustainable agricultural sector.

So the challenge is big, but already we see positive steps being taken, changes being implemented that will make a difference. Real progress is possible as we close the gap.

Overall:

- The funding gap continues in 2007 and will be addressed incrementally by the implementation of the intergovernmental financing reform that directs more resources to the Provinces that do not have enough of their own resources to meet the cost of delivering core services to their people.
- Provincial Governments and Administrations need to address the priority gap by choosing to reallocate their own 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. The *Unit Costing Model* will progressively be introduced to Provinces to assist with their budgeting.
- We need to consider the impact of new infrastructure development. Every new infrastructure development creates ongoing costs. Effectively, new infrastructure development that is not matched with an increased recurrent budget reduces service delivery.

How does this happen? When we build a new school we need to increase the recurrent budget to support this school, year after year, to pay for costs like materials and maintenance. If we don't provide increased recurrent funding we are taking funding away from existing schools to cover the new school. The more we do this, the worse it gets for all schools, including the new school. This is especially important to take note of in the current environment where significant funding has been appropriated for new infrastructure development, including at the district level.

- We also need to consider the impact of employing more 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.

How does this happen? When we employ additional staff they need to be resourced. They need office space, use electricity, sometimes need a computer, need to travel for work (which means travel allowance, fuel costs, car hire, air travel etc) and recreation leave fares. When we don't increase our recurrent budget to provide for these costs we reduce the amount available to support all our staff – and we thereby reduce their effectiveness.

Provincial Governments should aim to only increase spending on service delivery:

- In overall terms, total spending on health and education decreased by approximately K1.9 million or 4% between 2005 and 2007, when it needs to have increased by 10% to match inflation and population growth. How can we expect service delivery to improve in these critical areas when we are reducing spending? At present, the reality is that these services are deteriorating.
- However, in overall terms spending on administration grew by nearly K9 million between 2005 and 2007. We need to control and reduce spending in low priority areas. These include administration, projects, and casual wages.
- In 2007 62% of internal revenue expenditure went on non-priority areas such as administration, arrears, and smaller sectors. The whole provincial resource envelope (both national government grant funds and internal revenue) should be used to support recurrent spending in priority areas of health, education and infrastructure maintenance.

Spending within sectors must be improved:

- NEFC analysis shows that often secondary education receives more funding than basic education. This means that many children are missing out on the opportunity to have basic education- learning how to read and write and other basic skills. We need to ensure that elementary, community and primary schools (where 90% of enrolled children attend school) are adequately resourced.
- What systems have we in place to manage teacher leave fares? 2006 saw massive expenditure on arrears in this area – in 2007 we see two provinces recording no spending on teacher leave fares – are past problems going to recur? We must control this high-cost area that accounts for 25% of all education spending by Provinces.
- While more Health Services Improvement Program funding was accessed by Provinces for health service delivery in 2007 than 2006, many Provinces seem to ignore this funding source. Provinces should use all means possible to support priority areas.
- Some Provinces spend millions on unspecified arrears. This raises many questions, lacks transparency and encourages poor spending. Provinces need to spend within their means and do so during the year to support service delivery.

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LIST OF TERMS and DEFINITIONS

Term	Definition
Basic education	Describes education at the primary, elementary and community school levels.
Capital expenditure	Describes spending to acquire or upgrade physical assets such as buildings, roads, and equipment.
Cost	In the context of this report cost refers to what we estimate it will cost not what we necessarily actually spend.
Cost of Services study	Describes an NEFC study that estimated how much it costs to support service delivery within a Province (health, education, etc....) on a district by district basis.
Fiscal capacity	Describes a Provinces ability to meet its costs. It is expressed as a percentage and is calculated by dividing <u>estimated costs</u> by <u>available revenue</u> .
Funding Gap	The funding gap is the difference between the <u>revenue</u> a Province receives and the amount we estimate it would <u>cost</u> to deliver all the basic services the Province is required to provide.
Grants	Describes revenue that a Province receives from the National Government. Normally grants are provided to Provinces for a specific purpose. Although some grants such as the Block Grant allow for provincial discretion on their use.
Internal revenue	Describes all sources of revenue that a Province may receive other than National Government grants and donor funds. The Province makes its own decisions on how to allocate and spend the Internal Revenue it receives through the provincial budget.
Personnel emoluments expenditure	Describes expenditure that relates directly to staffing costs and includes; salaries, wages, allowances, retirement benefits and gratuities.
Priority Gap	The priority gap happens when a Province has the revenue, but chooses to spend its money on other things – not supporting core services.
Project expenditure	Describes expenditure on a non-recurrent development activity, sometimes related to a project jointly funded by a donor partner.
Resource envelope	Describes the revenue a Province has available from all sources – grant and internal revenue.
Revenue (provincial)	Describes the money available to a Province, both from national grants and internal revenue
Recurrent goods and services expenditure	Describes spending that is directed to purchasing the regular routine operational supplies and services, transport costs and routine maintenance of buildings. It does not include; personnel emoluments, capital and project costs.

Term	Definition
Service delivery	<p>Describes what the various arms of government actually do for the people of PNG but more specifically it comprises a range of specific activities. Examples of services delivery activities include:</p> <p>In the area of health; it would include conducting immunisation extension patrols, school visits, and training for village birth attendants. It would also include getting medical supplies from the area stores to the rural health clinics and aid posts.</p> <p>In the area of education; it would include providing basic educational materials and education subsidies to schools. It would also include school supervision.</p>

LIST OF ABBREVIATIONS

Abbrev.	Meaning
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 and 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

Since 2002, the NEFC has been at the forefront of producing evidence based analysis that helps us understand the progress in delivering core services throughout Papua New Guinea. The NEFC published the 2005 Provincial Expenditure Review *Cost Capacity Performance* that established a baseline of how well each Province was doing in supporting the delivery of critical services. This was followed by the 2006 Provincial Expenditure Review *It's More Than Numbers* that established the first trend analysis.

Closing the Gap is the third edition of the Provincial Expenditure Review and reviews the situation in 2007. With three years of data analysis and reporting, an increasingly clear picture of individual Provincial Governments' spending priorities is in focus. Is it for core service delivery? Or is it for something else?

1.1.1 Purpose and objectives

The purpose of this report is to provide an annual evidence-based assessment of provincial expenditure performance. In turn, NEFC aims to stimulate decision makers across all levels of government, civil society and in the development community to focus their attention on what we can all do to ensure that budget and expenditure management processes deliver more essential services to more people more of the time. The provincial assessments are established by:

- employing an expenditure focus, and
- comparing expenditure against the cost of services study as an independent benchmark, and
- having due regard to each Province's fiscal capacity

In essence, each year we are making transparent the extent of prioritisation of service delivery across Papua New Guinea. Where is the improvement in the prioritisation of core service delivery? And where and why is there a lack of improvement?

A second objective is to monitor the application and use of National Government grants in each Province. Is grant money being used effectively for its intended purpose? Grants are not provided unconditionally to Provinces to be spent on whatever Provinces regard as important, but rather to provide some financial assistance to ensure basic and ongoing service delivery.

A third objective is to explore, discuss and make transparent issues that may impede effective service delivery.

In conducting these provincial expenditure reviews, NEFC contributes to the promotion of the Government's key objectives in service delivery across Papua New Guinea as set out in the Medium Term Development Strategy.

Approach and Methodology

The methodology of the provincial expenditure study has developed from *Cost Capacity Performance (2005)*. The methodology has:

- An expenditure focus, because basically if we are not spending money on core services, we are not delivering these core services.
- A recurrent goods and services focus. We have infrastructure, facilities and staff, but an area for significant improvement is ensuring the ongoing year-on-year funding to ensure the staff in these facilities can do their work and ensure that the roads and buildings that are the lifeline for providing these services and enabling economic and social development are maintained.
- A focus on both Grant and Internal Revenue. Provinces make budget prioritisation and expenditure choices from two main sources of funds – National Government Grants and Internal Revenue. We review both, and consider their impact on funding core services.
- Drawing together cost, capacity and performance. This provides a more holistic picture of provincial performance.

Cost: The Cost of Services Study estimated the cost, or the amount required to provide basic services in that particular Province across all sectors of provincial, district and local-level government service delivery.

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.¹

Performance: Performance is reflected through expenditure – the actual amount that the Province spent during the fiscal year and the area (or sector) they spent it on.

- A benchmarking approach. We need to have a benchmark- an independent measure by which to compare our performance. The Cost of Services Study provides an important benchmark. The other benchmark we use is comparing Provinces performance in relation to each other.
- Give credit. We err on the side of giving credit. By that, we mean if we could broadly call expenditure recurrent goods and services on a service sector, we did. We wanted to paint as positive a picture as we could.
- Assessing the trend. By plotting the trend for 2005-2007 we introduce a way to evaluate where we are spending and whether we stand a chance of improving service delivery. If spending in core areas does not increase, service delivery will not improve. If anything, service delivery will further deteriorate.

1.1.2 Adjustment to the Cost of Services estimates

The Cost of Services Study was completed in 2005. The cost of services estimates that were established have been adjusted to reflect the changes in prices and provincial populations since that time..² This means that when we compare 2007 expenditure we compare it against 2007 costs – which is a more reasonable benchmark. In summary, why do we adjust the Cost of Services estimates?

- Population: Each year the population of each Province changes – the adjustment to the Cost of Services reflects this change. An increased population places even greater demands upon government for core services. It means more children going to school and more people using roads and health services.

¹ Refer to the NEFC Provincial Revenue Report for the fiscal years 2004-2007.

² Population growth is measured as the 1980-2000 average annual growth in each Province

- Inflation: Each year the cost of buying goods and services such as fuel and accommodation increases – the adjustment to the Cost of Services reflects this change.
- Revenue: Each year the revenue available to a Province generally increases (normally National Grants increase) – the adjustment to the Cost of Services reflects this change and ensures we reflect fiscal capacity on a reasonable basis.

1.2 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 by providing data; they include the Department of Finance and the Department of Health. We also thank the Law and Justice Sector Program Secretariat.

1.3 Data Issues – Gulf Province

Our objective is to make as transparent as possible the levels of spending in priority service delivery sectors.

Our PGAS data review, when combined with information we obtained from our regular provincial visits highlighted particular issues with Gulf Province's PGAS records in 2007.

It appears that in 2007, Gulf Province overestimated revenues relating to Special Support Grants. This overstatement resulted in commitments being made for which there was insufficient cash in 2007. These commitments appear to have been recorded as expenditure in late December 2007 and would expect to result in service delivery and be paid in 2008.

In terms of the provincial expenditure review, this has particular implications as two-thirds of the 2007 function grant monies were used to fund expenditure for items outside their intended purpose. Accordingly, we have adjusted (decreased) Gulf's recorded expenditure to reflect this.

2 Fiscal Capacity

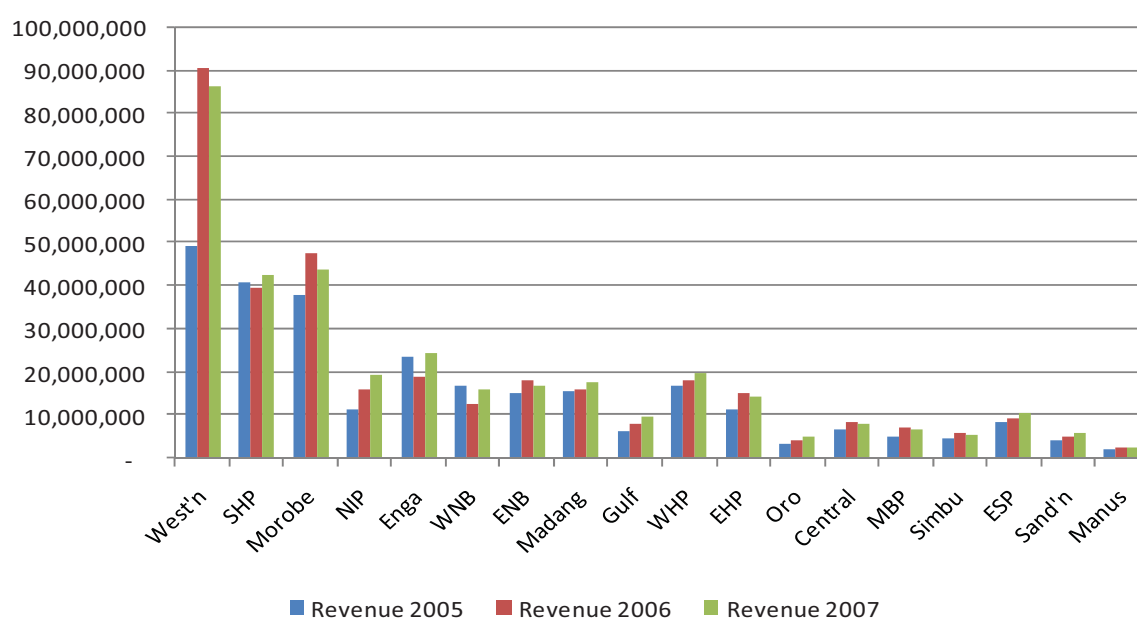
Provincial Revenue – is a term that describes the money available to a Province, both from national grants and internal revenue

2.1 Provincial Revenue: 2005 to 2007

We know that not all Provinces are equal.

Some Provinces have more revenue than others – we often refer to a Province's revenue as its resource envelope. So a Province may earn revenue from grants, royalties and other internal revenue such as GST – together this is a Province's resource envelope. This tells us how much money Provinces have available to budget and spend up to. Provinces with a high resource envelope relative to their costs are in a better position to allocate funds to support service delivery than those Provinces with a lower resource envelope. Simply put, the richer you are the more able you are to meet your costs. Graph 1 illustrates provincial revenues between 2005 and 2007.

Graph 1: Comparing Revenue between 2005 to 2007



Graph 1 tells us that untagged³ provincial revenues grew by 4% between 2006 and 2007. This rate of revenue growth does not keep pace with the rate of inflation and population growth. This means that the cost of delivering the same set of basic services has grown faster than the growth in revenue that pays for these services. In overall terms, we are still going backwards.

While the overall increase in revenues was small; this masks significant variations:

- Six Provinces received significant increases (20% plus) in revenue received – New Ireland, Enga, West New Britain, Gulf and Sandaun.
- Seven Provinces experienced a fall in revenue (of up to 8%) – Western, Morobe, East New Britain, Eastern Highlands, Central, Milne Bay and Simbu.

³ Untagged provincial revenues refers to grant and internal revenue that is not specifically designated for a purpose other than goods and services. In this sense tagged provincial revenue may include staff related grants and development funds.

2.2 Fiscal Capacity: Comparing revenue to cost

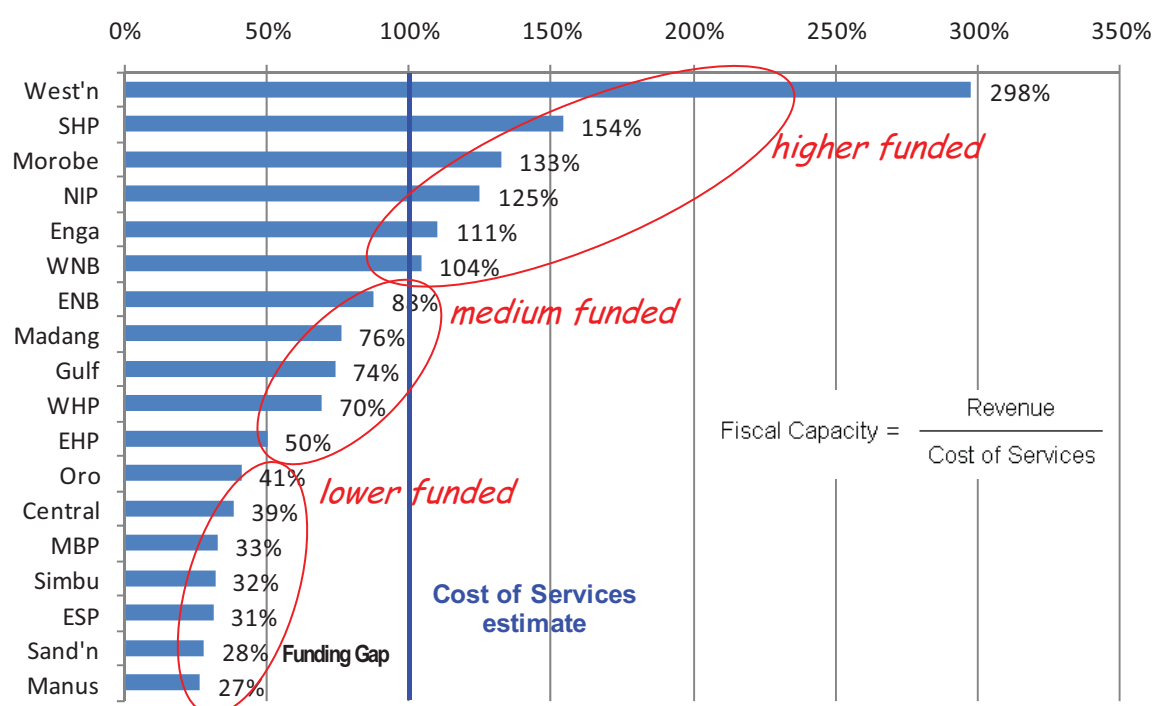
Fiscal capacity is *revenue* divided by *total costs* for a Province to deliver basic services.

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

The Cost of Services Study very conservatively estimates how much it costs to deliver a very basic set of minimum services in each Province across PNG on a district by district basis. Having estimated the cost, we can then compare the revenue available to each Province to meet their estimated costs. So, fiscal capacity is calculated by dividing the revenue available in a Province to meet the recurrent goods and services costs by the estimated cost of providing all core services in that Province.

Graph 2 expresses fiscal capacity as a percentage. If a Province has 100% - that means that it has sufficient revenue to meet the estimated costs of delivering all core services to a minimum standard. If the Province has less than 100%, it means that it has less than it needs and so must face hard decisions about where to allocate its limited funds. Most Provinces have less than 100%, with eight Provinces having less than half of what they need to deliver basic services even when all their National Government grants and internal revenue is taken into account.

Graph 2: Averaged Fiscal Capacity 2005 to 2007



Graph 2 tells us that:

- While some Provinces experience year by year variations in their revenue, overall there is little movement in the percentages and the ranking order of Provinces.
- Only six Provinces have 100% or more of the funds they need to deliver a minimum set of core services.

- Twelve Provinces do not have sufficient funding to support service delivery to even a very basic level, with eight Provinces having less than half of what they need to deliver basic services.
- We have divided the Provinces into three funding groups. High (above 100%), medium (50 to 100%) and low (below 50%). This helps us to analyse expenditure patterns and trends by groupings of like funded Provinces.

A note of caution:

The revenue total that we use for calculating fiscal capacity assumes that all funds that are not tagged for another specific purpose (such as staffing grants or development) are available for spending on recurrent goods and services. However the reality is that many Provinces will not allocate and spend all of these funds on recurrent goods and services. Some of this revenue will be allocated and spent on staff related costs (such as casual wages) and/or capital, project and development costs (such as major rehabilitation on a road or a new classroom or a new health clinic).

Even for those Provinces with 100% funding or higher, some of that funding is likely to be directed at personnel emoluments or capital and projects.

The consequence is that even less money is available for goods and services than reported in our provincial expenditure reports. This applies to all Provinces.

2.3 Attacking the Gaps – Funding Gap and Priority Gap

The Minister for Treasury and Finance, the Hon. Patrick Pruaitch advised the National Parliament that *‘we have not done as well as we should to honour our goal of equity across the nation. Not everyone has shared equally in the benefits of our achievements.’* Treasurer Pruaitch went on to say, *‘our current system is broken. It is not providing the services our people so desperately need. I ask Honourable Members to support this Bill as a first step. It is a first step to providing a solid foundation for improving the funding for services in the future.’*

On 16 July 2008, the National Parliament approved a second vote on amendments to the Organic Law on Provincial Governments and Local-level Governments to embed the principles of a new intergovernmental financing system for Papua New Guinea. An Inter-Departmental Committee chaired by the Deputy Secretary, Treasury, has overseen the initial implementation of the new intergovernmental financing system for budget year, 2009.

There are four broad components to the new system. These are:

- Clarifying the functions of Provincial and Local-level Governments;
- Changes to revenue-raising powers and GST distribution of Provincial and Local-level Governments;
- A new formula for sharing grants between Provincial and Local-level Governments; and
- Introducing greater conditionality to National Government service delivery function grants so that extra funding equals extra service delivery.

2.3.1 Changes to the law on assignment of functions and responsibilities

A key principle of the new system of intergovernmental financing system is that funding follows function. Over time, that means that only those service delivery functions and responsibilities assigned by the National Executive Council (through a Governor-General's determination expected to be published in the National Gazette in early 2009) are included in cost estimates for Provincial and Local-Level Governments.

The Governor-General's determination sets out for each sector what the different responsibilities are for Provincial and Local-Level Governments. These cover agriculture, health, HIV/AIDS, infrastructure, education, village courts, community development, conservation, environment, emergency services, non-renewable resources, forestry, fisheries, land administration, business development and some clarification on areas that since 1999 have been national functions with some provincial funding component, such as NBC, CIS and the police.

In identifying different responsibilities, the Governor-General's determination makes clear the different activities within each function. For example, in the infrastructure sector, as it concerns the activity of ‘building maintenance’

<i>National responsibility</i>	<i>Provincial/district responsibility</i>	<i>LLG responsibility</i>
Maintenance of institutional houses	Maintenance of Province/district houses and offices	Maintenance of LLG houses and offices

In another example, in the HIV/AIDS sector, as it concerns the activity of 'monitoring'

<i>National responsibility</i>	<i>Provincial/district responsibility</i>	<i>LLG responsibility</i>
National monitoring framework	Data collection against national monitoring framework	No responsibility

Importantly, the task of specifying responsibilities sets out what different levels of government should do, not necessarily what they are doing.

Over time, views will change about which level of government is best placed to undertake particular functions. As a consequence, the system is deliberately flexible with the National Executive Council empowered to reassign functions. There is scope for individual Provincial Governments to also take on additional functions or to have functions returned to the National Government or others.

2.3.2 Changes to arrangements for sharing national taxes with provincial governments

For the most part, there are no radical changes to tax sharing arrangements. The way royalties are collected and shared out is not affected by the new system. There is also a provision to share an additional source of revenue: Provincial Governments will receive 100% of bookmakers tax collected in their Province.

With the goods and services tax (GST), Provincial Governments will receive 60% of the actual net GST collected in their Province. Some Provincial Governments prior to the introduction of the new intergovernmental financing system were receiving more than 60% of their GST collections, with vast inequalities between Provinces. However, to ensure that no Province receives less in the new intergovernmental financing arrangements, the amounts above 60% will be paid to Provincial Governments in the form of service delivery function grants for the first five years of the system to ensure that there is more funding available for basic service delivery.

The most important changes to provincial taxing powers are the removal of the requirement for a national enabling Act to be in place before Provincial Governments can pass their own taxing laws and to seek Internal Revenue Commission approval for revenue raising proposals. These have proved impediments to local-revenue raising. Provincial Governments will also be able to collect a new tax; small craft licensing fees. The legal power of Local-level Governments to collect land rates is also clarified.

Despite these changes, the challenges of increasing provincially-raised revenues should not be under-estimated. Very few provincial administrations have the technical capacity to draft their own taxing laws and also need considerable support to develop the administrative systems for collecting revenue, including undertaking some feasibility analysis to ensure that the collection systems do not cost more than the revenue likely to be raised.

2.3.3 Formula for calculating provincial and local-level grants

The new intergovernmental financing system provides for Provincial and Local-level Governments as a group to receive funding for recurrent goods and services as fixed percentage of net national revenue providing much greater certainty of funding for Provincial and Local-level Governments. This share of net national revenue approach ensures that as revenues rise, Provincial and Local-level Governments are entitled to share in that increase. Conversely, if revenues fall, the grants also reduce so that the system is always affordable.

The percentage will increase each year from 2009 to 2013, enabling increasingly more funding to Provincial and Local-level Governments. From 2013 the percentage will remain the same, unless it is reviewed and amended by Parliament.

The total pool of funds determined in this way is called the equalisation amount. It is shared across Provincial and Local-level Governments using a formula that partly takes into account some other recurrent revenues Provincial Governments receive and the estimated costs of the service delivery functions and responsibilities assigned to the Provincial Governments under the Governor General's Determination referred to at section 2.3.1. Critically, these equalisation funds are distributed on the basis of 'need', so that Provinces that need more to deliver basic services to their people, get more. By 2013, it is anticipated that all Provinces will have at least 70% of the funding they need to deliver basic services. This represents significant gains for most Provinces.

During the period 2009-2013, special rules also apply to the sharing of the total net national revenue amount, so that all Provincial Governments are guaranteed not to receive less than the total they did in grants and GST in 2008.⁴ Each Provincial Government's total ceiling is called the individual Province share. From this, the Department of Treasury will pay each Provincial Government an administration grant, and a number of service delivery function grants. For 2009, these service delivery function grants relate specifically to health, education, transport infrastructure maintenance, village courts operations, agriculture and 'other service delivery' to ensure funding for other vital services such as business development, lands administration and community development.

The individual Province shares are only intended to help meet the recurrent goods and services costs of service delivery. In addition to service delivery function and administration grants paid out of the individual Province share, Provincial Governments will also receive other grants to cover public service salaries, teacher salaries, leave fares and village court allowances. Some Provincial Governments also receive specific allocations under the development budget.

2.3.4 Conditions to ensuring function grants are spent on service delivery

A proposed Intergovernmental Relations (Functions and Funding) legislative framework sets some basic conditions on function grants to ensure these are spent as intended i.e. for recurrent goods and services.

⁴ The transition period is 1 June 2009 to 31 December 2013.

As we know from the NEFC analysis of provincial expenditure patterns, more money needs to be allocated to, and spent on basic recurrent service delivery in all Provinces, even those that already have enough funds to ensure a minimum set of services can be provided to their people.

The proposed Act specifies that service delivery function grants cannot be spent on salaries or capital spending unless that is specifically approved. The Department of Treasury can also specify how the different function grants are to be used. The main way this will happen is through Budget and Expenditure Instructions which are a form of subsidiary legislation—similar to the Finance Instructions or regulations under other legislation. The Provincial Budgets Branch of the Budget Division of Treasury will prepare these instructions for approval by the Secretary for Treasury.

For the 2009 budget year, the Secretary for Treasury has issued the first set of budget and expenditure instructions. These include requirements that:

- (a) Function grant monies rolled over from one year to the next be used for their original purpose and have their own specific revenue heads; and
- (b) Some of the service delivery function grants are to be budgeted for and spent on minimum priority activities. These are:

Health

- Operation of rural health facilities
- Integrated health patrols
- Drug distribution

Education

- Provision of school materials
- Supervision by district and provincial officers
- Operation of district education offices

Transport Infrastructure Maintenance

- Road and bridges maintenance
- Airstrip maintenance
- For maritime Provinces- wharves and jetties

Village Courts

- Operational materials (e.g. Flags, uniforms, badges)

Agriculture

- Extension activities for agriculture, forestry and fisheries

The minimum priority activities are not the only activities that Provincial Government will fund, but equally Provincial Governments will need to report expenditure in relation to these essential services and in time, provide updates on how successful their actual delivery is. Over time, the list of minimum priority activities is also expected to change.

3 Expenditure Overview

3.1 Overview of where the money went in 2007

Where did Provinces collectively spend their revenue in 2007? Where did they spend the National Government Grants and the Internal Revenue that was available to them? Table 3 seeks to answer these questions by providing a macro overview of where money was spent by broad classifications in 2007.

Table 3: Expenditure Overview Table 2007⁵

	Administration Sector	MTDS Sectors	LLG Transfers	Other Sectors, Arrears, Unspecified	Total
Internal Revenue					
<i>Goods & Services</i>	47,657,709	43,148,184	11,507,009	52,812,521	155,125,423
<i>Personnel Emoluments</i>	33,111,918	13,145,119	1,047,351	1,084,166	48,388,554
<i>Capital & Projects</i>	6,886,682	26,862,490	1,534,005	14,003,646	49,286,822
Total Internal Revenue	87,656,309	83,155,794	14,088,364	67,900,333	252,800,799
Grants					
<i>Goods & Services</i>	9,107,501	40,145,358	36,087,317	7,096,270	92,436,445
<i>Personnel Emoluments</i>	5,320,614	19,867,926	669,664	543,412	26,401,616
<i>Capital & Projects</i>	1,845,321	12,714,326	13,001	3,451,528	18,024,176
Total Grants	16,273,436	72,727,610	36,769,981	11,091,210	136,862,237
Total					
<i>Goods & Services</i>	56,765,210	83,293,542	47,594,325	59,908,791	247,561,868
<i>Personnel Emoluments</i>	38,432,532	33,013,045	1,717,014	1,627,578	74,790,170
<i>Capital & Projects</i>	8,732,003	39,576,816	1,547,006	17,455,174	67,310,998
Total All	103,929,745	155,883,403	50,858,345	78,991,543	389,663,037

Table 3 tells us that:

- Overall spending went down between 2006 and 2007 from K425m to K390m. A decline of K35m or 8%.
- Why the decline? Approximately K15m can be explained due to the significant spending on village court allowances and teacher leave fares arrears in 2006.
- Capital spending on Administration and the spending on the Medium Term Development Strategy sectors also fell by K19m or 28%.
- K83 million of K390 million, or 21% of all expenditure went on funding goods and services that support the delivery of core priority services (in Medium Term Development Strategy sectors). This compares to 22% in 2006.
- The K79 million or 20% expended on 'other sectors, arrears and unspecified' is a highly significant amount.

⁵ Refer to Appendix 1 to see what has been included and excluded in the expenditure data analysis.

MTDS Sectors includes; health, agriculture, education, village courts and infrastructure maintenance. LLG Transfers refers to funds that are transferred from the provincial administration to LLGs for administrative and other purposes. Other Sectors includes all non-MTDS sectors and other non sector specific costs such as arrears.

- Spending on capital and projects has declined to K67million or 17% of all expenditure. This does not include items funded by SSGs and PIPs. This compares to K88m (22%) spent in 2006.
- Staff (personnel emoluments) related costs are 22% of total expenditure.⁶
- In 2006 expenditure on village court allowances was recorded as goods and services. However in 2007 with the introduction of a second village court grant for operational costs the allowance grant is now coded to personal emoluments and any operational costs to goods and services.

This needs to be considered when comparing the data in Table 3 above to the 2006 table.

⁶ In this context, personal emoluments refers to expenditures incurred by the Provincial Administration not the central government salaries payroll that meets the ongoing salaries costs for most public servants..

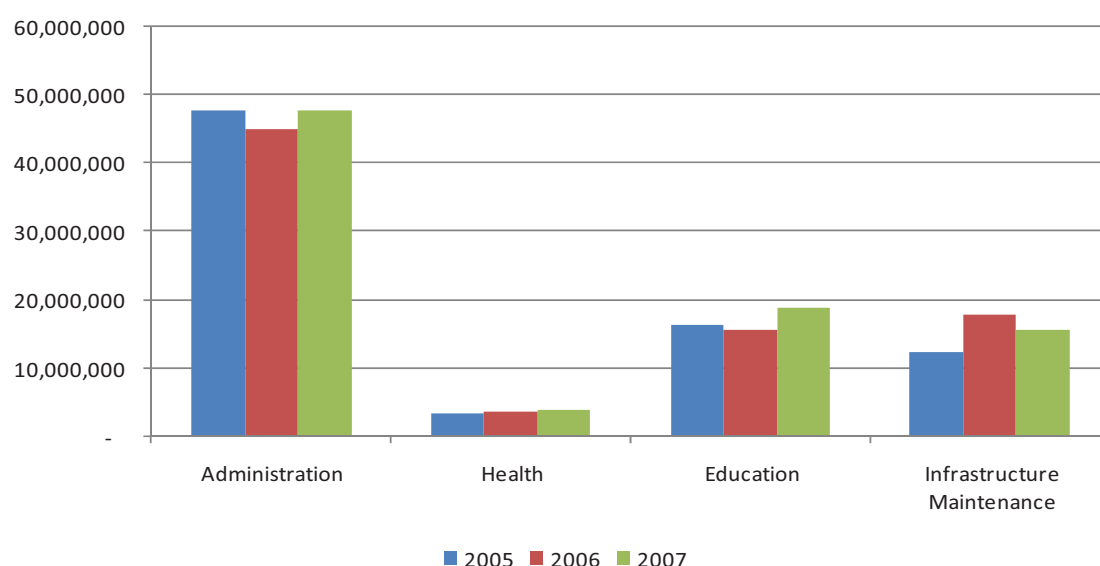
3.2 Internal Revenue – does it impact service delivery?

How much internal revenue is applied to recurrent goods and services is a measure of how much Provinces prioritise ongoing service delivery to their people in their budget and expenditure management decisions.

Table 3 details the findings of our overall expenditure analysis for all 18 Provinces in 2007.⁷ What we can see is:

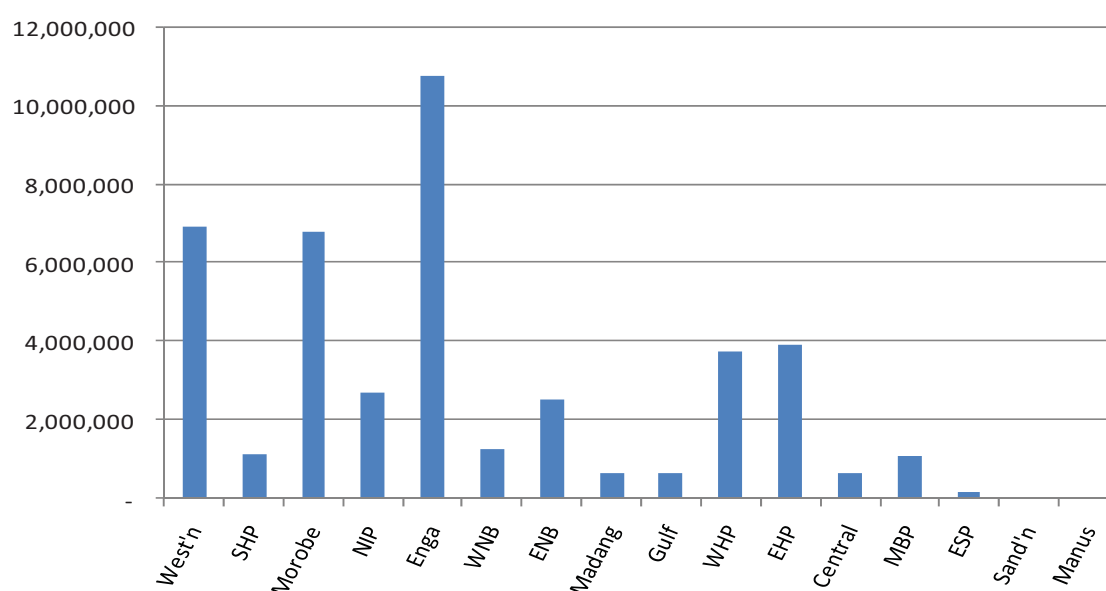
- Just over half (52%) of the funding for recurrent goods and services spending on the MTDS sectors of health, education, agriculture, village courts and infrastructure came from internal revenue. This is a significant improvement from 43% in 2006. So the answer is ‘yes’. Internal revenue does contribute to service delivery in priority areas.
- Given that we know service delivery must improve and become more accessible for more families and children, we also ask – *can we do better?*
 - The K43 million is only 17% of all internal revenue expenditure, up from 15% in 2006. We commend the gain and note that there remains significant room for a review and reallocation of spending priorities. Moving more internal revenue into funding recurrent goods and services will better support and enable core service delivery.
 - More internal revenue was used to fund recurrent goods and services costs in administration (K48m) than on MTDS sectors (K43m).
 - While 61% of all internal revenue is spent on goods and services, just over a quarter of this was allocated to MTDS sectors. In comparison, over half of national grant funding was allocated to MTDS sectors. This reflects the importance of targeting national grant funding to core service delivery areas to ensure that critical services are provided to our people.
 - 39% of all internal revenue was spent on personnel emoluments, capital and projects. This is slightly reduced from 42% in 2006. It does mean, however, that funding additional personnel emoluments, capital and projects reduces the funds available for the ongoing day to day costs that enable core services to be delivered.

⁷ The table summarises all spending but excludes expenditure from SSG and PIP funds where identifiable.

Graph 4: Expenditure from Internal Revenue in Major Sectors: 2005 to 2007

Graph 4 illustrates spending on recurrent goods and services from internal revenue in the major sectors in 2005, 2006 and 2007.

- Administration receives the biggest slice of internal revenue at 31%.
- Health receives very little at 6%, with only six provinces spending more than K250,000 from their internal revenue on health recurrent goods and services costs.
- Education and Infrastructure Maintenance received relatively larger amounts of internal revenue at 12% and 10% respectively.

Graph 5: Expenditure from Internal Revenue in MTDS Sectors by Province in 2006

Graph 5 illustrates spending on recurrent goods and services from internal revenue in the MTDS sectors of health, agriculture, education, infrastructure maintenance and village courts in 2007.

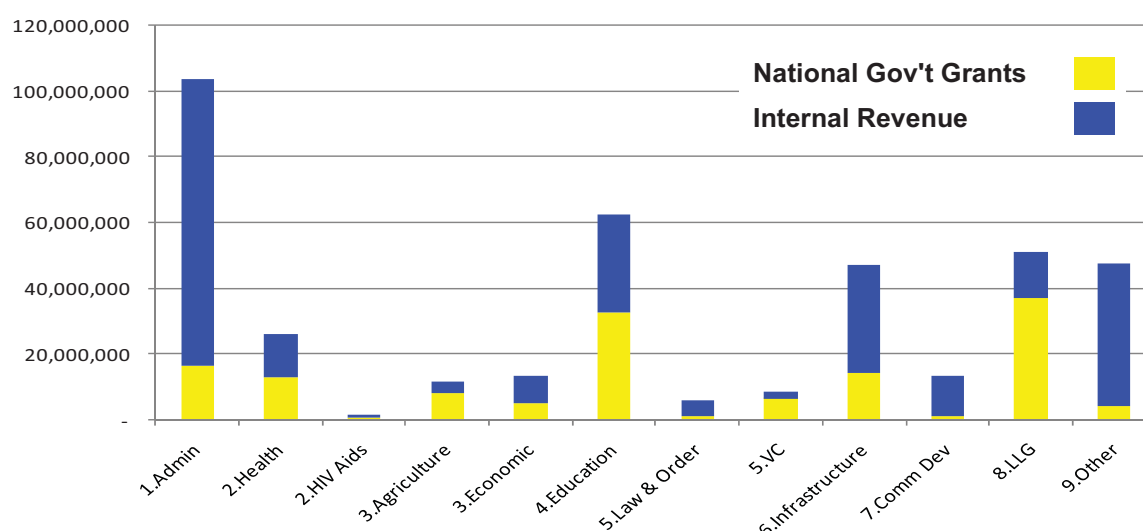
- Lower funded Provinces spend very little or no internal revenue in MTDS sectors.
- When a Province has low (or reduced) levels of internal revenue it is applied to administration not the MTDS service sectors.

3.3 Spending from Grant and Internal Revenue

Graphs 6 to 9 illustrate spending by:

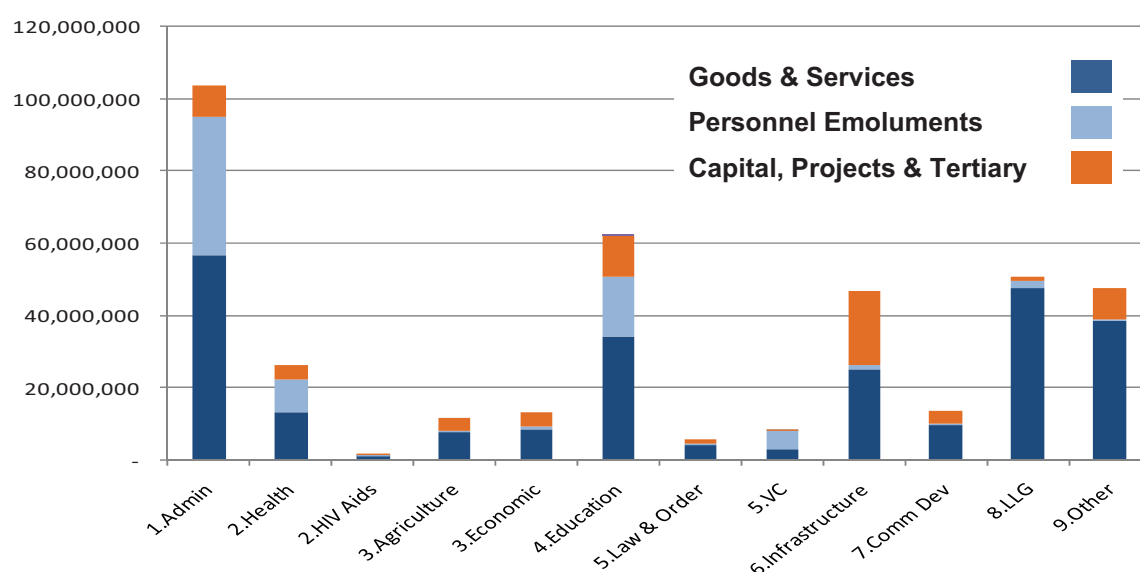
- Source – grant and internal revenue
- Type – goods and services, personnel emoluments and capital and projects
- Major sectors
- MTDS sectors as a total (combining health, education, infrastructure maintenance, agriculture and village courts)

Graph 6: Sector Spending by Source in 2007 (recurrent & capital)



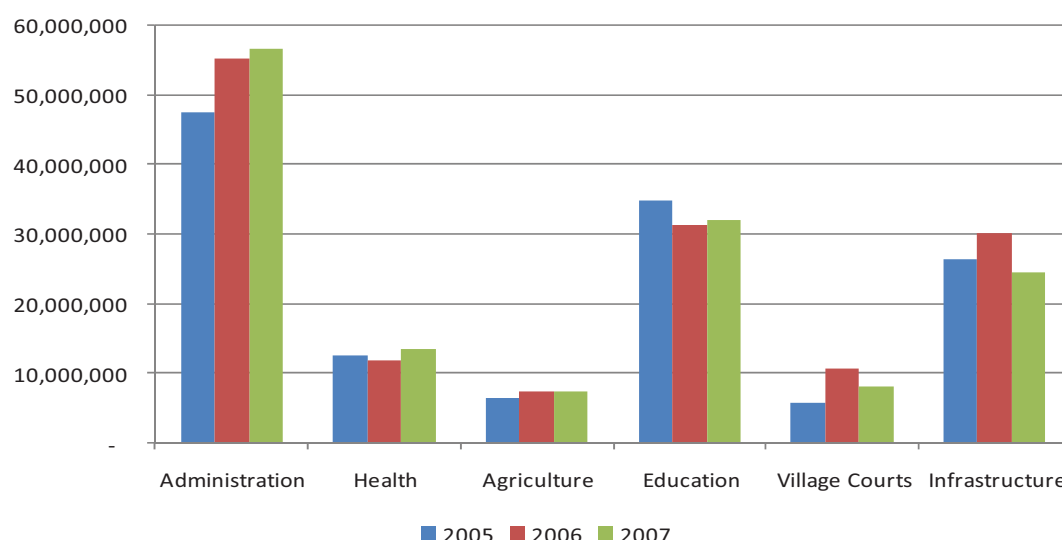
Graph 6 illustrates where money was spent by Provincial Administrations – it separates the sector spending into funding by National Government Grant and funding from provincial internal revenue. You will observe that:

- Administration is the single highest spending area.
- Education is the best supported priority sector followed by Infrastructure Maintenance.
- Health and Agriculture receive relatively low levels of funding.
- Village Courts are mostly funded by grants

Graph 7: Sector Spending by Type in 2007 (recurrent & capital)

Graph 7 illustrates Provincial Administrations spending across major sectors – but this time it separates the sector spending by the amount spent on goods and services, personnel emoluments and capital and projects (and tertiary for education). You will observe:

- Capital spending (17%) is highest in Infrastructure Maintenance, Education (including tertiary costs such as scholarships) and Administration.
- Personnel emoluments expenditure is highly significant in administration, health and education (37%, 35% and 26% respectively).

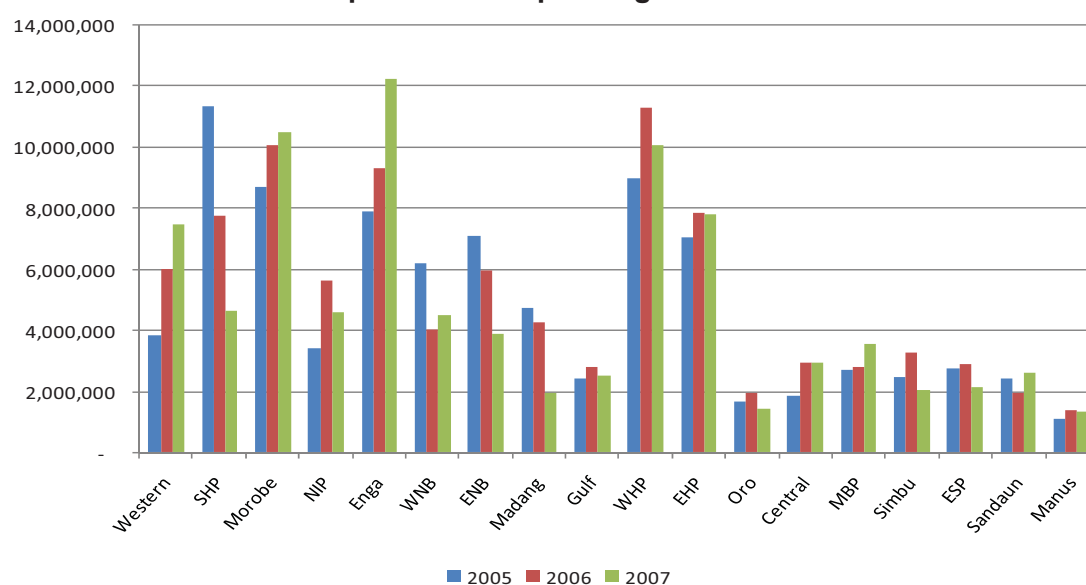
Graph 8: Spending by Sector – 2005 to 2007

Graph 8 illustrates and compares how much was spent on recurrent goods and services in each major sector across all Provinces from 2005 to 2007. You will observe:

- The upward trend in spending on Administration. It remains the sector with the highest spending levels followed by Education and Infrastructure Maintenance.
- An overall declining trend in spending in Education and Infrastructure.
- Spending on Village Courts includes both allowances and operational costs, and the reduction in 2007 reflects the very large payment for arrears in 2006.

- A slight increase in Health spending (reflecting the increased service delivery function grant of the National Government).

Graph 9: MTDS Spending – 2005 to 2007



Graph 9 illustrates spending in MTDS sectors by Province for 2005, 2006 and 2007.

- Significant declining trends in Southern Highlands, West New Britain, East New Britain and Madang.
- Positive spending trends in Western, Morobe, Enga, and Milne Bay.

3.4 Timing of Spending

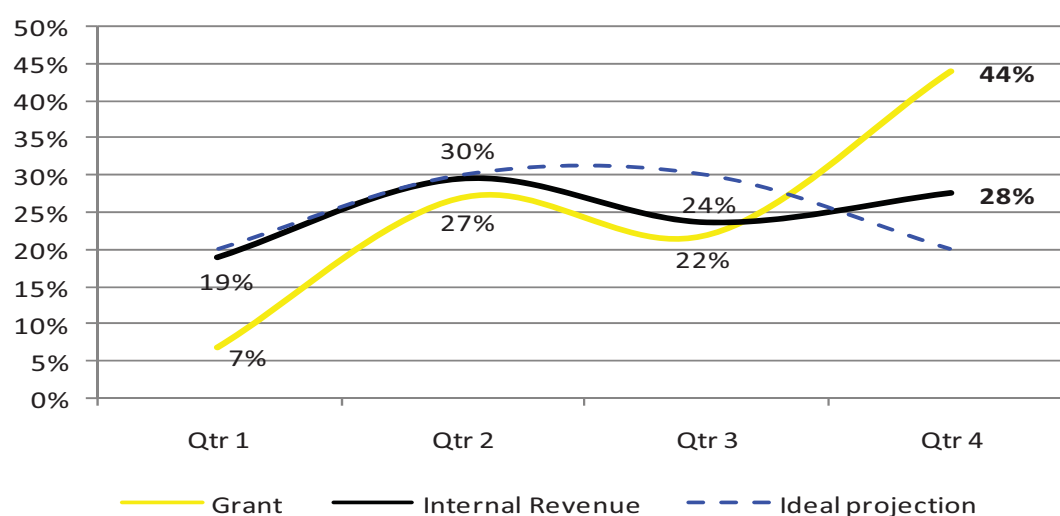
The timing of when the money is spent during the year in Provinces is critical to the objective of improving service delivery. Three effects of late spending are:

- Service delivery is delayed, or may not occur.
- There is a significant increase in funds being wasted and/or spent on non-priority areas.
- Unused funds sitting in bank accounts represent a huge cost to the PNG Government and deprive people access to service delivery. Unused funds should be directed to core service delivery.

Delayed Service Delivery

In 2007, more than one third of both grant and internal revenue expenditure occurred in the final quarter of the fiscal year and this is greater than 2006. When one considers that the Government's accounts close mid-way through December that means that more than one third of all spending occurred in just over two months. The question is why? Why spend so late when the funds are available in a timely manner? How much service delivery can happen during the year when the spending to support service delivery occurs so late?

Graph 10: The Average Level of Spending in each Quarter⁸



- In 2007 it is disappointing to see more is being spent on grants in quarter 4, 44% (2006 34%)
- Spending from internal revenue in quarter 4 has decreased, 28% (2006 33%)
- Only East New Britain comes close to the ideal projection of timing spending.

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 and services should mirror the service delivery activities it is there to support and enable.

⁸ Cheques raised to transfer unspent funds at year-end have been removed from this analysis to avoid distortion.

Provinces with high spending in Quarter 4

There is evidence that higher levels of spending in the last quarter indicate greater spending on items that do not support the delivery of core services. High levels of spending in Quarter 4 may indicate:

- Spending on items that are not supporting service delivery
- That funds are being wasted or spent on non-priority items
- There are process problems that make it more difficult than necessary for sector staff to access and spend funds

National Government Grants				Internal Revenue		
	2007	2006	2005	2007	2006	2005
1	Oro	Western	Western	WNB	Western	Sandaun
2	Central	EHP	Central	Central	Sandaun	EHP
3	WHP	Central	Sandaun	EHP	Enga	Gulf
4	EHP	Morobe	Madang	Madang	WNB	Enga
5	MBP	SHP	WHP	Sandaun	Gulf	Morobe

Our analysis reveals that:

- Eastern Highlands, Central and Sandaun are more likely than other Provinces to spend more in quarter four, with Eastern Highlands and Central spending higher levels from both grant and internal revenue in the fourth quarter in 2007. Western Province also tends to spend more in quarter four.
- While Oro proportionately spent more in quarter four than other Provinces in 2007, this reflects their emergency response to the cyclone.

Provinces with Low spending in Quarter 4

National Government Grants				Internal Revenue		
	2007	2006	2005	2007	2006	2005
1	ENB	ENB	Simbu	ESP	WHP	WNB
2	Simbu	WHP	Manus	MBP	SHP	SHP
3	Madang	ESP	WNB	Simbu	Simbu	Central
4	WNB	Gulf	Oro	Gulf	NIP	Oro
5	Sand'n	Simbu	Gulf	Morobe	Morobe	WHP

- Simbu appears five times in the Quarter 4 low spending list, while Western Highlands and West New Britain appear three times each. This suggests that these Provinces use their funds in a timely manner.

Table 11: Percentage of Spending in each Quarter

Table 11 details the percentage of spending that occurred in each quarter from grant and internal revenue by Province in 2007 and 2006. See Appendix 10 for a table containing information for the 2005-2007 fiscal years.⁹

Province	Source	2007 Fiscal Year					2006 Fiscal Year				
		Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
Central	Grant	2%	20%	19%	60%	100%	5%	17%	33%	45%	100%
Central	Internal Revenue	20%	16%	21%	43%	100%	13%	23%	31%	32%	100%
EHP	Grant	6%	13%	25%	56%	100%	9%	24%	20%	46%	100%
EHP	Internal Revenue	15%	22%	22%	41%	100%	17%	21%	28%	33%	100%
ENB	Grant	12%	39%	21%	28%	100%	20%	9%	54%	18%	100%
ENB	Internal Revenue	17%	26%	35%	23%	100%	18%	27%	24%	32%	100%
Enga	Grant	5%	35%	12%	48%	100%	23%	26%	20%	30%	100%
Enga	Internal Revenue	19%	43%	15%	23%	100%	22%	16%	21%	42%	100%
ESP	Grant	3%	41%	21%	35%	100%	7%	35%	38%	20%	100%
ESP	Internal Revenue	18%	35%	34%	13%	100%	Data unavailable				0%
Gulf	Grant	8%	32%	11%	49%	100%	18%	27%	36%	20%	100%
Gulf	Internal Revenue	6%	39%	35%	19%	100%	11%	13%	39%	36%	100%
Madang	Grant	19%	25%	24%	32%	100%	11%	12%	42%	35%	100%
Madang	Internal Revenue	16%	24%	22%	37%	100%	14%	24%	28%	34%	100%
Manus	Grant	7%	25%	25%	44%	100%	11%	28%	25%	36%	100%
Manus	Internal Revenue	22%	20%	30%	28%	100%	Data unavailable				0%
MBP	Grant	1%	33%	15%	51%	100%	14%	21%	29%	35%	100%
MBP	Internal Revenue	23%	37%	26%	14%	100%	29%	26%	16%	28%	100%
Morobe	Grant	12%	24%	26%	38%	100%	3%	21%	33%	43%	100%
Morobe	Internal Revenue	21%	30%	28%	21%	100%	24%	22%	29%	25%	100%
NIP	Grant	3%	25%	27%	44%	100%	5%	32%	25%	38%	100%
NIP	Internal Revenue	17%	37%	11%	34%	100%	23%	29%	24%	24%	100%
Oro	Grant	1%	20%	15%	64%	100%	16%	30%	31%	23%	100%
Oro	Internal Revenue	13%	28%	26%	33%	100%	20%	26%	28%	26%	100%
Sand'n	Grant	8%	24%	33%	35%	100%	3%	18%	43%	37%	100%
Sand'n	Internal Revenue	6%	37%	22%	35%	100%	10%	23%	19%	49%	100%
SHP	Grant	Data unavailable					27%	23%	9%	42%	100%
SHP	Internal Revenue	24%	35%	15%	25%	100%	46%	27%	8%	20%	100%
Simbu	Grant	13%	30%	25%	32%	100%	13%	40%	25%	23%	100%
Simbu	Internal Revenue	55%	14%	14%	17%	100%	20%	30%	27%	23%	100%
West'n	Grant	1%	16%	41%	42%	100%	0%	12%	20%	68%	100%
West'n	Internal Revenue	12%	30%	24%	34%	100%	11%	15%	17%	58%	100%
WHP	Grant	5%	24%	14%	57%	100%	15%	35%	31%	19%	100%
WHP	Internal Revenue	28%	17%	31%	24%	100%	12%	27%	42%	18%	100%
WNB	Grant	12%	33%	22%	33%	100%	13%	38%	19%	29%	100%
WNB	Internal Revenue	11%	24%	18%	47%	100%	19%	20%	20%	41%	100%
Average of Grants		7%	27%	22%	44%	100%	12%	25%	29%	34%	100%
Average of Internal Revenue		19%	30%	24%	28%	100%	19%	23%	25%	33%	100%

⁹ In Appendix 10 the significant difference between the average quarterly spending from grants in 2005 and 2006 reflects that in 2006 unused grant funds that were carried forward, by way of raising a cheque to transfer the amount, have been stripped out of the 2006 and 2007 expenditure totals. This is a truer representation of actual expenditure.

3.5 Districts, the Emerging Link in the Service Delivery Supply Chain

Overview

Public administration in Papua New Guinea operates at four levels: national, provincial, district and local. Each level of public administration has responsibilities to deliver basic services to our people.

In recent years there has been an increasing focus on channelling funding directly to district administrations. The expectation is that by directing funding to the district level it will result in increasingly more basic services being delivered that are capable of being accessed by more people. We know that many services are already delivered by staff at the district level such as extension patrols in health and agriculture. We also know that for this to take place staff need funding to carry out the activities for which they are employed. They need fuel for transport, and allowances for travel and accommodation, for examples. In this light, it seems reasonable to assume that having more funds at the district level will make the processes of ensuring that these health and agriculture extension workers can access the necessary funding significantly more efficient; and so more service delivery becomes possible. The alternative is for district level staff to rely on the Provincial Administration for access to funding.

Given the increasing focus on funding districts, NEFC has carried out a series of exploratory visits to districts through five Provinces supplemented with analysis of case study work undertaken in East New Britain and Eastern Highlands by the Department of Provincial and Local Government Affairs Provincial Performance Improvement Initiative. At this stage, we are offering some analysis from our initial discussions with Provinces and districts and the case studies about the impacts of increased funding directed to districts and key challenges that may affect achieving the objective of providing better support for service delivery.

3.5.1 Summary of Preliminary Findings – NEFC District Exploratory Visits

NEFC teams have visited districts and/or met with teams of district administrators in Central, Morobe, East New Britain, Eastern Highlands and Western Highlands Provinces. Key findings are:

- Little recurrent goods and services funding is actually managed at the district level. The funding that does get to this level is either for development purposes or for supporting the district administration, not for enabling the delivery of basic services.
- There is a lack of clarity about accountability and the relationships between the district and provincial levels. This may be a consequence of the number of participants that play a role in this area. These include the:
 - District Administration
 - District Treasury
 - Provincial Administration
 - Provincial Treasury
 - Department of National Planning and Monitoring
 - Office of Rural Development
 - Department of Finance
 - Department of Treasury
- Perhaps because of this lack of clarity, there is a lack of meaningful reporting both at the district level and from the district level to the provincial and national levels.

- The chart of accounts maintained by the District Treasuries would benefit from being better configured to provide clarity on what funding is spent on. It should be clear as to whether the funding is for recurrent or development purposes and to which sector and activity it relates. This is especially important as the extra funding being made available to Provincial Governments through the reform of the intergovernmental financing system is tied to conditions to ensure that extra funding equals extra service delivery, and Provinces will need to demonstrate spending against minimum priority activities, for example.
- The transactions recorded in District Treasuries are not uploaded into the Provincial Treasury PGAS. This makes *whole of Province* reporting significantly more difficult and unlikely to occur.
- Expenditure at the district level may become 'off-radar' i.e. not transparent. If an effective means of capturing the district data is not established, monitoring will prove hugely problematic.
- We found a significant range of expenditure authorisation levels applying to District Administrators – some had the ability to authorise expenditure up to K500 and others K50,000. The delegation needs to be appropriate to enable the efficient delivery of services. For example, spending time and money to go back and forth to provincial headquarters to have expenditures authorised and again for disbursement and acquittal processes is extremely costly.
- In those cases where there are established District Treasuries with PGAS installed they are providing accounting support to the LLG's in their District.

3.5.2 Summary of Preliminary Findings – DPLGA NDoH Case Study of District and Facility Service Delivery Funding

This study has been initiated by the Department of Provincial and Local Government Affairs, in conjunction with Department of Health, to explore in detail the reasons why funding for front line service delivery does not appear to be reaching facilities.

The study team has visited two Provinces (East New Britain and Eastern Highlands), but is still to complete the case study in each Province. Visits to the most remote parts of each Province will be made in mid-January.

The following summarise the tentative findings of these two visits:

- Health facilities and schools rely mainly on user fees to fund their operations, including sometimes purchase of fuel for mobile clinics. This seriously limits access to basic services.
- Church-supported health facilities do not appear to be much better off financially than government ones.
- In contrast, most schools do receive some direct funding from government, mainly through National Government school subsidies deposited direct to their bank accounts.
- Supply of drugs through the government system is wholly inadequate. All facilities are supplementing their drug supply with commercially purchased drugs, the cost of which they pass on to patients. This seriously limits access to basic services.
- In at least one case, over one third of user fees are being spent on commercial drug purchases.
- Distribution of drugs by Provincial Governments is also inadequate. At Aiyura district headquarters, for example, the team saw around twelve health centre drug kits, now mainly expired, which had not been delivered due to the cost of air freight and lack of budget.

- District treasuries are not facilitating the flow of funds for operations. District treasuries only handle LLG grants, DSG and DSIP (members/district) funds. To access funds from the provincial budget, district and staff located at the facility need to drive to the provincial headquarters.
- There appears to be a significant trade-off between imposing up-front financial management controls on the one hand, and service delivery efficiency and effectiveness on the other. The result is to further restrict the trickle of funds to the service delivery front line. This trade-off is generally not recognised, and the general view of many public servants is that tighter controls are needed.

3.5.3 Conclusion

The district level of government administration is becoming increasingly important given the amount of funding it is receiving and the essential truth that it is closer to where people live and so where effective service delivery activities need to take place.

What is evident, however, is that for service delivery to improve:

- the **right funding** needs to reach this level, i.e. goods and services funding that supports the activities that need to be paid for at this level
- once the right funding gets to the districts the expenditure needs to be **properly recorded and reported**
- the district level **expenditure data needs to be available at the provincial and national levels** for monitoring purposes and to ensure appropriate coordination
- the district level needs **clear lines of reporting and accountability** between its various participants

The NEFC will continue to explore and report the emerging importance of the district level in the chain of activities that result in service delivery.

4 Measuring Performance

4.1 How we Measured Performance

Having analysed how Provincial Governments spent their money, we can now compare that expenditure against what 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? Chapter Four addresses these questions. These are set out in three graphs. These are:

- The Provincial MTDS Scorecard – Supporting MTDS Priorities
- The Twin Gaps of Priority and Funding – Supporting MTDS priorities
- Function Grant Scorecard

In the box is a quick reference on the three forms of measurement that we use and the questions they help to answer.

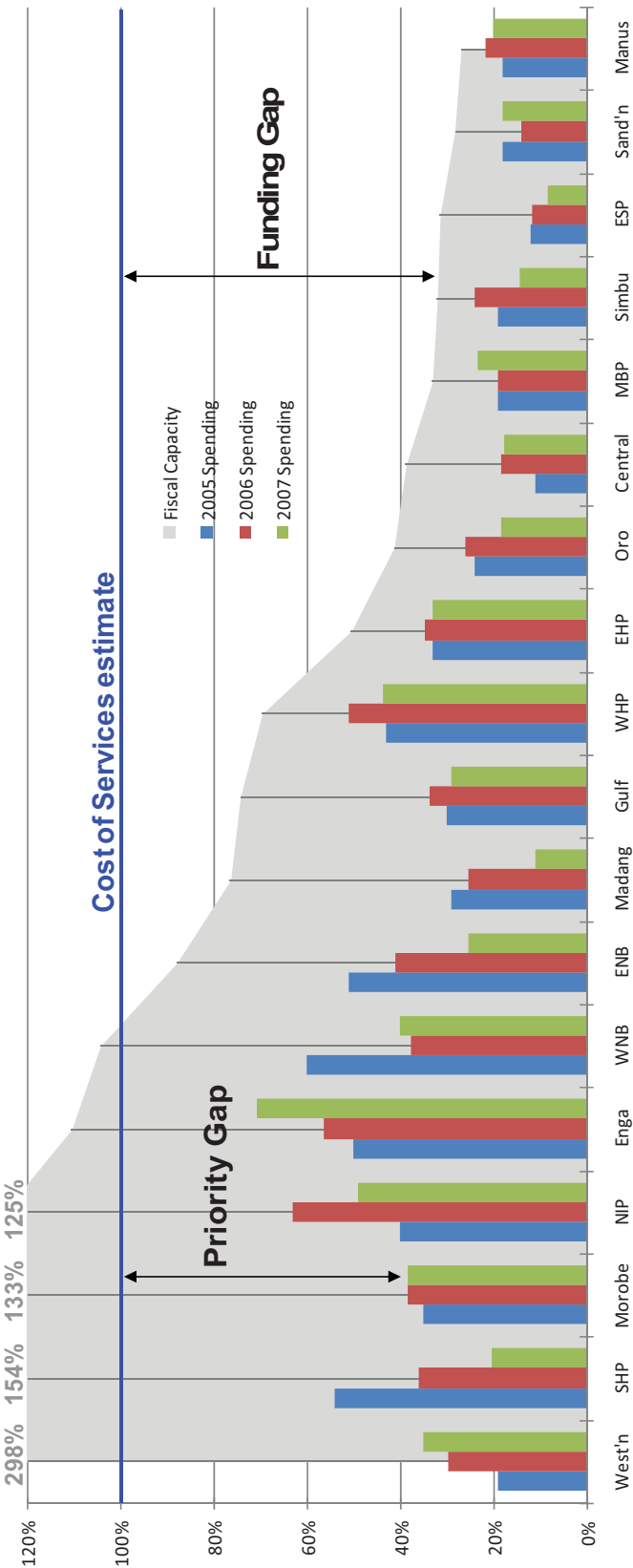
Answering questions about performance

Table / Chart	Helps to answer
Provincial MTDS Scorecard – Supporting MTDS Priorities	<ul style="list-style-type: none"> ▪ How well is each Province supporting the MTDS sectors given its fiscal capacity? ▪ Provinces are ranked according to their fiscal capacity <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 Provinces fiscal capacity</p>
The Twin Gaps of Priority and Funding – Supporting MTDS priorities	<ul style="list-style-type: none"> ▪ What can we achieve by redirecting spending to MTDS priority areas? ▪ Do we need more funding?
The Function Grant Scorecard	<ul style="list-style-type: none"> ▪ Did Provinces spend all of their function grant funding? ▪ Did they spend it in a timely manner? ▪ Was it spent appropriately on the things that support service delivery?

4.2 The Twin Gaps of Priority and Funding

Graph 12 draws together all provincial spending on MTDS priorities and compares this with the cost of fully funding the MTDS priorities. Graph 12 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 allocating more money within their Province to basic services – we call this the priority gap¹⁰. The second is a matter of funding, many Provinces simply do not have sufficient funding – we call this the funding gap.

Graph 12: Supporting MTDS priorities: 2005 to 2007



¹⁰ All Provinces allocate some of their spending to staffing and development, this is not taken into account in determining the priority gap.

4.2.1 Comments on the Twin Gaps

- There is a funding gap – that can only be addressed by redesigning the way PNG's resources are shared.

As detailed at 2.2.3, the 2008 GoPNG intergovernmental financing reforms start the process of addressing this funding gap. The 2009 GoPNG budget provides an overall 40% increase in recurrent goods and services funding to Provincial Governments, with an extra K34m distributed to those Provinces that need it most.

- 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).

Provinces need to consider how they allocate and spend their resource envelope. Internal revenue needs to be used to support the delivery of core services.

- The current level of spending on recurrent goods and services in priority areas is too low and inadequate. If this trend continues the implications are disastrous for government efforts in providing core services, such as health and education, and for promoting economic development, through a maintained road infrastructure and by developing vibrant and sustainable agricultural, fisheries and forestry sectors.
- Most Provinces results between 2005 and 2007 have changed little. However, we did note:
 - A trend of increasing spending on MTDS sectors by Western and Enga.
 - A trend of declining spending on MTDS sectors by Southern Highlands, East New Britain, Madang and East Sepik.

4.2.2 Comments on the results by funding group

- Higher funded** Provinces all have the ability to do better. No higher funded Province is adequately funding priority services. They can improve by redirecting money from low priority areas such as the administration sector and projects to service delivery sectors particularly health, agriculture and infrastructure maintenance.

In 2007 we did observe a decline in spending in education (once Enga is excluded), notwithstanding that this remains the best funded service sector.

Higher funded Provinces also 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.

- Medium funded** Provinces also need to redirect more spending from low priority areas such as administration to the health and infrastructure maintenance sectors.
- The health and infrastructure maintenance sectors in **lower funded** Provinces require an immediate injection of funding. Provincial budget prioritisation needs to reflect this need, with increasing amounts of internal revenue applied to these sectors. The introduction of extra funding through intergovernmental financing reform will also help to address this gap in the lower funded Provinces.

4.3 The Provincial MTDS Priorities Table ¹¹

Table 13 illustrates how well Provinces are supporting the Governments key MTDS priority sectors – Health, Agriculture, Education, Infrastructure and Village Courts. 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.

Adjusted results: 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 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.

The matrix format of the MTDS Priorities Table 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 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.

¹¹ 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.

Table 13: Provincial MTDS Priorities Table – How well were MTDS Priorities supported given fiscal capacity¹²

Rank by Fiscal Capacity	Province	Average Fiscal Capacity	Health & HIV	Agriculture	Education	Infrastructure	Village Courts Op's	Allow's
High Funded Group								
1	Western	298%	Low	Medium	Medium	Low	High	High
2	Southern Highlands	154%	Low	Low	Low (H)	Low	High	Medium (H)
3	Morobe	133%	Low	Low	Medium	Low	High	High
4	New Ireland	125%	Low	High	Medium (H)	Low	High	High
5	Enga	111%	Low	Low	High	Low	High	High
6	West New Britain	104%	Low	Low	Medium (L)	Low (M)	High	High
Medium Funded Group								
7	East New Britain	88%	Low	Medium	Low	Low (M)	High	High
8	Madang	76%	Low	Low	Low (M)	Low	High	Medium (H)
9	Gulf	74%	Low	High (L)	Low (M)	Medium	High	High
10	Western Highlands	70%	Medium (L)	High	Low	Medium (H)	Medium	High
11	Eastern Highlands	50%	Medium	High	Medium	Medium	High	High
Low Funded Group								
12	Oro	41%	Low	Low (H)	High	Low	High	High
13	Central	39%	Medium	Low	Medium (H)	Low	High	High
14	Milne Bay	33%	Low	High (M)	High (M)	Medium (L)	High	High
15	Simbu	32%	Low (M)	Low	Medium (H)	Low	High	Medium (H)
16	East Sepik	31%	Low	Low (M)	Medium (H)	Low	Medium	Medium
17	Sandaun	28%	Low	Medium (L)	High (M)	Medium	High	High
18	Manus	27%	High (M)	Low	High	Low	High	High

High Medium Low

above 80%
between 40-79%
below 40%

(2006 scores in brackets when different to 2007)

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

The exception to this is the results for Village Court Allowances. These results have not been adjusted, the VCA grant is assumed to be adequate to meet this cost.

¹² This table illustrates and compares provincial performance in supporting the Governments key MTDS priority sectors – the scores are adjusted to reflect fiscal capacity.

4.3.1 Priorities – the Provincial MTDS Priorities Table

Taking into account the different capacity of Provinces to meet the cost of delivering a similar set of basic services in the core sectors of health, education, agriculture, infrastructure and village courts:

1. **Administration** – is not included in the ‘scorecard’ table but continues to be the no.1 priority across all Provinces (no.1 in 2005 and 2006). 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** – remains the no.2 priority across almost all Provinces (no.2 in 2005 and 2006), but it was concerning in 2007 to see an overall declining level of spending on education (if Enga’s spending is removed from the comparison). There is still much room to improve with only three Provinces spending as much as they could on education – down from five in 2006.

Sandaun has demonstrated improved support for education moving from a medium to a high performance rating relative to their fiscal capacity.

Southern Highlands has shown a large decline in spending support for education moving from a high to a low performance level.¹³

Spending on secondary and tertiary education is often favoured over basic education that would enable more children to learn basic skills (through primary, elementary and community schools).

3. **Agriculture** – continues to be the no.3 priority for medium and lower funded Provinces, but not for higher funded Provinces (with the continued exception of New Ireland that strongly prioritises agricultural development in its province). Overall Agriculture was priority no.3 in 2005 and 2006.
4. **Infrastructure** – spending has fallen. However, a significant amount of capital spending on infrastructure may be recurrent in nature (reflecting the cumulative effect of poor recurrent maintenance), spending on transport maintenance infrastructure just maintains its position as the no.4 priority across all Provinces. (no.4 in 2005 and 2006). However, infrastructure maintenance is expensive and requires greater levels of funding. If left unchecked, very expensive rehabilitation costs are certain to result.
5. **Health** – is the lowest priority of most Provinces (lowest priority overall in 2005 and 2006). While the increased funding in 2007 largely as a result of the National Government’s health service delivery function grant and the HSIP- a donor initiative- provided a small boost, the low levels of spending in health are frightening. Primary and preventative health care in the rural areas is identified as a priority and a fundamental requirement in the MTDS but spending levels do not come anywhere near close to reflect this in practice. Basic health services are not being delivered to most people in the country. In addition to other challenges about improving capacity, skills and the operation of supply chains to deliver basic health service, it is also clear that improving health service delivery requires a dramatic increase in funding.

Manus has demonstrated improved support for health and is the only Province to achieve a high performance rating relative to their fiscal capacity.

¹³ **SHP:** We did note a large education-related payment of some K1m coded under ‘unspecified arrears’. Recoding at the transaction level is beyond the scope of this analysis, and as a consequence any expenditure that may relate to service delivery remains within its original area i.e. arrears – coded as other.

6. **Village Courts** – spending in the village courts sector was split in to two grants in 2007 with one for allowances and the other for operational requirements. This separation should help ensure funding is appropriately targeted. Spending on allowances decreased from the high 2006 levels that reflected the added funding provided by National Government to address the build-up of unpaid allowances.

The MTDS provincial priorities table illustrates that most provinces spend what the Cost of Services Study estimates is necessary. This is not entirely unexpected, given that the grants were costed so as to prove adequate to meet the sectors basic needs. It does, however, highlight that four provinces are not spending what they should in allowances – and in East Sepik additional spending appears necessary in both allowances and operational costs.

4.4 The Provincial Expenditure Matrix

Table 14: Table of Key Performance Indicators

#	Key Performance Indicator	Description	KPI Measure	Why is this important?
1	Spending Trend (both Grant and Internal revenue spending)	Indicates how a Province's spending on recurrent goods and services changed between 2006 and 2007?	Up: 15% (or greater) <u>increase</u> on 2006 Steady: in between +/- 15% Down: 15% (or greater) <u>decrease</u> on 2006	An increase in spending in priority sectors is a good sign and indicates the Province is allocating more priority to the service delivery area. A decrease in spending in priority sectors is bad and almost always results in a reduction in service delivery.
2	Spending Level Performance (both Grant and Internal revenue spending)	Indicates how much a Province is spending on the sector given how much it is able to spend. The calculation reflects a Province's fiscal capacity.	High: Above 80% Medium: in between 40% - 80% Low: Below 40%	We need to compare our spending against an independent benchmark so that we know how close we are to adequately funding a sector. We may be increasing our spending – but the level may still be low compared to what is required.
3	Unspent % (Function Grant spending only)	The amount of unspent funds at year-end. Calculated against Budget (actual) – per 2008 budget book.	Good: Less than 5% Average: 5 and 10% Not Good: Above 10%	The immediate objective is to spend the function grant funds to deliver services. A rollover % above 5% indicates poor use of resources.
4	Nature test (Function Grant spending only)	A general high-level assessment of whether the expenditure looks in keeping with the intended purpose	Good: Appears largely in keeping with intention of grant Average: Appears in keeping with intention of grant with some areas that are questionable or uncertain Not Good: Significant areas that are questionable	If funds are not spent in the general function area intended then services cannot be delivered.
5	Salaries and Wages % (Health Function Grant spending only)	Spending on Salaries and Wages is <u>not intended</u> under the Function Grant. Spending on these items above 5% is noted.	Below 5% is deemed immaterial. Above 5% is worthy of note.	Function grants are for 'goods and services'. Personnel without 'goods and services' equals no service delivery.

Table 15: The Provincial Expenditure Matrix




Rank	Province	Fiscal Capacity	HEALTH					EDUCATION			
			Spending Trend	Spending Perf Level	FG Unspent %	FG Exp Nature Test	No Salaries Test	Spending Trend	Spending Perf Level	FG Unspent %	FG Exp Nature Test
1	Western	1	Up	Low	85%	Not Good	OK	Up	Medium	100%	Not Good
2	Southern Highlands	2	Up	Low	12%	Average	Fail	Down	Low	6%	Average
3	Morobe	3	Up	Low	40%	Average	OK	Up	Medium	2%	Good
4	New Ireland	4	Steady	Low	37%	Average	OK	Steady	Medium	47%	Average
5	Enga	5	Steady	Low	5%	Good	OK	Up	High	18%	Average
6	West New Britain	6	Up	Low	11%	Good	OK	Up	Medium	1%	Good
7	East New Britain	7	Up	Low	54%	Not Good	OK	Down	Low	89%	Not Good
8	Madang	8	Down	Low	50%	Average	OK	Down	Low	54%	Good
9	Gulf	9	Down	Low	68%	Average	OK	Down	Low	65%	Average
10	Western Highlands	10	Up	Medium	36%	Not Good	Fail	Up	Low	4%	Average
11	Eastern Highlands	11	Up	Medium	13%	Good	OK	Up	Medium	40%	Not Good
12	Oro	12	Steady	Low	3%	Good	OK	Steady	High	0%	Average
13	Central	13	Up	Medium	0%	Good	OK	Steady	Medium	0%	Good
14	Milne Bay	14	Up	Low	19%	Good	OK	Up	High	36%	Average
15	Simbu	15	Down	Low	12%	Average	Fail	Down	Medium	8%	Good
16	East Sepik	16	Up	Low	51%	Not Good	Fail	Down	Medium	37%	Average
17	Sandaun	17	Steady	Low	18%	Good	OK	Steady	High	6%	Good
18	Manus	18	Up	High	24%	Good	OK	Steady	High	0%	Good
<p>KEY</p> <p>Indicates a good level has been achieved  +15% above 80% under 5% Good under 5%</p> <p>Indicates improvement can be made  in between in between above 5% Average</p> <p>Indicates improvement needs to be made  -15% below 40% above 10% Not Good over 5%</p>											

Table 15: The Provincial Expenditure Matrix

Province	INFRASTRUCTURE MAINTENANCE				AGRICULTURE		Village Court - Allowances				Village Court - Operational Costs		
	Spending Trend	Spending Perf Level	FG Unspent %	FG Exp Nature Test	Spending Trend	Spending Perf Level	Spending Trend	Spending Perf Level	FG Unspent %	FG Exp Nature Test	Spending Perf Level	FG Unspent %	FG Exp Nature Test
Western	Up	Low	81%	Not Good	Steady	Medium	Down	High	17%	Good	High	23%	Average
Southern Highlands	Steady	Low	0%	Not Good	Up	Low	Down	Medium	0%	Good	High	0%	Average
Morobe	Steady	Low	0%	Good	Down	Low	Down	High	0%	Good	High	47%	Good
New Ireland	Up	Low	95%	Not Good	Down	High	Up	High	0%	Good	High	0%	Good
Enga	Down	Low	1%	Good	Down	Low	Up	High	3%	Good	High	1%	Good
West New Britain	Down	Low	32%	Average	Up	Low	Steady	High	0%	Good	High	10%	Good
East New Britain	Down	Low	20%	Average	Steady	Medium	Down	High	21%	Good	High	11%	Good
Madang	Down	Low	73%	Not Good	Down	Low	Down	Medium	56%	Average	High	40%	Average
Gulf	Steady	Medium	77%	Average	Up	High	Down	High	2%	Good	High	0%	Good
Western Highlands	Down	Medium	0%	Average	Up	High	Down	High	0%	Average	Medium	49%	Average
Eastern Highlands	Steady	Medium	52%	Average	Up	High	Steady	High	2%	Good	High	33%	Not Good
Oro	Down	Low	0%	Average	Down	Low	Up	High	0%	Good	High	0%	Good
Central	Up	Low	0%	Good	Up	Low	Up	High	0%	Good	High	0%	Good
Milne Bay	Up	Medium	47%	Average	Up	High	Steady	High	6%	Good	High	2%	Average
Simbu	Down	Low	4%	Good	Down	Low	Steady	Medium	0%	Good	High	15%	Good
East Sepik	Down	Low	58%	Not Good	Down	Low	Down	Medium	7%	Average	Medium	47%	Average
Sandaun	Up	Medium	13%	Good	Up	Medium	Up	High	0%	Good	High	5%	Good
Manus	Steady	Low	0%	Good	Steady	Low	Up	High	0%	Good	High	19%	Average

KEY

+15%	above 80%	under 5%	Good	Indicates a good level has been achieved
in between	in between	above 5%	Average	Indicates improvement can be made
-15%	below 40%	above 10%	Not Good	Indicates improvement needs to be made

Summary Findings – of the Provincial Expenditure Matrix

The Provincial Expenditure Matrix in Table 15 allows us to review the findings of the PER by Province and sector. When reading the matrix, remember Provinces are ordered by their fiscal capacity not by their performance.

Overall – Across Function Grants (and Village Court Allowances)

		Health	Education	Infrastructure maintenance	Village Court Allowances	Village Court Function Grant
Average Unspent	2007	30%	29%	31%	6%	17%
	2006	11%	8%	16%		introduced 2007
	2005	10%	9%	18%		introduced 2007
Average Nature Test	2007	Average	Average	Average	Good	Average
	2006	Average	Good	Average		introduced 2007
	2005	Average	Average	Average		introduced 2007
No Salaries Test	2007	4	} number of provinces who fail test			
	2006	11				
	2005	10				

- Overall the unspent or unused amount of the function grants in 2007 was significantly higher in 2007 than in 2005 and 2006.

Why could this have happened? The national election made a difference; with many public servants involved in election related activities or are unable to plan and deliver services across the election and counting periods.

- Overall spending of the function grants in health, education and infrastructure maintenance generally appeared in keeping with intention of grants.
- In 2006 education spending was rated good in terms of expenditure keeping with the intention of the grant. In 2007, this declined to the 2005 rating of average.
- The number of Provinces spending the health function grant on casual wages has significantly reduced. The number has reduced from eleven to four – this is very encouraging and will help ensure that recurrent funding is available to support staff engaged in the delivery of services.

Overall – Across Sectors

		Health	Education	Infrastructure maintenance	Agriculture	Village Court Allowances	Village Court Function Grant
Average Spending Performance Level	2007	Low	Medium	Low	Medium	High	High
	2006	Low	Medium	Low	Medium	High	introduced 2007
	2005	Low	High	Medium	Medium	High	n/a
Average Spending Trend	2006/7	Steady	Steady	Steady	Steady	Down	introduced 2007
	2005/6	Steady	Steady	Steady	Steady	Up	n/a

- **Education:** While spending is relatively steady, spending levels have decreased since 2005. Nevertheless amongst the three large service sectors, education fares the best.
- **Agriculture:** Spending in agriculture rates 'medium' and remains steady. This, however, does mask some differences between individual Provinces.
- **Infrastructure maintenance:** While spending is relatively steady, spending levels have decreased since 2005 and Provinces, on average, rate 'low' relative to their ability to spend. Given that economic and social development relies on ensuring that roads, bridges and airstrips are adequately maintained, this is an area requiring improvement.
- **Health:** The trend of generally low spending relative to the Provinces ability to spend in health is very concerning. This is also a spending area requiring substantial improvement.
- **Village Courts:** Overall the Village Courts continues to be the best performing sector in expenditure management terms with both Village Court grants achieving high scores. This is largely due to the relative adequacy of grant funding for village courts as compared to costs.

The Best

- Lower funded Provinces continue to outperform most medium and higher funded Provinces.
- Strong progress has been made in funding causal wages from internal revenue and not the health function grant.

The Worst

- In a number of cases higher and medium funded Provinces were outperformed again by lower funded Provinces – this should not be the case.
- Some higher and medium funded Provinces have a higher proportion of unused function grant monies –this should not be the case.
- There continue to be low spending levels in health, agriculture and infrastructure maintenance. Service delivery in these vital areas relies on higher funding levels.
- Spending levels in education are also declining.
- Higher funded provinces and some medium funded provinces have high spending on unspecified arrears. This has serious implications and needs to be brought under tighter control.

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 attracts more than its fair share of provincial funding.

Sections 5 – 9 discuss the detailed findings of the review on a sector by sector basis. The sectors are:

5. Education

6. Health

7. Infrastructure

8. Agriculture

9. Village Courts

10. Administration

5 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)



“Yes please – we need an education”

.....how do we make an effective education service happen?

Administer and supervise: the elementary, primary and secondary education systems including vocational schools:

HR: manage teachers

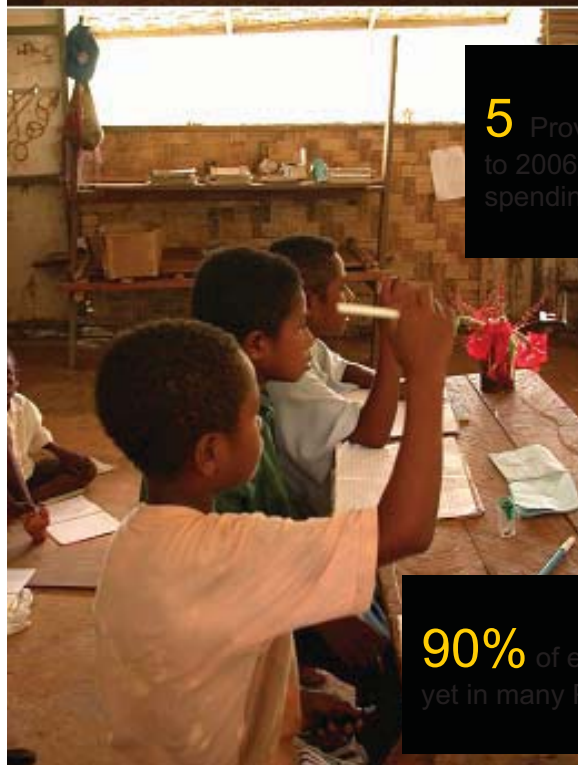
Training: teacher in-service

Subsidy: provide education subsidy to schools

Materials: provide basic educational materials and replacement curriculum materials to schools

Maintain: secondary schools

26% How can we adequately educate our children when spending in 12 Provinces averages only 26% of what is required?



5 Provinces significantly decreased their spending compared to 2006, and 3 Provinces have shown a constant decline in spending over the 2005-2007 period. Why is this happening?

TLFs did Madang and East Sepik pay any teachers leave fares in 2007?

90% of enrolled students are at primary or elementary level – yet in many Provinces spending favours secondary education.

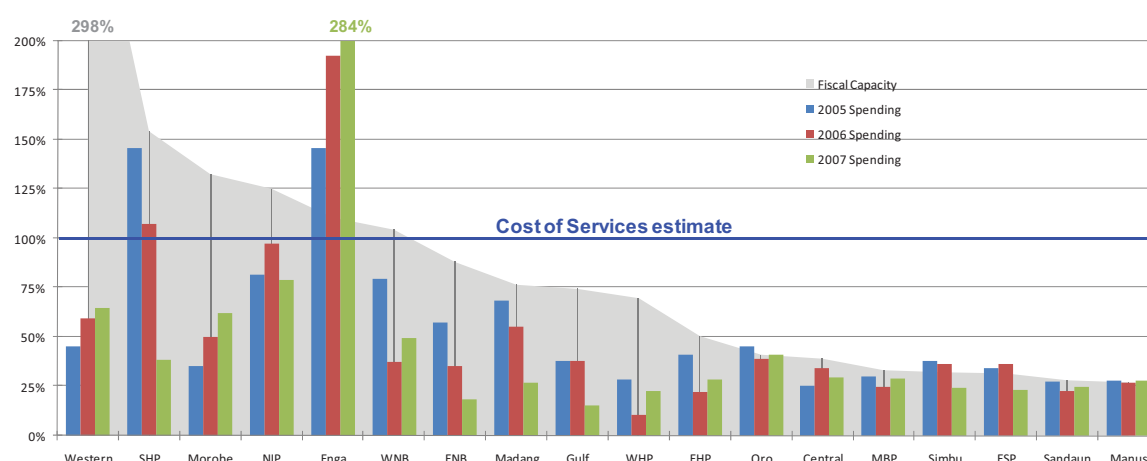
5.1 Education in the Provinces

Providing education to our children requires a number of things. We need schools, teachers and other resources. The schools are built and the National Government pays the teachers and provides curriculum materials, with most other resources provided by the Provincial Administration. These other resources include basic materials, school supervision, operation of district education offices and building maintenance. Without these, the schools cannot operate effectively and children will not improve their life opportunities.

5.2 Against the Benchmark: the 2005 to 2007 trend

Graph 16 illustrates the 2005 to 2007 performance trend of each Province using the Cost of Services estimate as a benchmark. You will observe the greater volatility in the spending levels of higher funded Provinces compared to lower funded Provinces. Sixteen of the eighteen Provinces continue to fall below (most well below) the minimum expenditure required to deliver a basic education service (blue line).

Graph 16: Education Spending Performance: 2005 to 2007



5.2.1 Performance Overview

- How can we adequately educate our children when spending in twelve Provinces averages just 26% of what is necessary to deliver the minimum level of service? (down from 30% in 2006)
- Overall, however, education remains the best supported MTDS sector by Provinces.
- While overall spending remained steady, Enga's significantly increased spending in 2007 masks a gradual decline in most other Provinces.
- Four Provinces are showing a trend of declining spending between 2005 and 2007 (Southern Highlands, East New Britain, Madang and Simbu). Why is this?
- Some 90% of enrolled students are at primary or elementary level – yet in many Provinces spending favours secondary education.
- Enga continues to fund high levels of tertiary scholarships – K1.6m in 2007 (K1.9m in 2006).

At page 60, data table 5.3 provides a snapshot of education expenditure data for the 2006 and 2007 fiscal years. It allows the reader to monitor the trend across the sector and by Province. The main findings from the data table are summarised in the following sections:

5.2.2 Spending between 2005 and 2007

- The higher funded Provinces have mainly improved their spending – with Western, Morobe, New Ireland and Enga spending more on education, while Southern Highlands and West New Britain have decreased their spending (although West New Britain improved in 2007)
- Three of the five medium funded Provinces had sharp declines in spending, particularly East New Britain, Madang and Gulf, while Western Highlands and Eastern Highlands show improvement.
- Lower funded Provinces maintained reasonably consistent spending levels with the exception of East Sepik and Simbu where a trend of decreasing recurrent spending is emerging. Why did spending decrease? Our analysis found under-spending from grants (Western, East New Britain and East Sepik), while in the Southern Highlands a large expenditure on a single contract to supply materials (K3.8m) in 2006 did not occur in 2007.

5.2.3 Spending from Internal Revenue

- Education spending from internal revenue was highly significant (K18.8 million or 58% of all education goods and service spending).
- Predictably this spending was predominant in those Provinces with higher levels of internal revenue – these are the higher funded group and East New Britain.

5.2.4 Spending in comparison to fiscal capacity

- Overall, education remains the best supported MTDS sector in terms of provincial spending priorities.
- When we adjust for the differences in fiscal capacity, Provinces in the lower funded group continue to outperform better funded Provinces.
- Overall Provinces in the medium funded group are the most disappointing with four of the five recording low spending levels relative to their fiscal capacity.
- Only one higher funded Province (Enga) recorded a high spending level in 2007 compared to three Provinces in 2005 and 2006.

Strategy for Spending in Education

Not all Provinces adopt the same approach in managing their expenditure and delivering education services to their people. Our three-year analysis finds that there are three broad approaches adopted by Provinces in spending their education function grants. These are:

Approach	2007	2005	
1 Distribute the funds directly to individual schools	7	12	decline
2 Expend the funds centrally on various items	6	4	increase
3 Expend the majority of the funds on a major supply contract	3	2	increase
Western and East New Britain spent very little of their education function grants	2		

Through our analysis and meetings with Provinces and their Education staff, we have identified the following issues with these three models

Spending approach	Issue	Possible 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	Hard to reflect the needs of different schools across a whole province	Identify different responsibilities and delegate some budget and expenditure management to district education offices and/or schools
Major supply contract	Delays in tender process Lack of contract management to ensure adequate performance	Start the process early – even the year before Ensure that the delivery of goods & services under the contract occurs

5.2.5 How did we spend?

Table 17 show us how education monies were spent.

Table 17: Analysis of all Education Spending in 2007¹⁴

The 5 Largest Spending Areas (by item)

Item #	Item Description	Amount	%
114	Teachers leave fares	15,645,089	26%
143	Grants and Transfers to Public	14,734,218	25%
135	Other Operational Expenses	11,594,631	19%
225	Construction, Renovation....	3,820,834	6%
242	Capital Transfers to Gov't Org's	3,481,007	6%
	<i>all other codes</i>	10,829,673	18%
	Total spending from recurrent & capital	60,105,453	100%

The Split by Category

Category Description	Amount	%
Recurrent Goods & Services	32,028,079	53%
Personnel Emoluments	16,421,506	27%
Capital & Projects	11,655,868	19%
Total spending from recurrent & capital	60,105,453	100%

Table 17 shows us that:

¹⁴ These amounts include spending from both National Grants and Internal Revenue on goods and services, personnel emoluments and capital and development. But not spending from PIP and SSG funds. We also excluded expenditure on tertiary costs that could be clearly identified.

- Teachers leave fares receives the most funding – 26% of all spending goes on teachers leave fares. In addition, our analysis over the three years has shown instances of Provinces paying teacher leave fares from other codes (such as other operational expenses) which means the true proportion of funding on teacher leave fares is even higher.
- The transfers generally represent Provinces transferring funds to schools or, in a few cases, tertiary institutes. Combined transfers total 31%.
- Other operational expenses can be anything. Three common areas of expenditure are:
 - education administrative costs at HQ level
 - ‘subsidies’ or transfers to schools
 - Payments for major school supply contracts
- 53% of spending was on recurrent goods and services – the other 47% was split between teachers leave fares and capital costs.

5.3 Education Data Table

Education Sector										
Province	Cost of Services	2005 Exp	2006 Exp	2007 Exp	% change	Expenditure Trend	2007 Internal Revenue Exp % of total exp	Spending level achieved v CoS	2006	2007
		(Kina millions)								
West'n	4.427	1.774	2.496	2.877	16%	Up	100%	Medium	Medium	
SHP	5.305	6.837	5.366	2.038	-63%	Down	25%	High	Low	
Morobe	7.008	2.242	3.355	4.353	30%	Up	63%	Medium	Medium	
NIP	2.358	1.747	2.190	1.863	-15%	Steady	55%	High	Medium	
Enga	3.355	4.435	4.198	7.913	89%	Up	94%	High	High	
WNB	3.725	2.643	1.313	1.844	41%	Up	37%	Low	Medium	
ENB	4.224	2.219	1.429	0.769	-47%	Down	77%	Low	Low	
Madang	3.162	1.974	1.668	0.845	-50%	Down	25%	Medium	Low	
Gulf	2.018	0.693	0.737	0.307	-59%	Down	3%	Medium	Low	
WHP	5.693	1.475	0.576	1.282	123%	Up	16%	Low	Low	
EHP	5.125	1.940	1.097	1.471	34%	Up	36%	Medium	Medium	
Oro	1.911	0.788	0.708	0.790	12%	Steady	0%	High	High	
Central	3.982	0.928	1.314	1.176	-11%	Steady	8%	High	Medium	
MBP	4.059	1.132	0.964	1.183	23%	Up	32%	Medium	High	
Simbu	3.878	1.363	1.355	0.938	-31%	Down	0%	High	Medium	
ESP	4.229	1.328	1.482	0.985	-34%	Down	0%	High	Medium	
Sand'n	3.868	0.963	0.839	0.955	14%	Steady	0%	Medium	High	
Manus	1.565	0.400	0.401	0.439	10%	Steady	12%	High	High	
All Provinces	69.893	34.877	31.488	32.028	2%	Steady	18.834			

Key

above 15%	above 25%	above 80%
in-between	in-between	in-between
below -15%	below 10%	below 40%

NB: results have been adjusted to reflect fiscal capacity

Comments

SHP: major contract in 2006 K3.8m. NB: In 2007 SSG exp of K2.8m on capex excluded.

Enga: Significant levels of spending (does not incl K1.6m tertiary)

ENB: Grant funds of K1.1m appears unspent.

Madang: K1.2m from IR budgeted but only K132,000 spent.

Gulf: 61% of function grant not used on intended purpose

Simbu: K220,000 exp in 2006 was mv's.

ESP: Grant funds of K500,000 appears unspent

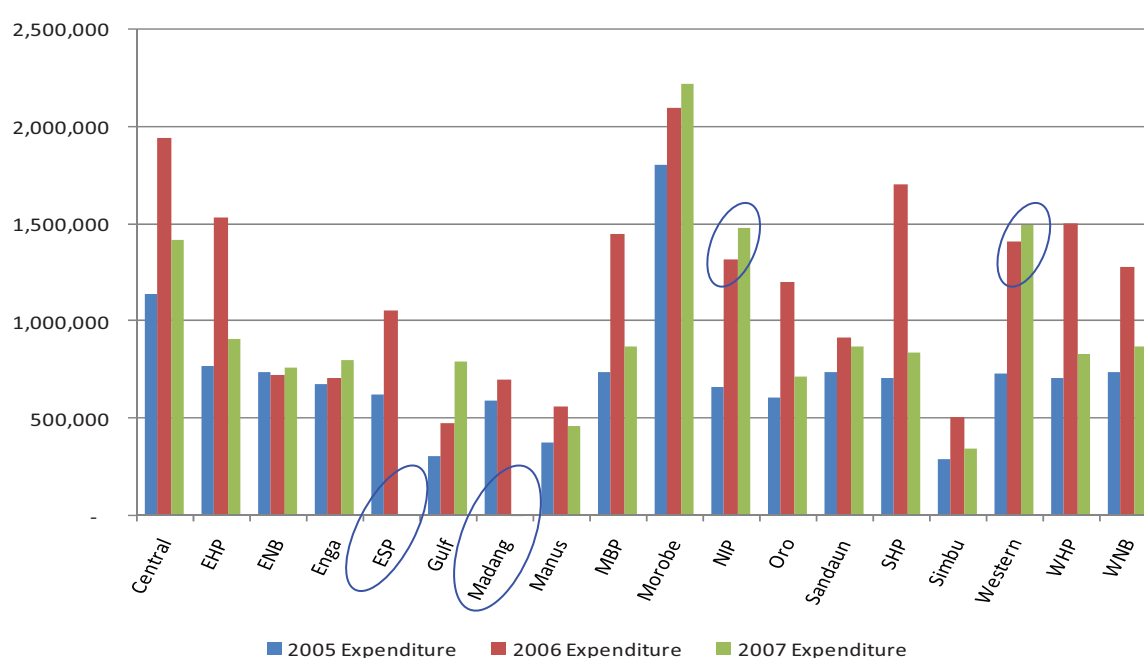
5.4 Drilling down: Teacher Leave Fares

5.4.1 Overview

Like 2006, we have retained our focus on teacher leave fares.

Each year the National Government provides grant funding to Provinces to meet the cost of teacher leave fares (TLF). Provinces are expected to manage this amount and ensure that teachers within their Province receive the correct entitlement. 2007 has seen a decline in spending, mainly due to the reduction in the level of grant funding. In 2006, the National Government allocated an increased allocation of funding to enable select Provinces to meet outstanding leave entitlements.

Graph 18: Teacher Leave Fares – Comparing expenditure 2005 to 2007



5.4.2 Spending between 2005 and 2007

- Overall spending levels have moved from K13m to K21m to K15.6m between 2005 and 2007. So we can see that while 2006 was unique due to the increased funding for arrears, the overall trend suggests that spending on TLFs is increasing.
- In 2007, twelve Provinces spent a similar or moderately higher amount to 2005.
- Two Provinces –East Sepik and Madang- showed no spending on TLFs. Can this be correct? Madang had an appropriation of K692,900 (warrants of K500,200) with K1,400 expenditure. East Sepik had an appropriation of K865,600 (warrants same) with no expenditure recorded.
- The other four Provinces –Gulf, Morobe, New Ireland and Western showed continuing high levels of spending on TLFs – particularly New Ireland and Western.
- Two Provinces, Western and Morobe, made TLF payments from internal revenue.

6 Health and HIV AIDS focus

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

(MTDS 2005 - 2010)



.....how do we make an effective health service happen?

Health programs: deliver in rural areas (disease control, environmental health, family health, nutrition)

Patrols: immunisation extension patrols, school visits, training for village birth attendants

Facilities: operate government-run rural health facilities and urban day clinics

Maintain: medical and non-medical equipment

Deliver: medical supplies

Staff training: to 8,000 rural health centre staff

Patient transfers: emergency

Water supply: establish and maintain in villages

21% - Provinces only spend 21% of actual costs required (or 31% with HSIP expenditure included)....

1.5% increase – spending improved a little over 2006

K9m on casual wages is still significant

K1m more was spent from HSIP funding in 2007

6.1 Health in the Provinces¹⁵

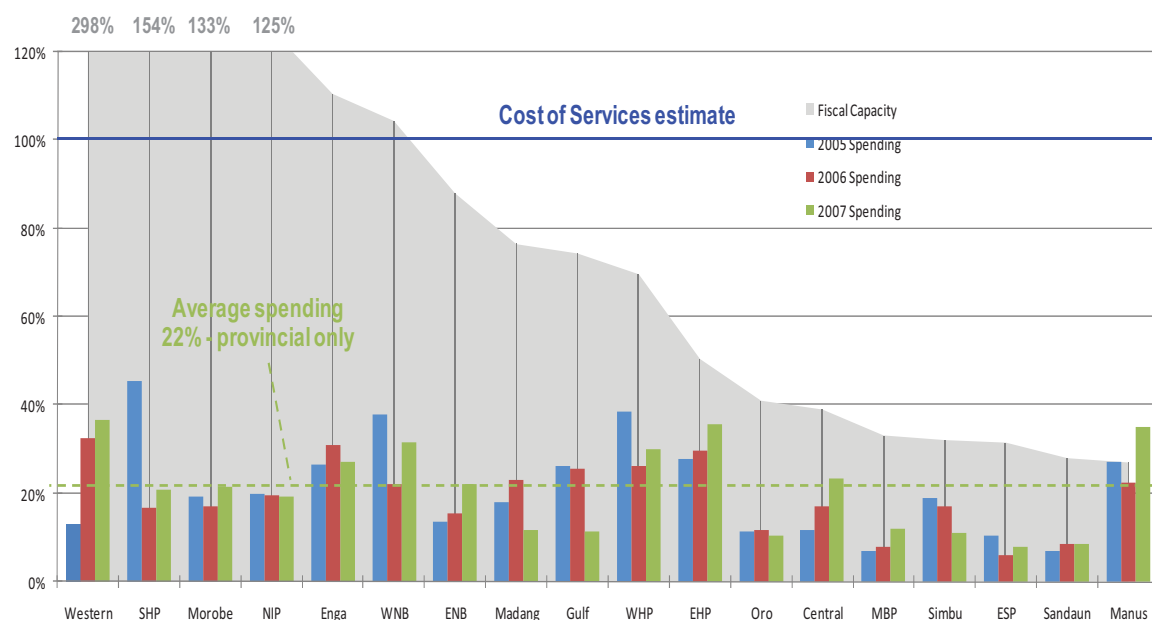
Providing healthcare to the rural majority throughout Papua New Guinea requires a number of things. We need aid posts and health clinics, community health workers and other resources. The aid posts and health clinics have been built and the National Government pays for the community health workers and medicines.¹⁶ But the community health workers need the 'other resources' that Provincial Administrations are required to provide to carry out the day to day activities involved in healthcare. These include getting the medical supplies to the health facilities, funding the rural health patrols that implement health programs, paying for patient transfers and maintaining health facilities. Without these elements healthcare does not happen.

In conducting this review we have specifically excluded any revenues, costs and expenditure that relate to church-run health facilities. We do, however, include costs for services that the Provincial Administrations are mandated to meet on behalf of all facilities including church-run facilities – such as delivering medical supplies.

6.2 Against the Benchmark: the 2005 to 2007 trend

Graph 19 illustrates the 2005 to 2007 expenditure performance in health of each Province using the Cost of Services estimate as a benchmark. Note that this is expenditure from provincial funds only, expenditure from Health Sector Improvement Program (HSIP) funds are not reflected in this chart.

Graph 19: Health Province-only Spending Performance: 2005 to 2007



¹⁵ Reference to health in this chapter includes costs and expenditure related specifically to HIV AIDS.

¹⁶ There are Provinces meeting costs, sometimes considerable amounts, relating to community health workers.

6.2.1 Performance Overview

- Overall there is a continuing poor level of support for health.
- The increase in the health service delivery function grant provided by the National Government has seen health spending increase by 14%.
- Provinces only spent on average 21% of the actual costs required (or 31% if HSIP expenditure is included) – up from 19% (or 29% if HSIP is included) in 2006. So relative to what is required we have made very small progress and remain very far from what is necessary to make basic healthcare accessible to our people. This small improvement is driven by the increase in the National Government function grant and increased use of HSIP (donor) funding – not from internal revenue which remained at only K4m.
- Western Province spent 37% of what is necessary to deliver a basic health service and is the ‘best’ performing Province in terms of the amount spent in the sector.
- Provinces spent K9m on casual wages. If these are necessary staff, the wage cost should be funded under the national payroll and thereby free provincial resources to more adequately support the goods and services that allow health personnel to do their jobs.
- HSIP spending in health continues to increase. Spending rose by K1m from K6m in 2006 to K7m in 2007. This funding significantly assists those Provinces that access it.

At page 67, data table 6.2 summarises health expenditure data for 2006 and 2007 fiscal years. It allows the reader to monitor the trend across the sector and by Province. The main findings are summarised:

6.2.2 Spending between 2005 and 2007

Overall, the spending trend in health between 2005 and 2007 was relatively steady. The very low levels of health spending in 2005/6 continued in 2007 this is very concerning. That said, the increase in the 2007 health function grant did see an increase in overall spending on health. However, two Provinces registered decreases in their spending levels – Madang and Simbu. Madang’s reduced spending happened despite their resource envelope increase in 2007.

The medium funded group of Provinces continue to perform as well if not better than the higher funded group although it is still very insufficient at 27% of their fiscal capacity. Lower funded Provinces as a group improved on their 2005/6 levels.

6.2.3 Spending from Internal Revenue

- Health spending from internal revenue was K4.3 million (31% of all health goods and service spending). This is similar to 2006.
- While spending levels in health are low, internal revenue contributed significantly in ten Provinces, with the higher amounts spent by those with the greater ability.

6.2.4 Spending in comparison to fiscal capacity

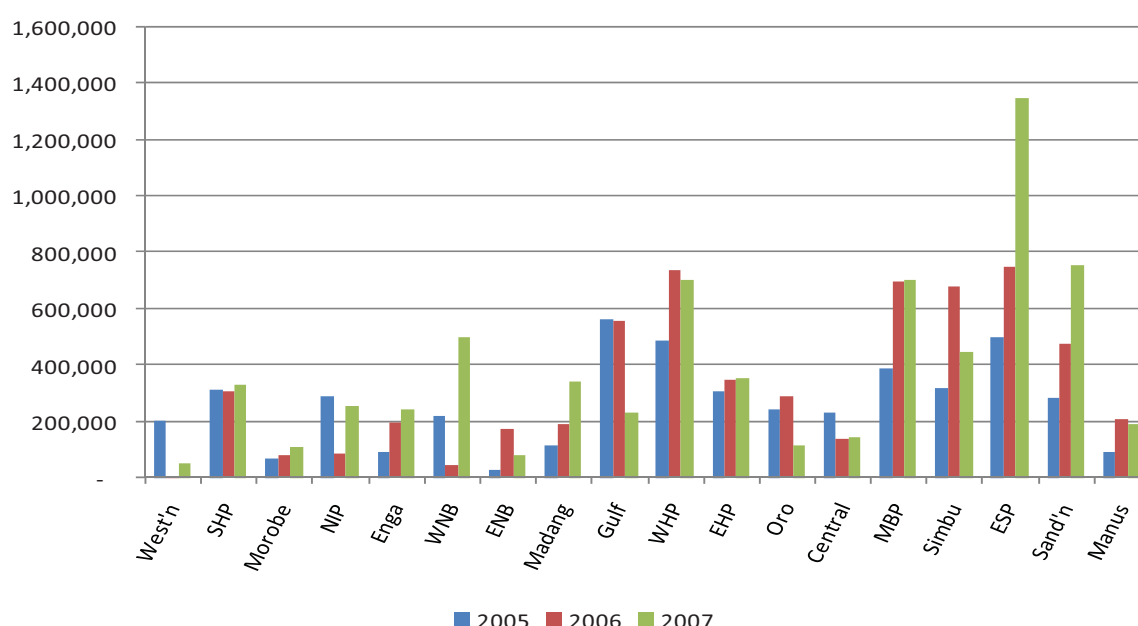
- As in previous years, health remains the worst supported MTDS sector.
- This is supported by the preliminary findings of a district case study that reveals health facilities in one Province rely almost solely on user fees as their source of operational funding. The implications of this are chilling: Government funds are not making their way to the facility level to enable them to provide the service that is required and expected.

- The results of the nine highest funded Provinces continue to show a poor commitment to health – all achieving low when compared to their capacity.
- When we adjust for the differences in fiscal capacity, most Provinces maintained their poor 2006 performance levels, although we commend the improvements of Western, Eastern Highlands, Central, Milne Bay, East New Britain and Manus between years and note Simbu's year on year decline.

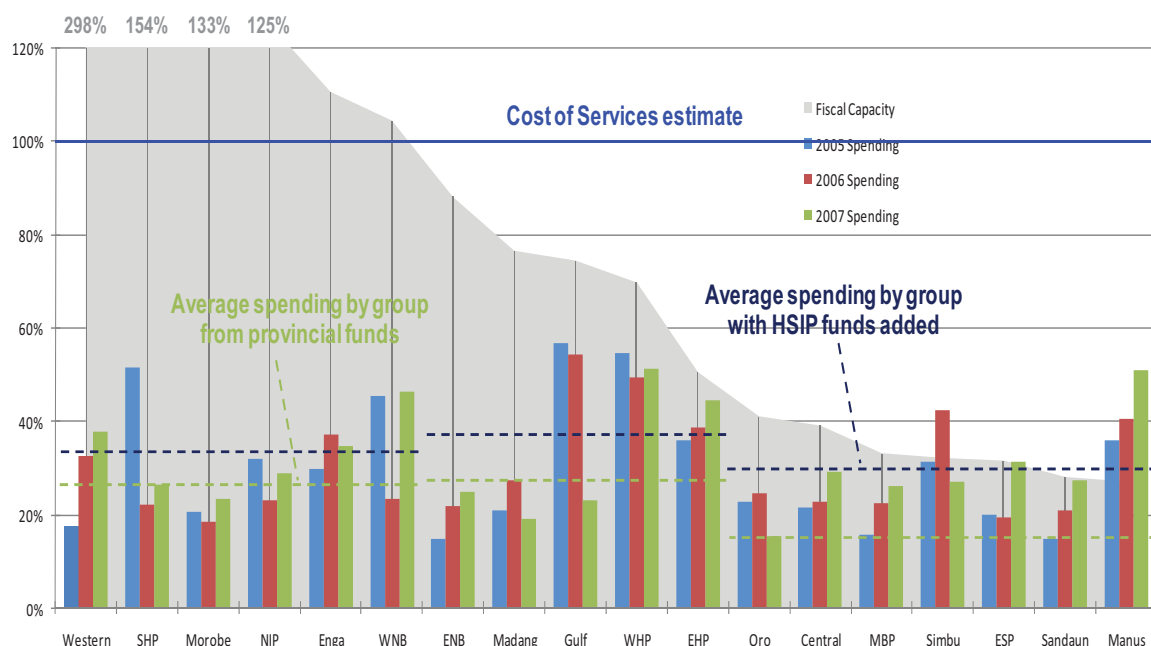
6.2.5 Health Services Improvement Program (HSIP) Funding

Recurrent health spending from HSIP funds increased by K1m in 2007 (similar increase to 2006). Graph 19 sets out and compares 2005-2007 spending levels for each Province.

Graph 20: Health HSIP Spending: 2005 to 2007



- As is in 2005 and 2006 higher funded Provinces have low spending – why is this?
- We noted a huge increase in East Sepik's use of HSIP funds. The 2008 Annual Sector Review produced by the National Department of Health, however, report that K874,000 of the total was spent on health general administration – not a service delivery activity.

Graph 21: The impact on Health spending of HSIP funding: 2005-2007

Graph 21 adds provincial spending and HSIP funding and compares the result with what is necessary to deliver a basic set of health services to people. These results provide a fuller picture of how close we are to adequately supporting basic levels of health spending. The picture remains grim, with the best performing Province (Manus) only spending 51% of what we conservatively estimate is required to deliver a minimum service even with HSIP funding.

- Higher funded Provinces do not do anywhere near enough to allocate sufficient funds from their grant and internal revenue resources and nor do they access very much HSIP funding which results in their overall performance being very poor.
- Medium funded Provinces tend to perform better, particularly by accessing HSIP funds and using these to supplement their regular expenditure. In this group, HSIP funding had a high impact.
- Lower funded Provinces also accessed higher levels of HSIP funds and thereby improved their spending support for health. Indeed, total HSIP spending by lower funded Provinces was greater than their spending from their grant and internal revenue.

6.2.6 How did we spend?

Table 22 details how health monies were spent.

Table 22: Analysis of all Health Spending in 2007¹⁷

The 5 Largest Spending Areas (by item)

Item #	Item Description	Amount	%
135	Other Operational Expenses	5,269,438	21%
111	Salary and Allowances	4,821,500	19%
112	Wages	4,178,383	16%
228	Construction, Renovation....	1,500,000	6%
121	Travel and Subsistence Expense	1,267,283	5%
	<i>all other codes</i>	8,516,408	33%
	Total spending from recurrent & capital	<u>25,553,012</u>	<u>100%</u>

The Split by Category

Category Description	Amount	%
Recurrent Goods & Services	12,584,078	49%
Personnel Emoluments	9,218,062	36%
Capital & Projects	3,750,872	15%
Total spending from recurrent & capital	<u>25,553,012</u>	<u>100%</u>

Table 22 shows us that:

- Casual wages (which combines two codes – 111 and 112) receives the most funding (35%). This spending area is discussed at page 67. Suffice to reiterate that regular health staff should be on the national government payroll and not burden the provincial budget at the expense of the funding necessary to deliver recurrent health goods and services.
- Health spending is spread across many item codes reflecting the very detailed nature of their budgets.
- Other operational expenses can be anything and is high at 21%. It includes health administrative costs at HQ level and it is common practice to allocate an amount to this expenditure item for nondescript 'general expenses'.
- We would expect to see a high level of travel related costs in rural health reflecting spending to support critical activities such as health patrols. Travel allowance (item 121) and transport & fuel (item 125) represent 9% of spending.

¹⁷ These amounts include health spending (not including HIV/Aids) from both National Grants and Internal Revenue on goods and services, personnel emoluments and capital and development. But not spending from HSIP, PIP and SSG funds.

6.3 Health Data Table

Health Sector (including HIV/Aids)												
Province	Cost of Services	2005 Exp	2006 Exp	2007 Exp	% change	Expenditure Trend	2007 Internal Revenue Exp	Casual Wages Exp	HSIP Goods & Services Exp	Spending level achieved v CoS	Comments	
		(Kina millions)					% of total exp		(Kina millions)	2006	2007	
Westn	4.866	0.561	1.499	1.781	19%	Up	96%	0.013	0.054	Low	Low	
SHP	5.925	2.387	0.927	1.229	33%	Up	0%	0.301	0.331	Low	Low	
Morobe	6.002	1.049	0.973	1.289	33%	Up	33%	4.735	0.113	Low	Low	
NIP	2.698	0.489	0.506	0.519	3%	Steady	54%	0.120	0.254	Low	Low	
Enga	3.272	0.787	0.965	0.884	-9%	Steady	21%	0.000	0.243	Low	Low	
WNB	3.464	1.177	0.721	1.097	53%	Up	38%	0.827	0.500	Low	Low	WNB: increased spending from internal revenue (2005 levels)
ENB	2.920	0.362	0.434	0.645	49%	Up	28%	0.469	0.079	Low	Low	ENB: K120,000 to Vinapope Hospital
Madang	4.584	0.751	1.005	0.534	-47%	Down	24%	1.489	0.342	Low	Low	Madang: general decline
Gulf	2.034	0.487	0.499	0.231	-54%	Down	0%	0.008	0.234	Low	Low	Gulf: 68% of function grant not used on intended purpose
WHP	3.342	1.176	0.840	1.007	20%	Up	34%	0.403	0.706	Low	Medium	
EHP	4.115	1.046	1.170	1.475	27%	Up	33%	0.211	0.354	Medium	Medium	
Oro	2.317	0.236	0.256	0.241	-6%	Steady	0%	0.000	0.116	Low	Low	
Central	2.548	0.271	0.416	0.597	44%	Up	20%	0.009	0.145	Medium	Medium	
MBP	4.957	0.320	0.369	0.589	60%	Up	-7%	0.158	0.706	Low	Low	
Simbu	2.798	0.488	0.458	0.312	-32%	Down	0%	0.059	0.447	Medium	Low	
ESP	5.780	0.551	0.329	0.452	38%	Up	21%	0.052	1.352	Low	Low	
Sandn	4.093	0.262	0.339	0.354	5%	Steady	0%	0.068	0.757	Low	Low	
Manus	1.200	0.298	0.258	0.422	64%	Up	0%	0.078	0.190	Medium	High	
All Provinces	66.914	12.700	11.963	13.657	14%	Steady	4.334	9.000	6.923			

(a)

Key

above 15% in-between	above 25% in-between	above K0.25m	above K0.3m	above 80%
below -15%	below 10%			in-between
				below 40%

NB: results have been adjusted to reflect fiscal capacity

(a) expenditure on casual wages & HSIP goods & services expenditure is not included in this total

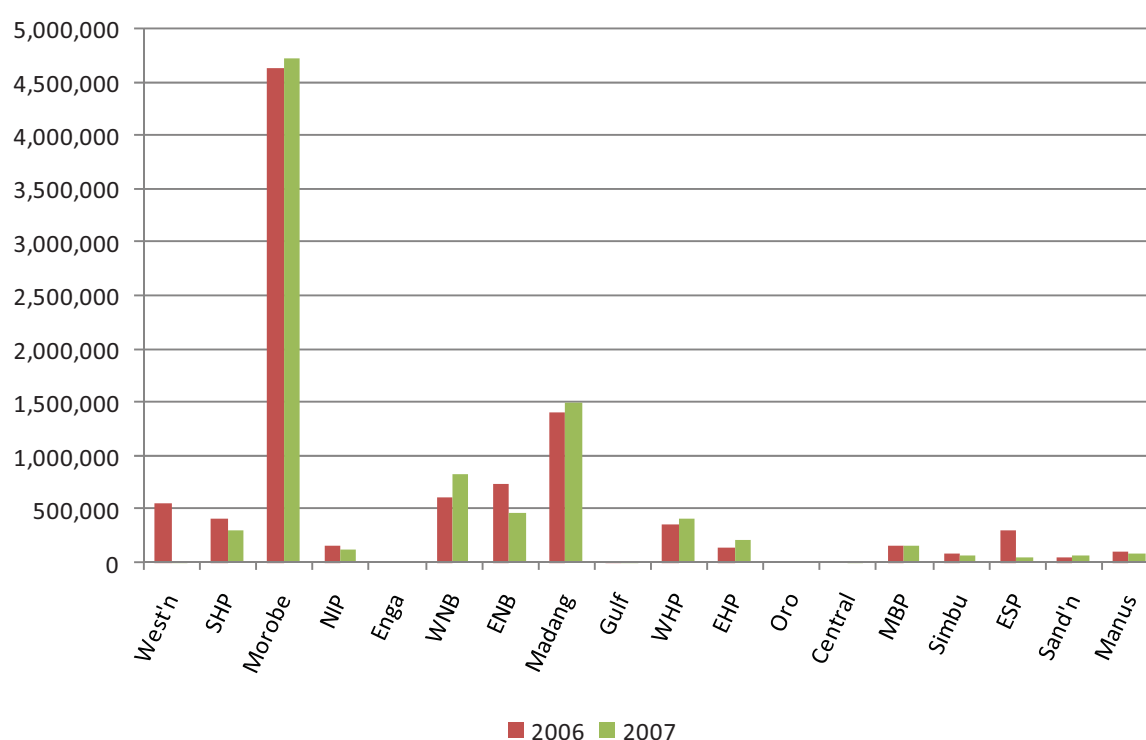
6.4 Drilling down: Health Casual Wages

6.4.1 Overview

Expenditure on casual wages continues to be highly significant. In 2007, some K9 million was spent on casual wages. This compares to the low level spent on health operational costs (K14m). This is especially the case in Morobe and Madang which account for 77% of overall casual wages spending.

Provinces need to consider the appropriateness of spending on casual wages; and if the staff are essential, discuss with Treasury the possibility of transferring staff to the government payroll. If this does not happen, the spending on casual wages will continue to absorb goods and services funding. This is funding that would otherwise be available for spending on such things as petrol that enables health patrols, childhood vaccinations, training for village birth attendants to help women during child birth and to assist repatriate patients from district health centres to provincial hospitals for treatment.

Graph 23: Health Casual Wages – Comparing expenditure 2006 to 2007



6.4.2 Spending between 2005 and 2007

- Overall spending on casual wages has remained relatively steady – albeit reducing from K9.8m to K9m in 2007.
- Morobe and Madang dominate the spending and need to resolve their staffing issues with the Department of Personnel Management and the Department of Treasury, otherwise they will continue funding costs that in other Provinces are met via the national payroll. The same applies to a lesser degree in West New Britain, East New Britain and Western Highlands.

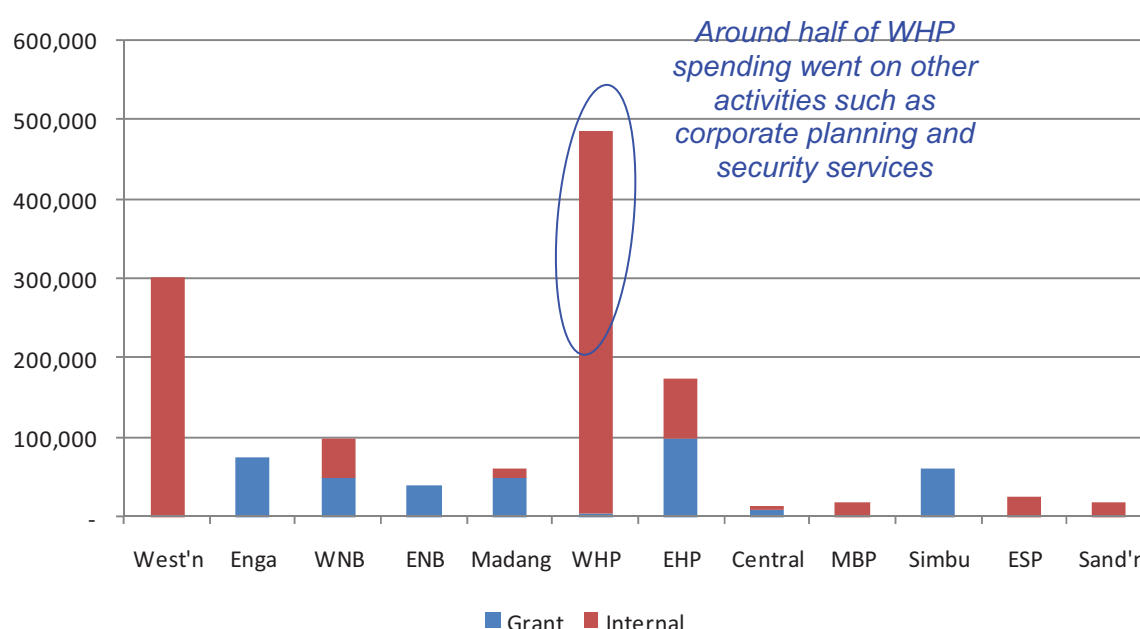
6.5 Drilling down: Spending on HIV/AIDS

6.5.1 Overview

In the 2005 and 2006 reviews we have included spending on HIV/AIDS within the Health spending totals. In ***Closing the Gap*** we have drilled down into the HIV/AIDS spending to make transparent how much Provincial Administrations spend in this critical area- identified as a core development challenge and area of priority in the Medium Term Development Strategy. We know that preventing the spread of HIV/AIDS and caring for those affected by HIV/AIDS is an enormous challenge in our country and around the world. It is an area we must make major efforts to meaningfully address. So what funds are Provincial Administrations allocating and spending to contribute to this effort?

Graph 24 details the expenditures that were itemised as spending on HIV/AIDS.

Graph 24: Spending on HIV/AIDS in 2007



Graph 24 reveals that:

- A total of just over K1.3m was allocated to be spent on HIV/AIDS by Provinces.
- Three Provinces showed spending of substance – Western, Western Highlands and Eastern Highlands.
- Another five Provinces spent between K50,000 and K100,000.
- The remaining ten Provinces appear to have spent little or nothing directly on HIV/AIDS.

6.5.2 But how and where was the money spent?

- Spending of K450,000 was allocated to support Provincial AIDS Committees.
- K300,000 was spent on wages for staff working in the HIV/AIDS area (this is separate to any staff that may be employed and paid as public servants on the regular payroll).
- We noted that K240,000 of Western Highlands expenditure relates to other activities such as corporate planning and security services.

Observations and Opportunities

All Provinces need to allocate more money to support targeted activities that help in preventing the spread of HIV/AIDS. While much of the work on determining which level of Government is responsible for what activities in what sectors reveals that the National Government is largely responsible for prevention and treatment activities concerning HIV/AIDS, Provinces have a significant responsibility in mainstreaming HIV/AIDS into all their work and for raising awareness. However, without funding these activities will not happen.

Provincial Administrations need to understand what other government agencies such as the National Department of Health and National AIDS Council Secretariat and what other non-government and faith-based organisations are doing (or could do) and how these organisations can partner with the Province to address this growing and enormous challenge.

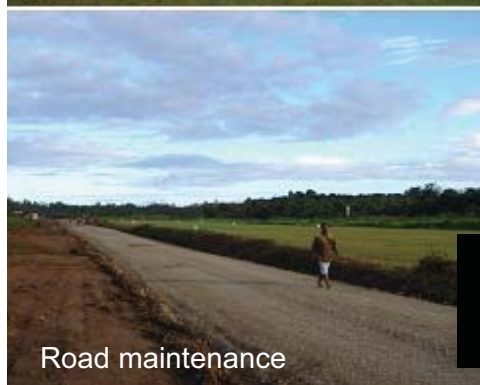
7 Infrastructure Maintenance focus

“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)



Rural airstrip maintenance



Road maintenance



Bridge maintenance



Wharf and jetty maintenance

.....how do we make an effective infrastructure maintenance service happen? Activities include:

Maintain: 55-70% of PNGs roads (regular, routine maintenance only (estimated at K10,500 per km for unsealed roads))

Maintain: wharves and jetties (except national ports)

Maintain: rural airstrips

Maintain: minor power houses

Communications: for districts without Telikom

Transport regulation: vehicle registration and licensing; heavy vehicle licensing; small craft safety)

18% – Provinces only spend 18% of actual costs required

18% decline in infrastructure spending between 2006 and 2007

5 Provinces account for **87%** of capital spending

Transparency – where did infrastructure funds in Western Highlands and New Ireland get spent?

7.1 Infrastructure Maintenance in the Provinces

Papua New Guinea has an infrastructure network of roads and bridges that enables economic activity and the provision of government services to the people. Maintaining this network in a considered and pragmatic way is critical. Roads that are built and not maintained are an opportunity lost and a massive cost to be incurred in the future. Routine maintenance is essential because the cost of the alternative, rehabilitation, is terrifying. Provincial Administrations are responsible for maintaining provincial roads and bridges that make up 60% of the countries road network.

An opportunity to save millions! How do we achieve a routine maintenance focus?

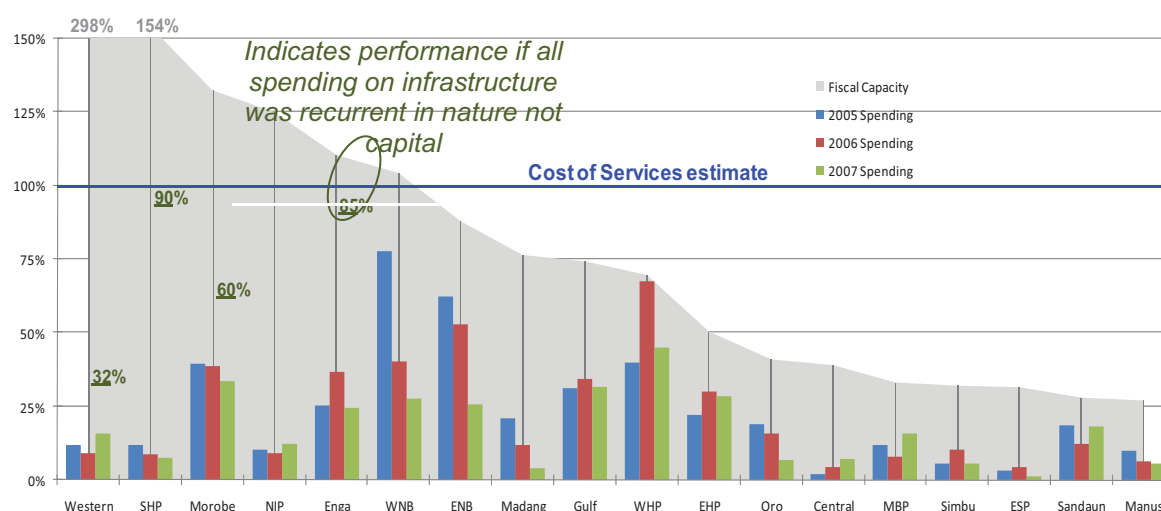
Read the following numbers carefully.

As we said in 2006, a sector expert estimated that – “routine maintenance for an unsealed road (on a National Highway) will cost about K6,000/km (per annum) whilst reconstruction will cost about K250,000/km. For sealed roads on a national highway the routine maintenance cost is less, say K4,000/km, whilst the reconstruction is expensive, say K550,000.”

7.2 Against the Benchmark: the 2005 to 2007 trend

Graph 25 illustrates the 2005 to 2007 performance of each Province using the Cost of Services estimate as a benchmark.

Graph 25: Infrastructure Maintenance Spending Performance: 2005 to 2007



7.2.1 Performance Overview

- Overall there is a huge gap – we are spending nowhere near enough to maintain provincial roads and infrastructure assets and this has been the case across the last three years
- A trend of significantly declining expenditure on maintenance is apparent in West New Britain, East New Britain, Madang and Oro.

- The average across all eighteen Provinces was that spending reached only 18% of the actual costs required, with the eleven Provinces with the least fiscal capacity only spending on average 9% of what they need to.
- Five Provinces accounted for 87% (2006: 96%) of the capital spending that occurred (not including PIP and SSG expenditure).
- A very significant 63% (2006: 57%) or K15.6m (2006: K16.6m) of infrastructure sector spending was from internal revenue.
- Ten Provinces spent very little or nothing from their grant or internal revenue on infrastructure capital (that is, new construction, rehabilitation or reconstruction).

Data table 7.3 summarises infrastructure maintenance expenditure data for the 2006 and 2007 fiscal years. It allows the reader to monitor the trend across the sector and by Province. The main findings are:

7.2.2 Spending between 2005 and 2007

Overall, there is declining spending trend in transport maintenance between 2005 and 2007.

- Over this period, recurrent spending has moved from K26.6m to K30.1m to K23.8m – a steep overall decline. Even when capital spending is included the total spending on the infrastructure sector is declining.
- In trend terms, only Milne Bay is gradually increasing spending on infrastructure maintenance. West New Britain, East New Britain, Madang and Oro have shown concerning declines over the three years.
- Some Provinces have reverted to their 2005 levels after spending more in 2006 – such as Enga, Western Highlands, Simbu and Sandaun. Although, note that Western Highlands transfers infrastructure funding to *Western Highlands Engineering Limited* making it impossible to ascertain how much of the spending was solely infrastructure maintenance related, given that this transfer helps meet salary and administrative costs.
- For eleven Provinces, 2007 is their worst result in three years – Southern Highlands, Morobe, Enga, West New Britain, East New Britain, Madang, Simbu, East Sepik, Sandaun and Manus.
- While the spending performance of Southern Highlands declined they did spend large capital amounts – it is possible that some of this capital spending was recurrent in nature (being routine maintenance rather than spending on new infrastructure or rehabilitation). Similarly, Western, Morobe and Enga Provinces have spent relatively large amounts on capital – which may be partly recurrent in nature.¹⁸

The responsibility to maintain (let alone rehabilitate) provincial transport infrastructure is a heavy burden. Many assets are in poor condition and require much more than routine maintenance. The cost of rehabilitation and reconstruction is many times greater than the cost of routine maintenance.¹⁹

¹⁸ Refer to section 7.4

¹⁹ Routine maintenance for an unsealed road (on National Highway) will cost about K6,000/km (per annum) whilst reconstruction will cost about K250,000/km. For sealed roads on national highway the routine maintenance cost is less, say K4,000/km, whilst the reconstruction is expensive, say K550,000

There is a strong appeal to spend on 'new development'- to build a new road or bridge inspires a positive view of the future and the economic and livelihood opportunities that flow. But the recurrent maintenance implication of every new road that is built is very significant. Our analysis finds that there are nowhere near enough funds allocated to recurrent maintenance budgets to ensure existing roads are maintained, let alone that new roads might be adequately maintained. Every new road represents a new obligation for us and future generations of Papua New Guineans to maintain it, face a massive cost of rehabilitation, or to use an expensive asset for a period and allow it to run down into disrepair and disuse.

7.2.3 Spending from Internal Revenue

- Spending from internal revenue on infrastructure was highly significant particularly with higher and medium funded Provinces.
- K15.6m (2006: K19m) of spending on maintenance was from internal revenue (or 63% in 2007 as compared to 60% in 2006).
- K15.8m (2006: K24.6m) of capital spending was from internal revenue (or 77% in 2007 as compared with 85% in 2006).
- Overall 66% of sector spending came from internal revenue.

7.2.4 Spending in comparison to fiscal capacity

- When we adjust for the differences in fiscal capacity most Provinces maintained their 2006 performance levels.
- The spending performance of one Province improved – Milne Bay who returned to their 2005 level.
- The spending performance of three Provinces declined – East New Britain, West New Britain and Western Highlands.

The National Transport Development Plan – 16 National Roads – what about provincial roads?

1. We understand that Government policy is to focus its efforts on 16 major national roads.

This may cost K1.6 billion to return these roads to good condition and then another K200 million per year to maintain them. Currently only K20 million per year is allocated to maintain these roads.
2. Our question is who will pay to maintain the provincial network, particularly roads that are still in a maintainable condition? Routine maintenance will prevent an otherwise inevitable decline that results in rehabilitation- a cost many hundreds time more expensive.

7.2.5 How did we spend?

Table 26 show us how infrastructure monies were spent.

Table 26: Analysis of all Infrastructure Spending in 2007²⁰

The 5 Largest Spending Areas (by item)

Item #	Item Description	Amount	%
225	Construction, Renovation....	17,139,403	37%
128	Routine Maintenance & Expense:	8,024,408	17%
226	Substantial & Specific Maintenan	6,046,198	13%
143	Grants and Transfers to Public	5,510,142	12%
135	Other Operational Expenses	2,765,067	6%
	<i>all other codes</i>	7,189,274	15%
	Total spending from recurrent & capital	46,674,493	100%

The Split by Category

Category Description	Amount	%
Recurrent Goods & Services	24,696,496	53%
Personnel Emoluments	1,271,826	3%
Capital & Projects	20,706,171	44%
Total spending from recurrent & capital	46,674,493	100%

Table 26 shows us that:

- Consistent with expectations, infrastructure spending is classified under the three main infrastructure related items and represents 67% of total spending (items 225, 128 and 226).
- As is discussed elsewhere in this chapter, expenditure under these items may be either recurrent or capital in nature. So the item description alone is generally not sufficient for assessing the true nature of the expenditure. Our desktop analysis of transactions attributes 53% to recurrent and 44% to capital.
- The 12% in grants & transfers (item 143) are mainly funds transferred to Western Highlands Engineering Limited by Western Highlands.
- Other operational expenses (item 135) is relatively low at 6% but includes such things as spending on minor power houses and the Land Transport Board.

²⁰ These amounts include spending from both National Grants and Internal Revenue on goods and services, personnel emoluments and capital and development. But not spending from PIP and SSG funds.

7.3 Infrastructure Maintenance Data Table

Infrastructure Sector										
Province	Cost of Services	2005 Exp	2006 Exp	2007 Exp	% change	Expenditure Trend	2007 Internal Revenue Exp	Capital & Projects	Spending level achieved v CoS	Comments
		(Kina millions)					% of total exp		2006 2007	
West'n	10.224	1.071	0.900	1.603	79%	Up	91%	1.652	Low Low	Western: significant capex
SHP	8.621	0.924	0.701	0.648	-8%	Steady	96%	7.075	Low Low	SHP: significant capex
Morobe	11.667	4.197	4.307	3.922	-9%	Steady	70%	3.110	Low Low	Morobe: significant capex
NIP	3.447	0.321	0.299	0.417	40%	Up	100%	0.530	Low Low	
Enga	8.898	2.046	3.104	2.195	-30%	Down	58%	5.338	Low Low	Enga: significant capex
WNB	2.674	1.862	1.019	0.743	-28%	Down	15%	0.000	Medium Low	WNB: downward trend
ENB	6.593	3.753	3.352	1.695	-50%	Down	79%	0.142	Medium Low	ENB: downward trend
Madang	8.042	1.539	0.919	0.307	-67%	Down	77%	0.280	Low Low	Madang: downward trend and very low
Gulf	3.501	1.004	1.156	1.111	-4%	Steady	38%	0.770	Medium Medium	Gulf: 70% of function grant not used on intended purpose
WHP	12.097	4.418	7.822	5.449	-31%	Down	59%	0.400	High Medium	WHP: returned to 2005 levels
EHP	12.537	2.533	3.626	3.563	-2%	Steady	82%	0.530	Medium Medium	
Oro	2.616	0.455	0.399	0.177	-56%	Down	0%	0.077	Low Low	Oro: downward trend
Central	8.651	0.188	0.366	0.603	65%	Up	51%	0.081	Low Low	
MBP	4.877	0.532	0.373	0.772	107%	Up	57%	0.080	Low Medium	MBP: returned to 2005 levels
Simbu	5.906	0.301	0.589	0.320	-46%	Down	0%	0.110	Low Low	
ESP	13.458	0.391	0.553	0.184	-67%	Down	15%	0.193	Low Low	
Sand'n	4.525	0.774	0.526	0.814	55%	Up	7%	0.339	Medium Medium	
Manus	3.085	0.276	0.188	0.176	-7%	Steady	0%	0.000	Low Low	
All Provinces	131.420	26.587	30.198	24.696	-18%	Down	15.616	20.706		

Key

above 15%	above 25%	above K1m	above 80%
in-between	in-between		in-between
below -15%	below 10%		below 40%

NB: results have been adjusted to reflect fiscal capacity

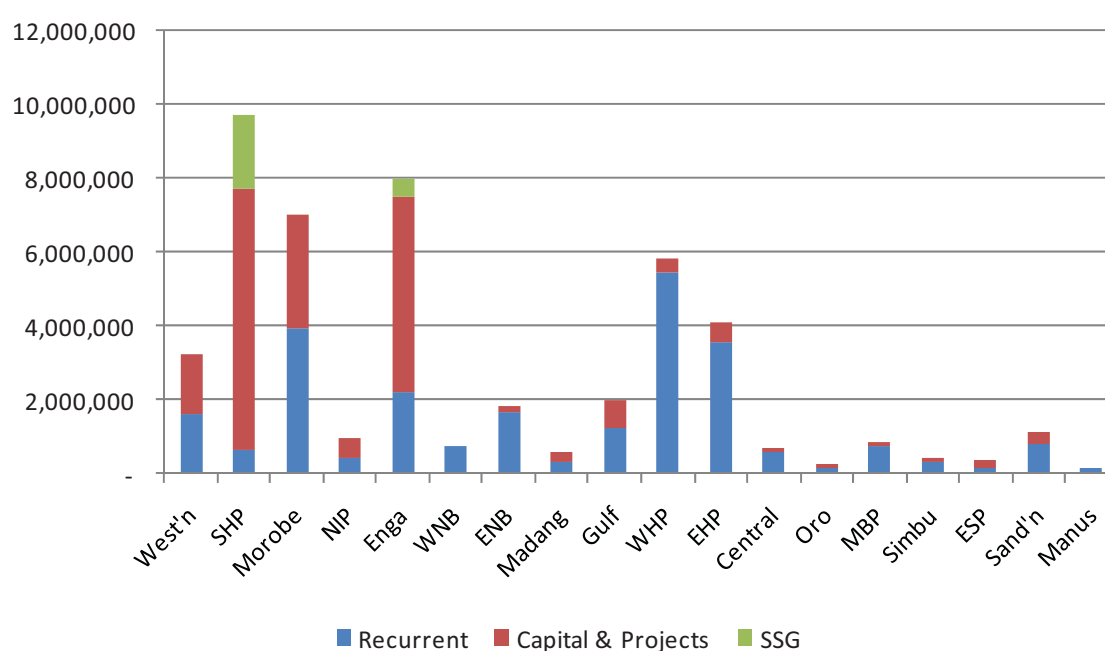
7.4 Drilling down: the Recurrent v Capital Puzzle

7.4.1 Overview

The recurrent versus capital (or maintenance versus rehabilitation/reconstruction) divide is a puzzle. Drawing the line between recurrent and capital spending in infrastructure is one of the harder analytical assessments we make in undertaking this review.

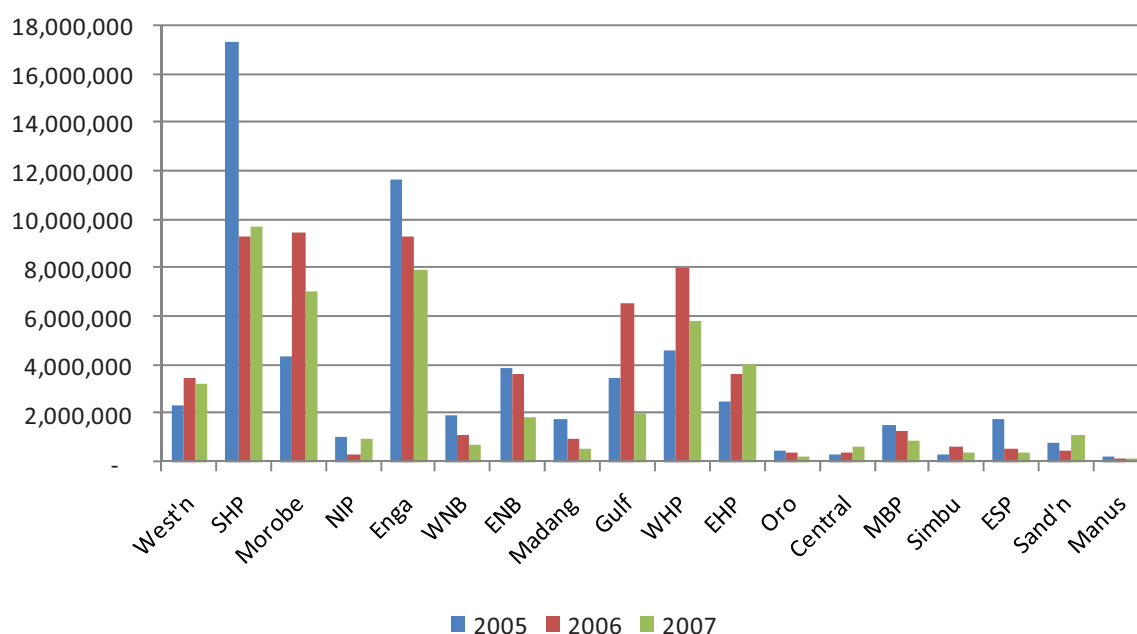
One way to ensure that readers can see the bigger picture is to show both recurrent and capital expenditure on a Province by Province basis. Graph 27 shows all spending on infrastructure by Provinces, both recurrent and capital, but excludes PIP funded expenditure which is clearly development (capital) in nature.

Graph 27: Infrastructure Expenditure: Recurrent, Capital and SSG in 2007 (not PIP)²¹



- As before, the same Provinces dominate capital spending – Western, Southern Highlands, Morobe and Enga.
- Gulf's overall spending on infrastructure has reverted to its 2005 level after a spike in 2006.
- Eleven Provinces spent very little or nothing from their grant or internal revenue on infrastructure capital.
- A note of caution is required when assessing the Western Highlands result. Western Highlands transfer their infrastructure funding to another entity (bank account) making it impossible to ascertain whether all or some of the spending was actually infrastructure maintenance related.

²¹ PIP expenditure is clearly development in nature and is therefore excluded. SSG expenditure has been included on the basis that this *might* be recurrent (however unlikely).

Graph 28: Infrastructure Spending: Recurrent, Capital and SSG, 2005 to 2007 (not PIP)

Graph 28 reveals that:

- Even if we assumed that all infrastructure spending was on maintenance (which is clearly an unrealistic assumption) only two Provinces spend close to what is necessary.
- Those two Provinces are Southern Highlands and Enga – who have over the period 2005-2007 allocated and spent enough money to maintain their infrastructure. Does the state of infrastructure (roads and bridges etc) in these Provinces suggest that is indeed the case?
 - If roads and bridges in the Southern Highlands and Enga are not being maintained how is that money being used?
 - Is infrastructure spending on new roads and bridges, rather than maintaining existing ones?
 - Or is the state of roads so poor that major costly rehabilitation work is required? If that is true, then some roads, airstrips and bridges are not being maintained.
 - Or is this spending on something else?

Graph 28 demonstrates that for most Provinces there is a trend of very low spending on infrastructure compared to what is required.

- The Cost of Services Study estimates the average amount required per year to undertake basic maintenance is K7.3m per Province (although the range is wide between K2.5m and K13.5m per Province)
- Graph 28 also shows that spending levels are generally not increasing.

7.5 Insight: Issues in Infrastructure

Capital Overload?

We are all aware of the huge increases in funds allocated to the district level for capital and development spending. We must ask however:

- **Capacity:** what is the capacity of contractors and suppliers of goods and services at the provincial and district levels to meet this massively increased demand?

Are there a sufficient number of suitably skilled firms to undertake this capital work?

- **Inflation:** Such a significant increase in capital investment at the district level has the potential to inflate costs. How will this happen?

For example, we are advised in East New Britain there is only one local contractor to undertake major transport infrastructure work. Without competition what pressure is there to restrain suppliers from increasing costs? The answer is “none”. There is nothing to restrain cost increases. So the cost to maintain a stretch of road that may normally cost say K50,000 may now cost K75,000 or K100,000 or much much more.

How do we ensure government receives value for money?

- **Planning:** Such a capital injection requires careful planning. Is there a co-ordinated approach to the use of these funds? Are these projects properly budgeted for and the appropriate management and monitoring arrangements in place?

- **Recurrent costs:** New schools, new aid posts, new health clinics, and new roads ALWAYS result in increased operational costs. Have we provided for these increased recurrent costs? What plan is in place to increase recurrent funding to ensure these developments are adequately funded and maintained? If we don't we will contribute to the deterioration of infrastructure and service delivery over time.

How do we ensure that enough is provided in the recurrent budget to support the new infrastructure development?



Are we allocating more recurrent funding for this new school?

Where's the money gone?

In our analysis we have noted a variety of spending approaches in the infrastructure sector. One approach that raises concern is the practice of removing funds from the official approved government provincial bank account(s) and depositing them into other accounts. Why should this be a concern? The simple answer is that provinces need to be able to efficiently control, record and report all funds under their management.

- Firstly, it's against the law. GoPNG legislation and regulation requires the funds to be administered from the appropriate provincial bank account.
- Secondly, there is little or no *transparency* on how the funds are then used.
- Thirdly, there is a loss of *control*. Funds administered via the two official provincial bank accounts are subject to GoPNG regulation and are administered, recorded and reported via the Provincial Treasury. When funds are removed from these bank accounts – these controls are removed.

This approach has been observed in Western Highlands and New Ireland. We recommend that all funds be administered in accordance with GoPNG instruction.



Are there enough contractors to carry out the work and to keep prices competitive?

8 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)

.....how do we make an effective agriculture service happen?

Extension patrols and farmer training: to support small-holder agricultural development (including food security and livestock)

Agency functions: to national agricultural agencies including commodity boards and National Agricultural Quarantine and Inspection Authority

12 Provinces only spent 13% of the actual costs required

3 Provinces dominate capital spending – West New Britain, Enga and Gulf

Less than 4% of spending concerns travel- heart of extension activities

High volatility in spending between years

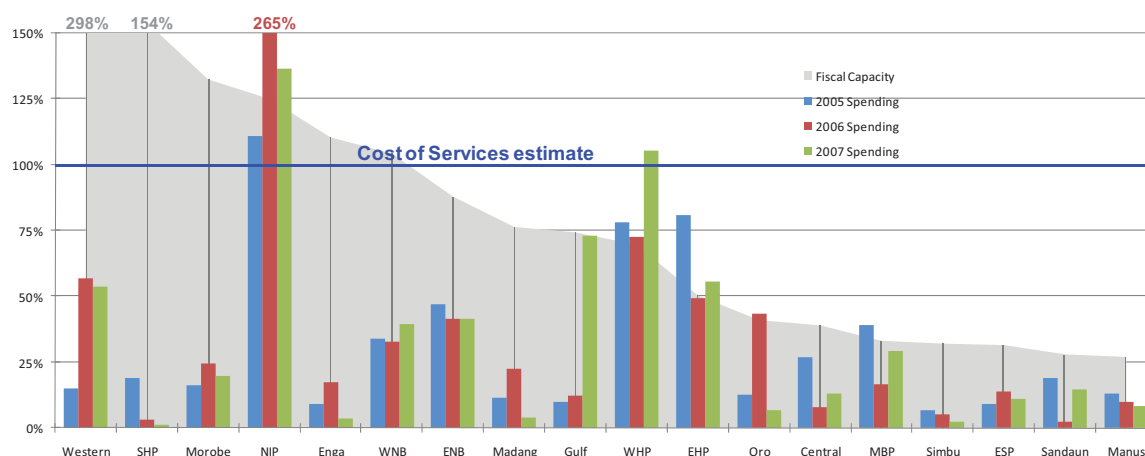
Spending from internal revenue made a significant impact in 3 Provinces – Western, New Ireland and East New Britain

Big spenders New Ireland and Western Highlands

8.1 Against the Benchmark: the 2005 to 2007 trend

Graph 29 illustrates the 2005 to 2007 spending trend for each Province using the Cost of Services estimate as a benchmark. Note that expenditure includes a wide range of recurrent agricultural activities and some project activities that may be recurrent in nature.

Graph 29: Agriculture Spending Performance: 2005 to 2007



8.1.1 Performance Overview

- Despite some volatility, spending trends are emerging.
- Twelve Provinces spent on average only 13% of what is required to meet the actual costs of a basic service (14% 2006). This suggests that there remains significant scope for improvement in this essential sector for economic development; although several Provinces significantly prioritise agricultural expenditure.

These are Western Highlands, Eastern Highlands, New Ireland and in trend terms and relative to their fiscal capacity, Gulf and Milne Bay.

- Spending from internal revenue made a significant impact in three Provinces (Western, New Ireland and East New Britain).
- K3.1m was capital expenditure, with the majority being in three Provinces (West New Britain, Enga and Gulf).

Data table 8.2 provides a snapshot of agriculture expenditure data for the 2005 to 2007 fiscal years. The main findings are:

8.1.2 Spending 2005 to 2007

- Recurrent goods and services spending in the agriculture sector remains relatively steady moving from K6.5 million in 2005 to K7.6 million in 2007.

- The overall spending trend in agriculture was mixed with seven Provinces increasing their spending and eight decreasing their spending. Some of the movements were significant, such as New Ireland's reduction from 2007 to 2006 (although still greater than New Ireland's fiscal capacity) and Gulf and Western Highlands sharp increases.
- New Ireland's continued high expenditure indicates a strong ongoing commitment to developing agriculture within the Province.
- Western Highlands also added to their already high spending level, although there is little definition in their transaction recording to identify specifically what this expenditure concerns.
- It is alarming that several Provinces appear to have almost no spending on agriculture (Southern Highlands, Enga, Madang and Simbu).

8.1.3 Spending from Internal Revenue

35% of sector expenditure was funded from internal revenue. However, six Provinces accounted for most of this. These are New Ireland, Western, East New Britain, Central, Gulf and Morobe.

8.1.4 Spending in comparison to fiscal capacity

- When we adjust for the differences in fiscal capacity most Provinces maintained their 2005/6 performance levels.
- The spending performance of two Provinces improved: Western and Gulf.
- The spending performance of two Provinces declined: Oro and Manus.

8.1.5 How did we spend?

Table 30 show us how agriculture monies were spent.

Table 30: Analysis of all Agriculture Spending in 2007²²

The 5 Largest Spending Areas (by item)

The Split by Category

Item #	Item Description	Amount	%	Category Description	Amount	%
135	Other Operational Expenses	6,449,684	57%	Recurrent Goods & Services	7,613,032	67%
143	Grants and Transfers to Public	1,059,573	9%	Personnel Emoluments	545,727	5%
223	Feasibility Studies....	579,633	5%	Capital & Projects	3,222,645	28%
112	Casual Wages	530,452	5%			
222	Purchase of Vehicles	454,825	4%			
	<i>all other codes</i>	2,307,238	20%			
	Total spending from recurrent & capital	11,381,404	100%	Total spending from recurrent & capital	11,381,404	100%

Table 30 shows us that:

- Spending from items 135 and 143 comprise 66% or two-thirds of all expenditure. The general nature of the codes accurately reflects the underlying spending – it is a wide mix, from extension work to project related and everything in between.
- The highest percentage of spending (57%) is classified as other operational expenses (item 135) – item 135 is a catch-all spending bucket that allows Provinces the maximum flexibility in spending.
- Feasibility studies and project preparation work was prominent at 5%.
- What is interesting is that travel related codes such as 121 and 125 for TA and fuel are not present in the top-5. This is surprising given that extension work is at the very heart of agriculture service delivery. Spending under these items is just 4% of total spending.
- Capital spending was significant at 28% of total spending and includes project feasibility work, vehicle purchases and significant project investments.

²² These amounts include spending from both National Grants and Internal Revenue on goods and services, personnel emoluments and capital and development. But not spending from PIP and SSG funds.

8.2 Agriculture Data Table

Agriculture Sector									
Province	Cost of Services	2005 Exp	2006 Exp	2007 Exp	% change	Expenditure Trend	2007 Internal Revenue Exp % of total exp	Spending level achieved v CoS	Comments
		(Kina millions)						2006 2007	
West'n	1.637	0.222	0.888	0.877	-2%	Steady	90%	Low Medium	
SHP	2.280	0.385	0.072	0.088	22%	Up	0%	Low Low	
Morobe	2.495	0.364	0.587	0.490	-17%	Down	24%	Low Low	
NIP	0.720	0.725	1.823	0.985	-46%	Down	100%	High High	NIP: still high but....a significant decrease in grants
Enga	1.392	0.116	0.231	0.052	-78%	Down	29%	Low Low	
WNB	1.135	0.344	0.355	0.450	27%	Up	0%	Low Low	
ENB	1.347	0.578	0.536	0.558	5%	Steady	74%	Medium Medium	
Madang	1.607	0.167	0.347	0.064	-82%	Down	77%	Low Low	Madang: reduction in expenditure on cocoa, rice & coffee
Gulf	0.928	0.086	0.109	0.678	522%	Up	22%	Low High	Gulf: increase in commodity development & coffee marketing ext
WHP	1.432	1.026	1.000	1.508	51%	Up	0%	High High	WHP: specific area of expenditure is unclear
EHP	1.383	1.029	0.658	0.772	18%	Up	0%	High High	
Oro	0.812	0.093	0.337	0.055	-84%	Down	0%	Medium Low	Oro: other small scale projects apparent unclear whether agriculture . Other funds applied to state of emergency .
Central	1.231	0.307	0.093	0.161	75%	Up	71%	Low Low	
MBP	1.255	0.448	0.201	0.365	82%	Up	0%	High High	
Simbu	0.859	0.054	0.043	0.021	-52%	Down	0%	Low Low	
ESP	1.700	0.140	0.227	0.190	-17%	Down	21%	Low Low	
Sand'n	1.735	0.302	0.036	0.254	600%	Up	0%	Medium Medium	Sandaun: significant reduction given the low base
Manus	0.554	0.067	0.053	0.047	-13%	Steady	0%	Medium Low	
All Provinces	24.502	6.452	7.596	7.613	0%	Steady	2.665		

Key

above 15%	above 25%	above 80%
in-between	in-between	in-between
below -15%	below 10%	below 40%

NB: results have been adjusted to reflect fiscal capacity

9 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)



.....how do we make an effective village courts service happen?

Allowances: Pay allowances to 13,000 village courts officials, community police and land mediators

Uniforms: Provide flags, badges, uniforms and court forms to village courts

Supervision: Supervise village court operations and undertake audit of financial and court records

Travel: Fund District Court magistrates' travel for appeals

Unused grants – notably Madang, Simbu and East Sepik

Now 2 grants – in 2007 we have an allowance grant and an operational grant

Insight section – learn more about the village court sector

9.1 Against the Benchmark: the 2005 to 2007 trend

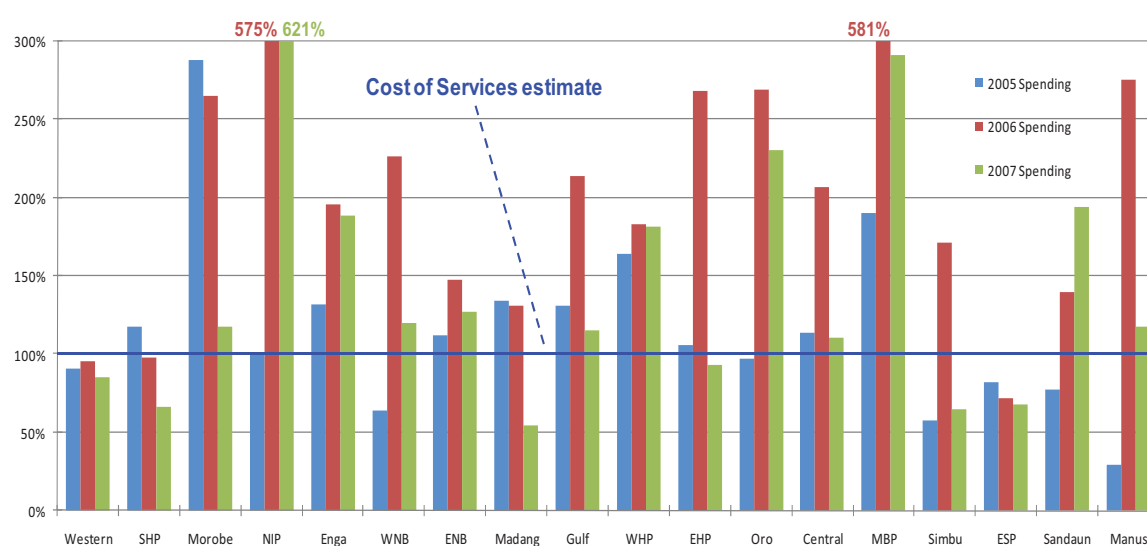
Before 2005, the system of village courts was widely perceived to be in a state of terminal decline. In 2005, this decline was reversed when the National Government introduced a dedicated grant to pay the salaries of the village court officials.

In 2006, an additional amount was included in the grant to meet back pay claims (a similar amount was also directed to the same purpose through the Attorney-General's Department). The 2006 PER provides commentary and analysis on the increased funding and expenditure for arrears in 2006.

In 2007, the National Government established a Village Court Function Grant to provide some support to the operational costs of maintaining village courts and to complement the Village Court Allowance Grant. With careful management, this should ensure that arrears do not accrue again.

With the change in the way the National Government funds the sector our analysis looks at the allowances and operational costs separately. See also Appendix One that provides information about what village courts do.

Graph 31: Village Court Allowances Spending Performance: 2005 to 2007



9.1.1 Performance Overview: Allowances

Graph 31 illustrates the 2005 to 2007 performance of each Province using the Cost of Services estimate as a benchmark. The high expenditure levels in 2006 are the National Government increasing the level of Village Court Allowance Grant from K4 million to K12.5 million so that Provinces could meet back claims and arrears from prior years.²³

²³ Although in reality the Department of Treasury did not release the whole grant appropriation for every Province.

- Some Provinces carried over part of their 2006 grant for arrears and have spent it in 2007 – most notably New Ireland.
- In 2007, many Provinces reverted to their 2005 spending levels.
- Some Provinces did not use their entire 2007 grant – this includes Madang, Simbu and East Sepik.
- Some Provinces appear to consistently spend more than the Cost of Services estimate – this may indicate that their real costs are higher than what was estimated – this includes Western Highlands, Oro, Milne Bay and Sandaun.

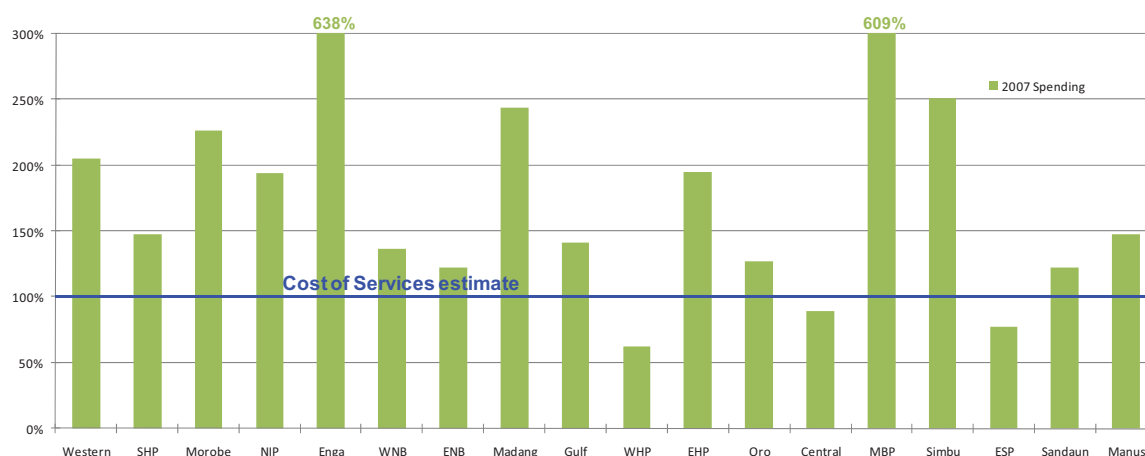
Data table 9.2 provides a snapshot of village court expenditure data for the 2005 to 2007 fiscal years. The main findings are:

9.1.2 Spending Trend: 2005 to 2007

Overall the spending level has moved from K6m (2005) to K10.8m (2006) to K5.5m (2007). While the spike in 2006 reflects the additional funding being made available to pay arrears, the apparent decline from 2005 and 2007 reflects the removal of the non-allowance operating costs into a separate dedicated function grant. This means that the 2007 amount reflects only allowances while the 2005 and 2006 amounts contain some expenditure on operational costs.

9.1.3 Spending from Internal Revenue

- Spending from internal revenue in the sector was relatively minor at K0.95 million. New Ireland, Enga and Western Highlands Provinces account for this spending.
- The large amount in New Ireland was actually the carry-forward village courts grant from 2006 reflected as internal revenue in the following year's budget.
- In future years, Budget and Expenditure Instructions will specify that this carry-forward of function grant (under-spending in the year the funds were provided) be provided the revenue head *Village Court Operations Function Grant Former Year's Appropriation* to ensure recurrent goods and services spending is spent as intended and readily capable of being monitored.

Graph 32: Village Court Function Grant Spending Performance: in 2007

9.1.4 Performance Overview: Function Grant (on operational costs)

Graph 32 illustrates the 2007 performance of each Province using the Cost of Services estimate as a benchmark.

- Most Provinces (15) spent 100% or more of what the Cost of Services study estimated was required. This demonstrates that funding is being allocated and expended in the area and that village courts operations are a priority of Provincial Administrations.
- Only the Western Highlands and to a lesser degree East Sepik would appear to under-fund this core area of service delivery.

Data table 9.2 provides a snapshot of village court expenditure data for the 2007 fiscal years. The main findings are:

9.1.5 Spending from Internal Revenue

- About one third (or K0.9m) of all expenditure in the sector was from internal revenue.
- There are five Provinces contributing significant expenditure from internal revenue. These are Western, Enga, West New Britain, Madang and Milne Bay.

9.1.6 How did we spend?

Table 33 show us how village court operational monies were spent.

Table 33: Analysis of all Village Courts Operational Spending in 2007²⁴

The 5 Largest Spending Areas (by item)

Item #	Item Description	Amount	%
135	Other Operational Expenses	1,525,778	56%
121	Travel and Subsistence Exp's	268,440	10%
125	Transport and Fuel	254,138	9%
123	Office Materials And Supplies	144,060	5%
143	Grants and Transfers to Public	112,600	4%
	<i>all other codes</i>	398,586	15%
	Total spending from recurrent & capital	<u>2,703,603</u>	<u>100%</u>

The Split by Category

Category Description	Amount	%
Recurrent Goods & Services	2,646,803	98%
Personnel Emoluments	-	0%
Capital & Projects	56,800	2%
Total spending from recurrent & capital	<u>2,703,603</u>	<u>100%</u>

Table 33 shows us that:

- The highest percentage of spending (56%) is classified as other operational expenses (item 135) – item 135 is a catch-all spending bucket that allows Provinces the maximum flexibility in spending.
- Travel related costs are in the top-five, with travel allowance (121) and transport and fuel (item 125) recording 10% and 9% of total spending respectively.
- Capital spending relates to the purchase of motor bikes by Simbu.

²⁴ These amounts include spending from both National Grants and Internal Revenue on goods and services, personnel emoluments and capital and development. But not spending from PIP and SSG funds.

9.2 Village Courts Data Table - Allowances

Village Court Allowances									
Province	Cost of Services	2005 Exp	2006 Exp	2007 Exp	% change	Expenditure Trend	2007 Internal Revenue Exp % of total exp	Spending level achieved v CoS	Comments
		(Kina millions)						2006 2007	
West'n	0.153	0.210	0.233	0.138	-35%	Down	5%	High	High
SHP	0.624	0.796	0.704	0.415	-48%	Down	0%	High	Medium
Morobe	0.272	0.872	0.846	0.321	-64%	Down	0%	High	High
NIP	0.120	0.136	0.815	0.747	452%	Up	78%	High	High
Enga	0.361	0.532	0.831	0.683	29%	Up	27%	High	High
WNB	0.136	0.165	0.619	0.163	-2%	Steady	0%	High	High
ENB	0.109	0.164	0.227	0.139	-16%	Down	0%	High	High
Madang	0.225	0.313	0.324	0.123	-61%	Down	0%	High	Medium
Gulf	0.102	0.157	0.269	0.125	-20%	Down	0%	High	High
WHP	0.389	0.895	1.046	0.706	-22%	Down	26%	High	High
EHP	0.452	0.494	1.315	0.424	-15%	Steady	0%	High	High
Oro	0.054	0.078	0.227	0.124	60%	Up	0%	High	High
Central	0.291	0.146	0.766	0.327	125%	Up	0%	High	High
MBP	0.095	0.270	0.870	0.277	3%	Steady	0%	High	High
Simbu	0.421	0.259	0.799	0.271	5%	Steady	0%	High	Medium
ESP	0.326	0.324	0.297	0.222	-32%	Down	0%	High	Medium
Sand'n	0.077	0.093	0.177	0.150	61%	Up	0%	High	High
Manus	0.128	0.047	0.468	0.151	223%	Up	0%	High	High
All Provinces	4.335	5.950	10.833	5.506	-8%	Steady	0.957		

Key

above 15%	above 25%	above 80%
in-between	in-between	in-between
below -15%	below 10%	below 40%

9.3 Village Courts Data Table – Operational Costs

Village Court Operational Costs							
Province	Cost of Services	2007 exp	% change	Expenditure Trend	2007 Internal Revenue Exp	Spending level achieved v CoS	Comments
	(Kina millions)				% of total exp	2007	
West'n	0.104	0.213			54%	High	
SHP	0.140	0.207			0%	High	
Morobe	0.060	0.137			0%	High	
NIP	0.028	0.055			6%	High	
Enga	0.084	0.533			71%	High	
WNB	0.152	0.207			20%	High	
ENB	0.052	0.063			0%	High	
Madang	0.032	0.078			47%	High	
Gulf	0.029	0.041			0%	High	
WHP	0.208	0.129			0%	Medium	WHP: unspent grant funds
EHP	0.057	0.111			0%	High	
Oro	0.033	0.043			0%	High	
Central	0.097	0.087			0%	High	
MBP	0.060	0.368			88%	High	
Simbu	0.061	0.154			0%	High	Simbu: Also purchased motor bikes
ESP	0.104	0.081			0%	Medium	ESP: unspent grant funds
Sand'n	0.055	0.067			0%	High	
Manus	0.050	0.073			0%	High	
All Provinces	1.405	2.647			0.900		

Key

above 15%	above 25%	above 80%
in-between	in-between	in-between
below -15%	below 10%	below 40%

10 Administration focus

197% - Provinces spend 97% more than the cost of services estimates as necessary on administration. This is money that is otherwise available for service delivery



.....how do we make an effective administration service happen?

Executive functions: Office of Governor, Deputy Governor, Administrator, Deputy Administrators

Corporate services functions: Budget and revenue collection, Policy and Planning, Human Resources, payroll administration, in-service training, Internal Audit, Legal Services

Operational costs: Includes costs of office furniture, computer repair and routine replacement, fax and photocopiers, stationery, utilities, telephone and



9 provinces reduced administration spending as compared to 2006. It shows it can be done.

37% of administration spending was spending on personal emoluments.

Unspecified arrears

spending is significant for seven provinces with Southern Highlands dominating this spending.

10.1 Administration in the Provinces

Administration is a necessary cost for every Provincial Administration. However, administration spending tends to increase unless close control is maintained. We will see that some Provinces spend three or four times as much as necessary on administration – while, at the same time, essential sectors such as health and infrastructure maintenance have nowhere near enough funding to deliver even the most basic level of service to the majority of people.

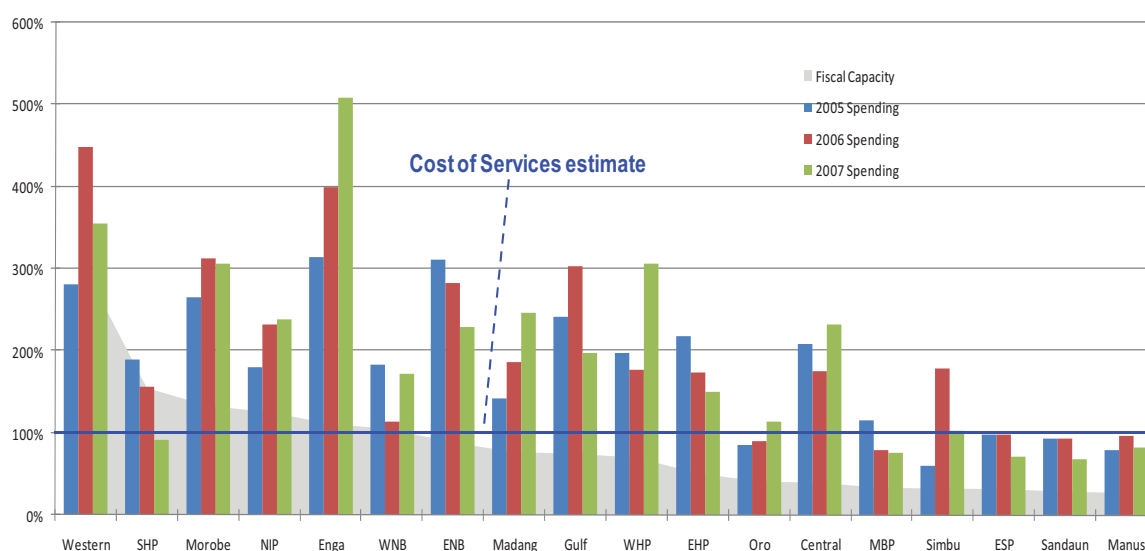
An opportunity to reduce costs

There is a huge opportunity for Provinces to reduce their expenditure on administration and redirect the savings to the priority service delivery sectors.

10.2 Against the Benchmark: the 2005 to 2007 trend

Graph 34 illustrates the 2005 to 2007 performance of each Province using the Cost of Services estimate as a benchmark. As in previous years, there is greater variation amongst the spending levels of higher funded Provinces compared to lower funded Provinces.

Graph 34: Administration Spending Performance: 2005 to 2007



10.2.1 Performance Overview

- On average Provinces spent 197% or double the actual administration costs required (very similar to 2006).
- Administration spending increased by just over K1 million in 2007.

- Nine Provinces- Western, East New Britain, Gulf, Eastern Highlands, Simbu, East Sepik, Southern Highlands, Milne Bay and Sandaun- decreased their spending in 2007. This demonstrates that savings on administration are possible.
- The results for Southern Highlands should be considered with care, however, as they have spent over K20m on unspecified arrears. Much of this may be more appropriately categorised as administration. That being the case, they have not reduced their administration.
- 84%, or K47.7 million, of spending on recurrent goods and services on administration was funded from internal revenue (2006: 82%, K44.6m).

Data table 10.2 summarises administration expenditure data for the 2006 and 2007 fiscal years. The main findings are:

10.2.2 Spending 2007 compared to 2006

- Recurrent administration sector spending on goods and services rose by K1 million from K55 million to K56 million. This compares to the Cost of Services study which estimated that K28 million was required.
- High and medium funded Provinces spend up to two times (New Ireland, East New Britain, Madang, Gulf, West New Britain and Eastern Highlands), three times (Western, Morobe and WHP) and five times (Enga) as much as the cost estimate.
- Most low funded Provinces spend close to what the Cost of Services study estimates is necessary.
- The results for Southern Highlands are difficult to assess and care should be taken in interpreting the results. In 2007, Southern Highlands spent over K20m on unspecified arrears. Much of this may be more appropriately categorised as administration.
- The overall spending trend in administration was mixed, with six Provinces increasing their spending and nine decreasing their spending. Some of the movements were significant, such as the rise in Enga, West New Britain, Madang and Western Highlands and the fall in Simbu and Gulf.
- However, what is clear is the priority given to administration. Even Provinces that have very low levels of funding allocate to and spend relatively high proportions of their available funding on administration, although Provinces that are better off spend well above what is necessary.²⁵
- Interestingly West New Britain's spending on administration has increased again to its 2005 levels. In 2006 West New Britain experienced a reduction in its internal revenue, and reduced its spending across sectors accordingly. It is unclear why the reduced spending on administration could not be maintained and the savings redirected to core service delivery areas which remain under-funded relative to West New Britain's fiscal capacity.

²⁵ Some Provinces centrally pay and record the costs of certain overheads such as utilities and some vehicle related costs. This cost remains in the administration totals. It would be preferable in such instances to allocate the appropriate proportion to the other relevant sectors – however we lack the detailed information necessary to enable us do so.

10.2.3 Spending from Internal Revenue

- Internal revenue funded 84% of recurrent spending – even in lower funded Provinces internal revenue continues to contribute significantly to administration spending.
- When expenditure on personnel emoluments and capital and projects is included, more than one-third of all spending from internal revenue is on administration.

10.2.4 How did we spend?

Table 35 show us how administration monies were spent.

Table 35: Analysis of all Administration Spending in 2007²⁶

The 5 Largest Spending Areas (by item)

The Split by Category

Item #	Item Description	Amount	%	Category Description	Amount	%
135	Other Operational Expenses	19,354,981	19%	Recurrent Goods & Services	56,765,210	55%
112	Casual Wages	10,702,934	10%	Personnel Emoluments	38,432,532	37%
115	Salaries & Allowances	10,692,749	10%	Capital & Projects	8,732,003	8%
111	Salaries & Allowances	9,227,575	9%			
121	Travel and Subsistence Expense	6,939,846	7%			
	<i>all other codes</i>	47,011,659	45%			
	Total spending from recurrent & capital	103,929,745	100%	Total spending from recurrent & capital	103,929,745	100%

Table 35 shows us that:

- Spending on personnel emoluments was 37% of all administration spending. Three of the top-five expenses relate to personnel emoluments (note this IS NOT the regular staff payroll):
 - Salaries & allowances for politicians and support staff (item 115)
 - Other salaries and allowances (item 111)
 - Casual wages (item 112)
- The highest single item of spending was 19% other operational expenses (item 135) – item 135 is a catch-all spending bucket that allows Provinces the maximum flexibility in spending.
- Travel and subsistence costs (item 121) are in the top-five, recording 7% of total spending.

²⁶ These amounts include spending from both National Grants and Internal Revenue on goods and services, personnel emoluments and capital and development. But not spending from PIP and SSG funds.

10.3 Administration Data Table

Administration Sector											
Province	Cost of Services	2005 Exp	2006 Exp	2007 Exp	% change	Expenditure Trend	2007 Internal Revenue Exp % of total exp	Unspecified Arrears	Spending level achieved v CoS	Comments	
		(Kina millions)							2006 2007		
Higher funded	West'n	1,942	4,900	8,281	6,909	-17%	Down	99%	1,972 449%	356% 92%	Western: Does K2m unspecified arrears include admin exp?
	SHP	1,881	3,144	2,781	1,730	-38%	Down	49%	20,146 157%	92%	SHP: Does K20m unspecified arrears include admin exp?
	Morobe	2,392	5,765	7,138	7,310	3%	Steady	100%	- 312%	306%	
	NIP	1,432	2,346	3,180	3,408	8%	Steady	99%	0.199 233%	238%	
	Enga	1,500	4,275	5,730	7,640	34%	Up	92%	1,960 400%	509%	Enga: general rise in exp including LLG & District Co-ord
Medium funded	WNB	1,372	2,248	1,487	2,369	60%	Up	45%	1,000 114%	173%	WNB: utilities & JDPBPC
	ENB	1,806	5,125	4,897	4,149	-16%	Down	90%	- 283%	230%	ENB: new vehicles included in 2006
	Madang	1,660	2,140	2,969	4,099	39%	Up	92%	- 187%	247%	Madang: rise in consolidate ops exp, legal fees & utilities
	Gulf	0,854	1,890	2,480	1,683	-33%	Down	69%	0.684 303%	197%	Gulf: prov housing scheme costs vary
	WHP	1,507	2,724	2,565	4,621	81%	Up	88%	1,490 178%	307%	WHP: large items include rental, legal car hire
Lower funded	EHP	1,427	2,867	2,383	2,145	-10%	Steady	61%	0.100 174%	150%	
	Oro	1,156	0,901	1,001	1,313	32%	Up	72%	0.549 91%	114%	
	Central	1,315	2,526	2,222	3,041	37%	Up	71%	- 176%	231%	Central: general increase
	MBP	1,609	1,687	1,219	1,214	-1%	Steady	47%	- 79%	75%	
	Simbu	1,318	0,737	2,271	1,362	-41%	Down	48%	- 179%	103%	Simbu: Office of PA - large reduction
	ESP	2,310	2,070	2,159	1,657	-24%	Down	67%	0.156 97%	72%	ESP: reduced costs in large items
	Sand'n	1,678	1,441	1,504	1,141	-25%	Down	78%	- 93%	68%	Sandaun: reduced costs with building mnce classified as capex
	Manus	1,196	0,866	1,095	0,975	-11%	Steady	88%	0.064 96%	82%	
All Provinces		28,354	47,649	55,363	56,765	3%	Steady	47,658	28,320	(a)	
		(b)									Key
		above 15%		above 25%		above K1m		above 80%			
		in-between		in-between				in-between			
		below -15%		below 10%				below 40%			

(a) arrears expenditure items coded to administration are not included in this total, they would be reflected under (b)

10.4 Drilling down: Unspecified Arrears

10.4.1 Overview

In analysing provincial spending we identify that some Provinces are allocating and spending money under generic budget headings such as arrears, aged creditors, debt servicing, contingencies and multi-purpose.

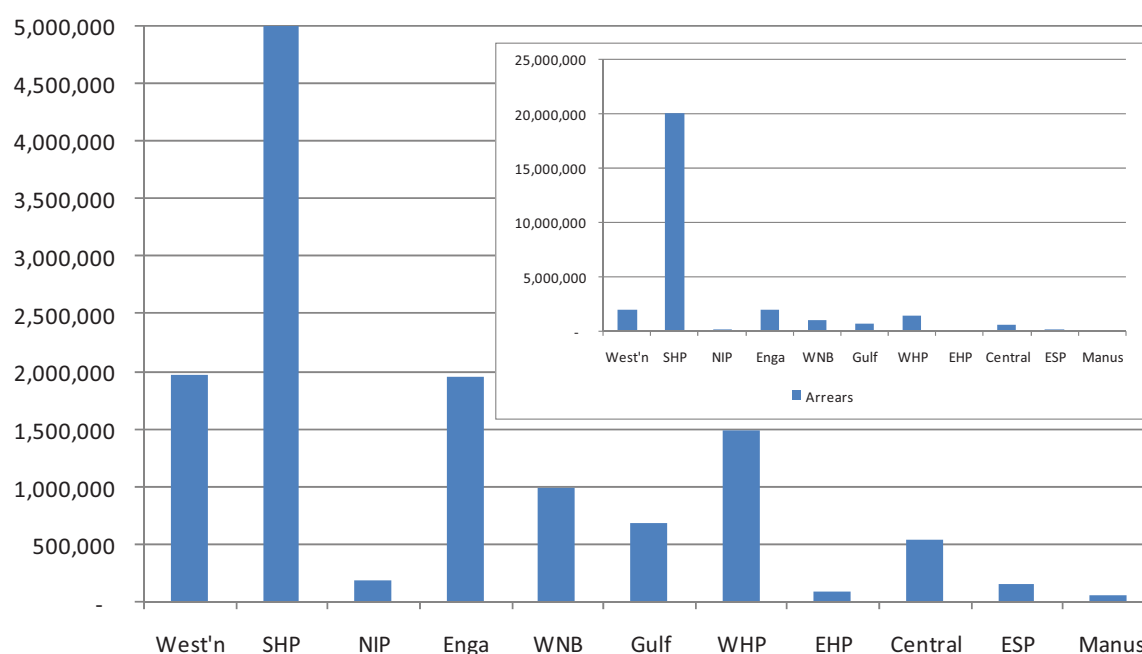
This is ill-advised for a number of reasons. These include:

- **Transparency:** when costs are paid under such a budget heading there is almost no transparency as to what the underlying purpose for the expenditure is. As we know, transparency is an essential feature of good governance and any practices that hide the purpose of expenditure should be avoided.
- **Control:** budget managers need to maintain control over their budget area. When that happens there should be little need for large unspecified arrears votes. Spending decisions should be made based on available funds in the current year's budget.

10.4.2 Analysis and Findings

Graph 36 reveals that seven Provinces spent large amounts on unspecified arrears in 2007.

Graph 36: Unspecified Arrears in 2007



What we can see is:

- Spending by the Southern Highlands dominates the chart – being an enormous K20m in 2007
- However, six other Provinces spent significant amounts on unspecified arrears: Western, Enga, West New Britain, Gulf, Western Highlands and Central.

11 Conclusion

The 2007 Provincial Expenditure Review *Closing the Gap* provides an evidence-based assessment of provincial performance by comparing cost, fiscal capacity and expenditure across Provinces between the 2005 and 2007 fiscal years.

We continue to explore how close we are to achieving our aim of delivering the 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.

Summary

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

- The funding gap that was apparent in our 2005 and 2006 analysis remains in 2007.
The good news is that with the adoption and implementation of the intergovernmental financing reform for Budget 2009 we have begun the process of directing more resources to the lower-funded Provinces.
- Provincial Governments and Administrations need to address the priority gap by choosing to reallocate their spending to support the priority sectors, particularly health, basic schooling and transport maintenance. Without this reprioritisation, basic services will remain inaccessible to most people in Papua New Guinea.
- 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.
The NEFC is assisting in this process with the development and progressive introduction of a *Unit Costing Model*, which will aid Provinces with their budgeting and planning processes.
- In overall terms, spending across MTDS sectors decreased slightly between 2005 and 2007. However if we were to adjust for the impact of inflation and population rises spending on core sectors has decreased by over 10% in real terms. This is highly significant.

Administration and non-priority areas

- In overall terms, spending within the administration sector increased between 2005 and 2007 by over K9 million (19%). We need to control and reduce spending in low priority areas. These include administration, projects, and casual wages. Some Provinces have shown that reducing spending on administration is possible.
- 62% of internal revenue expenditure went on non-priority sectors and activities such as administration, arrears, and smaller sectors. The whole provincial resource envelope (both grant funds and internal revenue) should be available for allocating to supporting recurrent spending in priority areas, not simply national grants.
- Similarly, we need to consider the recurrent goods and services impact of employing additional staff. So staff are effective in their roles, they need office space, use electricity, many need a computer, need to travel for work (which means travel allowance, fuel costs, car hire, air travel etc) and they require recreation leave fares. When we don't increase our recurrent budget to provide for these costs we reduce the amount available to support all our staff – and we thereby reduce their effectiveness.

Education

- Between 2005 and 2007 education spending decreased by K2 million (6.4%) yet remains best funded core service delivery sector. Enga particularly prioritises spending on education, although with a significant level of spending on secondary and tertiary education.
- We need to consider whether our education spending is being targeted to the benefit of the majority of our children. Our analysis continues to show that high spending in education does not mean that the majority of children benefit. Often secondary education receives more than basic education. We need to ensure that elementary, community and primary schools are adequately resourced.
- What systems have we in place to manage the area of teacher leave fares? Spending in this area continues to track upwards. Some Provinces have retained their high 2006 levels, although there was no spending recorded in Madang and East Sepik – can this be the case? We need to properly cost, fund and manage this area.

Health

- Between 2005 and 2007 health spending has increased by K1.4 million (11.5%) and yet the sector remains extremely poorly funded. The growth is the result of increased National Government health service delivery function grants and an increased number of Provinces accessing HSIP funds.
- While more HSIP funding was accessed for health in 2007, many Provinces seemingly continue to ignore this funding source. Provinces should use all means at their disposal to support priority areas.
- Spending on casual wages continues to be highly significant in some Provinces, particularly Morobe and Madang. The good news is that increasingly more Provinces are using their function grant for goods and services and not casual wages. This is a major change for the better, ensuring at least some funding is available to support service delivery.

Infrastructure

- Recurrent infrastructure spending in 2007 decreased against both 2005 and 2006 levels. Spending in 2007 was K5m lower than 2006 so the gap between what is spent and what is required is growing.
- There is a proliferation of new infrastructure development initiatives and the appropriation of significant funds for the purposes of new infrastructure development. To maximise the benefit of these new initiatives, we need to ensure that additional recurrent funds are made available to meet the ongoing operational and maintenance requirements of new infrastructure. If we don't, over time, we contribute to a deterioration in service delivery.

Agriculture

- Agriculture spending remained similar to 2006 levels yet the gap between what is spent and what is required remains large for most Provinces.

Village courts

- Village Court spending returned to more normal levels after the high spending in 2006 to address a backlog of allowance arrears. 2007 saw the introduction of two grants – one for allowances the other for operational costs.

Appendix 1: Insight – why Village Courts funding is vital



Overview

All courts need money to function. From the Supreme Court to village courts, the judicial system fails to work unless there are sufficient resources. One of the main expenses involved in running a court is the salaries of judges and magistrates. But think of some of the other costs involved: building and maintaining court houses, employing support staff, paying for equipment like phones, faxes and copiers and having money for books and stationary.

When you think of the expense involved in running just one court, think about the amount of money you would need if you multiplied that by 1,350. Across Papua New Guinea there are around 1,350 functioning village courts. These deal with more cases than all of the other courts in Papua New Guinea combined. Although they are cheaper to run than other courts, village courts still require money. Allowances need to be paid, staff need to be trained and supervised and courts require resources to operate.

Since 2007, the National Government has paid every Province a village court function grant. This is in addition to allowance payments. The function grant is used for the operational and supervision costs incurred by Provinces in overseeing their village courts. Those people responsible for village courts in the Provinces, usually District or Provincial Village Courts Officers, can access this money to spend on their Province's village court priorities.

The function grant is a welcome initiative after years of financial neglect by provincial and national governments.

- The provincial office will use part of the grant to run the office, pay for court books, maintain the village court vehicle and boat and pay for fuel for court visit.
- In turn, districts will use their part of the grant to focus their expenditure on inspection visits, training and goods and services for individual courts.

Unfortunately, experience has shown that function grant money hasn't always been used as it should be. We know that in some parts of the country function grant monies have been directed away from village court activities. When this occurs the whole community suffers. Money that should be spent on supporting a key grassroots service is misused. To this end, it is hoped that the new regime established by the Intergovernmental Relations (Functions and funding) Act 2008 will see an improvement in expenditure oversight. It is also hoped that other levels of governments – provincial, district and LLG – will provide additional funding for village courts. After all, it is only with adequate support from all levels of government that village courts can continue to effectively deliver grassroots justice.

But what do Village Courts actually do?

Village courts are the closest formal source of dispute resolution for the majority of Papua New Guineans. They are mandated to ensure peace and harmony in the communities that they serve. They do this by resolving minor civil disputes and criminal offences, frequently applying local customs.

Village courts are usually presided over by three magistrates. One of these magistrates is called a chairperson. The chairperson runs the court. The magistrates are assisted by two other officials – a clerk and a peace officer. Clerks help with the administration of the court. Their role includes writing summonses, drafting court orders, recording cases and compiling court data. Peace officers ensure the security of the court and also serve court orders, including warrants. All officials are chosen by their community and receive a small allowance for their work.

There are limits as to what matters village courts can hear. Their jurisdiction is limited by law. On an average sitting day they might hear cases to do with:

- bride price
- theft
- debt
- property damage
- or even sorcery

They initially mediate disputes. This means that in civil cases they try to help parties to sort out their problems by coming to an agreement. It is only when this fails do disputes go before the court.

The penalties that village courts hand down include fines for criminal offences and compensation for civil cases. Village courts cannot directly imprison anyone. Imprisonment orders require the endorsement of a District Court magistrate. This will only happen where an order of a village court has not been complied with.

Village courts usually sit twice a week. Their court premises vary. Some courts sit in permanent buildings, with benches for magistrates and offices for clerks. Other courts might sit on the ground under a tree! The resources that courts require are what you would expect of any other court and include:

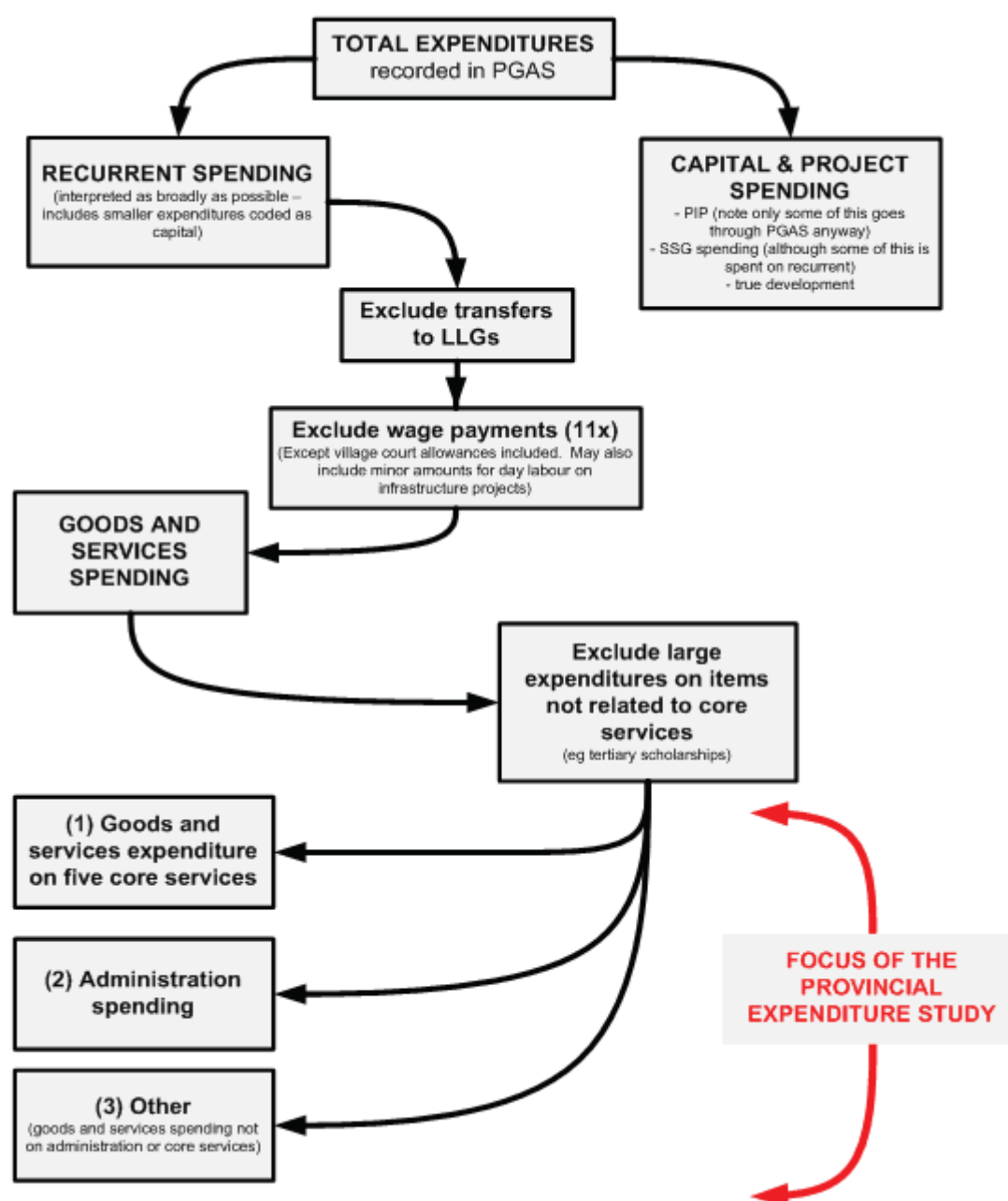
- stationary
- order books
- furniture
- uniforms
- transport
- and where applicable the maintenance of courts

The key providers of logistical support to Village Courts are the LLGs (or COEs in the case of Bougainville). However, provincial and national governments also play an important role, especially in relation to funding and legislative oversight.

Appendix 2: Data – What’s In What’s Out

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.

Flowchart 37: Data – What’s in and What’s out



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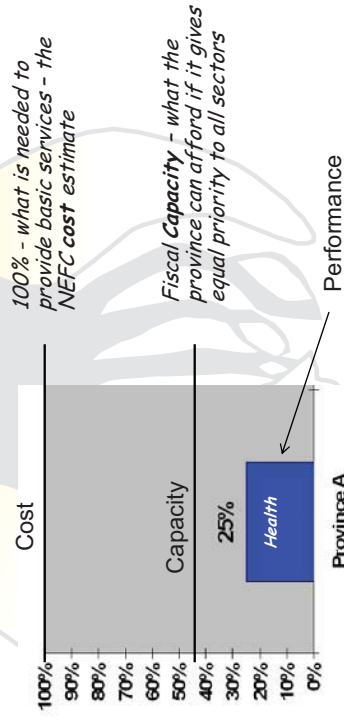
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Comparing Actual Spending to Cost of Services Estimates (slides 3 and 4)

3. Let's illustrate that example:

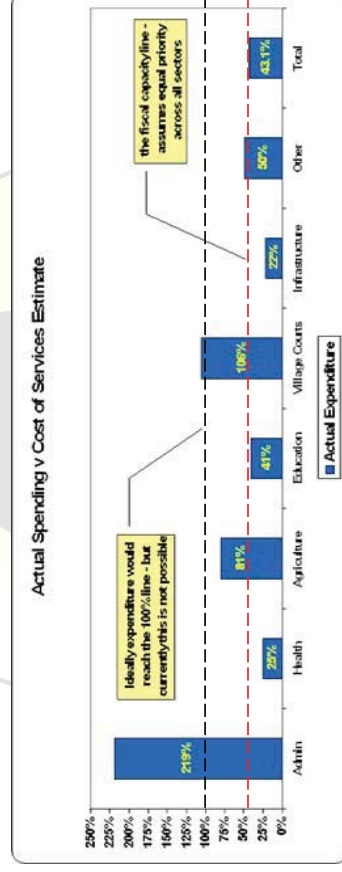
Province A:

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



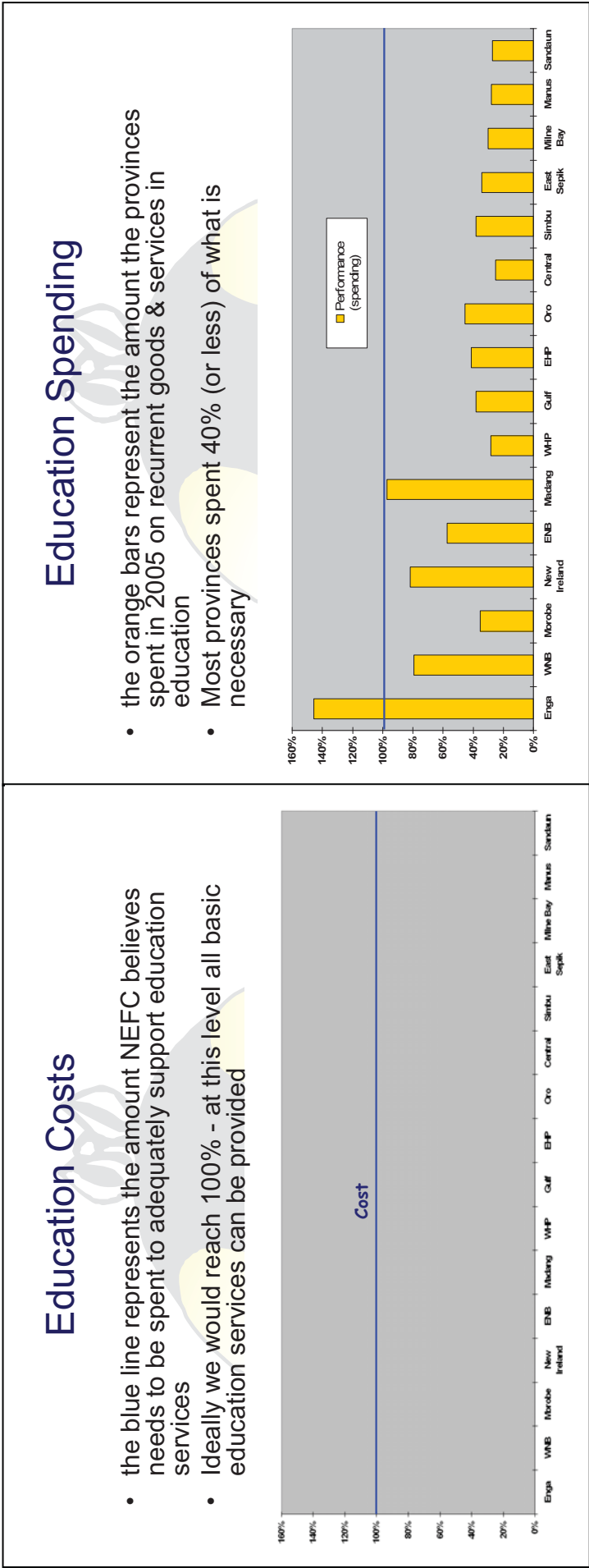
4. Let's expand the example further

- 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)



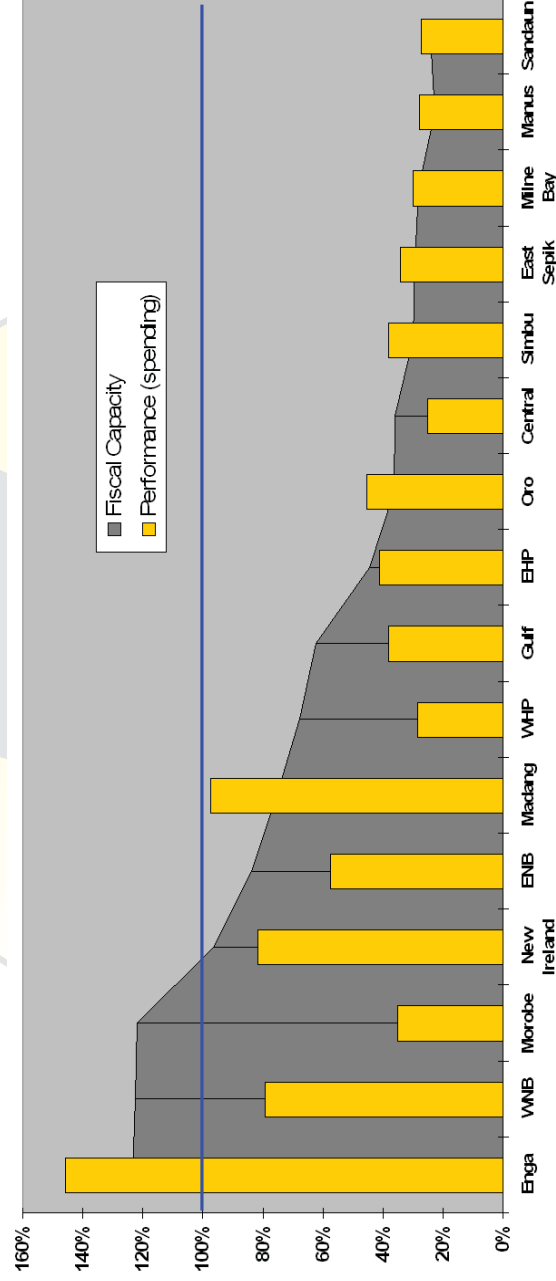
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Performance by all Provinces in the education sector (slide 3)

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 4: 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 (e.g. 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 (i.e. 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 (i.e. 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 5: Calculating the Spending Performance Level

Throughout this review we refer to the spending level or the spending performance level that a Province achieved for a particular sector. The spending performance level indicates how much a Province is spending on the sector given how much it is able to spend. The level reflects their spending and their fiscal capacity. This example that follows illustrates how this is calculated.

- In which sectors did we calculate the spending performance level?

Calculations are performed on the 5 MTDS sectors of health (including HIV), agriculture, education, infrastructure maintenance and village courts.

- 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:

Province X 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 Province X 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.

Appendix 6: 2007 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 and services only. An adjustment has been made for CPI and individual province population growth.

	Admin	Health/HIV	Agriculture	Education	Village Cts	Infrastructure	Other	Total Cost Estimate
Central	1,314,701	2,548,440	1,231,179	3,982,479	385,038	8,650,541	2,360,606	20,472,985
EHP	1,426,716	4,114,717	1,382,688	5,124,616	508,902	12,537,279	2,628,427	27,723,345
ENB	1,806,456	2,919,945	1,347,248	4,224,411	160,588	6,592,851	2,670,800	19,722,299
Enga	1,500,428	3,272,302	1,392,059	3,355,057	444,761	8,898,483	2,215,401	21,078,491
ESP	2,309,542	5,780,154	1,699,616	4,229,333	429,909	13,458,163	2,807,561	30,714,278
Gulf	854,022	2,034,109	927,559	2,017,611	130,813	3,501,130	1,452,582	10,917,826
Madang	1,659,602	4,584,235	1,607,309	3,162,230	257,356	8,042,358	2,903,578	22,216,668
Manus	1,196,120	1,200,030	553,791	1,564,857	177,330	3,085,212	1,362,146	9,139,486
MBP	1,608,787	4,956,788	1,255,004	4,059,029	155,257	4,877,430	2,391,677	19,303,972
Morobe	2,391,987	6,001,785	2,494,973	7,008,403	332,826	11,667,068	3,903,211	33,800,253
NIP	1,431,928	2,697,684	720,065	2,357,511	148,538	3,447,388	2,011,849	12,814,963
Oro	1,155,623	2,316,704	811,997	1,911,371	88,004	2,615,993	1,659,488	10,559,179
Sandaun	1,678,350	4,092,678	1,734,996	3,868,196	131,762	4,524,872	1,725,692	17,756,546
SHP	1,880,687	5,924,556	2,279,909	5,304,505	763,919	8,621,046	2,881,372	27,655,994
Simbu	1,318,196	2,798,477	859,456	3,878,314	482,152	5,905,921	1,778,046	17,020,562
Western	1,941,693	4,865,914	1,636,900	4,427,319	256,112	10,223,502	2,434,814	25,786,253
WHP	1,507,402	3,341,661	1,432,243	5,692,565	596,421	12,097,069	2,413,060	27,080,421
WNB	1,371,854	3,463,659	1,135,303	3,725,430	287,872	2,674,002	2,380,870	15,038,991
TOTAL	28,354,095	66,913,837	24,502,295	69,893,237	5,737,560	131,420,308	41,981,179	368,802,512

Note: the 2007 Health/HIV cost estimate total of K66.9 million does not include the cost estimates for Church costs relating to Church-run health facilities. The 2005 Health/HIV cost estimate total of K67.1 million did include the cost estimates for Church costs relating to Church-run health facilities.

Appendix 7: 2007 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 and services only. An adjustment has been made for CPI and population growth.

	Admin	Health/HIV	Agriculture	Education	Village Cts	Infrastructure	Other	Total Cost Estimate
Central	6%	12%	6%	19%	2%	42%	12%	100%
EHP	5%	15%	5%	18%	2%	45%	9%	100%
ENB	9%	15%	7%	21%	1%	33%	14%	100%
Enga	7%	16%	7%	16%	2%	42%	11%	100%
ESP	8%	19%	6%	14%	1%	44%	9%	100%
Gulf	8%	19%	8%	18%	1%	32%	13%	100%
Madang	7%	21%	7%	14%	1%	36%	13%	100%
Manus	13%	13%	6%	17%	2%	34%	15%	100%
MBP	8%	26%	7%	21%	1%	25%	12%	100%
Morobe	7%	18%	7%	21%	1%	35%	12%	100%
NIP	11%	21%	6%	18%	1%	27%	16%	100%
Oro	11%	22%	8%	18%	1%	25%	16%	100%
Sandaun	9%	23%	10%	22%	1%	25%	10%	100%
SHP	7%	21%	8%	19%	3%	31%	10%	100%
Simbu	8%	16%	5%	23%	3%	35%	10%	100%
Western	8%	19%	6%	17%	1%	40%	9%	100%
WHP	6%	12%	5%	21%	2%	45%	9%	100%
WNB	9%	23%	8%	25%	2%	18%	16%	100%
TOTAL	8%	18%	7%	19%	2%	36%	11%	100%

Cost estimates that comprise 10% or more of the provincial total are highlighted in blue

Appendix 8: 2007 Provincial Revenue Table (in Kina)

The following table details the provincial revenues in 2007. Note: revenues that are tagged for specific purposes other than recurrent goods and services are excluded (these revenues include; LLG grants, salary grants, and development funds).

	National Government Grants (2006 actuals)	GST distributions (IRC data)	Mining and Petroleum Royalties (Company data)	Mining and Petroleum Dividends (MRDC data)	Own-Source Revenue (PGAS)	Total Revenue
West. Province	3,063,200	3,891,300	44,900,000	34,600,000	85,765	86,540,265
Gulf	2,760,500	518,000	-	4,840,579	1,697,611	9,816,690
Central	3,105,500	1,300,100	342,847	-	3,268,408	8,016,855
Milne Bay	3,558,800	2,231,700	-	-	926,589	6,717,089
Oro	3,412,400	1,375,700	-	-	270,897	5,058,997
South. Highlands	7,120,100	1,459,000	27,019,589	5,753,622	1,080,096	42,432,408
Enga	3,950,400	3,222,100	10,476,731	1,111,111	5,686,644	24,446,986
West. Highlands	7,674,100	9,525,000	-	-	2,484,131	19,683,231
Simbu	4,089,100	1,047,200	-	-	329,931	5,466,231
East. Highlands	6,582,800	5,798,700	53,084	-	1,814,527	14,249,112
Morobe	7,740,800	29,641,700	-	-	6,603,364	43,985,864
Madang	5,656,000	10,328,800	-	-	1,803,704	17,788,504
East Sepik	5,352,400	3,047,100	-	-	2,124,447	10,523,947
Sandaun	3,030,100	1,144,600	-	-	1,881,874	6,056,574
Manus	1,235,500	1,115,900	-	-	381,628	2,733,028
New Ireland	2,020,100	3,840,600	12,921,207	-	834,233	19,616,140
East New Britain	4,498,600	9,378,300	-	-	3,182,302	17,059,202
West New Britain	6,847,800	4,427,900	-	-	4,898,972	16,174,672
TOTAL	81,698,200	93,293,700	95,713,458	46,305,312	39,355,123	356,365,793

This table shows the revenue provincial governments received from different sources in 2007. It does not include revenue that was tied to expenditure of a particular nature, such as development grants. Salary grants are not included. It also does not include LLG grants or the Town Services Grant provided to urt

Appendix 9: 2007 Provincial Revenue Table (as a % of total revenue)

The following table details the provincial revenues in 2007 as a percentage of total revenue. Note: revenues that are tagged for specific purposes other than recurrent goods and services are excluded (these revenues include: LLG grants, salary grants, and development funds).

	National Government Grants (2006 actuals)	GST distributions (IRC data)	Mining and Petroleum Royalties (Company data)	Mining and Petroleum Dividends (MIRDC data)	Own-Source Revenue (PGAS)	Total Revenue
West. Province	3.5%	4.5%	51.9%	40.0%	0.1%	100%
Gulf	28.1%	5.3%	0.0%	49.3%	17.3%	100%
Central	38.7%	16.2%	4.3%	0.0%	40.8%	100%
Milne Bay	53.0%	33.2%	0.0%	0.0%	13.8%	100%
Oro	67.5%	27.2%	0.0%	0.0%	5.4%	100%
South. Highlands	16.8%	3.4%	63.7%	13.6%	2.5%	100%
Enga	16.2%	13.2%	42.9%	4.5%	23.3%	100%
West. Highlands	39.0%	48.4%	0.0%	0.0%	12.6%	100%
Simbu	74.8%	19.2%	0.0%	0.0%	6.0%	100%
East. Highlands	46.2%	40.7%	0.4%	0.0%	12.7%	100%
Morobe	17.6%	67.4%	0.0%	0.0%	15.0%	100%
Madang	31.8%	58.1%	0.0%	0.0%	10.1%	100%
East Sepik	50.9%	29.0%	0.0%	0.0%	20.2%	100%
Sandaun	50.0%	18.9%	0.0%	0.0%	31.1%	100%
Manus	45.2%	40.8%	0.0%	0.0%	14.0%	100%
New Ireland	10.3%	19.6%	65.9%	0.0%	4.3%	100%
East New Britain	26.4%	55.0%	0.0%	0.0%	18.7%	100%
West New Britain	42.3%	27.4%	0.0%	0.0%	30.3%	100%
TOTAL	22.9%	26.2%	26.9%	13.0%	11.0%	100%

Revenue streams that comprise 10% or more of the provincial total are highlighted in blue

Appendix 10: 2005 to 2007 Percentage of Spending in Each Quarter Table

Province	Source	2007 Fiscal Year				2006 Fiscal Year				2005 Fiscal Year						
		Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
Central	Grant	2%	20%	19%	60%	100%	5%	17%	33%	45%	100%	2%	9%	17%	72%	100%
	Internal Revenue	20%	16%	21%	43%	100%	13%	23%	31%	32%	100%	15%	27%	35%	23%	100%
EHP	Grant	6%	13%	25%	56%	100%	9%	24%	20%	46%	100%	16%	24%	25%	35%	100%
	Internal Revenue	15%	22%	22%	41%	100%	17%	21%	28%	33%	100%	14%	19%	21%	46%	100%
ENB	Grant	12%	39%	21%	28%	100%	20%	9%	54%	18%	100%	12%	18%	18%	52%	100%
	Internal Revenue	17%	26%	35%	23%	100%	18%	27%	24%	32%	100%	15%	23%	24%	38%	100%
Enga	Grant	5%	35%	12%	48%	100%	23%	26%	20%	30%	100%	7%	17%	25%	42%	91%
	Internal Revenue	19%	43%	15%	23%	100%	22%	16%	21%	42%	100%	20%	25%	15%	40%	100%
ESP	Grant	3%	41%	21%	35%	100%	7%	35%	38%	20%	100%	3%	50%	19%	28%	100%
	Internal Revenue	18%	35%	34%	13%	100%	Data unavailable				0%	25%	24%	15%	36%	100%
Gulf	Grant	8%	32%	11%	49%	100%	18%	27%	36%	20%	100%	23%	36%	17%	24%	100%
	Internal Revenue	6%	39%	35%	19%	100%	11%	13%	39%	36%	100%	18%	9%	28%	46%	100%
Madang	Grant	19%	25%	24%	32%	100%	11%	12%	42%	35%	100%	1%	14%	23%	61%	100%
	Internal Revenue	16%	24%	22%	37%	100%	14%	24%	28%	34%	100%	6%	20%	39%	35%	100%
Manus	Grant	7%	25%	25%	44%	100%	11%	28%	25%	36%	100%	26%	35%	23%	16%	100%
	Internal Revenue	22%	20%	30%	28%	100%	Data unavailable				0%	16%	30%	27%	28%	100%
MBP	Grant	1%	33%	15%	51%	100%	14%	21%	29%	35%	100%	3%	23%	22%	52%	100%
	Internal Revenue	23%	37%	26%	14%	100%	29%	26%	16%	28%	100%	9%	31%	33%	27%	100%
Morobe	Grant	12%	24%	26%	38%	100%	3%	21%	33%	43%	100%	12%	15%	24%	49%	100%
	Internal Revenue	21%	30%	28%	21%	100%	24%	22%	29%	25%	100%	17%	19%	25%	38%	100%
NIP	Grant	3%	25%	27%	44%	100%	5%	32%	25%	38%	100%	14%	20%	20%	46%	100%
	Internal Revenue	17%	37%	11%	34%	100%	23%	29%	24%	24%	100%	13%	19%	38%	30%	100%
Oro	Grant	1%	20%	15%	64%	100%	16%	30%	31%	23%	100%	6%	19%	52%	23%	100%
	Internal Revenue	13%	28%	26%	33%	100%	20%	26%	28%	26%	100%	14%	29%	33%	24%	100%
Sandn	Grant	8%	24%	33%	35%	100%	3%	18%	43%	37%	100%	4%	11%	23%	62%	100%
	Internal Revenue	6%	37%	22%	35%	100%	10%	23%	19%	49%	100%	11%	15%	23%	51%	100%
SHP	Grant	Data unavailable					27%	23%	9%	42%	100%	12%	20%	20%	48%	100%
	Internal Revenue	24%	35%	15%	25%	100%	46%	27%	8%	20%	100%	13%	47%	17%	23%	100%
Simbu	Grant	13%	30%	25%	32%	100%	13%	40%	25%	23%	100%	10%	31%	45%	14%	100%
	Internal Revenue	55%	14%	14%	17%	100%	20%	30%	27%	23%	100%	18%	23%	23%	35%	100%
Westn	Grant	1%	16%	41%	42%	100%	0%	12%	20%	68%	100%	1%	5%	5%	89%	100%
	Internal Revenue	12%	30%	24%	34%	100%	11%	15%	17%	58%	100%	22%	17%	25%	36%	100%
WHP	Grant	5%	24%	14%	57%	100%	15%	35%	31%	19%	100%	9%	19%	18%	55%	100%
	Internal Revenue	28%	17%	31%	24%	100%	12%	27%	42%	18%	100%	15%	35%	22%	27%	100%
WNB	Grant	12%	33%	22%	33%	100%	13%	38%	19%	29%	100%	9%	47%	23%	22%	100%
	Internal Revenue	11%	24%	18%	47%	100%	19%	20%	20%	41%	100%	24%	24%	36%	17%	100%
Average of Grants		7%	27%	22%	44%	100%	12%	25%	29%	34%	100%	9%	23%	23%	44%	100%
Average of Internal Revenue		19%	30%	24%	28%	100%	19%	23%	25%	33%	100%	16%	24%	27%	33%	100%

