National Economic and Fiscal Commission

WALKING THE TALK

REVIEW OF ALL EXPENDITURE IN 2008
BY PROVINCIAL GOVERNMENTS

(additional copies of this full report can be downloaded from the NEFC website)
www.nefc.gov.pg

FOREWORD

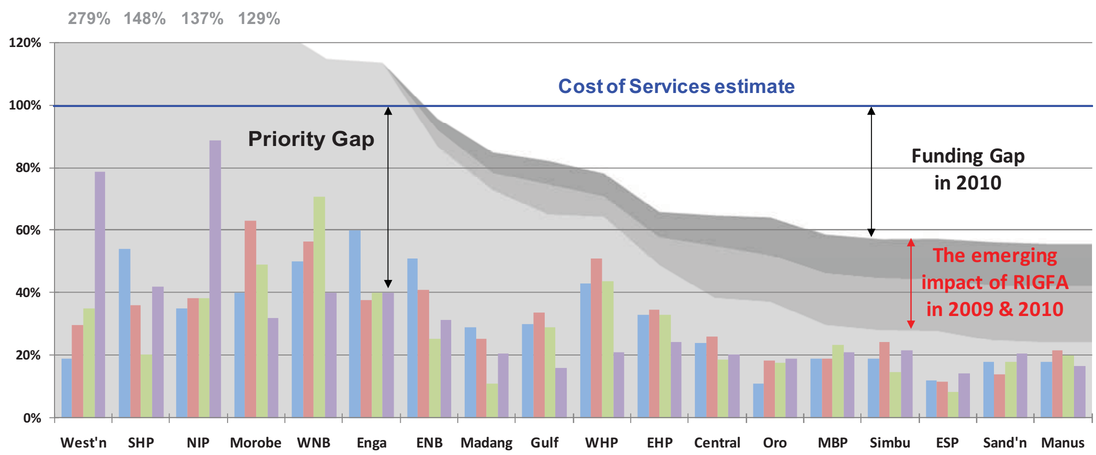
The 2008 Provincial Expenditure Review is the 4th edition of what has become an annual publication. In ***Walking the Talk*** we continue to monitor the trends emerging as we continue our journey of reviewing what has happened and highlighting areas where we need to improve. We now have a time series of four years of data spanning the 2005-2008 fiscal years. Are we improving, maintaining our position or going backwards? This data provides an entry point for answering those questions, to stimulate informed discussion, and for identifying issues that impact and impede the service delivery supply chain.

The desire for evidence-based information is increasing and has seen the PER become a major performance management tool, a tool to monitor the progress and impact of intergovernmental reform and to increase the transparency of provincial expenditure.[1]

People want to know, they want basic services to improve, and they want to know how their community compares to others. Our objective is clear; we want to help ensure basic services are delivered to the many, not the few, throughout our country. And we want to be part of the solution by identifying impediments and promoting improvements in service delivery – better healthcare, better schooling, better economic opportunities and better maintained infrastructure such as roads and bridges to facilitate the movement of people and goods for market.

As I write this in November of 2009 I look back on another highly significant year. The new system, after nine years in the making, is now being implemented. Funding is now based on need, the need to provide basic services to all our people. In 2009, more funding has been delivered to the provinces that need it most and is targeted at key activities in priority sectors to deliver front line services. The graph below illustrates the impact that the additional money (in red) will have in closing the funding gap for lower funded provinces. We are closing the funding gap.

Graph 1: Closing the Gap[2]



1 From 2009 the findings of the PER have been included as a measure in the bilateral partnership agreement between Papua New Guinea and Australia.

2 The shaded area labelled 'the emerging impact of (Reform of Intergovernmental Financing Arrangements) RIGFA in 2009 & 2010' is for illustrative purposes. The 2009 area is 'actual' whilst the 2010 is a forecast amount.

This funding has been targeted through the use of function grants and the introduction of *minimum priority activities (MPAs).* This means that more funding reaches education, heath, transport infrastructure, agriculture and village courts and is targeted at the really critical activities that make sure services happen for the rural majority. If these activities are not funded and carried out, it will undermine all other attempts to provide services within the sector. In 2009 the Department of Treasury and other central agencies are closely monitoring the implementation of these activities and this focus will intensify in 2010 to see are we ***walking the talk***?

Walking the talk is about spending our money on service delivery activities. But what are service delivery activities? Service delivery activities include; the distribution of medical supplies to health facilities, the provision of basic materials to our primary schools, grading a road or maintaining a bridge, and conducting an agriculture extension patrol to farmers in a rural area. These are real examples of real service delivery. This is what we mean when we say we aspire to better provide healthcare, schooling, economic opportunities and maintained infrastructure for our people.

All of these service delivery activities require adequate funding from the recurrent goods and services (operational costs) budget. Without this the activities will not happen. Without adequate recurrent expenditure on existing activities the level of service delivery will decline. And ironically the more that is invested in additional staffing and new development the faster this erosion will occur.

Through the intergovernmental reforms provinces are now receiving more money. Yet this change, as significant as it is, only represents an opportunity, an opportunity to target the funds at the key activities and to reinstitute key activities. We must now ensure that we budget wisely and adequately fund these service delivery activities. This will be a key first step in enabling services to take place. I believe we can do this, by using our money wisely and being resourceful we can greatly improve the level of service we provide to our people. The challenge is to now ***walk the talk.***

Nao Badu
Chairman and CEO
National Economic and Fiscal Commission
November 2009

EXECUTIVE SUMMARY

Walking the Talk

It's time to walk the talk. We're closing the funding gap so it's time to use our money to fund key service delivery activities.

Walking the talk is about reinstituting the key services that government provides to our people. And this is a result of inadequate funding to make these services happen. So we are referring to the gap of inadequate funding, by closing this gap we enable basic services to be provided across Papua New Guinea.

There are two reasons for the funding gap, for some it is due to a lack of funding whilst for others it is a result of poor prioritisation. Or in some cases it may be a combination of both. Closing the gap is about ensuring that we put enough resources into basic services to make them happen. We already have the buildings and the staff but they often lack the operational funding to carry out their work and make things happen.

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. We know this is the reality.

Another example of operational funding is for agriculture extension patrols. Agriculture officers need to travel the districts to provide training and assistance to farmers who are the backbone of the rural economy. But how can they travel without the money to pay for fuel, accommodation and living expenses? The answer is that many don't. This is why services stop.

A third example is our roads. Roads are extravagantly expensive assets to build and need to be maintained. Maintaining a road may cost K6,000 per kilometre per year. However if we don't maintain the road and its condition deteriorates it will require rehabilitation. Rehabilitation costs are like building the road again, they are enormous, and may cost K250,000 per kilometre. These numbers are frightening, the implications disturbing, but this is what we are doing when we let our roads deteriorate without adequate maintenance.

This is real service delivery. It happens because we fund it. More specifically it happens because we give it the operational funding to make it happen. And it happens because we then monitor that the money was well spent on the purpose intended and that the service was provided. The irony is that the more aid posts, clinics, hospitals, schools, roads and bridges we build the more stress we place on the already inadequate pool of operational funding available to make the services happen. We need to redress the balance, to budget and spend better, as we close the gap the focus moves to ***walking the talk***.

The Provincial Expenditure Review (PER) series

In 2005 we first painted the picture of what was happening across Papua New Guinea looking through a fiscal lens. *Cost Capacity Performance (2005)* established a methodology for reviewing our progress in a systematic way by using an evidence-based approach that sought to answer the following three key questions:

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?

It's More Than Numbers (2006) built upon the 2005 review and introduced the concept of a trend analysis, reporting our progress year by year toward our objective of improved service delivery.

Closing the Gap (2007) highlighted the twin gaps of funding and prioritisation. It explained the steps that are being taken by the National Government through the intergovernmental financing reforms to address the funding gap and the steps that need to be taken by each province to address their own priority gap.

Walking the Talk (2008) is the fourth year of reviewing provincial performance. The implementation of the reforms sees additional funding given to provinces and the distribution of those funds based on need. These additional funds are targeted at key activities in priority sectors. The provincial focus is now one of implementation and monitoring – ***walking the talk***.

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 are painting a picture of how we are doing 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.

What are some of the main findings of the review looking across the years 2005 to 2008?

- The provinces showing consistent improvement in spending are Western, Milne Bay, Oro and Sandaun.
- East New Britain and Madang have suffered the largest decreases over the four years.
- Southern Highlands, West New Britain and Western Highlands show high fluctuations between years. This is unusual and surprising given the recurrent nature of the activities that provinces are funding.
- The current level of spending by provincial administrations on recurrent goods and services in priority areas is too low and inadequate. The implications are dire for service delivery if this trend continues.
- Interestingly, spending levels bounced back in 2008 following the 'lows' of 2007. Spending on education increased by K13.4m, health increased across all provinces by K5m, and agriculture increased by K2.6m.
- Infrastructure maintenance spending decreased by K1.5m.

- Administration spending increased by K29.1m – although the majority of this amount is represented by increases by the six higher funded provinces.

Are the broad issues established by the previous reviews still apparent?

- Yes, there continues to be a funding gap – the funding gap is the difference between the revenue a province receives and the amount it costs to deliver all the basic services it has responsibility to provide.

  The good news is that, from January 2009 onwards, we are now distributing funds across our country based on need – the need to provide basic services to all our people. **Real progress in this regard has been made and will continue.**

- 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 is helping ensure that funding is directed to activities that are fundamental to service delivery, but this does not negate the need for provinces to improve 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 available the NEFC provincial costing information. This model has been distributed to ten provinces during 2009.

- 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 2008 and is being 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 be made available to provinces to assist with budgeting on a staged basis.
- 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 will reduce 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.

- We also need to consider the impact of employing more staff or restructuring that creates unattached personnel. 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, 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.

SECTOR BY SECTOR

Administration

Our objective
To provide cost effective and efficient administrative support at provincial and district levels

Our finding
Simply, we spend too much on administration

Average: **252%** (181% 2005) Range: 68 to 635%

Health

Our objective
To deliver health services throughout rural PNG

Our finding
Our commitment to our people's health is very poor

Average: **25%** (21% 2007) Range: 13 to 59%

Education

Our objective
To deliver education services throughout PNG

Our finding
Education is the best supported service sector, but there is much room to improve

Average: **59%** (55% 2005) Range: 17 to 245%

Infrastructure maintenance

Our objective
To maintain our country's infrastructure (our roads, bridges, jetties, airstrips….)

Our finding
The kina cost is high, but the level of expenditure low

Average: **14%** (24% 2005) Range: 0 to 33%

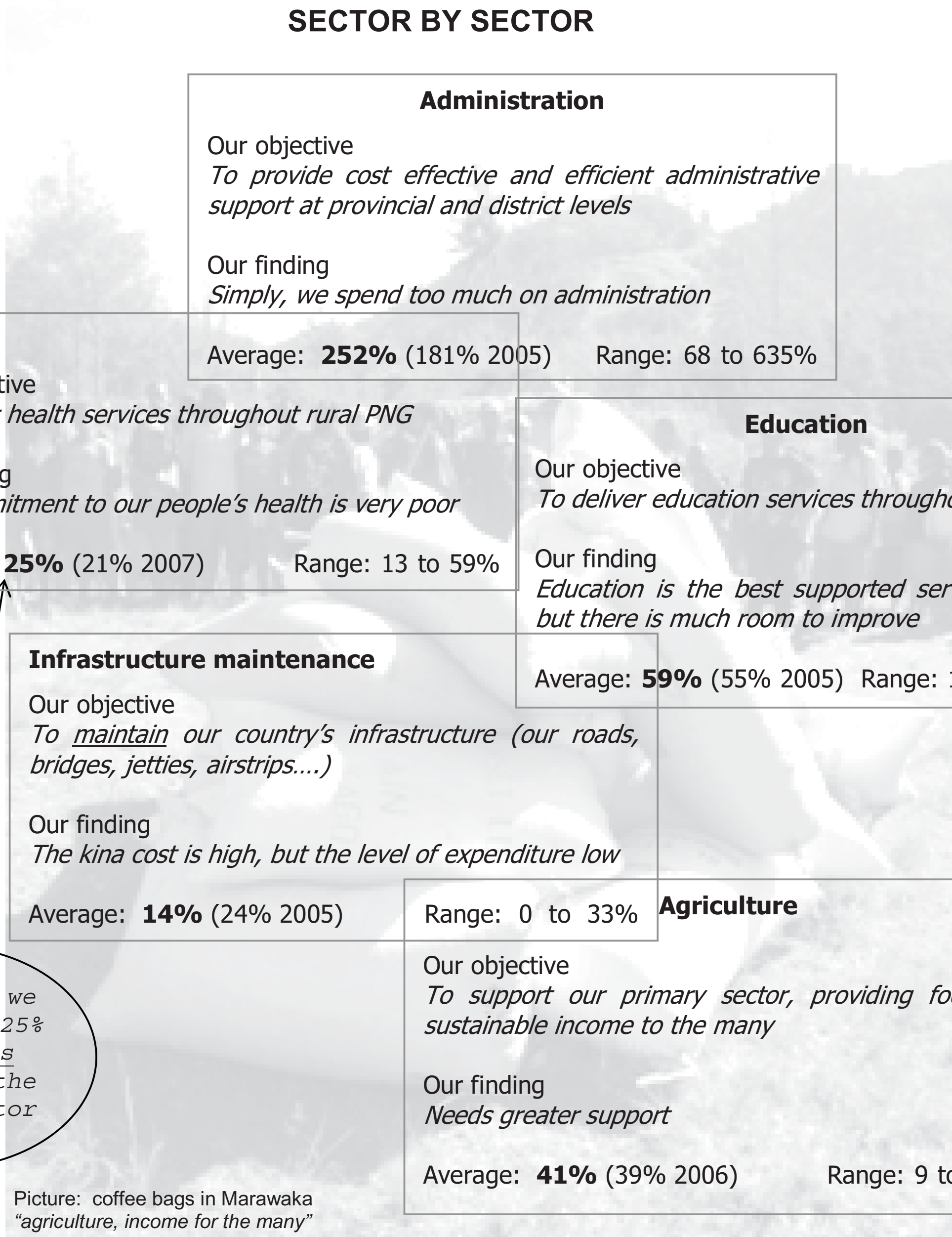
Agriculture

Our objective
To support our primary sector, providing food and sustainable income to the many

Our finding
Needs greater support

Average: **41%** (39% 2006) Range: 9 to 162%

this means we spend only 25% of what is needed in the health sector



Picture: coffee bags in Marawaka
"agriculture, income for the many"

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

- In overall terms, total spending on health, education and agriculture increased by approximately K20.3 million or 37% between 2005 and 2008. This means at a macro level the increase in spending is higher than the cumulative impact of inflation and population growth – 25%. This is pleasing but we know that much more needs to be done to reinvigorate the delivery of critical services.
- However, in overall terms spending on administration grew by nearly K38 million between 2005 and 2008. We need to control and reduce spending in low priority areas. These include administration, development projects, and casual wages.
- In 2008 67% 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 saw two provinces recording no spending on teacher leave fares – are past problems going to recur? In 2008 spending o leaves fares increased again. We must control this high-cost area that accounts for 23% of all education spending by provinces.
- Spending from donor Health Services Improvement Program funding in 2008 increased significantly. Notwithstanding the potential for donor funds to displace government funding, it is pleasing to see many provinces using this facility to better support such a priority area.[3] In saying this, we continue to observe some provinces neither accessing HSIP funding, nor allocating significant amounts from their own budgets for health. Why would this be?
- Some provinces spend millions on unspecified arrears. This raises many questions, lacks transparency and encourages poor spending practises. Provinces need to spend within their means and do so during the year to support service delivery.

[3] *Displacement* in this context refers to the potential for donor funding to substitute for – rather than complementing – government funding.

TABLE OF CONTENTS

List of Tables and Graphs

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 estimated costs by available revenue.
Funding Gap	The funding gap is the difference between the revenue a province receives and the amount we estimate it would cost to deliver all the basic services the province is required to provide.
Goods & Services expenditure	A GoPNG term that refers to operational expenditure/costs. In our analysis goods & services excludes any personnel related expenditure.
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	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: 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. In the area of education; it would include providing basic educational materials and education subsidies to schools. It would also include school supervision.

LIST OF ABBREVIATIONS

Abbrev.	Meaning
200 series	Expenditure from National Government grants
700 series	Expenditure from internal revenue
BEDP	Basic Education Development Program
CoS	Cost of Services Study
DoF	Department of Finance
DoT	Department of Treasury
DSIP	District Service Improvement Program
ECBP	Education Capacity Building Program
GoPNG	Government of Papua New Guinea
GST	Goods and Services Tax
HSIP	Health Sector Improvement Program
IRC	Internal Revenue Commission
K	Kina
LLG	Local level Government
MTDS	Medium Term Development Strategy
MPA	Minimum Priority Activity
MV	Motor Vehicle
NEFC	National Economic and Fiscal Commission
PFMA	Public Finance Management Act
PGAS	PNG Government Accounting System
PNG	Papua New Guinea
PIP	Public Investment Program
RIGFA	Reform of Intergovernmental Financing Arrangements
SSG	Special Support Grant
TA	Travel Allowance
TMS	Treasury Management System

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 and painted a picture of how well each province was doing in supporting the delivery of critical services. This was followed by *It's More Than Numbers (2006)* and *Closing the Gap (2007)*. These latter expenditure reviews analysed emerging trends and explored issues that adversely impact the delivery of services across Papua New Guinea.

Walking the Talk is the fourth edition of the Provincial Expenditure Review and reviews the situation in 2008. With four years of data analysis and reporting, an increasingly clear picture of individual Provincial Governments' spending priorities is in focus. Is it to deliver core services such as health and education? 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 <u>expenditure</u> focus, and
- comparing expenditure against the cost of services study as an independent <u>benchmark</u>, and
- having due regard to each province's <u>fiscal capacity</u>

In essence, each year we are painting a picture of what is happening in the 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[4] financial assistance to ensure basic and ongoing service delivery.

A third objective is to explore, discuss and highlight issues that may be a barrier to improving service delivery.

In conducting this study, we believe we will help promote the Government's key objectives in service delivery across Papua New Guinea as set out in the Medium Term Development Strategy.

[4] Function grants by themselves will not be sufficient to fund the delivery of a minimum level of service across all sectors. Provinces will also need to contribute funds from their own internal revenue.

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. It is that simple.
- Has 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 operational funding to ensure the staff in these facilities can do their work and ensure that the roads that are the lifeline for providing these services and enabling economic growth are maintained.
- Has 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 providing core services.
- Draws together cost, capacity and performance, providing a more holistic picture of provincial performance.

  Cost: The <u>cost of services study</u> 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 <u>resource envelope</u>. The resource envelope is the amount of money (revenue) it has available for recurrent purposes from all sources.[5]

  Performance: Performance is reflected through <u>expenditure</u> – 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 erred 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 2005-2008 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.

[5] Refer to the NEFC Provincial Revenue Report for the fiscal years 2004-2007, as well as the table in Appendix 8.

1.1.2 Adjustment to the Cost of Services estimates

The cost of services study was completed in 2005[6]. The cost of services estimates that were established have been adjusted to reflect the changes in prices and provincial populations since that time. What that means is that the cost estimates included in the 2005 review have been increased by both CPI and estimated population growth as it applies to each province.[7] This means that when we compare 2008 expenditure we compare it against 2008 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 increases – 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.
- 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, the Department of Health and the Department of Education.

[6] An update of the 2005 cost of services study is currently being undertaken by NEFC and will be completed in 2010.

[7] Population growth is measured as the 1980-2000 average annual growth in each province as supplied and recommended by the National Statistics Office.

2 Fiscal Capacity & Revenue

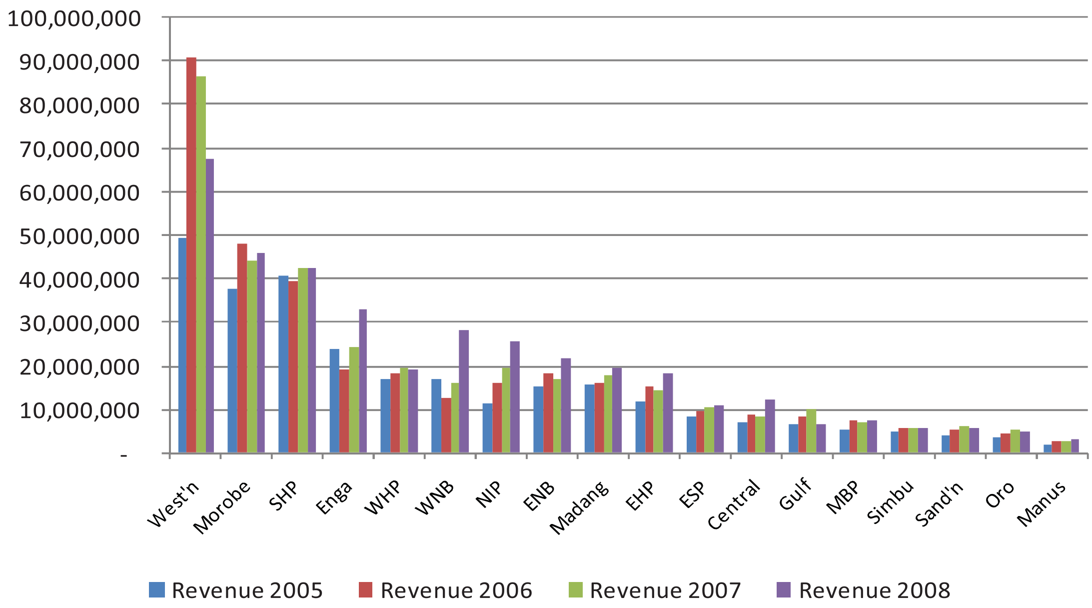
Provincial Revenue – is a term that describes the money available to a province, both from national grants and internal revenue

2.1 Provincial Revenue: 2005 to 2008

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. A province may earn revenue from grants, royalties, dividends and other internal revenue such as GST – together this is a provinces' 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. The following graph illustrates provincial revenues between 2005 and 2008.

Graph 2: Comparing Revenue: 2005 to 2008



This graph tells us that untagged[8] provincial revenues grew by 6% between 2007 and 2008, and 34% over the four year period from 2005 to 2008. The 6% rate of revenue growth between 2007 and 2008 is less than enough to respond to the rate of inflation and population growth for that period which averaged 14% across provinces. In other words, 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, East New Britain, Eastern Highlands and Central.

[8] 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.

- **New Ireland**: has experienced a massive increase in available funds between 2005 and 2008. Untagged revenues have moved from K11.4m in 2005 to the current level of K25.6m in 2008. This represents a unique opportunity for the province to adequately fund front-line services.
- **West New Britain**: the biggest mover in 2008. WNB's available revenues increased by 74% from K16m to K28m thanks to high dividend levels from New Britain Palm Oil Ltd.
- **Enga**: available revenues increased from K24m in 2007 to K32m in 2008, a 34% increase. The 2008 total of K32m includes a K5.8m allocation from the *Enga Childrens Fund*.
- **East New Britain**: enjoyed a 27% increase in available revenues between 2007 and 2008. This was due, in part, to revenue from the ENB Development Corporation and receipts from short term investments.
- **Eastern Highlands**: also enjoyed a sizable increase in available revenues in 2008, due to an increase in their share of the GST distribution.
- **Central**: in 2008 available revenues for Central includes an estimated amount of K2.9m for revenue from vehicle licence fees (this estimate was provided by the province as the revenue received by its Transport Authority which should be available for spending on service delivery). This was not included in prior years' calculations.

▪ Five provinces experienced a fall in revenue (of up to 33%) – Gulf, Western, Oro, Western Highlands and Sandaun.

- **Gulf**: available revenues decreased significantly from K9.8m in 2007 to K6.6m in 2008, a decrease of 33%. This includes a K2.3m decrease in the level of petroleum dividend received during the 2008 fiscal year. It affirms the need for provinces that benefit from mining and petroleum revenue streams to manage their resources wisely and to mitigate their reliance on these revenues by developing a broader economic base within the province.
- **Western**: enjoys the highest levels of available revenue mainly from mining and petroleum revenue streams. So whilst the revenue level fluctuates from year to year, the province enjoys the highest fiscal capacity of all provinces.
- **WHP:** revenue fell due to a decrease in the amount of derivation grant.
- **Oro**: 2008 revenue's were less than in 2007. In 2007 Oro revenues included a one-off amount for disaster relief.
- **Sandaun**: experienced a K0.8m decrease in own-source revenue between 2007 and 2008.

2.2 Fiscal Capacity: Comparing revenue to cost

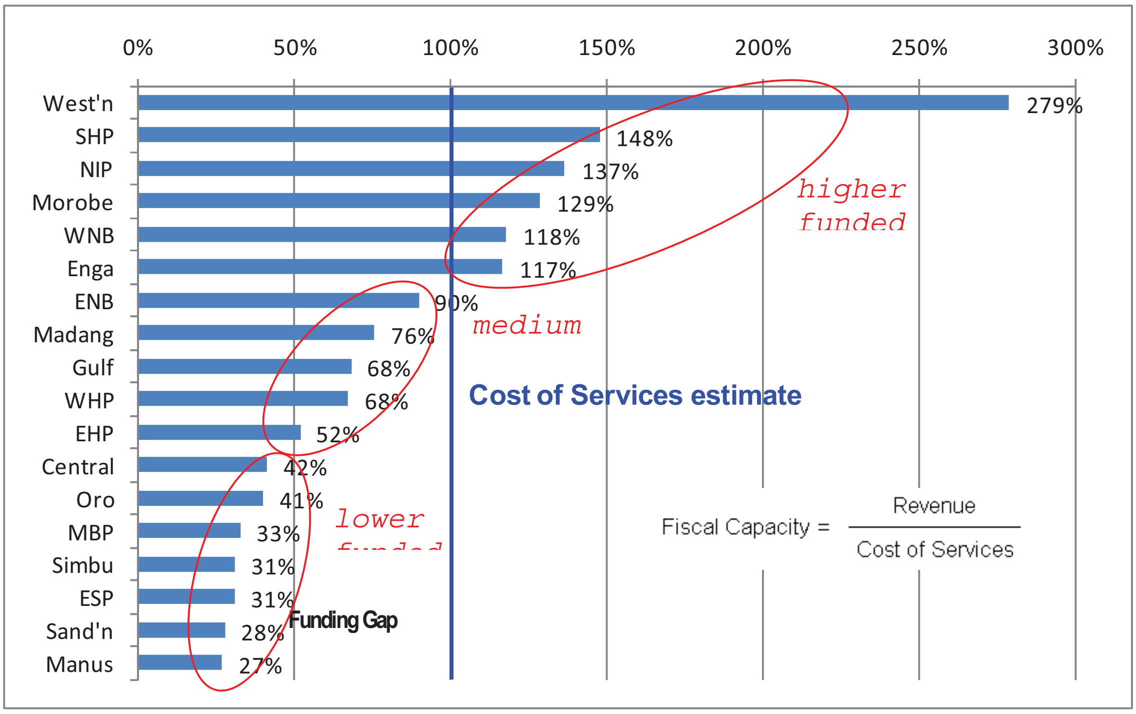
Fiscal Capacity – is a term that describes a provinces ability to meet its costs

The calculation of fiscal capacity is simply *revenue* divided by *total costs* for a province to deliver basic services.

The cost of services study very conservatively estimates how much it costs to deliver a very basic set of core 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. Fiscal capacity is therefore 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.

The following graph expresses fiscal capacity as a percentage. If a province has fiscal capacity of 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 seven 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 3: Averaged Fiscal Capacity: 2005 to 2008



This graph 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.

- 12 provinces do not have sufficient funding to support service delivery to even a very basic level, with seven 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.
- Fiscal capacity in graph 2 is an average of revenue over four years from 2005 to 2008. The advantage in taking an average is that it removes the impact of volatility in revenues that may occur from year to year.

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. The reality however 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. **The impact of this is that real fiscal capacity is even lower than our projections in the graph and the levels of expenditure less than presented as well.** That said, provinces do have discretion on how these funds are allocated.

3 Expenditure Overview

3.1 Overview of where the money went in 2008

Where did provinces collectively spend their revenue in 2008? Where did they spend the National Government grants and the internal revenue that was available to them? The following table seeks to answer these questions at the highest of levels by providing a numerical overview of where money was spent by broad classifications in 2008.

Table 4: Expenditure Overview Table 2008[9]

	Administration Sector	MTDS Sectors	LLG Transfers	Other Sectors, Arrears, Unspecified	Total
Internal Revenue					
Goods & Services	70,872,351	45,217,512	9,643,008	37,376,586	163,109,458
Personnel Emoluments	32,969,022	13,007,420	1,074,959	1,044,613	48,096,014
Capital & Projects	27,901,809	77,350,127	2,679,837	69,440,846	177,372,619
Total Internal Revenue	**131,743,182**	**135,575,060**	**13,397,805**	**107,862,045**	**388,578,091**
Grants					
Goods & Services	15,090,967	62,156,714	41,242,169	8,088,668	126,578,518
Personnel Emoluments	6,999,310	18,074,087	587,600	545,353	26,206,349
Capital & Projects	7,411,019	18,153,654	1,263,000	13,246,700	40,074,373
Total Grants	**29,501,295**	**98,384,455**	**43,092,769**	**21,880,720**	**192,859,240**
Total					
Goods & Services	85,963,318	107,374,226	50,885,177	45,465,254	289,687,975
Personnel Emoluments	39,968,332	31,081,507	1,662,559	1,589,965	74,302,364
Capital & Projects	35,312,827	95,503,782	3,942,837	82,687,546	217,446,992
Total All	**161,244,477**	**233,959,515**	**56,490,574**	**129,742,765**	**581,437,331**

Between 2006 and 2008 overall spending has moved from K425m...K389m...**K581m**, this reflects a very large and significant increase.

This table tells us that:

- Why the large increase of K156 million between 2006 and 2008?
    - Firstly, spending from grants has increased by K30 million.

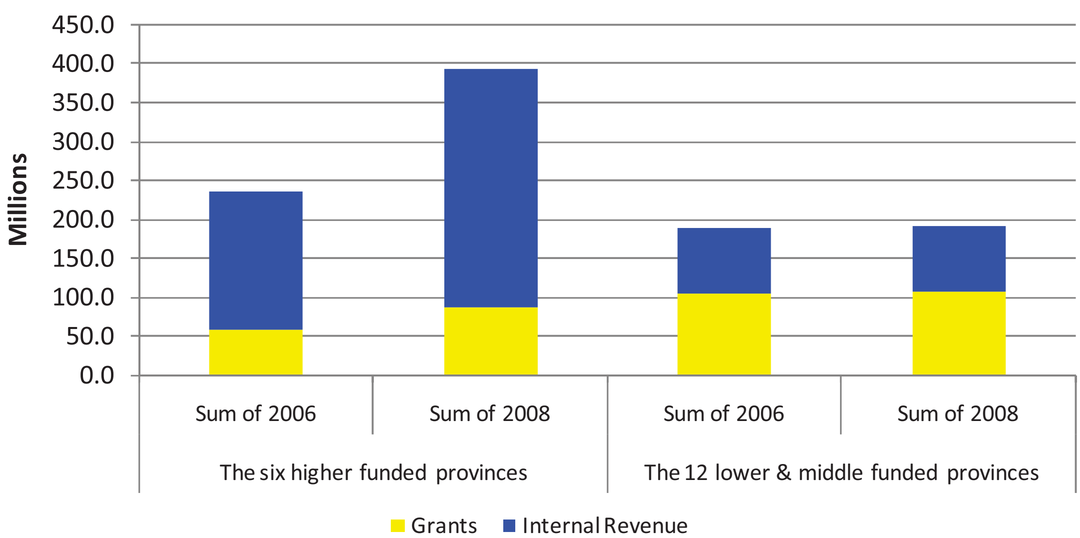
[9] Refer to Appendix 1 to see what has been included and excluded in the expenditure data analysis. SSG expenditure that aligns to a sector is now recorded under either *recurrent goods & services* or *capital & projects* – as appropriate.

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.

- Secondly, spending from internal revenue rose significantly (K128 million); administration (K47 million), MTDS priority sectors (K45 million) and other sectors (K36 million).
- K109 million of the K128 million increase in internal revenue spending went on capital & projects. Only K5.8 million, or 4.5% of the increased spending in internal revenue went on recurrent goods & services in MTDS priority sectors. This statistic demonstrates the real challenge that exists for provinces to realign their priorities and thereby closing the 'priority gap'

- Capital spending on administration and the spending on the *medium term development strategy* sectors also fell by K19 million or 28%.
- K107 million of K581 million, or 18% of all expenditure went on funding goods and services that support the delivery of core priority services (in MTDS sectors). This compares to K83 million in 2007.
- The K129 million or 22% expended on 'other sectors, arrears and unspecified' remains a highly significant amount (K79 million in 2007).
- Spending on capital and projects rose markedly being K217 million or 37% of all expenditure. This does not include items funded by PIPs or DSIP. This compares to the lower amount of K67 million (17%) spent in 2007.
- Staff related costs (personnel emoluments, but not government payroll) are 13% of total expenditure.[10]

Graph 5: Expenditure overview by funding groups: 2006 and 2008



- This graph illustrates that the large spending increase between 2006 and 2008 was driven by the six higher funded provinces – mainly due to their access to internal revenue. The spending levels of the other twelve provinces remained largely static.

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

3.2 Internal Revenue – does it impact service delivery?

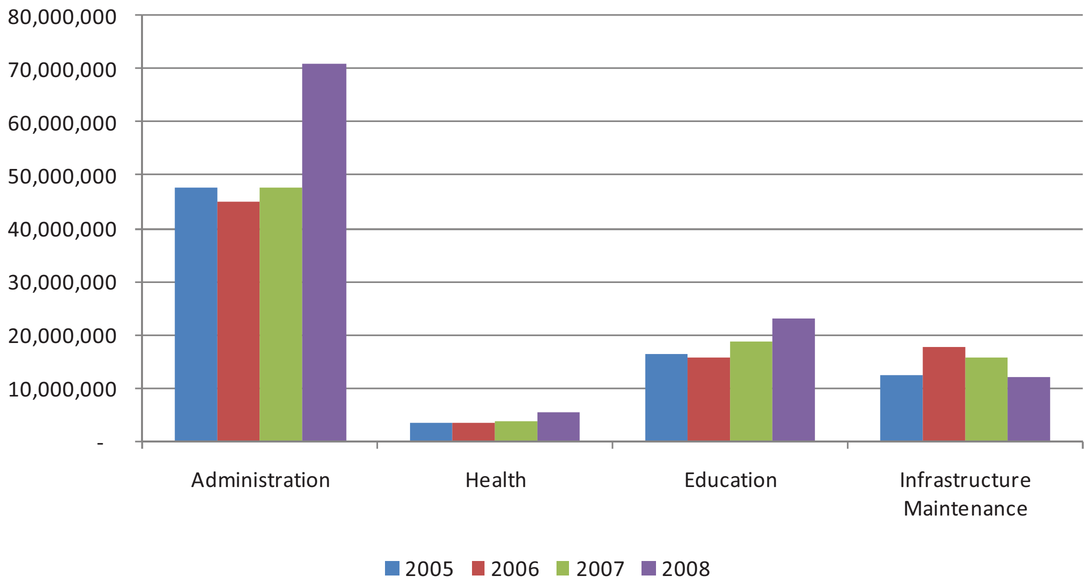
How much internal revenue is applied to recurrent goods and services is a measure of how much provinces prioritise ongoing service delivery to their people in their budget and expenditure management decisions.

Table 4 details the findings of our overall expenditure analysis for all 18 provinces in 2008.[11] What we can see is:

- Spending from internal revenue increased dramatically between 2007 and 2008. In 2008 provinces spent K388 million from internal revenue (K252 million in 2007).
- Some K45 million or 42% 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. So the answer is 'yes'. Internal revenue continues to 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?*
    - Yes, despite spending K136 million more (a 54% increase), spending on recurrent goods & services only increased by K2 million (a 5% increase).
    - The K45 million is only 12% of all internal revenue expenditure. This tells us that there is 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 & services costs in administration (K70 million) than on MTDS priority sectors (K45 million). Indeed, spending on administration from internal revenue received a major boost in 2008, spending on MTDS priority sectors did not.
    - While K163 million or 42% of all internal revenue is spent on goods and services, just over <u>a quarter</u> of this was allocated to MTDS sectors. In comparison, <u>half</u> of national grant funding (K62 million of K126 million) was allocated to MTDS sectors. This reflects the importance of provinces improving their expenditure prioritisation whilst also targeting national grant funding to core service delivery areas to ensure that critical services are provided to our people.
    - A total of 58% of all internal revenue was spent on personnel emoluments, capital and projects. This is highly significant. It means there is less available to fund the critical ongoing day to day costs that enable core services to be delivered.

[11] The table summarises all spending but <u>excludes</u> expenditure from SSG and PIP funds where identifiable.

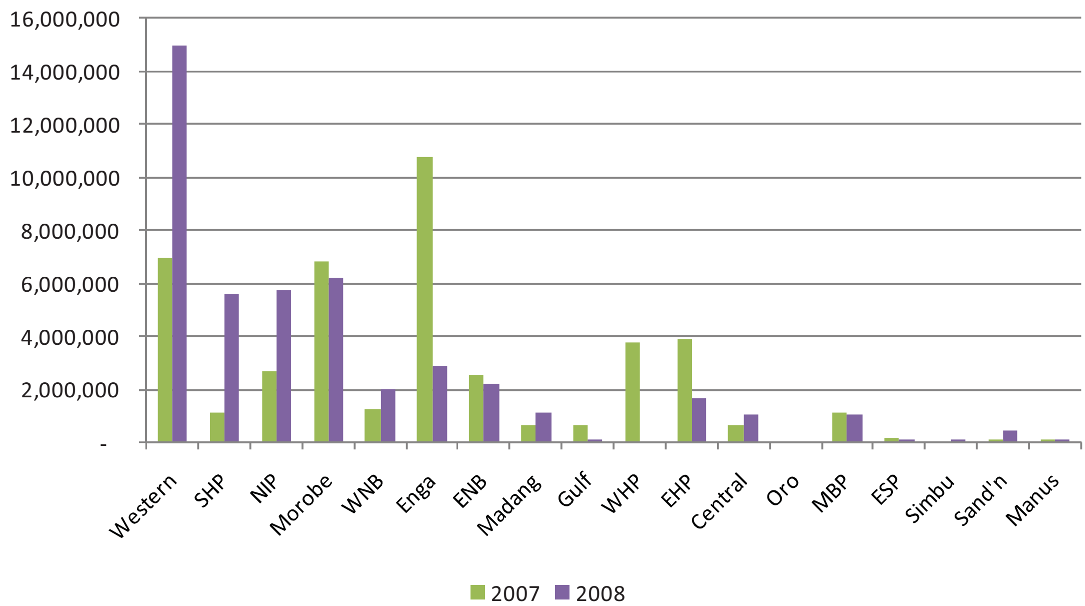
Graph 6: Expenditure from Internal Revenue in Major Sectors: 2005 to 2008



The graph above illustrates spending on **recurrent goods and services** from internal revenue in the major sectors for the 2005-2008 fiscal years.

- Administration receives the biggest slice of internal revenue at 43%. 82% of the large increase in admin spending between 2007 & 2008 was by the *higher funded provinces*.
- Health receives very little at 3%, although there was a small Kina increase.
- Education spending (14%) increased, but infrastructure maintenance spending (7%) saw a reduction.

Graph 7: Internal Revenue spending in MTDS Sectors by province in 2007 & 2008



The graph above 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 and 2008.

- Lower funded provinces spend very little or no internal revenue in MTDS sectors.

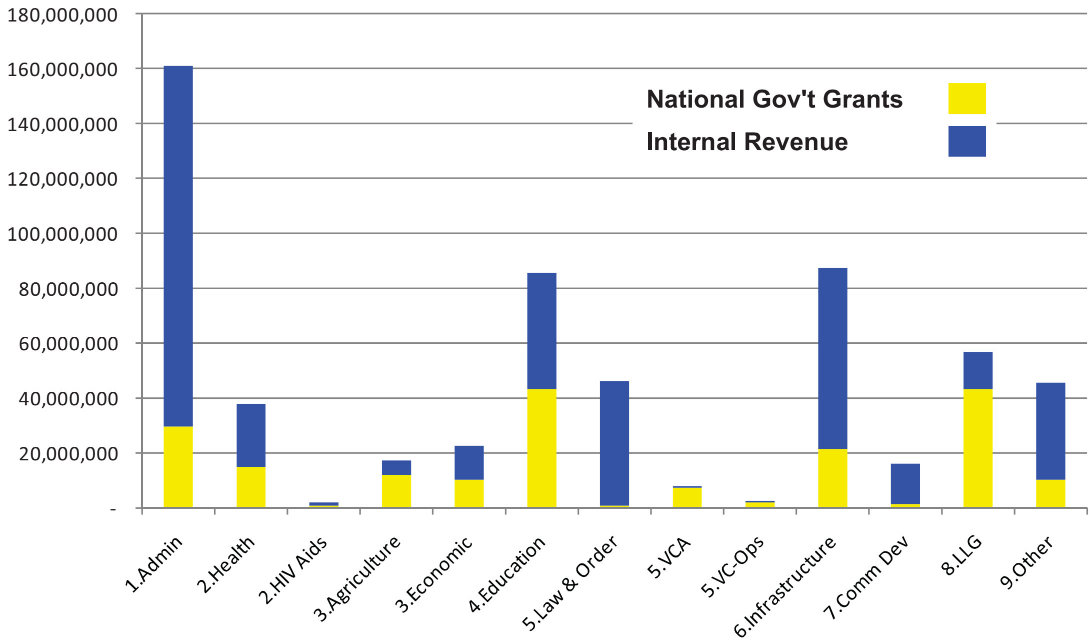
- When a province has low (or reduced) levels of internal revenue it is applied to administration and not the MTDS service sectors.
- It was pleasing to see Western, Southern Highlands and New Ireland provinces significantly increasing their spending from internal revenue on priority MTDS sectors in 2008. With Morobe maintaining a high level over the two years.
- We noted sharp declines in Enga, Western Highlands and Eastern Highlands provinces in 2008 – Western Highlands reduced their spending from internal revenue down to zero.

3.3 Spending from Grant and Internal Revenue

The next four graphs 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)

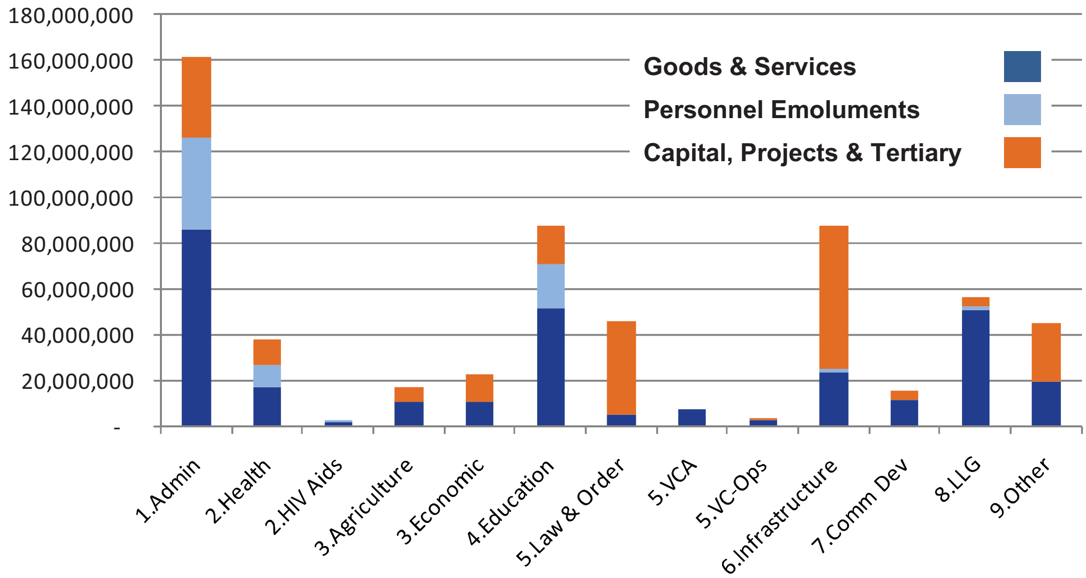
Graph 8: Sector Spending by Source in 2008 (recurrent & capital)



The graph above illustrates where money was spent by Provincial Administrations – it splits the sector spending into funding by National Government grant and funding from provincial internal revenue. You will observe that:

- Administration remains the single highest spending area.
- Education and infrastructure maintenance are the next best supported priority sectors.
- Health and agriculture receive relatively low levels of funding.
- Village courts are mostly funded by grants.

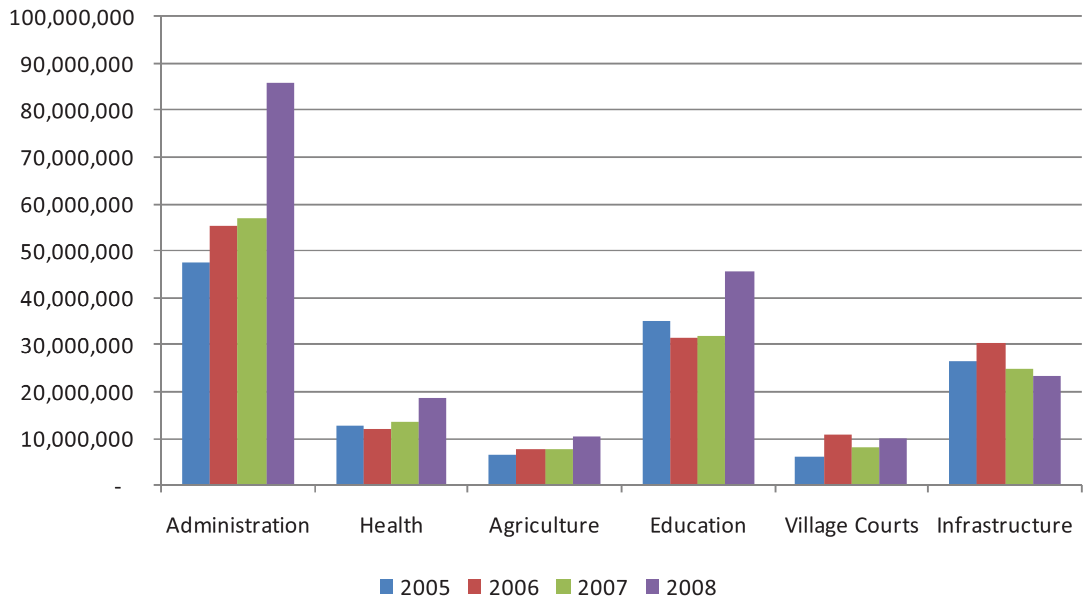
Graph 9: Sector Spending by Type in 2008 (recurrent & capital)



The graph above illustrates Provincial Administrations spending across major sectors – but this time it splits 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 (37% of total spending) is highest in infrastructure maintenance, law & order, administration & other.
- Personnel emoluments expenditure is highly significant in administration, education and health (54%, 26% and 13% respectively).

Graph 10: Spending by Sector: 2005 to 2008

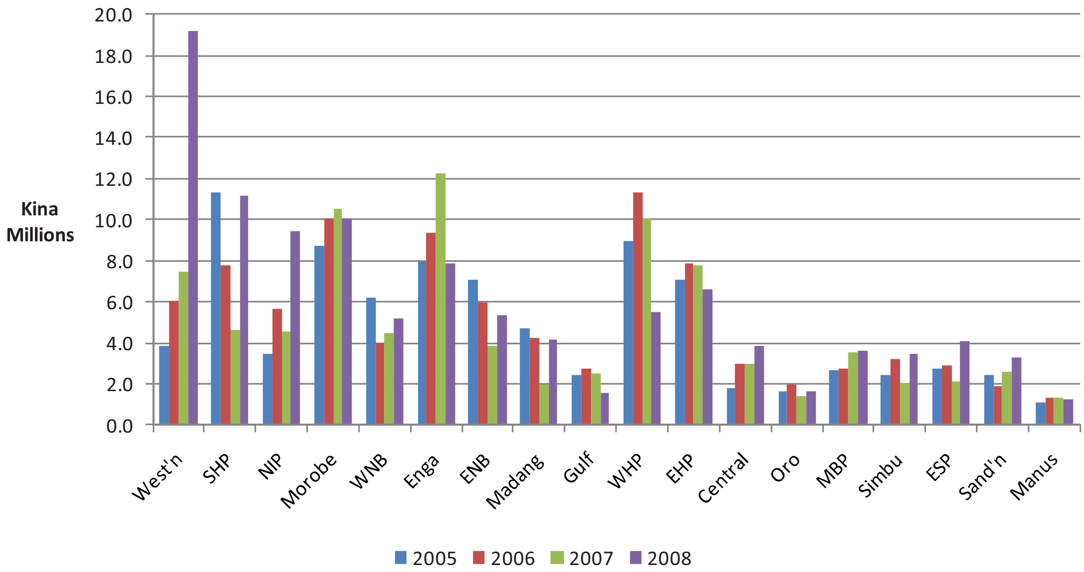


The graph above illustrates and compares how much was spent on recurrent goods and services in each major sector across all provinces from 2005 to 2008. You will observe:

- 2008 saw significant spending increases in the administration and education sectors.

- The six higher funded provinces accounted for 70% of the administration increase.
- Health, agriculture and village courts enjoyed smaller increases in 2008.
- There is concern that spending on infrastructure maintenance declined in 2008.

Graph 11: MTDS Spending: 2005 to 2008



The graph above illustrates spending in MTDS sectors by province from 2005 to 2008.

- Some provinces showed lower levels of spending on MTDS priority sectors than in prior years, this included Enga, Gulf, Western Highlands and Eastern Highlands.
- Positive spending trends in Central, Milne Bay, Simbu, East Sepik and Sandaun.
- Some higher funded provinces such as Western, Southern Highlands and New Ireland show sharp increases in their spending on MTDS priority sectors in 2008 which is encouraging.

3.4 Timing of Spending

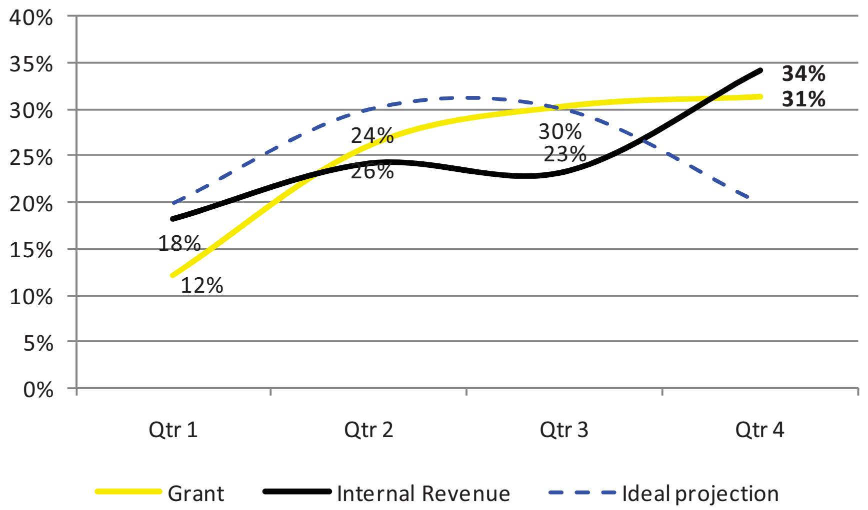
The timing of when the money is spent during the year in the provinces is critical to the objective of improving service delivery. Three effects of late spending are:

- 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 opportunity cost for the PNG Government and deprive people of access to basic services. Unused funds should be directed to core service delivery.

Delayed Service Delivery

In 2008, we see again around a third of both grant and internal revenue expenditure occurring in the final quarter of the fiscal year. When one considers that the government's accounts close mid-way through December that means that one third of 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 12: The Average Level of Spending in each Quarter[12]



- Spending in the 4th quarter of 2008 was again high.

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 they are there to support and enable.

---

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

Table 13: Percentage of Spending in each Quarter

This table details the percentage of spending that occurred in each quarter from grant and internal revenue by province in 2008 and 2007. See Appendix 10 for a table containing information for the 2005-2008 fiscal years.[13]

		2008 Fiscal Year					2007 Fiscal Year				
Province	Source	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
Central	Grant	5%	13%	30%	**52%**	100%	2%	20%	19%	**60%**	100%
Central	Internal Revenue	7%	26%	37%	29%	100%	20%	16%	21%	**43%**	100%
EHP	Grant	5%	20%	27%	**48%**	100%	6%	13%	25%	**56%**	100%
EHP	Internal Revenue	15%	15%	19%	**51%**	100%	15%	22%	22%	**41%**	100%
ENB	Grant	-7%	**42%**	**46%**	19%	100%	12%	39%	21%	28%	100%
ENB	Internal Revenue	19%	29%	25%	26%	100%	17%	26%	35%	23%	100%
Enga	Grant	28%	**48%**	-8%	31%	100%	5%	35%	12%	**48%**	100%
Enga	Internal Revenue	14%	32%	20%	34%	100%	19%	**43%**	15%	23%	100%
ESP	Grant	5%	13%	**42%**	**40%**	100%	3%	**41%**	21%	**35%**	100%
ESP	Internal Revenue	19%	19%	23%	**40%**	100%	18%	35%	34%	13%	100%
Gulf	Grant	9%	23%	**49%**	19%	100%	8%	32%	11%	**49%**	100%
Gulf	Internal Revenue	17%	23%	21%	**39%**	100%	6%	39%	35%	19%	100%
Madang	Grant	14%	14%	**42%**	30%	100%	19%	25%	24%	32%	100%
Madang	Internal Revenue	27%	13%	24%	**35%**	100%	16%	24%	22%	**37%**	100%
Manus	Grant	23%	**43%**	21%	13%	100%	7%	25%	25%	**44%**	100%
Manus	Internal Revenue	25%	35%	21%	19%	100%	22%	20%	30%	28%	100%
MBP	Grant	19%	17%	11%	**53%**	100%	1%	33%	15%	**51%**	100%
MBP	Internal Revenue	12%	39%	21%	28%	100%	23%	37%	26%	14%	100%
Morobe	Grant	9%	**49%**	27%	14%	100%	12%	24%	26%	**38%**	100%
Morobe	Internal Revenue	21%	23%	23%	33%	100%	21%	30%	28%	21%	100%
NIP	Grant	16%	14%	**50%**	20%	100%	3%	25%	27%	**44%**	100%
NIP	Internal Revenue	29%	22%	26%	24%	100%	17%	37%	11%	34%	100%
Oro	Grant	29%	9%	30%	31%	100%	1%	20%	15%	**64%**	100%
Oro	Internal Revenue	17%	20%	29%	35%	100%	13%	28%	26%	33%	100%
Sand'n	Grant	11%	14%	**42%**	33%	100%	8%	24%	33%	**35%**	100%
Sand'n	Internal Revenue	11%	17%	24%	**47%**	100%	6%	37%	22%	35%	100%
SHP	Grant	12%	**44%**	21%	23%	100%		Data unavailable			
SHP	Internal Revenue	11%	19%	6%	**64%**	100%	24%	35%	15%	25%	100%
Simbu	Grant	13%	26%	24%	**37%**	100%	13%	30%	25%	32%	100%
Simbu	Internal Revenue	30%	32%	18%	19%	100%	**55%**	14%	14%	17%	100%
West'n	Grant	0%	27%	32%	**40%**	100%	1%	16%	**41%**	**42%**	100%
West'n	Internal Revenue	8%	15%	30%	**47%**	100%	12%	30%	24%	34%	100%
WHP	Grant	9%	19%	39%	34%	100%	5%	24%	14%	**57%**	100%
WHP	Internal Revenue	35%	35%	23%	7%	100%	28%	17%	31%	24%	100%
WNB	Grant	19%	35%	20%	26%	100%	12%	33%	22%	33%	100%
WNB	Internal Revenue	13%	20%	30%	**37%**	100%	11%	24%	18%	**47%**	100%
Average of Grants		**12%**	**26%**	**30%**	**31%**	**100%**	**7%**	**27%**	**22%**	**44%**	100%
Average of Internal Revenue		**18%**	**24%**	**23%**	**34%**	**100%**	**19%**	**30%**	**24%**	**28%**	**100%**

[13] In Appendix 10 the significant difference between the average quarterly spending from grants in 2005 and 2006 reflects that from 2006 unused grant funds that were carried forward, by way of raising a cheque to transfer the amount, have been removed from the 2006-2008 expenditure totals. This is a truer representation of actual expenditure.

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 Twin Gaps of Priority and Funding Graph – supporting MTDS priorities
- The Provincial MTDS Priorities Table
- Provincial Expenditure Matrix/scorecard

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

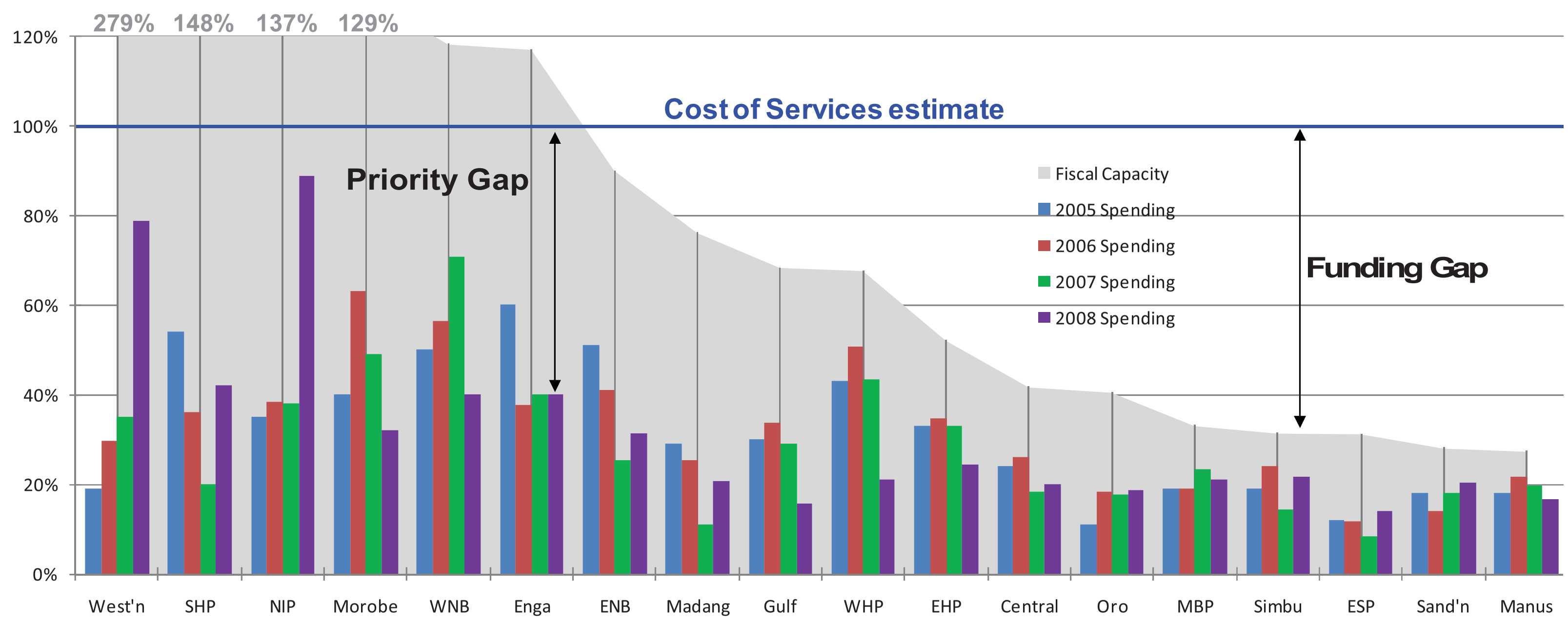
Answering questions about performance

Table / Graph	Helps to answer
The Twin Gaps of *Priority* and *Funding* – Supporting MTDS priorities graph	▪ Which provinces can achieve more by redirecting spending to MTDS priority areas? ▪ Which provinces need more funding?
The MTDS **Priorities** Table	▪ How well is each province supporting the MTDS sectors given its fiscal capacity? ▪ Which sectors are better supported? The provinces are ranked according to their fiscal capacity Results can be viewed; either province by province, or by group, or overall ***Note**: the results have been adjusted to reflect each provinces fiscal capacity (the village court results have not been adjusted)*
The Expenditure Matrix/**Scorecard**	▪ Did we spend more than last year? ▪ Are we adequately supporting MTDS sectors with our available resources? Or can we do better? ▪ Did we spend all of the function grant funding? ▪ Was it spent appropriately on the things that support service delivery?

4.2 The Twin Gaps of Priority and Funding

This graph draws together all provincial spending on MTDS priorities and compares this with the cost of fully funding the MTDS priorities. It 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 gap[14]. The second is a matter of funding, many provinces simply do not have sufficient funding – we call this the funding gap.

Graph 14: Supporting MTDS priorities: 2005 to 2008



14 In practice, provinces may allocate some of the funds they have discretion over to staffing, capital and development costs. This is not reflected in the calculation of fiscal capacity nor the priority gap. The assumption is that all untagged funds can be applied to funding recurrent operational activities.

4.2.1 Comments on the Twin Gaps

- There is a funding gap – which is being addressed by the implementation of RIGFA (Reform of Intergovernmental Financing Arrangements), the new intergovernmental financing system that has redesigned the way PNG's resources are shared.

  The implementation of the GoPNG intergovernmental financing reforms have started the process of addressing this funding gap. The 2009 GoPNG budget provided 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 casual wages and projects) 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.

- We are seeing improvement and change in spending on MTDS sectors. In many cases the gains are small, yet targeting funding to those who need it most is working. We noted:
  - Major increases in Western and New Ireland.
  - Many lower funded provinces have actually increased their recurrent spending on MTDS sectors in Kina terms. This is good. Yet the combined impact of inflation & population growth means that in real terms their performance remains relatively static..
  - Overall declining spending on MTDS sectors by Morobe, West New Britain, East New Britain, Madang, Gulf and Western Highlands.

4.2.2 Comments on the results by funding group

- **Higher funded** provinces all have the ability to do better. No higher funded province ids 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 **routine infrastructure maintenance**.

  Education 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.

  Even education and agriculture need greater funding support to enable staff to provide basic services.

- In **lower funded** provinces the good news is the increased funding being targeted toward health and agriculture. However, there is a major challenge in funding the maintenance of transport infrastructure. 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 [15]

The Provincial MTDS Priorities Table that follows 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.

[15] 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 expedient way to identify the purpose for which that additional funding was used.

Table 15: Provincial MTDS Priorities Table – How well were MTDS Priorities supported given fiscal capacity[16]

Rank by Fiscal Capacity	Province	Average Fiscal Capacity	Health & HIV	Agriculture	Education	Infrastructure	Village Courts Op's	Village Courts Allow's
High Funded Group								
1	Western	279%	Medium (L)	High (M)	High (M)	Low	High	High
2	Southern Highlands	148%	Low	Low	High (L)	Low	Medium (H)	High (M)
3	New Ireland	137%	Low	High	High (M)	Low	High	High
4	Morobe	129%	Low	Low	Medium	Low	High	High
5	West New Britain	118%	Low	High (L)	Low (M)	Low	High	High
6	Enga	117%	Low	Low	Medium (H)	Low	High	High
Medium Funded Group								
7	East New Britain	90%	Low	Low (M)	Low	Low	High	High
8	Madang	76%	Low	Low	Medium (L)	Low	High	High (M)
9	Gulf	68%	Low	Low (H)	Low	Low (M)	Medium (H)	High
10	Western Highlands	68%	Low (M)	Medium (H)	Low	Low (M)	Low (M)	High
11	Eastern Highlands	52%	Medium	High	Medium	Low (M)	High	Medium (H)
Low Funded Group								
12	Central	42%	High (M)	Medium (L)	Medium	Low	High	High
13	Oro	41%	Low	High (L)	High	Low	High	High
14	Milne Bay	33%	Medium (L)	Medium (H)	High	Low (M)	High	High
15	Simbu	31%	Medium (L)	High (L)	High (M)	Medium (L)	High	Medium
16	East Sepik	31%	Medium (L)	High (L)	High (M)	Low	High (M)	High (M)
17	Sandaun	28%	Medium (L)	Medium	High	Medium	High	High
18	Manus	27%	High	Medium (L)	High	Low	High	High

Key	
High	above 80%
Medium	between 40-79%
Low	below 40%

(2007 scores in brackets when different to 2008)

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 <u>have not been adjusted</u>, the VCA grant is assumed to be adequate to meet this cost.

16 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. **Improved Prioritisation** – in 2008 we are seeing a number of provinces spending more on priority sectors. Provinces who have demonstrated better prioritisation in several sectors include; **Western, Central, Simbu and East Sepik**.
2. **Lower funded provinces** show very few low scores – another positive result demonstrated in the 2008 table is the absence of 'low' scores by the lower funded provinces. Admittedly infrastructure maintenance remains a concern, yet that aside, there is only one 'low' score recorded.
3. **Administration** – is not included in the 'scorecard' table but continues to be the <u>no.1</u> priority across all provinces. Spending in this sector needs to be reduced and controlled. Most provinces fund this sector at the expense of providing services to their people.
4. **Education** – remains the <u>no.2</u> priority across most provinces (also no.2 in prior years). Most provinces appear to have bounced back from the poorer spending results in the sector in 2007.

   Western, Southern Highlands and New Ireland all invested very large amounts of recurrent spending in education in 2008.

   The lower funded group of provinces also demonstrated high spending relative to their capacity.

   For the last three years (2006-2008), persistently low spending levels are apparent in East New Britain and Western Highlands.

   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).
5. **Agriculture** – overall continues to be the <u>no.3</u> priority for most provinces.

   Interestingly, three of the higher funded provinces have achieved high scores which would indicate a higher priority has been given to the agriculture sector in these provinces.

   Another positive is the absence of 'low' scores by the lower funded provinces for the first time since monitoring began.
6. **Infrastructure** – spending has fallen again. That said, capital spending was significant and a portion may be recurrent in nature (reflecting the cumulative effect of poor recurrent maintenance). Spending on infrastructure maintenance has fallen to no.5, dropping from no.4 in prior years.

   We know, infrastructure maintenance is expensive and requires greater levels of funding. If left unchecked, very expensive rehabilitation costs will continue to amass.
7. **Health** – has improved a little. The small rise in health spending combined with the decline in infrastructure spending has seen health move up to no.4 (up from their traditional no.5 last place)

   The increased spending in 2008 is due mainly to the increase in the level of the National Government's health service delivery function grant as well as a small rise in the amount spent from internal revenue.

   The sharp increase in recurrent spending under the Health Support Improvement Programme (HSIP) – a donor initiative – is also a significant infusion of funds in 2008.

Primary and preventative health care in the rural areas is identified as a priority and a fundamental requirement in the MTDS but spending levels in higher and medium funded provinces clearly do not reflect this. Basic health services are not being delivered to most people in the country. This will not change without a dramatic increase in health spending.

8. **Village Courts** – spending in the village courts sector was split into two grants in 2007 with one for allowances and the other for operational requirements. This separation should help ensure funding is appropriately targeted.

   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 are believed to be adequate to meet the sectors basic needs.

   Whilst spending on **allowances** was strong, we can see that spending in Eastern Highlands and Simbu is lower than what is estimated necessary.

   Spending on **operational costs** was low in Western Highlands in particular, but also Southern Highlands and Gulf. This can be readily addressed by spending the function grant on the purpose intended.

4.4 The Provincial Expenditure Matrix

The matrix that follows summarises the findings of our analysis. We need to remember that these are fiscal indicators only and they do not provide assurance as to the quality of the expenditure. What we do know however, is that if we aren't spending in the right areas then basic service delivery activities cannot happen effectively.

Table 16: Table of Key Fiscal Performance Indicators

#	Key Performance Indicator	Description	KPI Measure	Why is this important?
CROSS-SECTORAL FISCAL INDICATORS				
1	**Timing of 4th Quarter Exp:** (National Government Grants)	Indicates whether a province is spending its funds in a timely manner.	Good: Less than 25% Average: between 25 and 33% Not Good: Above 33%	Most national grant funding is targeted at basic service delivery costs and needs to be spent throughout the year to support basic service delivery activities. Experience shows that high spending in the final quarter is less likely to support basic service delivery activities.
2	**Timing of 4th Quarter Exp:** (Internal Revenue)	Indicates whether a province is spending its funds in a timely manner.	Good: Less than 25% Average: between 25 and 33% Not Good: Above 33%	Timely expenditure supports basic service delivery activities. Experience shows that high spending in the final quarter is less likely to support basic service delivery activities.
3	**Internal revenue expenditure %** (on recurrent G&S in MTDS sectors)	Indicates the level of prioritisation that the province is giving MTDS sectors from funds over which it has budget discretion.	High: Above 20% Medium: between 10% and 20% Low: Below 10%	Provinces will not be able to provide basic services by using national grant funding alone, grant funding needs to be supplemented with expenditure from internal revenue.
4	**Sectoral Equity** (across 4 larger MTDS sectors)	Indicates whether the four larger MTDS sectors are receiving a similar amount of funding according to what they need to provide basic services and according to what a province can afford.	Tick: standard deviation below 0.25 Cross: standard deviation above 0.25 (MTDS sectors included in this measure are: agriculture, education, health and infrastructure)	All major sectors need an appropriate level of funding – this indicator helps us to see whether some sectors are receiving more than others subject to what they need.
	MTDS sector prioritised	This indicates which MTDS sector achieved the highest spending level.	This is for information only. No score is awarded.	

Continued.....

#	Key Performance Indicator	Description	KPI Measure	Why is this important?
SECTORAL SPECIFIC FISCAL INDICATORS				
5	**Spending Trend** (both Grant and Internal revenue spending)	Indicates how a provinces' spending on recurrent goods and services changed between 2007 and 2008.	Up: 15% (or greater) <u>increase</u> on 2007 Steady: in between +/- 15% Down: 15% (or greater) <u>decrease</u> on 2007	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.
6	**Spending Level Performance** (both Grant and Internal revenue spending)	Indicates how much a province is spending on the sector relative to NEFC cost estimates. The calculation takes into account a provinces 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.
6	**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 10% indicates poor use of resources.
7	**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.
8	**Salaries and Wages %** (Health Function Grant spending only)	Spending on Salaries and Wages is <u>not intended</u> or permitted 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 17: The Provincial Expenditure Matrix

FISCAL INDICATORS

How well are we managing our resources - with the objective of improving front-line service delivery?

Province	Fiscal Capacity	RANK by SCORE	RAW SCORE	CROSS-SECTORAL: Timing: % Nat Grant spending in 4th Quarter	CROSS-SECTORAL: Timing: % Int Rev spending in 4th Quarter	CROSS-SECTORAL: Internal revenue spending: % on MTDS	CROSS-SECTORAL: Equity across four large MTDS sectors	CROSS-SECTORAL: MTDS sector prioritised	HEALTH: Spending Trend	HEALTH: Spending Perf Level	HEALTH: FG Unspent %	HEALTH: FG Exp Nature Test	HEALTH: No Salaries Test
Sandaun	17	1	120	33%	47%	36%	✔		Up	Medium	1%	Good	OK
Manus	18	2	114	13%	19%	18%	✔		Up	High	3%	Good	OK
Simbu	15	3	114	37%	19%	19%	✔		Up	Medium	0%	Good	Fail
Milne Bay	14	4	110	53%	28%	57%	✔		Up	Medium	5%	Good	OK
Central	12	5	104	52%	29%	34%	✔		Up	High	10%	Good	OK
New Ireland	3	6	101	20%	24%	25%	✘	Education	Up	Low	14%	Good	OK
Western	1	7	98	40%	47%	24%	✘	Education	Up	Medium	36%	Good	OK
East Sepik	16	8	86	40%	40%	10%	✔		Up	Medium	6%	Good	Fail
Eastern Highlands	11	9	85	48%	51%	21%	✔		Up	Medium	11%	Good	Fail
Oro	13	10	83	31%	35%	0%	✔		Up	Low	0%	Average	Fail
East New Britain	7	11	82	19%	26%	17%	✔		Up	Low	14%	Good	OK
Morobe	4	12	82	14%	33%	16%	✔		Down	Low	34%	Good	OK
Southern Highlands	2	13	76	23%	64%	5%	✘	Education	Up	Low	0%	Good	Fail
West New Britain	5	14	73	26%	37%	9%	✘	Agriculture	Up	Low	3%	Good	OK
Madang	8	15	72	30%	35%	9%	✔		Up	Low	5%	Good	OK
Enga	6	16	70	31%	34%	21%	✘	Education	Steady	Low	20%	Good	OK
Western Highlands	10	17	60	34%	7%	0%	✔		Down	Low	5%	Average	Fail
Gulf	9	18	56	19%	39%	3%	✔		Up	Low	23%	Average	OK
	possible score passmark		146 92	31% average	34% average	18% average					11% average		
									KEY				
	Indicates a good level has been achieved			under 25%	under 25%	above 20%	✔		+15%	above 80%	under 5%	Good	under 5%
	Indicates improvement **can** be made			in between	in between	in between			in between	in between	above 5%	Average	
	Indicates improvement **needs to be** made			above 33%	above 33%	below 10%	✘	Prioritised sector	-15%	below 40%	above 10%	Not Good	over 5%

Province	EDUCATION: Spending Trend	EDUCATION: Spending Perf Level	EDUCATION: FG Unspent %	EDUCATION: FG Exp Nature Test	INFRASTRUCTURE MAINTENANCE: Spending Trend	INFRASTRUCTURE MAINTENANCE: Spending Perf Level	INFRASTRUCTURE MAINTENANCE: FG Unspent %	INFRASTRUCTURE MAINTENANCE: FG Exp Nature Test	AGRICULTURE: Spending Trend	AGRICULTURE: Spending Perf Level	Village Court - Allowances: Spending Perf Level	Village Court - Allowances: FG Unspent %	Village Court - Allowances: FG Exp Nature Test	Village Court - Operational Costs: Spending Perf Level	Village Court - Operational Costs: FG Unspent %	Village Court - Operational Costs: FG Exp Nature Test
Sandaun	Up	High	0%	Good	Steady	Medium	1%	Good	Up	Medium	High	0%	Good	High	3%	Good
Manus	Steady	High	1%	Good	Down	Low	0%	Not Good	Up	Medium	High	3%	Good	High	5%	Good
Simbu	Steady	High	4%	Average	Up	Medium	0%	Good	Up	High	Medium	0%	Good	High	2%	Good
Milne Bay	Up	High	2%	Good	Up	Low	40%	Good	Down	Medium	High	4%	Good	High	0%	Good
Central	Steady	Medium	0%	Good	Up	Low	18%	Average	Up	Medium	High	0%	Good	High	1%	Good
New Ireland	Up	High	0%	Good	Up	Low	75%	Not Good	Steady	High	High	1%	Good	High	0%	Good
Western	Up	High	4%	Good	Up	Low	43%	Average	Up	High	High	0%	Good	High	0%	Good
East Sepik	Up	High	4%	Average	Steady	Low	17%	Not Good	Up	High	High	7%	Average	High	5%	Good
Eastern Highlands	Up	Medium	15%	Not Good	Down	Low	12%	Good	Steady	High	Medium	0%	Good	High	2%	Good
Oro	Steady	High	0%	Average	Down	Low	0%	Not Good	Up	High	High	0%	Good	High	0%	Average
East New Britain	Steady	Low	0%	Good	Down	Low	0%	Good	Down	Low	High	4%	Good	High	21%	Good
Morobe	Up	Medium	20%	Good	Steady	Low	1%	Average	Down	Low	High	15%	Good	High	34%	Good
Southern Highlands	Up	High	16%	Average	Up	Low	0%	Not Good	Up	Low	High	0%	Good	Medium	0%	Not Good
West New Britain	Down	Low	2%	Good	Down	Low	1%	Good	Up	High	High	0%	Good	High	0%	Good
Madang	Up	Medium	7%	Average	Down	Low	31%	Not Good	Up	Low	High	0%	Good	High	13%	Average
Enga	Down	Medium	16%	Average	Down	Low	5%	Good	Steady	Low	High	1%	Good	High	51%	Good
Western Highlands	Steady	Low	17%	Average	Down	Low	0%	Average	Down	Medium	High	0%	Good	Low	0%	Not Good
Gulf	Down	Low	59%	Average	Down	Low	63%	Average	Down	Low	High	4%	Good	Medium	56%	Average
			9% average				17% average					2% average			11% average	

4.4.1 Summary Findings – of the Provincial Expenditure Matrix

The Provincial Expenditure Matrix allows us to easily review the findings of the PER by province and sector. When reading the matrix, remember that provinces are ordered by their performance not by their fiscal capacity.

Overall – Across Function Grants (and Village Court Allowances)

		Health	Education	Infrastructure maintenance	Village Court Allowances	Village Court Function Grant
Average Unspent	**2008**	**11%**	**9%**	**17%**	**2%**	**11%**
	2007	30%	29%	31%	6%	17%
	2006	11%	8%	16%		introduced 2007
	2005	10%	9%	18%		introduced 2007
Average Nature Test	**2008**	**Good**	**Average**	**Average**	**Good**	**Good**
	2007	Average	Average	Average	Good	Average
	2006	Average	Good	Average		introduced 2007
	2005	Average	Average	Average		introduced 2007
No Salaries Test	**2008**	**6**				
	2007	4	*number of provinces who **fail** test*			
	2006	11				
	2005	10				

- Overall, we can see that in 2008 the amount of unused function grant funding returned to 2005-6 levels. This is a positive result. The high levels of under-spending in 2007 appears to be an exception rather than an emerging pattern.

  Why could this have happened? 2007 was an election year, is it possible that many public servants were distracted from their primary role of supporting the delivery of services to their people?

- Overall spending of the function grants in <u>health</u>, <u>education</u> and <u>infrastructure maintenance</u> generally appeared in keeping with intention of grants with some areas that were questionable or uncertain.

  An improvement was apparent in the use of the health and village courts function grants. More provinces are spending in keeping with intention of grants in these sectors than previously. This is also a positive result.

- Education spending from function grants was previously rated 'good' (in 2006), in 2008 it is 'average'.

- The number of provinces spending the health function grant on casual wages has stayed at the significantly reduced 2007 level. This is another positive result. The number has reduced from 11 to 6 – 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	**2008**	**Medium**	**Medium**	**Low**	**Medium**	**High**	**High**
	2007	Low	Medium	Low	Medium	High	High
	2006	Low	Medium	Low	Medium	High	introduced 2007
	2005	Low	High	Medium	Medium	High	n/a
Spending Trend	**2007/8**	**Up**	**Up**	**Steady**	**Up**	**Up**	**Down**
	2006/7	Steady	Steady	Steady	Steady	Down	n/a
	2005/6	Steady	Steady	Steady	Steady	Up	n/a

- **Education**: Whilst spending is relatively steady, spending levels have decreased since 2005 and provinces now on average rate 'medium' relative to their ability to spend. Nevertheless, amongst the three large service sectors education fares the best.

  On an individual provincial level, some provinces clearly prioritise education very highly.

- **Agriculture**: Spending in agriculture rates 'medium' and remains steady, this however does mask some volatility within individual provinces.

- **Infrastructure maintenance**: Whilst spending is relatively steady, spending levels have decreased since 2005 and provinces now on average rate 'low' relative to their ability to spend.

  Given the high cost of maintaining transport infrastructure and the enormous cost of rehabilitation, if routine maintenance does not take place the implications of this trend are alarming.

- **Health**: There is a trend of generally low spending relative to the provinces ability to spend in health which is very concerning. That said, overall we have seen a small improvement.

- **Village Courts**: Overall village courts continues to be the best performing sector against our KPI's with both Village Court grants achieving high scores, although this is largely due to the high level of funding this area attracts relative to their requirements.

The Best

- Lower funded provinces continued to outperform all medium and some higher funded provinces.
- Some higher funded provinces have demonstrated a significant improvement in 2008. This is a pleasing result.
- Strong progress has been made in funding casual wages from internal revenue and not the health function grant, and this was sustained in 2008.

The Worst

- In a number of cases, higher and medium funded provinces where 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 – again this should not be the case.
- After four years of monitoring we are seeing some provinces display entrenched habits of poor practice. For instance, persistent under-spending or persistently high spending in quarter four.
- There continue to be low spending levels in transport infrastructure maintenance. Service delivery in this vital area relies on higher funding levels, and the implications of not doing so are dire.
- 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)

Minimum priority activities (MPAs) in Education

1. *Provision of school materials*
2. *Supervision by district and provincial officers*
3. *Operation of district education offices*

All education activities are important, but these activities are so critical they deserve particular attention.

29% is too low: how can we adequately educate our children when spending in 12 provinces averages only 29% of what is required?

Trends: why do some provinces show a trend of declining spending on education?

Teacher Leave Fares

continue to rise from K13m in 2005 to K18m in 2008. How can we control this?

90% of enrolled students are at primary or elementary level – yet in many provinces spending continues to favour 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, with the 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 learn to read and write and improve their life opportunities.

5.2 Minimum Priority Activities in Education

The provision of an effective education service across the country relies on a variety of inputs. The three MPAs selected by the education sector are so critical that they must be supported with operational funding (recurrent goods & services).

- **Provision of school materials**: For individual schools to function they need to receive an annual supply of basic materials for each class and each student.

  These costs may include; items such as chalk and writing materials, dusters, exercise books and pens and pencils.

  Note 1: Some of these costs may be <u>partly</u> subsidised by other revenue available to the school (such as school fees).

  Note 2: In this context the term *school supplies* does not describe the procurement of text books and other curriculum materials. These are normally funded by the Department of Education in the first instance.

- **Supervision by district and provincial officers**: Provincial and district based staff are required to visit schools on a regular basis for matters relating to inspections and standards. Schools are scattered across every province and for the most part they operate in a highly independent manner. This makes supervisory visits by provincial and district staff a critical monitoring and accountability mechanism through which Government can ensure an acceptable and professional level of education is being delivered across our country.

  Costs may include; travel allowance and accommodation (for overnight visits), fuel (for both vehicles and boats), and in some instances vehicle/boat hire costs.

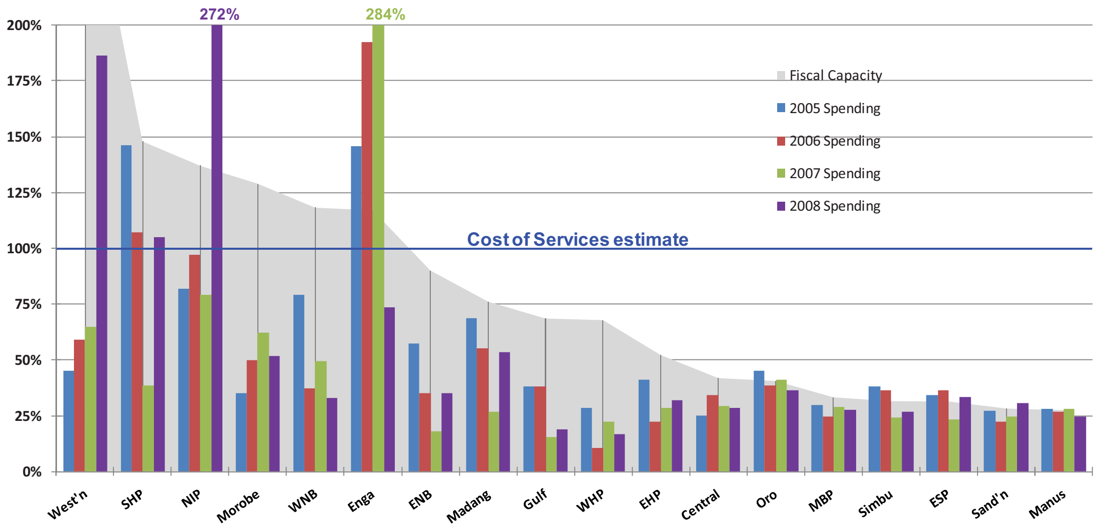
- **Operation of district education offices**: Staff based at a District education office require an amount of operational funding to enable them to carry out their administrative activities.

  Such costs may include; utilities, stationery, office equipment on-costs and payroll management related costs.

5.3 Against the Benchmark: the 2005 to 2008 trend

The following graph illustrates the 2005 to 2008 performance trend of each province – comparing expenditure against 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. Of the 18 provinces 15 continue to fall below (most well below) the minimum expenditure required to deliver a basic education service (blue line).

Graph 18: Education Spending Performance: 2005 to 2008



5.3.1 Performance Overview

- How can we adequately educate our children when spending in 12 provinces averages just 29% of what is necessary to deliver the minimum level of service? (30% in 2006, 26% in 2007)
- Overall, however, education remains the best supported MTDS sector by provinces. The overall average is 59% (in 2005 it was 55%), yet this should be interpreted carefully, a few high spending provinces markedly inflate the overall average.
- New Ireland and Western have become the big spenders in education in 2008 taking over from Enga. Southern Highlands also maintain their strong spending support in the sector.
- Spending by Enga significantly decreased in 2008 after three years of high spending.
- The six provinces with the lowest fiscal capacity have performed well. They show education is a priority relative to their ability.
- Some provinces appear to have much room to improve, these include Morobe, both East and West New Britain, Gulf and Western Highlands.
- Some 90% of enrolled students are at primary or elementary level – yet in many provinces spending favours secondary education.

The education data table provides a snapshot of education expenditure data for the period 2005 to 2008 together with key fiscal indicators. 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:

5.3.2 Spending between 2005 and 2008

- Spending on education by higher funded provinces remains strong – with Western and New Ireland having increased their spending markedly. Enga has reduced its spending but along with Southern Highlands and to a lesser degree Morobe still show significant support for the education sector. Of the higher funded provinces West New Britain lags behind.
- Four of the five medium funded provinces have increased their spending in 2008 after a poor year in 2007. Madang shows the greatest improvement whilst East New Britain appears to be able to do much better. Spending in Western Highlands declined.
- Lower funded provinces continue to spend more on education – this is progress. Three provinces have increased their spending by more than 15% (Simbu, East Sepik and Sandaun), whilst the other four provinces remained steady.

5.3.3 Spending from Internal Revenue

- Education spending from internal revenue continues to be highly significant (K26.7 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, East New Britain and Madang.

5.3.4 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 still the most disappointing with three of the five recording low spending levels relative to their fiscal capacity.
- Three higher funded provinces (Western, Southern Highlands and New Ireland) recorded a high spending level in 2008.
- Low scorers in 2008 are: East and West New Britain, Gulf and Western Highlands.

5.4 Education Data Table

Education Sector 2005 to 2008 (recurrent spending)

	Province	Cost of Services	2005 Exp	2006 Exp	2007 Exp	2008 Exp	% change v average	Spending Trend	2008 Internal Revenue Exp	ECBP recurrent exp	BEDP mtce grants	Spending level achieved v CoS		% FG unspent	FG exp nature
			(Kina millions)						% of total exp	2008	2008	2007	2008	2008	
Higher funded	West'n	5.044	1.774	2.496	2.877	9.405	295%	Up	93%	-	0.045	Medium	High	36%	Good
	SHP	6.163	6.837	5.366	2.038	6.486	37%	Up	47%	-	-	Low	High	0%	Good
	NIP	2.681	1.747	2.190	1.863	6.568	240%	Up	59%	0.088	0.132	Medium	High	14%	Good
	Morobe	8.001	2.242	3.355	4.353	3.875	17%	Up	62%	0.178	0.127	Medium	Medium	34%	Good
	WNB	4.252	2.643	1.313	1.844	1.398	-28%	Down	16%	0.150	0.071	Medium	Low	3%	Good
	Enga	3.787	4.435	4.198	7.913	2.794	-50%	Down	86%	0.107	0.051	High	Medium	20%	Good
Medium funded	ENB	4.745	2.219	1.429	0.769	1.664	14%	Steady	24%	0.393	0.244	Low	Low	14%	Good
	Madang	3.615	1.974	1.668	0.845	1.934	30%	Up	25%	0.115	0.266	Low	Medium	5%	Good
	Gulf	2.323	0.693	0.737	0.307	0.435	-25%	Down	-	-	0.035	Low	Low	23%	Average
	WHP	6.451	1.475	0.576	1.282	1.088	-3%	Steady	-	0.406	0.682	Low	Low	5%	Average
	EHP	5.858	1.940	1.097	1.471	1.876	25%	Up	7%	0.244	0.258	Medium	Medium	11%	Good
Lower funded	Central	4.511	0.928	1.314	1.176	1.285	13%	Steady	14%	0.157	0.643	High	Medium	10%	Good
	Oro	2.176	0.788	0.708	0.790	0.790	4%	Steady	-	0.052	0.082	High	High	0%	Good
	MBP	4.605	1.132	0.964	1.183	1.275	17%	Up	22%	0.220	1.049	Medium	High	5%	Good
	Simbu	4.426	1.363	1.355	0.938	1.178	-4%	Steady	-	0.163	0.125	High	High	0%	Good
	ESP	4.806	1.328	1.482	0.985	1.605	27%	Up	1%	0.199	0.408	High	High	6%	Good
	Sand'n	4.389	0.963	0.839	0.955	1.343	47%	Up	29%	0.118	0.177	Medium	High	1%	Good
	Manus	1.775	0.400	0.401	0.439	0.436	6%	Steady	11%	0.151	0.130	High	High	3%	Good
	All Provinces	79.611	**34.877**	**31.488**	**32.028**	**45.437** (a)	39%	Up	**26.721**	**2.741** (b)	**4.525** (c)				

The highest spending year in Kina

Key

Spending Trend	2008 Internal Revenue Exp	ECBP recurrent exp	BEDP mtce grants	Spending level achieved v CoS	% FG unspent	FG exp nature
above 15%	above 25%	above K0.35m	above K0.35m	above 80%	below 5%	Good
in-betw een	in-betw een			in-betw een	in-betw een	Average
below -15%	below 10%			below 40%	above 10%	Not Good

(a) Includes grant & internal revenue expenditure. ECBP & BEDP goods & services expenditure is **not included** in this total

(b) ECBP is an AusAID project that contributes some goods & services expenditure to provinces

(c) BEDP is an AusAID project that contributes maintenance grants to schools (goods & services expenditure)

NB: spending level results have been adjusted to reflect fiscal capacity

5.4.1 How did we spend?

The tables that follow show us how education monies were spent.

Table 19: Analysis of all Education Spending in 2008[17]

The 5 Largest Spending Areas (by item)

Item #	Item Description	Amount	%
143/4	Grants and Transfers	24,202,314	29%
114	Teachers leave fares	18,655,354	23%
135	Other Operational Expenses	16,107,112	19%
225	Construction, Renovation....	7,498,682	9%
223	Feasibility Studies, Project P	4,000,672	5%
	all other codes	12,173,071	15%
	Total spending from recurrent & capital	**82,637,205**	**100%**

The Split by Category

Category Description	Amount	%
Recurrent Goods & Services	45,436,523	55%
Personnel Emoluments	19,429,667	24%
Capital & Projects	17,771,016	22%
Total spending from recurrent & capital	**82,637,205**	**100%**

The table above shows us that:

- Transfers have become the single largest expenditure item. The transfers generally represent provinces transferring funds to schools or in some cases tertiary institutes (although we have removed large amounts of tertiary spending when identified). Transfers total 29%.

- Teachers leave fares continues to receive high funding – 23% of all spending goes on teachers leave fares. In addition, our analysis over the four years has shown instances of provinces paying teacher leave fares from other codes (such as other operational expenses) – if this occurred in 2008 this would make the 23% even higher. As a percentage of total expenditure on education teacher leave fares has reduced, however in Kina terms it has increased between 2007 and 2008.

- 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

- 55% of spending was on recurrent goods & services (53% in 2007) – the other 45% was split between teachers leave fares and capital costs.

[17] 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, tertiary costs that could be clearly identified, and not teachers salaries.

5.5 Drilling down: Teacher Leave Fares

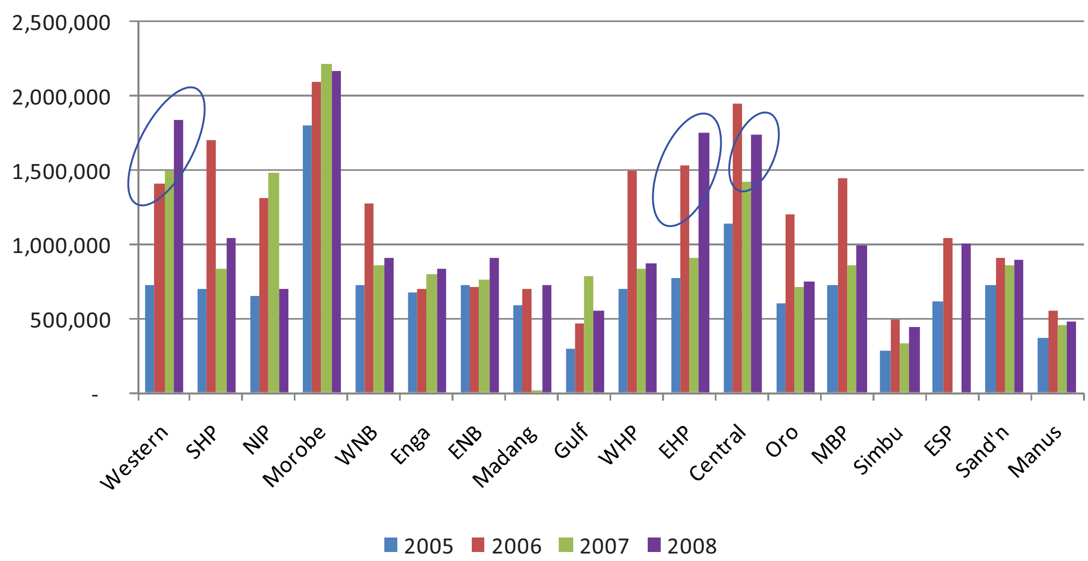
5.5.1 Overview

For the third year in a row we continue our focus on teacher leave fares. We know that teacher leave fares is one of the single biggest spending areas in education – it deserves our attention and strong management.

Each year the National Government provides grant funding to provinces to meet the cost of teacher leave fares. Provinces are expected to manage this amount and ensure that teachers within their province receive the correct entitlement. Spending in 2008 continues the trend of increasing spending levels on teacher leave fares.

In 2006, the National Government allocated an increased allocation of funding to enable select provinces to meet outstanding leave entitlements.

Graph 20: Teacher Leave Fares – Comparing expenditure 2005 to 2008



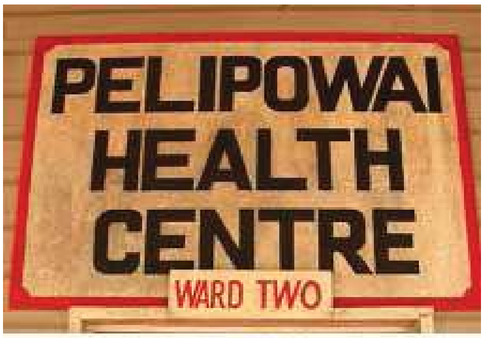
5.5.2 Spending between 2005 and 2008

- Overall spending levels have moved from K13m...K21m...K15.6m...K18.6m between 2005 and 2008. So we can see that while 2006 was unique due to the increased funding for arrears, the overall trend is one of increasing spending on TLFs.
- Six provinces appear to continue to spend significantly more than they did in 2005. These provinces are: Western, Eastern Highlands, Gulf, East Sepik, Central and Simbu.
- Two provinces, Western and Morobe, continue to make significant teacher leave fare payments from their internal revenue.
- Four provinces appear to spend a lot on teacher leave fares relative to the number of teachers in the province. These provinces are: Gulf, Oro, Central and New Ireland.

6 Health and HIV AIDS focus

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

(MTDS 2005 - 2010)



Minimum priority activities (MPAs) in Health

1. ***Operation of rural health facilities***
2. ***Integrated health outreach patrols***
3. ***Drug distribution***

All health activities are important, but these activities are so critical they deserve particular attention.

25% Provinces only spend 25% of what they need to on rural health services (21% in 2007)

K9.7m on casual wages is still significant

K5m increase – spending improved a little over 2007

K14.8m spending via HSIP is almost as large as spending from Provincial funds

6.1 Health in the Provinces[18]

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.[19] 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 outreach 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 Minimum Priority Activities in Rural Health

The provision of rural health services across our country relies on a variety of inputs. The three MPAs selected by the health sector are so critical they are not negotiable.

These include funding the health facilities scattered across the country that provide a base for our health professionals and a place for us as patients to attend when in need. It also includes funding the outreach patrols that move from village to village and proactively attend to the health needs of all Papua New Guineans in their own locality. And finally even the best of care by trained professionals is rendered ineffective without the basic drugs and medical supplies which is why funding for the distribution of drugs and medical supplies was selected.

- **Operation of rural health facilities**: *Keeping the doors open* has become something of a catch-cry in the health sector. It seems eminently sensible that providing a rural health service cannot take place if the doors to our rural health facilities are closed. To stay open they need a basic level of operational funding without which they simply cannot function.

  Costs may include; diesel for vehicles and zoom for boats, non-medical supplies such as cleaning products, basic building maintenance costs.

  Note: Some costs may be met from other revenue streams such as HSIP. These may include; the maintenance of medical equipment and radios.

- **Integrated rural health outreach patrols**: At the heart of our country's health service are outreach patrols. These patrols move from village to village, both day-patrols and overnight patrols, with trained medical personnel from the facility taking their skills and medical resources to the people they serve. Yet these patrols can only happen if facilities have the money to pay for the operational costs involved.

  Costs may include; travel allowance and accommodation (for overnight visits), carriers (to carry medical supplies), fuel (for both vehicles and boats), and in some instances vehicle/boat hire costs. In some instances airfares may also be incurred to get health personnel to remote locations.

---

[18] Reference to health in this chapter includes costs and expenditure related specifically to HIV AIDS.

[19] There are provinces meeting costs, sometimes considerable amounts, relating to community health workers.

- **Drug distribution**: Provinces are tasked with the responsibility to get the medical supplies from the provincial headquarters to the numerous health facilities spread across their province. Ask yourself this question – what can a doctor or a nurse do if they don't have ready access to basic medical supplies? The answer is truly frightening and life threatening for the 85% of our people who are rurally based. And yet many facilities across PNG do not have regular access to basic medical supplies. This is why 'drug distribution' was selected as an MPA.

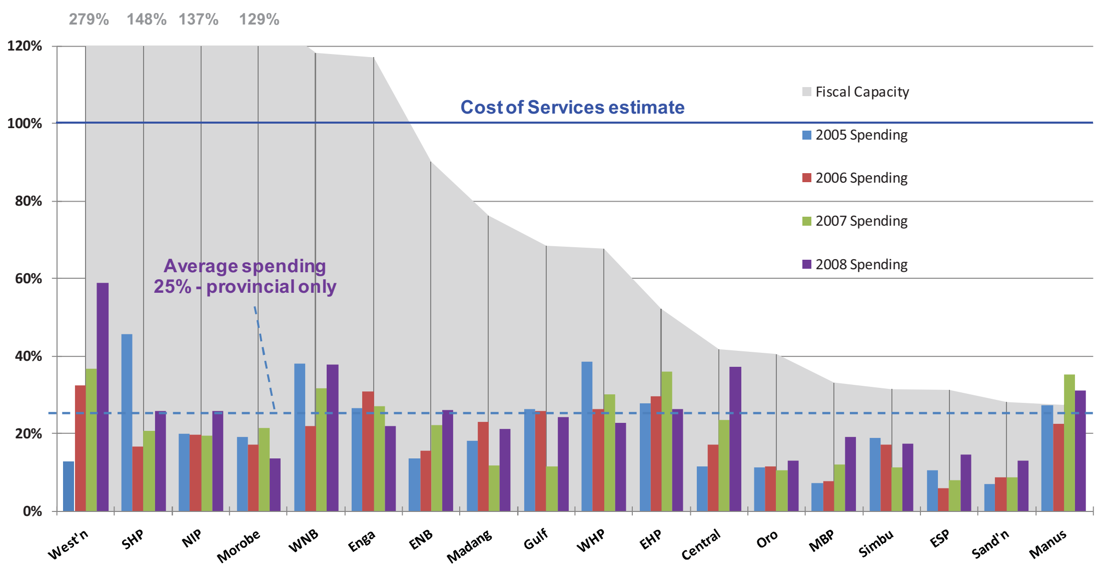
  Costs: The exact nature of the costs involved will vary depending on how the province chooses to distribute the medical supplies. If provincial staff distribute the supplies the costs may include; travel allowance and accommodation, carriers (to carry medical supplies), fuel (for both vehicles and boats), and in some instances vehicle/boat hire costs. In some instances airfreight charges may also be incurred to get the supplies to remote locations. If however the job is outsourced out to a contractor, the costs will be according to the contractual arrangement.

6.3 Against the Benchmark: the 2005 to 2008 trend

The following graph illustrates the 2005 to 2008 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 21: Health province-only Spending Performance: 2005 to 2008



6.3.1 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 is helping to support an increase in health spending by 33%.

- However provinces only spent on average 25% of the actual costs required – up from 21% in 2007. So relative to what is required, the level of progress is small. This small improvement is driven by the increase in the National Government function grant and a positive increase from internal revenue which moved from K4m to K6m.
- Western Province spent 59% of what is necessary to deliver a basic health service and is again the 'best' performing province in terms of the amount spent in the sector.
- Provinces spent K9.7m on casual wages. If these are necessary staff, the wage cost should be funded under the national payroll and by doing so this would free provincial resources to more adequately support the goods and services that allow health personnel to do their jobs.
- HSIP spending in health has increased significantly. Spending doubled, rising to K14.8m from K7m in 2007. This funding significantly assists those provinces that access it (refer to section 6.3.5).

The health data table provides a snapshot of health expenditure data for the period 2005 to 2008 together with key fiscal indicators. 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:

6.3.2 Spending between 2005 and 2008

Overall, the spending trend in health between 2005 and 2008 was relatively steady. The very low levels of health spending in 2005-7 continued in 2008 which is very concerning. That said, the increase in the 2008 health function grant combined with a great contribution from internal revenue in some provinces did see an increase in overall spending on health. However, four provinces registered decreases in their spending levels – Morobe, Gulf, Western Highlands and Eastern Highlands.

The low funded group of provinces continue to outperform both the high and medium funded groups relative to their capacity.

6.3.3 Spending from Internal Revenue

- Health spending from internal revenue was K6.1 million (33% of all health goods and service spending). This is an increase of K1.8m on the 2007 amount.
- While spending levels in health are low, internal revenue contributed significantly in 5 provinces, with the higher amounts spent by those with the greater ability.

6.3.4 Spending in comparison to fiscal capacity

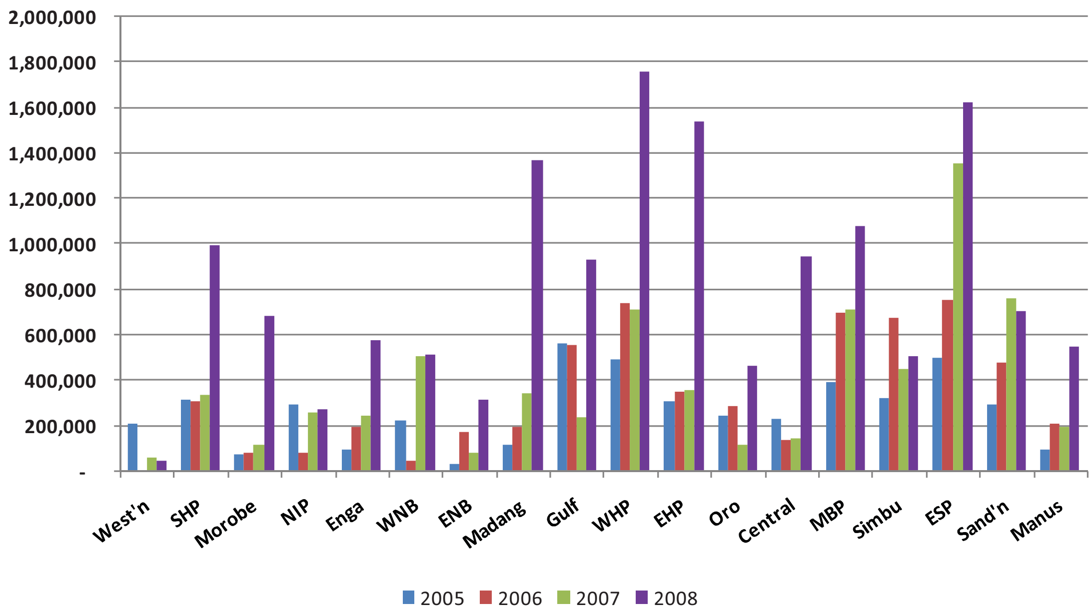
- As in previous years, health remains the <u>worst</u> supported MTDS sector.
- This is supported by the preliminary findings of a district case study that reveals health facilities in one province rely almost solely on user fees as their source of operational funding. The implications of this are chilling: 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 9 highest funded provinces continue to show a poor commitment to health – with all bar one achieving <u>low</u> when compared to their capacity. Western Province was the exception and they recorded a score of 'medium'.

- When we adjust for the differences in fiscal capacity, most high and medium funded provinces maintained their poor 2006 performance levels. What was pleasing is the improvement in the low funded group, with all except Oro improving and scoring either medium or high.

6.3.5 Health Services Improvement Program (HSIP) Funding

The increase in recurrent health spending through the HSIP facility is an emerging story of our analysis in 2008. HSIP spending has moved from K4.7m in 2005 to K14.8m in 2008. This represents a massive increase in both kina and percentage terms. To put this in context, recurrent HSIP spending on health is K14.8m and this compares to all recurrent spending by Provincial Administrations of K18.1m. We can see spending through the HSIP facility is close to reaching a similar level as all Provincial spending from grants and internal revenue.

Graph 22: Health HSIP Spending: 2005 to 2008



- Between 2005 and 2008 HSIP spending has gone from K4.8m...K6m...K7m...**K14.8m**
- We see a massive increase in HSIP spending in 12 provinces
- 8 provinces spent almost K1m or more, being; Southern Highlands, Madang, Gulf, Western Highlands, Eastern Highlands, Central, Milne Bay and East Sepik.
- Western continues to access almost no HSIP funds – why is this?
- New Ireland and East New Britain use relatively little HSIP funds despite allocating low levels of grant and internal revenue to health – why is this?

The scale of the increased spending through the HSIP facility between 2007 and 2008 is a movement of such magnitude and potential importance that it deserves explanation. From our discussions with NDoH we understand that the HSIP facility is increasingly being viewed as a useful mechanism through which donors (and some GoPNG funds) can channel funding for recurrent health activities.

The table that follows shows the funds received by provinces via the HSIP facility in 2008. We are advised that it is not possible to discretely identify how these funds are then spent. But for the purposes of this high-level exercise, without evidence to the contrary, it may be reasonable to assume that the funds that were expended were spent on the purposes intended.

Funds received by provinces in 2008 via the HSIP facility

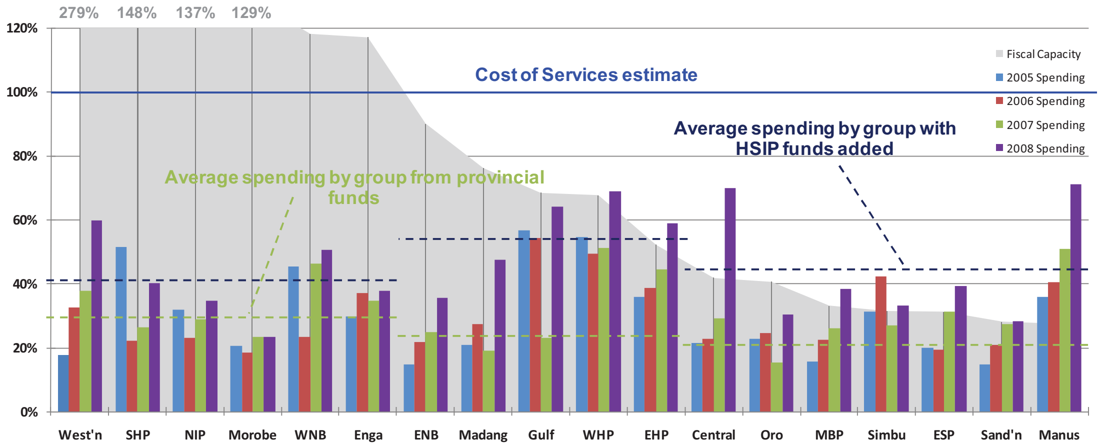
	Provinces
Receipts	*Kina*
Asian Development Bank	-
AUSAID - HSIP Operational	10,909,989
AUSAID - Others	1,785,373
Global Funds - Malaria	2,494,678
Global Funds - HIV/AIDS	-
Government of Papua New Guinea	2,580,091
NZ AID	267,180
UNICEF	2,474,005
UNFPA	50,000
Interest Received	-
Others	1,033,329
Total Receipts	**21,594,645**

We can see that:

- About half of the funds received were what we might call *traditional HSIP funds*. These funds are available to be used by provinces on a relatively broad range of recurrent health activities.
- 12% is from the Global Fund and mainly used for the procurement and distribution of bed nets to combat malaria.

One of the more relevant questions is whether it is appropriate to compare this expenditure against the cost of services study benchmark. By doing so are we comparing apples with apples? The answer is a cautious yes. We think it is appropriate to paint a picture that includes this spending against the cost of services study benchmark. Whilst it may not be a perfect comparison, nevertheless, we need to paint as comprehensive a picture as possible of the funding that each province is accessing and using for the provision of health services.

Graph 23: The impact on Health spending of HSIP funding: 2005 to 2008



The graph above adds provincial spending from grants and internal revenue together with recurrent spending through the HSIP facility 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 concerning, with the best performing province (Manus) spending 71% of what we conservatively estimate is required to deliver a minimum service even with HSIP funding.

- As a group, higher funded provinces continue to do poorly and are outperformed by low funded provinces. They do not allocate anywhere near enough from their grant and internal revenue resources, nor do they access HSIP funding which results in their overall performance being very poor. Western Province is the exception, although they accessed almost no HSIP funding.

  Averages: with HSIP 41%, without HSIP 31%

- 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.**

  Averages: with HSIP 55%, without HSIP 24%

- 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 continues to be greater than their spending from their grant and internal revenue.

  Averages: with HSIP 44%, without HSIP 21%

6.3.6 How did we spend?

The tables that follow show us how health monies were spent.

Table 24: Analysis of all Health Spending in 2008[20]

The 5 Largest Spending Areas (by item)

Item #	Item Description	Amount	%
135	Other Operational Expenses	10,695,157	27%
111	Salary & Allowances	5,692,118	14%
225	Construction, Renovation....	5,172,142	13%
112	Wages	4,012,228	10%
143	Grants and Transfers	1,926,600	5%
	all other codes	12,158,501	31%
	Total spending from recurrent & capital	**39,656,747**	**100%**

The Split by Category

Category Description	Amount	%
Recurrent Goods & Services	18,685,427	47%
Personnel Emoluments	9,877,857	25%
Capital & Projects	11,093,464	28%
Total spending from recurrent & capital	**39,656,747**	**100%**

We can see that:

- Item 135: Other operational expenses can be anything and is high at K10.6m or 27% (K5.2m in 2007). It includes health administrative costs at HQ level and it is common practise to allocate an amount to this expenditure item for nondescript 'general expenses'.

  However given the varied coding practises employed by provinces this code can also include large sums of capital spending such as the significant amounts spent recently on Vanimo Hospital.

- Items 111 & 112: Casual wages also receives a lot of funding (24%). This spending area is discussed in a later section of this report. Suffice to reiterate that regular health staff should be on the national government payroll and should not be a diversion of funds away from goods and services in the provincial budget.

- Item 225: Spending on construction was significant in 2008. Indeed capital spending rose from K3.7m in 2007 to K11.0m in 2008 representing a very large increase.

Health spending is spread across many item codes reflecting the very detailed nature of provincial health budgets. We would expect to see a high level of travel related costs in rural health reflecting spending to support critical activities such as the distribution of medical supplies, supervision and perhaps integrated health outreach patrols.[21] Travel allowance (item 121) and transport & fuel (item 125) which is a first indicator of spending on such activities represents 8% of spending.

---

[20] 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 <u>does not include</u> spending from HSIP, PIP and SSG funds, nor does it include doctors, nurses and health workers on the Waigani payroll.

[21] Typically staff from rural health centres carry out outreach patrols into villages and remote areas. Expenditure that relates to these patrols may be recorded at the either; the facility, the District Treasury or the Provincial Treasury depending on the specific budget and financial arrangements that apply.

6.4 Health Data Table

Health Sector (including HIV/Aids) 2005 to 2008 (recurrent spending)

	Province	Cost of Services	2005 Exp	2006 Exp	2007 Exp	2008 Exp	% change v average	Spending Trend	2008 Internal Revenue Exp	Casual Wages Exp	HSIP Goods & Services Exp	Spending level achieved v CoS 2007	Spending level achieved v CoS 2008	% FG unspent	FG exp nature	FG no salaries
			(Kina millions)						% of total exp	(Kina millions)		2007	2008		2008	
Higher funded	West'n	5.544	0.561	1.499	1.781	3.266	156%	Up	90%	-	0.041	Low	Medium	36%	Good	OK
	SHP	6.883	2.387	0.927	1.229	1.775	18%	Up	19%	0.305	0.992	Low	Low	0%	Good	Fail
	NIP	3.068	0.489	0.506	0.519	0.786	56%	Up	74%	0.133	0.273	Low	Low	14%	Good	OK
	Morobe	6.852	1.049	0.973	1.289	0.919	-17%	Down	21%	5.393	0.678	Low	Low	34%	Good	OK
	WNB	3.954	1.177	0.965	1.097	1.488	38%	Up	49%	0.771	0.512	Low	Low	3%	Good	OK
	Enga	3.694	0.787	0.721	0.884	0.809	2%	Steady	13%	0.267	0.578	Low	Low	20%	Good	OK
Medium funded	ENB	3.280	0.362	0.434	0.645	0.856	79%	Up	9%	-	0.311	Low	Low	14%	Good	OK
	Madang	5.241	0.751	1.005	0.534	1.112	46%	Up	13%	1.715	1.369	Low	Low	5%	Good	OK
	Gulf	2.342	0.487	0.499	0.231	0.564	40%	Up	-	0.017	0.931	Low	Low	23%	Average	OK
	WHP	3.787	1.176	0.840	1.007	0.856	-16%	Down	-	0.414	1.756	Medium	Low	5%	Average	Fail
	EHP	4.704	1.046	1.170	1.475	1.234	1%	Steady	12%	0.206	1.537	Medium	Medium	11%	Good	Fail
Lower funded	Central	2.887	0.271	0.256	0.597	1.074	187%	Up	48%	0.011	0.944	Medium	High	10%	Good	OK
	Oro	2.638	0.236	0.416	0.241	0.345	16%	Up	-	-	0.458	Low	Low	0%	Good	OK
	MBP	5.624	0.320	0.369	0.589	1.074	153%	Up	38%	0.120	1.078	Low	Medium	5%	Good	OK
	Simbu	3.194	0.488	0.458	0.312	0.553	32%	Up	-	0.058	0.500	Low	Medium	0%	Good	Fail
	ESP	6.568	0.551	0.329	0.452	0.953	115%	Up	1%	0.087	1.624	Low	Medium	6%	Good	Fail
	Sand'n	4.644	0.262	0.339	0.354	0.600	89%	Up	-	0.123	0.705	Low	Medium	1%	Good	OK
	Manus	1.361	0.298	0.258	0.422	0.422	30%	Up	-	0.085	0.544	High	High	3%	Good	OK
	All Provinces	76.264	12.700	11.963	13.657	18.685 (a)	47%	Up	6.183	9.704	14.831					

The highest spending year in Kina

Key

% change v average	2008 Internal Revenue Exp	Casual Wages Exp	HSIP Goods & Services Exp	Spending level	% FG unspent	FG exp nature	FG no salaries
above 15%	above 25%	above K0.25m	above K0.9m	above 80%	below 5%	Good	OK
in-between	in-between		in-between	in-between	in-between	Average	
below -15%	below 10%		below K0.45m	below 40%	above 10%	Not Good	Fail

(a) Includes grant & internal revenue expenditure.
Expenditure on casual wages & HSIP goods & services expenditure is not included in this total.

NB: spending level results have been adjusted to reflect fiscal capacity

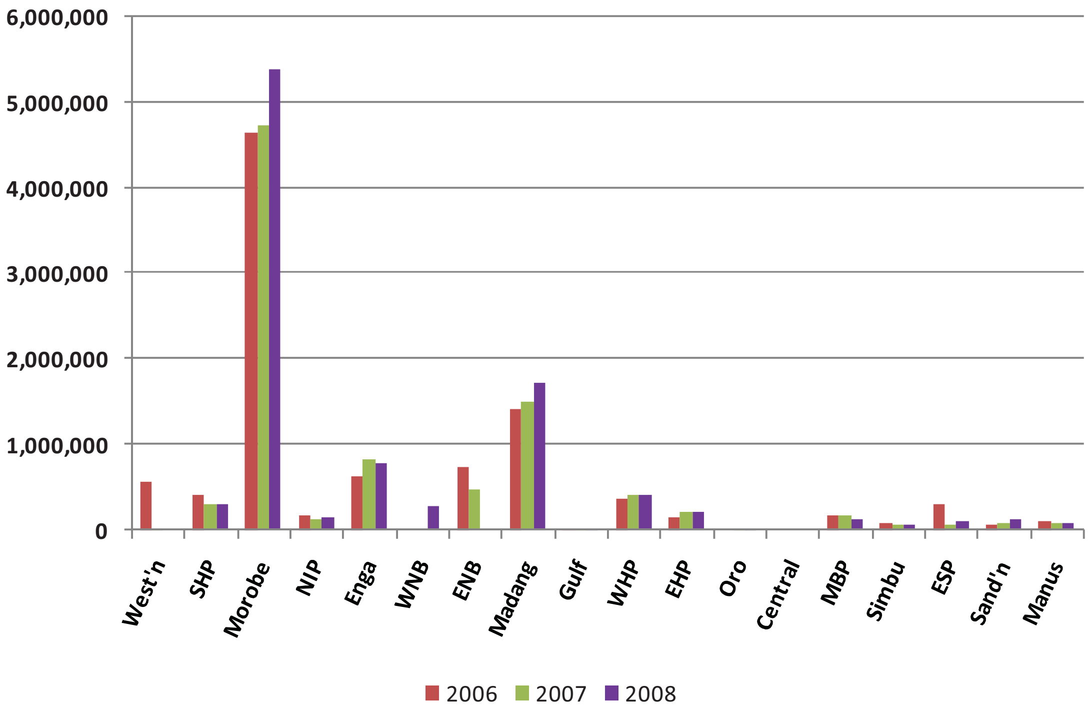
6.5 Drilling down: Health Casual Wages

6.5.1 Overview

Expenditure on casual wages continues to be highly significant. In 2008, some K9.7 million was spent on casual wages. This compares to the low level spent on all health operational costs (K18.6m). This is especially the case in Morobe and Madang which account for 73% of overall casual wages spending.

Provinces need to consider the appropriateness of spending on casual wages, and if these staff members are absolutely critical, 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 fuel that enables health patrols, childhood vaccinations, training for village birth attendants to help women during child birth and to assist transfer patients from district health centres to provincial hospitals for treatment.

Graph 25: Spending on Health Casual Wages: 2006 to 2008



6.5.2 Spending between 2006 and 2008

- Overall spending on casual wages has remained relatively steady K9.8m...K9m...**K9.7m**.
- Morobe and Madang continue to dominate the spending and need to resolve their staffing issues with the Department of Personnel Management and the Department of Treasury. If they don't, 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 and Western Highlands.

6.5.3 Morobe as an example

Interestingly, in 2008 Morobe spent K5.4m on wages from Provincial funds yet only allocated K0.9m to rural health for operational costs (goods & services). How far can K0.9m go in providing rural health services in a large province with a large population like Morobe?

	Cost of Services est.	2005 Expenditure	2006 Expenditure	2007 Expenditure	2008 Expenditure
Goods & Services	6,851,775	1,049,366	972,502	1,288,730	919,186
Personnel Emoluments		4,012,489	4,643,284	4,735,134	5,392,893
Capital & Projects		-	-	-	300,000
Population estimate	539,000				
- spending on Goods & Services per head		1.95	1.80	2.39	1.71
Facilities					
Health clinics	42				
Aid posts	197				

- This means that rural health in Morobe that serves around 539,000 people was funded K1.71 per head in operational funding to run the delivery of rural health services. How much health care can be provided at K1.71 per person?

- Or another way to look at it is that Morobe has a network of 42 health centres (plus a further 197 aid posts) throughout the province. These facilities need funding to ensure they receive medical supplies, that they keep the clinic doors open and are able to conduct outreach patrols to the villages. How much of the K919,000 was used to meet these costs that are the frontline of rural health service delivery?

- I think we can see that with this large population to serve and a large network of facilities to support, K0.9m is nowhere near enough. The NEFC estimate of health costs for Morobe is K6.8m.

- Part of the answer may be in transferring the community health workers to the government payroll. That would then free up the K5.4m that was normally used by the Provincial Administration to pay community health workers wages to be spent on goods and services. If this happened Morobe would then be spending approximately K6.3m (K0.9m + K5.4m) on goods and services which is a lot closer to what we conservatively estimate is required.

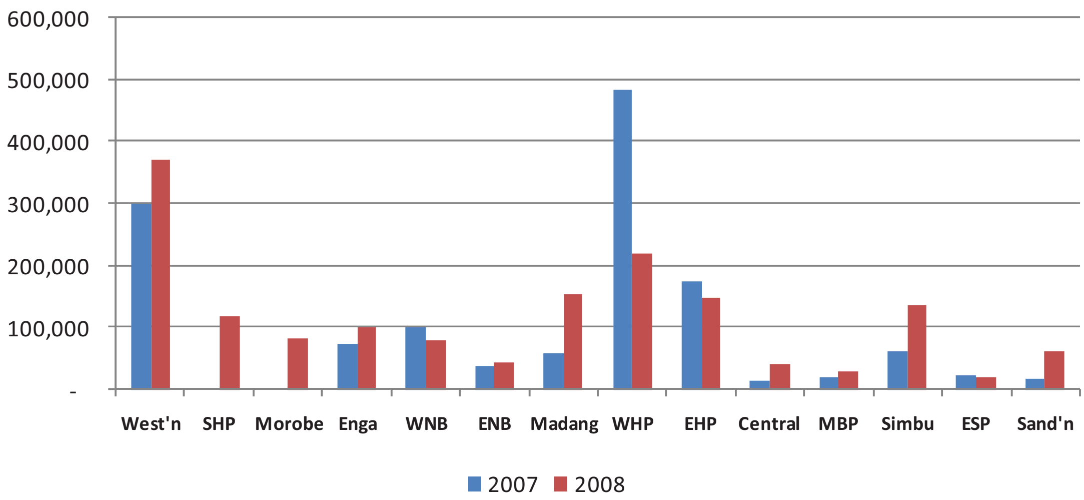
6.6 Drilling down: Spending on HIV/AIDS

6.6.1 Overview

In the 2007 and 2008 reviews we have included spending on HIV/AIDS within the Health spending totals. In this edition we repeat the 2007 approach of drilling down into the HIV/AIDS spending to make transparent how much Provincial Administrations spend in this critical area. 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?

The following graph details the expenditures that were itemised as spending on HIV/AIDS.

Graph 26: Spending on HIV/AIDS: 2007 & 2008



We can see that:

- Spending on HIV/AIDS increased from K1.3m to K1.6m.
- Seven provinces spent more than K100,000.
- In 2008 two more provinces have allocated specific funding to HIV/AIDS – being Southern Highlands and Morobe.
- The remaining 8 provinces appear to have spent little or nothing directly on HIV/AIDS.
    - Little = East New Britain, Central, Milne Bap and East Sepik
    - Nothing = New Ireland, Gulf, Oro and Manus

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)

Minimum priority activities (MPAs) in transport infrastructure

1. *Road and bridge maintenance*
2. *Airstrip maintenance*
3. *Wharf and jetty maintenance*

All infrastructure activities are important, but routinely maintaining our stock of transport-related infrastructure assets is so critical it deserves particular attention.

14% – provinces only spend 14% of actual costs required

Declining levels of spending on routine transport-related infrastructure maintenance

1 province accounts for 62% 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 alarming. 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.

Each year we re-iterate this point, 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 Minimum Priority Activities in Transport Infrastructure

The provision of an effective transport infrastructure network across our country relies on a variety of inputs. The transport infrastructure sector selected funding the maintenance of the following critical infrastructure assets as MPAs; roads, bridges, airstrips, wharves and jetties. As we can see in the box above, the cost <u>not to maintain</u> these assets is appalling and a sad legacy to pass on to our children.

- **Road and bridges maintenance**: Infrastructural assets such as road and bridges need regular maintenance. If they are not maintained they deteriorate quickly and the cost to restore them to an acceptable condition becomes truly frightening. We end up paying up to 130 times the cost simply because we chose to ignore maintaining these assets – that's the difference between routine maintenance and rehabilitation. This is why we must prioritise road maintenance, and why we must think very carefully before we build new roads and ask *"can we afford to maintain the new roads we propose building"?*

  Costs may include; contractors to carry out maintenance work.

- **Airstrip maintenance**: Many remote locations throughout our country are reliant on their rural airstrip for accessibility to major urban centres and enabling services. The airstrip may be the only means by which a critically ill patient can be evacuated or a medical team received, or it may be the primary means for receiving resources such as medical and school supplies. Maintaining rural airstrips can be a relatively affordable cost – yet it must be discretely funded in the budget.

  Costs may include; normally smaller payments to individuals or groups to carry out maintenance activities such as grass-cutting.

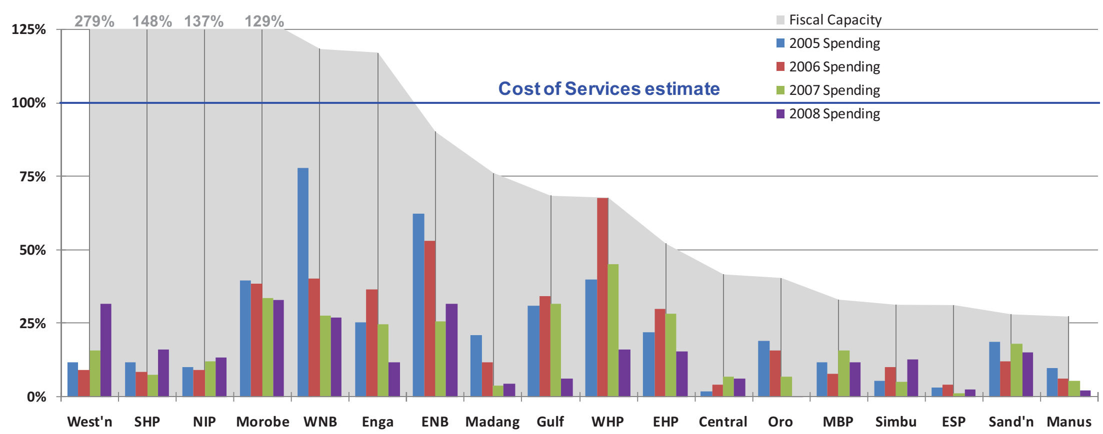
- **Wharf and jetty maintenance**: For provinces by the sea and major rivers, wharves and jetties are a critical part of their supply chain. These infrastructural assets enable the movement of people, produce and supplies between locations in a cost-effective manner.

  Costs may include; contractors to carry out maintenance work.

7.3 Against the Benchmark: the 2005 to 2008 trend

This graph illustrates the 2005 to 2008 performance of each province using the Cost of Services estimate as a benchmark.

Graph 27: Infrastructure Maintenance Spending Performance: 2005 to 2008



NB: This graph should read in conjunction with the chapter on Recurrent v Capital

7.3.1 Performance Overview

- With 4 years of data we can see clearly how little we are spending on maintaining our transport infrastructure compared with how much we need to spend.
- Overall there is a huge gap – we are spending nowhere near enough to maintain provincial roads and infrastructure assets. The implications of this are enormous. A road network that is not maintained will decline and become a massive cost to rehabilitate. Who will meet that cost?
- In 2008 no fewer than 13 provinces displayed very low spending levels when compared to their capacity to spend.
- The average across all 18 provinces was that spending reached only 14% of the actual costs required, with the 11 provinces with the least fiscal capacity only spending on average 8% of what they need to.
- A very significant 52% (2007: 63%) or K12m (2007: K15.6m) of infrastructure sector spending was from internal revenue.
- In 2008 ten provinces spent very little or nothing from their grant or internal revenue on infrastructure capital (that is, new construction, rehabilitation or reconstruction). Given the low levels of spending on road & other transport related maintenance, the fact that relatively few new roads are being constructed can be viewed as a positive sign.
- Five provinces accounted for 93% (2007: 87%) of the capital spending that occurred (not including PIP and SSG expenditure). These are Southern Highlands, Western, Eastern Highlands, Enga and Morobe.

- Southern Highlands alone spent K38.5m or 62% of all spending on capital.

The infrastructure data table provides a snapshot of infrastructure expenditure data for the period 2005 to 2008 together with key fiscal indicators. 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:

7.3.2 Spending between 2005 and 2008

Overall, the spending trend in infrastructure maintenance between 2005 and 2008 is one of decline.

- Over this period, recurrent spending has moved from K26.6m...K30.1m... K23.8m...**K23m** – a decline overall. Even when capital spending is included the total spending on the infrastructure sector is declining.
- It is difficult to identify and discuss any clear positive trends. Unfortunately, instances of poor performances are more readily apparent as is the low priority given to maintaining our transport infrastructure.
- Gulf, Madang and Oro have shown concerning declines over the 3 years.
- Four provinces, Southern Highlands, Western, Enga and Eastern Highlands, spent large amounts on what appeared to be capital in nature – it is possible that some of this capital spending was recurrent in nature (being routine maintenance rather than spending on new infrastructure or rehabilitation).[22]

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.[23]

There is a strong appeal to spend on 'new development'- the building of 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 additional new roads might be adequately maintained. Every new road represents a new maintenance obligation for us and future generations of Papua New Guineans. If we do meet this maintenance obligation, the state of this new asset will degrade and we will then be faced with the massive cost of rehabilitation.

7.3.3 Spending from Internal Revenue

- Spending from internal revenue on infrastructure was highly significant, particularly with higher and medium funded provinces.

---

[22] Refer to section 7.4

[23] 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

- In 2008, K11.9m (2007: K15.6m) of spending on maintenance was from internal revenue (or 52% - 2007: 63%).
- K52.7m (2007: K15.8m) of capital spending was from internal revenue (or 84% - 2007: 77%).
- Overall 76% of sector spending came from internal revenue.

7.3.4 Spending in comparison to fiscal capacity

- When we adjust for the differences in fiscal capacity, most provinces maintained their low 2007 performance levels.
- The spending performance of one province improved – Simbu improved from low to medium.
- The spending performance of four provinces declined – Gulf, Western Highlands, Eastern Highlands and Milne Bay.

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? This routine maintenance will prevent an otherwise inevitable decline that results in rehabilitation- a cost many ten’s and even hundreds of times more expensive.

7.3.5 How did we spend?

The tables that follow show us how infrastructure monies were spent.

Table 28: Analysis of all Infrastructure Spending in 2008[24]

The 5 Largest Spending Areas (by item)

Item #	Item Description	Amount	%
225	Construction, Renovation....	30,990,964	35%
135	Other Operational Expenses	22,012,256	25%
128	Routine Maintenance & Expense:	10,395,670	12%
226	Substantial & Specific Maintenan	7,795,173	9%
143	Grants and Transfers to Public	5,134,316	6%
	all other codes	11,006,556	13%
	Total spending from recurrent & capital	**87,334,936**	**100%**

The Split by Category

Category Description	Amount	%
Recurrent Goods & Services	23,127,561	26%
Personnel Emoluments	1,532,851	2%
Capital & Projects	62,674,524	72%
Total spending from recurrent & capital	**87,334,936**	**100%**

This table shows us that:

- As is to be expected much of infrastructure spending is classified under three main items and represents 56% 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. But you will see that our desktop analysis attributes 26% to recurrent and 72% to capital. Remember however, five provinces dominate the capital expenditure total.
- Other Operational Expenses (item 135) has risen sharply in 2008 to be 25% of total infrastructure spending. In 2007 it was a relatively low 6%.
    - K19.5m of this is expenditure by the Southern Highlands on roads and bridges.

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.

7.4 Infrastructure Maintenance Data Table

Infrastructure Sector 2005 to 2008 (recurrent spending)

	Province	Cost of Services	2005 Exp	2006 Exp	2007 Exp	2008 Exp	% change v average	Spending Trend	2008 Internal Revenue Exp	Capital & Projects	Spending level achieved v CoS		% FG unspent	FG exp nature
		(Kina millions)							% of total exp	2008	2007	2008	2008	
Higher funded	West'n	11.648	1.071	0.900	1.603	3.700	211%	Up	59%	9.949	Low	Low	14%	Average
	SHP	10.016	0.924	0.701	0.648	1.608	113%	Up	89%	38.570	Low	Low	0%	Not Good
	NIP	3.921	0.321	0.299	0.417	0.535	55%	Up	100%	0.060	Low	Low	75%	Not Good
	Morobe	13.319	4.197	4.307	3.922	4.401	7%	Steady	77%	2.631	Low	Low	1%	Average
	WNB	3.052	1.862	1.019	0.743	0.826	-32%	Down	41%	-	Low	Low	1%	Good
	Enga	10.044	2.046	3.104	2.195	1.199	-52%	Down	27%	3.252	Low	Low	5%	Good
Medium funded	ENB	7.406	3.753	3.352	1.695	2.342	-21%	Down	70%	1.283	Low	Low	0%	Good
	Madang	9.195	1.539	0.919	0.307	0.415	-55%	Down	67%	0.200	Low	Low	31%	Not Good
	Gulf	4.031	1.004	1.156	1.111	0.255	-77%	Down	5%	0.116	Medium	Low	63%	Average
	WHP	13.709	4.418	7.822	5.449	2.205	-63%	Down	-	-	Medium	Low	0%	Average
	EHP	14.332	2.533	3.626	3.563	2.241	-31%	Down	62%	3.752	Medium	Low	12%	Good
Lower funded	Central	9.800	0.188	0.366	0.603	0.613	60%	Up	0%	-	Low	Low	18%	Average
	Oro	2.979	0.455	0.399	0.177	0.014	-96%	Down	-	0.050	Low	Low	0%	Average
	MBP	5.534	0.532	0.373	0.772	0.651	17%	Up	41%	-	Medium	Low	40%	Good
	Simbu	6.740	0.301	0.589	0.320	0.857	113%	Up	-	0.530	Low	Medium	0%	Good
	ESP	15.294	0.391	0.553	0.184	0.404	8%	Steady	20%	0.240	Low	Low	17%	Not Good
	Sand'n	5.135	0.774	0.526	0.814	0.784	12%	Steady	3%	-	Medium	Medium	1%	Good
	Manus	3.500	0.276	0.188	0.176	0.078	-64%	Down	65%	0.093	Low	Low	0%	Not Good
	All Provinces	149.652	**26.587**	**30.198**	**24.696**	**23.128** (a)	-15%	**Steady**	**11.952**	**62.675**				

The highest spending year in Kina

Key

% change v average	2008 Internal Revenue Exp	Capital & Projects	Spending level achieved v CoS	% FG unspent	FG exp nature
above 15%	above 25%	above K1m	above 80%	below 5%	Good
in-between	in-between		in-between	in-between	Average
below -15%	below 10%		below 40%	above 10%	Not Good

(a) Includes grant & internal revenue expenditure.

NB: spending level results have been adjusted to reflect fiscal capacity

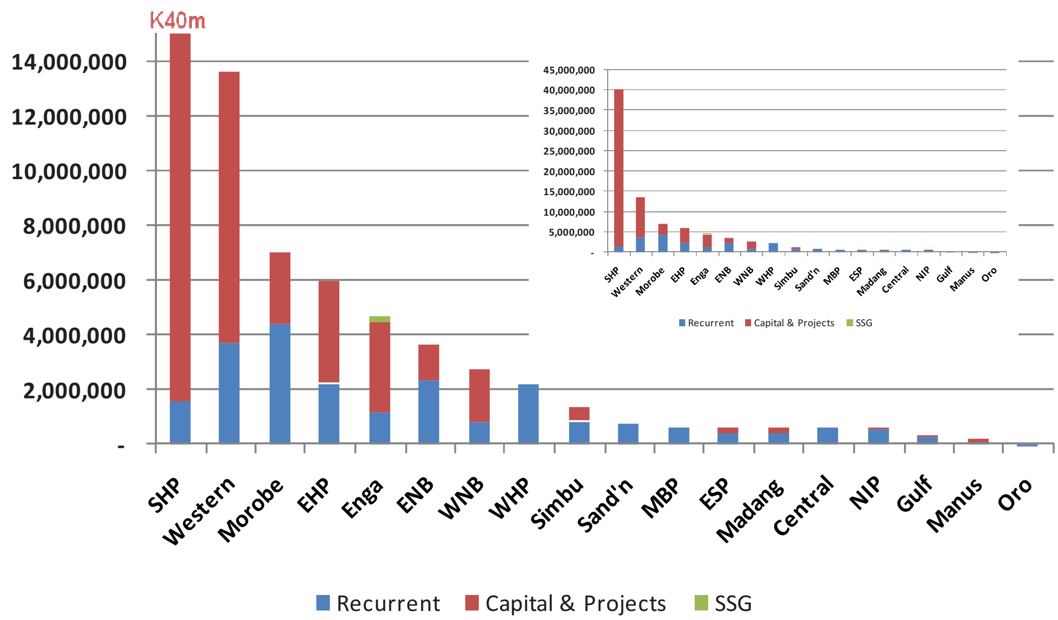
7.5 Drilling down: the Recurrent v Capital Puzzle

7.5.1 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. Readers can then consider for themselves the possible impact that any capital spending may have on the sector. The graph below shows all spending on infrastructure by provinces, both recurrent and capital, but excludes PIP funded expenditure which is clearly development (capital) in nature.

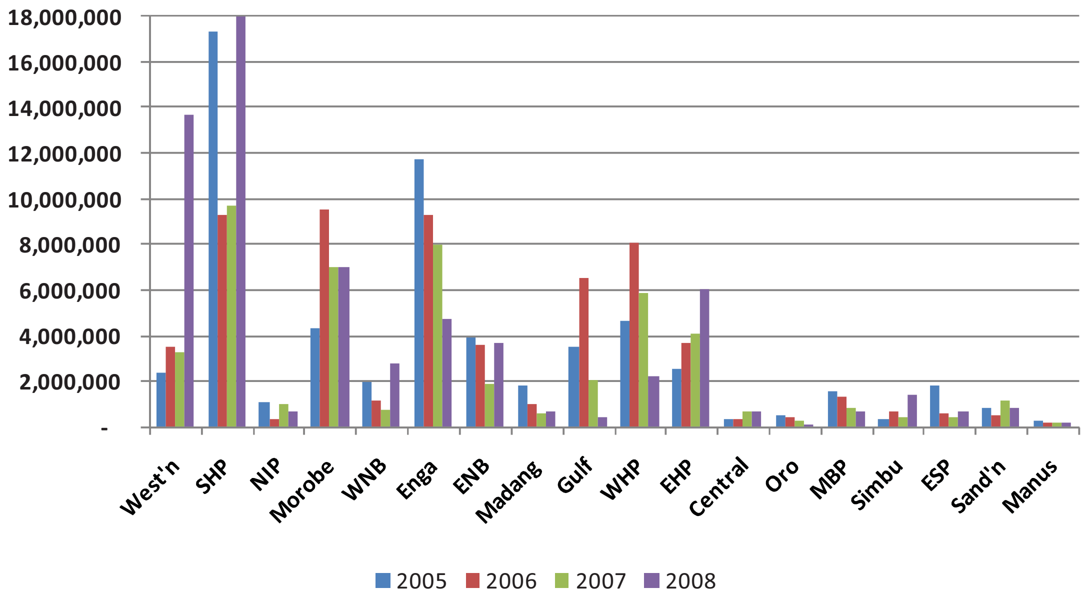
Graph 29: Infrastructure Expenditure: Recurrent, Capital and SSG in 2008 (not PIP)[25]



- As before, the same provinces dominate capital spending – Southern Highlands, Western, Morobe, Eastern Highlands and Enga. Obviously the massive amount spent by Southern Highlands dominates the graph. It does invite the question as to just where and how well this sizable amount has being spent.
- Eleven provinces continue to spend very little or nothing from their grant or internal revenue on infrastructure capital. Given the low levels of spending on road & other transport related maintenance, the fact that relatively few new roads are being constructed can be viewed as a positive sign.
- Overall spending on transport infrastructure in the Western Highlands decreased significantly in 2008 – moving down from almost K6m in 2007 to K2.2m in 2008. We should recall however that much of the 'spending' was actually transfers to a separate bank account.

[25] 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 30: Infrastructure Spending: Recurrent, Capital and SSG, 2005 to 2008 (not PIP)



The graph 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 2005-2008, 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?

We can see that for most provinces there is a trend of <u>very low</u> 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 K8.3m per province (although the range is wide between K3m and K15m per province)
- We also see a trend of increasing spending in only four provinces – Western, Southern Highlands, Eastern Highlands and Simbu.
- Spending levels in most other provinces is generally not increasing.

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)***

Minimum priority activities (MPAs) in agriculture

1. Extension activities

All agriculture activities are important, but extension activities are at the heart of providing an agriculture service at the front line. It is so critical it deserves particular attention.


Rubber trees

8 Provinces only spent 14% of the actual costs required


Coffee to go

4 provinces dominate capital spending; Western, Enga, Southern Highlands & New Ireland

High volatility in spending between years


Kaukau

Internal revenue helped 3 provinces spend more on agriculture – Western, New Ireland and West New Britain

8.1 Agriculture in the Provinces

The Medium Term Development Strategy identifies promoting the primary sector as the Governments 'first and foremost' priority in economic growth.[26] Agriculture is at the heart of economic activity across Papua New Guinea and offers income producing opportunities for the many, not just the few.

Activities such as extension patrols and farmer training are the way we 'walk the talk'. This is real service delivery in this sector. If we aren't providing this on-the-ground support to our small-holder farmers how can we say that we are promoting a sustainable and growing agriculture sector?

8.2 Minimum Priority Activities in Agriculture

The provision of services to the agriculture sector relies on trained agriculture officers visiting farming communities (often in remote locations) to offer advice and guidance on best practice.

- **Extension Activities**: At the heart of our country's agriculture service are extension patrols. These patrols move throughout the rural area, both day-patrols and overnight patrols, with trained agriculture officers who are normally based at the District Office taking their skills and knowledge to advise the farmers across their province. Yet these extension patrols can only happen if extension officers have the money to pay for the operational costs involved.

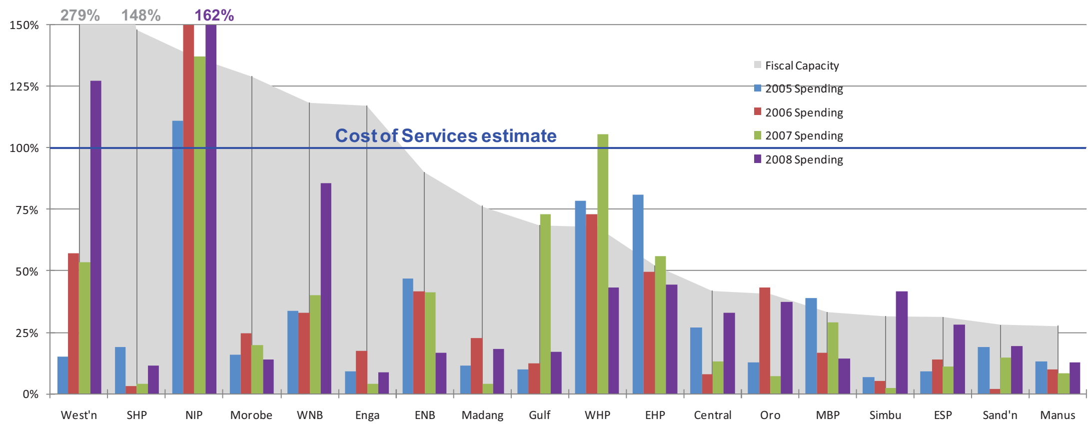
  Costs may include; travel allowance and accommodation (for overnight visits), fuel (for both vehicles and boats), and in some instances vehicle/boat hire costs. In some instances airfares may also be incurred to get agriculture personnel to remote locations.

[26] The primary sector is generally accepted to include; agriculture, fisheries, livestock and forestry.

8.3 Against the Benchmark: the 2005 to 2008 trend

The graph that follows illustrates the 2005 to 2008 performance 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 31: Agriculture Spending Performance: 2005 to 2008



8.3.1 Performance Overview

- Despite some volatility, spending trends are emerging.
- Twelve provinces spent on average only 19% of what is required to meet the actual costs of a basic service (13% 2007). This is a step in the right direction, although it also suggests that there remains significant scope for improvement in this essential sector for economic development.
- Major upward movers include; Western, West New Britain, Central, Oro, Simbu and East Sepik.
- New Ireland continues its trend of high spending levels in agriculture.
- Spending from internal revenue made a relatively significant impact in four provinces (i.e. over K300,000); in Western, New Ireland, West New Britain and Central.
- K6.2m was capital expenditure (twice as much as was spent in 2007), with the majority being in four provinces (K3.8m in Western, as well as significant amounts in New Ireland, Enga and Southern Highlands).

The agriculture data table provides a snapshot of agriculture expenditure data for the period 2005 to 2008 together with key fiscal indicators. 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:

8.3.2 Spending 2005 to 2008

- Recurrent goods and services spending in the agriculture sector has remained relatively steady moving from K6.5 million in 2005 to K10.3 million in 2008.

- The overall spending trend in agriculture was mixed with twelve provinces increasing their spending and five decreasing their spending. Some of the movements were significant, such as Western Highland's fall and Gulf's sharp rise.

- New Ireland's continued high expenditure indicates a strong ongoing commitment to developing agriculture within the province.

- Several provinces have shown a sharp increase in recurrent spending in agriculture in 2008; Western, West New Britain, Simbu and East Sepik. It will be interesting to see if this improved level of spending continues in 2009.

- Agriculture as a priority appears low in several provinces; Southern Highlands, Morobe, Enga, East New Britain, Madang and Gulf.

8.3.3 Spending from Internal Revenue

A total of 31% of sector expenditure was funded from internal revenue. However, five provinces accounted for most of this. These are Western, Southern Highlands, New Ireland, West New Britain and Central.

8.3.4 Spending in comparison to fiscal capacity

- When we adjust for the differences in fiscal capacity seven provinces improved and four provinces declined. So 2008 saw a degree of volatility in spending performance levels.

- The spending performance of seven provinces <u>improved</u>: Western, West New Britain, Central, Oro, Simbu, East Sepik and Manus.

- The spending performance of four provinces <u>declined</u>: East New Britain, Gulf, Western Highlands and Milne Bay.

8.3.5 How did we spend?

The tables that follow show us how agriculture monies were spent.

Table 32: Analysis of all Agriculture Spending in 2008[27]

The 5 Largest Spending Areas (by item)

Item #	Item Description	Amount	%
135	Other Operational Expenses	12,297,480	72%
143	Grants and Transfers	855,981	5%
139	Feasibility Studies….	666,700	4%
242	Capital Transfers	575,000	3%
112	Casual Wages	498,528	3%
	all other codes	2,142,880	13%
	Total spending from recurrent & capital	**17,036,569**	**100%**

The Split by Category

Category Description	Amount	%
Recurrent Goods & Services	10,261,661	60%
Personnel Emoluments	515,131	3%
Capital & Projects	6,259,778	37%
Total spending from recurrent & capital	**17,036,569**	**100%**

We can see that:

- Spending from items 135 comprised 75% of all expenditure – almost doubling in Kina terms over the 2007 level. 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. Notably in 2008 it includes K4.7m of capital & projects.

  Item 135 (operational expenses) is a catch-all spending bucket that allows provinces the maximum flexibility in spending.

- Feasibility studies and project preparation work was prominent at 4% (5% in 2007).

- What is interesting is that travel related codes such as 121 and 125 for TA and fuel are again not present in the top-5. This is surprising given that extension work is at the heart of agriculture service delivery. Spending under these items are 3% (4% in 2007) of total spending.

- Capital spending was significant at 37% of total spending and includes project feasibility work, vehicle purchases and significant project investments. Spending on capital & projects almost doubled between 2007 and 2008.

  However what the returns are on this investment is unclear and is an interesting area worthy of further exploration.

27 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.

8.4 Agriculture Data Table

Agriculture Sector 2005 to 2008 (recurrent spending)

	Province	Cost of Services	2005 Exp	2006 Exp	2007 Exp	2008 Exp	% change v average	Spending Trend	2008 Internal Revenue Exp	Spending level achieved v CoS	
			(Kina millions)						% of total exp	2007	2008
Higher funded	West'n	1.865	0.222	0.888	0.877	2.376	259%	Up	45%	Medium	High
	SHP	2.649	0.385	0.072	0.088	0.306	69%	Up	75%	Low	Low
	NIP	0.819	0.725	1.823	0.985	1.325	13%	Steady	25%	High	High
	Morobe	2.848	0.364	0.587	0.490	0.402	-17%	Down	7%	Low	Low
	WNB	1.296	0.344	0.355	0.450	1.110	190%	Up	60%	Low	High
	Enga	1.571	0.116	0.231	0.052	0.139	5%	Steady	76%	Low	Low
Medium funded	ENB	1.513	0.578	0.536	0.558	0.254	-55%	Down	41%	Medium	Low
	Madang	1.838	0.167	0.347	0.064	0.338	76%	Up	52%	Low	Low
	Gulf	1.068	0.086	0.109	0.678	0.184	-37%	Down	-	High	Low
	WHP	1.623	1.026	1.000	1.508	0.703	-41%	Down	-	High	Medium
	EHP	1.581	1.029	0.658	0.772	0.703	-15%	Steady	-	High	High
Lower funded	Central	1.395	0.307	0.093	0.161	0.461	147%	Up	86%	Low	Medium
	Oro	0.925	0.093	0.337	0.055	0.343	113%	Up	-	Low	High
	MBP	1.424	0.448	0.201	0.365	0.202	-41%	Down	-	High	Medium
	Simbu	0.981	0.054	0.043	0.021	0.407	931%	Up	23%	Low	High
	ESP	1.931	0.140	0.227	0.190	0.543	193%	Up	4%	Low	High
	Sand'n	1.969	0.302	0.036	0.254	0.386	96%	Up	-	Medium	Medium
	Manus	0.628	0.067	0.053	0.047	0.081	47%	Up	-	Low	Medium
	All Provinces	27.923	**6.452**	**7.596**	**7.613**	**10.262** (a)	43%	Up	**3.210**		

Key

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

(a) Includes grant & internal revenue expenditure.

NB: spending level 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

Allowances: paying allowances in a timely manner is critical

Two grants: since 2007 we now have an allowance grant and an function grant for operational costs

Intended purpose: each grant should be used for its intended purpose

9.1 Against the Benchmark: VCAs the 2005 to 2008 trend

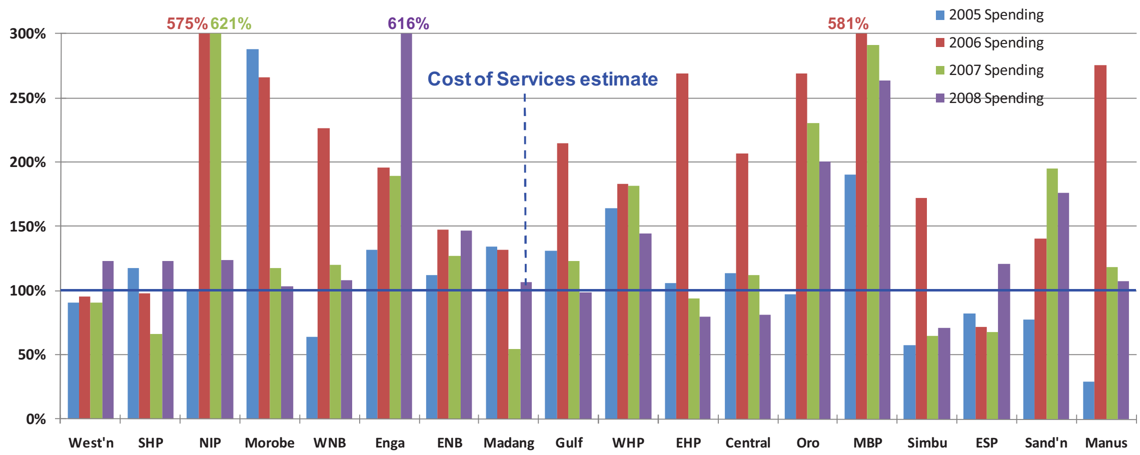
Before 2005, the system of village courts was widely perceived to be in a state of terminal decline. In 2005, this decline was reversed when the National Government introduced a dedicated grant to pay the allowances of the village court officials.

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.

Graph 33: Village Court Allowances Spending Performance: 2005 to 2008[28]



9.1.1 Performance Overview: Allowances

The graph above illustrates the 2005 to 2008 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[29]. This enabled provinces to meet back claims and arrears from prior years.

---

[28] In 2008 village court allowance grants equalled the cost of services estimate of K5m. Because of this we have not compared spending against provincial fiscal capacity.

The cost of services estimate was based on the number of village court officials as at 2005. We understand that the actual numbers have varied/increased significantly since then and this will be reflected in the 2009/2010 updated cost of services study.

[29] Although in reality the Department of Treasury did not release the whole grant appropriation for every province.

- Enga appear to have spent a large amount on allowances in 2008. K2.5m compared to K0.6m in 2007. Why was it necessary to spend such a large amount?
- In 2008, provinces appear to have fully expended their VCA grants.
- Some provinces appear to consistently spend more than the cost of services estimate this includes Enga, East New Britain, Western Highlands, Oro, Mine Bay and Sandaun.
    - This may indicate that their real costs are higher than what was estimated
    - Or, it may indicate that provinces feel the allowance levels are too low and that provinces are electing to pay their officials a higher amount than normal.

The village courts data table provide snapshots of village courts expenditure data for the period 2005 to 2008 together with key fiscal indicators on allowances. 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:

9.1.2 Spending Trend: 2005 to 2008

Over this period, recurrent spending has moved from K5.9m...K10.8m... K5.5m...**K7.6m** – the 2006 high reflects the additional funding provided by Treasury to meet the cost of accumulated arrears of allowances.

If we set the 2006 aside, the overall trend is of increasing spending on village court allowances.

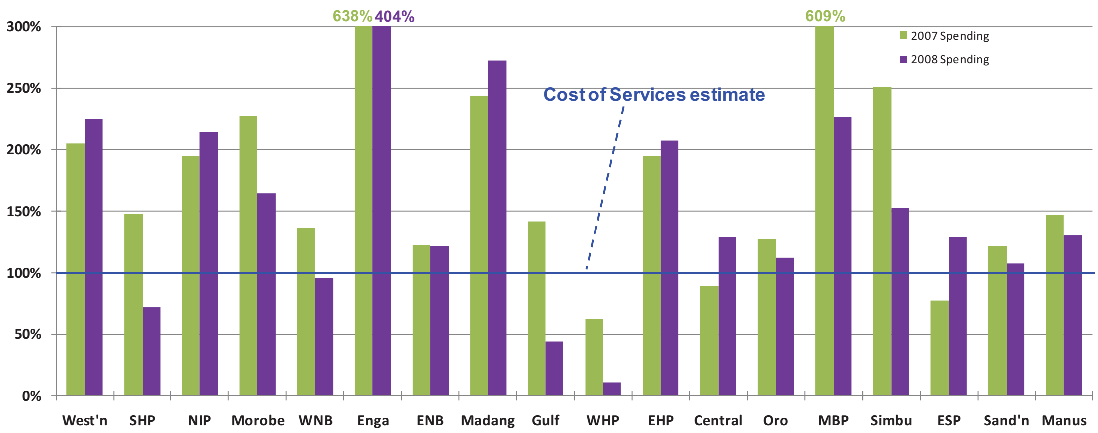
9.1.3 Spending from Internal Revenue

- Spending from internal revenue in the sector was relatively minor at K0.45m which is a reduction on the 2007 level of K0.95 million. This was found in Southern Highlands and Western Provinces.

9.2 Against the Benchmark: VC operational costs the 2005 to 2008 trend

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.

Graph 34: Village Court <u>Function Grant</u> Spending Performance: 2007 and 2008



9.2.1 Performance Overview: Function Grant (on operational costs)

The graph illustrates the performance of each province in the 2007 and 2008 fiscal years using the cost of services estimate as a benchmark.

- Most provinces (14) again spent 100% or more of what the cost of services study estimated <u>was</u> required. This is positive and demonstrates that funding is being allocated and expended in the area.
- East Sepik appear to have addressed their under spending in 2007 which is pleasing.
- The low spending by the Western Highlands in 2007 has further deteriorated in 2008, whilst spending in Gulf has dipped alarmingly in 2008.

The village court operational costs data table provides a snapshot of village courts expenditure data for the period 2005 to 2008 together with key fiscal indicators. 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:

9.2.2 Spending from Internal Revenue

- Spending from internal revenue on village court operational costs reduced from K0.9m in 2007 to K0.5m in 2008.
- With only four provinces contributing significant expenditure from internal revenue. These are Western, Enga, Madang and Milne Bay.
- West New Britain who did provide funding support from internal revenue in 2007 did not continue this in 2008.

9.2.3 How did we spend?

The tables that follow show us how village court operational monies were spent.

Table 35: Analysis of all Village Courts Operational Spending in 2008[30]

The 5 Largest Spending Areas (by item)

Item #	Item Description	Amount	%
135	Other Operational Expenses	1,087,928	44%
125	Transport and Fuel	333,975	13%
121	Travel and Subsistence Exp's	307,291	12%
222	Purchase of Vehicles	138,532	6%
123	Office Materials & Supplies	94,754	4%
	all other codes	514,816	21%
	Total spending from recurrent & capital	**2,477,296**	**100%**

The Split by Category

Category Description	Amount	%
Recurrent Goods & Services	2,196,293	89%
Personnel Emoluments	76,003	3%
Capital & Projects	205,000	8%
Total spending from recurrent & capital	**2,477,296**	**100%**

The table shows us that:

- In 2008 the highest percentage of spending was classified as other operational expenses (item 135), however this has reduced as a percentage from 60% in 2007 to 44% of total sector spending in 2008.
    - Item 135 is a catch-all spending bucket that allows provinces the maximum flexibility in spending.
- Travel related costs are in the top-5, with TA (item 121) and transport & fuel (item 125) together comprises 25% of total spending.
- Capital spending relates to the purchase of vehicles in Southern Highlands and Simbu (note Simbu also bought vehicles in 2007).

30 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.

9.3 Village Courts Data Table - Allowances

Village Court Allowances

Group	Province	Cost of Services	2005 Exp	2006 Exp	2007 Exp	2008 Exp	% change	Compared to last year	2008 Internal Revenue Exp	Spending level achieved v CoS 2007	Spending level achieved v CoS 2008	% FG unspent 2008	FG exp nature 2008
		(Kina millions)							% of total exp	2007	2008	2008	
Higher funded	West'n	0.174	0.210	0.233	0.138	0.214	55%	Up	27%	High	High	0%	Good
	SHP	0.725	0.796	0.704	0.415	0.893	116%	Up	44%	Medium	High	0%	Good
	NIP	0.137	0.136	0.815	0.747	0.169	-78%	Down	-	High	High	1%	Good
	Morobe	0.311	0.872	0.846	0.321	0.321	-1%	Steady	-	High	High	15%	Good
	WNB	0.155	0.165	0.619	0.163	0.167	3%	Steady	-	High	High	0%	Good
	Enga	0.408	0.532	0.831	0.683	2.513	268%	Up	-	High	High	1%	Good
Medium funded	ENB	0.122	0.164	0.227	0.139	0.180	30%	Up	-	High	High	4%	Good
	Madang	0.258	0.313	0.324	0.123	0.275	124%	Up	-	Medium	High	0%	Good
	Gulf	0.117	0.157	0.269	0.125	0.116	-8%	Steady	-	High	High	4%	Good
	WHP	0.441	0.895	1.046	0.706	0.636	-10%	Steady	-	High	High	0%	Good
	EHP	0.517	0.494	1.315	0.424	0.410	-4%	Steady	-	High	Medium	0%	Good
Lower funded	Central	0.327	0.146	0.766	0.327	0.267	-19%	Down	-	High	High	0%	Good
	Oro	0.062	0.078	0.227	0.124	0.124	-1%	Steady	-	High	High	0%	Good
	MBP	0.108	0.270	0.870	0.277	0.284	3%	Steady	-	High	High	4%	Good
	Simbu	0.480	0.259	0.799	0.271	0.341	26%	Up	-	Medium	Medium	0%	Good
	ESP	0.371	0.324	0.297	0.222	0.447	102%	Up	-	Medium	High	7%	Average
	Sand'n	0.087	0.093	0.177	0.150	0.154	3%	Steady	-	High	High	0%	Good
	Manus	0.145	0.047	0.468	0.151	0.155	3%	Steady	-	High	High	3%	Good
	All Provinces	**4.944**	**5.950**	**10.833**	**5.506**	**7.667**	**29%**	**Up**	**0.450**				

Key

Compared to last year	2008 Internal Revenue Exp	Spending level	% FG unspent	FG exp nature
above 15%	above 25%	above 80%	below 5%	Good
in-betw een	in-betw een	in-betw een	in-betw een	Average
below -15%	below 10%	below 40%	above 10%	Not Good

NB: spending level results **have not** been adjusted to reflect fiscal capacity

9.4 Village Courts Data Table – Operational Costs (including expenditure from the function grant)

Village Court Operational Costs

	Province	Cost of Services	2007 exp	2008 exp	% change	Compared to last year	2008 Internal Revenue Exp	Spending level achieved v CoS		% FG unspent	FG exp nature
			(Kina millions)				% of total exp	2007	2008	2008	
Higher funded	West'n	0.118	0.213	0.266	26%	Up	52%	High	High	0%	Good
	SHP	0.162	0.207	0.117	-44%	Down	-	High	Medium	0%	Not Good
	NIP	0.032	0.055	0.069	26%	Up	24%	High	High	0%	Good
	Morobe	0.069	0.137	0.114	-18%	Down	-	High	High	34%	Good
	WNB	0.173	0.207	0.165	-21%	Down	-	High	High	0%	Good
	Enga	0.094	0.533	0.381	-29%	Down	60%	High	High	51%	Good
Medium funded	ENB	0.058	0.063	0.071	12%	Steady	-	High	High	21%	Good
	Madang	0.037	0.078	0.100	28%	Up	41%	High	High	13%	Average
	Gulf	0.033	0.041	0.015	-65%	Down	-	High	Medium	56%	Average
	WHP	0.235	0.129	0.026	-80%	Down	-	Medium	Low	0%	Not Good
	EHP	0.065	0.111	0.135	22%	Up	-	High	High	2%	Good
Lower funded	Central	0.109	0.087	0.141	63%	Up	-	High	High	1%	Good
	Oro	0.038	0.043	0.043	2%	Steady	-	High	High	0%	Average
	MBP	0.068	0.368	0.155	-58%	Down	51%	High	High	0%	Good
	Simbu	0.070	0.154	0.107	-31%	Down	-	High	High	2%	Good
	ESP	0.118	0.081	0.152	90%	Up	-	Medium	High	5%	Good
	Sand'n	0.062	0.067	0.067	-1%	Steady	-	High	High	3%	Good
	Manus	0.056	0.073	0.074	1%	Steady	-	High	High	5%	Good
	All Provinces	1.600	**2.647**	**2.196**	-18%	Down	**0.502**				

Key

above 15%	above 25%	above 80%	below 5%	Good
in-between	in-between	in-between	in-between	Average
below -15%	below 10%	below 40%	above 10%	Not Good

NB: spending level results **have not** been adjusted to reflect fiscal capacity

10 Administration focus

The administrative divisions of Provincial Governments have a central role to play in identifying and removing the impediments to service delivery within their own province.

The Administration Divisions:

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*

Supervision and support: *of districts and local-level governments*

Maintenance: *provincial and district administration building maintenance*

Arrears: the practise of setting aside large votes for 'arrears' or other non-defined purposes does not provide the transparency required

More than **one-third** of all spending from internal revenue was on administration

Double trouble: on average, we continue to spend **more** than twice as much as is estimated necessary on administration

10.1 Administration in the Provinces

Administration is a necessary cost for every Provincial Administration. However history illustrates that administration expenditure tends to increase unless a close control is maintained. We will see that some provinces spend 3 or 4 times as much as we estimate is required on administration – while, at the same time, essential sectors such as health and infrastructure maintenance have nowhere near enough funding to deliver even a basic level of service.

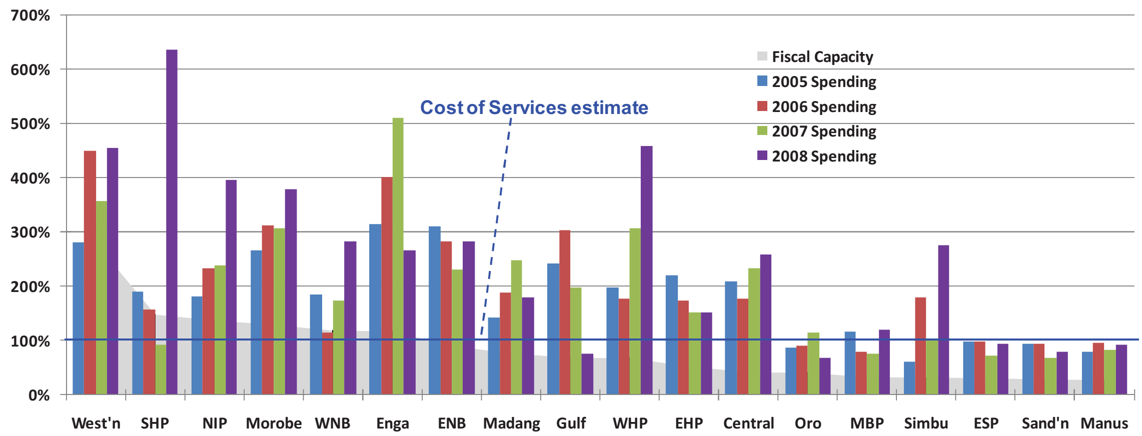
An opportunity to reduce costs

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 2008 trend

The graph that follows illustrates the 2005 to 2008 performance of each province using the cost of services estimate as a benchmark. You will see greater volatility in the spending levels of higher funded provinces compared to those of lower funded provinces.

Graph 36: Administration Spending Performance: 2005 to 2008



10.2.1 Performance Overview

- In 2008 provinces spent on average 252%, or two and a half times the actual administration costs required (in 2006 & 2007 it was two times).
- Administration spending increased by K29 million in 2008 a significantly large increase – spending has moved from K47m...K55m... K56m...**K85m**. Most of the increased spending was in provinces with higher levels of internal revenue.
- Four provinces positively decreased their spending in 2008; Enga, Madang, Gulf and Oro. In 2007 nine provinces had decreased their spending on administration.
- Administration spending in the Southern Highlands was very high – being K13.8m.

- 82%, or K70.8 million, of spending on recurrent goods and services on administration was funded from internal revenue (2007: 84%, K47.7m).

The administration data table provides a snapshot of administration expenditure data for the period 2005 to 2008 together with key fiscal indicators. 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:

10.2.2 Spending in 2008 compared to prior years

- Recurrent administration sector spending on goods and services rose by K29 million from K57 million to K86 million. This compares to the Cost of Services study which estimated that K32 million was required.
- Much of the K29m additional spending on administration in 2008 happened in seven provinces, these were Western, Southern Highlands, New Ireland, Morobe, West New Britain, East New Britain, Western Highlands.
- Most high and some medium funded provinces spend many times the cost estimate.
- Most low funded provinces spend close to what we estimate is necessary. That said, Central and Simbu have spent around two and a half times the cost estimate.
- Again we see a clear 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, even many times, what is necessary.[31]

10.2.3 Spending from Internal Revenue

- Internal revenue funded 82% 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.

[31] 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.

10.2.4 How did we spend?

The tables that follow show us how administration monies were spent.

Table 37: Analysis of all Administration Spending in 2008[32]

The 5 Largest Spending Areas (by item)

Item #	Item Description	Amount	%
135	Other Operational Expenses	47,489,332	29%
112	Casual Wages	12,528,042	8%
125	Transport and Fuel	9,681,862	6%
111	Salary & Allowances	9,277,441	6%
121	Travel and Subsistence Exp's	8,992,270	6%
	all other codes	73,275,530	45%
	Total spending from recurrent & capital	**161,244,477**	**100%**

The Split by Category

Category Description	Amount	%
Recurrent Goods & Services	85,963,318	53%
Personnel Emoluments	39,968,332	25%
Capital & Projects	35,312,827	22%
Total spending from recurrent & capital	**161,244,477**	**100%**

We can see that:

- Spending on personnel emoluments was 25% (2007: 37%) of all administration spending. Two of the top-5 expenses relate to personnel emoluments (note this **IS NOT** the regular staff payroll):
    - Other salaries and allowances (item 111)
    - Casual wages (item 112)
- The highest single item of spending was 29% (2007: 19%) being 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-5, recording 6% (2007: 7%) of total spending.
- Spending on capital & projects increased significantly and comprised 22% of total spending on administration (2007: 8%). In kina, spending moved from K8.7m to K35m.
    - This spending covers a variety of items such as; the construction (or improvement) of office buildings & staff houses including new district centres and new vehicles.

[32] These amounts include spending from both *national grants* and *internal revenue* on goods and services, personnel emoluments and capital and development. But <u>not</u> spending from PIP and SSG funds.

10.3 Administration Data Table

Administration Sector												
	Province	Cost of Services	2005 Exp	2006 Exp	2007 Exp	2008 Exp	% change	Compared to last year	2008 Internal Revenue Exp	Unspecified Arrears	Spending level achieved v CoS	
				(Kina millions)					% of total exp		2007	2008
Higher funded	West'n	2.212	4.900	8.281	6.909	10.034	46%	Up	98%	1.377	356%	454%
	SHP	2.185	3.144	2.781	1.730	13.869	702%	Up	89%	-	92%	635%
	NIP	1.628	2.346	3.180	3.408	6.446	90%	Up	100%	0.160	238%	396%
	Morobe	2.731	5.765	7.138	7.310	10.330	42%	Up	100%	-	306%	378%
	WNB	1.566	2.248	1.487	2.369	4.416	87%	Up	68%	1.150	173%	282%
	Enga	1.694	4.275	5.730	7.640	4.509	-41%	Down	85%	3.544	509%	266%
Medium funded	ENB	2.029	5.125	4.897	4.149	5.727	39%	Up	99%	-	230%	282%
	Madang	1.897	2.140	2.969	4.099	3.399	-18%	Down	72%	1.842	247%	179%
	Gulf	0.983	1.890	2.480	1.683	0.732	-57%	Down	21%	0.002	197%	74%
	WHP	1.708	2.724	2.565	4.621	7.808	69%	Up	92%	1.460	307%	457%
	EHP	1.631	2.867	2.383	2.145	2.453	15%	Steady	62%	0.200	150%	150%
Lower funded	Central	1.489	2.526	2.222	3.041	3.842	27%	Up	80%	0.178	231%	258%
	Oro	1.316	0.901	1.001	1.313	0.893	-33%	Down	57%	0.548	114%	68%
	MBP	1.825	1.687	1.219	1.214	2.176	80%	Up	28%	-	75%	119%
	Simbu	1.504	0.737	2.271	1.362	4.137	204%	Up	13%	-	103%	275%
	ESP	2.625	2.070	2.159	1.657	2.471	50%	Up	58%	0.638	72%	94%
	Sand'n	1.905	1.441	1.504	1.141	1.488	31%	Up	68%	-	68%	78%
	Manus	1.357	0.866	1.095	0.975	1.236	27%	Up	73%	0.292	82%	91%
	All Provinces	**32.286**	**47.649**	**55.363**	**56.765**	**85.963** (b)	52%	**Up**	**70.872**	**11.392** (a)		

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

The area of spending on arrears became a focus in 2007 and continues in 2008. 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, multi-purpose etc.

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

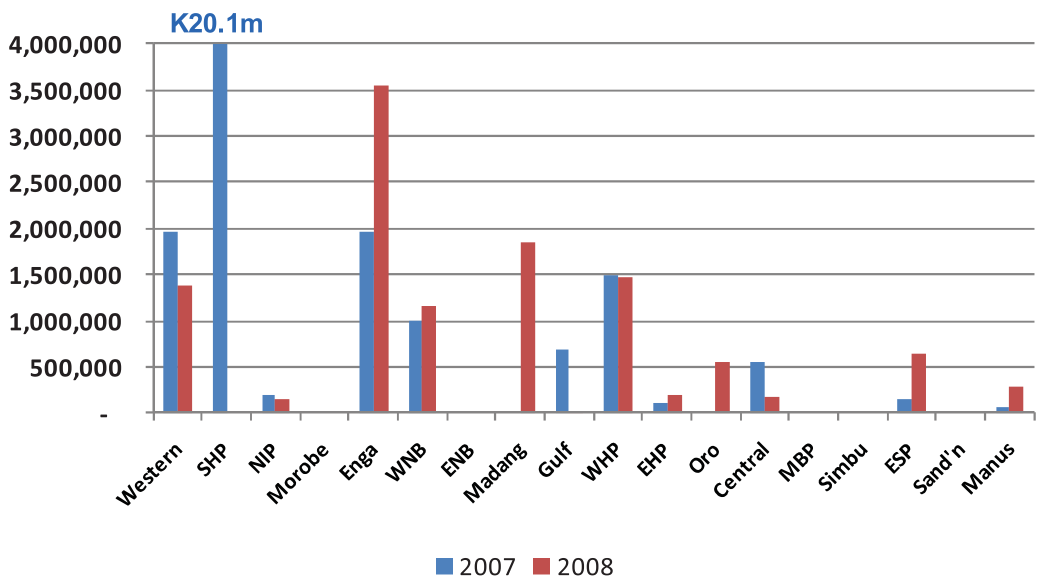
- Transparency: when costs are paid under such a budget heading there is almost no transparency as to what the underlying purpose for the expenditure is. As we know, transparency is an essential feature of good governance and any practices that hide the purpose of expenditure should be avoided.

- 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

Seven provinces spent significant amounts on unspecified arrears in 2008.

Graph 38: Spending on Unspecified Arrears: 2007 and 2008



What we can see is:

- Spending by the Southern Highlands which dominated the 2007 results – is now zero.
- Significant spending on unspecified arrears continues to be present in Western, Enga, West New Britain and Western Highlands. And lesser amounts in Eastern Highlands, Central, East Sepik and Manus.
- In 2008 arrears spending has appeared in Madang and Oro.

10.5 Drilling down: Consolidated Expenditure

10.5.1 Overview

One of the explanations offered in response to the high spending levels on administration is that a part of the administration expenditure is actually a consolidated or combined cost which relates specifically to a variety of sectors – not just the administration sector. An example of this could be electricity that is paid as a total under one vote, yet it specifically relates to buildings occupied by staff from other sectors such as health and education in addition to administration staff. We wanted to analyse and illustrate the possible impact of these consolidated costs and to see if it painted a significantly different picture of provinces administration spending performance.

10.5.2 Discussion & Approach

Identifying service sector expenditure amounts hidden within administration votes is a challenging task. For this analysis to be meaningful we need to take a structured yet sensible approach. The following over-arching principle helps define what expenditure will be viewed as consolidated:

Specific expenditure only – not general unspecified spending buckets

This means that consolidated expenditure for the purposes of this analysis we will restricted to areas of expenditure that present as normal, regular and have a sense of defined reasonableness, such as:

- Office rental
- Vehicle related costs, such as maintenance and in some cases fuel
- Utility charges, such as electricity, water and telephone
- Security charges

The graph on the following page groups administration expenditure in three ways; (1) normal administration spending, (2) consolidated spending that relates to administration, and (3) consolidated spending that relates to other sectors.

- Administration spending: This may be viewed as 'normal' recurrent spending that relates to the various administration divisions.

- Consolidated spending: This represents spending recorded under one vote that may relate to other sectors as well as to administration divisions. For instance, a province may pool and pay all the utility charges for HQ under one vote. Part of these utility charges may relate to other sectors such as health and education not only for administration divisions. Examples of consolidated expenditure may include:

  The admin/other split: It is important to note that this consolidated expenditure is likely to include part that relates to administration divisions and a part that relates to other sectors. We do not have a means of apportioning these costs on an actual basis. The most relevant basis available to us upon which to allocate these costs between administration divisions and other sectors is to base the allocation on staff numbers. Our analysis indicates that at the provincial level, there is normally a fairly even 50/50 split between staff employed in administration divisions and those employed in other sectors. We have applied this 50/50 split as our indicative proxy in the analysis and in the graph below.

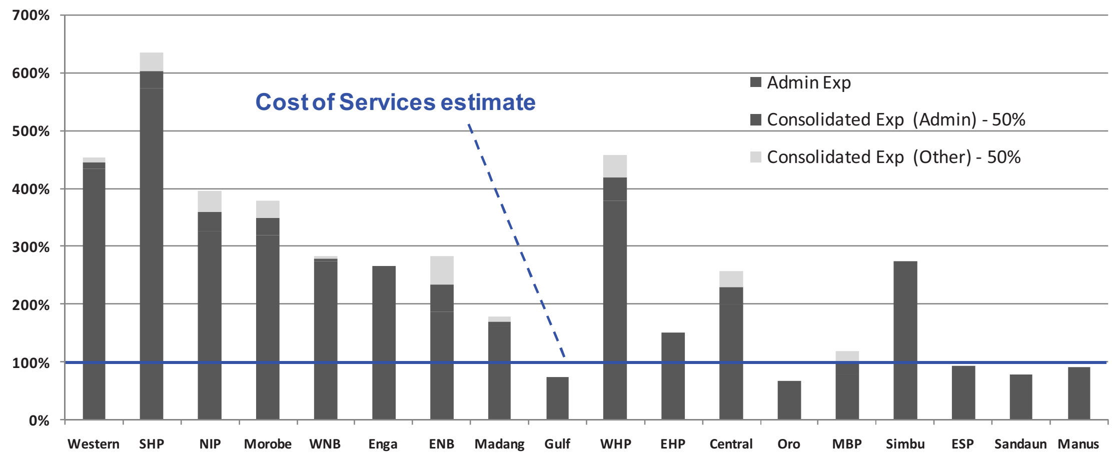
10.5.3 Better Budget Practice

Expenditure that is not included: Due to the varied budget practices employed by provinces, there are administration expenditure votes, sometimes large, that may contain transactions that relate to other sectors. The only way to identify any such transactions that relate to other sectors which are hidden within the administration votes is to conduct a painstaking analysis on a transaction by transaction basis. Time does not allow this. In our experience examples of these include votes named:

- Multipurpose
- General Overheads (undefined)
- Office of the Governor / Item 135
- Office of the Administrator / Item 135

So we can see that it is not possible to disentangle all administration expenditure, and that some administration spending may relate to 'other sectors' yet will still be reported as administration. The best answer is for provincial administrations to create appropriate votes under the relevant sectors in future budgets. As an example, if a significant amount of spending relates to health it should be recorded under health in the budget rather than under an administration vote. This will help ensure that expenditure is recorded and reported under the correct sector and is managed by the appropriate sector manager.

Graph 39: Administration Spending Performance in 2008 – adjusted for consolidated expenditure



The graph above illustrates costs that may in-part apply to other sectors as well as to the administration sector in 2008. What we can see is:

- We found expenditure votes that may contain consolidated costs in six provinces; Southern Highlands, New Ireland, Morobe, East New Britain, Western Highlands and Central.
- Even if we discount the administration spending in these provinces by these amounts (in total or 50%), the provinces concerned still spend;
  - well above the cost of services estimate, and
  - prioritise administration much higher than service delivery
- The analysis suggests that whilst some provinces do spend significant sums on consolidated costs, this does not explain the high priority spending on the administration sector.

11 Conclusion

The 2008 Provincial Expenditure Review ***Walking the Talk*** provides an evidence-based assessment of provincial performance by comparing cost, fiscal capacity and expenditure across provinces between the 2005-2008 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 and we are already seeing positive signs:

- The funding gap that was apparent in our 2005-2007 analysis remains in 2008.

  The good news is that the implementation of the intergovernmental financing reform has 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 occurring services in better funded provinces will remain inaccessible to the many.
- 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 introduction of the *Unit Costing Model*, a tool designed to aid provinces with their budgeting. The model serves as a benchmark and has been provided to ten provinces in 2008.
- In overall terms, spending across MTDS sectors increased between the period 2005-2008. If we were to adjust for the impact of inflation and population rises spending would have 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 2007 and 2008 by over K44 million (50%). Although spending by higher funded provinces accounts for a large portion of this. Clearly, 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.
- In 2008 70% 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 impact of employing additional staff. Increasing staff numbers places more demand on the recurrent goods and services budget. When we employ additional staff they need to be resourced. They need office space, use electricity, 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.

Education

- Between 2005 and 2008 education spending increased by K10 million (30%), education remains the best funded MTDS service delivery sector.
- 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. We need to properly cost, fund and manage this area.

Health

- Between 2005 and 2008 health spending has increased by K6 million (47%) and yet the sector remains very poorly funded. Additional funding is required across all provinces to support specific health service delivery activities at the front line.
- Significantly more HSIP funding was again accessed for health in 2008. However many higher funded provinces seem to ignore this funding source – despite allocating little provincial funding to the sector. Provinces should use all means at their disposal to support priority areas.

  The increase in HSIP spending on recurrent health activities does raise the question ***substitution***. We need to consider the implications of donor funding paying for day-to-day activities that would normally be the responsibility of provincial administrations.
- Spending on casual wages continues to be highly significant in some provinces. The good news is that provinces are using their function grant for goods and services not casual wages. This is a major change for the better, ensuring at least some funding is available to support service delivery.

  Affected provinces should discuss this matter with the Departments of Treasury and Personnel Management – community health worker salaries are normally a National Government responsibility.

Infrastructure

- Recurrent infrastructure spending in 2008 was the lowest level recorded. Spending in 2008 was K7m lower than 2006 so the gap between what is spent and what is required is growing.
- Donor initiatives such as the Road Maintenance and Rehabilitation Project has made some funding available for assisting with recurrent activities but it has been little used.
- Capital spending (rehabilitation and new construction) remains largely restricted to 7 provinces in 2008 – and is supplemented by donor activities i.e. World Bank, ADB and AusAID.
- We need to consider the impact of new infrastructure development. New infrastructure development places increasing demand on the recurrent goods and services budget. Effectively new infrastructure development that is not matched with an increased recurrent budget will reduce service delivery.

Agriculture

- Agriculture spending increased in 2008, up by K3.8 million from 2005.

- There appears to be little evidence of spending on extension work by provincial administrations. How is this basic activity funded if provinces do not fund it themselves? Are extension patrols still occurring?

Village courts

- Village court spending on allowances continues to track upwards – over the 2005-2008 period.
- The village court function grant for operational costs commenced in 2007. We noted a decrease in spending in this area between 2007 and 2008.

Appendix 1: Data Issues – Gulf Province

What we said about Gulf Province in the 2007 PER

Our objective is to paint as clear and accurate a picture of spending against priority service delivery sectors as we can.

Our PGAS data review when combined with information we obtained from discussions on our regular provincial visits highlighted substantive issues surrounding Gulf Province's expenditure management in 2007 and the adverse impact this had on the expenditure picture as reflected in PGAS.

It appears that in 2007 Gulf Province overestimated revenues relating to Special Support Grants. This then resulted in commitments being made for which there was insufficient cash in 2007. This meant that a significant amount of 2007 commitments were carried over (and paid?) in the 2008 fiscal year. These commitments appear to have been recorded as expenditure in late December 2007 but not actually paid until 2008.

One of the important implications of this course of action was that 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 that the function grant monies were not actually expensed on their intended purpose in 2007.

The table that follows shows the spending by Gulf Province from 2005 to 2008 in the administration divisions and in priority service delivery sectors. We can see that in 2007 spending in the larger service delivery sectors of health and education was very low but this was offset by higher spending in agriculture and transport related infrastructure maintenance. In 2008 overall spending levels on MTDS sectors have dipped significantly from K2.3m to K1.4m. Most of this due to under-utilising the function grants.

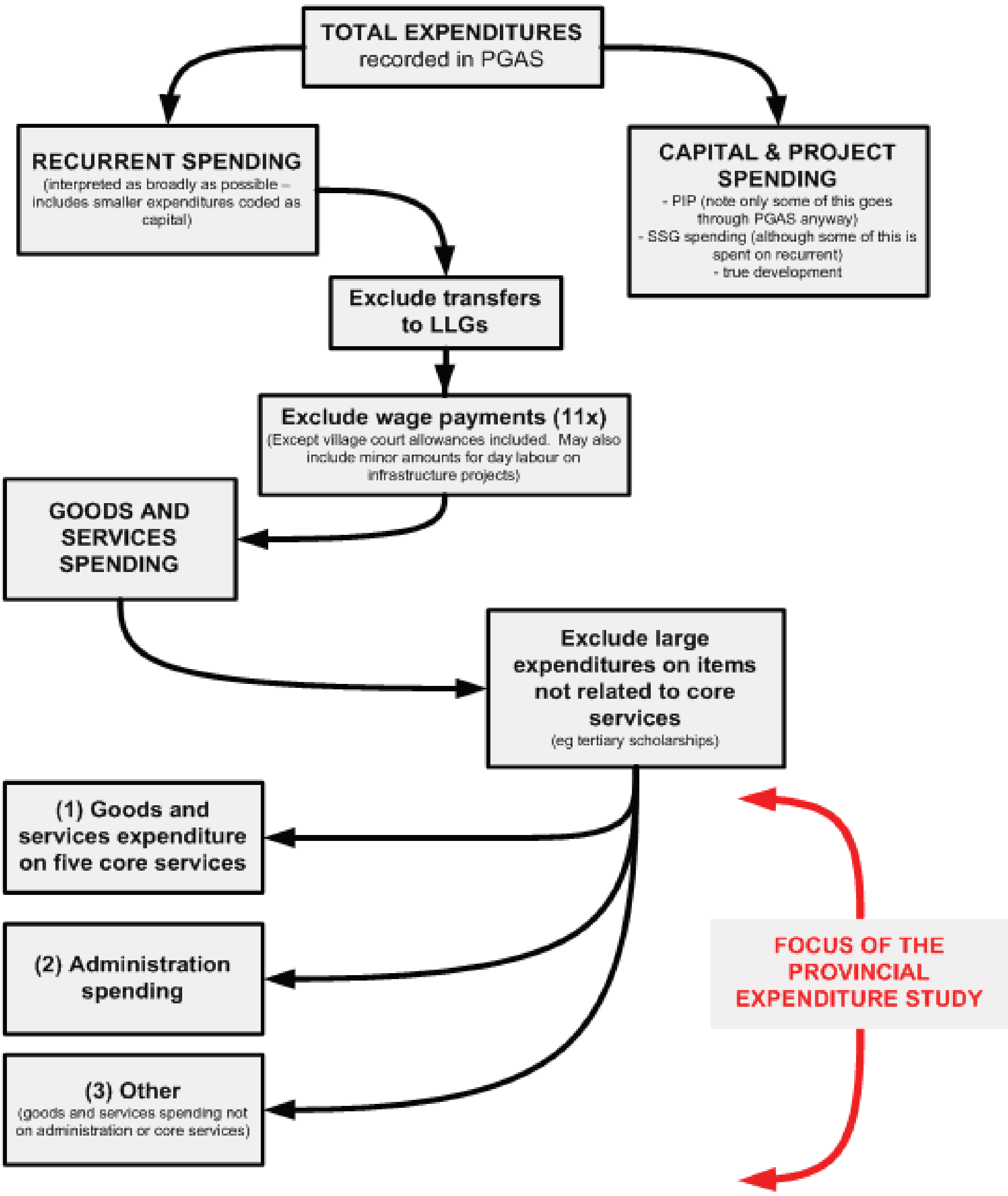
Gulf Province						
Province	**Cost of Services est.**	**2005**	**2006**	**2007**	**2008**	**Comments**
			(Kina millions)			
Administration	0.983	1.890	2.480	1.683	0.732	
Health & HIV Aids	2.342	0.487	0.499	0.231	0.564	23% of function grant not spent
Agriculture	1.068	0.086	0.109	0.678	0.184	
Education	2.323	0.693	0.737	0.307	0.435	59% of function grant not spent
Village Courts						
Infrastructure Maintenance	4.031	1.004	1.156	1.111	0.255	63% of function grant not spent
MTDS Sectors Total	9.763	**2.271**	**2.500**	**2.327**	**1.438**	45% of total function grants not spent in 2008

We understand that the Gulf Provincial Administration continues to be in a dire situation following the closure of the BSP bank branch in Kerema, an event that took place in June 2008. Even after some fourteen months reports indicate there appears to be difficulty in accessing funds at the Provincial level. This, amongst other reasons, may go some way to explaining the spending patterns over the last two years. What is concerning is the negative impact this will be having on maintaining service delivery across the province. Without operational funding frontline services will stop or become woefully ineffective.

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 40: Data – What's in and What's out[33]



33 SSG expenditure was excluded from the initial PER in 2005. Since then, we have increasingly sought to record SSG expenditure under the appropriate sector and to classify it as either *recurrent goods & services* or *capital & projects* – whichever is appropriate.

The move to a more inclusive approach has been driven by our desire to paint as full a picture as is possible.

SSG expenditure that cannot be meaningfully classified is excluded.

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:

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

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

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

………continued on next page

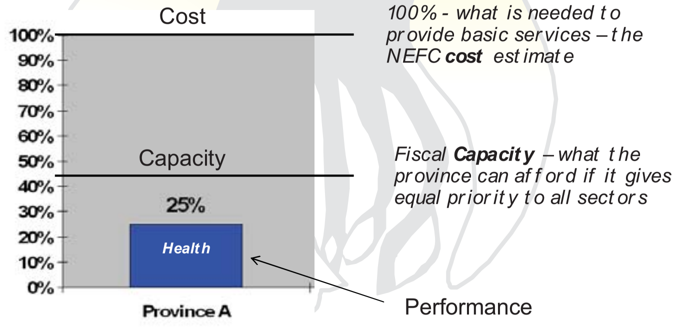
.........continued from previous page

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

3. Let's illustrate that example:

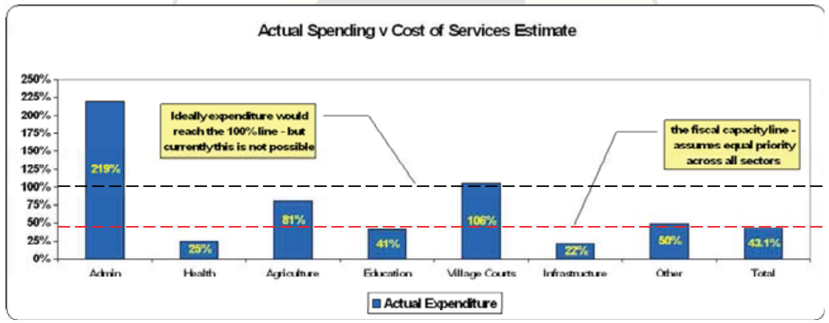
Province A:

- 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

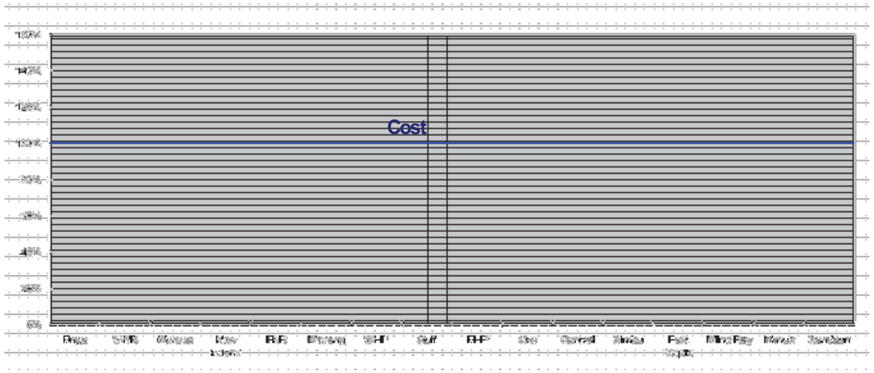


Much of the analysis and findings in this report are presented in a graphical format that compares results by sector across provinces. The graphs bring together the three threads of cost, fiscal capacity and spending performance and enable us to review our progress by comparing performance across provinces. 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)

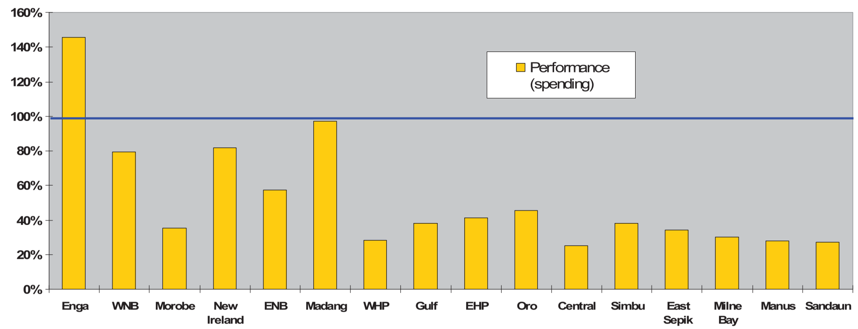
Education Costs

- the blue line represents the amount NEFC believes needs to be spent to adequately support education services
- Ideally we would reach 100% - at this level all basic education services can be provided



Education Spending

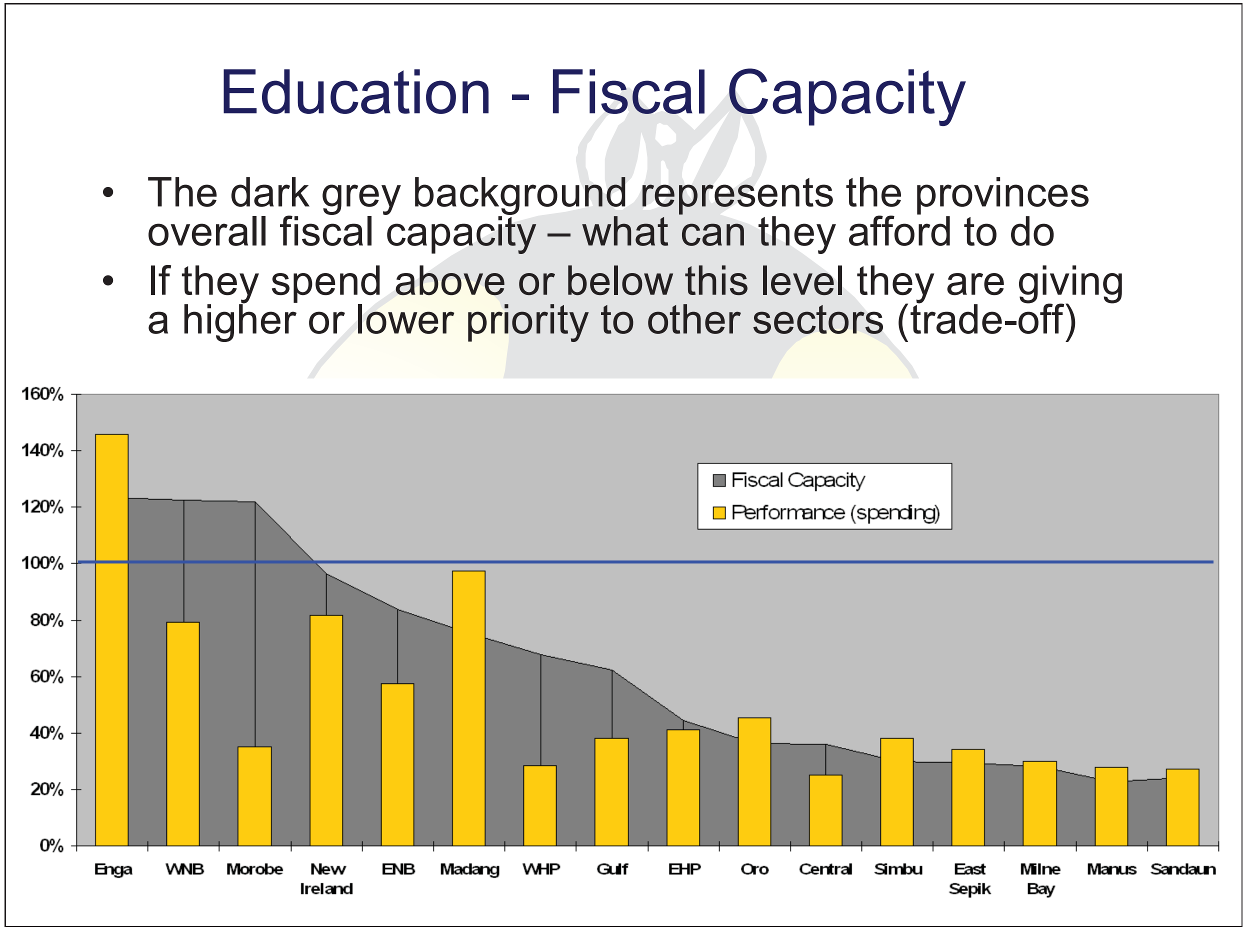
- the orange bars represent the amount the provinces spent in 2005 on recurrent goods & services in education
- Most provinces spent 40% (or less) of what is necessary



………continued on next page

………continued from previous page

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



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 that 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

$$\frac{\text{Actual expenditure}}{\text{Cost of services estimate}} \quad \frac{1{,}045{,}800}{4{,}076{,}867} \times 100\% = \mathbf{26\%}$$

B. Performance adjusted for fiscal capacity

$$\frac{\text{Actual expenditure}}{\text{Cost of services estimate}} \quad \frac{1{,}045{,}800}{4{,}000{,}000} \times 45\% = \mathbf{57\%}$$

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: 2008 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	VC Allowance	VC Operations	Infrastructure	Other	Total Cost Estimate
Central	1,489,320	2,886,924	1,394,705	4,511,432	327,245	108,934	9,799,505	2,674,141	23,192,205
EHP	1,630,969	4,703,793	1,580,638	5,858,273	516,682	65,075	14,332,155	3,004,721	31,692,307
ENB	2,029,129	3,279,872	1,513,316	4,745,134	122,449	57,934	7,405,520	3,000,016	22,153,369
Enga	1,693,607	3,693,609	1,571,286	3,787,019	407,706	94,318	10,044,158	2,500,633	23,792,334
ESP	2,624,535	6,568,496	1,931,422	4,806,161	370,685	117,859	15,293,689	3,190,477	34,903,324
Gulf	983,154	2,341,675	1,067,810	2,322,683	117,261	33,332	4,030,517	1,672,219	12,568,650
Madang	1,897,388	5,241,059	1,837,602	3,615,310	257,602	36,627	9,194,658	3,319,600	25,399,847
Manus	1,356,841	1,361,276	628,203	1,775,123	144,782	56,375	3,499,766	1,545,175	10,367,541
MBP	1,825,237	5,623,683	1,423,855	4,605,139	107,679	68,466	5,533,649	2,713,458	21,901,166
Morobe	2,730,747	6,851,775	2,848,318	8,000,953	310,943	69,018	13,319,392	4,455,995	38,587,142
NIP	1,628,464	3,067,947	818,895	2,681,084	136,823	32,103	3,920,550	2,287,979	14,573,845
Oro	1,315,851	2,637,918	924,581	2,176,385	61,914	38,292	2,978,703	1,889,578	12,023,222
Sandaun	1,904,504	4,644,159	1,968,783	4,389,428	87,169	62,348	5,134,589	1,958,225	20,149,205
SHP	2,184,973	6,883,120	2,648,787	6,162,747	725,058	162,460	10,015,889	3,347,563	32,130,598
Simbu	1,504,291	3,193,548	980,788	4,425,829	480,094	70,125	6,739,681	2,029,059	19,423,415
Western	2,212,319	5,544,106	1,865,044	5,044,382	173,763	118,045	11,648,414	2,774,169	29,380,243
WHP	1,708,305	3,787,030	1,623,130	6,451,258	440,671	235,240	13,709,342	2,734,667	30,689,643
WNB	1,565,940	3,953,687	1,295,922	4,252,492	155,157	173,442	3,052,312	2,717,708	17,166,661
TOTAL	**32,285,573**	**76,263,676**	**27,923,087**	**79,610,833**	**4,943,684**	**1,599,992**	**149,652,488**	**47,815,385**	**420,094,718**

Appendix 7: 2008 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	VC Allowance	VC Operations	Infrastructure	Other	Total Cost Estimate
Central	6.4%	**12.4%**	6.0%	**19.5%**	1.4%	0.5%	**42.3%**	**11.5%**	100%
EHP	5.1%	**14.8%**	5.0%	**18.5%**	1.6%	0.2%	**45.2%**	9.5%	100%
ENB	9.2%	**14.8%**	6.8%	**21.4%**	0.6%	0.3%	**33.4%**	**13.5%**	100%
Enga	7.1%	**15.5%**	6.6%	**15.9%**	1.7%	0.4%	**42.2%**	**10.5%**	100%
ESP	7.5%	**18.8%**	5.5%	**13.8%**	1.1%	0.3%	**43.8%**	9.1%	100%
Gulf	7.8%	**18.6%**	8.5%	**18.5%**	0.9%	0.3%	**32.1%**	**13.3%**	100%
Madang	7.5%	**20.6%**	7.2%	**14.2%**	1.0%	0.1%	**36.2%**	**13.1%**	100%
Manus	**13.1%**	**13.1%**	6.1%	**17.1%**	1.4%	0.5%	**33.8%**	**14.9%**	100%
MBP	8.3%	**25.7%**	6.5%	**21.0%**	0.5%	0.3%	**25.3%**	**12.4%**	100%
Morobe	7.1%	**17.8%**	7.4%	**20.7%**	0.8%	0.2%	**34.5%**	**11.5%**	100%
NIP	**11.2%**	**21.1%**	5.6%	**18.4%**	0.9%	0.2%	**26.9%**	**15.7%**	100%
Oro	**10.9%**	**21.9%**	7.7%	**18.1%**	0.5%	0.3%	**24.8%**	**15.7%**	100%
Sandaun	9.5%	**23.0%**	9.8%	**21.8%**	0.4%	0.3%	**25.5%**	9.7%	100%
SHP	6.8%	**21.4%**	8.2%	**19.2%**	2.3%	0.5%	**31.2%**	**10.4%**	100%
Simbu	7.7%	**16.4%**	5.0%	**22.8%**	2.5%	0.4%	**34.7%**	**10.4%**	100%
Western	7.5%	**18.9%**	6.3%	**17.2%**	0.6%	0.4%	**39.6%**	9.4%	100%
WHP	5.6%	**12.3%**	5.3%	**21.0%**	1.4%	0.8%	**44.7%**	8.9%	100%
WNB	9.1%	**23.0%**	7.5%	**24.8%**	0.9%	1.0%	**17.8%**	**15.8%**	100%
TOTAL	**7.7%**	**18.2%**	**6.6%**	**19.0%**	**1.2%**	**0.4%**	**35.6%**	**11.4%**	**100%**

Appendix 8: 2008 Provincial Revenue Table (in Kina)

The following table details the provincial revenues in 2008. 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 (2008 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	3,074,200	4,033,100	36,800,000	23,200,000	368,200	67,475,500
Gulf	3,424,400	536,800	-	2,505,000	146,100	6,612,300
Central	3,578,300	1,347,500	-	-	7,104,500	12,030,300
Milne Bay	3,913,700	2,313,000	-	-	1,291,900	7,518,600
Oro	2,983,200	1,425,900	-	-	216,700	4,625,800
South. Highlands	7,103,200	1,512,200	29,935,000	3,495,000	182,000	42,227,400
Enga	4,043,300	3,339,600	14,973,000	-	10,504,900	32,860,800
West. Highlands	7,203,800	9,872,200	-	-	2,149,100	19,225,100
Simbu	4,280,200	1,085,300	-	-	421,900	5,787,400
East. Highlands	6,919,800	9,780,500	32,000	-	1,645,200	18,377,500
Morobe	7,717,200	30,722,200	-	-	7,647,400	46,086,800
Madang	5,789,100	10,705,400	-	-	2,922,300	19,416,800
East Sepik	6,010,600	3,158,200	-	-	1,664,800	10,833,600
Sandaun	3,548,500	1,186,300	-	-	1,026,000	5,760,800
Manus	1,433,300	1,156,600	-	-	407,000	2,996,900
New Ireland	2,170,000	3,980,600	18,121,000	-	1,352,600	25,624,200
East New Britain	4,666,900	9,720,200	-	-	7,247,000	21,634,100
West New Britain	6,989,400	4,589,400	-	-	16,553,100	28,131,900
TOTAL	**84,849,100**	**100,465,000**	**99,861,000**	**29,200,000**	**62,850,700**	**377,225,800**

Appendix 9: 2008 Provincial Revenue Table (as a % of total revenue)

The following table details the provincial revenues in 2008 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 (2008 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	4.6%	6.0%	**54.5%**	**34.4%**	0.5%	100%
Gulf	**51.8%**	8.1%	0.0%	**37.9%**	2.2%	100%
Central	**29.7%**	**11.2%**	0.0%	0.0%	**59.1%**	100%
Milne Bay	**52.1%**	**30.8%**	0.0%	0.0%	**17.2%**	100%
Oro	**64.5%**	**30.8%**	0.0%	0.0%	4.7%	100%
South. Highlands	**16.8%**	3.6%	**70.9%**	8.3%	0.4%	100%
Enga	**12.3%**	**10.2%**	**45.6%**	0.0%	**32.0%**	100%
West. Highlands	**37.5%**	**51.4%**	0.0%	0.0%	**11.2%**	100%
Simbu	**74.0%**	**18.8%**	0.0%	0.0%	7.3%	100%
East. Highlands	**37.7%**	**53.2%**	0.2%	0.0%	9.0%	100%
Morobe	**16.7%**	**66.7%**	0.0%	0.0%	**16.6%**	100%
Madang	**29.8%**	**55.1%**	0.0%	0.0%	**15.1%**	100%
East Sepik	**55.5%**	**29.2%**	0.0%	0.0%	**15.4%**	100%
Sandaun	**61.6%**	**20.6%**	0.0%	0.0%	**17.8%**	100%
Manus	**47.8%**	**38.6%**	0.0%	0.0%	**13.6%**	100%
New Ireland	8.5%	**15.5%**	**70.7%**	0.0%	5.3%	100%
East New Britain	**21.6%**	**44.9%**	0.0%	0.0%	**33.5%**	100%
West New Britain	**24.8%**	**16.3%**	0.0%	0.0%	**58.8%**	100%
TOTAL	**22.5%**	**26.6%**	**26.5%**	**7.7%**	**16.7%**	**100%**

Appendix 10: 2005 to 2008 Percentage of Spending in Each Quarter Table

		2008 Fiscal Year					2007 Fiscal Year				
Province	Source	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
Central	Grant	5%	13%	30%	**52%**	100%	2%	20%	19%	**60%**	100%
Central	Internal Revenue	7%	26%	37%	29%	100%	20%	16%	21%	**43%**	100%
EHP	Grant	5%	20%	27%	**48%**	100%	6%	13%	25%	**56%**	100%
EHP	Internal Revenue	15%	15%	19%	**51%**	100%	15%	22%	22%	**41%**	100%
ENB	Grant	-7%	**42%**	**46%**	19%	100%	12%	39%	21%	28%	100%
ENB	Internal Revenue	19%	29%	25%	26%	100%	17%	26%	35%	23%	100%
Enga	Grant	28%	**48%**	-8%	31%	100%	5%	35%	12%	**48%**	100%
Enga	Internal Revenue	14%	32%	20%	34%	100%	19%	**43%**	15%	23%	100%
ESP	Grant	5%	13%	**42%**	**40%**	100%	3%	**41%**	21%	**35%**	100%
ESP	Internal Revenue	19%	19%	23%	**40%**	100%	18%	35%	34%	13%	100%
Gulf	Grant	9%	23%	**49%**	19%	100%	8%	32%	11%	**49%**	100%
Gulf	Internal Revenue	17%	23%	21%	**39%**	100%	6%	39%	35%	19%	100%
Madang	Grant	14%	14%	**42%**	30%	100%	19%	25%	24%	32%	100%
Madang	Internal Revenue	27%	13%	24%	**35%**	100%	16%	24%	22%	**37%**	100%
Manus	Grant	23%	**43%**	21%	13%	100%	7%	25%	25%	**44%**	100%
Manus	Internal Revenue	25%	35%	21%	19%	100%	22%	20%	30%	28%	100%
MBP	Grant	19%	17%	11%	**53%**	100%	1%	33%	15%	**51%**	100%
MBP	Internal Revenue	12%	39%	21%	28%	100%	23%	37%	26%	14%	100%
Morobe	Grant	9%	**49%**	27%	14%	100%	12%	24%	26%	**38%**	100%
Morobe	Internal Revenue	21%	23%	23%	33%	100%	21%	30%	28%	21%	100%
NIP	Grant	16%	14%	**50%**	20%	100%	3%	25%	27%	**44%**	100%
NIP	Internal Revenue	29%	22%	26%	24%	100%	17%	37%	11%	34%	100%
Oro	Grant	29%	9%	30%	31%	100%	1%	20%	15%	**64%**	100%
Oro	Internal Revenue	17%	20%	29%	35%	100%	13%	28%	26%	33%	100%
Sand'n	Grant	11%	14%	**42%**	33%	100%	8%	24%	33%	**35%**	100%
Sand'n	Internal Revenue	11%	17%	24%	**47%**	100%	6%	37%	22%	35%	100%
SHP	Grant	12%	**44%**	21%	23%	100%	Data unavailable				
SHP	Internal Revenue	11%	19%	6%	**64%**	100%	24%	35%	15%	25%	100%
Simbu	Grant	13%	26%	24%	**37%**	100%	13%	30%	25%	32%	100%
Simbu	Internal Revenue	30%	32%	18%	19%	100%	**55%**	14%	14%	17%	100%
West'n	Grant	0%	27%	32%	**40%**	100%	1%	16%	**41%**	**42%**	100%
West'n	Internal Revenue	8%	15%	30%	**47%**	100%	12%	30%	24%	34%	100%
WHP	Grant	9%	19%	39%	34%	100%	5%	24%	14%	**57%**	100%
WHP	Internal Revenue	35%	35%	23%	7%	100%	28%	17%	31%	24%	100%
WNB	Grant	19%	35%	20%	26%	100%	12%	33%	22%	33%	100%
WNB	Internal Revenue	13%	20%	30%	**37%**	100%	11%	24%	18%	**47%**	100%
Average of Grants		**12%**	**26%**	**30%**	**31%**	**100%**	**7%**	**27%**	**22%**	**44%**	100%
Average of Internal Revenue		**18%**	**24%**	**23%**	**34%**	**100%**	**19%**	**30%**	**24%**	**28%**	**100%**

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