**National Economic and Fiscal Commission** 

# Green Shoots of Change

# THE 2009 PROVINCIAL EXPENDITURE REVIEW With trend analysis from 2005 to 2009

(Additional copies of this report can be downloaded from the NEFC website)
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# FOREWORD

The *Provincial Expenditure Review* remains one of the key publications that provide a comparative analysis of provincial financial performance. It compares spending against the costs we estimate are required to provide a basic level of services in the critical areas that government operates such as education, health, transport infrastructure and primary production. The *Provincial Expenditure Review* is a major reference resource that assists analysts, policy makers, elected representatives, academics, and those responsible for delivering services at the provincial level. It assists in assessing the resources needed for implementing government policies in the provinces and the impact of those policies.

The Papua New Guinea *Provincial Expenditure Review* differs from other expenditure reviews is in two ways. Firstly, it employs a benchmarking approach whereby it compares actual spending against the costs necessary to deliver the services. Secondly, it reflects each province's ability to meet those costs – which we call fiscal capacity.

As you read the review remember:

- The reform of intergovernmental financial arrangements (RIGFA) in Papua New Guinea started in earnest in budget 2009 with provinces receiving more funding based on need. This *review* assesses our progress in the early stages of these reforms.
- The Provincial Expenditure Review assesses progress in service delivery through a fiscal lens, by that we mean that service delivery is viewed in terms of budgets, costs and spending. We know that other perspectives are important and that money is not the complete story. But money is one of the critical resources we use to achieve our aspirations. Services cannot happen if we aren't spending in the right areas.
- Our intention is to paint a picture, to communicate the messages that need to be heard and to highlight the areas where change is needed for services to continue to improve. We also want to highlight and encourage where progress is being made. Critically, we welcome the opportunity to discuss the various aspects of this review with provinces and other stakeholders.

I would like to thank all agencies that have participated in this review in various ways, the Department of Treasury who have and are committing the additional funding, and all the agencies that contribute the valued information; to the Provincial Administrations, the Department of Finance, the Department of Health and the Department of Education my sincere thanks.

Baches

Nao Badu Chairman and CEO National Economic and Fiscal Commission September 2010

# EXECUTIVE SUMMARY

# Green Shoots of 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. The fiscal year 2009 was the first year of implementation of the new intergovernmental financing arrangements that saw more funding reaching the provinces that need it most and targeted at priority sectors and priority activities. It is enormously satisfying to see government allocate more funds to the front-line to fund the activities that make an impact to the rural majority spread across Papua New Guinea. Few would argue that seeing health facilities open and operating, supervising teachers and schools, maintaining roads and watching as extension patrols with health and agriculture professionals cross the districts bringing care and skills are what it is all about. Watching the revitalisation of these activities are the green shoots of change that we need to see.

Five years ago we commenced a process of painting a picture of what was happening in provincial Papua New Guinea. We wanted to know whether service delivery activities were being funded or not and we wanted to find ways to communicate this meaningfully and simply to the many people who play a role in the service delivery supply chain. By establishing and refining this process over the last five years we now have a platform to monitor results and to compare financial performance. Central agencies such as the Department of Treasury and the Department of Provincial and Local Government Affairs are playing a critical role by monitoring performance indicators – an ultimate test that the money is being put to good and proper use.

So, read on and see what is happening. But as you do remember this is year one and we are looking for green shoots of change, positive indications that more money is reaching the places where it makes a difference. In any garden, green shoots are about promising signs and new hope; it is not about miracles or silver bullets. Revitalising services that have stopped or become haphazard takes the efforts of many and includes money, planning and management.

#### The Provincial Expenditure Review series

In 2005 we first painted the picture of what was happening across Papua New Guinea by 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 can we afford?
PERFORMANCE	Does provincial spending support service delivery?

The *Provincial Expenditure Review* has since become an annual publication that continues to inform and challenge us on our journey toward improving the delivery of basic services across the country. *Green Shoots of Change* is the fifth and latest edition in the series. 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.

### RIGFA, is it working?

In 2009, the first year of implementation, we believe there are green shoots of change.

#### Did the increased funding reach the provinces that need it most?

Yes it did, the fiscal capacity of the six lowest funded provinces went from an average of 30% in 2008 to 45% in 2009.

#### Did the increased function grants reach the sectors?

Yes they did, the increased grants were targeted at the Government's priorities – basic education, rural health, transport infrastructure maintenance and primary production.

 Did provinces use the additional function grant funding they received under RIGFA in 2009? Or did they struggle to spend the additional money?

Overall, we can see that in 2009 the amounts of un-used function grant funding remained <u>similar</u> to previous years. The under-spending rate in health decreased whilst in education it increased. So we can be pleased that provinces have been able to put the additional funding to good use.

#### • Were the grants spent on the purposes intended?

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

#### • Was there evidence of spending on MPAs?

Yes there was evidence of spending on MPA's however we need to continue to be proactive in our efforts to support provinces as they seek to revitalise these critical activities.<sup>1</sup> <u>Clearly identifying budget line items</u> will help ring-fence these funds and ensure sectors have the resources necessary to carry out the activities.

#### **Cross-cutting Issues**

- **Funding Gap:** Whilst the funding gap remains it continues to be reduced. More money is reaching the provinces that need it most and is being targeted at priority sectors and activities. 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.
- Priority Gap: 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).
- Minimum Priority Activities: Some activities are absolutely critical and must be carried out. When these activities stop, or happen infrequently or haphazardly service delivery within the sector declines. Under RIGFA we are funding and monitoring a set of 11 priority activities across five sectors (3 in each of education, health and transport infrastructure; and 1 in both primary production and village courts).

<sup>&</sup>lt;sup>1</sup> Supporting provinces to revitalise the minimum priority activities is a shared responsibility. Many provinces have been starved of recurrent funding for a significant period of time. Activities need to be planned, resources and budgets allocated and then monitoring needs to take place at a variety of levels. Central agencies and national line agencies have a critical role to play in supporting this process.

The aim is to fund and revitalise these activities to ensure they happen.

Per diems, pushing up the Thin Blue Line:<sup>2</sup> In 2010 the Department of Personnel Management reviewed and increased the rates of per diem paid to all levels of government. Per diems (also known as TA) are a necessary cost to enable government officers to carry out their work duties. However, this benign-looking policy change will continue to have a highly significant impact on the provinces recurrent budgets. The increase in the per diem rates equates to a K55 million cost increase for provinces. The extra K55 million represents a 12% increase in the cost of services estimate.

What does this mean? In reality the increase in per diems may reduce the amount of duty travel that can take place in each province. Sadly, the costs of undertaking a health patrol, or an agriculture extension visit, or a school supervisory visit will increase markedly which means less of these vital activities may take place. Provincial administrations will themselves need to ensure that core activities are still prioritised despite the increased cost in carrying out these activities.

- Parallel Systems: There is a natural desire to see and report tangible outputs from donor funds. This desire combined with a historical lack of confidence in government systems has led to the practise of establishing systems that run parallel to the government financial system. By systems we mean establishing and operating trust accounts at the provincial level. Whilst this may serve the purpose of the donor, it fragments and dilutes the ability of the province to effectively budget and manage the funds allocated to the province for the delivery of services. We already have an internal fragmentation with the split between grant and internal revenue additional external sources of fragmentation are unhelpful and against the thrust of policy in this area both within Papua New Guinea and internationally.<sup>3</sup>
- District Data: In recent years more funding is finding its way to the district treasuries and thereby under the management of the district administration. We need to design and implement a robust and pragmatic form of data transfer between districts, provinces and the national level that enables this expenditure to be reported more easily, more regularly and more reliably.
- More Infrastructure? 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.

 More Staff? 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.

<sup>&</sup>lt;sup>2</sup> The Thin Blue Line describes the costs of service estimate, being the cost the NEFC conservatively calculates is necessary to be incurred to deliver a particular service.

<sup>&</sup>lt;sup>3</sup> PNG has given considerable emphasis to the *implementation of the international Paris and Accra agreements on aid effectiveness,* which amongst other things commits to the principles of harmonization and alignment. Other agreements signed between PNG and donor partners are written in the same spirit.

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**

The *Provincial Expenditure Review* has stories at every level, let's summarise each major sector:

- *Education:* Recurrent spending in education has increased by K9 million with most provinces <u>spending more</u> in 2009 and some spending significant amounts.
- Health: 2009 saw a positive change in health spending with overall spending increasing by K12.6 million. Many lower and medium funded provinces showed significant increases in their spending on the sector. Spending from HSIP remained strong.
- Transport Infrastructure Maintenance: Maintaining infrastructural assets is expensive particularly when they have left to degrade. Spending identified as routine maintenance increased by K12.8 million in 2009. There is still an enormous amount of work to be done.
- Agriculture: Overall spending on agriculture remains relatively static. Whilst
  agriculture is identified as being the economic bedrock of rural Papua New Guinea a
  major effort appears necessary to revitalise this sector.
- **Village Courts:** The village courts sector receives two grants, one for operations the other for allowances. The grants are in line with the modest cost estimates for the sector.
- Administration: Recurrent spending on administration reduced slightly in 2009 but remains high relative to the estimated costs required and very high relative to what is spent on sectors delivering services.

80% - 60% - 20% - 0% -	Education Spending		Health S 80% 60% 40% 20% 2005 2005 2006 Average Spending	pending 2007 2008 2009 g with HSIP added	Infrastructu 80% 60% 20% 2005 2006 —Average	2007 2008 2009 ge Spending
		Agricultur 60% 40% 20% 2005 2006 —Avera	2007 2008 2009 age Spending	Administra 300% 200% 100% 0% 2005 2006 —Avera	tion Spending	

#### Graph 1: Average Spending by Sector from 2005 to 2009

- **Upward trends:** In education and health.
- Donor impact on recurrent service delivery activities: in education and health.

- Concern:
  - Infrastructure spending remains low and is expensive and will become even more expensive the longer we wait.
  - Administration is high (relatively speaking) and needs to be reduced and managed.

#### What now?

- Prioritisation of internal revenue: More internal revenue needs to go to funding goods and services in the priority sectors of education, health, transport infrastructure and primary production. This applies particularly to higher-funded provinces.
- *Late Spending:* We can demonstrate better planning and expenditure management by spending more evenly during the year and not a large proportion in the fourth quarter.
- Transparency of MPA's: Clearly label MPA's in the 2011 budget showing that funding is reaching these most critical of service delivery activities.
- Transport Infrastructure maintenance: We need to consider how to better define and report the work we are doing on maintaining the roads (and other transport infrastructure assets) that provinces are responsible for. The sooner and more frequently we 'maintain' a road the cheaper it is. Leaving roads to degrade is a terrible legacy for our children to repair.
- **Per diems:** Can <u>central agencies</u> go some way in assisting provinces to meet the 12% increase in their costs that has arisen due to the increase in per diems rates? And can provinces develop good controls and planning to ensure that travel directly related to service delivery is seen as a budget priority.
- Costing policy changes: Can we build upon current practises and cost the impact of proposed policy changes? We need to anticipate the cost that new policy may have and identify where the increased recurrent budgets are to come from. This is particularly pertinent as we consider that today's development cost is tomorrows recurrent cost. As we envision the future and record our aspirations we need to be mindful of the recurrent cost implications of our policies.
- Parallel systems: Donors can assist provinces and all those that play a role in the delivery of services by working through the provincial financial management systems and not creating alternate systems (such as trust accounts).
- **District Data:** We need to design and implement a robust and pragmatic form of data transfer between districts, provinces and the national level that enables district expenditure to be reported more easily, more regularly and more reliably.

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## LIST OF TERMS and DEFINITIONS

Term	Definition
Administration costs	Every sector, whether it be health or education or administration has administration costs. In the NEFC cost of services study administration costs are included in the costs assigned to each sector.
Administration costs	<u>Administration costs</u> should not be confused with the <u>administration sector</u> which includes areas such as; the office of the provincial administrator, internal audit, and human resources.
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 <i>cost</i> refers to what we estimate it will cost not what we necessarily actually spend.
Cost of services study	Describes an NEFC study that estimated how much it costs to support service delivery within a province (health, education, etc) on a district by district basis.
Fiscal capacity	Describes a provinces ability to meet its costs. It is expressed as a percentage and is calculated by dividing <u>available revenue</u> by <u>estimated costs</u> .
Funding Gap	The funding gap is the difference between the <u>revenue</u> a province receives and the amount we estimate it would <u>cost</u> to deliver all the basic services the province is required to provide.
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.
Infrastructure	In the PER the term infrastructure refers to a specific set of government assets. The majority are <u>transport</u> related infrastructure – being roads, bridges, wharves, jetties and airstrips. Other assets included are telecommunications, and power.
	Government buildings are not grouped under infrastructure but are included under the sectors to which they relate.
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.
Operational costs	The term operational costs is used to describe expenditure on goods and services – not personnel emoluments nor capital.
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.

Term	Definition			
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.			
	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:			
Service delivery	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
к	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
ТА	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. In 2006 the NEFC commenced the first in what has become an annual series of reviews that looks at spending across provincial Papua New Guinea. The reviews seek to inform readers of progress and to highlight fiscal issues that may inhibit the provision of services. The reviews are an indicator on how we are doing. The series now includes:

- Cost Capacity Performance (2005)
- It's More than Numbers (2006)
- Closing the Gap (2007)
- Walking the Talk (2008)

The latest review entitled *Green Shoots of Change* is the fifth edition and reviews the situation in 2009. The 2009 fiscal year is particularly interesting as it was the first year of implementation of the reformed intergovernmental financing arrangements (RIGFA). More funding is being allocated to provinces and it is being targeted firstly at those who need it most and at the priority sectors of health, education, transport infrastructure, primary production and village courts. These service lines are identified in the Medium Term Development Strategy as being fundamental to the improved wellbeing of the rural majority across the country and RIGFA ensures the money is allocated in a targeted manner to more effectively assist the front line services that the government wants to restore and improve.

*Green Shoots of Change* provides us with five years of data that has been analysed and is communicated in a style that our readership has become accustomed. Each additional year that is added to this analysis creates an increasingly clear picture of the spending priority of individual provincial governments'. Is it to deliver core services such as health and education? Or is the priority 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 doing so the 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 provided conditionally to provinces to provide some financial assistance to ensure basic and ongoing service delivery.<sup>4</sup> NEFC would also encourage provinces to apply internal revenue for service delivery as in most cases National government grants will not cover the full costs.

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.

#### 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.<sup>5</sup>

**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.

<sup>&</sup>lt;sup>4</sup> 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.

<sup>&</sup>lt;sup>5</sup> Refer to the NEFC Provincial Revenue Report for the fiscal years 2004-2007, as well as the table in Appendix 8.

- Give credit. We erred on the side of giving the benefit of the doubt to the provinces. By that, we mean if the analysis suggested that the expenditure was on recurrent goods and services on a service sector, we would count it. We wanted to paint as positive a picture as we could.
- Assessing the trend. By plotting the trend for 2005-2009 we introduce a way to evaluate where we are spending and whether we stand a chance of improving service delivery. If spending in core areas does not increase, service delivery will not improve. If anything, service delivery will further deteriorate.

#### 1.1.2 Adjustment to the Cost of Services estimates

The cost of services study was completed in 2005<sup>6</sup>. 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.<sup>7</sup> This means that when we compare 2009 expenditure we compare it against 2009 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.

<sup>&</sup>lt;sup>6</sup> The NEFC commenced an update of the 2005 cost of services study in 2009 which at the time of this publication is nearing completion.

<sup>&</sup>lt;sup>7</sup> 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

## 2.1 Provincial Revenue: 2005 to 2009

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 the changes in provincial revenues between 2005 and 2009 that are available to provinces for funding recurrent goods and services.



#### Graph 2: Comparing Available Revenues: 2005 to 2009

What can we see?

- You will note the impact of the implementation of RIGFA, with increasing funds being made available to lower-funded provinces (those toward the right of the graph).
- The trend in most provinces is of increasing revenues.
- New Ireland has enjoyed highly significant increases each year.
- Revenue fluctuations between years are more evident in provinces with revenue from natural resources such as Western, New Ireland, West New Britain, Enga and Southern Highlands.
  - Revenue streams from natural resources fluctuate and often have a limited life. When revenues from natural resources fall provinces become reliant on RIGFA. In 2009 Southern Highland's revenue declined markedly.

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

 Gulf's available revenues appear to have declined in 2009. We did note however, that dividend income that has been present in the past has not been reported in 2009.

Overall untagged<sup>8</sup> provincial revenues grew by 8% between 2008 and 2009, and 40% over the five year period from 2005 to 2009. The 8% rate of revenue growth between 2008 and 2009 is less than what is needed to respond to the rate of inflation and population growth for that period which averaged just over 10% across provinces. In other words, the cost of delivering the same set of basic services has again grown faster than the growth in revenue that pays for these services. In overall terms, we are still going backwards and need to allocate even more to provinces to support them in improving the delivery of basic services.

#### Revenue growth versus Increasing Costs



Over recent years the combined impact of population growth and inflation has meant that the cost of delivering services has risen at a faster rate than the corresponding increase in revenues available to provinces.

So in overall revenue capacity terms we're still going backwards.

What does this mean?

- RIGFA is critical we need to continue to increase the fiscal capacity of provinces to adequately fund critical service delivery activities.
- If costs continue to increase at a faster rate than revenues grow more provinces will become reliant on the national government to fund their fiscal gap.

<sup>&</sup>lt;sup>8</sup> Untagged provincial revenues refers to grant and internal revenue that is not specifically designated for a purpose other than goods and services. In this sense tagged provincial revenue may include staff related grants and development funds.

# 2.2 Fiscal Capacity: Comparing revenue to cost

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

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

The cost of services study <u>very conservatively</u> 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 six 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 2009

This graph illustrates:

 In 2009 we see the implementation of RIGFA. RIGFA provides a significant boost to medium/lower funded provinces. In 2008 the fiscal capacity average for the six lowest funded provinces was 30% - in 2009 it was up to 45%. For the lowest nine the average was 51% in 2009, up from 35% in 2008. These percentages signify a significant improvement in the fiscal capacity of the lower funded provinces.

- 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.
- High: only five provinces have 100% or more of the funds they need to deliver a minimum set of core services (in prior years six provinces exceeded 100%).
- **Medium & low**: 13 provinces do not have sufficient funding to support service delivery to even a very basic level, with one third of provinces having less than half of what they need to deliver basic services.
- In prior PER reviews fiscal capacity (in graph 2) has been an average of revenue against costs over the period i.e. in the 2008 PER it was an average of four years data from 2005 to 2008. The advantage in taking an average is that it removed the impact of volatility in revenues that may occur from year to year. However in 2009 with the implementation of RIGFA we have been compelled to modify our approach to ensure that we continue to communicate a picture that is meaningful, relevant and as accurate as possible. So in 2009 fiscal capacity is calculated as follows:
  - For most higher and medium funded provinces it remains an average of their fiscal capacity for the five year period from 2005-2009.
  - For all lower funded provinces, having received a significant increase in their grant funding under RIGFA, we have reported their fiscal capacity for the 2009 year only (not an average of 2005-2009). The rationale being that the gains under RIGFA represent a sustainable improvement to their fiscal capacity and that reporting an average would communicate a distorted (reduced) level of fiscal capacity.
  - Gulf Province: We have already mentioned that Gulf's available revenues appear to have declined markedly in 2009. We did note however, that dividend income that has been present in the past has not been reported in 2009. Gulf's fiscal capacity, on reported revenue, in 2009 is down to 36%. However given Gulf's previous position as a 'medium-funded' province and the uncertainty over Gulf's actual revenues we have maintained the approach of reporting their fiscal capacity as an average of their 2005-2009 revenues. This maintains their position as a medium funded province.

#### 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 2009

Where did provinces collectively spend their revenue in 2009? 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 2009.

	Administration Sector	MTDS Sectors	LLG Transfers	Other Sectors, Arrears, Unspecified	Total
Internal Revenue					
Goods & Services	68,701,965	47,189,666	10,977,674	32,053,907	158,923,211
Personnel Emoluments	28,662,869	13,239,983	2,297,654	972,400	45,172,906
Capital & Projects	18,698,901	113,002,013	-	40,677,168	172,378,083
Total Internal Revenue	116,063,735	173,431,662	13,275,328	73,703,475	376,474,200
Grants					
Goods & Services	13,714,959	95,261,249	41,966,410	12,224,674	163,167,291
Personnel Emoluments	6,779,961	19,565,079	-	515,966	26,861,006
Capital & Projects	1,939,990	20,402,295	2,302,900	9,317,000	33,962,185
Total Grants	22,434,910	135,228,624	44,269,310	22,057,640	223,990,483
Total					
Goods & Services	82,416,924	142,450,915	52,944,083	44,278,580	322,090,503
Personnel Emoluments	35,442,830	32,805,062	2,297,654	1,488,366	72,033,913
Capital & Projects	20,638,891	133,404,309	2,302,900	49,994,168	206,340,268
Total All	138,498,645	308,660,286	57,544,637	95,761,115	600,464,683

#### Table 4: Expenditure Overview Table 2009<sup>9</sup>

Between 2006 and 2009 overall spending has moved from K425m...K389m...K581...K600m, whilst overall there is a clear increase in spending during the period the movements have varied between years.

Comments on the data:

 Spending on recurrent goods and services in MTDS sectors has increased markedly, from K107m to K142m, an increase of 32%. Most of this increase is due to RIGFA and the significant increase in the amount of function grants received by provinces.

<sup>&</sup>lt;sup>9</sup> 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.

- 2009 has seen a sharp rise in spending by provinces on capital & projects in the MTDS sectors. From K95m to K133m, an increase of K38m or 40%).<sup>10</sup>
- Spending on capital & projects in other non-MTDS sectors has declined by some K32m between 2008 and 2009.
- The sharp rise in administration sector spending between 2007 and 2008 has decreased a little in 2009.
- Staff related costs (personnel emoluments, but not government payroll) are 12% of total expenditure (13% in 2008).<sup>11</sup>

### 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 2009.<sup>12</sup> What we can see is:

- Spending from internal revenue had increased dramatically between 2007 and 2008. In 2009 we see a slight decrease however in general terms the high spending level reached in 2008 has been maintained. In 2009 provinces spent K376 million from internal revenue (K388 million in 2008).
- Do provinces use internal revenue to contribute to service delivery activities?
  - Broadly speaking yes, in kina terms the amount of spending on recurrent goods and services from internal revenue has remained about the same at K47 million in 2009 (K45 million in 2008).
  - However with the implementation of RIGFA and the increase in targeted grant funding internal revenue expenditure now comprises a lesser proportion of spending on recurrent goods and services in MTDS sectors. In 2009 internal revenue was 33% of recurrent goods and services in MTDS sectors down from 42% in 2008.
- 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, more internal revenue needs to be appropriated and expended on recurrent goods & services in MTDS sectors.
  - To put it in perspective the K47 million that was spent on core MTDS activities represents only 12% of all spending from internal revenue by provinces. Clearly there is a need to reallocate a greater proportion to service delivery activities in MTDS sectors.

<sup>&</sup>lt;sup>10</sup> This is spending through the provincial budget and does not include development spending at the district level through ORD.

<sup>&</sup>lt;sup>11</sup> 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.

<sup>&</sup>lt;sup>12</sup> The table summarises all spending but <u>excludes</u> expenditure from SSG and PIP funds where identifiable.

- In contrast, the administration sector alone received K116 million or 31% of the internal revenue spending budget.
- More internal revenue was used to fund recurrent goods & services costs in administration (K69 million) than on all MTDS priority sectors (K47 million).
- Reprioritisation: For those provinces with a large amount of internal revenue there is a need for a reprioritisation to occur in future budgets. If more internal revenue is not directed toward service delivery activities in priority sectors then those activities simply will not occur and services can not improve.
- A total of 57% 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.



Graph 5: Expenditure from Internal Revenue in Major Sectors: 2005 to 2009

The graph above illustrates spending on **recurrent goods and services** from internal revenue in the major sectors for the 2005-2009 fiscal years.

- Administration continues to receive the biggest slice of internal revenue at 43%.
- Health continues to receive very little recurrent support from internal revenue.
- Spending levels on the main MTDS sectors; health, education and infrastructure maintenance remained very constant.

<sup>■ 2005</sup> **■** 2006 **■** 2007 **■** 2008 **■** 2009



Graph 6: Internal Revenue spending in MTDS Sectors by province in 2007 to 2009

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

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

courts between 2007 and 2009.

- When a province has low (or reduced) levels of internal revenue much of what they do
  have is applied to administration and not the MTDS service sectors.
- It is pleasing to see Western, Southern Highlands and New Ireland provinces continue to spend significantly from internal revenue on priority MTDS sectors in 2009.
- It is also pleasing to see Central allocate and spend more of their internal revenue on priority MTDS sectors in 2009.
- We note sharp declines in spending by Morobe and East New Britain on core services from internal revenue.

# 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 7: Sector Spending by Source in 2009 (recurrent & capital)

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

- The implementation of RIGFA has made a significant difference with additional grant funding impacting the large health, education and infrastructure maintenance sectors.
- Administration remains the single highest spending area.
- Education and infrastructure maintenance are the next best supported priority sectors.
- Whilst health has improved it remains low relative to what the sector needs to be able to function better.
- Agriculture receives relatively low levels of funding.
- In the law & order sector, village courts are mostly funded by grants whilst internal revenue supports other law & order sub-sectors.



Graph 8: Sector Spending by Type in 2009 (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 (34% of total spending) is highest in infrastructure maintenance and education. There are also large amounts spent in law & order, administration & other.
  - The infrastructure maintenance spending largely refers to transport related activities such as roads and bridges. We know that expensive assets that are not routinely maintained result in huge rehabilitation projects to bring them back up to a usable standard. So part of the capital spending is on rehabilitation, other significant areas of spending are new assets (such as new roads or extending existing roads) and also the purchase of expensive machinery such as bulldozers.
  - Capital spending on education includes building additional facilities such as classrooms, or on rehabilitating existing ones that are badly run-down. In some cases it includes funding tertiary students and tertiary institutions.
- Personnel emoluments expenditure is highly significant in administration, health and education (26%, 19% and 18% respectively).
  - Spending on personnel emoluments does not include the public servants salaries that are paid from Waigani. Rather, it includes areas that are budgeted and controlled at the provincial level such as leave entitlements and casual wages for employees that are not on the national payroll.
  - Personnel emoluments expenditure in the administration sector relates mainly to public servants leave fares and politicians allowances. In education it relates mainly to teachers leave fares, and in health it relates to a few provinces who still expend large amounts on casual wages for community health workers or other employees.



Graph 9: Spending by Sector: 2005 to 2009

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 2009. You will observe:

- 2009 sees the implementation of RIGFA and significant spending increases in the priority large sectors of health, education and infrastructure maintenance.
- The elevated spending on administration in 2008 is maintained in 2009.



#### Graph 10: MTDS Spending: 2005 to 2009

The graph above illustrates spending on recurrent goods and services in MTDS sectors by province from 2005 to 2009.

12 provinces showed notable increases in spending in priority sectors.

- The arrival of RIGFA sees lower funded provinces spending much more to support priority service delivery sectors.
- Of the higher funded provinces Western and New Ireland maintain the higher spending levels that first occurred in 2008.
  - With the cautionary note that the higher spending is not spread proportionately across all priority sectors – some sectors get more than others.
- Southern Highlands and Western Highlands shows increased spending after dips in earlier years.
- Gulf shows signs of improvement in 2009 after the steep drop-off in 2008.
- Morobe shows a concerning decline.

# 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 2009, we see again around a third of internal revenue expenditure and an alarming 40% of grant 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 <u>during</u> the year when the spending to support service delivery occurs so late?



#### Graph 11: The Average Level of Spending in each Quarter<sup>13</sup>

- Spending in the first quarter was even lower than usual
- Spending in the 4<sup>th</sup> quarter of 2009 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.

<sup>&</sup>lt;sup>13</sup> Cheques raised to transfer unspent funds at year-end have been removed from this analysis to avoid distortion.

#### Table 12: 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 2009 and 2008. Information for the 2005-2008 fiscal years is available in the 2008 PER on the NEFC website: <a href="https://www.nefc.gov.pg/publications">www.nefc.gov.pg/publications</a>

2009 Fiscal Year				Year 2008 Fiscal Year							
Province	Source	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
Central	Grant	13%	26%	29%	33%	100%	5%	13%	30%	52%	100%
Central	Internal Revenue	10%	19%	21%	50%	100%	7%	26%	37%	29%	100%
EHP	Grant	9%	3%	45%	43%	100%	5%	20%	27%	48%	100%
EHP	Internal Revenue	12%	14%	29%	45%	100%	15%	15%	19%	51%	100%
ENB	Grant	14%	9%	33%	44%	100%	-7%	42%	46%	19%	100%
ENB	Internal Revenue	14%	31%	25%	30%	100%	19%	29%	25%	26%	100%
Enga	Grant	16%	28%	27%	29%	100%	28%	48%	-8%	31%	100%
Enga	Internal Revenue	19%	14%	24%	43%	100%	14%	32%	20%	34%	100%
ESP	Grant	9%	13%	29%	49%	100%	5%	13%	42%	40%	100%
ESP	Internal Revenue	20%	44%	21%	14%	100%	19%	19%	23%	40%	100%
Gulf	Grant	6%	17%	41%	35%	100%	9%	23%	49%	19%	100%
Gulf	Internal Revenue	21%	47%	33%	0%	100%	17%	23%	21%	39%	100%
Madang	Grant	12%	28%	19%	42%	100%	14%	14%	42%	30%	100%
Madang	Internal Revenue	12%	18%	26%	44%	100%	27%	13%	24%	35%	100%
Manus	Grant	14%	25%	23%	37%	100%	23%	43%	21%	13%	100%
Manus	Internal Revenue	20%	35%	15%	29%	100%	25%	35%	21%	19%	100%
MBP	Grant	9%	15%	31%	45%	100%	19%	17%	11%	53%	100%
MBP	Internal Revenue	17%	32%	26%	25%	100%	12%	39%	21%	28%	100%
Morobe	Grant	0%	26%	27%	48%	100%	9%	49%	27%	14%	100%
Morobe	Internal Revenue	18%	27%	27%	28%	100%	21%	23%	23%	33%	100%
NIP	Grant	6%	26%	40%	28%	100%	16%	14%	50%	20%	100%
NIP	Internal Revenue	8%	37%	35%	20%	100%	29%	22%	26%	24%	100%
Oro	Grant	5%	33%	17%	41%	95%	29%	9%	30%	31%	100%
Oro	Internal Revenue	2%	22%	27%	50%	100%	17%	20%	29%	35%	100%
Sand'n	Grant	6%	29%	18%	48%	100%	11%	14%	42%	33%	100%
Sand'n	Internal Revenue	13%	33%	31%	24%	100%	11%	17%	24%	47%	100%
SHP	Grant	3%	29%	59%	8%	100%	12%	44%	21%	23%	100%
SHP	Internal Revenue	12%	53%	9%	26%	100%	11%	19%	6%	64%	100%
Simbu	Grant	5%	20%	46%	29%	100%	13%	26%	24%	37%	100%
Simbu	Internal Revenue	35%	20%	30%	14%	100%	30%	32%	18%	19%	100%
West'n	Grant	1%	26%	7%	66%	100%	0%	27%	32%	40%	100%
West'n	Internal Revenue	7%	22%	31%	41%	100%	8%	15%	30%	47%	100%
WHP	Grant	2%	34%	19%	46%	100%	9%	19%	39%	34%	100%
WHP	Internal Revenue	0%	40%	20%	39%	100%	35%	35%	23%	7%	100%
WNB	Grant	6%	21%	26%	47%	100%	19%	35%	20%	26%	100%
WNB	Internal Revenue	9%	22%	21%	48%	100%	13%	20%	30%	37%	100%
Average of G	Grants	8%	23%	30%	40%	100%	12%	26%	30%	31%	100%
Average of l	nternal Revenue	14%	29%	25%	32%	100%	18%	24%	23%	34%	100%

Instances where spending exceeds 35% in a quarter are highlighted in bold.

 Red suggests that the timing of spending is out of step with normal service delivery activities, and raises the concern that inefficiencies and 'blockages' may be present and that year-end wastage may be occurring to 'clear the accounts'.

# 3.5 Funds Transferred from Provincial Administrations

In this section of the report we consider how much funding is passed from the provincial administration to districts, local level governments and other agencies. What does the evidence show us? Is the practice widespread and across many provinces? Is it more common in some sectors than others? And when it does occur is it for recurrent or capital purposes?

- Are provincial administrations passing on the LLG grants to the local level governments?
- Are function grant funds being transferred to districts, local level governments or other agencies?
- Are provincial administrations transferring internal revenue and development funds to these levels?
- We also analyse the distribution of school subsidies from the provincial administrations direct to schools.

#### 3.5.1 Implications:

One important question is which agency or agencies are actually monitoring district spending? Do provincial administrations monitor spending by districts? Or does DPLGA or the Department of Finance? Or perhaps it is the Office of Rural Development? The challenge for anyone seeking to monitor district spending is the lack of readily available financial information. Without regular and timely financial reports it is impossible to monitor what is and isn't happening in the 89 Districts across the country. And with more and more funding being expensed at district level it seems the need to address this matter in a robust way is becoming even more important.

One critical issue is that the individual electronic financial management systems in each district (the software is called PGAS) are not electronically linked to the province's provincial treasury financial management system. This lack of data connectivity means that any reports need to be generated by each district in hard copy (i.e. on paper) and delivered to the provincial treasury. Does this happen? Do any reports flow regularly between districts and provincial administrations? Or perhaps between districts and those national agencies that have the mandate to monitor the expenditure of funds expensed at district level? Our enquiries suggest that such reporting, if it happens, is haphazard.

We need to design and implement a robust and pragmatic form of data transfer between districts, provinces and the national level that enables this reporting to happen more easily and more reliably.

# Are provincial administrations passing on the LLG grants to the local level governments?



Graph 13: Transfer of LLG Grants – it happens

- Yes, in most cases provinces transfer all the LLG grants directly to their LLGs.
- Eastern Highlands and Western Highlands spend a proportion of the grant from the PHQ.
- Three provinces carried some of the grant forward East New Britain, Madang and New Ireland.

What are provincial administrations transferring districts?



Graph 14: What funds were transferred down to Districts?

- Six provinces transferred K1 million or more from their function grant funding to districts.
- Eight provinces transferred approximately K4 million or more to districts from any source of funds.
- Most funds transferred 'down' were described as development.

# Are function grant funds being transferred to districts, local level governments or other agencies?



Graph 15: Function Grants transferred to Districts

- Five provinces transferred K1.5 million or more of their function grant funding in 2009.
   being Central, East New Britain, Morobe, Western Highlands and West New Britain.
   Whilst this is a small percentage overall, it does not suggest that in 2009 there is wide-spread trend of recurrent funding for service delivery going to districts.
- Health (6 provinces) and transport infrastructure maintenance (5 provinces) were the sectors most represented.
- In health four provinces transferred over half their grants to districts being Central, East New Britain, Gulf and Milne Bay.

# We also analyse the distribution of school subsidies from the provincial administrations direct to schools.



Graph 16: Transfers to Schools, TVETs and Universities

- Ten provinces each transferred over K1 million directly to schools as subsidies from their education function grant or from internal revenue.
- New Ireland transferred the most in 2009, followed by Southern Highlands. Both provinces demonstrate education is a provincial priority.
- Transfers to universities are present in 12 provinces, whilst transfers to technical colleges and vocational institutes are apparent in six.

# 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.

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

#### Answering questions about performance
# 4.2 The Twin Gaps of Priority and Funding

This graph draws together <u>all</u> provincial spending on MTDS priorities and compares this with the cost of fully funding the MTDS priorities. It that is, something provinces individually have the power to change by allocating more money within their province to basic services – we call demonstrates the twin hurdles we face in improving the delivery of services throughout the provinces. The first is a matter of provincial choice, this the priority gap<sup>14</sup>. The second is a matter of funding, many provinces simply do not have sufficient funding – we call this the funding gap.



# Graph 17: Supporting MTDS priorities: 2005 to 2009

<sup>&</sup>lt;sup>14</sup> 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 <u>funding gap</u> – 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 has started the process of addressing this funding gap. The 2009 GoPNG budget provided an overall 40% increase from the 2008 Budget in recurrent goods and services funding to Provincial Governments, with an extra K34m distributed to those provinces that need it most – we can see the impact of the increased spending by lower and medium funded provinces.

 There is a <u>priority gap</u> – 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 and infrastructure maintenance).

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:
  - The major increases in Western and New Ireland in 2008 have been sustained in 2009.
  - Many lower funded provinces and some medium funded provinces have increased their recurrent spending on MTDS sectors in Kina terms. This is good.
  - > Overall <u>declining</u> spending on MTDS sectors by Morobe and Eastern Highlands.
  - Expenditure in several provinces has recovered and returned to their 2005 levels Southern Highlands, 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 is adequately funding all priority services.<sup>15</sup> They can improve by redirecting money from low priority areas such as the administration sector and projects to service delivery sectors particularly <u>health</u>, <u>agriculture</u> and routine <u>infrastructure maintenance</u>.

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.

<sup>&</sup>lt;sup>15</sup> Whilst New Ireland appears to be spending a sufficient amount to cover the recurrent cost total for MTDS sectors it should be noted that some sectors receive a lot more than others relative to their estimated requirements.

 Medium funded provinces also need to redirect more spending from low priority areas such as administration to the <u>health</u> and <u>infrastructure maintenance</u> sectors.

Even <u>education</u> and <u>agriculture</u> 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 <sup>16</sup>
The Provincial MTDS P Health, agriculture, edu fairer we have adjusted	riorities Table that follows illustrates how well provinces are supporting the Governments key MTDS priority sectors – cation, Infrastructure and Village Courts. Which sector is best funded and which is worst? To make the comparison the results to reflect that some provinces have more funding and some have less.
Adjusted results: We hi if a province has only 50 50% and spends 50% c (because they have spe	we adjusted the results to reflect how much each province can afford given their revenue base and fiscal capacity. So )% of what is needed then only 50% is expected to be achieved. As an example; if a province has a fiscal capacity of f what is necessary on education per the Cost of Services estimates then their percentage would be adjusted to nt what they could afford) and they would score a 'high'.
<u>The colours</u> illustrate th amount in that sector.	e ranking, high, medium and low, a 'high' score is better meaning the province is closer to spending an appropriate
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?
<u>By Trend:</u>	Look at the table as a whole to see which MTDS sectors received priority in spending and which didn't.
<sup>16</sup> We are mindful that some of these amounts were used provide a fair comparison with	
the purpose for which that ad	ditional funding was used.

Green Shoots of Change

Province	Average Fiscal	Health & HIV	Agriculture	Education	Infrastructure	Village (	Courts		
	capacity								
Western	267%	Medium	Medium	High	Low	High	High	High	above 80%
New Ireland	147%	Low	Medium	High	Medium	High	High	Medium	between 40-79%
Morobe	126%	Low	Low	Low	Low	High	High	Low	below 40%
West New Britain	120%	Low	High	Medium	Low	High	High		
Enga	114%	Medium	Low	Medium	Low	High	High		
Southern Highlands	92%	Low	Low	Medium	Medium	Medium	Medium		
East New Britain	89%	Medium	High	Medium	Low	High	High		
Madang	75%	Medium	Medium	High	Low	High	High		
Central	%69	High	Medium	Medium	Low	High	High		
Western Highlands	68%	Medium	High	Medium	Medium	High	High	The second s	
Gulf	62%	Medium	Low	Medium	Low	High	High	I ne results of less funding th	Provinces with an they
Eastern Highlands	60%	Medium	High	Medium	Low	High	High	require have b	een adjusted
Milne Bay	49%	Medium	Medium	Medium	Medium	High	High	The exception	to this is the
Oro	48%	High	High	High	Medium	High	High	Allowances. 7	age Court hese results
East Sepik	44%	High	Medium	High	Low	High	High	<u>NCA grant is a</u>	adjusted, the
Sandaun	44%	High	Low	High	Medium	High	High	adequate to m	eet this cost.
Simbu	44%	Medium	Low	High	Medium	High	High		
Manus	43%	High	Low	High	Low	High	High		
	Province Western New Ireland Morobe Morobe West New Britain West New Britain Enga Southern Highlands East New Britain Madang Central Madang Central Western Highlands Gulf East Sepik Milne Bay Milne Bay Sandaun Sandaun Simbu	ProvinceAverage CapacityWesternCapacityWestern267%Western147%New Ireland147%New Ireland126%Morobe126%Morobe126%Morobe126%Morobe126%Morobe126%Morobe126%Morobe114%Southern Highlands92%East New Britain89%Madang75%Central69%Western Highlands68%Out68%Madang49%Milne Bay48%Milne Bay48%Sandaun44%Simbu43%Manus43%Manus43%	Pokinde         Fiscal capacity         Medium           Western         267%         Medium           New Ireland         147%         Medium           New Ireland         126%         Low           Morobe         126%         Low           Morobe         120%         Low           West New Britain         120%         Low           Southern Highlands         92%         Low           Badang         75%         Medium           Orobe         75%         Medium           Madang         75%         Medium           Madang         75%         Medium           Matang         69%         Medium           Matang         69%         Medium           Milne Bay         49%         Medium           Oro         48%         Medium           Sandaun         44%         Medium           Milne Bay         44%         Medium           Sandaun         44%         M	Pokied capacityNeating capacityAgricultureApplicitApplicitApplicitApplicit267%MediumMediumWestern267%MediumMediumNew Ireland147%LowMediumMerit126%LowNediumMerit126%LowNediumMerit120%LowNediumMerit120%MediumLowMerit120%MediumLowMerit114%MediumLowMerit114%MediumMediumMerit89%MediumMediumMadang75%MediumMediumMadang60%MediumMediumMerit60%MediumMediumMilne Bay49%MediumMediumMinus44%HighMediumSimbu44%HighMediumManus43%HighLowManus43%HighLowManus43%HighLowManus43%HighLowManus43%HighLowManus43%HighLowManus43%HighLowManus43%HighLowManus43%HighLowManus43%HighLowManus43%HighLowManus43%HighLowManus43%HighLow	Pokiada pesteri rescal         Heatin A, H, Ariculture         Autoration           Average pesteri rescal         267%         Medium         High           Westerin         267%         Medium         High           New Ireland         147%         Nedium         High           New Ireland         126%         Low         Medium         High           West New Britain         120%         Low         High         Medium           Enga         114%         Low         Medium         Medium           Enga         114%         Medium         Medium         Medium           Enga         114%         Medium         Medium         Medium           Enga         114%         Medium         Medium         Medium           Southern Highlands         89%         Low         Low         Medium           Madang         75%         Medium         Medium         Medium           Madang         69%         High         Medium         Medium           Madang         68%         High         Medium         Medium           Madang         69%         Medium         Medium         Medium           Matang         Medium	Matage Gascily Lensing         Hath & H.N         Apricutuse         Education         Instructure           Avarage Gascily         267%         Medium         Medium         High         Notion           Western         267%         Medium         Medium         Medium         Medium           Western         267%         Medium         Medium         Medium         Medium           Western         267%         Medium         Medium         Medium         Medium           Western         147%         Medium         Medium         Medium         Medium           Morobe         126%         Low         Medium         Medium         Medium           Morobe         114%         Medium         Medium         Medium         Medium           Southern Highlands         89%         Low         Medium         Medium         Medium           Madang         75%         Medium         Medium         Medium         Medium         Low         Low           Madang         68%         Medium         Medium         Medium         Medium         Low         Low           Madang         68%         Medium         Medium         Medium         Medium         Lo	Potencia         Paradia classify clastify classify classify clastify classify classify	Poologe         Reading to the sector of the sector o	Founda         Reade Eact (M) Caped         Heat R, H, M         Application         Instructure         Miage Counsi Metal         Miage Counsi Metal

Table 18: Provincial MTDS Priorities Table in 2009 – How well were MTDS Priorities supported given fiscal capacity<sup>17</sup>

<sup>17</sup> This table illustrates and compares provincial performance in supporting the Governments key MTDS priority sectors – the scores are adjusted to reflect fiscal capacity.

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### 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 2009 we are seeing a number of provinces spending more on priority sectors. Provinces who have demonstrated better prioritisation in several sectors include; **East New Britain, Madang, Western Highlands and Oro**.
- 2. **Lower funded provinces** show very few low scores another positive result demonstrated in the 2009 table is the absence of 'low' scores by the lower funded provinces with even infrastructure maintenance showing improvement. Some provinces showed declined spending in agriculture.
- 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). Medium funded provinces appear to have bounced back from the poorer spending results in the sector in 2008.

Western and New Ireland all invested very large amounts of recurrent spending in education for the second consecutive year.

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

East New Britain and Western Highlands have improved their performance after three low spending years.

Spending on secondary (and even 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.

We see a decline in the spending of six provinces in 2009.

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.

6. **Infrastructure** – 2009 sees signs of tangible improvement in spending. Capital spending was again significant in some provinces and a portion may be recurrent in nature (reflecting the cumulative effect of poor recurrent maintenance). Spending on infrastructure maintenance remains at no.5.

We know, infrastructure maintenance is expensive and requires greater levels of funding. If left unchecked, very expensive rehabilitation costs will continue to amass.

Four of the six lower funded provinces scored 'medium' indicating that the increased function grant funding is being applied to the sector.

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)

For the second consecutive year we see significant increases in spending due to the large increase in the level of the National Government's health service delivery function grant.

The sharp increase in 2008 in recurrent spending under the Health Support Improvement Programme (HSIP) – a donor initiative – has been sustained in 2009 and is an additional significant infusion of funds for the health sector in provinces.

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 four of the top six 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.

The m provid	atrix that follows sun e assurance as to the delivery activities ce	nnot happen effectively.	: - - - :	
	<b>`</b>	Table 19: Table	of Key Fiscal Performance Indicator	Ş
#	Key Performance Indicator	Description	KPI Measure	Why is this important?
CRC	SS-SECTORAL FISCAL	INDICATORS		
-	<b>Timing of 4<sup>th</sup> Quarter Exp:</b> (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.
7	<b>Timing of 4<sup>th</sup> Quarter Exp:</b> (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.
က	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 <u>afford</u> .	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.	

Green Shoots of Change

Continued.....

#	Key Performance Indicator	Description	KPI Measure	Why is this important?
SECT	DRAL SPECIFIC FISCA	AL INDICATORS		
сı	Spending Trend (both Grant and Internal revenue spending)	Indicates how a provinces' spending on recurrent goods and services in 2009 compares to the average of prior years (2005-2008).	Up: 15% (or greater) <u>increase</u> on average Steady: in between +/- 15% Down: 15% (or greater) <u>decrease</u> on average	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.
Q	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.
9	<b>Unspent %</b> (Function Grant spending only)	The amount of unspent funds at year-end. Calculated against Budget (actual) – per 2009 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.
2	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.
ω	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 20: The Provincial Expenditure Matrix

### 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.

		Health	Education	Infrastructure maintenance	Village Court Allowances	Village Court Function Grant
Average Unspent	2009	6%	15%	15%	4%	5%
Average enopent	2000	140/	00/	150/		110/
	2000	1170	9%	13%	270	1170
	2007	30%	29%	31%	6%	17%
	2006	11%	8%	16%		introduced 2007
	2005	10%	9%	18%		introduced 2007
Average Nature Test	2009	Average	Average	Average	Good	Good
	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	2009	6				
	2008	5				
	2007	4	number of provi	noon who fail to	<b>\</b>	
	2006	11	number of provi	nces who idil les	51	
	2005	10				

### **Overall – Across Function Grants** (and Village Court Allowances)

 Did provinces use the additional function grant funding they received under RIGFA in 2009? Or did they struggle to spend the additional money?

Overall, we can see that in 2009 the amounts of un-used function grant funding remained relatively similar to previous years. The under-spending rate in health decreased whilst in education it increased. So we can be pleased that provinces have been able to put the additional funding to good use.

• Were the grants spent on the purposes intended?

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

 The number of provinces spending the health function grant on casual wages dropped in 2007 and has stayed at that 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	2009	Medium	Medium	Low	Medium	High	High
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	2009	Up	Up	Steady	Up	Steady	Steady
	2007/8	Up	Up	Steady	Up	Up	Dow n
	2006/7	Steady	Steady	Steady	Steady	Down	n/a
	2005/6	Steady	Steady	Steady	Steady	Up	n/a

- **Health:** RIGFA has made an immediate impression in the health sector. The increased levels of function grant funding being targeted at this sector has ensured that health is starting to receive the priority that the government intends.
- Education: Happily we are seeing an upward spending trend in 2008 and 2009 after the dip in earlier years. Education seems to attract the highest priority from provinces of the three large service sectors (health and infrastructure).

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.
- Transport infrastructure maintenance: Traditionally spending on routine maintenance has been low, however as with health RIGFA is making an immediate impression with the increased funding reaching lower and medium funded provinces resulting in tangible signs of maintenance activities.

This action is critical given the high cost of maintaining transport infrastructure and the enormous cost of rehabilitation.

• **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

- The tangible wins in seeing additional funding reaching the health and infrastructure sectors.
- The number of provinces that have moved past the 'low' performance levels.
- In 2008 and 2009 some higher funded provinces have demonstrated a significant improvement – and have clearly prioritised service delivery. 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 2009.

### The Worst

- In a number of cases, higher and medium funded provinces were outperformed again by lower funded provinces – this should not be the case.
- Some higher and medium funded provinces have a higher proportion of unused function grant monies – again this should not be the case.
- After five years of monitoring we are seeing some provinces display entrenched habits of poor practice. For instance, persistent annual under-spending or persistently high spending in quarter four.
  - The NEFC has published a Trend Databook that collates the individual results for each province on a year-by-year basis in an effort to communicate fiscal impediments to improving service delivery.
- 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 - 10 discuss the detailed findings of the review on a sector by sector basis. The sectors are:

### Chapter 5. EDUCATION SECTOR

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

MPA 1: Provision of school materials

MPA 2: Supervision by district and provincial officers

MPA 3: Operation of district education offices

### Chapter 6. HEALTH SECTOR (including HIV/AIDS)

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

MPA 1: Operation of rural health facilities

MPA 2: Integrated heath outreach patrols

MPA 3: Drug distribution

### Chapter 7. INFRASTRUCTURE MAINTENANCE SECTOR

"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...."

MPA 1: Road and bridge maintenance

MPA 2: Airstrip maintenance

MPA 3: Wharf and jetty maintenance

### Chapter 8. AGRICULTURE SECTOR

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

MPA 1: Extension activities

### Chapter 9. VILLAGE COURTS SECTOR

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

MPA 1: Provision of operational materials

### **Chapter 10. ADMINISTRATION SECTOR**

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

### **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)



### 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 2009 trend

The following graph illustrates the 2005 to 2009 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 16 continue to fall below (most well below) the minimum expenditure required to deliver a basic education service (blue line).





### 5.3.1 Performance Overview

- How can we adequately educate our children when spending in 16 provinces averages just 47% of what is necessary to deliver the minimum level of service?
- RIGFA is making an impact education spending by the seven lowest funded provinces has increased from 30% in 2008 of what is needed to 40% in 2009.
- Overall, education remains the best supported MTDS sector by provinces. The overall average is 67% (in 2008 it was 59%), yet this should be interpreted carefully, a few high spending provinces markedly inflate the overall average.
- New Ireland and Western continue to spend big in education in 2009. Enga also maintains its strong spending support in the sector.
- Of the lower funded provinces, East Sepik clearly prioritised spending in education over other sectors. And Central's improving fiscal capacity is matched with increased spending in education.
- Some provinces appear to have much room to improve, these include Morobe, both East and West New Britain.
- 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 2009 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 2009

- 14 provinces have increased their spending on education in 2009
- Overall, recurrent spending on education has increased by 19% (from K45 million to K54 million)
- Three higher funded provinces maintained their strong spending being Western, New Ireland and Enga. Recurrent spending on education in the Southern Highlands appears to have tapered off, however their spending on capital and projects is enormous (K19.5 million). Spending in Morobe and West New Britain has much room for improvement.

	Ed	ucatio	n Spen	ding	
80% - 60% - 40% -					
20% - 0% -				1	
	2005	2006	2007	2008	2009
	-	-Avera	ige Sper	ding	

 All the medium and lower funded provinces have increased their spending in 2009 with the exception of Eastern Highlands who spent recurrent funds on capital items.

### 5.3.3 Spending from Internal Revenue

- Education spending from internal revenue continues to be highly significant (K24 million or 44% 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, plus Madang and Central.

### 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 <u>lower</u> funded group continue to outperform better funded provinces.
- Overall provinces in the medium funded group have improved on their poor performance in 2008.
- Two higher funded provinces (Western and New Ireland) recorded a high spending level in 2009. As did Madang in the medium funded group and Oro, East Sepik, Sandaun, Simbu and Manus in the lower funded group.
- The only province who scored low in 2009 is Morobe.

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### 5.4 Education Data Table

						Educati	ion Sect	or 2005 te	o 2009 (re	current s	pending)						
	Province	Cost of Services	2005 Exp	2006 Exp	2007 Exp	2008 Exp	2009 Exp	% change v average	Spending Trend	2009 Internal	Capital & Projects	ECBP recurrent	BEDP mtce grants	Spe nding achie ve d	g level I v CoS	% FG unspent	FG exp nature
				(Kina mil	lions)				0`	6 of total exp	2009	2009	2009	2008	2009	200	60
	West'n	5.589	1.774	2.496	2.877	9.405	8.027	94%	ď	92%	0.600	0.033	0.194	High	High	100%	Not Good
	NIP	2.960	1.747	2.190	1.863	6.568	9.311	202%	ď	91%	1.850	0.055	0.365	High	High	17%	Good
Higher	Morobe	8.817	2.242	3.355	4.353	3.875	3.289	-5%	Steady	51%	3.000	0.122	0.291	Medium	Low	2%	Good
funded	WNB	4.725	2.643	1.313	1.844	1.398	2.104	17%	ď	27%	3.040	0.049	0.252	Low	Medium	36%	Average
	Enga	4.181	4.435	4.198	7.913	2.794	3.263	-33%	Down	13%	4.936	0.054	0.397	Medium	Medium	17%	Average
	SHP	6.884	6.837	5.366	2.038	6.486	4.313	-17%	Down	63%	19.570	0.185	0.557	High	Medium	1%	Good
	ENB	5.215	2.219	1.429	0.769	1.664	2.764	82%	ď	4%		0.106	1.018	Low	Medium	2%	Good
:	Madang	3.984	1.974	1.668	0.845	1.934	2.615	63%	ď	30%		0.106	0.765	Medium	High	8%	Good
Medium	Central	4.949	0.928	1.314	1.176	1.285	2.553	118%	ď	29%		0.047	0.613	Medium	Medium	14%	Good
	WHP	7.096	1.475	0.576	1.282	1.088	2.729	147%	ď	12%		0.082	0.707	Low	Medium	0%	Average
	Gulf	2.555	0.693	0.737	0.307	0.435	1.159	114%	ď		0.300	0.011	0.068	Low	Medium	3%	Not Good
	EHP	6.427	1.940	1.097	1.471	1.876	1.737	9%	Steady		1.160	0.032	0.316	Medium	Medium	14%	Not Good
	MBP	5.061	1.132	0.964	1.183	1.275	1.748	54%	d	2%	0.571	0.060	1.299	High	Medium	2%	Good
	Oro	2.396	0.788	0.708	067.0	0.790	1.110	45%	ď			0.026	0.176	High	High	0%	Not Good
funded	ESP	5.268	1.328	1.482	0.985	1.605	3.198	137%	ď	6%	1.000	0.176	1.286	High	High	35%	Average
	Sand'n	4.824	0.963	0.839	0.955	1.343	1.779	74%	ď			0.080	0.580	High	High	8%	Good
	Simbu	4.837	1.363	1.355	0.938	1.178	2.066	71%	ď			0.098	0.328	High	High	%0	Good
	Manus	1.953	0.400	0.401	0.439	0.436	0.677	62%	ЧÞ		0.200	0.062	0.412	High	High	2%	Average
	All Provinces	87 720	34 877	31 488	32 028	45 437	54 440	52%	q	24 122	36.227	1 384	9 624				
							(a)		<u>}</u>			(q)	(c)				
								_	Key								
									above 15%	above 25%	above K0.35m		above K0.5m	above {	80%	below 5%	Good
			The highe:	st spendin(	g year in K	ina			in-betw een					in-betw	/ een	in-betw een	Average
									below -15%					below	40%	above 10%	Not Good
	(a) Includes grai (b) ECBP is an <i>l</i>	nt & internal r AusAID proiec	evenue exp t that contri	enditure. E butes som	ECBP & BEI e aoods &	DP <u>goods {</u> services ex	<u>k services</u> penditure t	expenditure to provinces	is not inclue	<b>led</b> in this to	tal			<b>VB:</b> spendi been adiust	ing level re ted to reflec	sults have ct fiscal capac	Xitv
	(ח) בכסר וא מווא	Ausain projec	I LIAL CUILL	DUIES SOIL	e doons a	Sel vices ex	benumie	o provinces					-	Deen aujus	Ied ID Teller	cl liscai capai	

(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)

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### 5.4.1 How did we spend?

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

### Table 22: Analysis of all Education Spending in 2009<sup>18</sup>

### The 5 Largest Spending Areas (by item)

### The Split by Category

Item #	Item Description	Amount	%	Category Description	Amount	%
135	Other Operational Expenses	35,726,686	30%	Recurrent Goods & Services	54,439,767	46
143	Grants and Transfers	20,594,840	18%	Personnel Emoluments	21,131,433	18
114	Teachers leave fares	20,549,122	17%	Capital & Projects	36,226,524	31
225	Construction, Renovation	11,495,613	10%	Tertiary	5,730,257	5
223	Feasibility Studies	6,999,885	6%			
	all other codes	22,161,835	19%			
	Total spending from recurrent & capital	117,527,980	100%	Total spending from recurrent & capital	117,527,980	95

The table above shows us that:

- Other operational has become the single largest expenditure item (30%) and 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
- 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 18%.
- Teachers leave fares continues to receive high funding 17% 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 2009 this would make the 17% even higher. As a percentage of total expenditure on education teacher leave fares has reduced, however in Kina terms it continues to increase year by year.
- At 46% less than half of spending was on recurrent goods & services (55% in 2007) the other 54% was split between teachers leave fares, capital costs and tertiary funding.

<sup>&</sup>lt;sup>18</sup> 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, tertiary costs that could be clearly identified, and not teachers salaries.

### 5.5 Drilling down: Teacher Leave Fares

### 5.5.1 Overview

For a fourth year 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 2009 continues the trend of increasing spending levels on teacher leave fares.

When viewing the graph remember that in 2006 the National Government allocated an increased allocation of funding to enable select provinces to meet outstanding leave entitlements.



Graph 23: Teacher Leave Fares – Comparing expenditure 2005 to 2009

### 5.5.2 Spending between 2005 and 2009

- Overall spending levels have moved from K13m...K21m...K15.6m...K18.6m...K20.5m between 2005 and 2009. So we can see an overall trend of increasing spending on TLFs (remembering that in 2006 provinces received an increased grant to clear accumulated TLF arrears).
- Three provinces show a trend of significant increases in spending on TLF's: Western, Morobe and Central.
- 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: Oro, Gulf, 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.

40% provinces only spend 40% of what they need to on rural health services (25% in 2008)

**Double** – we do see green shoots of improvement. In 2009 lower and medium funded provinces doubled their spending on health

K12.5m increase – spending improved in 2009

K17.4m HSIP spending remains significant

### 6.1 Health in the Provinces<sup>19</sup>

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.<sup>20</sup> 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 <u>specifically excluded</u> any revenues, costs and expenditure that relate to <u>church-run health facilities</u>. 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. This is why funding for the distribution of drugs and medical supplies was selected as an essential service.

• **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.

<sup>&</sup>lt;sup>19</sup> Reference to health in this chapter includes costs and expenditure related specifically to HIV AIDS.

<sup>&</sup>lt;sup>20</sup> 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 and the results need to be monitored.

### 6.3 Against the Benchmark: the 2005 to 2009 trend

The following graph illustrates the 2005 to 2009 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 the Health Sector Improvement Program (HSIP) funds are not reflected in this chart.



### Graph 24: Health Spending Performance: 2005 to 2009 (from grant & internal revenue)

### 6.3.1 Performance Overview

- We see a highly significant increase in health spending in 2009 due to RIGFA. Note the taller bars in many provinces.
- 17 provinces increased their health spending this is highly encouraging. Only Morobe saw a decline.

- Provinces now spend on average 40% of the actual costs required up from 25% in 2008. So whilst we have a long way to go this is the first significant sign of progress in health spending over the five years of this review.
- Manus spent 64% of what is necessary to deliver a basic health service and Central spent 60% of what is required. So in 2009 they are the 'best' performing provinces in terms of the amount spent in the sector. We also note East New Britain's much improved spending.
- Provinces spent K9.1m on casual wages although most of this relates to Morobe. 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 continues to rise. Spending rose to K17.4m from K14.8m in 2008. 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 2009 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 2009

Overall, the spending trend in health between 2005 and 2009 has seen an increase, with a strong rise occurring over the last 2 fiscal years particularly 2009 with the full implementation of RIGFA. The targeted funding provided under RIGFA has gone some way to addressing the apparent reluctance of provinces to prioritise the funding of basic health services.

The low funded group of provinces continue to outperform both the high and medium funded groups relative to their capacity. However there are signs of progress in the medium funded group.

### 6.3.3 Spending from Internal Revenue

- Health spending from internal revenue was K5 million (16% of all health goods and service spending). This is a decrease of K1 million on the 2008 amount.
- Internal revenue did contribute a reasonable sum in four provinces.
- Provinces with access to internal revenue (high and medium funded provinces) need to allocate much more funding to recurrent goods and services in health. Only with this support will we see a significant increase in the delivery of rural health services in these provinces.

### 6.3.4 Spending in comparison to fiscal capacity

- 2009 sees a marked improvement in health spending. The sector is no longer the worst supported.
- 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.

- Higher funded provinces are continuing to show a poor commitment to health with four of the six achieving <u>low</u> when compared to their capacity. Western and Enga are the exception and they both recorded a score of 'medium'.
- 2009 has seen a marked improvement in the spending performance of lower and medium funded provinces. RIGFA is clearly having a tangible impact. Seven provinces moved to a higher spending threshold and all provinces increased their spending in Kina value.

### 6.3.5 Health Services Improvement Program (HSIP) Funding

The increasing amounts of recurrent health spending through the HSIP facility continued in 2009. HSIP spending has moved from K4.7 million in 2005 to K17.4 million in 2009. This represents a massive increase in both kina and percentage terms. To put this in context, recurrent HSIP spending on health is 56% of recurrent spending by Provincial Administrations. We can see spending through the HSIP facility is a highly significant contributor to the health sector at the provincial level.



Graph 25: Health HSIP Spending: 2005 to 2009

- Between 2005 and 2009 HSIP spending has gone from:
  - K4.8m...K6m...K7m...K14.8m...K17.4m
- We saw a steep increase in HSIP spending in 2008 and this has been exceeded in 2009.
  - Ten of the provinces that accessed large amounts of HSIP funding in 2008 have continued to use significant levels of HSIP funding in 2009.
  - Five of those provinces have used even more in 2009 (Morobe, Madang, Western Highlands, Eastern Highlands and East Sepik).
- 8 provinces spent almost K1m or more, being; Southern Highlands, Madang, Gulf, Western Highlands, Eastern Highlands, Central, Milne Bay and East Sepik.
- Western has started to use HSIP funds in 2009.
- Why do some provinces seem to ignore the opportunity to use HSIP funds? Such as;
  - New Ireland, East New Britain, West New Britain, Enga, Oro, and Manus.

 New Ireland, West New Britain and East New Britain all use relatively little HSIP funds despite allocating low levels of internal revenue to health – why is this?

The HSIP mechanism has become an increasingly relevant contributor to funding recurrent operational needs in the health sector. The enormous increase in spending through the HSIP facility in 2008 has been maintained in 2009. 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 whilst it is not possible to discretely identify how these funds are then spent it is reasonable to assume that the funds were expended on the purposes intended.

Funding Source	2008	2009
AusAID (HSIP operational)	10,909,989	6,294,313
AusAID (direct funding / other)	1,785,373	200,001
GAVI	-	20,001
Global Funds - HIV/AIDS	-	407,081
Global Funds - Malaria	2,494,678	3,914,359
Government of Papua New Guinea (HSIP)	2 580 091	1,497,343
Government Papua New Guinea (other)	2,000,001	1,193,326
NZ AID	267,180	3,858,440
UNFPA (direct funding)	50,000	66,092
UNICEF (direct funding)	2,474,005	500,620
WHO	-	77,401
Others (direct funding)	1,033,329	276,101
Total Receipts	21,594,645	18,305,078

### Who is funding the HSIP facility?<sup>21</sup>

We can see that:

 In 2009 approximately two thirds of funds received are for what we might call *traditional* HSIP purposes (from the Government of Papua New Guinea, AusAID and NZAID).

These funds are available to be used by provinces on a relatively broad range of recurrent health activities.

 21% is from the Global Fund and mainly used for the procurement and distribution of bed nets to combat malaria (a 57% increase on 2008).

One of the more relevant questions is whether it is appropriate to compare this expenditure against the cost of services study benchmark. By doing this are we comparing apples with apples? The answer is a cautious yes. We do 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.

<sup>&</sup>lt;sup>21</sup> The HSIP mechanism also expends money centrally from NDoH in Port Moresby, the funding in this table relates only to the money expensed directly at the provincial level.



Graph 26: The impact on Health spending of HSIP funding: 2005 to 2009

The graph above adds provincial spending from grants and internal revenue together with recurrent spending through the HSIP facility and compares the result against what is estimated 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. With the implementation of additional funding via RIGFA and with more than half of all provinces accessing significant amounts of HSIP funding the overall picture is improving.

- In 2009 ten provinces spent 60% or more of what we conservatively estimate is required to deliver a minimum service. In 2008 only six provinces achieved this level of spending.
- In 2009 provinces spent on average 60% of the actual costs required up from an average of 46% in 2008. So we can measure in spending terms tangible across-theboard progress.
- As a group, higher funded provinces continue to do poorly and are outperformed by low and medium 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 could make better use of HSIP funding.

Averages: with HSIP 48%, without HSIP 36%

- In 2009 Morobe did access a significant amount of HSIP funding for the first time in the five years of this analysis.
- 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 continues to have a high impact.

Averages: with HSIP 70%, without HSIP 41%

Lower funded provinces also accessed higher levels of HSIP funds and thereby improved their spending support for health. It is pleasing to see that whilst lower funded provinces continue to access significant amounts of HSIP funding the implementation of RIGFA and the increase in health function grants sees government funding reestablishing itself as the primary source of recurrent health funding in lower funded provinces.

Averages: with HSIP 58%, without HSIP 42%

### How did we spend?

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

### Table 27: Analysis of all Health Spending in 2009<sup>22</sup>

The 5 Largest Spending Areas (by item)

The Split by Category

Item #	Item Description	Amount	%	Category Description	Amount	
135	Other Operational Expenses	15,237,441	28%	Recurrent Goods & Services	31,336,421	5
111	Salary & Allowances	7,719,761	14%	Personnel Emoluments	9,909,393	1
143	Grants and Transfers	6,001,776	11%	Capital & Projects	12,452,628	2
225	Construction, Renovation	4,584,086	9%			
125	Transport and Fuel	2,545,147	5%			
	all other codes	17,610,232	33%			
	Total spending from recurrent & capital	53,698,442	100%	Total spending from recurrent & capital	53,698,442	1

We can see that:

- Item 135: Other operational expenses can include almost anything and is high at K15.2 million or 28% (K10.6 million in 2008). 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.
- Items 111: Casual wages also receives a lot of funding (14%). 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 2009 (and 2008). Indeed capital spending has risen from K3.7 million in 2007 to K11.0 million in 2008 to K12.4 million in 2009 representing a large increase.

<sup>&</sup>lt;sup>22</sup> These amounts include health spending (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 non-specified SSG funds, nor does it include doctors, nurses and health workers on the Waigani payroll.

 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.<sup>23</sup> Travel allowance (item 121) and transport & fuel (item 125) which is a first indicator of spending on such activities represents 8% of spending in 2009 as it did in 2008.

<sup>&</sup>lt;sup>23</sup> 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 in the provinces.

Green Shoots of Change

### 6.4 Health Data Table

	and and	2005	3000	2000	Heal	th Secto	or 2005 to	2009 (recu	urrent spe	nding)	a letino				2	S S S S S S S S S S S S S S S S S S S
ce	COST OT Services	cuuz Exp	ZUU6 Exp	Exp	ZUU8 Exp	Exp	% cnange v average	Spenaing Trend	2009 Internal	Vages	Capital & Projects	recurrent	achieveo	lg ievel d v CoS	ארפ unspent	าature
			(Kina mil	lions)					% of total exp	2009	2009	2009	2008	2009	200	9
st'n	6.143	0.561	1.499	1.781	3.266	3.412	93%	Чp	74%			0.613	Medium	Medium	%0	Good
	3.387	0.489	0.506	0.519	0.786	0.974	70%	d	11%	0.142		0.082	Low	Mol	21%	Good
robe	7.551	1.049	0.973	1.289	0.919	0.875	-18%	Down	17%	7.783		1.924	Low	NOI	4%	Good
١B	4.393	1.177	0.965	1.097	1.488	1.638	39%	d	34%	0.544	1.150	0.417	Low	Mol	6%	Average
ga	4.078	0.787	0.721	0.884	0.809	1.948	144%	d	%6	0.282	2.336	0.467	Low	Medium	8%	Average
루	7.688	2.387	0.927	1.229	1.775	1.932	23%	dD	21%	0.330	2.150	1.028	Low	NOI	%0	Not Good
٨B	3.605	0.362	0.434	0.645	0.856	2.033	254%	d	5%		0.050	0.378	Low	Medium	1%	Good
adang	5.776	0.751	1.005	0.534	1.112	1.916	126%	d	3%	0.280		1.811	Low	Medium	14%	Good
entral	3.167	0.271	0.256	0.597	1.074	1.909	248%	ď	25%		0.040	0.700	High	High	6%	Good
HΡ	4.166	1.176	0.840	1.007	0.856	1.833	%06	d	3%			2.038	Low	Medium	0%	Not Good
ulf	2.576	0.487	0.499	0.231	0.564	1.073	141%	d				0.900	Low	Medium	7%	Average
ЧР	5.160	1.046	1.170	1.475	1.234	1.504	23%	Up	13%	0.210	1.038	1.937	Medium	Medium	4%	Average
ЗР	6.180	0.320	0.369	0.589	1.074	2.200	275%	пр	15%	0.075	1.377	0.853	Medium	Medium	1%	Good
0	2.904	0.236	0.416	0.241	0.345	1.219	294%	d	8%			0.152	Low	High	%0	Good
Ъ	7.199	0.551	0.329	0.452	0.953	3.077	439%	dŊ	1%		0.050	2.531	Medium	High	18%	Average
and'n	5.104	0.262	0.339	0.354	0.600	1.813	367%	d	1%	0.106	1.316	0.747	Medium	High	10%	Good
mbu	3.491	0.488	0.458	0.312	0.553	1.025	127%	d			2.845	0.740	Medium	Medium	1%	Average
anus	1.497	0.298	0.258	0.422	0.422	0.956	174%	Up				0.162	High	High	4%	Good
Provinces	\$ 84.064	12.700	11.963	13.657	18.685	31.336	120%	dD	5.311	9.751	12.353	17.481				
						(a)						(q)				
							-	ƙey								
								above 15%	above 25%	above K0.35m	above K2m	above K1.5	above	80%	below 5%	Good
		The higher	st spending	3 year in K	ina			in-betw een					in-betv	w een	in-betw een	Average
								below -15%					below	v 40%	above 10%	Not Good

(a) Includes grant & internal revenue expenditure. HSIP goods & services expenditure is not included in this total
 (b) HSIP is a donor mechanism for funding the health sector. This is the amount spent on goods & services expenditure at the provincial level

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 a significant amount. In 2009, some K9.7 million was spent on casual wages. The reality is that 80% of this amount is spent in one province – Morobe.

Provinces need to consider the appropriateness of spending on casual wages, and where these staff members are absolutely critical, and if so 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 items 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 28: Spending on Health Casual Wages: 2006 to 2009

### 6.5.2 Spending between 2006 and 2009

- Overall spending on casual wages has remained steady K9.8m...K9m...K9.7m...K9.7m.
- Madang's spending on casual wages has fallen sharply in 2009 have these staff been added to the Waigani payroll? Enga's spending also fell.
- Morobe continues to dominate the spending and needs 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.
  - Morobe's spending increased by <u>44%</u>, from K5.4m in 2008 to K7.8m in 2009.

### 6.5.3 Morobe as an example

Interestingly, in 2009 Morobe spent K7.8m 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	2009 Expenditure
Goods & Services	7,550,656	1,049,366	972,502	1,288,730	919,186	874,590
Personnel Emoluments		4,012,489	4,643,284	4,735,134	5,392,893	7,782,799
Capital & Projects		-	-	-	300,000	-
Population estimate	539,000					
- spending on Goods & Services per head		1.95	1.80	2.39	1.71	1.62
Facilities						
Health clinics	42					
Aid posts	197					

- This means that rural health in Morobe that serves about 539,000 people was funded K1.62 per head in operational funding to run the delivery of rural health services. How much health care can be provided at K1.62 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 K874,590 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, K874,590 is nowhere near enough. The NEFC estimate of health costs for Morobe is K7.5 million.
- Part of the answer may be in transferring the community health workers to the government payroll. That would then free up the K7.7 million 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 K8.6 million (K0.9m + K7.7m) on goods and services which is above what we conservatively estimate is required.
- It was pleasing to see Morobe access K1.9 million of HSIP recurrent funding for health in 2009. This will go some way to providing Morobe's rural health staff with operational funding to meet the costs they must incur if they are to deliver the health service they have been employed to provide. However much more operational funding is required and needs to be allocated in the provincial budget.

### 6.6 Drilling down: Spending on HIV/AIDS

### 6.6.1 Overview

Since the 2007 review we have included spending on HIV/AIDS within the health spending totals. In this edition we again drill 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 29: Spending on HIV/AIDS: 2007 to 2009

We can see that:

- Specific spending on HIV/AIDS has decreased in 2009 from K1.3m...K1.6m...K1.4m
- Eight provinces spent K100,000 or more:
  - Western, West New Britain, Enga, Madang, Western Highlands, Eastern Highlands, Oro, and Simbu
- Twelve provinces have allocated something to HIV/AIDS in each of the three years.
- In 2009 two more provinces have allocated specific funding to HIV/AIDS being Oro and Manus.
- The remaining provinces appear to have spent little or nothing directly on HIV/AIDS.
  - Little: East New Britain, Milne Bay, East Sepik, Sandaun and Manus
  - Nothing: New Ireland, Morobe, Southern Highlands, Central, and Gulf

### 6.6.2 How was HIV/AIDS money spent?

The table that follows shows us how HIV/AIDS monies were spent in 2009 by province. The major areas of spending were:

•	Other operational expenses:	K595,496
•	Grants:	K447,000

Training: K192,000

Central	Other Operational Expenses	11 299
ochtrar	Transport and Eucl	2 500
	Travel & Subsistence	2,000
Control Total	Traver & Subsistence	2,000
	01 0 5 15	15,799
EHP	Other Operational Expenses	85,000
	Wages	15,000
EHP Total		100,000
ENB	Other Operational Expenses	40,000
ENB Total		40,000
Enga	Grants & Transf.to Public Auth	100,000
Enga Total		100,000
ESP	Other Operational Expenses	70,000
ESP Total	· · · · · · · · · · · · · · · · · · ·	70.000
Madang	Eurniture and Office Equipment	7 000
indurig	Office Materials And Supplies	0,000
	Once Materials and Supplies	9,000
	Operational Materials and Supp	9,000
	Durier Operational Expenses	55,000
	Transport and Fuel	6,000
	Transport and Fuel	21,000
	I ravel and Subsistence Expense	31,000
Madau v Tatal	Utilities	7,000
Madang Total	Create & Tractic to Dublic Aut	145,000
Manus	Grants & Imsirs to Public Aut	45,000
	Office Materials And Supplies	1,000
Manua Tatal	Other Operational Expenses	15,000
	Cronto (Tronofor Dublic Auth	61,000
MBP	Grants/Transfer Public Auth.	30,000
		4,000
		10,000
	Transport and Fuel	3,000
MDD Total	Travel and Subsistence Expense	5,000
	Other Operational Expanses	50,000
	Other Operational Expenses	99,197
	Oranta & Transform to Dub Auth	99,197
Sandin		40,000
	vvages	26,213
Sand n Total	Other Operational Expanses	00,213
Simbu Simbu Total	Other Operational Expenses	96,000
Simbu Total West'n	Office Materials And Supplies	96,000
westn	Once iviaterials And Supplies	5,000
	Operational Materials and Supp	10,000
	Other Operational Expenses	20,000
	Training	182,000
	Pravel and Subsistence Expense	20,000
	Grants to individuals & Organi	82,000
	Oranta 9 Transform to Dublic	319,000
	Grants & Transfers to Public	100,000
	Routine Maintenance Expenses	19,300
WHP Total	Orente 9 Transford D 1 A 1	119,300
WNB	Grants & Transfers to Pub Auth	50,000
	Other Operational Expenses	100,000
WNB Iotal		150,000
Grand Total		1,431,509
### **Observations and Opportunities**

All provinces need to allocate more money to support targeted activities that help in preventing the spread of HIV/AIDS, especially to rural areas. 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...."





### 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 2009 trend

This graph illustrates the 2005 to 2009 performance of each province using the cost of services estimate as a benchmark.



Graph 30: Infrastructure Maintenance Spending Performance: 2005 to 2009

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

### 7.3.1 Performance Overview

- With five 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 remains 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?
- Is there any progress? A cautious yes, in 2009 we do see eight provinces spending noticeably more on infrastructure maintenance. Five of these provinces are from the lower funded group where the impact of RIGFA can be seen clearly.
- The average across all 18 provinces was that spending in 2009 reached 25% of what is required compared to only 14% in 2008.
- A significant 35% (2008: 52%) or K12.3 million (2008: K12 million) of recurrent infrastructure sector spending was from internal revenue.
- In 2009 six provinces spent very little or nothing from their grant or internal revenue on infrastructure <u>capital</u> (that is, new construction, rehabilitation or reconstruction). Given the low levels of spending on road & other transport related <u>maintenance</u>, the fact that relatively few <u>new</u> roads are being constructed can be viewed as a positive sign.

- Four provinces accounted for 76% of the capital spending that occurred (not including PIP). These are Southern Highlands, Enga, Western and New Ireland.
  - Southern Highlands alone spent K27.5 million or 36% of all spending on capital in this sector.

The infrastructure data table provides a snapshot of infrastructure expenditure data for the period 2005 to 2009 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:

	Infra	struct	ure Spo	ending	;
80% -					
40% -					
20% - 0% -					
	2005	2006	2007	2008	2009
	_	—Avera	ige Spen	ding	

### 7.3.2 Spending between 2005 and 2009

In overall terms, the declining spending trend in infrastructure maintenance that was observed between 2005 and 2008 has been reversed in 2009.

- Over this period, recurrent spending has moved from K26.6m...K30.1m... K23.8m...K23m...K35.5m – an overall increase.
- Recurrent spending by the 12 lower and medium funded provinces has doubled in 2009

   from K10m to K20m. This increase is encouraging, as are the clear signs of lower funded provinces making use of the additional funding to address specific maintenance needs.
- New Ireland appears to have implemented a large program of infrastructure maintenance – with K3 million on recurrent maintenance and K9.3 million on capital (and major rehabilitation).
- Madang and Oro still show little spending on infrastructure maintenance. Morobe and Enga show low spending on routine maintenance but have spent significant amounts on capital (major rehabilitation and/or new infrastructure).
- Four provinces, Southern Highlands, Western, Enga and New Ireland, 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).<sup>24</sup>

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.<sup>25</sup>

<sup>&</sup>lt;sup>24</sup> Refer to section 7.4

<sup>&</sup>lt;sup>25</sup> Routine maintenance for an unsealed road (on National Highway) will cost about K6,000/km (per annum) whilst reconstruction will cost about K250,000/km. For sealed roads on national highway the routine maintenance cost is less, say K4,000/km, whilst the reconstruction is expensive, say K550,000

There is a strong appeal to spend on 'new development'- 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 any new transport 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.
- In 2009, K12.4m (2008: K11.9m) of recurrent spending on maintenance was from internal revenue (or 35% - 2008: 52%).
- K68 million (2008: K52.7 million) of capital spending was from internal revenue (or 80% 2008: 84%).
- Overall 67% of sector spending came from internal revenue (2008 76%).

### 7.3.4 Spending in comparison to fiscal capacity

- When we adjust for the differences in fiscal capacity, five provinces <u>improved</u> their 2008 performance levels moving from low to medium – New Ireland, Southern Highlands, Western Highlands, Milne Bay and Oro.
- Sandaun and Simbu increased their spending and remained at the medium level.
- The other 11 provinces remain in the low level.

### 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 31: Analysis of all Infrastructure Spending in 2009<sup>26</sup>

### The 5 Largest Spending Areas (by item)

### The Split by Category

ltem #	Item Description	Amount	%	Category Description	Amount	
135	Other Operational Expenses	33,201,825	29%	Recurrent Goods & Services	35,947,592	
226	Substantial & Specific Maintenan	23,517,065	21%	Personnel Emoluments	1,286,034	
225	Construction, Renovation	15,501,115	14%	Capital & Projects G&S	75,943,228	
224	Plant, Equipment & Machinery	10,328,713	9%	Capital & Projects PE	151,433	
242	Capital Trfs to Gov't Agencies	9,987,185	9%			
	all other codes	20,792,385	18%			
	Total spending from recurrent & capital	113,328,288	100%	Total spending from recurrent & capital	113,328,288	

This table shows us that:

- Spending under items 225 and 226 are to be expected, however it is interesting that spending under item 128 *Routine Maintenance* does not feature in the 2009 top 5.
- Western, Milne Bay and West New Britain all invested in heavy machinery (item 224).
- 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 32% to recurrent and 67% to capital. Remember however, four provinces dominate the capital expenditure total, so capital spending is not spread evenly across all provinces.
- Other Operational Expenses (item 135) has risen sharply by K11 million in 2009 from K22 million in 2008 to K33 million in 2009.
  - Some K30 million of this is expenditure by the Southern Highlands on roads, bridges and airstrips.

<sup>&</sup>lt;sup>26</sup> 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.

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## 7.4 Infrastructure Maintenance Data Table

					Infrastru	cture Se	ctor 200	5 to 2009	(recurrent	t spending)					
	Province	Cost of Services	2005 Exp	2006 Exp	2007 Exp	2008 Exp	2009 Exp	% change v average	Spending Trend	2009 Internal Revenue Exp	Capital & Projects	Spendin achieve	ig level d v CoS	% FG unspent	FG exp nature
				(Kina mill	lions)					% of total exp	2009	2008	2009	200	60
	West'n	12.906	1.071	0.900	1.603	3.700	3.775	108%	dŊ	39%	9.760	Low	Low	28%	Good
	NIP	4.328	0.321	0.299	0.417	0.535	3.066	680%	d	97%	9.373	Low	Medium	%06	Not Good
Higher	Morobe	14.678	4.197	4.307	3.922	4.401	1.356	-68%	Down	31%	4.576	Low	Low	8%	Average
funded	WNB	3.391	1.862	1.019	0.743	0.826	1.250	13%	Steady	28%	1.000	Low	Low	%0	Good
	Enga	11.089	2.046	3.104	2.195	1.199	1.637	-24%	Down	18%	11.450	Low	Low	0%	Average
	SHP	11.188	0.924	0.701	0.648	1.608	4.500	364%	Up	67%	27.538	Low	Medium	%0	Good
	ENB	8.139	3.753	3.352	1.695	2.342	2.895	4%	Steady	6%	1.146	Low	Low	%0	Good
:	Madang	10.133	1.539	0.919	0.307	0.415	0.444	-45%	Down	62%	ı	Low	Low	91%	Not Good
Medium funded	Central	10.750	0.188	0.366	0.603	0.613	2.223	403%	Чp	6%	0.778	Low	Low	1%	Good
	WHP	15.080	4.418	7.822	5.449	2.205	4.557	-9%	Steady	46%	ı	Low	Medium	%0	Average
	Gulf	4.434	1.004	1.156	1.111	0.255	0.782	-12%	Steady	ı	0.200	Low	Low	5%	Average
	EHP	15.722	2.533	3.626	3.563	2.241	2.332	-23%	Down	34%	5.142	Low	Low	29%	Average
	MBP	6.081	0.532	0.373	0.772	0.651	1.835	216%	dŊ	15%	3.527	Low	Medium	11%	Good
	Oro	3.280	0.455	0.399	0.177	0.014	0.798	206%	d	,	0.100	Low	Medium	%0	Average
funded	ESP	16.762	0.391	0.553	0.184	0.404	0.445	17%	d	2%	0.824	Low	Low	3%	Not Good
	Sand'n	5.643	0.774	0.526	0.814	0.784	1.565	117%	d	13%	0.530	Medium	Medium	3%	Good
	Simbu	7.366	0.301	0.589	0.320	0.857	1.884	265%	d	ı	ı	Medium	Medium	%0	Good
	Manus	3.850	0.276	0.188	0.176	0.078	0.606	238%	d	22%		Low	Low	5%	Average
	All Provinces	164.820	26.587	30.198	24.696	23.128	35.948	38%	dN	12.729	75.943				
							(a)	×	(e v		(q)				
									above 15%	above 25%	above K0.35m	above	80%	below 5%	Good
			The highes	st spending	3 year in K	ina		1	in-betw een			in-betv	v een	in-betw een	Average
									below -15%			below	40%	above 10%	Not Good

- 20 -

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

(a) Includes grant & internal revenue expenditure.(b) Capital & Projects

### 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 <u>both</u> 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 32: Infrastructure Expenditure: Recurrent & Capital in 2009 (SSG incl. PIP excl)<sup>27</sup>

- As before, in most of the same provinces capital spending dominates Southern Highlands, Western, Morobe, Eastern Highlands and Enga. Obviously the massive amount spent by Southern Highlands is the main feature of the graph. It does invite the question as to just where and how well this sizable amount has being spent.
- New big spenders New Ireland and Milne Bay.
- Eleven provinces spent low amounts or nothing from their grant or internal revenue on infrastructure capital. Given the low levels of spending on road & other transport related <u>maintenance</u>, the fact that relatively few <u>new</u> roads are being constructed can be viewed as a positive sign.

<sup>&</sup>lt;sup>27</sup> PIP expenditure is <u>clearly</u> development in nature and is therefore excluded. SSG expenditure on infrastructure has been included on the basis that this *might* be recurrent (however unlikely).



Graph 33: Infrastructure Spending: Recurrent & Capital 2005 to 2009 (SSG incl. PIP excl)

The graph reveals that:

- In 2009 spending on the transport infrastructure sector (both recurrent and capital) is stronger in more provinces than in previous years.
- However, even if we assumed that all infrastructure spending was on routine maintenance (which is clearly an unrealistic assumption) only two provinces spend close to what is necessary over the five year period.

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?
- Another two provinces have in recent years started to spend more significant amount on the sector. These are Western in 2008-9 and New Ireland in 2009.
- We can see however 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)



### 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.<sup>28</sup> 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.

<sup>&</sup>lt;sup>28</sup> The primary sector is generally accepted to include; agriculture, fisheries, livestock and forestry.

### 8.3 Against the Benchmark: the 2005 to 2009 trend

The graph that follows illustrates the 2005 to 2009 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 34: Agriculture Spending Performance: 2005 to 2009

### 8.3.1 Performance Overview

- Despite some volatility, spending trends are emerging. Overall, spending increases year by year from K6.4m...K7.6m...K7.6m...K10.2m...K11.9m.
- Twelve provinces spent on average only 23% of what is required to meet the actual costs of a basic service (19% 2008). This is a small 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; West New Britain, East New Britain, Madang and Oro.
- Only seven provinces spent more than 50% of what is estimated necessary to provide a basic agriculture service.
- New Ireland, typically the big spender, dropped significantly in 2009.
- Spending from internal revenue made a relatively significant impact in seven provinces (i.e. over K300,000); being New Ireland, Morobe, Enga, Madang, Western Highlands, Eastern Highlands, and East Sepik.
- K2.7 million was capital expenditure (down from the K6.2m spent in 2008), with the majority being in two provinces Enga and Central.

The agriculture data table provides a snapshot of agriculture expenditure data for the period 2005 to 2009 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 2009

 Recurrent goods and services spending in the agriculture sector has remained relatively steady moving gradually upwards from K6.5 million in 2005 to K11.9 million in 2009.



- The overall spending trend in agriculture was mixed with twelve provinces increasing their spending and two decreasing their spending. Some of the movements were significant, such as:
  - Sharp falls in: Western, New Ireland and Simbu
  - Sharp rises in: West New Britain, East New Britain, Madang and Oro.
- New Ireland who in the past have indicated a strong ongoing commitment to developing agriculture within the province appear to have reprioritised and spent very little from internal revenue in 2009 on agriculture. This was quite a turnaround.
- Of the provinces that showed a sharp increase in recurrent spending in agriculture in 2008 only West New Britain and East Sepik sustained their increased levels.
- Agriculture as a priority continues to appear low in several higher-funded provinces; being Southern Highlands, Morobe and Enga.

### 8.3.3 Spending from Internal Revenue

A total of 16% of sector expenditure was funded from internal revenue with four provinces accounting for most of this. These are Morobe, Western, Southern Highlands, and Central.

### 8.3.4 Spending in comparison to fiscal capacity

- When we adjust for the differences in fiscal capacity three provinces improved and six provinces declined. So 2009 saw a degree of volatility in spending performance levels with more falling than rising.
- The spending performance of three provinces <u>improved</u>: East New Britain, Madang and Western Highlands.
- The spending performance of six provinces <u>declined</u>: Western, New Ireland, East Sepik, Sandaun, Simbu and Manus.

### 8.3.5 How did we spend?

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

### Table 35: Analysis of all Agriculture Spending in 2009<sup>29</sup>

The 5 Largest Spending Areas (by item)

### The Split by Category

Item #	Item Description	Amount	%	Category Description	Amount	%
135	Other Operational Expenses	7,268,203	48%	Recurrent Goods & Services	11,893,159	79%
143	Grants and Transfers	2,529,010	17%	Personnel Emoluments	406,802	3%
121	Travel and Subsistence Exp's	742,097	5%	Capital & Projects	2,740,238	18%
124	Operational materials & supplies	681,174	5%			
223	Feasibility Studies	560,000	4%			
	all other codes	3,259,715	22%			
	Total spending from recurrent & capital	15,040,199	100%	Total spending from recurrent & capital	15,040,199	100%

We can see that:

 Spending from item 135 comprised 48% of all expenditure – down from 72% in 2008. The general nature of the codes accurately reflects the underlying spending – it is a wide mix, from extension work to projects to commodity based field days.

Item 135 (operational expenses) is a catch-all spending item code that allows provinces great flexibility in their spending decisions.

- Feasibility studies and project preparation work was prominent at 4% (4% in 2008).
- What is interesting is that one travel related code (item 121) is now present in the top-5. The absence of such costs in the past has been odd given that extension work is at the heart of agriculture service delivery.
- Capital spending dropped significantly from K6.2 million to K2.7 million.

### Primary Production function grant in 2011 based on cost of services estimate not derivation

Historically the derivation grant has been based on the province's revenue from primary production. In 2009 and 2010 the primary production grant was stable reflecting the 2008 derivation grant levels. In 2011 this approach changes and the primary production grant reflects the sectors need as calculated by the NEFC cost of services study.

<sup>&</sup>lt;sup>29</sup> 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 unspecified SSG funds.

### 8.4 Agriculture Data Table

				Agricult	ure Sect	tor 2005 t	to 2009	(recurren	t spending)				
	Province	Cost of Services	2005 Exp	2006 Exp	2007 Exp	2008 Exp	2009 Exp	% change v average	Spending Trend	2009 Internal Revenue Exp	Capital & Projects	Spe ndin achie ve	g level I v CoS
				(Kina mi	lions)					% of total exp	2009	7 2008	2009
	Westn	2.066	0.222	0.888	0.877	2.376	1.383	27%	Up	32%	0.180	High	Medium
	NIP	0.904	0.725	1.823	0.985	1.325	0.499	-59%	Down	10%	ı	High	Medium
Higher	Morobe	3.139	0.364	0.587	0.490	0.402	0.545	19%	Up	32%	0.150	Low	Low
funded	WNB	1.440	0.344	0.355	0.450	1.110	1.410	150%	Up		0.290	High	High
	Enga	1.735	0.116	0.231	0.052	0.139	0.264	97%	ЧD	30%	1.016	Low	Low
	SHP	2.959	0.385	0.072	0.088	0.306	0.707	233%	Up	87%		Low	Low
	ENB	1.663	0.578	0.536	0.558	0.254	1.470	206%	Up	6%	0.239	Low	High
:	Madang	2.025	0.167	0.347	0.064	0.338	0.705	208%	Up	14%		Low	Medium
Medium	Central	1.530	0.307	0.093	0.161	0.461	0.503	97%	Up	65%	0.585	Medium	Medium
	WHP	1.785	1.026	1.000	1.508	0.703	1.020	-4%	Steady	·	0.180	Medium	High
	Gulf	1.175	0.086	0.109	0.678	0.184	0.283	8%	Steady	,	,	Low	Low
	EHP	1.734	1.029	0.658	0.772	0.703	0.891	13%	Steady	2%	·	High	High
	MBP	1.565	0.448	0.201	0.365	0.202	0.459	52%	ЧD	13%	0.101	Medium	Medium
	Oro	1.018	0.093	0.337	0.055	0.343	0.637	208%	ЧD	·	·	High	High
funded	ESP	2.117	0.140	0.227	0.190	0.543	0.580	111%	Up	,	ı	High	Medium
	Sand'n	2.164	0.302	0.036	0.254	0.386	0.341	40%	ЧD	ı	ı	Medium	Low
	Simbu	1.072	0.054	0.043	0.021	0.407	0.145	11%	Steady	·	ı	High	Low
	Manus	0.691	0.067	0.053	0.047	0.081	0.051	-18%	Down			Medium	Low
	All Provinces	30.781	6.452	7.596	7.613	10.262	11.893	50%	Чp	1.953	2.740		
							(a)				(q)		
								- [	Key				
									above 15%	above 25%	above K0.35m	above	80%
			The highe	st spendinį	g year in K	(ina			in-betw een			in-betv	v een
								<u> </u>	below -15%			below	40%

(a) Includes grant & internal revenue expenditure.

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

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### 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 a 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 2009 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 36: Village Court <u>Allowances</u> Spending Performance: 2005 to 2009<sup>30</sup>

<sup>&</sup>lt;sup>30</sup> 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.

### 9.1.1 Performance Overview: Allowances

The graph above illustrates the 2005 to 2009 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<sup>31</sup>. This enabled provinces to meet back claims and arrears from prior years.

Some provinces display a trend of consistently spending more than the cost of services estimate this includes New Ireland, 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 2009 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 2009

Over this period, recurrent spending has moved from K5.9m...K10.8m... K5.5m...**K7.6m**...**K6.4m** – the 2006 high reflects the additional funding provided by Treasury to meet the cost of accumulated arrears of allowances. Spending in 2009 has declined – which may represent a levelling off of the expenditure after two relatively high spending years when provinces repaid arrears.

### 9.1.3 Spending from Internal Revenue

 Spending from internal revenue in the sector was relatively minor at K1.3 million which is an increase on 2008 (K0.45 million). This was found mainly in New Ireland and Western Highlands with a smaller level of spending in East New Britain.

<sup>&</sup>lt;sup>31</sup> Although in reality the Department of Treasury did not release the whole grant appropriation for every province.

### 9.2 Against the Benchmark: VC operational costs the 2005 to 2009 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 37: Village Court <u>Function Grant</u> Spending Performance: 2007 to 2009

### 9.2.1 Performance Overview: Function Grant (on operational costs)

The graph illustrates the performance of each province in the 2007 to 2009 fiscal years using the cost of services estimate as a benchmark.

- Two thirds of provinces (12) 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. Morobe spent a large amount in the sector.
- The low spending by Gulf in 2008 has been addressed in 2009.
- Western Highlands has also recovered after a poor 2008, but is still below the cost estimate. Spending by the Southern Highlands is also well below what is estimated necessary.

The village court operational costs data table provides a snapshot of village courts expenditure data for the period 2007 to 2009 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.
- Only four provinces contributing significant expenditure from internal revenue. These are Western, Enga, Madang and Milne Bay.

### 9.2.3 How did we spend?

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

### Table 38: Analysis of all Village Courts Operational Spending in 2009<sup>32</sup>

The 5 Largest Spending Areas (by item)

### The Split by Category

ltem #	Item Description	Amount	%	Category Description	Amount	ĺ
135	Other Operational Expenses	1,237,865	47%	Recurrent Goods & Services	2,424,838	
125	Transport and Fuel	304,086	12%	Personnel Emoluments	56,299	
121	Travel and Subsistence Exp's	282,747	11%	Capital & Projects	160,000	
222	Purchase of Vehicles	263,600	10%			
123	Office Materials & Supplies	122,041	5%			
	all other codes	430,799	16%			
	Total spending from recurrent & capital	2,641,137	100%	Total spending from recurrent & capital	2,641,137	

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 budget code 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 23% of total spending.
- Capital spending mainly relates to the purchase of vehicles in the Southern Highlands (note the Southern Highlands also bought vehicles in 2008).

<sup>&</sup>lt;sup>32</sup> 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.

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# 9.3 Village Courts Data Table - Allowances

				VIIIage	Court All	owances	s 2005 to	. 2009 (re	current spe	snding)				
	Province	Cost of Services	2005 Exp	2006 Exp	2007 Exp	2008 Exp	2009 Exp	% change v average	Spending Trend	2009 Internal Re venue Exp	Spe ndin achie vec	g le vel I v CoS	% FG unspent	FG e xp nature
				(Kina mil	llions)					% of total exp	2008	2009	20	<u> </u>
	West'n	0.193	0.210	0.233	0.138	0.214	0.161	-19%	Down		High	High	%0	Good
	NIP	0.151	0.136	0.815	0.747	0.169	0.744	%09	dŊ	77%	High	High	7%	Good
Higher	Morobe	0.343	0.872	0.846	0.321	0.321	0.330	-45%	Down	·	High	High	2%	Good
funded	WNB	0.172	0.165	0.619	0.163	0.167	0.172	-39%	Down	ı	High	High	1%	Good
	Enga	0.450	0.532	0.831	0.683	2.513	0.527	-54%	Down		High	High	%0	Good
	SHP	0.810	0.796	0.704	0.415	0.893	0.515	-27%	Down		High	Medium	%0	Good
	ENB	0.135	0.164	0.227	0.139	0.180	0.223	26%	dŊ	17%	High	High	%0	Good
	Madang	0.284	0.313	0.324	0.123	0.275	0.282	10%	Steady		High	High	%0	Good
Medium funded	Central	0.359	0.146	0.766	0.327	0.267	0.309	-18%	Down	ı	High	High	20%	Good
5	WHP	0.485	0.895	1.046	0.706	0.636	1.091	33%	dŊ	63%	High	High	%0	Good
	Gulf	0.129	0.157	0.269	0.125	0.116	0.123	-26%	Down	ı	High	High	5%	Average
	EHP	0.567	0.494	1.315	0.424	0.410	0.403	-40%	Down		Medium	High	3%	Good
	MBP	0.118	0.270	0.870	0.277	0.284	0.292	-32%	Down		High	High	10%	Good
	Oro	0.068	0.078	0.227	0.124	0.124	0.127	-8%	Steady	·	High	High	%0	Good
Lower funded	ESP	0.406	0.324	0.297	0.222	0.447	0.444	38%	dŊ		High	High	25%	Not Good
	Sand'n	0.096	0.093	0.177	0.150	0.154	0.158	11%	Steady	ı	High	High	%0	Good
	Simbu	0.525	0.259	0.799	0.271	0.341	0.350	-17%	Down	ı	Medium	High	2%	Good
	Manus	0.159	0.047	0.468	0.151	0.155	0.159	-23%	Down	ı	High	High	0%	Good
	All Provinces	5.449	5.950	10.833	5.506	7.667	6.409	-15%	Steady	1.300				
							(a)							
								— I.	Key					
									above 15%	above 25%	above	80%	below 5%	Good

(a) Includes grant & internal revenue expenditure.

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in-betw een Average above 10% Not Good

in-between below 40%

in-betw een below -15%

The highest spending year in Kina

		Villag	le Court	Operatio	ns Sect	or 2007 to	2009 (recu	urrent spend	ding - not allo	wances)			
	Province	Cost of Services	2007 Exp	2008 Exp	2009 Exp	% change v average	Spending Trend	2009 Internal Revenue Exp	Capital & Projects	Spending achieve d	g level v CoS	% FG unspent	FG e xp nature
			(Kina mil	lions)				% of total exp	2009	2008	2009	200	6
	Westn	0.131	0.213	0.266	0.194	-20%	Down	34%	,	High	High	%0	Average
	NIP	0.035	0.055	0.069	0.058	-6%	Steady	11%	ı	High	High	12%	Good
Higher	Morobe	0.076	0.137	0.114	0.501	300%	ď	ı	ı	High	High	8%	Average
funded	WNB	0.193	0.207	0.165	0.165	-12%	Steady	·	ı	High	High	%0	Good
	Enga	0.104	0.533	0.381	0.235	-49%	Down	35%	ı	High	High	6%	Good
	SHP	0.181	0.207	0.117	0.117	-28%	Down	1	0.120	Medium	Medium	8%	Average
	ENB	0.064	0.063	0.071	0.079	19%	ď	11%	,	High	High	14%	Good
	Madang	0.040	0.078	0.100	0.078	-12%	Steady	ı	,	High	High	5%	Good
Medium	Central	0.120	0.087	0.141	0.073	-36%	Down		,	High	High	%0	Good
	WHP	0.259	0.129	0.026	0.184	137%	Ч	ı	1	Low	High	%0	Average
	Gulf	0.037	0.041	0.015	0.041	48%	ď	ı	ı	Medium	High	2%	Good
	EHP	0.071	0.111	0.135	0.112	-9%	Steady	ı	0.040	High	High	%0	Average
	MBP	0.075	0.368	0.155	0.086	-67%	Down	13%	,	High	High	%0	Good
	Oro	0.042	0.043	0.043	0.043	-1%	Steady	ı	,	High	High	1%	Good
Lower funded	ESP	0.129	0.081	0.152	0.167	44%	ď	ı	,	High	High	29%	Not Good
	Sand'n	0.069	0.067	0.067	0.067	1%	Steady	ı	,	High	High	%0	Average
	Simbu	0.077	0.154	0.107	0.150	16%	Чр	I	ı	High	High	%0	Good
	Manus	0.062	0.073	0.074	0.073	-1 %	Steady	I	I	High	High	2%	Good
	All Provinces	1.765	2.647	2.196	2.425	1%	Steady	0.175	0.160				
					(a)	-							
						-	ahove 15%	ahove 25%	ahove K0.35m	above {	30%	helow 5%	Poor
								2000					5000

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

(a) Includes grant & internal revenue expenditure.

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in-betw een Average above 10% Not Good

in-betw een below 40%

in-betw een below -15%

The highest spending year in Kina

### **10 Administration focus**

The administrative divisions of Provincial Governments have a central role to play in identifying and removing the <u>impediments</u> 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

Almost **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 2009 trend

The graph that follows illustrates the 2005 to 2009 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.





### **10.2.1 Performance Overview**

- In 2009 provinces spent on average 234%, just under two and a half times the actual administration costs required (in 2006 & 2007 it was two times and in 2008 252%).
- The encouraging signs are some provinces have reduced their spending after the high increases in 2008. The other real positive is the example set by lower-funded provinces who manage the budgets without excessive spending on administration.

 Administration spending in 2008 and 2009 remained the same – spending has moved from K47m...K55m...K85m...K85m.

Most of the increased spending between 2007 and 2008 was in provinces with higher levels of internal revenue.



- Some provinces spend three, four or five times as much as what is estimated necessary of administration – such as Western, New Ireland, Enga, Southern Highlands and Western Highlands. There is a real opportunity to better manage administration spending and to reallocate more money to front line services.
- 84% K72 million, of spending on recurrent goods and services on administration was funded from internal revenue (2008: 82%, K71 million).

The administration data table provides a snapshot of administration expenditure data for the period 2005 to 2009 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** The impact of Consolidated Expenditure<sup>33</sup>

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 <u>specifically</u> 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. In 2008 we to analysed and illustrated the possible impact of these consolidated costs to see if it painted a significantly different picture of provinces administration spending performance.<sup>34</sup>

We found that even when we discounted the administration spending in these provinces by such consolidated expenditure 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.

### **10.2.3 Spending from Internal Revenue**

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

<sup>&</sup>lt;sup>33</sup> Some provinces <u>centrally</u> 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.

<sup>&</sup>lt;sup>34</sup> Refer to the 2008 Provincial Expenditure Review *Walking the Talk* available on the NEFC website.

### 10.2.4 How did we spend?

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

### Table 40: Analysis of all Administration Spending in 2009<sup>35</sup>

The Split by Category

Item #	Item Description	Amount	%	Category Description	Amount	%
135	Other Operational Expenses	40,524,363	30%	Recurrent Goods & Services	82,416,924	60%
112	Casual Wages	12,916,875	9%	Personnel Emoluments	35,442,830	26%
121	Travel and Subsistence Exp's	9,676,849	7%	Capital & Projects	19,362,778	14%
111	Salary & Allowances	8,937,738	7%			
125	Transport and Fuel	8,181,472	6%			
	all other codes	56,985,234	42%			
	Total spending from recurrent & capital	137,222,532	100%	Total spending from recurrent & capital	137,222,532	100%

The 5 Largest Spending Areas (by item)

We can see that:

- There has been a remarkable similarity in the break-up of spending between 2008 and 2009. The expenditure items and their proportions remain very constant.
- Items 112 & 111: Spending on personnel emoluments stays at 25% of all administration spending but decreases by K4.5 million. (note this IS NOT the regular staff payroll)
- Item 135: The highest single item of spending is still other operational expenses at 29% (2008: 29%) This item is a catch-all expenditure code that allows provinces great flexibility in spending.
- Items 121 and 125: These items are travel related costs.
- One difference is the decrease in spending on capital & projects from K35 million in 2008 down to K19 million in 2009.
  - 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.

<sup>&</sup>lt;sup>35</sup> 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.

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## **10.3 Administration Data Table**

				Adn	ninistrati	on Secto	or 2005 to	o 2009 (re	current sp	ending)				
	Province	Cost of Services	2005 Exp	2006 Exp	2007 Exp	2008 Exp	2009 Exp	% change v average	Spending Trend	2009 Internal Revenue Exp	Capital & Projects	Unspecified Arrears	Spe ndin achieved	ig level d v CoS
				(Kina mil	lions)					% of total exp	2009	2009	2008	2009
	Westn	2.451	4.900	8.281	6.909	10.034	8.541	14%	Steady	98%	1.056	0.450	454%	348%
	NIP	1.798	2.346	3.180	3.408	6.446	6.868	79%	dD	100%	0.182		396%	382%
Higher	Morobe	3.009	5.765	7.138	7.310	10.330	8.735	15%	Steady	100%	0.676		378%	290%
funded	WNB	1.740	2.248	1.487	2.369	4.416	3.902	49%	Чp	92%	0.605	0.713	282%	224%
	Enga	1.870	4.275	5.730	7.640	4.509	7.522	36%	Чp	92%	2.256	0.707	266%	402%
	SHP	2.441	3.144	2.781	1.730	13.869	8.151	52%	dŊ	86%	9.631		635%	334%
	ENB	2.230	5.125	4.897	4.149	5.727	6.070	23%	d	%66	0.527		282%	272%
:	Madang	2.091	2.140	2.969	4.099	3.399	4.159	32%	Чp	69%	0.200		179%	199%
Medium	Central	1.634	2.526	2.222	3.041	3.842	4.680	61%	d	80%	0.329	0.044	258%	286%
2	WHP	1.879	2.724	2.565	4.621	7.808	7.367	67%	Чp	%06	0.490	2.134	457%	392%
	Gulf	1.081	1.890	2.480	1.683	0.732	1.291	-24%	Down	7%		0.328	74%	119%
	EHP	1.789	2.867	2.383	2.145	2.453	3.631	48%	Чp	63%	0.230	0.100	150%	203%
	MBP	2.006	1.687	1.219	1.214	2.176	1.793	14%	Steady	54%	2.075		119%	89%
	Oro	1.449	0.901	1.001	1.313	0.893	1.271	24%	Чp	37%		0.818	68%	88%
funded	ESP	2.876	2.070	2.159	1.657	2.471	3.484	67%	d	48%		0.239	94%	121%
	Sand'n	2.093	1.441	1.504	1.141	1.488	1.568	13%	Steady	49%	0.217	·	78%	75%
	Simbu	1.644	0.737	2.271	1.362	4.137	1.743	-19%	Down	57%	0.430	ı	275%	106%
	Manus	1.493	0.866	1.095	0.975	1.236	1.641	58%	d	43%	0.459	0.420	91%	110%
	All Browinces	35 57A	47 6.40	55 363	EG 765	85 063	82 417	350/	4	68 702	10 363	5 057		
				00000	20120	00000	(6)	2	2)		(H)	(c)		
							(11)	T	(ey		(m)			
									above 15%	above 25%	above K0.5m	above K0.5m	up to 1	00%
			The highes	st spendin(	g year in K	ina			in-betw een				100% to	200%
			)	•					below -15%				over 2	%00

(a) Includes grant & internal revenue expenditure. It does not include capital & projects nor personal emoluments.
(b) The capital & projects amounts are in addition to the amounts in (a)
(c) The arrears amounts are in addition to the amounts in (a)

### 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 descriptions 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.



### Graph 41: Spending on Unspecified Arrears: 2007 to 2009

What we can see is:

- Spending on unspecified arrears votes have reduced in 2009:
  - Overall from K28m...K11m...K6m
  - And specifically in: Western, West New Britain, Enga and East Sepik
- Spending in Western Highlands has increased over the three years.

### **11** Conclusion

The reform of intergovernmental financial arrangements (RIGFA) in Papua New Guinea started in earnest in budget 2009 with provinces receiving more funding based on need. This *review* assessed our progress in the early stages of these reforms and indicates green shoots of change.

### Did the increased funding reach the provinces that need it most?

Yes it did, the fiscal capacity of the six lowest funded provinces went from an average of 30% in 2008 to 45% in 2009.

### Did the increased function grants reach the sectors?

Yes they did, the increased grants were targeted at the Government's priorities – basic education, rural health, transport infrastructure maintenance and primary production.

### Did provinces use the additional function grant funding they received under RIGFA in 2009? Or did they struggle to spend the additional money?

Overall, we can see that in 2009 the amounts of un-used function grant funding remained <u>similar</u> to previous years. The under-spending rate in health decreased whilst in education it increased. So we can be pleased that provinces have been able to put the additional funding to good use.

### • Were the grants spent on the purposes intended?

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

### • Was there evidence of spending on MPAs?

Yes there was evidence of spending on MPA's however we need to continue to be proactive in our efforts to support provinces as they seek to revitalise these critical activities.<sup>36</sup> <u>Clearly identifying budget line items</u> will help ring-fence these funds and ensure sectors have the resources necessary to carry out the activities.

### An update on cross-cutting issues

- **Funding Gap:** Whilst the funding gap remains it continues to be reduced. More money is reaching the provinces that need it most and is being targeted at priority sectors and activities. 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.
- Priority Gap: 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.

<sup>&</sup>lt;sup>36</sup> Supporting provinces to revitalise the minimum priority activities is a shared responsibility. Many provinces have been starved of recurrent funding for a significant period of time. Activities need to be planned, resources and budgets allocated and then monitoring needs to take place at a variety of levels. Central agencies and national line agencies have a critical role to play in supporting this process.

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).

 Minimum Priority Activities: Some activities are absolutely critical and must be carried out. When these activities stop, or happen infrequently or haphazardly service delivery within the sector declines. Under RIGFA we are funding and monitoring a set of 11 priority activities across five sectors (3 in each of education, health and transport infrastructure; and 1 in both primary production and village courts).

The aim is to fund and revitalise these activities to ensure they happen.

Per diems, pushing up the Thin Blue Line:<sup>37</sup> In 2010 the Department of Personnel Management reviewed and increased the rates of per diem paid to all levels of government. Per diems (also known as TA) are a necessary cost to enable government officers to carry out their work duties. However, this benign-looking policy change will continue to have a highly significant impact on the provinces recurrent budgets. The increase in the per diem rates equates to a K55 million cost increase for provinces. The extra K55 million represents a 12% increase in the cost of services estimate.

What does this mean? In reality the increase in per diems may reduce the amount of duty travel that can take place in each province. Sadly, the costs of undertaking a health patrol, or an agriculture extension visit, or a school supervisory visit will increase markedly which means less of these vital activities may take place. Provincial administrations will themselves need to ensure that core activities are still prioritised despite the increased cost in carrying out these activities.

- Parallel Systems: There is a natural desire to see and report tangible outputs from donor funds. This desire combined with a historical lack of confidence in government systems has led to the practise of establishing systems that run parallel to the government financial system. By systems we mean establishing and operating trust accounts at the provincial level. Whilst this may serve the purpose of the donor, it fragments and dilutes the ability of the province to effectively budget and manage the funds allocated to the province for the delivery of services. We already have an internal fragmentation with the split between grant and internal revenue additional external sources of fragmentation are unhelpful and against the thrust of policy in this area both within Papua New Guinea and internationally.<sup>38</sup>
- District Data: In recent years more funding is finding its way to the district treasuries and thereby under the management of the district administration. We need to design and implement a robust and pragmatic form of data transfer between districts, provinces and the national level that enables this expenditure to be reported more easily, more regularly and more reliably.
- More Infrastructure? 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.

<sup>&</sup>lt;sup>37</sup> The Thin Blue Line describes the costs of service estimate, being the cost the NEFC conservatively calculates is necessary to be incurred to deliver a particular service.

<sup>&</sup>lt;sup>38</sup> PNG has given considerable emphasis to the *implementation of the international Paris and Accra agreements on aid effectiveness,* which amongst other things commits to the principles of harmonization and alignment. Other agreements signed between PNG and donor partners are written in the same spirit.

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.

 More Staff? 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

The *Provincial Expenditure Review* has stories at every level, let's summarise each major sector:

- Education: Recurrent spending in education has increased by K9 million with most provinces <u>spending more</u> in 2009 and some spending significant amounts.
- *Health*: 2009 saw a positive change in health spending with overall spending increasing by K12.6 million. Many lower and medium funded provinces showed significant increases in their spending on the sector. Spending from HSIP remained strong.
- **Transport Infrastructure Maintenance:** Maintaining infrastructural assets is expensive particularly when they have left to degrade. Spending identified as routine maintenance increased by K12.8 million in 2009. There is still an enormous amount of work to be done.
- **Agriculture:** Overall spending on agriculture remains relatively static. Whilst agriculture is identified as being the economic bedrock of rural Papua New Guinea a major effort appears necessary to revitalise this sector.
- **Village Courts:** The village courts sector receives two grants, one for operations the other for allowances. The grants are in line with the modest cost estimates for the sector.
- **Administration:** Recurrent spending on administration reduced slightly in 2009 but remains high relative to the estimated costs required and very high relative to what is spent on sectors delivering services.

80% - 60% - 40% - 20% - 0% -	Education Spending		Health Spending		Infrastructure Spending	
	Agriculture Spending		Administra	tion Spending	· · · · · · · · · · · · · · · · · · ·	

### Average Spending by Sector from 2005 to 2009

- Upward trends: In education and health.
- Donor impact on recurrent service delivery activities: in education and health.
- Concern:
  - Infrastructure spending remains low and is expensive and will become even more expensive the longer we wait.
  - Administration is high (relatively speaking) and needs to be reduced and managed.

### What now?

- Prioritisation of internal revenue: More internal revenue needs to go to funding goods and services in the priority sectors of education, health, transport infrastructure and primary production. This applies particularly to higher-funded provinces.
- *Late Spending:* We can demonstrate better planning and expenditure management by spending more evenly during the year and not a large proportion in the fourth quarter.
- Transparency of MPA's: Clearly label MPA's in the 2011 budget showing that funding is reaching these most critical of service delivery activities.
- Transport Infrastructure maintenance: We need to consider how to better define and report the work we are doing on maintaining the roads (and other transport infrastructure assets) that provinces are responsible for. The sooner and more frequently we 'maintain' a road the cheaper it is. Leaving roads to degrade is a terrible legacy for our children to repair.
- Per diems: Can <u>central agencies</u> go some way in assisting provinces to meet the 12% increase in their costs that has arisen due to the increase in per diems rates? And can provinces develop good controls and planning to ensure that travel directly related to service delivery is seen as a budget priority.

- **Costing policy changes:** Can we build upon current practises and cost the impact of proposed policy changes? We need to anticipate the cost that new policy may have and identify where the increased recurrent budgets are to come from. This is particularly pertinent as we consider that today's development cost is tomorrows recurrent cost. As we envision the future and record our aspirations we need to be mindful of the recurrent cost implications of our policies.
- Parallel systems: Donors can assist provinces and all those that play a role in the delivery of services by working through the provincial financial management systems and not creating alternate systems (such as trust accounts).
- **District Data:** We need to design and implement a robust and pragmatic form of data transfer between districts, provinces and the national level that enables district expenditure to be reported more easily, more regularly and more reliably.

### Appendix 1: 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.





<sup>&</sup>lt;sup>39</sup> 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.
y.	<u>expenditure</u> in a particular sector to the <u>estimated cost</u> for providing <u>fiscal capacity</u> . The four slides that follow work through an example to	of Services Estimates (slides 1 and 2)	Cash and a standard and astandard and a standard and a standard and a standard
Appendix 2: Understanding the Methodolog	The analysis and findings in this report are derived by comparing <u>actual e</u> services in that same sector, while taking account of a province's overall <u>f</u> assist the reader understand this methodology.	Comparing Actual Spending to Cost	<ol> <li>Comparing actual spending to cost end to assess how close a province is to adequately supporting service delivery.</li> <li>We do this by comparing what a province spent to what we estimate they needed to spend we estimate they needed to spend and a province spent to what we estimate they needed to spend and a province spent to what a province spent to what are follows:</li></ol>

Green Shoots of Change

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





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

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



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

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

The costing study was prepared for the purpose of establishing relativities between provinces in terms of the cost of their expenditure mandates, as a basis for dividing up a limited pool of funding. Thus it was less important to be accurate about the total quantum 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 4: Calculating the Spending Performance Level

Throughout this review we refer to the <u>spending level</u> or the <u>spending performance level</u> 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:

Actual expenditure

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 <u>without</u> adjustment for fiscal capacity

Actual expenditure	1,045,800	× 100%	- 26%	,
Cost of services estimate	4,076,867	- X 100 /6	- 20/	0

# B. Performance <u>adjusted</u> for fiscal capacity

Actual expenditure	1,045,800	× 15%	- 57%
Cost of services estimate	4,000,000	- X 4370	- 5776

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 5: 2009 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 Alowance	VC Operations	Infrastructure	Other	Total Cost Estimate
Central	1,633,784	3,166,955	1,529,991	4,949,041	358,988	119,500	10,750,057	3,553,086	26,061,402
EHP	1,789,173	5,160,061	1,733,960	6,426,525	566,800	71,388	15,722,374	3,699,305	35,169,586
ENB	2,230,012	3,604,579	1,663,135	5,214,902	134,571	63,670	8, 138, 666	3,610,393	24,659,928
Enga	1,869,742	4,077,744	1,734,700	4,180,869	450,108	104,127	11,088,750	3,026,861	26,532,899
ESP	2,876,491	7,199,071	2,116,839	5,267,553	406,270	129,173	16,761,883	4,090,940	38,848,220
Gulf	1,081,470	2,575,843	1,174,591	2,554,952	128,987	36,665	4,433,568	2,379,330	14,365,405
Madang	2,090,921	5,775,647	2,025,038	3,984,072	283,877	40,363	10,132,513	4,066,478	28,398,911
Manus	1,492,525	1,497,403	691,024	1,952,636	159,261	62,012	3,849,742	1,787,295	11,491,898
MBP	2,005,935	6,180,428	1,564,816	5,061,047	118,339	75,245	6,081,480	3,873,201	24,960,492
Morobe	3,009,283	7,550,656	3,138,846	8,817,050	342,660	76,058	14,677,970	5,313,688	42,926,212
NIP	1,797,824	3,387,013	904,061	2,959,917	151,052	35,441	4,328,287	2,809,571	16,373,166
Oro	1,448,752	2,904,347	1,017,964	2,396,199	68,167	42,159	3,279,552	2,240,921	13,398,063
Sandaun	2,093,050	5,103,930	2,163,692	4,823,981	95,798	68,521	5,642,914	3,153,901	23,145,787
SHP	2,440,615	7,688,445	2,958,695	6,883,789	809,890	181,468	11,187,748	4,466,263	36,616,913
Simbu	1,644,190	3,490,548	1,072,002	4,837,431	524,743	76,646	7,366,471	2,408,697	21,420,728
Western	2,451,249	6,142,869	2,066,469	5,589,176	192,530	130,794	12,906,443	4,029,146	33,508,676
WHP	1,879,136	4,165,733	1,785,443	7,096,384	484,738	258,764	15,080,276	3,406,079	34,156,553
WNB	1,739,760	4,392,546	1,439,770	4,724,519	172,379	192,694	3,391,118	3,512,898	19,565,684
TOTAL	35,573,911	84,063,821	30,781,035	87,720,042	5,449,160	1,764,688	164,819,814	61,428,053	471,600,524

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# Appendix 6: 2009 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 Alowance	VC Operations	Infrastructure	Other	Total Cost
Central	6.3%	12.2%	5.9%	19.0%	1.4%	0.5%	41.2%	13.6%	100%
EHP	5.1%	14.7%	4.9%	18.3%	1.6%	0.2%	44.7%	10.5%	100%
ENB	9.0%	14.6%	6.7%	21.1%	0.5%	0.3%	33.0%	14.6%	100%
Enga	7.0%	15.4%	6.5%	15.8%	1.7%	0.4%	41.8%	11.4%	100%
ESP	7.4%	18.5%	5.4%	13.6%	1.0%	0.3%	43.1%	10.5%	100%
Gulf	7.5%	17.9%	8.2%	17.8%	0.9%	0.3%	30.9%	16.6%	100%
Madang	7.4%	20.3%	7.1%	14.0%	1.0%	0.1%	35.7%	14.3%	100%
Manus	13.0%	13.0%	6.0%	17.0%	1.4%	0.5%	33.5%	15.6%	100%
MBP	8.0%	24.8%	6.3%	20.3%	0.5%	0.3%	24.4%	15.5%	100%
Morobe	7.0%	17.6%	7.3%	20.5%	0.8%	0.2%	34.2%	12.4%	100%
NIP	11.0%	20.7%	5.5%	18.1%	0.9%	0.2%	26.4%	17.2%	100%
Oro	10.8%	21.7%	7.6%	17.9%	0.5%	0.3%	24.5%	16.7%	100%
Sandaun	9.0%	22.1%	9.3%	20.8%	0.4%	0.3%	24.4%	13.6%	100%
SHP	6.7%	21.0%	8.1%	18.8%	2.2%	0.5%	30.6%	12.2%	100%
Simbu	7.7%	16.3%	5.0%	22.6%	2.4%	0.4%	34.4%	11.2%	100%
Western	7.3%	18.3%	6.2%	16.7%	0.6%	0.4%	38.5%	12.0%	100%
WHP	5.5%	12.2%	5.2%	20.8%	1.4%	0.8%	44.2%	10.0%	100%
WNB	8.9%	22.5%	7.4%	24.1%	0.9%	1.0%	17.3%	18.0%	100%
TOTAL	7.5%	17.8%	6.5%	18.6%	1.2%	0.4%	34.9%	13.0%	100%

# Appendix 7: 2009 Provincial Revenue Table (in Kina)

The following table details the provincial revenues in 2009. 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
Central	7,816,200	1,047,300	311,812	ı	8,839,595	18,014,908
Eastern Highlands	11,200,695	8,319,780	ı	ı	1,511,716	21,032,191
East New Britain	9,021,762	6,547,800	ı	ı	5,590,212	21,159,774
Enga	7,250,271	755,580	15,174,640	2,000,000	1,709,431	26,889,922
East Sepik	12,574,665	2,441,400	ı	ı	2,060,190	17,076,255
Gulf	4,665,732	542,460	ı	ı	5,881	5,214,072
Madang	9,466,603	8,444,700	ı	ı	2,043,163	19,954,466
Manus	4,130,736	343,920	ı	ı	443,204	4,917,859
Milne Bay	7,651,042	2,498,460	ı	ı	2,203,122	12,352,625
Morobe	7,717,200	33,019,500	454,009	ı	8,044,787	49,235,496
New Ireland	3,697,800	2,452,800	22,982,200	ı	1,746,799	30,879,600
Oro	5,116,598	1,099,920	ı	ı	217,188	6,433,706
Sandaun	7,823,120	585,600	ı	ı	1,697,571	10,106,291
Southern Highlands	7,382,520	1,232,880	24,530,574	ı	633, 243	33,779,217
Simbu	7,526,396	1,123,020		ı	696,225	9,345,642
Western	4,199,040	2,908,260	33,600,000	23,200,000	9,297,501	73,204,801
Western Highlands	9,221,732	11,454,900	ı	ı	2,671,764	23,348,396
West New Britain	8,333,245	3,732,480			13,199,358	25,265,084
TOTAL	134,795,358	88,550,760	97,053,236	25,200,000	62,610,950	408,210,304

# Appendix 8: 2009 Provincial Revenue Table (as a % of total revenue)

The following table details the provincial revenues in 2009 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
Central	43.4%	5.8%	1.7%	0.0%	49.1%	100%
Eastern Highlands	53.3%	39.6%	0.0%	%0.0	7.2%	100%
East New Britain	42.6%	30.9%	0.0%	0.0%	26.4%	100%
Enga	27.0%	2.8%	56.4%	7.4%	6.4%	100%
East Sepik	73.6%	14.3%	0.0%	0.0%	12.1%	100%
Gulf	89.5%	10.4%	0.0%	0.0%	0.1%	100%
Madang	47.4%	42.3%	0.0%	0.0%	10.2%	100%
Manus	84.0%	7.0%	0.0%	0.0%	9.0%	100%
Milne Bay	61.9%	20.2%	0.0%	0.0%	17.8%	100%
Morobe	15.7%	67.1%	0.9%	0.0%	16.3%	100%
New Ireland	12.0%	7.9%	74.4%	0.0%	5.7%	100%
Oro	79.5%	17.1%	0.0%	0.0%	3.4%	100%
Sandaun	77.4%	5.8%	0.0%	0.0%	16.8%	100%
Southern Highlands	21.9%	3.6%	72.6%	0.0%	1.9%	100%
Simbu	80.5%	12.0%	0.0%	0.0%	7.4%	100%
Western	5.7%	4.0%	45.9%	31.7%	12.7%	100%
Western Highlands	39.5%	49.1%	0.0%	0.0%	11.4%	100%
West New Britain	33.0%	14.8%	0.0%	0.0%	52.2%	100%
TOTAL	33.0%	21.7%	23.8%	6.2%	15.3%	100%