

National Economic and Fiscal Commission

Government, Money Arteries & Services

THE 2012 PROVINCIAL EXPENDITURE REVIEW
With trend analysis from 2008 to 2012

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

www.nefc.gov.pg

November 2013

FOREWARD

The working of the human body is an intricate labyrinth of related systems. When healthy, each system functions seemingly without effort and contributes to the overall wellbeing of the person. However when any one aspect of that system falters the wellbeing of the person is in jeopardy. Some of our body's systems are visible, but many are not. The circulatory system is one that is unseen, and yet so vital it is described as life sustaining. The heart, beating 70 times per minute, uses the arteries of the circulatory system to pump blood throughout the body. The body's arterial system is itself remarkable estimated to be 100,000 kilometres in length. The importance of the arterial system is absolute. Disease to the body's arterial network can stop the flow of blood and when left unchecked eventually leads to heart arrest and strokes which we know are leading causes of death in the modern world.

Similarly, the delivery of government services relies on a series of related systems. Each system is vital to the wellbeing of the government body and the achievement of its service aspirations. The government service delivery system even has its own arterial network, with money not blood, flowing through its arteries and sustaining life to its parts. The question we must ask is how healthy is our government circulatory system? Does money flow through the arteries and reach its intended destination? Or is disease present, are there blockages inhibiting or even stopping the flow of money to certain parts within our system?

Our health check must start at the right place, with the heart. A healthy heart pumps blood around the body. So how healthy is our heart, our central agencies? Do central agencies pump money around the governments' service delivery system in an efficient manner? Or is the flow irregular, unpredictable or even blocked? In this report we review the flow of funding to provincial governments (see 3.4 on page 20).

But further checks need to be made. We need to know the health of the arterial routes beyond the provincial hub. Is money available at the district level service delivery points, for schools, for health clinic staff, for supervisory officers and extension teams? Using the analogy of the body district centres, schools and health clinics can be viewed as limbs, and limbs deprived of blood will discolour, lose sensation, stop functioning and eventually die. It's sobering, the analogy stands. Districts, schools and health clinics deprived of operational funding will also wither and die. We see this reality ourselves.

There are three major points of the system susceptible to blockage and disease. The first is with the Department of Treasury, when it fails to pump money in a timely manner to a province. The second is with the Department of Finance, through its Provincial Treasuries and District Treasuries, and whether they provide an efficient financial service at the sub-national level to provincial administrations and their district administrations. And the third is with the provincial administration itself, when it fails to make money available to the implementers of services – like schools, clinics, supervisory staff and extension teams.

We need a healthy arterial system.

Hohora Suve
Chairman and CEO
National Economic and Fiscal Commission

November 2013

EXECUTIVE SUMMARY

Government, Money Arteries & Services

Government, Money Arteries & Services highlights the role the hidden system of money-flows plays in ensuring the delivery of service takes place. The government can, and is, committing increased funding through the intergovernmental system and yet blockages within its funding arteries will strangle and eventually kill off the service delivery outlets and activities; the schools and the clinics, and the supervisory and extension staff located at the district service centres. Schools and health clinics will become; uninviting to students and patients, under-stocked and without critical supplies and materials, rundown and in disrepair. Activities vital in a rural setting such as supervisory visits in health and education and extension patrols in health, agriculture and fisheries will simply fail to happen. We know this to be true, because this is the very reality we are seeking to reverse.

So as you peruse the findings of latest Provincial Expenditure Review consider the numbers through the lens of the following three questions;

- What service delivery activities need funding?
- Who, meaning which staff, actually carry out these services?
- And where does the funding for these activities need to be - at PHQ, DHQ or facility level - to make sure the services to rural people can happen?

There are three major points of blockage and disease. The first is with the Department of Treasury, when it fails to pump money in a timely manner to a province. The second is with the Department of Finance, through its Provincial Treasuries and District Treasuries, and whether they provide an efficient financial service at the sub-national level to provincial administrations and their district administrations. And the third is with a province, when it fails to make money available to the implementers of services – like schools, clinics, supervisory staff and extension teams.

Artery Check Number One: Does the Department of Treasury release funding to Provinces in a timely and predictable manner?

The answer to this is no, the Department of Treasury does not release funds early, nor consistently, nor predictably. The pattern of warrant/cash release to provinces varies each year. Some years are better than others, but most are poor. Some provinces appear to get treated better than others. In 2012 there were no warrants issued in January or February and some provinces received nothing until April or May. In contrast, some provinces received as much as 56% of their year's funding in the last quarter, chronically late to be used effectively to support service delivery.

Month	Warrant / Cash	Process at sub-national	Spend / cheque
Jan			
Feb	40%	Processing	
Mar		Processing	
Apr	30%	Processing	40%
May		Processing	
Jun			30%
Jul	20%	Processing	
Aug		Processing	
Sep	10%	Processing	20%
Oct		Processing	
Nov			10%
Dec			
Total	100%		100%

Section 3.4 starting on page 20 of this report discusses the interrelationship between the timing of warrant/cash release, the timing of spending and its potentially disastrous impact on service delivery. There is a ready solution. A standard warrant/cash release schedule is needed and has been agreed and approved at a variety of forums. It now needs to be implemented.

Artery Check Number Two: Does the Provincial Treasury (and District Treasuries) provide an efficient financial service to the Province (and Districts)?

There is no mechanism currently in place by which to assess the health and efficiency of the service provided by the Department of Finance to the provincial administrations through the sub-national treasury offices. There are Provincial Treasuries in all provinces and District Treasuries in many districts. Provincial administrations rely, wholly, on sub-national treasuries to access their money and pay the costs that ultimately result in services. If the performance of a particular treasury is poor, it may act as a significant blockage and impediment to efficient service delivery.

There is an opportunity for applied research. We need to better understand the effectiveness of the financial services provided by the Department of Finance through its network of sub-national treasuries. Is the system working well? How do we know? Once we know we will be able to take any steps necessary to improve the system.

Artery Check Number Three: Is an appropriate level of funding accessible to sub-provincial spending units when they need it?

Conducting this arterial check is much more difficult. Once the arterial system goes further than the provincial hub it becomes much more numerous and complex. The question is whether money is readily accessible to the people at the frontline who need to spend it. The spenders in this context include; education inspectors and health staff conducting supervisory visits; schools for operations, teaching, supplies, student materials and maintenance; health clinics for facility operations, maintenance and conducting outreach patrols; extension staff for conducting agriculture and fisheries patrols and for training; and other district level staff. Whether these staff can in reality access the money they need to conduct their business is really at the heart of the service delivery issue.

Answering this question requires a multivariate approach. The first is top down – what can we see from the national level through the budget and accounting data? The second is bottom up – this may involve local level surveys of schools, health facilities and district service delivery staff that can provide on-the-ground insight as to whether operational money is accessible. By combining the results of the top down and bottom up analysis it provides a fuller picture of the health of the arteries providing funding to the more remote parts of the government body.

The NEFC has started this process. It has established a benchmark for the costs of service delivery through the Cost of Services Study. It then carries out top down analysis of expenditure information gleaned from budget and accounting data. The data is cleansed and analysed on an annual basis and compared to the CoS benchmark. The expenditure analysis looks at a sector as a whole as well as its individual minimum priority activities. To effectively assess arterial health we need to look at the detail, at activities, so MPAs are a good place to start. Understanding the adequacy of funding for MPAs in each province will tell us much about that provinces arterial health.

There is an opportunity for on-going applied research. Innovative research is happening, particularly in the health sector, with key agencies, research institutes and development partners working collaboratively to better understand the realities of sub-national service delivery. More of this is needed. If we draw on our health analogy; analytics could be seen as an x-ray or an MRI scan, while fieldwork (i.e. focused applied research) is like a diagnostic scope or even a biopsy.

Summarised Findings of the 2012 PER

Which Provinces Lead the 2012 Sustainability Ladder?

We know that improving the service delivery apparatus of government is a long-run game. The PER sustainability table acknowledges this fact and recognises those provinces that show a commitment to lasting improvement. For the third consecutive year the provincial administrations in **Simbu, Manus and Milne Bay** have held the top five positions on the sustainability table.

These provinces together with last year's big improvers, **Madang and Western Highlands**, have demonstrated a high level of commitment to making service delivery happen in their provinces. The full table is as follows and is discussed in section 4.1 of this report.

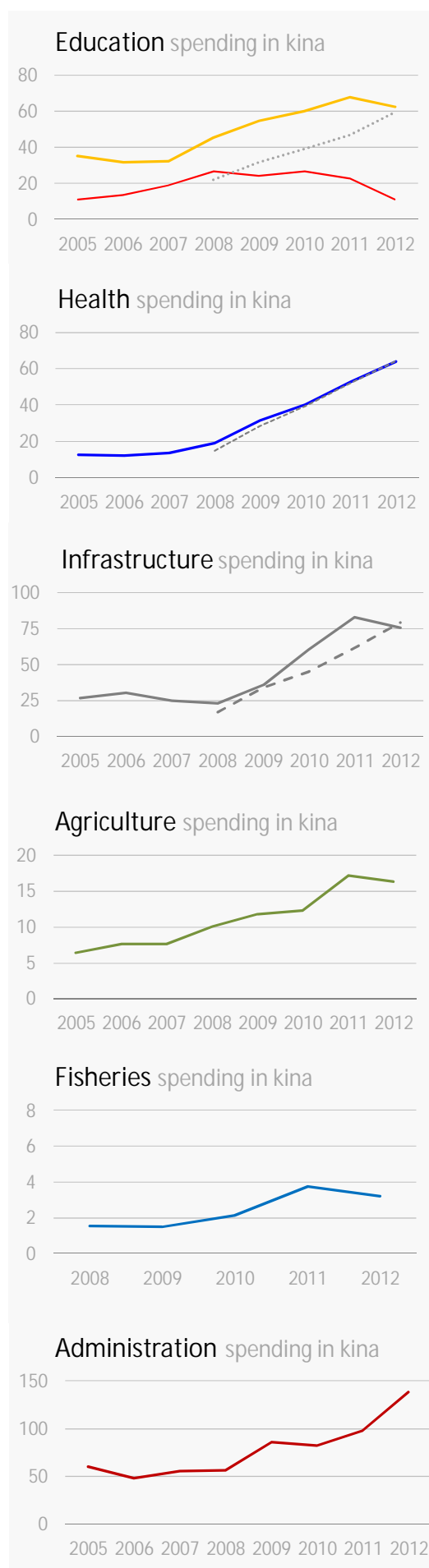
You will note that five of the six higher funded provinces sit at the foot of the table. Their large resources, mainly royalty income and GST, are not committed to basic services. Central has been a stronger performer for several years, but non-disclosure of internal revenues has seen a penalty imposed in 2012.

Table: The PER Sustainability Ladder

Province	2010	2011	2012	Average
1 Simbu	85	74	70	76
3 Manus	72	81	68	74
4 Milne Bay	70	76	71	72
2 Madang	61	76	74	70
5 Western Highlands	65	78	67	70
Central	71	78	61	70
East New Britain	80	63	59	68
Gulf	80	63	54	66
Sandaun	68	70	54	64
Oro	65	67	56	63
Morobe	66	61	61	62
East Sepik	62	62	59	61
Eastern Highlands	53	65	63	60
New Ireland	57	72	45	58
Enga	64	55	51	57
Southern Highlands	63	65	42	57
West New Britain	48	60	60	56
Western	42	66	50	53

Are we spending more money in the right areas?

The answer is yes. As the graphs below show more operational funding is being equitably allocated and spent in the health, education and transport infrastructure maintenance sectors. Since 2009 significant progress has been made in better funding health, infrastructure and agriculture sectors. These areas have historically been grossly underfunded which in turn made the delivery of a rural health services, the maintenance of our expensive infrastructure assets and the regeneration of agriculture extension work extremely difficult if not impossible. Many provinces, particularly the low and middle funded groups have now got more significant sums of money for these sectors from which they can plan, budget and implement more meaningful service delivery activity plans.



- The yellow line indicates that in kina terms education spending dipped a little from K67 million in 2011 to K62 million in 2012.
- The red line illustrates that the main cause of the dip was the reduced internal revenue (mainly royalties and GST) allocated and spent on the sector.

- Health spending has continued to increase rapidly from 2008 to 2012 (K64 million in 2012).
- HSIP became less significant in funding operational activities in rural health in 2011-2 and its focus is in the process of being redesigned.

- Spending on transport infrastructure maintenance has improved significantly since 2009. However we see a dip in the 2012 election year.
- Infrastructure maintenance calls for strong levels of coordination in planning, budgeting and implementation.

- Agriculture spending increased significantly in 2011 and dipped slightly in 2012.
- Some higher-funded provinces do not prioritise agriculture.

- Spending on fisheries increased gradually between 2009 and 2011 before settling in 2012.
- The fisheries sub-sector is highly significant as a subsistence activity and income-earning opportunity for many folk in coastal and island provinces.

- In kina terms administration spending increased a lot by 29% from 2011-12.
- Provinces with higher levels of royalty and GST income spend three, four or five times what is estimated necessary in contrast to their commitment to basic services.

Are Minimum Priority Activities being prioritised?

This is the third year that NEFC has tracked this data, and we can see that the answer is again yes (see summary table below). In 2012 we have analysed MPAs from both a budget and expenditure perspective (refer to section 4.6). We checked to see whether a budget vote was present in each provincial budget and then whether the province spent a reasonable amount on each MPA (subject to their fiscal capacity and the cost estimate for that activity).

In 2012, 89% of MPAs had an identifiable vote and expenditure against it. This analysis indicates that the MPA initiative is gaining traction, provinces understand the objectives, and compliance continues to grow.

The goal for 2013 and 2014 is to see more MPAs adequately funded. This means provinces need to allocate adequate amounts on each MPA in their National Grant and Internal Revenue budgets. NEFC assesses 'adequacy' by comparing what a province budgets and spends on an MPA against two factors; first how much money a province has at its disposal (i.e. its fiscal capacity), and second, how much it needs to spend according to the NEFC Cost of Service Study. Once the budget is set correctly, then during the year the province needs to ensure their spending complements their annual activity plans in these service delivery areas.

	Minimum Priority Activities	Exp	Direct	Vote	No vote
Education	1. Provision of school materials	1	1	12	4
	2. Supervision by district/prov staff	11	1	6	0
	3. District education office op's	8	3	2	4
Health	1. Rural health facility op costs	1	1	12	4
	2. Integrated health patrols	6	1	11	0
	3. Medical supply distribution	11	1	6	0
Transport Infrastructure	1. Road & Bridge maintenance	7	0	11	0
	2. Airstrip maintenance	8	0	7	3
	3. Wharf & Jetty maintenance	8	0	3	2
Primary Prod'n.	Agriculture Extension Services	1	0	17	0
	Fisheries Extension Services	1	0	10	2
VC	Operational materials	16	0	2	0
		39%	4%	48%	9%

Which Minimum Priority Activities need greater support?

Our analysis shows which minimum priority activities need to be better defined in the annual budget and more meaningfully funded. The table below summarises the overall analysis.

These votes need to be <u>better identified</u> in provincial budgets	These votes need <u>more money</u> to be allocated to them in the budget
Provision of School Materials	Provision of School Materials
District Education Office Operations	Rural Health Facility Operations
Rural Health Facility Operations	Integrated Health Patrols
Airstrip Maintenance	Road & Bridge Maintenance
	Agriculture and Fisheries Extension

Have we made progress on recurring themes?

The Ripple Effect: Yes, we are making progress, there are ripples. In 2013 we see several service delivery sectors - **education, health and village courts** - taking initiatives and working collaboratively with central agencies to ensure service delivery funding is aligned and well-targeted at the provincial level. A similar collaboration with **works/transport, agriculture** and **fisheries** would help improve effectiveness in infrastructure maintenance & economic enabling.

The Department of Education and the NEFC have been working collaboratively to develop a more equitable approach for the distribution of national education subsidies to schools. This approach involves the creation of a Remoteness Index (RI) that will have many tangential benefits and uses.

The **PEPE study**, a joint research initiative between the National Research Institute and the Australian National University, has conducted a survey of education and health facilities across a sample of provinces. In similar vein, the World Bank working in collaboration with the NEFC, the Department of Health and AusAID has conducted an analytical review of health spending on frontline activities in PNG entitled **Below the Glass Floor**. The intent is for fieldwork to complement this desk top analysis to answer pertinent questions on the impact and effectiveness of provincial health spending.

Further examples can be seen in the collaboration between central agencies in two areas throughout 2013. The first involves collaboration between the Department of National Planning and Monitoring, the Department of Implementation and Rural Development and the NEFC in exploring equalisation approaches relating to development funding. And the second area involves the Department of Provincial and Local Government Affairs, the Department of Implementation and Rural Development and the NEFC as they collaborate on aspects related to developing minimum standards. Inter-agency cooperation between central agencies, line agencies and provincial administrations is a healthy and necessary prerequisite for the progress we all seek.

Yet another example of cooperation is the development of awareness at the grass roots level of the role and services government provides for the rural majority. The NEFC has been working through PLLSMA with civil society actors such as CIMC to encourage the birth and development of community monitoring.

Transparency of MPAs | the New Chart of Accounts: All provinces and central agencies agreed to adopt the new standard Chart of Accounts. This will greatly assist all parties in recording and reporting budget and expenditure information. It will also aid the transparency of MPAs.

Parallel systems: Donors, AusAID in particular, have contributed funds to provincial administrations in conducting operational activities in the areas of education and health. Whilst this funding is of enormous benefit in making activities happen, there remain challenges to ensure that its existence does not displace government from its responsibilities. A second challenge is to ensure that the administration of the funds is suitably integrated with the government's own financial management system.

District data: Significant funding continues to flow to the district level of sub-national government administration. We still need to design and implement a robust and pragmatic system of financial data transfer between the district-provincial-national levels of government to ensure transparency and accountability.

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List of Terms and Definitions

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

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

List of Abbreviations

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

1 Introduction

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 look 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 progressing in improving basic service delivery. The series now includes:

Cost! Capacity! Performance! (2005)

It's More than Numbers (2006)

Closing the Gap (2007)

Walking the Talk (2008)

Green Shoots of Change (2009)

Step Two: The Ripple Effect (2010)

Taking Stock (2011)

The latest review entitled Government, Money Arteries & Services is the eight edition in the series and reviews the situation in 2012 – a national election year in PNG. The 2012 fiscal year is the fourth year of implementation of the reformed intergovernmental financing arrangements (RIGFA). Many readers will now be aware that 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 Vision 2050 and the Medium Term Development Strategy as being fundamental to the improved wellbeing of the rural majority across the country and RIGFA ensures that money is allocated in a targeted manner to more effectively assist the front line services that the government wants to restore and improve.

Government, Money Arteries & Services provides us with eight years of data that has been analysed and is communicated in a style that our readership has become accustomed to. With each additional year that is added to this analysis, it creates an increasingly clear picture of the spending priorities of individual provincial governments'. Through this data we are better equipped to assess whether we are appropriately supporting the delivery of basic services such as health care for our families and education for our children.

1.1.1 Purpose and objectives

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

- Employing an expenditure focus
- Comparing expenditure against the cost of services study as an independent benchmark, and
- Having due regard to each province's fiscal capacity

In essence, each year we are painting a picture of what is happening in the prioritisation of service delivery across Papua New Guinea. Where is the improvement in the prioritisation of core service delivery? And where and why is there a lack of improvement? A second objective is to monitor the application and use of national government grants in each province. Is grant money being used effectively for its intended purpose? Grants are not provided unconditionally to provinces to be spent on whatever provinces regard as important, but rather to provide some financial assistance to ensure basic and on-going service delivery.¹ 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 and Vision 2050.

Approach and Methodology

The methodology of the provincial expenditure study has evolved from the original expenditure study entitled Cost Capacity Performance (2005). Our approach has:

- An expenditure focus. We believe that if we are not spending money on core services, we will not be delivering these core services. It is that simple.
- A recurrent goods and services focus. We have infrastructure, facilities and staff, but an area for significant improvement is ensuring the adequacy of on-going year-on-year operational funding to ensure that staff at the frontline service facilities can do their work and ensure that the roads and other transport infrastructure that are the lifeline for providing these services and enabling economic growth are maintained.
- A focus on the total resource envelope. Provinces make budget prioritisation and expenditure choices from two main sources of funds – being national government grants and provincial internal revenue. We review both, and consider their impact on providing core services.
- And draws together cost, capacity and performance. And thereby providing a more holistic picture of provincial performance.
 - Cost: The cost of services study conducted by the NEFC estimated the cost, or the amount required to provide basic services in that particular province, across all sectors of provincial, district and local-level government service delivery.
 - Capacity: A province's fiscal capacity is restricted by its resource envelope. The resource envelope is the amount of money (revenue) it has available for recurrent purposes from all sources.²
 - Performance: Performance is reflected through expenditure – the actual amount that the province spent during the fiscal year and the area (or sector) they spent it on.
- A benchmarking approach. We need to have a benchmark - an independent measure by which to compare our performance. The cost of services study provides an important benchmark. The other benchmark we use is 'context' by comparing provinces performance in relation to each other.

¹ 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.

² Refer to the NEFC Provincial Revenue Report for the fiscal years 2004-2007, as well as the tables in Appendices 7 and 8. The NEFC is completing an updated Provincial Revenue Report that will cover the period 2008-2012.

- To 'give the benefit of the doubt'. In our analysis, if there was an element of doubt we would generally exercise that doubt in favour of the provincial administration. A practical example of this is in our classification of service sector expenditure - if we felt expenditure 'could be' 'recurrent goods and services in a priority sector' then we would classify it as such. We wanted to paint as reasonable and positive a picture as we could whilst also accepting the limitations of any desktop analysis.
- Assessing the trend. By plotting the trend for 2005-2012 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 as our efforts are eroded by the combined impact of population growth, rising costs, and a weary and under-resourced workforce.

1.1.2 Limitations of Scope

The PER reviews the performance of all provinces with the following exceptions:

- Autonomous Region of Bougainville: Bougainville has a special arrangement with the Government which falls outside the normal system of intergovernmental transfers.
- National Capital District: The PER has a focus on the delivery of government services to the rural majority. So as an urban centre NCD is outside the current scope of the review.
- Hela and Jiwaka: Transfers for service delivery funding for these newly formed provinces began in 2013. Subject to administrative practicalities, Hela and Jiwaka will be included in the 2013 review.

1.1.3 Adjustment to the Cost of Services estimates

The original cost of services study was completed in 2005 and was updated in 2011. The cost of services estimates that have been established are adjusted each year to reflect the changes in prices and provincial populations since that time. What this means is that the cost estimates included in the 2011 update study are now increased annually by both CPI and estimated population growth.³ This means that when we compare 2012 expenditure we compare it against 2012 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 generally increases so 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 that we reflect fiscal capacity on a reasonable basis.

1.2 Acknowledgement

The NEFC acknowledges the provincial administrations for their assistance during the review process. We also acknowledge all the agencies that partnered with us on the review by providing data.

³ 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 2012

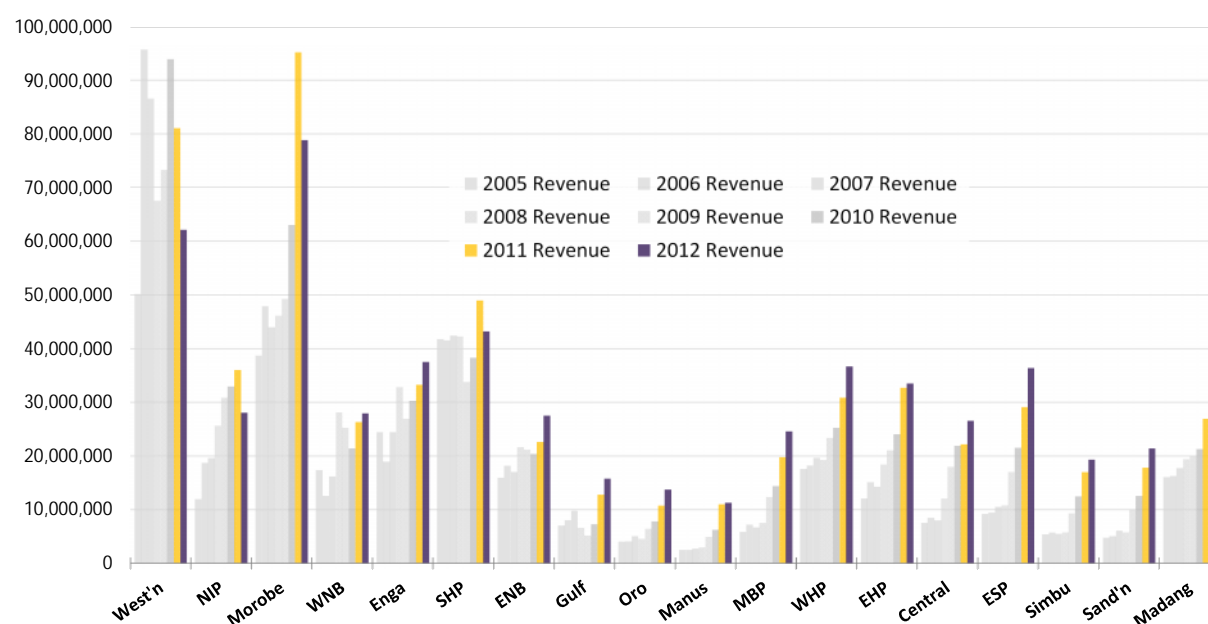
We know that not all provinces are equal.

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

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 2012 that are available to provinces for funding recurrent goods and services.

No.1. Graph Comparing Available Revenues: 2005 to 2012



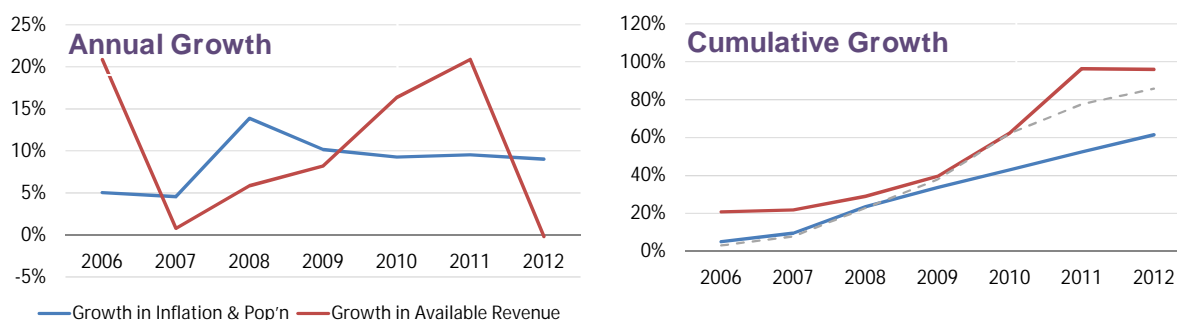
What can we see?

- You will note the impact of the implementation of RIGFA in 2009, with increasing funds being made available to lower-funded provinces (those toward the right of the graph).
- The trend in most, but not all, provinces is of increasing revenues.
- In Western Province there are signs of declining revenues in 2011 and again in 2012. New Ireland dipped in 2012.
- In West New Britain revenues appear to have plateaued in recent years and remain constant.
- Revenue fluctuations between years are more evident in provinces with revenue from natural resources such as Western, New Ireland, Morobe, 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' that enjoyed the benefit from these natural resources revenue streams will again become reliant on RIGFA and national grants.**

Whilst overall untaged⁴ provincial revenues, as a total, have almost doubled over the eight year period 2005 to 2012, growth slowed between 2011 and 2012. We are mindful that whilst this increase is not spread evenly across all provinces RIGFA is seeking to help address the underlying inequity in the spread of revenues.

No.2. Graph on Revenue Growth versus Increasing Costs and Cost Drivers



Explanation: The red line in the graphs above illustrates the growth in untaged provincial revenues over the period 2005-2012. Revenue growth is then compared to the major factors that drive costs being inflation and population growth. So the blue line represents the combined growth in inflation and population growth. The graph to the left illustrates the movement each year and the graph to the right illustrates the cumulative movement over the eight year period. A final dimension is the change (growth) in the NEFC's cost of services estimate which is reflected in the grey dashed line in the graph to the right.⁵

We can see:

- Revenue growth does not necessarily match or mirror the rising costs of service delivery – there are annual fluctuations and these can be large.
- RIGFA is critical. We need a system intended to ensure provinces have sufficient revenues, every year, to fund critical service delivery activities.
- Inflation and other pressures will cause costs to increase every year and erode the real value of provincial revenues. This means provinces need increasing operational funding to deliver the same set of basic services year on year.

⁴ Untaged 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.

⁵ Typically the NEFC cost estimate will closely mirror the combined growth in inflation and population. However the spike in the grey dashed line that is visible in 2010 reflects the large increase in service delivery costs that occurred when government announced an increase in the rate of per diems for public servants. NEFC adjusted its costs to reflect this periodic increase.

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. The cost of services study very conservatively estimates how much it costs to deliver a very basic set of core services in each province across Papua New Guinea on a district by district basis.

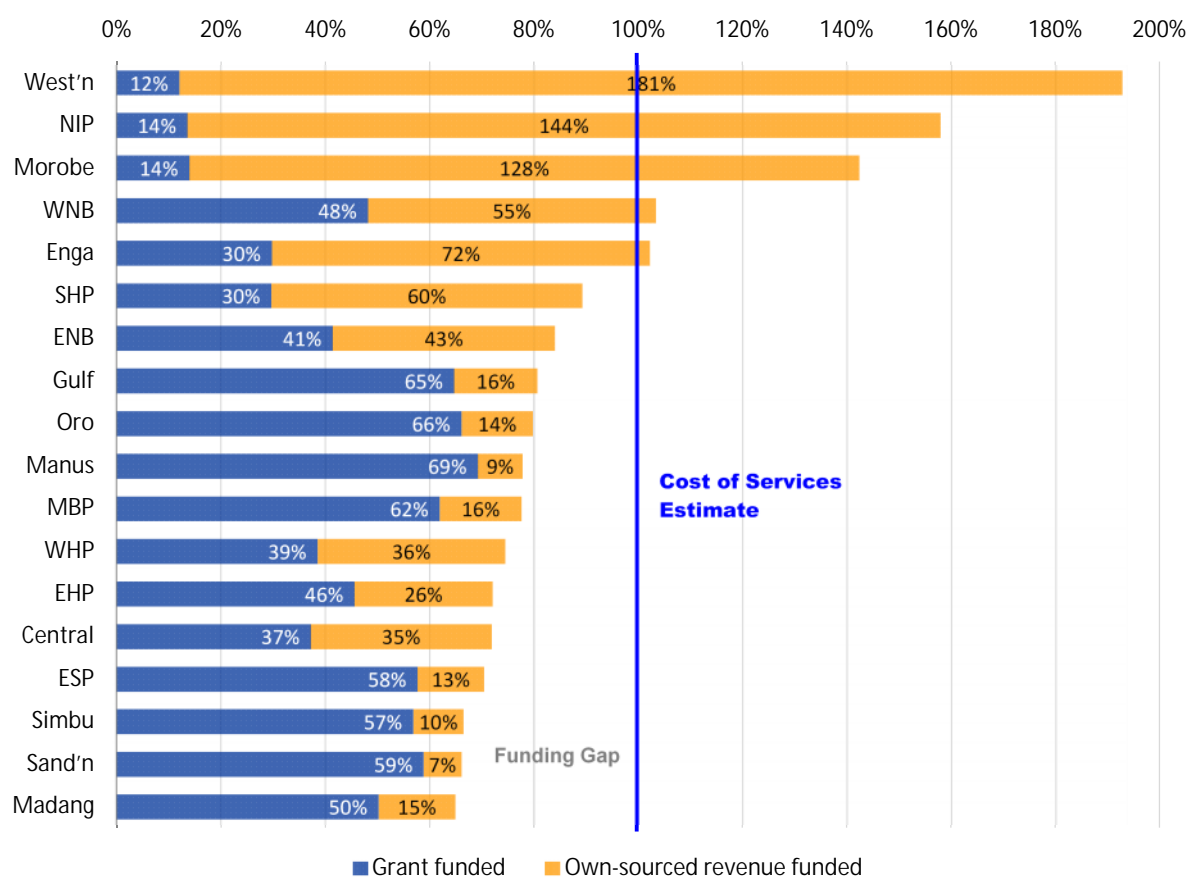
Fiscal Capacity: is a term that describes a provinces ability to meet its costs

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.

In 2005 many lower funded provinces had just over 20% of what they needed to deliver a set of basic services to their people. That means provinces had less than one fifth of the operational funding they require to do their business. In 2009 RIGFA was implemented to begin the process of addressing this shortfall in operational funding.

The graph that follows is the traditional manner in which we depict fiscal capacity in the PER series. The blue portion of the bar denotes how much national government grants contribute to that province's fiscal capacity. The orange portion of the bar denotes how much the province can fund from its own revenue sources such as GST and royalties. Typically lower funded provinces are more reliant on grants than higher funded provinces. But, higher funded provinces must make the decision to allocate their own-sourced revenues to fund basic services (and their operating costs).

No.3. Graph on Fiscal Capacity in 2012 by Source



From the graph above we can see:

- In 2005 many lower funded provinces had just over 20% of what they needed to deliver a set of basic services to their people. In 2012 RIGFA has addressed this inequity to the extent that all provinces, even the poorest, have more than 65% of what they need.
- Five provinces (at the top of the graph) have enough funding from which to meet their basic service delivery obligations.
- Higher funded provinces have revenue from their own sources such as GST.
- Typically lower funded provinces are more reliant on grant funding from the national government.
- In terms of overall fiscal capacity there are now two broad groupings, the one third of provinces that have about enough funding and the two thirds that have between 65-85% of what they need.
- Another perspective is one of how dependent a province is on national grant funding versus their reliance on their own resources.
 - The three provinces almost wholly independent of grant funding form one group; Western Morobe and New Ireland.
 - A second group of seven provinces is semi-dependent on grant funding; West New Britain, Southern Highland, Enga, East New Britain, Western Highlands Central and Eastern Highlands.
 - And a third group of eight provinces is largely dependent on national grant funding; Gulf, Oro, Milne Bay, Manus, East Sepik, Simbu, Sandaun and Madang.

Refer to the notes on how fiscal capacity is calculated.⁶

⁶ In earlier PER reviews (2006-2008) 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 since 2009 with the implementation of RIGFA we have modified our approach to ensure the analysis is as meaningful and relevant as possible. So, since 2009 fiscal capacity is calculated as follows:

For the higher funded provinces it remains an average of their fiscal capacity for the last three years - 2010-2012. This mitigates the impact of the annual fluctuations in own sourced revenues experienced by resource rich provinces.

For all other provinces, having received sometimes very significant increases in their grant funding under RIGFA, we have reported their actual 2012 fiscal capacity (i.e. it is not an average). The rationale being that the gains under RIGFA represent a sustainable improvement to their fiscal capacity and that reporting an average would communicate a reduced level of fiscal capacity that would be unhelpful and misleading.

A note of caution on available revenues and fiscal capacity:

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 this funding is likely to be directed at staff related costs and/or capital and projects.

The consequence is that even less money is available for operating costs (goods and services) than reported in our provincial expenditure reports. This reality 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 alone have discretion on how these funds are allocated.

3 Expenditure Overview

3.1 Overview of where the money went in 2012

Where did provinces collectively spend their revenue in 2012? 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 2012.

No.4. Table Overviewing Expenditure in 2012⁷

	Administration Sector	MTDS Sectors	LLG Transfers	Economic, Law & Order and Com. Dev.	Other Sectors, Arrears & Unspecified	Total
Internal Revenue						
<i>Goods & Services</i>	110,224,538	43,379,857	6,453,863	31,754,852	14,844,496	206,657,605
<i>Personnel Emoluments</i>	54,489,305	5,974,088	937,133	916,829	49,902	62,367,258
<i>Capital & Projects</i>	17,040,549	68,422,306	2,706,670	12,911,701	39,144,863	140,226,089
Total Internal Revenue	181,754,392	117,776,251	10,097,666	45,583,382	54,039,261	409,250,952
Grants						
<i>Goods & Services</i>	28,500,385	190,222,934	36,534,125	14,876,339	18,458,378	288,592,162
<i>Personnel Emoluments</i>	12,145,528	24,688,658	332,611	172,195	923	37,339,915
<i>Capital & Projects</i>	15,901,759	64,923,758	3,890,326	698,848	22,023,285	107,437,975
Total Grants	56,547,672	279,835,350	40,757,062	15,747,383	40,482,586	433,370,052
Total						
<i>Goods & Services</i>	138,724,923	233,602,791	42,987,988	46,631,191	33,302,874	495,249,767
<i>Personnel Emoluments</i>	66,634,834	30,662,746	1,269,744	1,089,024	50,825	99,707,173
<i>Capital & Projects</i>	32,942,308	133,346,064	6,596,996	13,610,549	61,168,148	247,664,064
Total All	238,302,064	397,611,602	50,854,728	61,330,764	94,521,847	842,621,005

Between 2006 and 2012 overall spending increased by 98% moving from K425 million to K843 million which represents an annual increase of about 16%. Whilst overall there is a clear increase in spending during the period the movements have varied between years.

⁷ 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; rural health and HIV/AIDS, agriculture and fisheries, 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.

Economic, Law & Order and Community Development do not include agriculture and fisheries or village courts (both are recorded under MTDS – see above).

Other Sectors includes all non-MTDS sectors and other non-sector specific costs such as arrears.

The following series of graphs illustrate high-level spending trends on goods & services, capital & projects and staff-related costs (personnel emoluments) across all provinces. Each graph compares spending in three subsets;

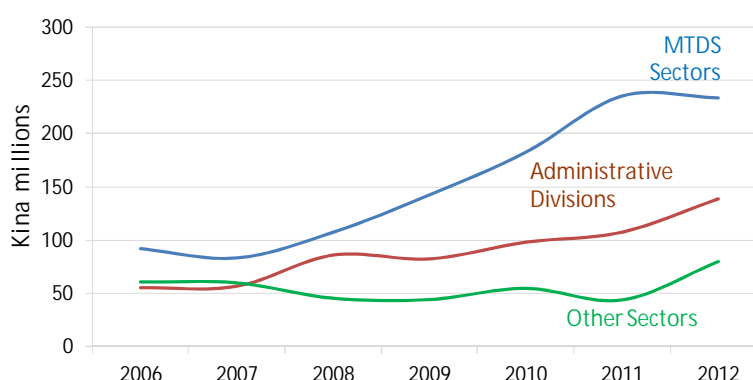
- MTDS sectors
- Administrative divisions
- Other sectors.

No.5. Series of Graphs, Spending Trends from 2006-2012

(from national grants and internal revenue)

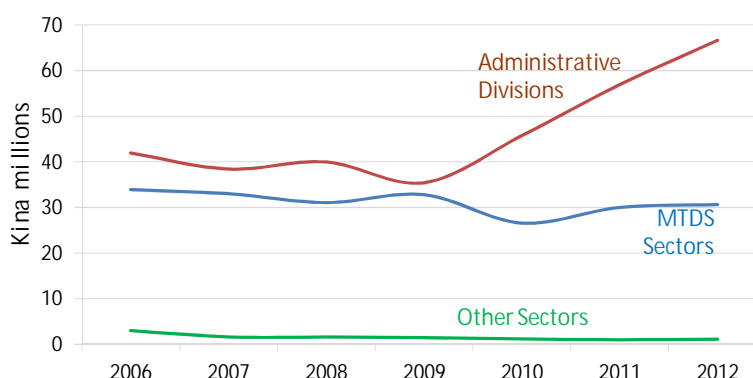
Goods & Services

- Spending on MTDS sectors rose sharply thanks to RIGFA. From K91m in 2006 to K233m in 2012.
- Spending on administration and other sectors has moved upwards in 2012 after remaining relatively steady.



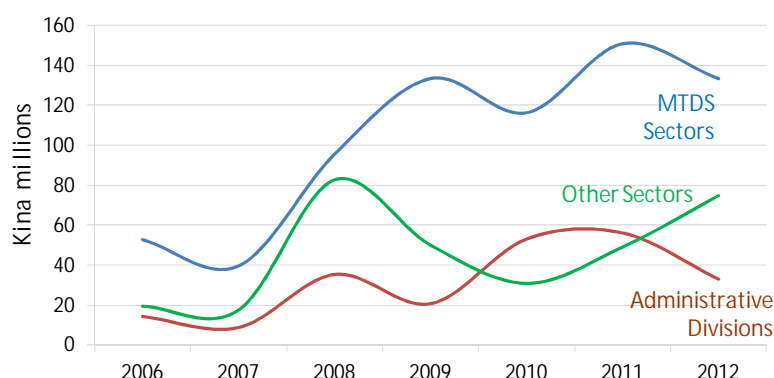
Staff-related Costs⁸

- Spending on staff-related costs in the administrative areas rose sharply for the third year.
- Spending on MTDS sectors remains steady.
- Other sector spending is steady and low.



Capital & Projects⁹

- Provincial level capital spending on MTDS sectors is in a volatile pattern in recent years but is generally tracking upward.
- Spending on other sectors continues to recover after falling heavily for two years whilst capital spending in administration has dipped for a second year.



⁸ In this context, personal emoluments refer to expenditures incurred by the provincial administration not the central government administered salaries payroll that meets the on-going salaries costs for most public servants.

⁹ This is spending through the provincial budget and does not include development spending at the district level through ORD or development spending by other national agencies that bypasses the provincial budget.

3.2 The spending mix, national grants and internal revenue

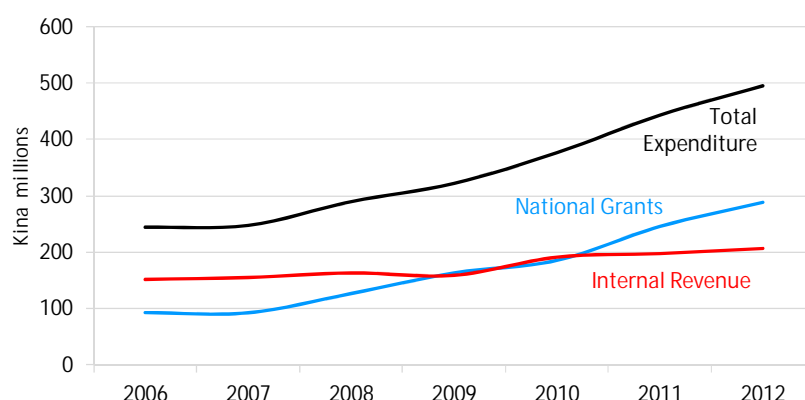
We know that provinces receive their funding from multiple sources that are commonly grouped and described as national grants and internal revenue. The following series of graphs illustrate high-level spending trends on goods & services, capital & projects and staff-related costs (personnel emoluments) across all provinces. Each graph compares the spending trend in three subsets;

- Spending from national grants
- Spending from internal revenue
- Total aggregate spending

No.6. Series of Graphs, National Grant/Internal Revenue Spending Mix 2006-2012

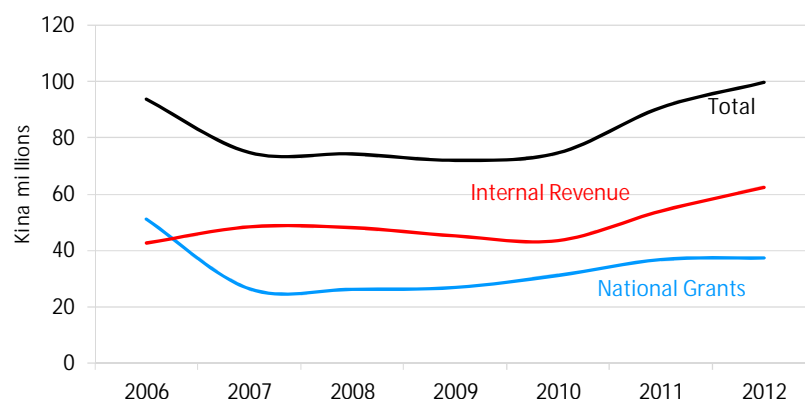
Goods & Services

- Operational spending from grants continues to increase in 2012.
- Despite spending from internal revenue tapering off The RIGFA grant increases have ensured a strong upward trend.
- Spending all but doubled from just under K250m in 2006 to K495m in 2012.



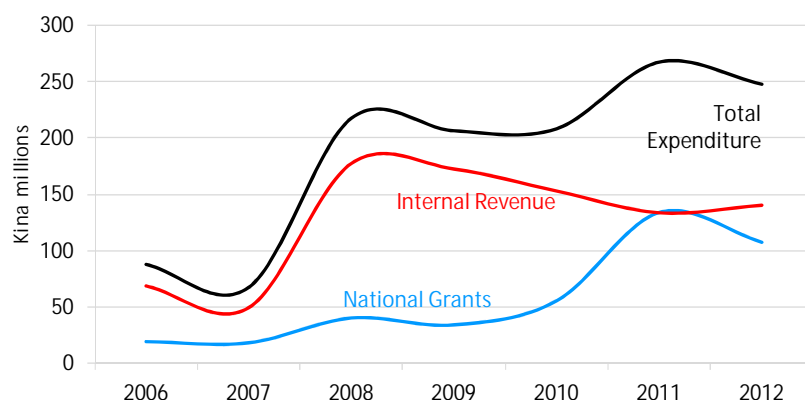
Staff related Costs

- Spending on non-salary staff costs by provinces moves upwards for a second year after a 4-year lull.
- Spending from grants is steady 2011-2012.
- Spending from internal revenue drives the 2011-12 increase.



Capital & Projects

- Total spending in this area dipped in 2012 after the 2010-11 surge.
- The source of the dip was declining spending from grants.
- Internal revenue spending steadied after a three year decline.



3.3 A look at internal revenue, and does it impact service delivery?

The amount of internal revenue that is applied to recurrent goods and services is a measure of how much provinces prioritise service delivery to their people in their budget and expenditure management decisions. This is particularly true for those provinces with relatively high amounts of internal revenue. For provinces with higher amounts of internal revenue it is critical that they budget and spend more significant amounts of this internal revenue on service delivery activities.

If provinces with higher amounts of internal revenue do not allocate internal revenue to support basic service delivery activities then these activities will simply not happen in those provinces.

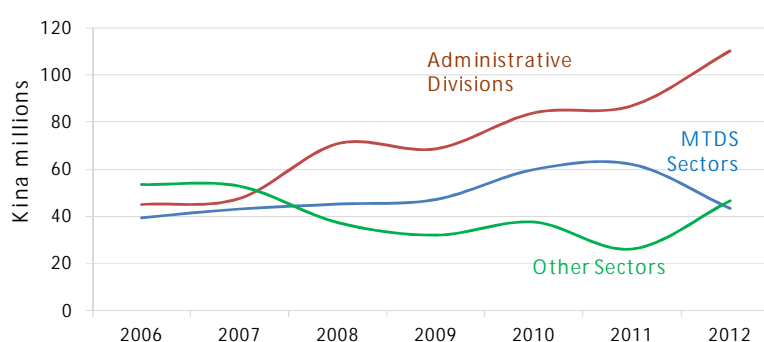
Spending from internal revenue has increased significantly between 2006 and 2012. It rose from K263 million in 2006 to K409 million in 2012, an increase of 55%.

The following series of graphs illustrates high-level spending trends from internal revenue in goods & services, capital & projects and staff-related costs (personnel emoluments) across all provinces. Each graph compares spending in three subsets; MTDS sectors, administration (divisions) and other sectors.

No.7. Series of Graphs, Internal Revenue Spending from 2006-2012

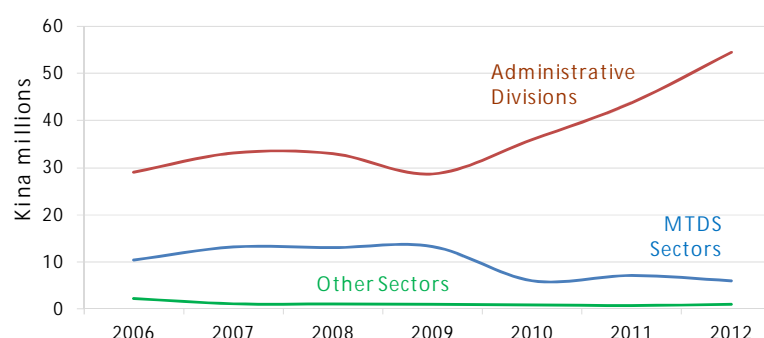
Goods & Services

- Administration spending remains highest and spiked again in 2012.
- Spending on MTDS sectors has dipped.
- Whilst spending on other sector's has rebounded.



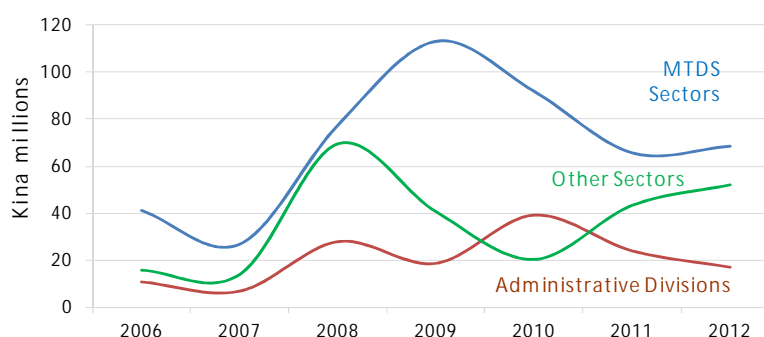
Staff-related Costs

- Spending on non-salary staff costs from internal revenue continues to rise sharply.
- Spending on MTDS sectors remained at the lower 2010-11 level.



Capital & Projects

- Capital spending from internal revenue on MTDS sectors levelled out after falling sharply since the 2009 high.
- Capital spending on other sectors recovers slowly whilst the decline in administration spending slowly continues.



So did provinces use internal revenue to contribute to service delivery activities?

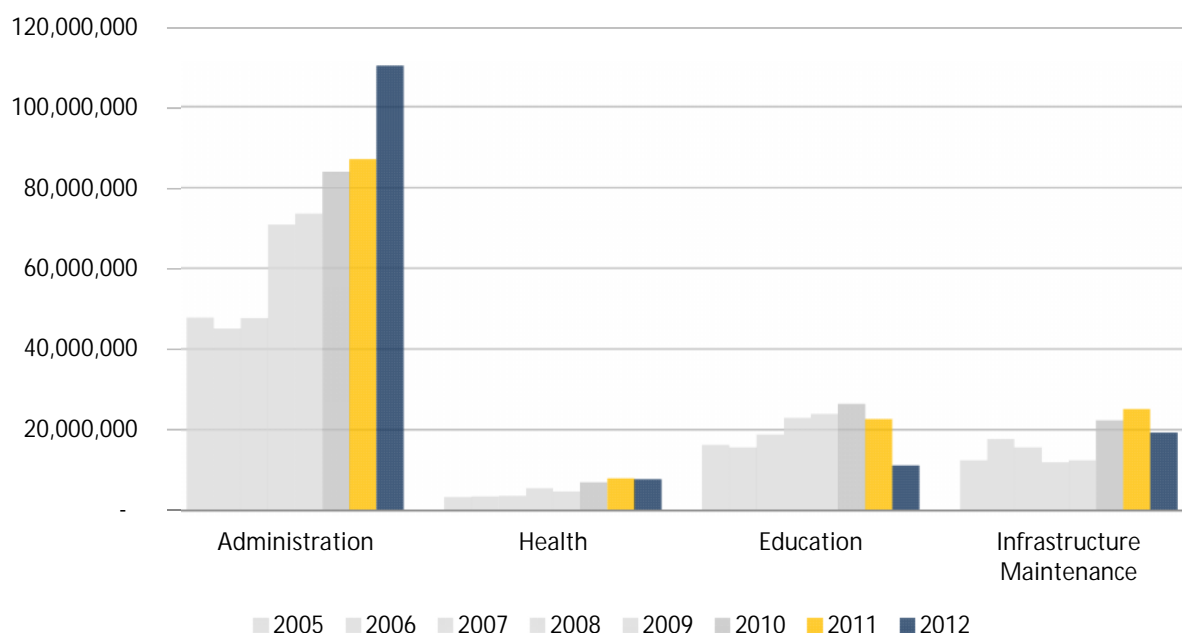
In answering this question we need to be mindful that higher funded (high resource and GST) provinces are more reliant on internal revenue for their operational funding for service delivery activities. So the relevance of this question varies by province.

- **Support for priority sectors from internal revenue is declining sharply in both Kina and real terms.**
- The amount of spending on recurrent goods and services from internal revenue in MTDS sectors has dropped significantly in 2012.
- In contrast, spending on administration and other sectors has risen sharply.
- Historically spending by provinces from their own sourced revenue to support priority sectors remained steady between 2006 and 2009 (between K40 million and K47 million) and then increased more sharply to K60 million in 2010 and plateaued at K62 million in 2011. The K62 million represents 16% of internal revenue spending. In 2012 it dropped by a third to K43 million.
- With the implementation of RIGFA, the increase in targeted grant funding, and the sharp decline in 2012, internal revenue expenditure now comprises an increasingly smaller proportion of spending on recurrent goods and services in MTSD sectors. In 2012 internal revenue was 18% of recurrent goods and services spending in MTSD sectors down from 26% in 2011, 33% in 2009 and 2010 and 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?

- **If services are to be regenerated we need to see not only a reversal of the decline but a large uplift in funding from internal revenue to priority sectors. Particularly in higher funded provinces.**
- Yes, more internal revenue needs to be appropriated and expended on recurrent goods & services in MTDS sectors.
- To put it in perspective in 2012 the K43 million that was spent on core MTDS activities represents only 11% 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.
- In contrast, the administration alone received K182 million or 44% of the internal revenue spending budget.
- More internal revenue was used to fund recurrent goods & services costs in administration (K110 million) than on all MTDS priority sectors (K43 million).
- Reprioritisation: For those provinces with a significant 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 cannot improve.
- A total of 50% of all internal revenue was spent on personnel emoluments and capital & projects. This is highly significant. It means there is less available to fund the critical on-going operational day to day costs that enable core services to be delivered.

No.8. Graph on Operational Spending from Internal Revenue in Major Sectors from 2005 to 2012



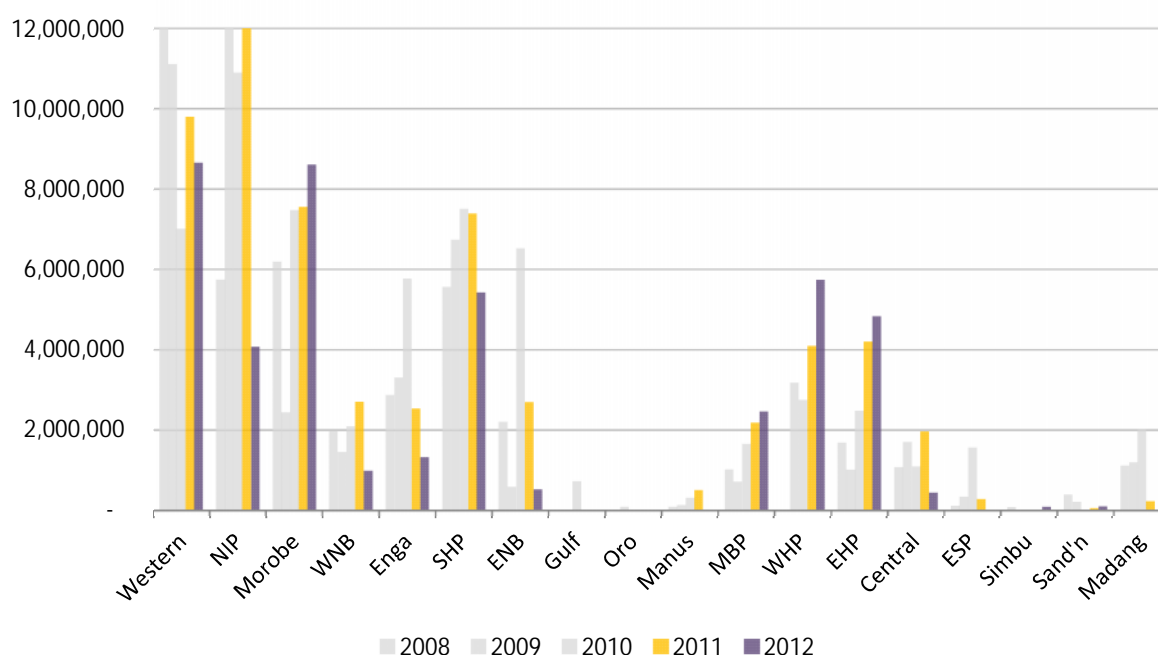
The graph above illustrates spending on recurrent goods & services from internal revenue in the major sectors for the 2005-2012 fiscal years.

- Recurrent administration spending spiked in 2012 and continues to receive the largest slice of internal revenue by a wide margin.
- Health continues to receive very little support from internal revenue to fund operational costs in the sector.

This is hugely significant for higher funded provinces whose health services are reliant on internal revenue for operational funding.

- Interestingly provincial spending on education from internal revenue dipped in 2011 and dropped even further in 2012. Is this a response to the national governments free education policy and the enormous increase in direct subsidies to schools in recent years? Or perhaps the advent of an election year and moving provincial priorities are contributing to this significant change.
- Spending on Infrastructure maintenance in 2012 dipped.

No.9. Graph on Internal Revenue Spending on MTDS Sectors - 2008 to 2012

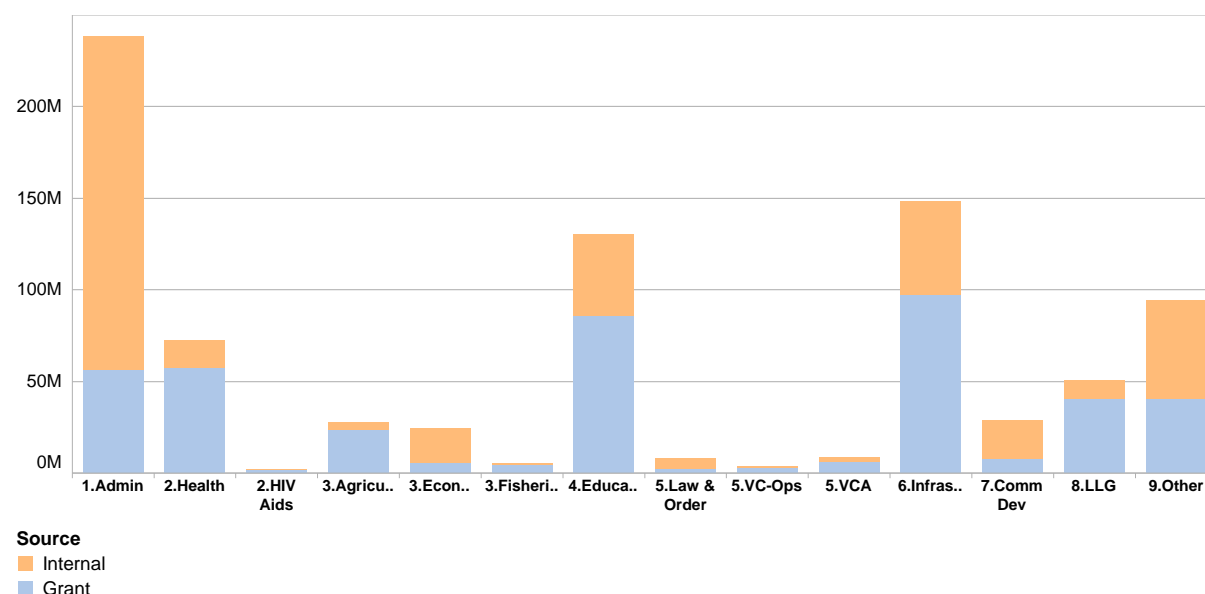


The graph above illustrates spending on recurrent goods and services from internal revenue in the MTDS sectors of health, agriculture, education, infrastructure maintenance, and village courts between 2008 and 2012.

- In 2012 recurrent spending on MTDS Sectors increased in only four provinces; Morobe, Western Highlands, Eastern Highlands and Milne Bay.
- New Ireland and East New Britain's recurrent support for MTDS sectors in 2012 dropped significantly from their previously higher levels.
- Spending from internal revenue on areas of national priority declined in ten provinces. Sometimes these declines were alarming.
- With the exception of Milne Bay, most lower-funded provinces spend very little or no internal revenue in MTDS sectors. Even Central in 2012 reduced its spending from this source markedly.

When a province has low (or reduced) levels of internal revenue much of that internal revenue is applied to administration costs and not the MTDS priority service sectors.

No.10. Graph on Sector Spending by Source in 2012 (both recurrent & capital)



The graph above illustrates where money was spent by provincial administrations – it splits the sector spending into funding by national government grant (blue) and funding from provincial internal revenue (orange).

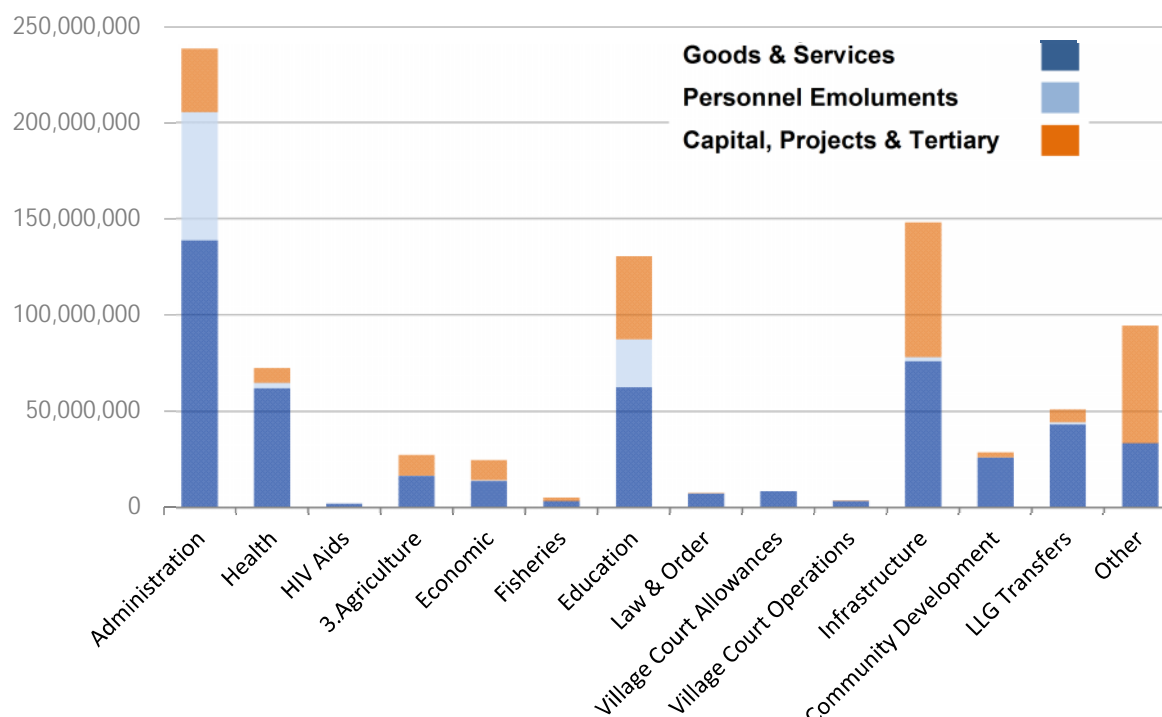
Interestingly the themes have stayed consistent over recent years, you will observe that:

- The implementation of RIGFA has made a significant difference with additional grant funding impacting the large health, education and infrastructure maintenance sectors as well as agriculture. Smaller amounts are visible in fisheries and village courts.
- Administration remains the single highest spending area.
- In kina terms, infrastructure maintenance and education are the next best supported priority sectors with reasonable amounts allocated from internal revenue.
- Health funding has improved but is mainly grant dependent.
- Funding for primary production – agriculture and fisheries – has also improved markedly in recent years however there is little internal revenue funding support.
- In the wider law & order sector, village courts are mostly funded by grants whilst internal revenue supports other law & order sub-sectors.

The next three graphs illustrate spending by:

- 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)

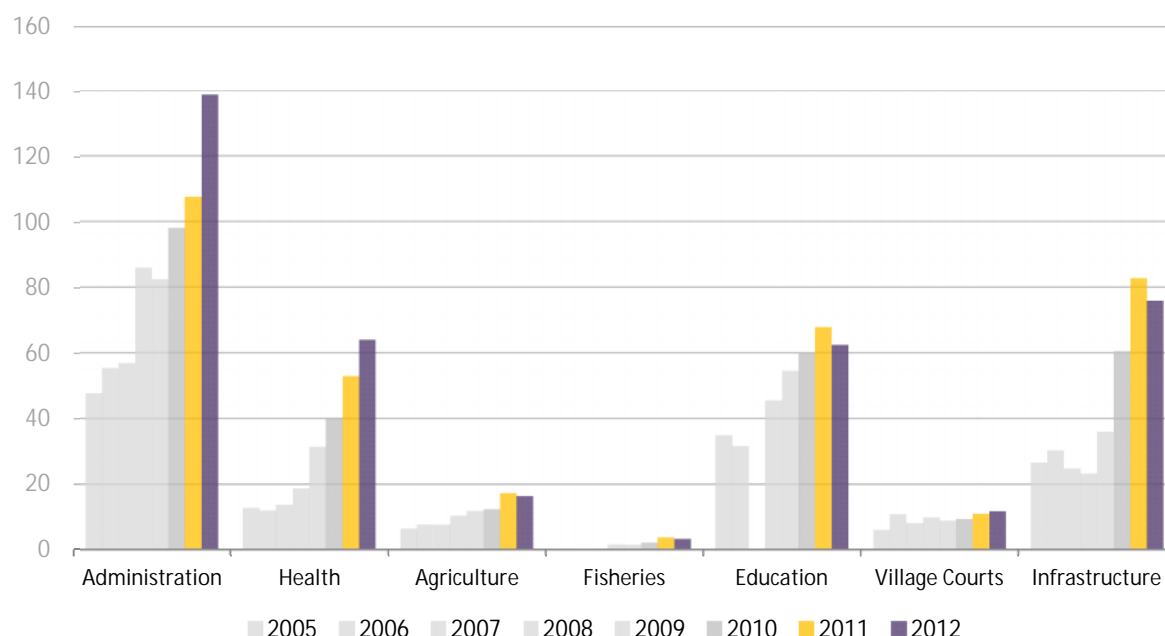
No.11. Graph on Sector Spending by Type in 2012 (both recurrent & capital)



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 (29% of total spending) is highest in infrastructure maintenance, education and administration. There are also large amounts spent in 'other' areas.
 - 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.
- Staff-related expenditure (personnel emoluments) is most significant in administration and education (28% and 19% of their respective sectors).
 - Spending on personnel emoluments does not include the public servants salaries that are paid from the national level. 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.

No.12. Graph on Spending by Sector: 2005 to 2012

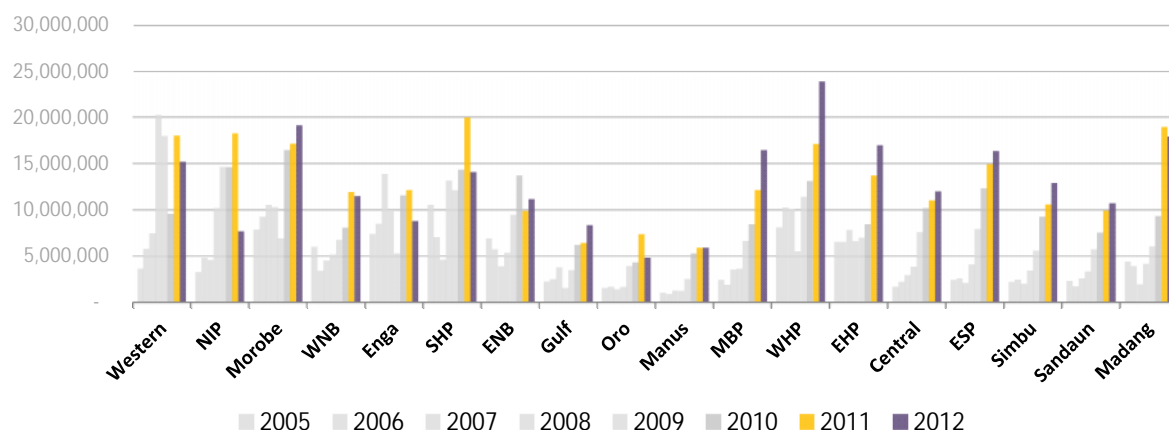


The graph above illustrates and compares how much was spent on recurrent goods and services in each major sector across all provinces from 2005 to 2012.

You will observe:

- 2012 was an election year which might explain some of the small dips in recurrent spending in some sectors.
- Spending on rural health continues to track upward which is highly encouraging and gives this vital sector funding to better support rural health services.
- Spending in education, agriculture and infrastructure maintenance experienced small dips during 2012.
- It was encouraging to see spending in agriculture remain significant and to see spending on discrete fisheries activities start to emerge.
- Spending on administration continues to rise.

No.13. Graph on MTDS Spending: 2005 to 2012



The graph above illustrates spending on recurrent goods and services in MTDS sectors by province from 2005 to 2012.

The graph is useful for illustrating the following:

- Many provinces again showed either sustained spending or notable increases in spending in priority sectors. There were strong increases in Western Highlands, Eastern Highlands and Milne Bay.
- The increased spending levels are generally being sustained.
- Of the higher funded provinces only Morobe increased its spending whilst New Ireland dropped alarmingly.
- East New Britain's spending on priority sectors increased a little after falling in 2010-11.

The increased spending through RIGFA in 2009 has been maintained and increased.

Much more is now spent to support priority service delivery sectors.

3.4 Warrant Release, Timing of Spending and Service Delivery Effectiveness

There is a logical connection between the timeliness of the release of warrants by Treasury in Port Moresby, the timing of spending by government at the sub-national level, and the delivery of services to Papua New Guineans across our country. **If the money does not arrive in provinces in a timely manner then the delivery of services will be adversely impacted – it's that simple.**

This relationship between the release of warrants, the timing of spending and service delivery effectiveness is so critical that each year we need to monitor both the timeliness of the warrant release as well as the timeliness of the sub-national expenditure.

For service delivery to happen in an effective manner provinces need their service delivery funding early and in a predictable pattern.

A standard cash release schedule

Can the Departments of Treasury and Finance work with PLLSMA and provinces to establish an agreed cash release schedule that provides provinces with the certainty that they need to implement their annual service delivery plans?

3.4.1 What happened in 2012?

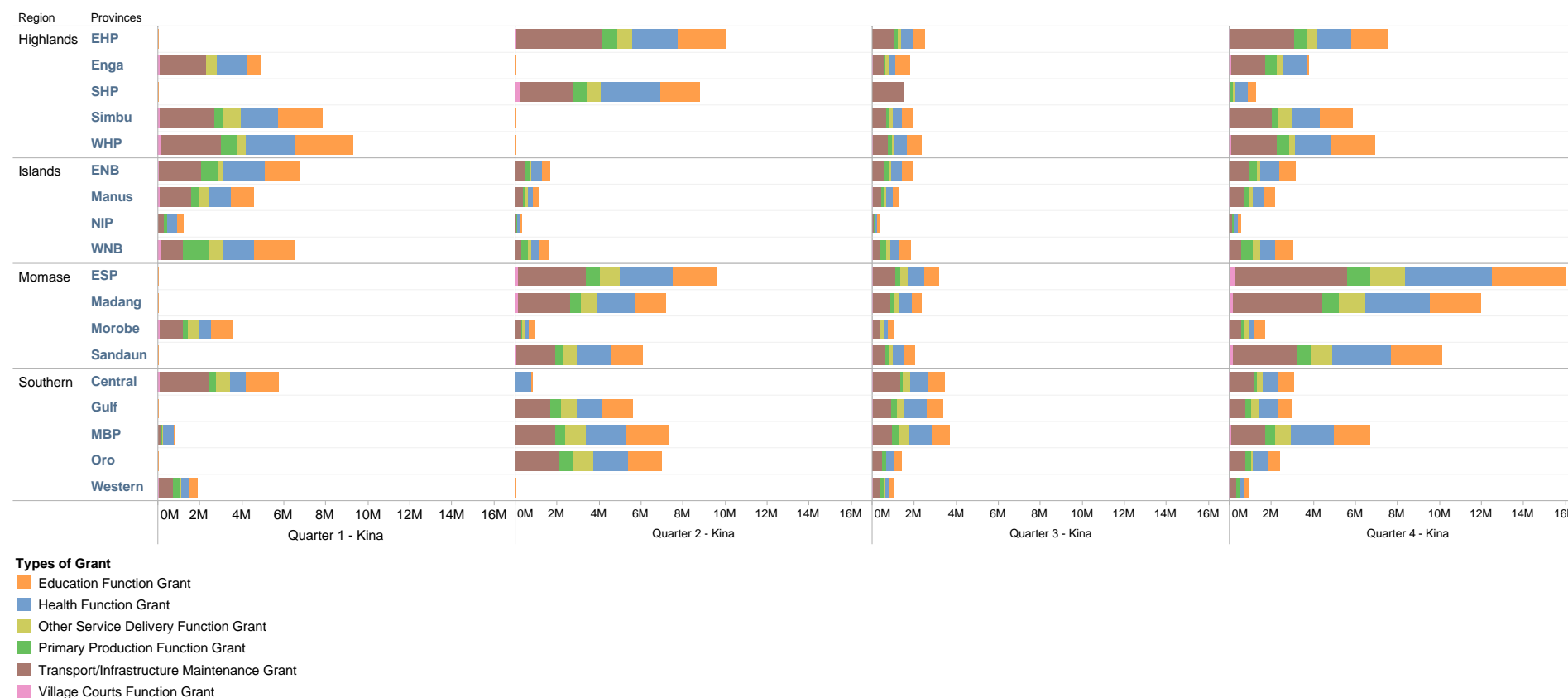
Provinces need a large amount of funding very early in the year to enable them to implement their plans and commence their service delivery activities.

The graphs on the following pages illustrate the release of warrants in 2012. We can see that:

- Overall the situation got worse in 2012 which is disappointing after the improvements in disbursement in 2011.
- No warrants were released in January or February of 2012.
- Ten provinces received their first tranche in March, five provinces in April and two provinces in May (the other province only received a significant sum in May).
- There was a lot of inconsistency in the patterns of warrant release. Only the Islands Region seemed to be treated consistently and relatively favourably.
- K90 million: Far too much funding is withheld and released in the last quarter. In Quarter 4, three provinces received 56% of their funding and five received 37%. Four provinces received funding in December which seems unusual given the accounts close mid-December.

Funding released late is more likely to be spent poorly or to be rolled over to the following year. This represents an opportunity lost, as we know services cannot happen without timely enabling funding streams.

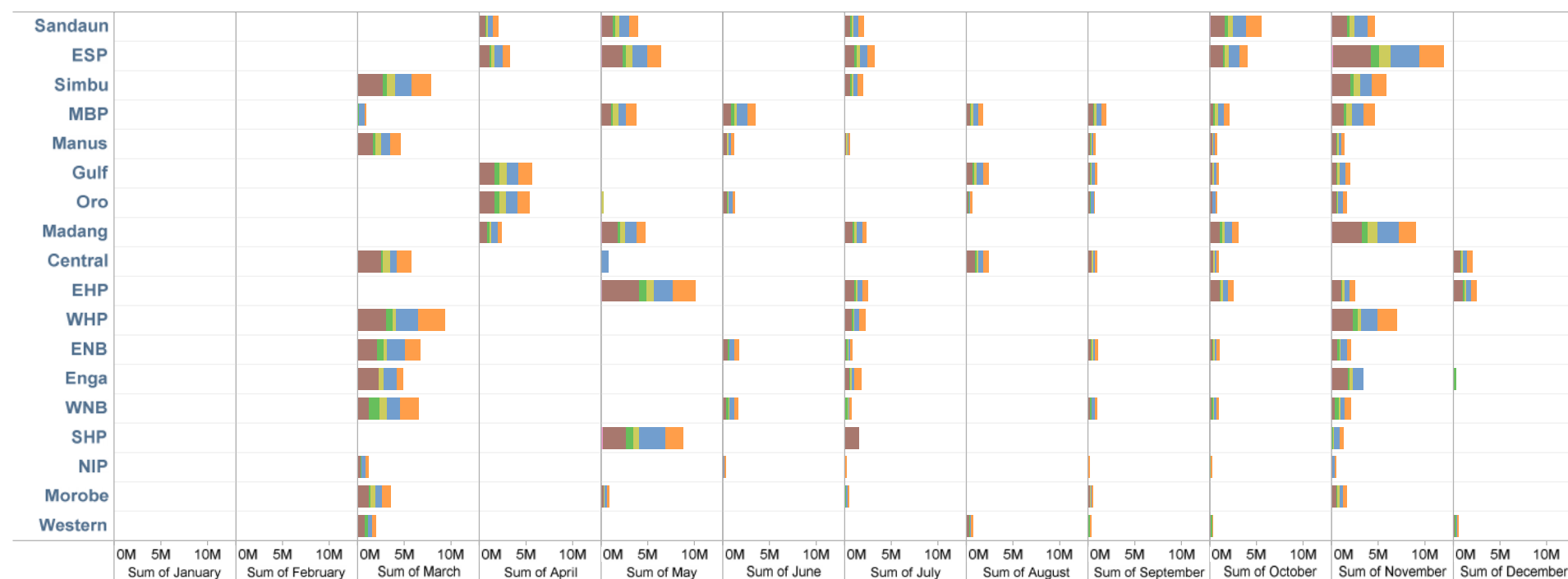
No.14. Graph on Timing of Warrant Release by Quarter in 2012



Concerning observations from the graph above:

- Seven provinces received no service delivery funding in the first quarter. There was nothing for Eastern Highlands, Southern Highlands, East Sepik, Madang, Sandaun, Gulf and Oro.
- Eight provinces received very large amounts of their service delivery funding in the last quarter (in kina and as a proportion). Eastern Highlands, Simbu, Western Highlands, East Sepik, Madang, Sandaun and Milne Bay.
- Most Highlands and Momase Provinces and Milne Bay were significantly disadvantaged in 2012 by the timing of warrant release.

No.15. Graph on Timing of Warrant Release by Month in 2012



Types of Grant

- Village Court..
- Transport/Infra..
- Primary Prod..
- Other Service..
- Health Functi..

- No service delivery funding was released in January or February.
- Eastern Highlands and Southern Highlands received no service delivery funding until May. Eastern Highlands then received 38% of its funding in the last quarter.
- Sandaun received its first funding in April but only 11%. And received 56% of its funding in the last quarter. As were Madang and East Sepik.
- Many provinces who need national government funding for service delivery the most received it the latest.

3.4.2 What might a standard cash release schedule look like?

In considering what a standard cash release schedule may look like we must first understand and acknowledge the realities of cash and expenditure management at the sub-national level. Spending requires co-operation and interaction between the provincial treasury who receive the money and the provincial administration finance team who must then liaise with their various sectors and divisions who ultimately make spending decisions based on their annual plans. It may also involve transfers to other sub-national spending levels such as the district level and even the local government and facility levels (such as health centres and schools). On the one hand we must not overly simplify the challenges provinces have in processing spending decisions and yet on the other hand we must devise and maintain a cash release process between the national and sub-national levels that is uncomplicated and predictable and aids planning and implementation.

The table below sets out a possible cash release schedule that could apply to all provinces each year. The table assumes:

- Cash needs to arrive at the province early in the year to enable the spending process to start at sub-national levels. So the size of the releases is larger earlier in the year and diminishes as the year progresses.
- It often takes one or two months (perhaps more if the funds staircase down to lower levels of the sub-national system) to complete the spending process and actually raise a cheque. So by releasing funds early we allow provinces (and sectors) to process the spending during the year to support service delivery activities in a timely way.
- Provincial administrations need predictability in their funding. It is impossible to implement a service delivery program across sectors when the funding is disbursed in an ad hoc manner each year from the national level.

No.16. Table on a Service Delivery Friendly Cash Release Schedule

Month	Warrant / Cash	Process at sub-national	Spend / cheque
Jan			
Feb	40%	Processing	
Mar		Processing	
Apr	30%	Processing	40%
May		Processing	
Jun			30%
Jul	20%	Processing	
Aug		Processing	
Sep	10%	Processing	20%
Oct		Processing	
Nov			10%
Dec			
Total	100%		100%

3.4.3 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.

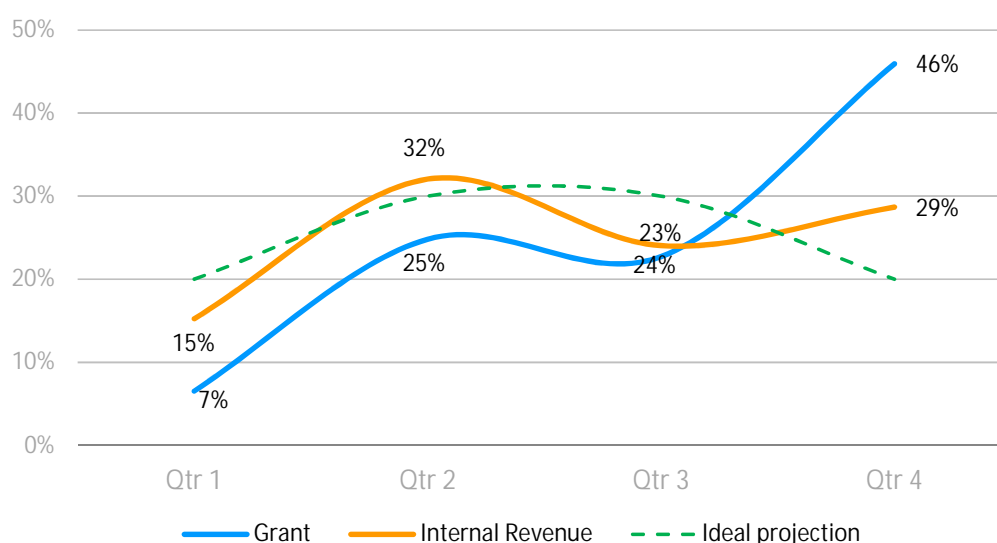
Three effects of late spending are:

- 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 the delivery of essential basic services.

In 2012, 46% of grant expenditure and 29% of spending from internal revenue occurred in the final quarter of the fiscal year. When one considers that the government's accounts close mid-way through December that means that between one third and a half of spending occurred in just over two months. So, how much service delivery can happen during the year when the spending to support service delivery occurs so late?

- Spending in the first quarter was very low for the fourth consecutive year.
- Spending in the 4th quarter of 2012 remains very high.

No.17. Graph, on the Average Level of Spending in Each Quarter¹⁰



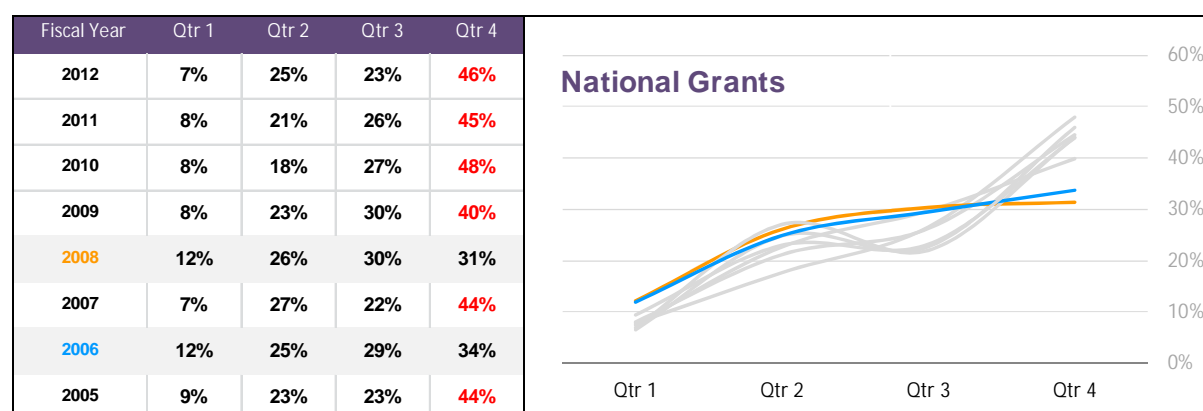
The ideal projection line is a theoretical projection of how overall spending may occur during a fiscal year. A typical spending pattern would start slowly, increase throughout the year as service delivery activities move in to full swing, and taper off toward the end of the year as activities wind down.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

¹⁰ Cheques raised to transfer unspent funds at year-end have been removed from this analysis to avoid distortion.

3.4.4 Spending across the years

NEFC has been analysing provincial spending since 2005. The data we have collated enables us to identify trends in spending patterns and to provide greater insight as to the nexus and linkages between good spending habits and desirable outcomes in improved service delivery.

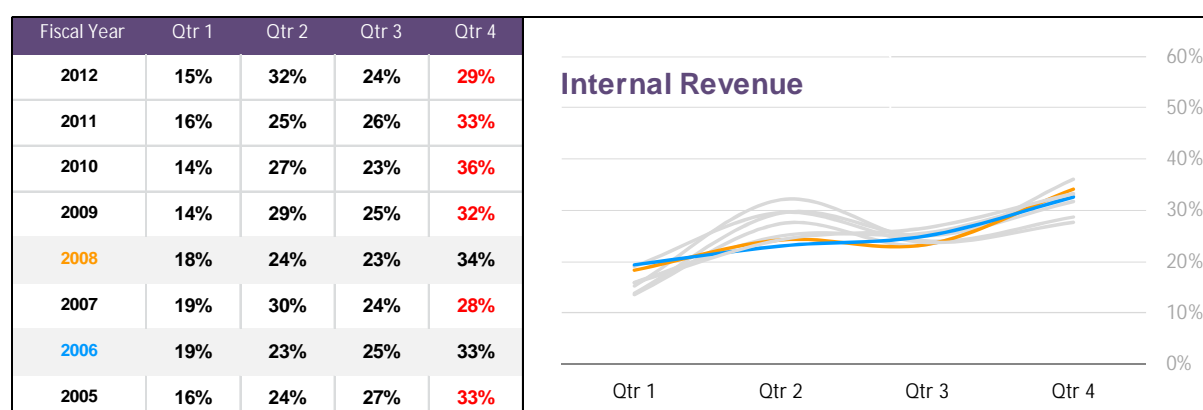
Table: Spending from National Grants by Quarter 2005 to 2012



The tables above and below detail how much provincial spending took place in each quarter between 2005 and 2012 from national grants above and internal revenue below. Several things stand out:

- Firstly, there is very little grant spending in the first quarter of the year which affirms our concern that grant funding often does not reach provinces in a timely and predictable manner. On average, only 9% of the spending happens between January and March.
- Secondly, there is too much spending in the fourth quarter. We can see that in six of the eight years an average 44% of spending happened in the period between October and the close of accounts in mid-December.
- Critically, better funding leads to better spending. In 2006 and 2008 the timing of warrant release from Treasury was better and we can see a corresponding improvement in the rate of spending during the year from both grant and internal revenue.
- Spending from internal revenue is typically more even throughout the year.

Table: Spending from Internal Revenue by Quarter 2005 to 2012



No.18. Table on 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 2012 and 2011. Information for the 2005-2010 fiscal years is available in previous annual PER's on the NEFC website: www.nefc.gov.pg/publications

Province	Source	2012 Fiscal Year					2011 Fiscal Year				
		Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
Central	Grant	11%	19%	29%	41%	100%	31%	18%	17%	33%	100%
Central	Internal Revenue	19%	29%	26%	26%		12%	33%	19%	35%	
EHP	Grant	3%	18%	20%	60%	100%	8%	17%	23%	52%	100%
EHP	Internal Revenue	9%	21%	16%	54%		9%	17%	23%	51%	
ENB	Grant	4%	36%	24%	36%	100%	20%	19%	17%	44%	100%
ENB	Internal Revenue	15%	38%	30%	17%		17%	20%	26%	38%	
Enga	Grant	3%	40%	4%	53%	100%	0%	19%	21%	59%	100%
Enga	Internal Revenue	27%	41%	10%	22%		8%	29%	27%	37%	
ESP	Grant	3%	7%	32%	58%	100%	4%	19%	22%	56%	100%
ESP	Internal Revenue	17%	45%	21%	17%		17%	33%	38%	11%	
Gulf	Grant	6%	19%	21%	54%	100%	6%	22%	25%	48%	100%
Gulf	Internal Revenue	17%	36%	32%	16%		41%	35%	24%	1%	
Madang	Grant	5%	21%	25%	49%	100%	16%	23%	22%	40%	100%
Madang	Internal Revenue	14%	45%	34%	8%		15%	21%	30%	35%	
Manus	Grant	5%	39%	21%	34%	100%	9%	26%	21%	44%	100%
Manus	Internal Revenue	21%	25%	26%	28%		7%	34%	19%	40%	
MBP	Grant	8%	22%	20%	51%	100%	13%	24%	32%	30%	100%
MBP	Internal Revenue	17%	42%	22%	18%		20%	21%	36%	24%	
Morobe	Grant	1%	35%	40%	24%	100%	6%	30%	30%	34%	100%
Morobe	Internal Revenue	10%	30%	23%	38%		9%	11%	20%	25%	
NIP	Grant	2%	13%	32%	53%	100%	3%	5%	40%	51%	100%
NIP	Internal Revenue	15%	26%	30%	29%		29%	20%	24%	27%	
Oro	Grant	1%	29%	34%	35%	100%	-2%	10%	18%	74%	100%
Oro	Internal Revenue	0%	32%	34%	34%		22%	19%	14%	45%	
Sand'n	Grant	9%	25%	25%	41%	100%	3%	23%	20%	54%	100%
Sand'n	Internal Revenue	1%	27%	28%	45%		9%	24%	29%	38%	
SHP	Grant	1%	5%	9%	84%	100%	1%	34%	44%	21%	100%
SHP	Internal Revenue	0%	24%	18%	58%		5%	33%	46%	16%	
Simbu	Grant	2%	39%	24%	35%	100%	16%	16%	25%	43%	100%
Simbu	Internal Revenue	25%	24%	26%	24%		35%	14%	20%	30%	
West'n	Grant	36%	14%	24%	25%	100%	6%	23%	32%	39%	100%
West'n	Internal Revenue	43%	20%	22%	15%		18%	18%	15%	50%	
WHP	Grant	17%	38%	6%	39%	100%	3%	20%	34%	43%	100%
WHP	Internal Revenue	20%	42%	14%	24%		11%	34%	31%	25%	
WNB	Grant	0%	28%	20%	52%	100%	1%	32%	30%	37%	100%
WNB	Internal Revenue	6%	32%	19%	43%		5%	23%	20%	51%	
Average of Grants		7%	25%	23%	46%	100%	8%	21%	26%	45%	100%
Average of Internal Revenue		15%	32%	24%	29%		16%	25%	26%	33%	

- 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'.

4 Measuring Performance

4.1 The Top Five – Sustaining High Performance

The delivery of basic services happens every year. Providing education, health care, and maintaining infrastructure all require a similar set of annual activities to happen every year. A high performing provincial administration is one that sustains its service delivery efforts and ingrains good practices each and every year. It is possible, but less desirable, to have a haphazard approach to financing service delivery where a good year is followed by a poor year. For service sectors this approach is counterproductive and will not sustain the improvements in service delivery we all are looking for.

The 2010 PER ‘Step Two: The Ripple Effect’ was the first time we identified those provincial administrations that were demonstrating sustained financial discipline and consistently allocating and spending in the right areas to support the delivery of basic services. The 2012 Top Five table shows all provinces but highlights the five provinces with the best results over the last three reviewed years – from 2010 to 2012.

NEFC commends the provincial administrations of **Simbu, Central, Manus, Milne Bay, Madang and Western Highlands** for their fiscal commitment to making service delivery happen in their provinces.

No.19. Graph on The Top Five – Sustaining High Performance

Province	2010	2011	2012	Average
1 Simbu	85	74	70	76
3 Manus	72	81	68	74
4 Milne Bay	70	76	71	72
2 Madang	61	76	74	70
5 Western Highlands	65	78	67	70
Central	71	78	61	70
East New Britain	80	63	59	68
Gulf	80	63	54	66
Sandaun	68	70	54	64
Oro	65	67	56	63
Morobe	66	61	61	62
East Sepik	62	62	59	61
Eastern Highlands	53	65	63	60
New Ireland	57	72	45	58
Enga	64	55	51	57
Southern Highlands	63	65	42	57
West New Britain	48	60	60	56
Western	42	66	50	53

4.2 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? In this chapter we seek to provide answers to these questions in four ways:

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

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

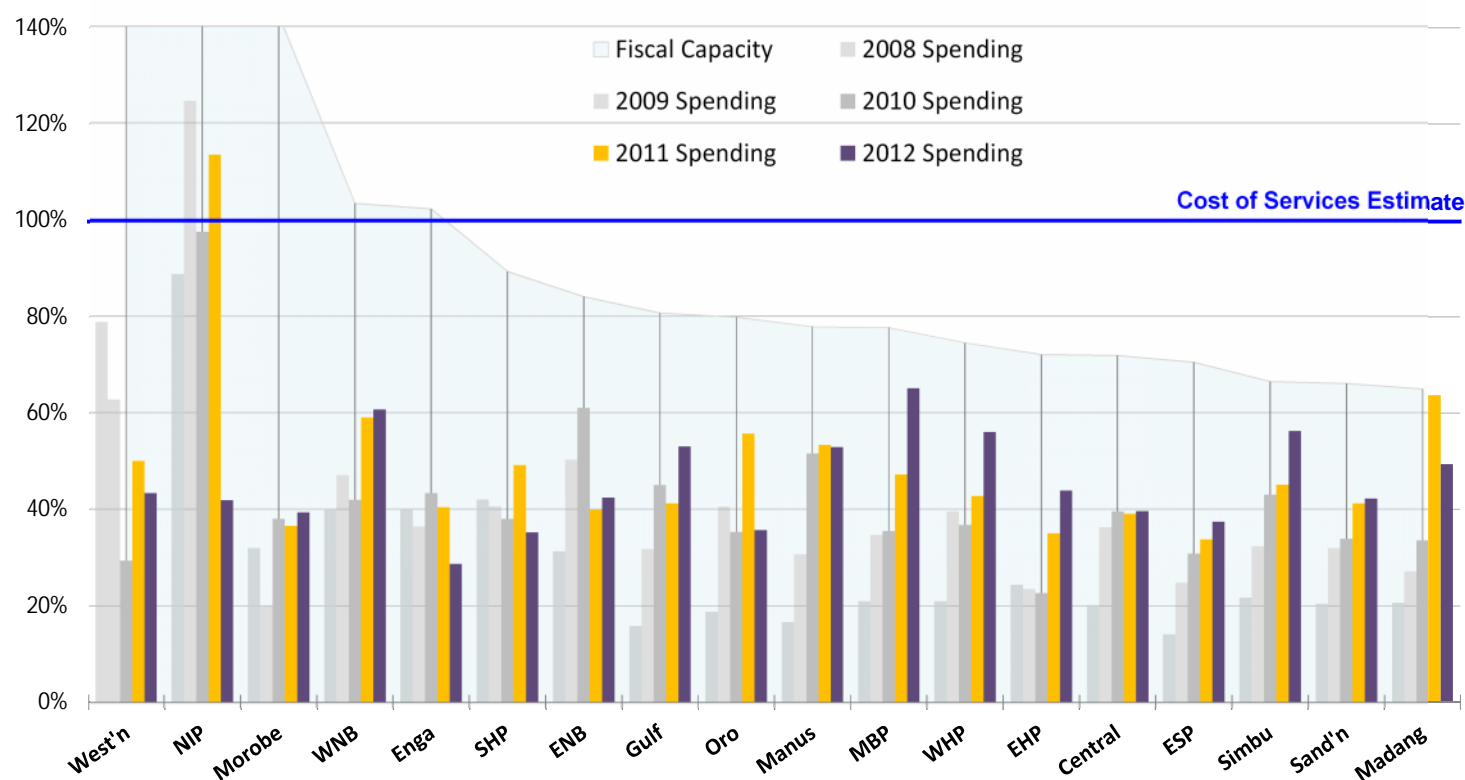
Answering questions about performance

Table / Graph	Helps to answer
The Twin Gaps of Priority and Funding – Supporting MTDS priorities graph	<ul style="list-style-type: none"> ▪ Which provinces can achieve more by redirecting spending to MTDS priority areas? ▪ Which provinces need more funding?
The MTDS Priorities Table	<ul style="list-style-type: none"> ▪ How well is each province supporting the MTDS sectors given its fiscal capacity? ▪ Which sectors are better supported? <p>The provinces are ranked according to their fiscal capacity</p> <p>Results can be viewed; either province by province, or by group, or overall</p> <p><u>Note:</u> the results have been adjusted to reflect each provinces fiscal capacity (the village court results have not been adjusted)</p>
The Expenditure Matrix/Scorecard	<ul style="list-style-type: none"> ▪ Did we spend more than last year? ▪ Are we adequately supporting MTDS sectors with our available resources? Or can we do better? ▪ Did we spend all of the function grant funding? ▪ Was it spent appropriately on the things that support service delivery?
The Supporting MPAs Matrix	<ul style="list-style-type: none"> ▪ Did our spending support the minimum priority activities? ▪ Does our chart of accounts adequately identify the minimum priority activities for budget and expenditure management purposes?

4.3 The Twin Gaps of Priority and Funding

This graph draws together all provincial spending on MTDS priorities and compares this with the cost of fully funding the MTDS priorities. It demonstrates the twin hurdles we face in improving the delivery of services throughout the provinces. The first is a matter of provincial choice, that is, something provinces individually have the power to change by allocating more money within their province to basic services – we call this the priority gap¹¹. The second is a matter of funding, many provinces simply do not have sufficient funding – we call this the funding gap.

No.20. Graph on Supporting MTDS priorities from 2008 to 2012



¹¹ 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.

4.3.1 Comments on the Twin Gaps

- There is a **Funding Gap** which is being addressed by the implementation of RIGFA (Reform of Intergovernmental Financing Arrangements), the new intergovernmental financing system that has redesigned the way PNG's resources are shared.
- The implementation of the government's intergovernmental financing reforms has started the process of addressing this funding gap. The 2012 GoPNG budget provided an overall 27% increase in recurrent goods and services funding to provincial governments, with an extra K55.4 million distributed to those provinces that need it most – we can see the impact of the increased spending by lower and medium funded provinces.¹²
- There is a **Priority Gap** that can only be addressed by provinces choosing to spend the amount required on priority sectors. This may mean reducing spending in one area (such as administration, casual wages and projects) and redirecting it to another (such as health, infrastructure maintenance, or agriculture and fishery support).
- Internal revenue needs to be used to support the delivery of core services. Provinces need to consider how they allocate and spend their resource envelope.
- The level of spending on recurrent goods and services in priority areas is still too low and inadequate but there are signs of improvement. If spending on basic services does not continue to increase, the implications will be dire. Government efforts rely on recurrent operational funding to support 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.
- In recent years we are seeing an improvement with many provinces spending at more meaningful levels on MTDS sectors. Whilst there is much more to do the targeting of funding to those who need it most is working.
- Many lower funded provinces and some medium funded provinces have increased their recurrent spending on MTDS sectors, both in Kina terms and relative to costs, and have maintained these levels. This is good.
- **Several higher funded provinces show a declining trend in their spending on MTDS sectors relative to what is required; Western, New Ireland, Morobe, Enga and Southern Highlands. This is concerning.**

¹² This excludes transfers to Local level Governments.

4.3.2 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.¹³ They can improve by redirecting money from low priority areas such as the administration sector and projects to service delivery sectors particularly transport infrastructure maintenance, education and agriculture.

Spending on Education has slipped and is no longer the priority sector for higher funded provinces.

Higher funded provinces also spend a much higher proportion of expenditure on staff related costs and development, which means that even more funding for goods & services are required to support additional (casual) staff and new capital projects.

- Medium funded provinces also need to redirect more spending from low priority areas such as administration to agriculture, to fisheries and to transport infrastructure maintenance in particular.
- In lower funded provinces the continued good news is the increased funding being targeted to priority sectors.

¹³ 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.

4.4 The Provincial MTDS Priorities Table ¹⁴

The Provincial MTDS Priorities Table that follows illustrates how well provinces are supporting the Governments key MTDS priority sectors – health, agriculture, education, transport infrastructure and village courts. Which sector is best funded and which is worst? To make the comparison fairer we have adjusted the results to reflect that some provinces have more funding and some have less.

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

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

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

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

¹⁴ We are mindful that some provinces provided their LLG's with funding well above the level of the national government grants intended for the LLG's. It is possible that some of these amounts were used to implement provincial service delivery responsibilities. If this is the case, our analysis should have counted that LLG expenditure in order to provide a fair comparison with other provinces who met all these service delivery costs entirely from their own expenditure. Unfortunately there is no expedient way to identify the purpose for which that additional funding was used.

No.21. Table of Provincial MTDS Priorities in 2012 – How well were MTDS Priorities supported given fiscal capacity¹⁵

Rank By Fiscal Capacity	Province	Average Fiscal Capacity	Health & HIV	Agriculture	Fisheries	Education	Infrastructure	Village Courts Op's	Allow's		
1	Western	193%	Medium	Medium	Medium	Medium	Low	High	High	High	above 80%
2	New Ireland	158%	Medium	Low	Low	High	Low	Medium	High	Medium	between 40-79%
3	Morobe	142%	Low	Low	Medium	Low	Medium	High	High	Low	below 40%
4	West New Britain	103%	Medium	Medium	Medium	Medium	Low	High	High		
5	Enga	102%	Medium	Low	n.a.	Low	Low	Medium	High		
6	Southern Highlands	89%	Medium	Low	n.a.	Low	Low	High	High		
7	East New Britain	84%	Medium	Medium	Medium	Medium	Low	Medium	High		
8	Gulf	81%	Medium	Low	Medium	High	Medium	High	High		
9	Oro	80%	Low	Low	Low	Medium	Medium	Medium	High		
10	Manus	78%	High	Low	Medium	High	Medium	Medium	High		
11	Milne Bay	78%	High	Medium	Low	Medium	High	High	High		
12	Western Highlands	74%	Medium	High	n.a.	High	Medium	High	High		
13	Eastern Highlands	72%	High	Medium	n.a.	Low	Medium	High	High		
14	Central	72%	Medium	Low	Medium	Medium	Medium	High	High		
15	East Sepik	70%	High	Medium	Medium	Medium	Low	High	High		
16	Simbu	66%	Medium	High	n.a.	High	High	High	High		
16	Sandaun	66%	Medium	Low	Low	Medium	Medium	High	High		
18	Madang	65%	High	Medium	Medium	Medium	High	High	High		

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

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

¹⁵ This table illustrates and compares provincial performance in supporting the Governments key MTDS priority sectors – the scores are adjusted to reflect fiscal capacity.

4.4.1 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, fisheries, infrastructure maintenance and village courts:

1. Improved Prioritisation in 2012 the general picture is one of a significant sustained improvement in spending on the priority sectors of **health** relative to what each sector needs. With only two low scores in Morobe and Oro.
2. Improved equity across sectors – in 2011 we saw for the first time a noticeable evening out of funding for basic services across all sectors. However in 2012 the average spending on the larger priority sectors diverged again in to two groups. Health and education are in one group and experienced a higher average support (53%) than the other group containing infrastructure maintenance, agriculture and fisheries (38-39%).
 - Education average 53%
 - Health average 53%
 - Agriculture average 38%
 - Fisheries average 38%
 - Infrastructure maintenance average 39%
3. Lower funded provinces – another positive result demonstrated in the 2012 table is the continued absence of ‘low’ scores by the lower funded provinces. This is particularly commendable given the handicap imposed on many provinces with the slow and late disbursement of function grants by the Department of Treasury. The slow/late warrant release makes it harder for provinces to spend well (and at all) on service delivery programs.
4. Administration – is not included in the ‘scorecard’ table but continues to be the no.1 priority across all provinces. Spending in this sector needs to be reduced and controlled. Most provinces fund this sector at the expense of providing services to their people.
5. Health – has moved to a better level of overall funding. Of the big sectors health now ranks no.2 just above education.

For the fourth 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.

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 Morobe and Oro provinces (low) clearly does not reflect this. Delivering basic health services relies on operational funding, more is needed in these two provinces in particular and more higher funded provinces more generally.¹⁶

6. Education – moves to no.3 priority across most provinces (no.2 in prior years).
There are now four low scores; Morobe, Enga, Southern Highlands and Eastern Highlands.
In prior years some provinces clearly prioritised education – that is no longer in evidence.

¹⁶ Support for rural health is poor in New Ireland, Morobe and Southern highlands.

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).

7. Agriculture – prioritisation of agriculture in the upper half of the table is poor. Seven of the 10 higher funded provinces scored low and the other three medium. When one considers the fundamental importance of this sector in providing a source of food and income for the many this is discouraging and an area for renewed focus.

Nine provinces achieved a low score.

Lower funded provinces did better although the results were mixed.

8. Fisheries – fisheries, like agriculture, is an area with fundamental importance in providing a source of food and income for the many. In the 2012 review we separately track support for the sub-sector.

Four provinces achieved a low score. The others achieved medium, there are no 'high's'.

9. Infrastructure – 2012 sees further signs of tangible improvement in spending in the lower and mid funded provinces but alas not with the higher funded provinces with high royalty and GST income.

Capital spending was again significant in some provinces and a portion may be recurrent in nature (reflecting the cumulative effect of poor recurrent maintenance). Overall spending on infrastructure maintenance ranks well below the health and education sectors as a priority.

We know, infrastructure maintenance is expensive and requires greater levels of funding. If left unchecked, very expensive rehabilitation costs will continue to amass. For this reason the increased spending levels are very welcome.

10. 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.

Spending on allowances was strong across provinces.

Spending on operational costs was mainly high with some in the medium bands.

4.5 The Provincial Expenditure Matrix

The pages that follow that follow summarise the findings of our analysis on a province-by-province basis. We need to remember that these are fiscal indicators only and they do not provide assurance as to the quality of the expenditure. What we do know however, is that if we aren't spending in the right areas then basic service delivery activities cannot happen effectively. The criteria highlighted in pale yellow are new in 2012.

No.22. Table of Key Fiscal Performance Indicators

#	Key Performance Indicator	Description	KPI Measure	Why is this important?
CROSS-SECTORAL FISCAL INDICATORS				
1	Revenue Disclosure Penalty	Indicates that a Province is not disclosing all relevant revenue streams.	Issue: Applies to Provinces that persist in failing to disclose and make visible relevant income streams.	The system of intergovernmental financing in Papua New Guinea relies on full disclosure of all relevant provincial revenue streams. Non-disclosure is a form of cheating the system.
2	Treasury Grant Release Rate	Indicates the percentage of function grants that the Department of Treasury released to a province in the period Sept-Dec.	Not Good: more than 25% in the period Sept-Dec	Provinces need their funding in a timely predictable manner to allow them to implement their service delivery programs during the year.
	Limited Compensatory Adjustment	Indicates whether NEFC has applied an adjustment to partially compensate a Province for the late release.	Yes: indicates an adjustment has been applied Blank: no adjustment	This limited adjustment acknowledges that the late release of funds impedes provincial performance.
3	Timing of 4 th Quarter Exp: (National Government Grants)	Indicates whether a province is spending its funds in a timely manner.	Good: Less than 25% Average: between 25 and 33% Not Good: Above 33%	Most national grant funding is targeted at basic service delivery costs and needs to be spent throughout the year to support basic service delivery activities. Experience shows that high spending in the final quarter is less likely to support basic service delivery activities.
4	Timing of 4 th Quarter Exp: (Internal Revenue)	Indicates whether a province is spending its funds in a timely manner.	Good: Less than 25% Average: between 25 and 33% Not Good: Above 33%	Timely expenditure supports basic service delivery activities. Experience shows that high spending in the final quarter is less likely to support basic service delivery activities.

#	Key Performance Indicator	Description	KPI Measure	Why is this important?
5	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.
6	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 <u>need</u> 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.	
SECTORAL SPECIFIC FISCAL INDICATORS				
7	Spending Trend (both Grant and Internal revenue spending)	Indicates how a provinces' spending on recurrent goods and services changed between years.	Up: 15% (or greater) <u>increase</u> on the average of 2008-2011 expenditure Steady: in between +/- 15% Down: 15% (or greater) <u>decrease</u> on the average of 2008-2011 expenditure	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.
8	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	Unspent % (Function Grant spending only)	The amount of unspent funds at year-end. Calculated against Budget (actual) – per 2012 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.

#	Key Performance Indicator	Description	KPI Measure	Why is this important?
10	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.
11	MPA Support	A specific assessment that looks at whether a province has discrete votes for each MPA and spends appropriate amounts in support of each MPA. NB: Appropriate in this context considers two factors; fiscal capacity and cost estimate.	Good: Appropriate levels of expenditure are visible in most MPAs within the sector Average: In-between Limited: There is limited evidence of discrete spending and/or appropriate levels of spending on MPAs in the sector	MPAs are critical activities vital to service delivery. They require appropriate levels of visible discrete funding and spending.
12	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.

Absorbing a lot of quantitative information is difficult. To make this easier, the matrix typically groups the results in to three groupings that can be described as good, average, and poor. These measures are set within the operating context.

Assessment Level	Score descriptions
This indicates a good result	High Good Up
This indicates a mixed yet somewhat positive result	Average Steady
This indicates a poor result	Low Not Good Limited Down Fail

This table summarises the findings of the PER scorecard and is a useful snapshot. It includes the overall score a province achieved together with individual ratings for each sector.

No.23. The 2012 Provincial Expenditure Summarised Scorecard

Province	PER Score	Health	Education	Infras.	Primary Prod.	Village Courts
Madang	74	High	Average	High	Average	High
Milne Bay	71	High	Average	High	Low	High
Simbu	70	Average	High	High	Average	High
Manus	68	High	High	High	Low	Average
Western Highlands	67	High	High	Average	Average	High
Eastern Highlands	63	High	Low	Average	Low	High
Central	61	High	High	Average	Low	High
Morobe	61	Average	Average	High	Low	High
West New Britain	60	High	High	Average	Average	High
East New Britain	59	High	High	Low	Average	Average
East Sepik	59	High	Average	Low	Low	High
Oro	56	Average	High	High	Low	High
Gulf	54	Average	High	High	Low	High
Sandaun	54	Average	Average	Average	Low	High
Enga	51	High	Low	Low	Low	High
Western	50	Average	Low	Low	Low	High
New Ireland	45	Average	High	Low	Low	High
Southern Highlands	42	Average	Low	Low	Low	High

The matrix on the following page provides the detail behind this summary, including cross-sectoral assessments and detailed sector assessments.

No.24. The 2012 Provincial Expenditure Matrix & Scorecard

Sector	Assessment Criteria	Madang	Milne Bay	Simbu	Manus	Western Highlands	Eastern Highlands	Central	Morobe	West New Britain	East New Britain	East Sepik	Oro	Gulf	Sandaun	Enga	Western	New Ireland	Southern Highlands
	Rank by Score	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
	Score	74%	71%	70%	68%	67%	63%	61%	61%	60%	59%	59%	56%	54%	54%	51%	50%	45%	42%
	Fiscal Capacity Rank	18	11	16	10	12	13	14	3	4	7	15	9	8	17	5	1	2	6
	Fiscal Capacity %	65%	78%	66%	78%	74%	72%	72%	142%	103%	84%	70%	80%	81%	66%	102%	193%	158%	89%
Cross Sectoral	Revenue Disclosure Penalty							Issue						Issue					
	Treasury Grant Release Rate (Sept-Dec)	56%	47%	37%	31%	37%	38%	31%	31%	31%	31%	56%	32%	33%	56%	35%	33%	31%	11%
	Limited Compensatory Adjustment Applied	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
	Timing: % Nat Grant spending in 4th Quarter	49%	51%	35%	34%	39%	60%	41%	24%	52%	36%	58%	35%	54%	41%	53%	25%	53%	84%
	Timing: % Int Rev spending in 4th Quarter	8%	18%	24%	28%	24%	54%	26%	38%	43%	17%	17%	34%	16%	45%	22%	15%	29%	58%
	Internal revenue spending: % on MTDS	0%	14%	0%	0%	14%	30%	0%	6%	2%	2%	0%	0%	0%	0%	0%	5%	0%	5%
	Equity across four large MTDS sectors	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✗	✓
	MTDS sector prioritised																	Education	
Rural Health	Spending Trend	Up	Up	Up	Up	Up	Up	Up	Up	Up	Up	Up	Steady	Up	Up	Up	Up	Up	Up
	Spending Performance Level	High	High	Medium	High	Medium	High	Medium	Low	Medium	Medium	High	Low	Medium	Medium	Medium	Medium	Medium	Medium
	Function Grant Unspent %	8%	0%	29%	30%	7%	2%	7%	0%	7%	32%	33%	1%	13%	25%	3%	63%	32%	4%
	Function Grant Spending Nature Test	Good	Average	Average	Average	Good	Good	Good	Good	Average	Average	Average	Good	Not Good	Average	Good	Average	Average	Average
	MPA Support	Average	Good	Limited	Good	Average	Good	Good	Limited	Average	Good	Average	Limited	Average	Limited	Average	Limited	Average	Average
	No Salaries Test	OK	?	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	Fail	OK	OK	OK	OK	Fail
Education	Spending Trend	Up	Up	Up	Up	Up	Up	Up	Up	Up	Up	Up	Steady	Up	Up	Down	Down	Down	Down
	Spending Performance Level	Medium	Medium	High	High	High	Low	Medium	Low	Medium	Medium	Medium	Medium	High	Medium	Low	Medium	High	Low
	Function Grant Unspent %	12%	16%	25%	22%	15%	56%	-2%	4%	-10%	9%	34%	0%	8%	31%	4%	46%	25%	13%
	Function Grant Spending Nature Test	Not Good	Average	Average	Average	Average	Average	Good	Good	Average	Good	Average	Good	Average	Average	Average	Average	Good	Average
	MPA Support	Good	Average	Average	Average	Average	Average	Good	Good	Good	Good	Average	Average	Average	Average	Average	Limited	Average	Average
Infrastructure Maintenance	Spending Trend	Up	Up	Up	Up	Up	Up	Up	Up	Up	Steady	Up	Up	Up	Up	Down	Steady	Down	Down
	Spending Performance Level	High	High	High	Medium	Medium	Medium	Medium	Medium	Low	Low	Low	Medium	Medium	Medium	Low	Low	Low	Low
	Function Grant Unspent %	17%	35%	0%	7%	3%	29%	15%	0%	40%	18%	37%	0%	4%	14%	0%	41%	35%	28%
	Function Grant Spending Nature Test	Good	Average	Good	Good	Average	Average	Average	Good	Average	Average	Average	Not Good	Average	Average	Average	Average	Average	Average
	MPA Support	Good	Good	Average	Good	Limited	Average	Average	Average	Good	Average	Average	Good	Average	Average	Limited	Limited	Average	Limited
Primary Production	Spending Performance Level, Agriculture	Medium	Medium	High	Low	High	Medium	Low	Low	Medium	Medium	Medium	Low	Low	Low	Low	Medium	Low	Low
	Spending Performance Level, Fisheries	Medium	Low	n.a.	Medium	n.a.	n.a.	Medium	Medium	Medium	Medium	Medium	Low	Medium	Low	n.a.	Medium	Low	n.a.
	Function Grant Unspent %	2%	17%	23%	15%	32%	28%	3%	0%	-11%	20%	30%	0%	11%	43%	2%	65%	37%	1%
	Function Grant Spending Nature Test	Good	Average	Good	Good	Average	Average	Good	Good	Average	Average	Average	Not Good	Average	Average	Good	Average	Average	Good
	MPA Support, Agriculture & Fisheries	Limited	Limited	Limited	Average	Limited	Limited	Limited	Limited	Limited	Average	Limited	Limited	Limited	Limited	Limited	Limited	Limited	Limited
Village Courts	Spending Performance Level	High	High	High	Medium	High	High	High	High	High	Medium	High	Medium	High	High	Medium	High	Medium	High
	Function Grant Unspent %	50%	35%	8%	35%	25%	7%	1%	0%	0%	39%	33%	0%	0%	30%	5%	20%	0%	-15%
	Function Grant Spending Nature Test	Average	Average	Good	Average	Average	Good	Good	Average	Good	Average	Average	Good	Not Good	Not Good	Good	Average	Good	Good

4.5.1 Understanding the Provincial Expenditure Matrix

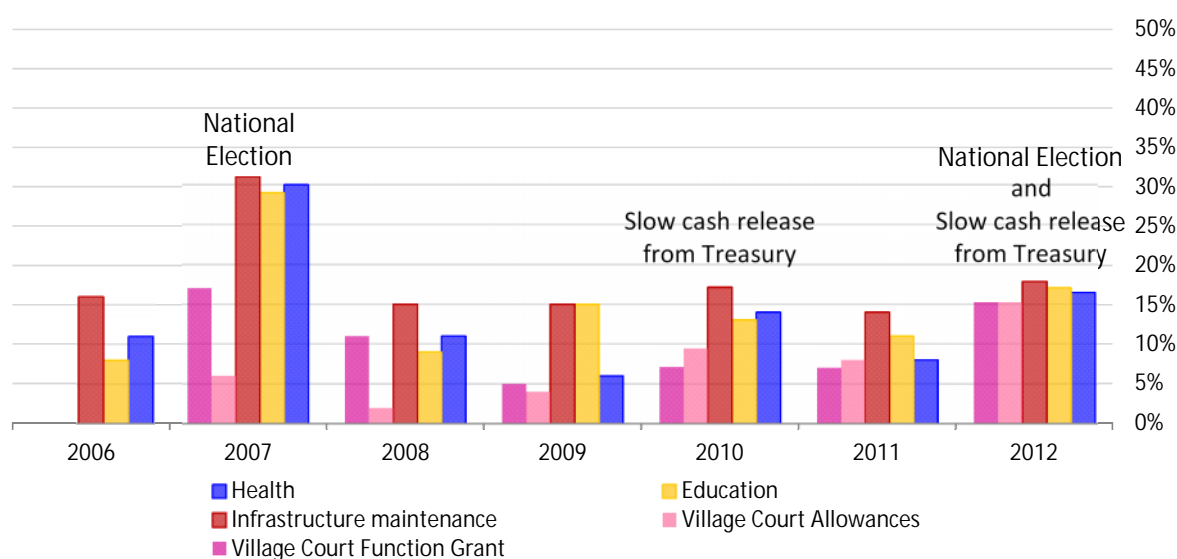
This matrix allows us to easily review the findings of the PER by province (by viewing results vertically) and by sector (by viewing results horizontally). When reading the matrix, remember that provinces are ordered by their performance not by their fiscal capacity. So the provinces that have performed the best according to the criteria are at the left of the matrix and vice versa. More broadly, we can use the findings of the matrix to answer a series of pertinent questions.

Absorbing a lot of quantitative information is difficult. To make this easier, the matrix typically groups the results in to three groupings that can be described as good, average, and poor. These measures are set within the operating context.

Assessment Level	Score descriptions
This indicates a good result	High Good Up
This indicates a mixed yet somewhat positive result	Average Steady
This indicates a poor result	Low Not Good Limited Down Fail

Did provinces use the additional function grant funding they received under RIGFA in 2012? Or did they struggle to spend the additional money?

No.25. Graph on Unspent Function Grant Percentages from 2005 to 2012



- In 2012 we see under-spending levels increase due, in part but significantly, to slow and late cash release from the Department of Treasury.
- The infrastructure maintenance function grant remains as the sector with the highest level of under-spending.
- We can be pleased that spending by provinces did not fall away as it did in the last election year, 2007.

Were the grants spent on the purposes intended?

	Year	Health	Education	Primary Production	Infrastructure maintenance	Village Court Function Grant	Village Court Allowances
Average Nature Test	2012	Average	Average	Average	Average	Average	Good
	2011	Average	Average		Good	Good	Good
	2010	Good	Average		Average	Good	Good
	2009	Average	Average		Average	Good	Good
	2008	Good	Average		Average	Good	Good
	2007	Average	Average		Average	Average	Good
	2006	Average	Good		Average	introduced 2007	
	2005	Average	Average		Average	n.a.	

- Overall spending of the function grants in health, education, infrastructure maintenance, primary production, and village courts generally appeared in keeping with intention of grants with some areas that were questionable or uncertain.
- Other strategies that involve a timely feedback loop, technical guidance and visibility of results are needed to drive improvements and to ensure that more provinces achieve and maintain a 'good' score in the nature of spending.
- There is opportunity for a variety of actors to participate in this role. Internationally the Office of the Auditor-General often carries out performance audits in some form. The Department of Provincial and Local Level Government has a statutory mandate to report performance (under s.119). National line agencies (the Departments of Health, Education, Works, Transport and Agriculture and the Fisheries Authority) have the key role in providing technical guidance and oversight on performance within their own sectors. Civil society actors can synthesise results and stimulate understanding and awareness at the community level.
- What we need is a convergence of these monitoring-to-engagement activities to drive further gains and to ensure that the deeper more intractable problems are identified and addressed. And then to see regenerated performance sustained.

Do some provinces still spend their health grant on casual wages?

No Salaries Test	2012	2	} number of provinces who fail test
	2011	2	
	2010	2	
	2009	6	
	2008	5	
	2007	4	
	2006	11	
	2005	10	

- The number of provinces spending the health function grant on casual wages dropped in 2007 and moved even lower in 2010-11. This is another very positive result. The number has reduced from 11 to 2 – this is very encouraging and will help ensure that recurrent funding is available to support staff engaged in the delivery of services.

Are we spending to capacity on priority sectors?

		Health	Education	Infrastructure Maintenance	Agriculture	Fisheries	Village Court Function Grant	Village Court Allowances
Average Spending Performance Level	2012	Medium	Medium	Medium	Medium	Medium	High	High
	2011	Medium	Medium	Medium	Medium		High	High
	2010	Medium	Medium	Medium	Medium		High	High
	2009	Medium	Medium	Low	Medium		High	High
	2008	Medium	Medium	Low	Medium		High	High
	2007	Low	Medium	Low	Medium		High	High
	2006	Low	Medium	Low	Medium		introduced 2007	High
	2005	Low	High	Medium	Medium		n.a.	High
Spending Trend	2012	Up	Steady	Up	Up	Up	Up	Up
	2011	Up	Up	Up	Up		Up	Up
	2010	Up	Up	Up	Steady		Up	Up
	2009	Up	Up	Steady	Up		Steady	Steady
	2007/8	Up	Up	Steady	Up		Down	Up
	2006/7	Steady	Steady	Steady	Steady		introduced 2007	Down
	2005/6	Steady	Steady	Steady	Steady		n.a.	Up

- Health: RIGFA has made an impact in this sector. **We can see the average spending levels trending upwards since 2008 causing an overall movement across the sector from 'low' to 'medium' that is being sustained.** This is very encouraging. 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: Whilst spending on education relative to what is required may have dipped a little since 2005 the kina spending is relatively steady. Historically education attracted the highest priority from provinces of the three large service sectors (the others being health and transport infrastructure) with some provinces prioritising the sector very highly. **In 2012, there are signs that provinces may be changing their level of prioritisation in education.**
- Infrastructure maintenance: Traditionally spending on routine maintenance has been low, however as with health RIGFA is making an impact with the increased funding reaching lower and medium funded provinces resulting in tangible signs of maintenance activities. **Since 2010 the average spending on transport infrastructure has been maintained at a 'medium' level - which is a very encouraging result.** A continued and increased commitment is critical given the high cost of maintaining transport infrastructure and the enormous cost of rehabilitation.
- Agriculture: Spending in agriculture continues to rate 'medium', but only just. It needs much more support.
- Fisheries: Spending on fisheries is now being tracked separately and rates 'medium', but again like agriculture, only just. Fisheries also needs better support.
- 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 News

- The tangible wins in seeing additional funding reaching the health and transport infrastructure sectors which has resulted in these historically poorly supported sectors receiving better support and moving from a 'low' score to a 'medium'.
- Generally kina spending levels are increasing year-on-year.
- Whilst under-spending has regressed in 2012 it has not reverted to the 2007 election year levels despite the vastly increased grants.
- Not only are funds being spent but they are being used properly and in their appropriate sectors. The MPA analysis (in section 4.6) provides additional analytical evidence of the levels of spending on key priority activities.

The Worst

- In most cases in 2012, higher funded provinces were outperformed by lower and medium funded provinces – this should not be the case.
- Central agencies play a key role in supporting provinces by releasing funds early and in a predictable pattern. This is not happening. In 2012 the release of funds to provinces was haphazard and late.
- After eight 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.

Each year the NEFC publishes a Trend Databook that collates the individual results for each province on an annual basis in an effort to communicate fiscal impediments to improving service delivery.

4.6 The Minimum Priority Activity Matrix

The MPA Matrix that follows illustrates how well provinces are supporting the Governments eleven minimum priority activities in education, health, primary production, transport infrastructure maintenance and village courts. Which sector MPAs are receiving the best support and which are receiving the worst?

The colours within the matrix illustrate the level achieved:

- The gold colour indicates a good level achieved
- The silver indicates a moderate level achieved (or uncertain)
- The white with the red font indicates the level is not good

The colours of the province names indicate their overall performance:

- The **blue** colour indicates a high level of compliance with the MPA regime
- The **red** colour indicates a low level of compliance with the MPA regime

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

<u>By Province:</u>	Follow down a column to see how each province performed in supporting MPAs
<u>By MPA:</u>	Follow across each row to form a picture of how provinces perform in supporting an MPA
<u>By Sector:</u>	Follow across a set of rows to form a picture of how provinces perform in supporting MPAs in a sector. Note big sectors (education, health and infrastructure) have three MPAs each, whilst primary production and village courts have one each.
<u>By Funding Group:</u>	Look at each funding group to see how each group performed – does more money lead to better performance?

No.26. The 2012 MPA Matrix - how well are provinces supporting the 11 MPAs?

This matrix has been prepared for the last three years, 2010-2012, to help us track the implementation and support of the MPA initiative. We want to see whether provinces are funding MPAs and to what level. The more adequate and visible the spending on these activities – the higher the probability that the activities themselves will then happen. Provinces are ordered by region to enable regional comparisons.

Minimum Priority Activities		EHP	Enga	SHP	Simbu	WHP	ESP	Madang	Morobe	Sandaun	Central	Gulf	MBP	Oro	Western	ENB	Manus	NIP	WNB
		Highlands Region					Momase Region				Southern Region				Islands Region				
Education	1. Provision of school materials	Vote	No vote	Vote	No vote	Vote	No vote	Vote	Vote	Vote	Vote	Vote	No vote	Vote	Vote	Vote	Direct	Exp	Vote
	2. Supervision by district/prov staff	Vote	Exp	Vote	Exp	Exp	Vote	Exp	Direct	Exp	Exp	Exp	Vote	Exp	Vote	Exp	Exp	Vote	Exp
	3. District education office op's	Exp	Direct	Exp	Exp	No vote	Exp	Exp	Exp	Vote	Exp	No vote	Direct	Vote	No vote	Exp	No vote	No vote	Direct
Health	1. Rural health facility op costs	Vote	Vote	Vote	Vote	No vote	Vote	No vote	Vote	Vote	Vote	No vote	Direct	Vote	Vote	Exp	Vote	Vote	No vote
	2. Integrated health patrols	Exp	Vote	Vote	Vote	Vote	Vote	Vote	Vote	Vote	Exp	Exp	Direct	Vote	Vote	Vote	Exp	Exp	Exp
	3. Medical supply distribution	Exp	Exp	Exp	Vote	Exp	Exp	Exp	Vote	Vote	Exp	Exp	Direct	Vote	Vote	Exp	Exp	Vote	Exp
Transport Infrastructure	1. Road & Bridge maintenance	Vote	Vote	Exp	Vote	Vote	Vote	Exp	Vote	Vote	Exp	Vote	Exp	Exp	Vote	Vote	Vote	Exp	Exp
	2. Airstrip maintenance	Exp	Vote	No vote	Exp	Vote	Vote	Exp	Vote	Vote	Exp	Exp	Exp	Vote	No vote	Vote	Exp	No vote	Exp
	3. Wharf & Jetty maintenance						Exp	Exp	Exp	Exp	No vote	No vote	Vote	Exp	Vote	Exp	Exp	Vote	Exp
Primary Prod'n.	Agriculture Extension Services	Vote	Vote	Vote	Vote	Vote	Vote	Vote	Vote	Vote	Vote	Vote	Vote	Vote	Vote	Exp	Vote	Vote	Vote
	Fisheries Extension Services						Vote	Vote	No vote	Vote	Vote	Vote	Vote	Vote	No vote	Vote	Exp	Vote	Vote
VC	Operational materials	Exp	Exp	Exp	Exp	Exp	Exp	Exp	Exp	Exp	Vote	Exp	Exp	Exp	Exp	Exp	Vote	Exp	Exp
Vote with reasonable exp / or Direct to facility level		5	4	4	4	3	4	7	4	3	6	5	7	4	1	7	7	4	8
Vote (low exp)		5	5	5	5	5	7	4	7	9	5	4	4	8	8	5	4	6	3
No vote		0	1	1	1	2	1	1	1	0	1	3	1	0	3	0	0	2	1
Key																			
Vote with reasonable exp		Exp	A vote was identified in the Chart of Account and expenditure was made. 'Reasonable' considers both cost of services estimate & fiscal capacity.																
Direct to facility level		Direct	No clear vote identified - but expenditure (or a transfer) was made to either the facility level or district/LLG level which may cover this MPA.																
Vote (low exp)		Vote	A vote was identified in the Chart of Account and a low amount of exp was made. 'Low' considers both cost of services estimate & fiscal capacity.																
No vote		No vote	No clear vote identified.																
Not applicable			The criteria does not apply to the province																

Overall, did we see improving support for the minimum priority activities in 2012 being the fourth year of RIGFA implementation?

The answer would be yes each year the compliance with the MPA initiative has grown.

- In 2012 91% of MPAs across all provinces had an identifiable vote and expenditure against it. We are seeing incremental improvement year-on-year, from 79% in 2010 to 83% in 2011 to 91% in 2012.
- We see 43% of MPAs had a reasonable amount of expenditure, and a further 48% had some expenditure but low relative to the provinces fiscal base (i.e. they had the capacity to spend more).
- In 2012 we see a marked reduction (i.e. an improvement) in the number of instances where an MPA had no vote (or expenditure) against it. There were 19 'no votes' in 2012 a large decrease on the 2011 level of 33, and half the 40 such instances in 2010.
- West New Britain continues to be a notable achiever in supporting MPAs. In 2010 their compliance with the MPA regime was poor but in 2011 and again in 2012 they are one of the best complying provinces.
- Whilst you can assess compliance in a variety of ways overall West New Britain, East New Britain, Milne Bay, Manus and Madang were the better performing provinces.
- Three provinces, Morobe, West New Britain and Eastern Highlands, performed with merit in that they had identifiable votes in all MPAs.

Which provinces did not show support for the minimum priority activities?

There is opportunity for all provinces to improve their support for certain minimum priority activities. However strong improvement is particularly necessary in the following seven provinces.

- Western Province needs to allocate and spend more reasonable amounts on MPAs.
- Six provinces underfund six or more MPAs being Western, Morobe, New Ireland, Oro, East Sepik and Sandaun.

These 4 MPAs need more focus in future budgets to achieve clearer budget vote identification.

Minimum Priority Activity	Provinces still not identifying a vote in their budget
Provision of School Materials	Enga Milne Bay East Sepik Simbu
District Education Office Operations	Gulf Western Highlands Western New Ireland
Rural Health Facility Operations	Gulf Western Highlands West New Britain Madang
Airstrip Maintenance	Southern Highlands Western New Ireland

These 5 MPAs require more funding to be allocated to the budget votes.

Minimum Priority Activity
Provision of School Materials
Rural Health Facility Operations
Integrated Health Patrols
Road & Bridge Maintenance
Agriculture and Fisheries Extension

PERFORMANCE BY SECTOR

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

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

- 5. Education**
- 6. Health**
- 7. Infrastructure**
- 8. Primary Production, Agriculture and Fisheries**
- 9. Village Courts, Operations and Allowances**
- 10. Administration**

5 Education Focus

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

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 Funding Streams for Education in the Provinces

Funding for sub-national education comes from a variety of sources. The three major sources of funding available to fund basic services at the sub-national level are:

- Education Function Grants to Provinces (K59.4 million appropriation, 2012)
- Provincial Internal Revenue (K11 million spent, 2012)
- National Subsidies Direct to Schools (K302 million appropriation, 2012 and K652 million in 2013).¹⁷ The Government’s free education policy has been extended up to Year 12 students thereby removing parental fees as a core pillar of funding for schools.

5.3 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).

MPA 1: 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 partly 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.

¹⁷ The quantum of national subsidy paid directly to schools has grown considerably since 2010 as government seeks to expand its policy of ‘free education’. There is a growing need to clarify functional and funding responsibilities to promote a clear understanding of what the various funding streams should pay for.

MPA 2: 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.

MPA 3: Operation of district education offices

Staff that are 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.

Are Minimum Priority Activities in Education being prioritised?

Explanation: Each year the NEFC conducts analysis of each provinces spending and seeks to identify what expenditure they made against each minimum priority activity. If a province has a clear vote for an MPA and has allocated an appropriate amount against that vote it is classified as 'Exp.'. If there is a vote but the expenditure is inadequate it is recorded as 'Vote'. If there is a vote that records a transfer of funds to a lower level that might include spending on the MPA but it is unclear it is recorded as 'Direct'. And finally if there is no vote, it is recorded as 'No Vote'.

Table: Evidence of Support for MPAs in Education

	Minimum Priority Activities	Exp	Direct	Vote	No vote
Education	1. Provision of school materials	1	1	12	4
	2. Supervision by district/prov staff	11	1	6	0
	3. District education office op's	8	3	2	4

We can observe:

MPA 1, Provision of School Materials: Overall this activity is poorly supported. In 2012 we can see that only 2 provinces spent appropriately on this MPA.¹⁸ Twelve provinces had identifiable votes but did not allocate suitable amounts.

Four provinces had no discrete vote; **Enga, Milne Bay, East Sepik and Simbu**.

MPA 2, Supervision Activities by District and Provincial Staff: Overall there is strong support for this activity with all provinces having identifiable spending and two-thirds of which is at appropriate amounts.

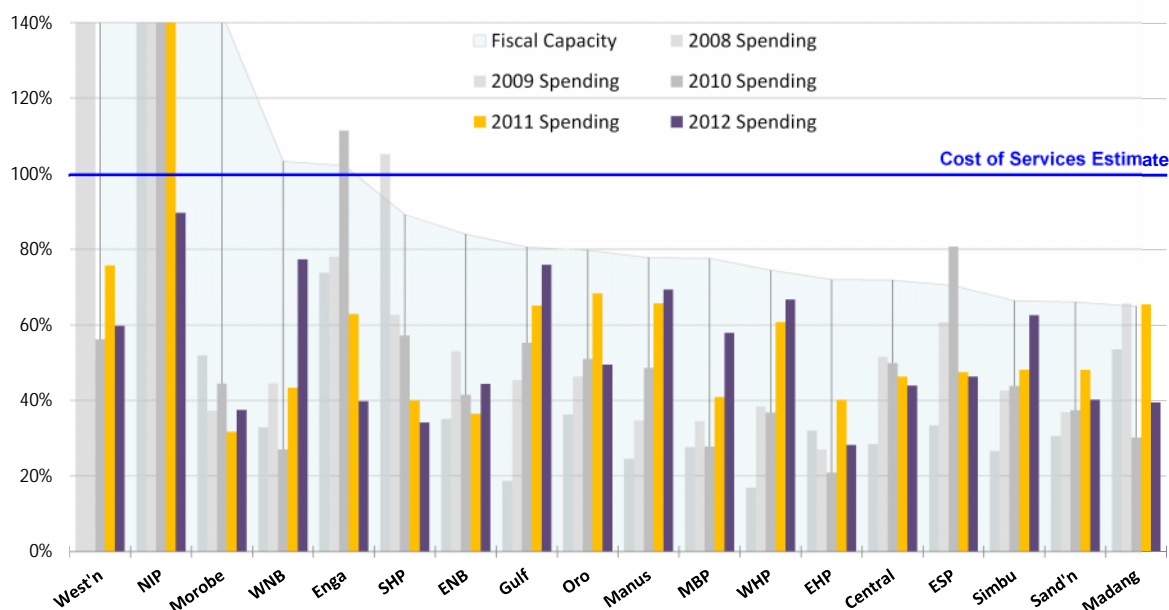
MPA 3, District Education Office Operations: Again, overall the picture is good with strong support. The one concern is the four provinces that have no identifiable vote for the activity; **Western, New Ireland, Gulf and Western Highlands**.

¹⁸ Of the two provinces that spent appropriate amounts, one funded the activity by sending money direct to schools.

5.4 Against the Benchmark: the 2008 to 2012 Trend

The following graph illustrates the 2008 to 2012 performance trend of each province – comparing expenditure against the cost of services estimate as a benchmark. We continue to observe greater volatility in the spending levels of higher funded provinces compared to lower funded provinces. Most provinces continue to fall below the minimum level of expenditure estimated to be required to deliver a basic education service (blue line).

No.27. Graph on Spending Performance on Education from 2008 to 2012



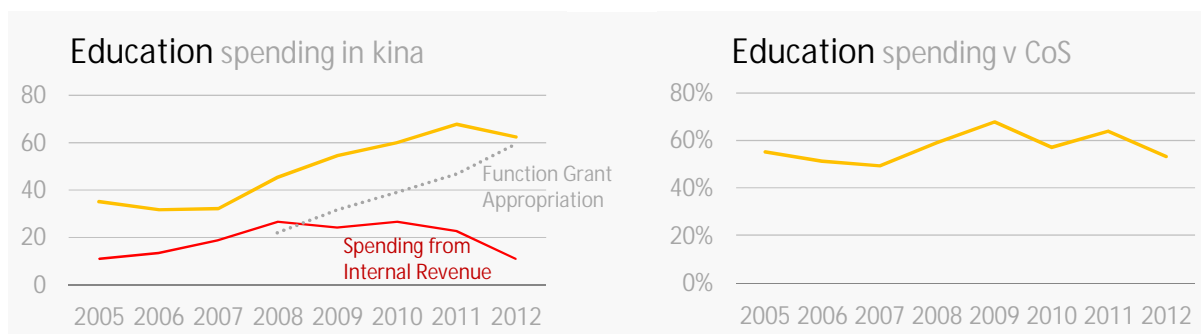
5.4.1 Performance Overview

- Education is no longer the best supported MTDS sector by provinces. In 2012 rural health enjoyed higher relative levels of funding support than education for the first time.
- Importantly RIGFA is making an impact. Education spending by the eleven lowest funded provinces has increased from only 30% in 2008 to 53% in 2012. This is encouraging and demonstrates that more education funding is reaching the provinces with the least.
- In 2012 there were no spending outliers. In previous years there is typically one or two of the higher funded provinces that spend big on education, but not in 2012.

There may be various explanations for this change. We know 2012 was an election year and that may influence provincial spending priorities. Or perhaps the national government's implementation of a free education policy may be having an unintended substitution effect on provincial priorities, whereby provincial governments who previously funded schools directly redirect this internal revenue to other purposes. The higher funded provinces of Western, New Ireland and Enga may be examples of this.

- Five provinces spent close to capacity and two others improved significantly. Gulf, Manus, Western Highlands, New Ireland and Simbu spent close to their fiscal capacity indicating their commitment to funding education. Two other provinces, Milne Bay and West New Britain, improved significantly.
- Some provinces appear to have much room to improve. These provinces include Western, Morobe, Southern Highlands, Enga, East New Britain, Eastern Highlands and Oro.

- Tertiary, Capital & Projects: In 2012 nine provinces spent more than K1 million on tertiary, capital and projects.



Observations on the charts above:

- Spending on education dipped in 2012. The yellow line in the chart above to the left illustrates that in kina terms the level of spending in 2012 decreased from a high of K67 million in 2011 to K62 million in 2012. This is mainly due to declining spending from internal revenue (see the red line).

However we can also see that RIGFA with rising education function grants has fuelled the increase in spending by provinces in education since 2009.

- Spending does not always keep pace with the increase in underlying costs. Each year the cost of delivering the same set of services increases due to inflation (rising prices) and population growth (more students to educate). The chart to the right illustrates that overall spending when compared to estimated costs continues to bounce above and below the 60% mark. This means overall, provinces spend about 60% of what is believed necessary to deliver a basic level of education.

As always, we note that 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 2008 to 2012 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.

5.4.2 Spending on Education from 2005 to 2012

Overall, the spending trend in education between 2005 and 2012 has seen a significant increase in the amount spent in this space as we see the full implementation of RIGFA. The targeted funding provided under RIGFA has provided funding to those provinces with a fiscal need.

Table: Recurrent Spending on Education from 2005 to 2012 (millions)

Recurrent G&S	2005	2006	2007	2008	2009	2010	2011	2012
Recurrent	34.9	31.5	32.0	45.4	54.4	60.1	67.8	62.4
annual % change		-10%	2%	42%	20%	10%	13%	-8%

- Eight provinces increased their (kina) spending on education between 2011 and 2012 whilst 13 provinces have a generally positive upward trend of increasing spending over the five year period.
- Overall, recurrent spending on education decreased by 8% (from K67 million to K62 million) between 2011 and 2012. This is due to the decrease in sector support from provinces with higher streams of internal revenue.

- There are no high spending outliers in 2012.

5.4.3 Spending from Internal Revenue

We can observe an interesting phenomena taking place between 2005 and 2012 in education. Spending rose between 2005 and 2008, plateaued until 2010-11, and has now declined.

Table: Recurrent Spending from Internal Revenue on Education from 2005 to 2012 (millions)

Recurrent G&S Int. Rev.	2005	2006	2007	2008	2009	2010	2011	2012
Recurrent (Grant & IR)	10.7	13.6	18.8	26.7	24.1	26.4	22.6	11.1
annual % change		27%	38%	42%	-10%	10%	-14%	-51%

- Recurrent operational spending on education from internal revenue has declined markedly (K11 million or 18% of all education goods and service spending) and is now at 2005 levels.
- Predictably this spending was highest in those provinces with higher levels of internal revenue as well as Enga and Western Highlands.

5.4.4 Spending in comparison to fiscal capacity

- Education is no longer the best supported MTDS sector in terms of provincial spending priorities.
- When we adjust for the differences in fiscal capacity, provinces in the lower funded group continue to outperform better funded provinces. This suggests that provinces with access to higher levels of internal revenue need to allocate more to operational costs in education – this need became more pronounced in 2012 with declining support from the provincial internal revenue budgets for education.
- A high spending level was achieved by only five provinces. Of the higher funded provinces only one, New Ireland, prioritised funding toward education. Of the medium and lower funded provinces only four, down from six in 2011, achieved a high spending level relative to their capacity to spend –there were Manus, Simbu, Western Highlands and Gulf.
- Three provinces performed very poorly relative to its fiscal capacity. Morobe, Southern Highlands and Eastern Highlands.

5.5 Education Data Table

Education Sector: 2008 to 2012 (recurrent spending)															
	Province	Cost of Services Estimate	2008 Exp.	2009 Exp.	2010 Exp.	2011 Exp.	2012 Exp.	% Change Versus Average	Spending Trend	2012 Internal Revenue Expenditure	Capital, Projects & Tertiary Exp.	Spending Level Achieved Versus Cost of Services Est.		Function Grant % Unspent	Function Grant Exp. Nature
		(Kina millions)	5 year G&S expenditure time series					%		% of total exp	2012	2011	2012	2012	
Provinces with higher funding & higher internal revenue	West'n	7.559	9.405	8.027	3.839	5.671	4.517	-33%	Down	46%	3.290	Medium	Medium	46%	Average
	NIP	4.145	6.568	9.311	10.514	10.803	3.716	-61%	Down	72%	1.448	High	High	25%	Good
	Morobe	13.135	3.875	3.289	4.901	3.831	4.929	25%	Up	53%	7.833	Low	Low	4%	Good
	WNB	5.622	1.398	2.104	1.585	2.788	4.346	121%	Up	6%	4.552	Medium	Medium	-10%	Average
	Enga	5.957	2.794	3.263	5.709	3.531	2.369	-39%	Down	47%	8.841	Medium	Low	4%	Average
Black - mixed dependency	SHP	10.133	6.486	4.313	4.945	3.787	3.462	-30%	Down	18%	10.200	Medium	Low	13%	Average
	ENB	6.730	1.664	2.764	2.659	2.561	2.984	24%	Up	4%	-	Medium	Medium	9%	Good
	Gulf	3.231	0.435	1.159	1.724	2.227	2.453	77%	Up	-	0.335	High	High	8%	Average
	Oro	3.217	0.790	1.110	1.519	2.229	1.591	13%	Steady	-	-	High	Medium	0%	Good
	Manus	2.226	0.436	0.677	1.181	1.749	1.545	53%	Up	-	-	High	High	22%	Average
	MBP	6.267	1.275	1.748	1.742	2.798	3.628	92%	Up	0%	1.225	Medium	Medium	16%	Average
	WHP	10.453	1.088	2.729	3.208	5.803	6.975	118%	Up	22%	-	High	High	15%	Average
Blue - highly grant dependent	EHP	9.564	1.876	1.737	1.680	3.538	2.703	23%	Up	-	0.118	Medium	Low	56%	Average
	Central	6.767	1.285	2.553	3.085	3.138	2.974	19%	Up	0%	0.174	Medium	Medium	-2%	Good
	ESP	9.317	1.605	3.198	5.429	3.498	4.316	26%	Up	0%	1.381	Medium	Medium	34%	Average
	Simbu	6.223	1.178	2.066	2.656	3.190	3.893	72%	Up	2%	3.434	Medium	High	25%	Average
	Sand'n	7.023	1.343	1.779	2.190	3.087	2.827	35%	Up	-	0.183	High	Medium	31%	Average
	Madang	8.151	1.934	2.615	1.506	3.585	3.219	34%	Up	-	0.129	High	Medium	12%	Not Good
All Provinces		125.721	45.437	54.441	60.069	67.812	62.447	10%	Steady	11.118	43.143				
(a)								(b)							
The highest spending year in Kina								Key							
								above 15%	above 25%	above K0.35m	above 80%	below 5%	Good		
								in-between			in-between	in-between	Average		
								below -15%			below 40%	above 10%	Not Good		

(a) Includes grant & internal revenue expenditure.

(b) Capital & Projects - includes all spending recorded in provincial PGAS database

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

5.5.1 PGAS Item Coding Analysis

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

No.28. Table Analysing All Education Spending in 2012¹⁹

The 5 Largest Spending Areas (by item)				The Split by Category		
Item #	Item Description	Amount	%	Category Description	Amount	%
135	Other Operational Expenses	37,093,875	28%	Recurrent Goods & Services	62,447,331	48%
114	Leave Fares	24,505,243	19%	Staff-related costs (PE)	24,826,411	19%
225	Construction, Renovation....	16,056,566	12%	Capital & Projects	43,142,638	33%
143	Grants and Transfers	13,720,086	11%			
128	Routine Maintenance	5,285,098	4%			
	<i>all other codes</i>	33,755,511	26%			
	Total spending from recurrent & capital	130,416,380	100%	Total spending from recurrent & capital	130,416,380	100%

The table above shows us that:

- In 2012 the single largest expenditure item continues to be 'other operational expenses' which decreased in kina terms by K2 million but increased as a proportion from 26% to 28% between 2011 and 2012. As we know this item 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
- Teachers leave fares continues to receive high funding – 19% of all spending goes on teachers leave fares. In addition, our analysis over the five years has shown instances of provinces paying teacher leave fares from other codes (such as other operational expenses) – if this occurred in 2012 this would make the 19% even higher. In Kina terms TLF continues to increase year by year.
- 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 (items 143 and 242) have declined significantly to 13% (from 17% in 2011).
- At 48% just under half of the spending was on recurrent goods & services – the other 52% of education spending was split between teachers leave fares, capital costs and tertiary funding.

¹⁹ These amounts include spending from both national grants and internal revenue on goods and services, personnel emoluments and capital and development. But not spending from; PIP and SSG funds, tertiary costs that could be clearly identified, and not teachers salaries.

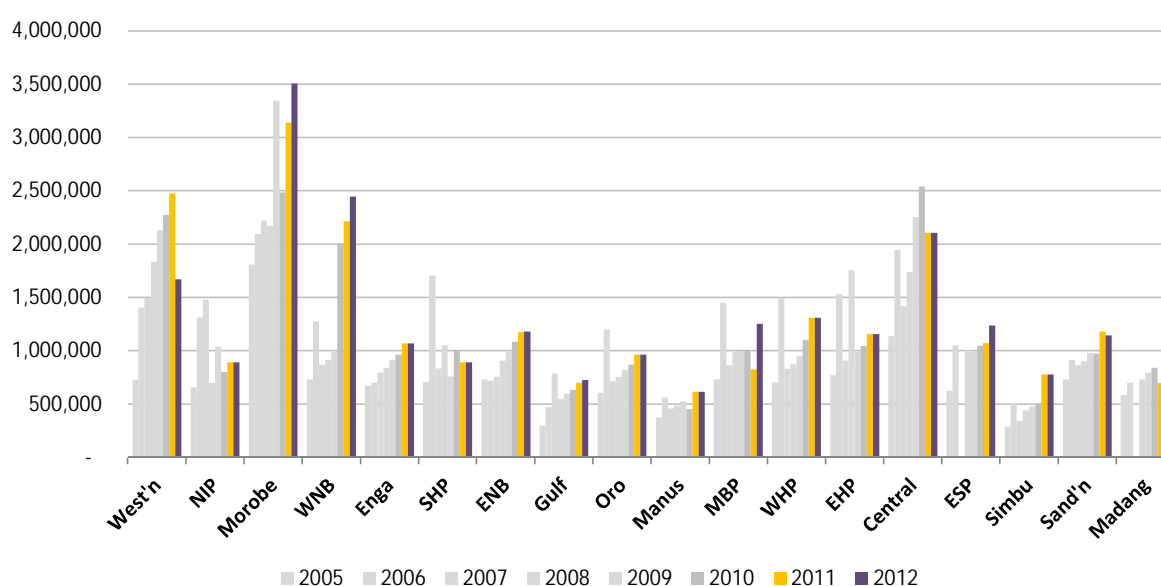
5.6 Drilling Down: Teacher Leave Fares

5.6.1 Overview

For the eight consecutive year we continue to focus on teacher leave fares. We know that teachers leave fares is one of the single biggest spending areas in education - as such 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 2012 continues the trend of increasing spending levels on teacher leave fares.

No.29. Graph of Expenditure on Teacher Leave Fares from 2005 to 2012



5.6.2 Spending between 2005 and 2012

- Overall spending levels have almost doubled moving from K13 million in 2005 to K24 million in 2012.

Table: Spending on Teacher Leave Fares from 2005 to 2012

Teachers Leave fares	2005	2006	2007	2008	2009	2010	2011	2012
Kina millions	12.9	21.0	15.6	18.7	20.5	21.6	23.3	23.8
% change		63%	-26%	19%	10%	5%	7%	2%

- Why does West New Britain, a relatively small province, spend so much on TLF?
- Two provinces, Western and Morobe, continue to make significant teacher leave fare payments from their internal revenue (K1.5 million and K1.1 million respectively).
- Four provinces appear to spend a lot on teacher leave fares relative to the number of teachers in the province.²⁰ These provinces are: Oro, Gulf, Central and West New Britain.

²⁰ This uses teacher numbers from the 2005 cost of services study as a base.

6 Rural 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**”

6.1 Health in the Provinces²¹

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 staff and community health workers.²² But the community health workers need the ‘other resources’ that provincial administrations are required to provide to carry out the day to day activities involved in healthcare. These include getting the medical supplies to the health facilities, funding the rural health outreach patrols that implement health programs, paying for patient transfers and maintaining health facilities. Without these elements healthcare does not happen.

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

6.2 Funding Streams for Rural Health Services in the Provinces

The advent of the PHA initiative presents Papua New Guinea with a dual modality of rural health service delivery management. The traditional approach has seen rural health services managed by the Provincial Administrations whilst the new approach will see rural health services subsumed under new entities named Provincial Health Authorities (PHA). The funding streams under the two approaches can be summarised as follows:

Traditional Structure | Under Provincial Administration Management

- Health Function Grants to Provinces (K64.3 million appropriation, 2012)
- Provincial Internal Revenue (K7.7 million spent, 2012)
- Church Health Services Operational Grants (K19.5 million, 2012)²³
- Health Services Improvement Program [HSIP]²⁴

²¹ Reference to health in this chapter includes costs and expenditure related specifically to HIV AIDS.

²² There are provinces meeting costs relating to community health workers.

²³ Church Health Services Operational Grants are paid to Church Health Service providers not to provincial administrations.

²⁴ The HSIP SWAp mechanism was reviewed and redesigned in 2011/2012 after many years of operation and has become a significant contributor of funding for recurrent operational purposes. The new design modality is currently being introduced.

Provincial Health Authorities

- Funding streams for rural health will need to be clarified on a case-by-case basis.
- Pre-existing tagged funding streams from the health function grant and from HSIP (when it recommences) may be available subject to the agreement reached at the local level and subject to Department of Treasury disbursement requirements.
- Each PHA will need to bid for any funding it requires from provincial internal revenue and will be subject to the local budget decision-making process.
- It is unclear what additional funding streams, if any, have been created and allocated specifically to meet any increased operational costs due to the newly created PHA structures. **This heightens the risk of service delivery funding being diverted to meet administrative costs.**
- Relevant to note that the PHA is not directly accountable to the provincial administration but rather it has a reporting line to the Minister of Health. The intention is that the PHA is responsible for both the provincial hospital and for rural health services within the province.

6.3 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 if basic drugs and medical supplies are not available which is why funding for the distribution of drugs and medical supplies was selected as an MPA.

MPA 1: 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.

MPA 2: 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.

MPA 3: 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.

Are Minimum Priority Activities in Rural Health being prioritised?

Explanation: Each year the NEFC conducts analysis of each provinces spending and seeks to identify what expenditure they made against each minimum priority activity. If a province has a clear vote for an MPA and has allocated an appropriate amount against that vote it is classified as 'Exp.'. If there is a vote but the expenditure is inadequate it is recorded as 'Vote'. If there is a vote that records a transfer of funds to a lower level that might include spending on the MPA but it is unclear it is recorded as 'Direct'. And finally if there is no vote, it is recorded as 'No Vote'.

Table: Evidence of Support for MPAs in Health

	Minimum Priority Activities	Exp	Direct	Vote	No vote
Health	1. Rural health facility op costs	1	1	12	4
	2. Integrated health patrols	6	1	11	0
	3. Medical supply distribution	11	1	6	0

We can observe:

MPA 1, Rural Health Facility Operational Costs: Overall this activity is poorly supported. In 2012 we can see that only 2 provinces spent appropriately on this MPA.²⁵ Twelve provinces had identifiable votes but did not allocate suitable amounts.

Four provinces had no discrete vote; **West New Britain, Gulf, Western Highlands and Madang**.

MPA 2, Integrated Health Patrols: Overall there is support for this activity with all provinces having identifiable spending and one-third of which is at appropriate amounts. However there is a need for the other two-thirds of provinces to increase their funding for this activity.

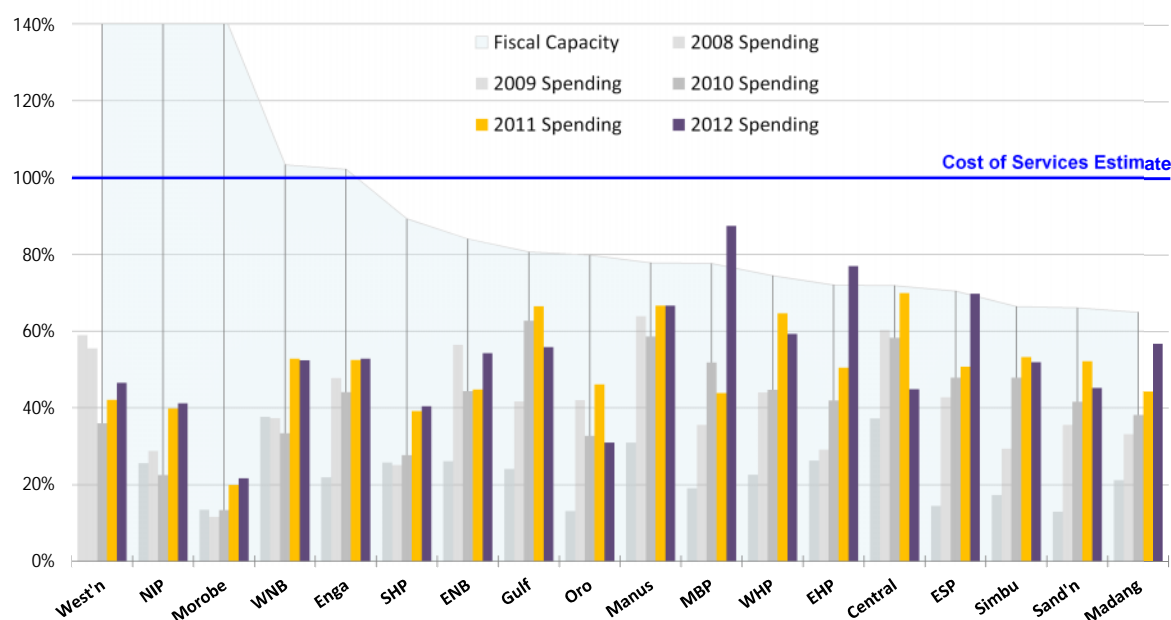
MPA 3, Medical Supply Distribution: Overall there is strong support for this activity with all provinces having identifiable spending and two-thirds of which is at appropriate amounts.

²⁵ Of the two provinces that spent appropriate amounts, one funded the activity by sending money direct to the PHA.

6.4 Against the Benchmark: the 2008 to 2012 trend

The following graph illustrates the 2008 to 2012 expenditure performance in health of each province using the cost of services estimate as a benchmark.

No.30. Graph on Spending Performance in Health from 2008 to 2012 (not including donor funds)



6.4.1 Performance Overview

- In 2012 Rural Health became the best supported MTDS sector by provinces. This is a major funding transformation from the dark days of 2005.
- Spending increased markedly for the fifth year in a row. It is encouraging to note the strong spending performance of almost all medium and lower funded provinces indicating provinces are able to spend the increased funding. Most medium and lower funded provinces are spending close to capacity.
- Thirteen of the eighteen provinces increased their health spending in 2012 whilst four others maintained their level. Only one province, Oro, declined in any significant sense.

Eleven provinces spent 50% or more of rural health, with 3 of those exceeding 70%.

- Sixteen of the eighteen provinces have maintained discipline and have not spent function grant funds on casual wages. The provinces who did spend in this area in 2012 in breach of Department of Treasury guidelines are Gulf and Southern Highlands.

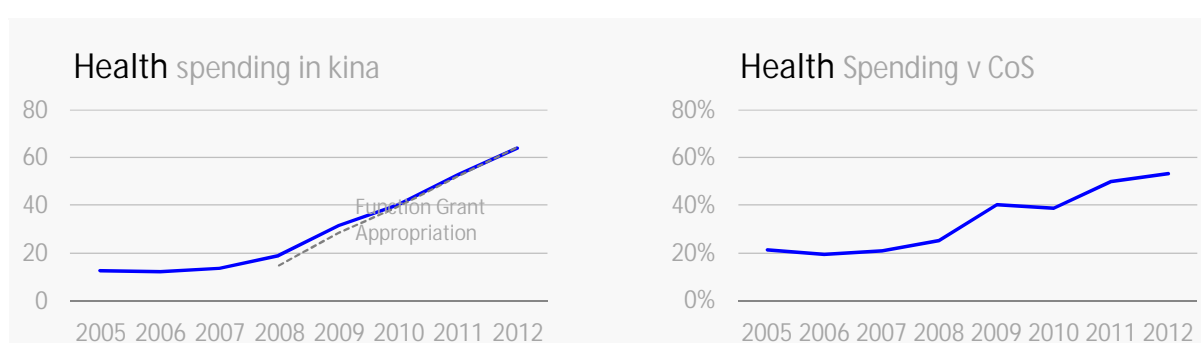
Rural health workers need the operational grant funding to implement their service delivery programs.

- As stated in the 2011 PER, spending under the HSIP SWAp mechanism diminished significantly in 2011 and 2012 as the program went through a review and redesign process.

Observations on the following charts:

- Spending on rural health continues to rise in 2012. The blue line in the chart above to the left illustrates that in kina terms the level of spending in 2012 rose to a new high of K64 million in 2012 up 23% from K52 million in 2011. This steady increase is due to the health function grant – note the almost perfect correlation between the solid blue line and the dotted grey line (being the function grant appropriation).
- The increase in spending is outpacing the increase in costs. Each year the cost of delivering the same set of services increases due to inflation (rising prices) and population growth (meaning more patients using rural health services).

The chart below and to the right illustrates that overall spending when compared to estimated costs continues to rise despite the increases in costs. This means overall, provinces now spend about 53% of what is believed necessary to deliver a basic level of education. This is a massive improvement when compared to the levels of spending in rural health in earlier years (i.e. the late 1990's and much of the 2000's)



The health data table (section 6.5) provides a snapshot of health expenditure data for the period 2008 to 2012 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.

6.4.2 Spending between 2005 and 2012

Overall, the spending trend in health between 2005 and 2012 has seen a significant increase in the amount spent in this space as we see 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.

Table: Recurrent Spending on Health from 2005 to 2012 (millions)

Recurrent G&S	2005	2006	2007	2008	2009	2010	2011	2012
Recurrent	12.7	12.0	13.7	18.7	31.3	40.3	52.9	64.0
annual % change		-6%	14%	37%	68%	29%	31%	21%

- In 2005 total recurrent spending on rural health was only K12 million. The rural health service delivery mechanism at the sub-national level was being starved of funding.
- With the full implementation of RIGFA in 2009 that K12 million had risen to K31 million and then to K64 million in the 2012 fiscal year. This additional funding gives the sector an opportunity to recommence vital service delivery activities.

6.4.3 Spending from Internal Revenue

- Health spending from internal revenue was K7.7 million down slightly on the 2011 level of K8.4 million. The K7.7 million represents 12% of the total recurrent spending.

- Only Western Province contributes a truly significant sum of internal revenue toward its rural health service. In 2012 Western Province spent K3.8 million on rural health from internal revenue representing about 43% of the cost estimated necessary to support rural health in the province.
- Southern Highlands (K1.3 million) and Morobe (K0.9 million) also made notable allocations, although relative to what they can afford and to what they need to spend these amounts are quite inadequate.

6.4.4 Spending in comparison to fiscal capacity

- In 2012 we see a continuation of the marked improvement in rural health spending. The rural health sector is today much better supported than before the implementation of RIGFA. In 2012 there is sustained improvement in the spending performance of medium and lower funded provinces. RIGFA is clearly having a tangible impact.
- We might even be seeing **green shoots of change** occurring with some higher funded provinces. Five of the six higher funded provinces have now moved from the low to the medium spending levels.
- Only Morobe lag behind, spending only a quarter of what is estimated necessary on rural health. Morobe, with its large widespread rural population, its significant urban centre and powerful commercial base has the opportunity to be a leader in rural service delivery and an example to all other provinces.

With these largely optimistic observations we must however remind ourselves that the challenge is now to ensure that this increased spending is being made in the right areas in support of the right activities.²⁶

²⁶ Analytic and research initiatives are currently progressing with the assistance of AusAID and the World Bank. The work is being led by GoPNG agencies (NDoH and NEFC) together with additional research expertise provided by the National Research Institute and the Australian National University.



The Need for Innovative Applied Research

Answering the “...yeah, but is it really happening?” question requires a mixture of research approaches. Gathering good data is hard work. So too is distilling the right messages. Yet we need the evidence and insight that good information provides.

Analytic and research initiatives are currently in progress that will help us to better understand whether the increased funding is getting to where it needs to go, and is helping us achieve the frontline outcomes the government is seeking in rural health.

When designing and conducting such research activities, and then in interpreting the results, we need to be mindful of the challenges we face. The regeneration of service delivery activities is a long-run game, progress is non-linear and will vary by location. The best research understands the realities and is in-tune with the operating environment.

Source: Picture from PEPE Budget Forum presentation, September 2013.

6.4.5 PGAS Item Coding Analysis

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

No.31. Table Analysing All Health Spending in 2012²⁷

The 5 Largest Spending Areas (by item)				The Split by Category		
Item #	Item Description	Amount	%	Category Description	Amount	%
135	Other Operational Expenses	24,197,508	33%	Recurrent Goods & Services	64,001,681	86%
143	Grants and Transfers	12,086,239	16%	Personnel Emoluments	2,692,946	4%
125	Transport and Fuel	5,876,715	8%	Capital & Projects	7,724,503	10%
121	Travel and Subsistence Exp's	5,755,112	8%			
128	Routine Maintenance	5,063,458	7%			
	<i>all other codes</i>	21,440,099	29%			
	Total spending from recurrent & capital	74,419,130	100%	Total spending from recurrent & capital	74,419,130	100%

We can see that:

- Item 135: 'Other operational expenses' which can include almost anything is the highest single spending item at K24.2 million or 33% of total health spending. Spending on this item has been increasing markedly for the last two years.

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.

- Item 143: This vote typically records funds transferred to another level of government, be it to a PHA, a district, a local level government or directly to a health facility. Four provinces transferred relatively large sums in both 2011 and 2012. Milne Bay and Western Highlands transfer funds under their PHA arrangements and East New Britain transfers funds to LLGs under its decentralised approach to public administration and service delivery. East Sepik also records funds as being transferred but the approach is less clear.
- Item 128: In 2012 routine maintenance appeared in the Top 5 rankings for the third consecutive year. Spending on routine maintenance in health is welcome and often supports an aspect of MPA 1 being the 'Operation of Rural Health Facilities'. Maintaining health facilities is a critical aspect of the NDoH policy of keeping the doors open.
- Travel items, 121 and 125: 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. Spending on travel allowance (item 121) and transport & fuel (item 125) each represents about 8% of spending in 2012 and is growing in kina and as a proportion of total spending. This is encouraging as spending on travel related activities is vital for rural service delivery.

²⁷ 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 does not include spending from HSIP, PIP and non-specified SSG funds, nor does it include doctors, nurses and health workers on the national payroll.

6.5 Health Data Table

Health Sector, including HIV/AIDS: 2008 to 2012 (recurrent spending)																
	Province	Cost of Services Estimate	2008 Exp.	2009 Exp.	2010 Exp.	2011 Exp.	2012 Exp.	% Change Versus Average	Spending Trend	2012 Internal Revenue Expenditure	Casual Wages	Capital & Projects Expend.	Spending Level Achieved Versus Cost of Services Est.		Function Grant % Unspent	Function Grant Exp. Nature
		(Kina millions)	5 year G&S expenditure time series						%		% of total exp	2012	2012	2011	2012	2012
Provinces with higher funding & higher internal revenue	West'n	8.789	3.266	3.412	2.664	3.411	4.086	29%	Up	93%	0.060	-	Medium	Medium	63%	Average
	NIP	4.498	0.786	0.974	0.918	1.780	1.852	67%	Up	31%	0.188	0.010	Low	Medium	32%	Average
	Morobe	12.057	0.919	0.875	1.229	2.002	2.614	109%	Up	36%	0.005	0.205	Low	Low	0%	Good
	WNB	5.143	1.488	1.638	1.760	3.052	2.695	36%	Up	8%	0.533	3.363	Medium	Medium	7%	Average
	Enga	6.221	0.809	1.948	2.168	2.824	3.289	70%	Up	6%	-	2.139	Medium	Medium	3%	Good
Black - mixed dependency	SHP	12.268	1.775	1.932	2.577	3.985	4.957	94%	Up	26%	0.409	0.184	Low	Medium	4%	Average
	ENB	5.151	0.856	2.033	1.897	2.099	2.793	63%	Up	4%	0.019	0.086	Medium	Medium	32%	Average
	Gulf	4.067	0.564	1.073	1.980	2.297	2.273	54%	Up	-	0.730	0.022	High	Medium	13%	Not Good
	Oro	4.200	0.345	1.219	1.168	1.804	1.299	15%	Steady	-	0.086	-	Medium	Low	1%	Good
	Manus	2.176	0.422	0.956	1.128	1.403	1.450	49%	Up	-	-	0.028	High	High	30%	Average
	MBP	7.328	1.074	2.200	3.819	3.540	6.400	141%	Up	-	-	-	Medium	High	0%	Average
	WHP	7.710	0.856	1.833	2.169	3.440	4.567	121%	Up	-	-	0.130	High	Medium	7%	Good
Blue - highly grant dependent	EHP	6.790	1.234	1.504	2.521	3.322	5.223	144%	Up	10%	0.188	0.120	Medium	High	2%	Good
	Central	6.800	1.074	1.909	2.330	3.063	3.050	46%	Up	3%	-	0.030	High	Medium	7%	Good
	ESP	8.693	0.953	3.077	4.669	5.422	6.059	72%	Up	-	-	-	High	High	33%	Average
	Simbu	5.660	0.553	1.025	1.980	2.411	2.935	97%	Up	0%	-	0.791	High	Medium	29%	Average
	Sand'n	7.271	0.600	1.813	2.591	3.560	3.282	54%	Up	-	-	0.478	High	Medium	25%	Average
	Madang	9.103	1.112	1.916	2.711	3.455	5.177	126%	Up	-	-	0.139	Medium	High	8%	Good
	All Provinces	123.923	18.685	31.336	40.280	52.871	64.001	79%	Up	7.729	2.216	7.725				
(a)																
(b)																
Key																
The highest spending year in Kina																
above 15%																
above 25%																
above K0.35m																
above K1.5m																
above 80%																
below 5%																
Good																
in-between																
in-between																
Average																
below -15%																
below 40%																
above 10%																
Not Good																

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

(b) Capital & Projects - includes all spending recorded in provincial PGAS database

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

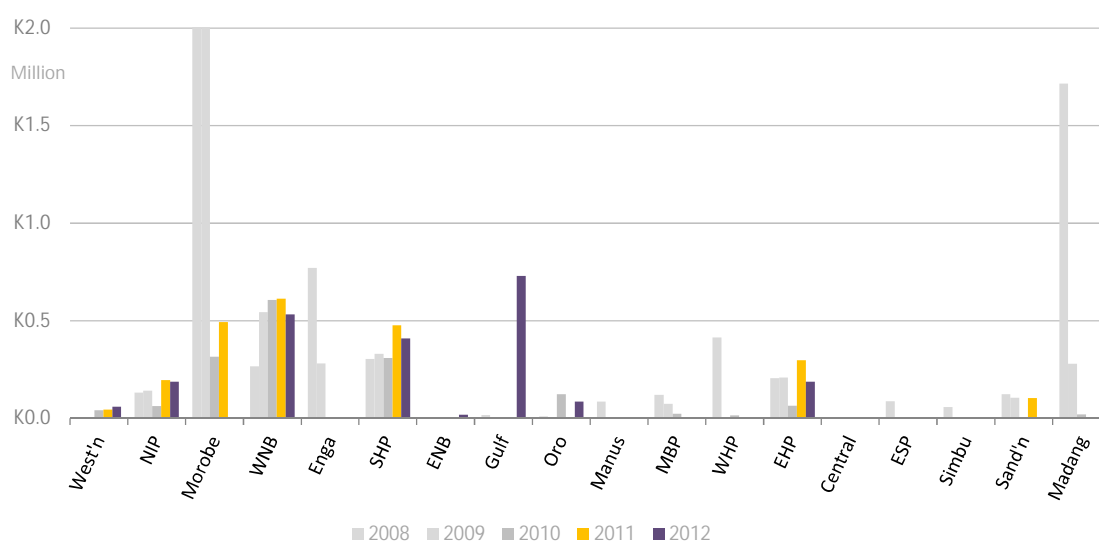
6.6 Drilling Down: Health Casual Wages

6.6.1 Overview

Spending on casual wages reduced significantly in 2010 and continues to remain at a low level in 2012. That said, a degree of vigilance is necessary as the desire to recruit (and pay) staff never disappears.

Why do we want to see spending on casual wages decrease? The payment of salaries and wages for rural health staff including community health workers is a national government responsibility. When provincial administrations meet that cost they are effectively removing goods and services funding that would otherwise be available for spending on such things as fuel that enables health patrols, childhood vaccinations, training for village birth attendants to help women during child birth and to assist transfer patients from district health centres to provincial hospitals for treatment.

No.32. Graph on Spending on Health Casual Wages from 2008 to 2012



6.6.2 Spending between 2006 and 2012

Table: Spending on Casual Wages in Rural Health from 2006 to 2012 (millions)

Health Casual Wages	2006	2007	2008	2009	2010	2011	2012
Kina millions	9.8	9.0	9.7	9.7	1.6	2.2	2.2
annual % change		-8%	8%	0%	-84%	38%	0%

- Overall spending on casual wages has decreased greatly between 2006 and 2012 moving from K9.8 million to K2.2 million.
- This is a significant and positive change in spending practices.
- Southern Highlands and Gulf both spent significant amounts of function grant funds on casual wages in 2012 which is in breach of Department of Treasury instructions.
- West New Britain's spending on casual wages was allocated and paid from the provincial internal revenue budget.

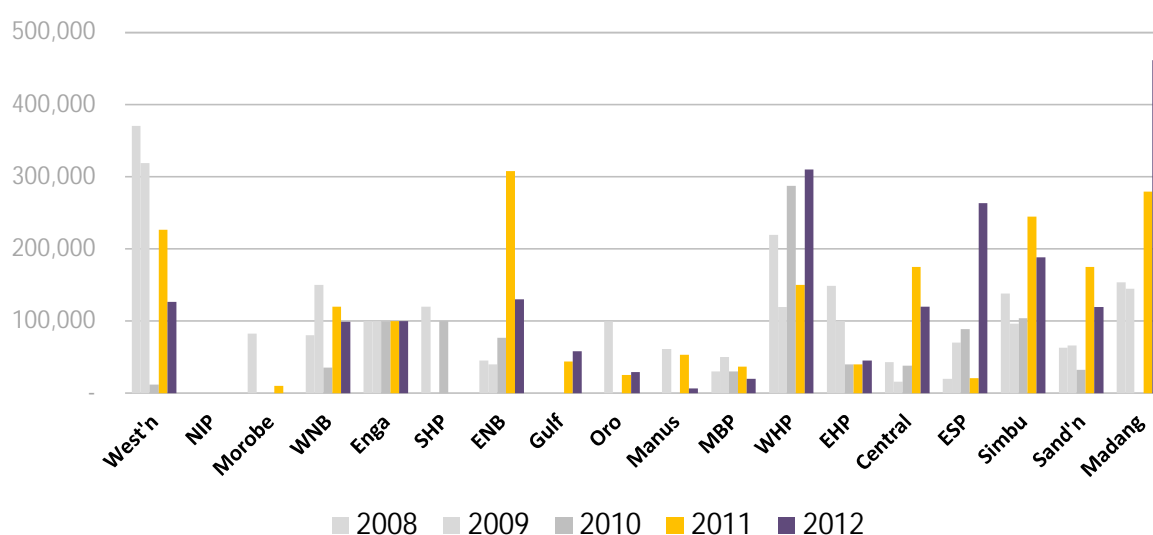
6.7 Drilling Down: Spending on HIV/AIDS

6.7.1 Overview

Since the 2007 review we have included spending on HIV/AIDS within the health spending totals. In this edition we again drill down to identify spending on HIV/AIDS to see 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.

No.33. Graph on Spending on HIV/AIDS from 2008 to 2012



We can see that:

- Specific spending on HIV/AIDS increased slightly in 2012 although it's still at a relatively modest level.

Table: Spending on HIV/AIDS from 2007 to 2012 (millions)

HIV/AIDS	2007	2008	2009	2010	2011	2012
Kina millions	1.4	1.6	1.4	1.1	2.0	2.1
annual % change		17%	-11%	-21%	78%	3%

- Ten provinces now spend K100,000 or more.
- Twelve provinces have allocated something to HIV/AIDS in all or most years.

HIV/AIDS

All provinces need to allocate more money to support targeted activities that help in preventing the spread of HIV/AIDS. While 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 but 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 country's road network.

7.2 Funding Streams for Infrastructure Maintenance in the Provinces

Funding for sub-national education comes from a variety of sources. The two major sources of funding available to fund basic services at the sub-national level are:

- Transport Infrastructure Maintenance Function Grants to Provinces (K75.9 million appropriation, 2012)
- Provincial Internal Revenue (K19.2 million spent, 2012)

7.3 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 not to maintain these assets is appalling and a sad legacy to pass on to our children.

MPA 1: Road and Bridge 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.

MPA 2: 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.

MPA 3: 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.

Are Minimum Priority Activities in Transport Infrastructure Maintenance being prioritised?

Explanation: Each year the NEFC conducts analysis of each provinces spending and seeks to identify what expenditure they made against each minimum priority activity. If a province has a clear vote for an MPA and has allocated an appropriate amount against that vote it is classified as 'Exp.'. If there is a vote but the expenditure is inadequate it is recorded as 'Vote'. If there is a vote that records a transfer of funds to a lower level that might include spending on the MPA but it is unclear it is recorded as 'Direct'. And finally if there is no vote, it is recorded as 'No Vote'.

Table: Evidence of Support for MPAs in Transport Infrastructure maintenance

	Minimum Priority Activities	Exp	Direct	Vote	No vote
Transport Infrastructure	1. Road & Bridge maintenance	7	0	11	0
	2. Airstrip maintenance	8	0	7	3
	3. Wharf & Jetty maintenance	8	0	3	2

We can observe:

MPA 1, Road and Bridge Maintenance: Overall support for this activity is evident. Just over one-third of provinces spend appropriate sums relative to their capacity on this activity whilst the other 11 provinces had identifiable votes but did not allocate suitable amounts.

MPA 2, Airstrip Maintenance: Overall there is support for this activity with 15 provinces having identifiable spending. Eight of the 15 spent appropriate amounts while the other seven may need to spend more.

Three provinces had no discrete vote; **Western, New Ireland and Southern Highlands**.

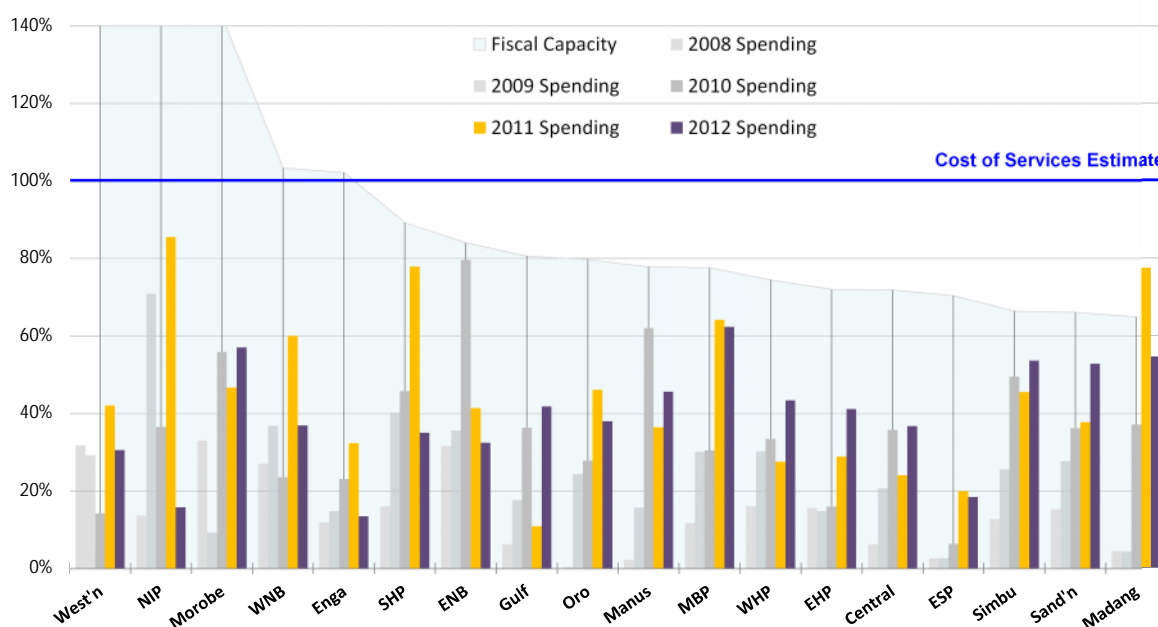
MPA 3, Wharf and Jetty Maintenance: Overall there is good support for this activity with 11 of the 13 provinces spending in this area. Eight of which spent at appropriate levels, three can spend more.

Two provinces had no discrete vote; **Gulf and Central**.

7.4 Against the Benchmark: the 2008 to 2012 trend

This graph illustrates the 2008 to 2012 performance of each province using the cost of services estimate as a benchmark.

No.34. Graph on Spending Performance in Infrastructure Maintenance from 2008 to 2012

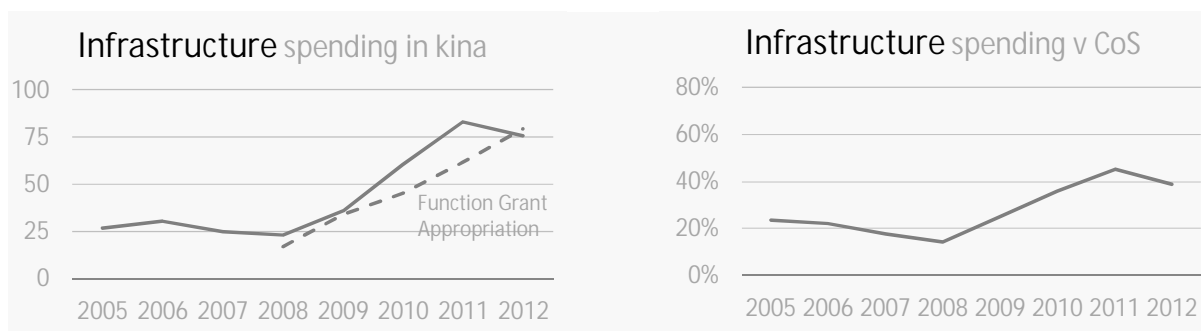


NB: This graph should read in conjunction with the chapter on 'Recurrent v Capital' (section 7.5)

7.4.1 Performance Overview

- Whilst there are some positive signs, overall there still remains a huge gap between what we spend and what we need to spend. The truth is we are spending nowhere near enough to maintain provincial roads and infrastructure assets. The implications of this are enormous and intergenerational. A road network that is not maintained will decline and become a massive cost to rehabilitate. Who will meet that cost?
- In the chart above we can see that in keeping with prior years there are no upper outliers in maintenance spending, most provinces spend between 30% and 60% of what is estimated a necessary minimum.
- Unfortunately three provinces performed very poorly with Enga spending only 14%, New Ireland 16% and East Sepik 19% of what is estimated necessary. These provinces had the capacity to spend much more on routine maintenance in 2012.
- In 2012 a significant 25% of recurrent infrastructure sector spending was from internal revenue (30% in 2011).
- Spending on capital & projects in the transport infrastructural space has also more than tripled, from K21 million in 2005 to K70 million in 2012.
- Perhaps predictably capital spending at the provincial level is not evenly spread across provinces. Typically those with larger amounts of internal revenue have the ability and discretion to spend in this area.

- Five provinces accounted for 72% of the capital spending that occurred (not including PIP). Eastern Highlands, Southern Highlands, Milne Bay, New Ireland and West New Britain were the large capital spenders 2012. It is possible that some of this capital spending was recurrent in nature (being routine maintenance rather than spending on new infrastructure or rehabilitation).²⁸



Observations on the charts above:

- From the chart above to the left, with eight years of data we are seeing a tangible increase in spending on maintaining our valuable infrastructural assets in many provinces. Overall maintenance spending has tripled from K26 million in 2005 to K76 million in 2012 – see the chart below left.
- We can also see that the increasing level of function grant funding under RIGFA is critical in driving this increase in spending. Function grants are likely to continue to increase in line with national revenues and thereby contribute even more funding for maintenance in future years. However higher and medium funded provinces will need to prioritise maintenance from their internal resources.
- We can see from the chart above to the right that average spending across all 18 provinces dropped a little in 2012 to 39% of what is required from 45% in 2011. We need to be mindful that maintenance costs rise each year due to a combination of inflationary pressure on costs, the addition of new assets, or the deterioration of existing assets.

The infrastructure data table on page 79 provides a snapshot of infrastructure expenditure data for the period 2008 to 2012 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.

²⁸ Refer to section 7.4

7.4.2 Spending between 2005 and 2012

In overall terms, the declining spending trend in real terms in infrastructure maintenance that was observed between 2005 and 2008 has been reversed in the period 2009 to 2012.²⁹ The following table shows the movement in recurrent spending and we see sharp rises since the full implementation of RIGFA in 2009.

Table: Recurrent Goods and Services spending on infrastructure maintenance 2005 to 2012 (millions)

Recurrent v Capex	2005	2006	2007	2008	2009	2010	2011	2012
Recurrent	26.6	30.1	23.8	23	35.5	60.4	82.7	75.9
Capital	20.8	28.6	20.7	62.6	76	60.5	39.2	69.8
The recurrent mix	56%	51%	53%	27%	32%	50%	68%	52%

- Recurrent spending by the 12 lowest funded provinces continues to increase. Going from K10 million in 2008 to K54 million in 2012. This increase is highly encouraging, as are the clear signs of lower funded provinces making use of the additional funding to address specific maintenance needs.
- It can be argued that such is the nature of infrastructure maintenance that provinces need a budget allocation of a certain minimum amount to enable them to commence a meaningful maintenance plan of their stock of assets. With the implementation of RIGFA, and larger function grants, lower funded provinces previously starved of maintenance funding are now in a position (funding-wise) to plan and implement maintenance activities within the province.³⁰
- New Ireland's large program of infrastructure maintenance in 2009 which dipped in 2010 then recovered and increased in 2011 has diminished and its infrastructure funding appears largely directed at capital works on the main ring-road and highway.

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 planned routine maintenance.³¹

²⁹ In this context "spending in real terms" means spending after correcting for the effect of inflation.

³⁰ This does not seek to discount the other potentially significant challenges that a province may have in reviving its erstwhile moribund infrastructure maintenance capacity, such as; a lack of skilled contractors within the province and/or a lack of project management experience and expertise within the provincial administration itself.

³¹ 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

7.4.3 Spending from Internal Revenue

- In 2012 25% of recurrent infrastructure sector spending was from internal revenue, down from 30% in 2011.
- Spending from internal revenue on infrastructure was highly significant, particularly with four of the higher funded provinces and three others; Western, Morobe, Southern Highlands, West New Britain, Western Highlands, Eastern Highlands and Milne Bay. Interestingly all of these provinces have committed relatively significant amounts of internal revenue to infrastructure maintenance in recent years which suggests this is a provincial priority.
- Table: Recurrent Goods and Services spending from internal revenue on infrastructure maintenance 2005 to 2012 (millions)

Internal Rev. G&S	2005	2006	2007	2008	2009	2010	2011	2012
Kina millions	13.4	19	15.6	11.9	12.4	22.3	25	19.2
% change		42%	-18%	-24%	4%	80%	12%	-23%

- Of the medium and lower funded provinces, Western Highland, Eastern Highland and Milne Bay have again committed significant internal revenue in 2012.
- Overall, 34% of all sector spending now comes from internal revenue in 2012 which is a continuation of the downward proportional trend in recent years and a big fall from the 60% in 2010 and 67% in 2009. This may be due to;
 - The amount of grants increasing due to RIGFA which then decreases the share of internal revenue as a proportion of total spending.
 - It may reflect a change in provincial priorities in how and where they allocate their internal revenue. It could be related to the introduction of the DSIP development funding which directs large levels of capital funding directly to the district level.

7.4.4 Spending in comparison to fiscal capacity

- After the positive change in 2011 sadly 2012 saw a regression with six of the seven higher funded group of provinces reducing spending, sometimes significantly, and moving to the 'low' level.
 - Western, New Ireland, Southern Highlands and East New Britain declined.
- Yet 2012 was a year of mixed results, with four provinces from the medium/lower funded group improving and one declining.
 - Western Highlands, Gulf, Central and Simbu improved.
 - Milne Bay's performance declined moving from High in 2011 to Medium in 2012.

7.4.5 PGAS Item Coding Analysis

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

No.35. Table Analysing All Infrastructure Spending in 2012³²

The 5 Largest Spending Areas (by item)				The Split by Category		
Item #	Item Description	Amount	%	Category Description	Amount	%
128	Routine Maintenance	53,178,020	36%	Recurrent Goods & Services	75,894,095	51%
225	Construction, Renovation....	34,290,009	23%	Personnel Emoluments	2,670,624	2%
226	Substantial & Specific Maintenanc	23,171,933	16%	Capital & Projects	69,368,993	47%
135	Other Operational Expenses	15,003,897	10%			
143	Grants and Transfers	4,675,833	3%			
	<i>all other codes</i>	17,614,019	12%			
	Total spending from recurrent & capital	147,933,712	100%	Total spending from recurrent & capital	147,933,712	100%

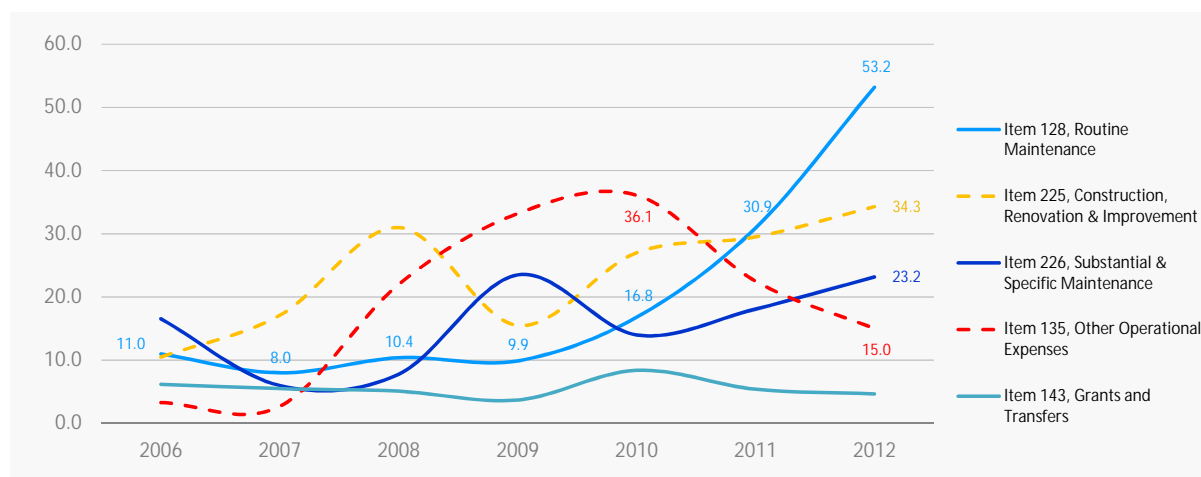
This table shows us that:

- Item 128: 'Routine Maintenance' continues to be the top expenditure item and is increasing in kina and as a proportion of total sector spending, this is encouraging.
As recently as 2009 item 128 - which reflects the full intent of the MPA regime - did not appear at all in the top 5 expenditure items. This change is important and reflects two things:-
 - Firstly, the increased funding available to many provinces for routine maintenance under RIGFA, and secondly,
 - The improved budget allocation and coding practices by provinces.
- Items 225 and 226: The section on page 77 entitled 'The Recurrent v Capital Puzzle' discusses the conundrum that is the division of recurrent and capital spending in this area. It is therefore not surprising to find expenditure items 225 and 226 as two of the higher expenditure totals in 2012 and prior years. Some of the expenditure classified under these votes (perhaps a lot) may either be recurrent in nature, or be rehabilitation work that is very necessary given the poor state of the stock of transport assets in many provinces.
- Item 135: It's pleasing to see spending under this item is decreasing markedly year by year. The use of the ubiquitous 'item 135' in infrastructure spending seems particularly unnecessary given the sector has a number of descriptive item codes to choose from.
- Item 143: In 2012 grant transfers (often to local level governments) continues to decrease from K8.4million in 2010 to K5.4 million in 2011 to K4.7 million in 2012.

There is a compelling need to code with care and accuracy in budget preparation process and in the PGAS accounting system.

³² These amounts include spending from both national grants and internal revenue on goods and services, personnel emoluments and capital and development. But not spending from PIP and SSG funds.

No.36. Graph on Infrastructure's Top Five Items as Recorded in PGAS: 2006 to 2012

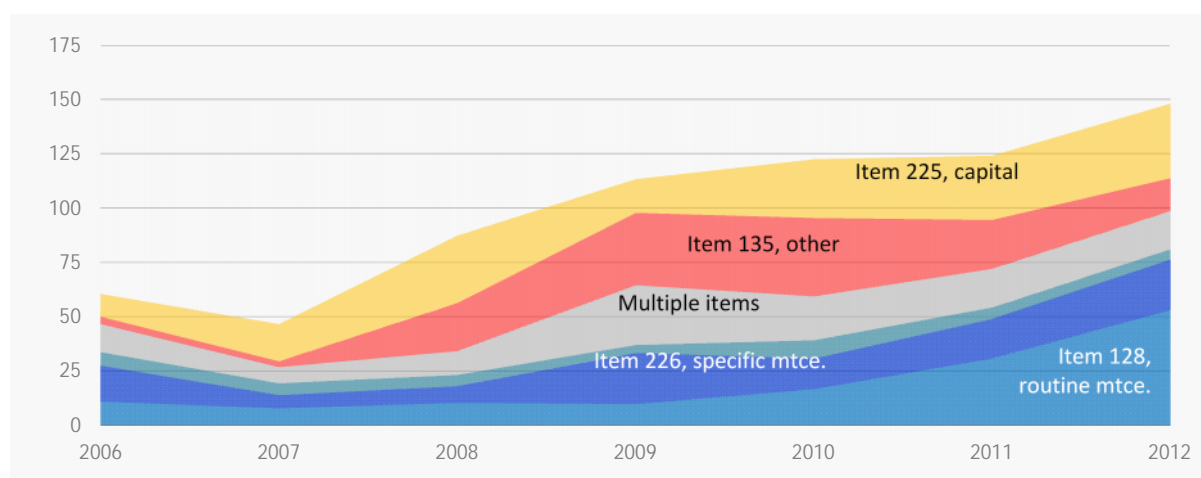


From the chart above we can observe:

- Item 128, the amount recorded as routine maintenance, has grown steadily since 2010. This is encouraging given that routine maintenance is the government's minimum priority activity.
- Item 226, is described as substantial and specific maintenance which may be necessary given much infrastructure is in need of more than routine maintenance given the widespread state of disrepair of government transport assets. Whilst this item is a significant sum in the context, it has not grown markedly over this time.
- Item 225, assuming that the coding is correct (which sadly is not a consistently valid assumption), spending under this item would be capital in nature – not maintenance. The level of spending in this area ebbs and flows but remains significant.
- Item 135, is the ubiquitous catch-all vote much favoured for its flexibility. Frankly the use of this vote in this sector is unnecessary given the number of useful descriptive item codes sector managers have to choose from. It's good to see its use diminishing markedly.

From the chart below we can see the proportional picture. Sectoral spending has more than doubled between 2006 and 2012 with the same proportion allocated to maintenance. Just over half of the spending is recorded as maintenance (being items 128 & 225 and item 143 transfers). In 2012 a third was spent on capital and the non-descript item 135.

No.37. Graph on All Spending on Infrastructure as Recorded in PGAS: 2006 to 2012



7.5 Drilling Down: The Recurrent v Capital Puzzle

7.5.1 Overview

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

Our analysis summarised in the table below shows that in 5 of the last 8 years just over half of sectoral spending was on recurrent purposes (i.e. maintenance). Maintenance enjoyed a highpoint in 2011 with a share of 68% of sector spending and a low point in 2008-9 with 27% and 32% respectively.

Table: Recurrent Goods and Services spending on infrastructure maintenance 2005 to 2012 (millions)

Recurrent v Capex	2005	2006	2007	2008	2009	2010	2011	2012
Recurrent	26.6	30.1	23.8	23	35.5	60.4	82.7	75.9
Capital	20.8	28.6	20.7	62.6	76	60.5	39.2	69.8
The recurrent mix	56%	51%	53%	27%	32%	50%	68%	52%

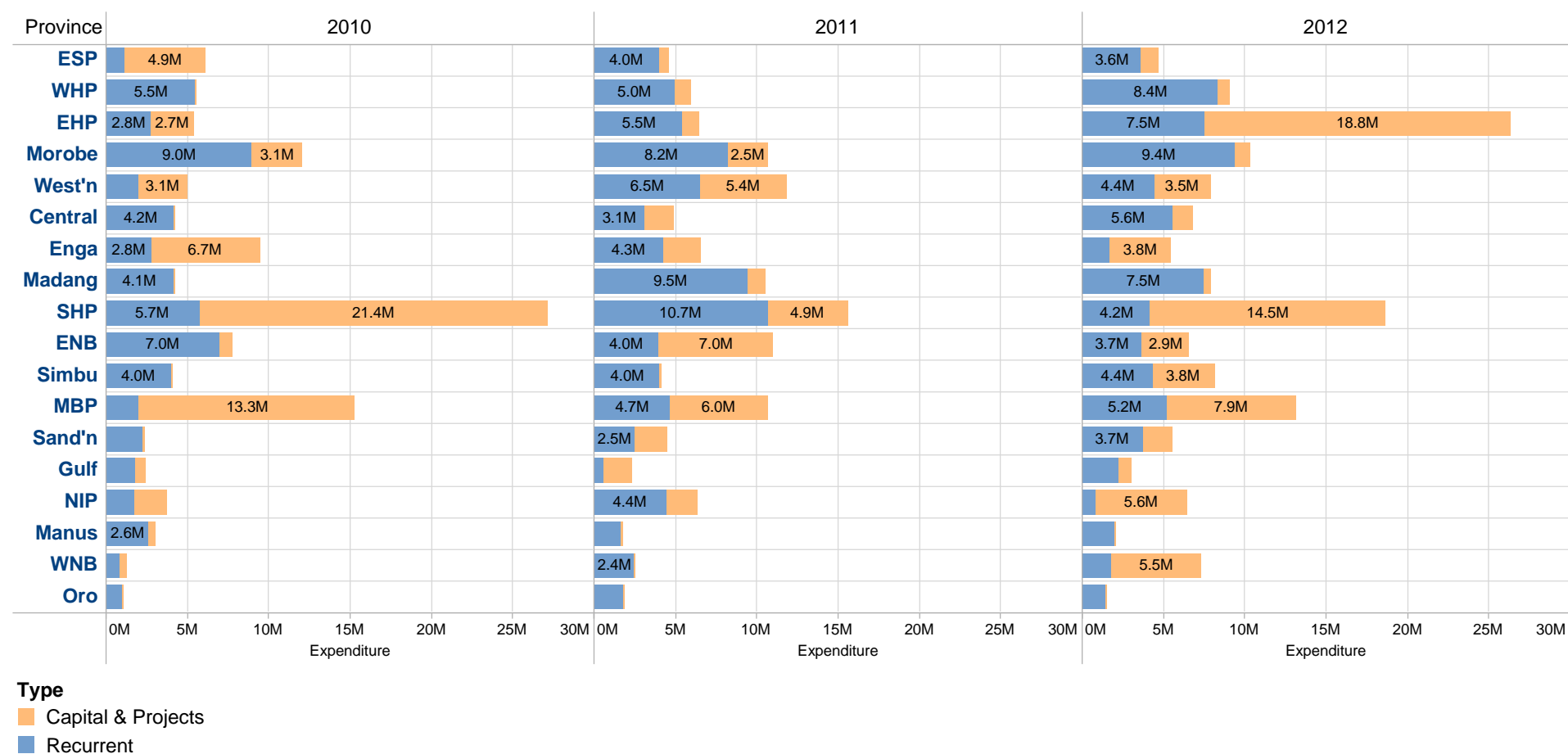
One way to ensure that readers can see the bigger picture is to show both recurrent and capital expenditure on a province by province basis. Readers can then consider for themselves the possible impact that any capital spending may have on the sector. The graph on the next page shows all spending on infrastructure by provinces, both recurrent and capital, but excludes PIP funded expenditure which is clearly development (capital) in nature.³³

From the chart on the next page we can observe:

- The chart orders the provinces by the size of their provincial road network. That seemed to intuitively make sense as one would normally expect the size of the road network to drive expenditure, meaning more roads = more maintenance costs. But that rationale does not seem to flow through in to the spending relativities. For example, Sandaun has less than a third of the road network than East Sepik yet spends about the same.
- Capital spending is often haphazard reflecting its project nature. It can happen one year and not the next.
- Capital spending is not spread evenly across provinces. Typically those provinces with higher levels of internal revenue can and do spend more on capital projects. Over the three year period we can see that capital spending was more common in five of the six higher funded provinces being; Enga, East New Britain, New Ireland, Southern Highlands and Western Province.
- Of the medium and lower funded provinces only Milne Bay spent notable amounts on capital & projects in infrastructure over the three consecutive years.
- In 2012 Eastern Highlands spent a highly significant K26 million on transport infrastructure encompassing both maintenance and major rehabilitation/improvement work. Grants funded 61% of this work and internal revenue the remaining 39%.

³³ Some PIP expenditure may be included in the expenditure. SSG expenditure on infrastructure has been included on the basis that this might be recurrent (however unlikely).

No.38. Graph on Infrastructure Spending, Recurrent & Capital from 2010 to 2012



As mentioned elsewhere in this report the variety in provincial coding practices make it a difficult analytical process to accurately discern and disaggregate spending between recurrent and capital purposes. Accordingly, to assist readers in developing their own understanding, this chart presents both recurrent and capital spending by provinces on transport infrastructure from 2010 to 2012. The provinces are ordered by the size of their provincial road network. So East Sepik with more than 1,000 km's of sealed and unsealed road is first and Oro with less than 200 km's is last. One would normally expect that those provinces with longer road networks would spend more on maintenance than those with small road networks.

7.6 Infrastructure Maintenance Data Table

Infrastructure Sector: 2008 to 2012 (recurrent spending)															
	Province	Cost of Services Estimate	2008 Exp.	2009 Exp.	2010 Exp.	2011 Exp.	2012 Exp.	% Change Versus Average	Spending Trend	2012 Internal Revenue Expenditure	Capital & Projects Expend.	Spending Level Achieved Versus Cost of Services Est.		Function Grant % Unspent	Function Grant Exp. Nature
		(Kina millions)	5 year G&S expenditure time series					%		% of total exp	2012	2011	2012	2012	
Provinces with higher funding & higher internal revenue	West'n	14.447	3.700	3.775	2.004	6.508	4.415	11%	Steady	45%	2.922	Medium	Low	41%	Average
	NIP	5.226	0.535	3.066	1.728	4.433	0.827	-67%	Down	1%	5.627	High	Low	35%	Average
	Morobe	16.542	4.401	1.356	8.991	8.238	9.434	65%	Up	42%	0.934	Medium	Medium	0%	Good
	WNB	4.477	0.826	1.250	0.875	2.446	1.652	23%	Up	29%	5.541	Medium	Low	40%	Average
	Enga	12.556	1.199	1.637	2.776	4.258	1.696	-32%	Down	-	3.623	Low	Low	0%	Average
Black - mixed dependency	SHP	11.991	1.608	4.500	5.722	10.669	4.197	-26%	Down	83%	14.474	Medium	Low	28%	Average
	ENB	11.357	2.342	2.895	6.984	3.979	3.683	-10%	Steady	8%	2.867	Medium	Low	18%	Average
	Gulf	5.257	0.255	0.782	1.784	0.587	2.199	159%	Up	-	0.836	Low	Medium	4%	Average
	Oro	3.581	0.014	0.798	0.999	1.813	1.363	51%	Up	-	-	Medium	Medium	0%	Not Good
	Manus	4.475	0.078	0.606	2.600	1.672	2.041	65%	Up	-	-	Medium	Medium	7%	Good
	MBP	7.011	0.651	1.835	2.019	4.657	4.371	91%	Up	47%	6.035	High	High	35%	Average
	WHP	19.259	2.205	4.557	5.490	4.954	8.359	95%	Up	33%	0.659	Low	Medium	3%	Average
Blue - highly grant dependent	EHP	18.330	2.241	2.332	2.751	5.462	7.539	136%	Up	56%	18.790	Medium	Medium	29%	Average
	Central	12.600	0.613	2.223	4.179	3.087	4.630	84%	Up	-	0.468	Low	Medium	15%	Average
	ESP	19.560	0.404	0.445	1.171	3.994	3.620	141%	Up	-	1.019	Low	Low	37%	Average
	Simbu	8.686	0.857	1.884	3.995	4.028	4.657	74%	Up	-	3.796	Medium	High	0%	Good
	Sand'n	7.052	0.784	1.565	2.227	2.545	3.723	110%	Up	-	1.798	Medium	Medium	14%	Average
	Madang	13.726	0.415	0.444	4.139	9.450	7.486	108%	Up	-	0.400	High	High	17%	Good
All Provinces		196.134	23.128	35.948	60.436	82.780	75.894	51%	Up	19.239	69.787				

(a)

(b)

The highest spending year in Kina

Key

above 15%	above 25%	above K1m	above 80%	below 5%	Good
in-between			in-between	in-between	Average
below -15%			below 40%	above 10%	Not Good

(a) Includes grant & internal revenue expenditure.

(b) Capital & Projects - includes all spending recorded in provincial PGAS database (typically includes; such exp. from grants & internal revenue, and some PIP & SSG exp.) (typically excludes; district level development exp.)

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

How do we achieve a routine maintenance focus?

If we do so we will save millions.

Read the following numbers carefully. Each year we re-iterate this point, in 2006 a sector expert estimated that:

"Routine maintenance for an unsealed road (on a National Highway) will cost about K6,000 per/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."



...what about maintaining 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.
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. RIGFA is helping, but who will help provinces coordinate their efforts in maintaining their asset network and help deal with impediments?

...is it time for a co-ordinated approach to planning for provincial transport maintenance?

8 Primary Production 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.”

8.1 Agriculture and Fisheries in the Provinces

The Medium Term Development Strategy identifies promoting the primary sector as the Governments ‘first and foremost’ priority in economic growth.³⁴ Agriculture and fisheries 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 fisher/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 and fishermen how can we say that we are promoting a sustainable and growing agriculture and fisheries sector?

But what exactly is primary production? The illustration that follows depicts some of the main economic activities that may be grouped within the primary production sector and within the broad functional responsibility of provincial administrations. You may note that forestry is not included. In Papua New Guinea, at this time, forestry is a national responsibility. The specific set of primary production activities undertaken will vary, sometimes significantly, across provinces.

No.39. Areas within the Primary Production Sector



³⁴ The primary sector is generally accepted to include; agriculture, fisheries, livestock and forestry.

8.2 Minimum Priority Activities in Primary Production

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.

MPA: Extension Activities

At the heart of our country's agriculture service and fisheries service are extension patrols. These patrols move throughout the rural area, both day-patrols and overnight patrols, with trained agriculture and fisheries officers who are normally based at the District Office taking their skills and knowledge to advise the farmers and fishermen 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 or air charter costs may also be necessary to get agriculture personnel to remote locations.

Are Minimum Priority Activities in Education being prioritised?

Explanation: Each year the NEFC conducts analysis of each provinces spending and seeks to identify what expenditure they made against each minimum priority activity. If a province has a clear vote for an MPA and has allocated an appropriate amount against that vote it is classified as 'Exp.'. If there is a vote but the expenditure is inadequate it is recorded as 'Vote'.

If there is a vote that records a transfer of funds to a lower level that might include spending on the MPA but it is unclear it is recorded as 'Direct'. And finally if there is no vote, it is recorded as 'No Vote'.

Table: Support for Minimum Priority Activities in Primary Production 2012

	Minimum Priority Activities	Exp	Direct	Vote	No vote
Primary Prod'n.	Agriculture Extension Services	1	0	17	0
	Fisheries Extension Services	1	0	10	2

We can observe:

MPA 1, Agriculture Extension Services: Overall this activity has some identified funding but nowhere near enough. Only one province, East New Britain, allocated a suitable amount.

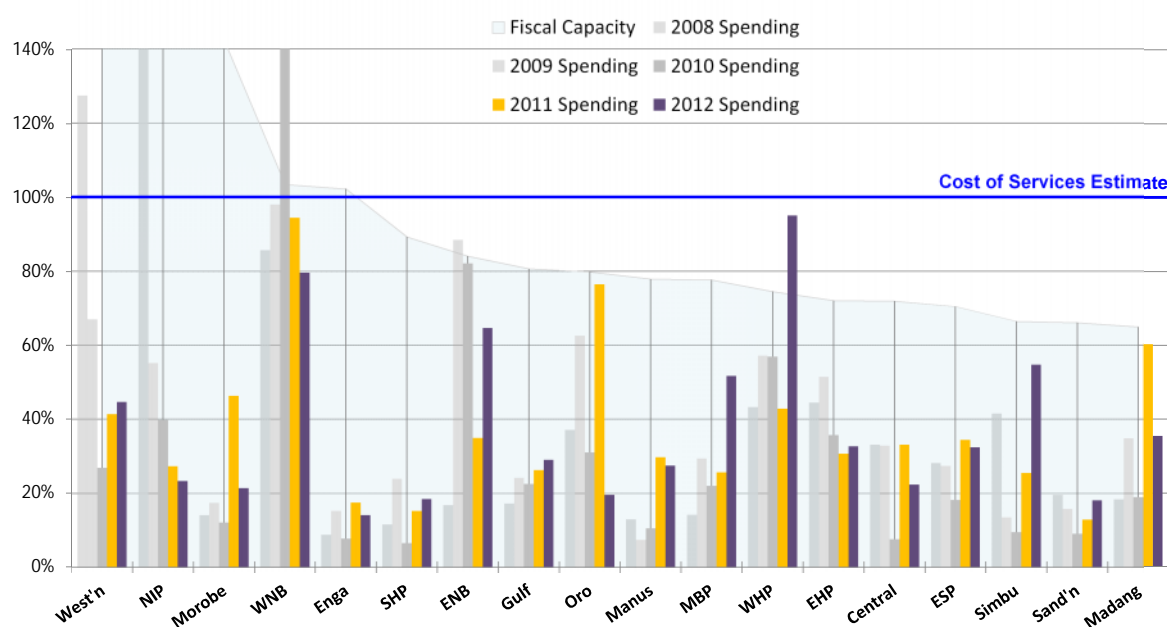
MPA 1, Fisheries Extension Services: Overall this activity has some identified funding but nowhere near enough. Only one province, Manus, allocated a suitable amount.

Four provinces had no discrete vote; **Western and Morobe**.

8.3 Agriculture Against the Benchmark: the 2008 to 2012 trend³⁵

The graph that follows illustrates the 2008 to 2012 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.

No.40. Graph on Spending Performance in Agriculture from 2008 to 2012



8.3.1 Performance Overview and Highlights

- We can see that overall there is an upward trend in spending on agriculture. In 2012 we see the sizable increase arising in 2011 has largely been maintained thanks primarily to RIGFA funding.

Table: Recurrent Goods and Services spending on Agriculture 2005 to 2012 (millions)

Recurrent G&S	2005	2006	2007	2008	2009	2010	2011	2012
Kina millions	6.5	7.6	7.6	10.1	11.8	12.3	17.2	16.3
% change		18%	0%	32%	18%	4%	40%	-5%

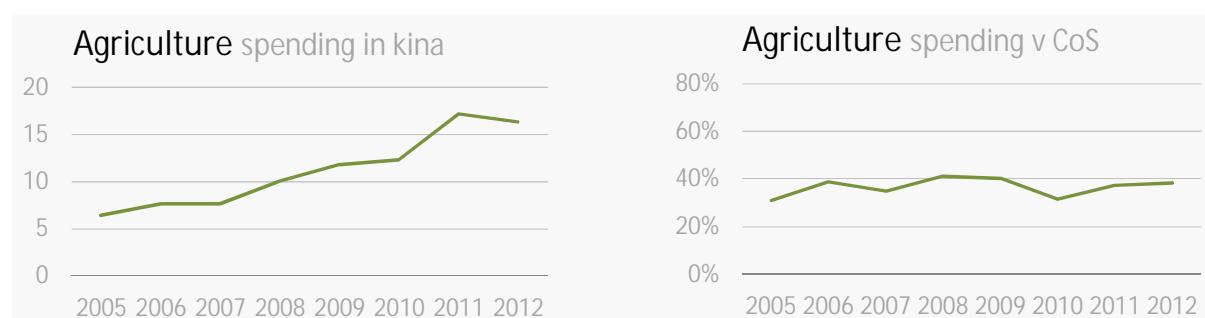
- In 2012 the 12 lower funded provinces spent on average 40% of what is required to meet the actual costs of a basic service. This level is a marked improvement on pre-RIGFA levels in of 18% in 2008.
- In 2012 five spent more than 50% of what is estimated necessary to provide a basic agriculture service – this is also an improvement on prior years.
- West New Britain, East New Britain, Milne Bay, Western Highlands and Simbu spent the most relative to what was needed.

³⁵ In 2012 we have reworked the numbers and separately analysed the Agriculture and Fisheries sub-sectors. We believe each sub-sector is vital as an income earning activity to the rural majority and deserving of focus. Where budget vote descriptions include both agriculture and fisheries we have typically assigned them to agriculture – however this is not as pervasive as one might think. We hope in time, provinces will continue to improve budget visibility by fine tuning their budget coding and descriptors for the benefit of all readers.

- Spending from internal revenue made a relatively significant impact in only three provinces being Morobe, Milne Bay and Western Highlands.
- Capital expenditure as a total was K10.8 million a large dip on the K25.1 million spent in 2011. The 2011 level was largely attributable to the National Agriculture Development Program which contributed very large amounts to four provinces being; Central, Madang, Simbu and Western Highlands.
- In 2012 Western and Madang spent the larger amounts on capital and projects. Western's focus was on rubber projects. Madang's spending in 2012 was from 2011 funding from the National Agriculture Development Program.

The agriculture data table on page 89 provides a snapshot of agriculture expenditure data for the period 2008 to 2012 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 Trends 2005 to 2012³⁶



- Recurrent goods and services spending in the agriculture sector increased gradually until 2011 when it rose more sharply to a level of K17.2 million and then settled slightly in 2012 to K16.3 million.
- When compared against what is needed to be spent (the cost estimate) spending has hovered around the 40% level.
- The overall spending trend in agriculture is becoming more positive with 11 provinces increasing their spending five remaining steady and two declining.

Spending in New Ireland on agriculture is declining and Oro's is fluctuating.

New Ireland who in the past (2005-8) demonstrated a strong commitment to supporting agriculture appear to have reprioritised and spent very little from internal revenue in 2009 and 2010 and even less in 2011 and 2012.

8.3.3 Spending in comparison to fiscal capacity

- Agriculture is an economic activity that has a broad reach and impacts 'the many' in the rural areas by providing a sustainable cash crop. So it's worth supporting.
- When we adjust for the differences in fiscal capacity there were two notable improvers – Western Highlands and Simbu.

³⁶ Normally we would include the function grant appropriation in the 'spending in kina' chart to enable readers to see the relative impact of national government funding. However at this time provinces receive a single primary production grant from government which is intended to supplement spending on both agriculture and fisheries so the grant line is excluded to avoid confused messages.

- Four of the six higher funded provinces rated low and are not supporting agriculture as much as they could and nowhere near to the level required. This includes Morobe, New Ireland, Southern Highlands and Enga.

8.3.4 Agriculture: PGAS Item Coding Analysis

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

No.41. Table Analysing All Agriculture Spending in 2012³⁷

The 5 Largest Spending Areas (by item)				The Split by Category		
Item #	Item Description	Amount	%	Category Description	Amount	%
135	Other Operational Expenses	14,237,489	52%	Recurrent Goods & Services	16,291,791	59%
143	Grants and Transfers	2,771,612	10%	Personnel Emoluments	263,776	1%
144	Grants to Individuals and NGOs	1,948,740	7%	Capital & Projects	10,839,881	40%
121	Travel and Subsistence Exp's	1,414,277	5%			
125	Transport and Fuel	1,194,852	4%			
	<i>all other codes</i>	5,828,477	21%			
	Total spending from recurrent & capital	27,395,447	100%	Total spending from recurrent & capital	27,395,447	100%

We can see that:

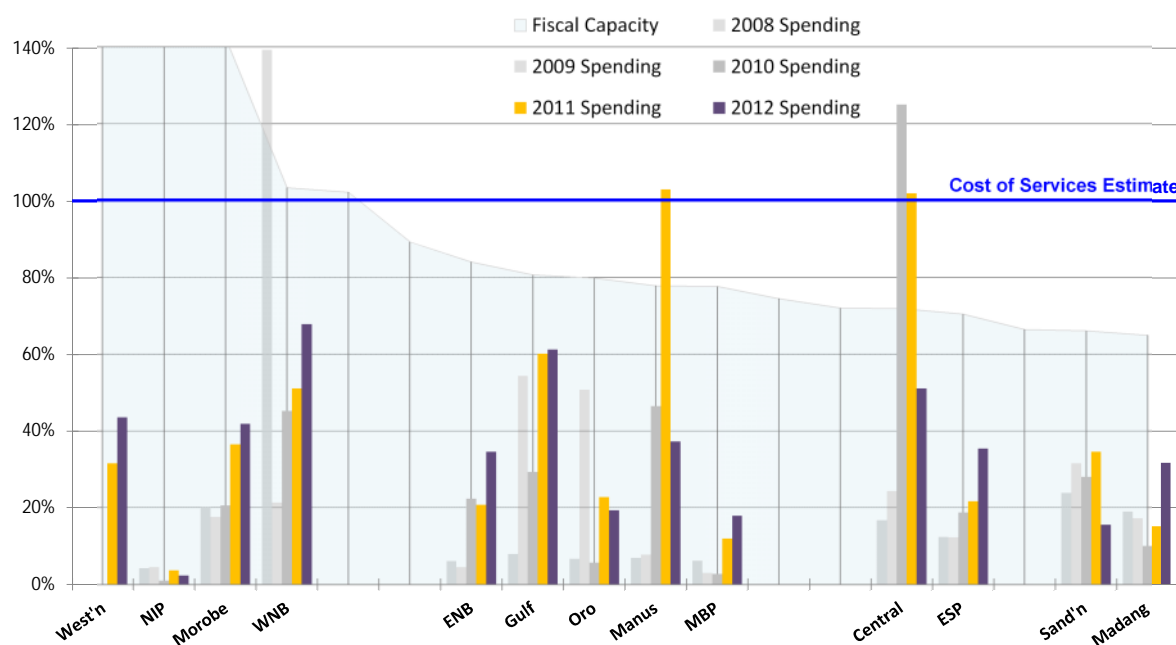
- More than half of spending on agriculture is described as 'other' which clearly provides little insight in to the intended nature of the budget/expenditure. Agriculture managers should be encouraged to budget in a manner that promotes greater visibility to readers.
- Some 10% of spending is recorded as a grant and transfer. Four provinces transfer funds for each district within their province.
 - East New Britain and West New Britain transfer about K200,000 per district.
 - Milne Bay transfers about K50,000 per district.
 - Morobe transfers a flat K20,000 per district.
- Two travel related codes (items 121 and 125) are present in the Top 5 comprising 9% of sub-sector spending. It would be encouraging to see much more funding targeted in these areas given that extension work is at the heart of agriculture service delivery.

³⁷ These amounts include spending from both national grants and internal revenue on goods and services, personnel emoluments and capital and development. But not spending from PIP and unspecified SSG funds.

8.4 Fisheries Against the Benchmark: the 2008 to 2012 trend³⁸

The graph that follows illustrates the 2008 to 2012 performance trend for each province using the cost of services estimate as a benchmark. Note that expenditure includes a wide range of recurrent fisheries activities and some project activities that may be recurrent in nature.

No.42. Graph on Spending Performance in Fisheries from 2008 to 2012



8.4.1 Performance Overview and Highlights

- We can see that overall there is an upward trend in spending on fisheries since 2008 with spending doubling albeit from a very small base.

Table: Recurrent Goods and Services spending on Fisheries 2008 to 2012 (millions)

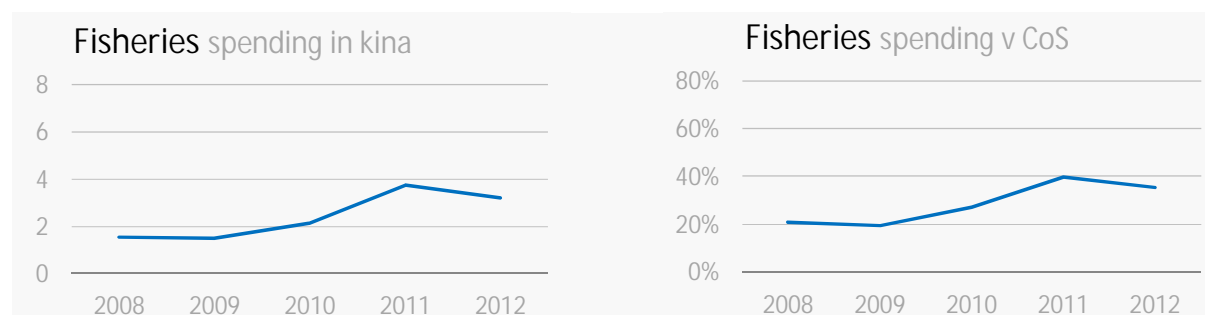
Recurrent G&S	2008	2009	2010	2011	2012
Kina millions	1.6	1.5	2.1	3.8	3.2
% change		-4%	44%	75%	-15%

- In 2012 the 13 provinces with coastal fishery communities spent on average 34% of what is required to meet the actual costs of a basic service. This level is an improvement on pre-RIGFA levels in of 21% in 2008.
- In 2012 three spent more than 50% of what is estimated necessary to provide a basic agriculture service – being West New Britain, Gulf and Central.
- Minimal internal revenue is committed to fisheries – K0.6 million.
- Only two provinces spent on fishery capital & projects.

³⁸ Understandably land-locked provinces in the Papua New Guinea highlands have no recorded fishery communities (they may have very small inland fishery communities) and hence no costs associated with sub-national government fishery services. Accordingly we have removed these highland provinces from the performance charts to avoid meaningless comparisons.

- Western Province spent K1.5 million in 2012 on the Lowlands Aquaculture Research Development and Extension Centre (LARDEC) as well as other minor fisheries infrastructure development including a market.
- West New Britain spent about K0.3 million on a fish market in Kimbe.

8.4.2 Trends 2008 to 2012



- Recurrent goods and services spending in the fisheries sub-sector has doubled since 2008 from a low base.
- Spending in 2012 is estimated to be about 35% of what is estimated necessary.

8.4.3 Spending in comparison to fiscal capacity

- When we adjust for the differences in fiscal capacity five provinces improved and three declined.
 - Western, Morobe, East New Britain, East Sepik and Madang improved.
 - Manus, Gulf and Central declined.
- Four (out of 13) provinces, roughly a third, rated 'low' with their spending relative to what they need to spend and what they are able to do.

The Significance of Subsistence Fisheries

500,000 people strong

A recent publication estimates that more than 500,000 people in Papua New Guinea participate in both coastal and inland subsistence fisheries, harvesting between 25,000 and 50,000 tonnes of marine produce each year.

Clearly, there is scale to this activity, and the role of provincial administrations in overseeing subsistence fisheries in their province and providing enabling services, extension services and training is vital.

Source: Food and Agriculture in Papua New Guinea, ANU, 2009

8.4.4 Fisheries: PGAS Item Coding Analysis

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

No.43. Table Analysing All Fisheries Spending in 2011³⁹

The 5 Largest Spending Areas (by item)				The Split by Category		
Item #	Item Description	Amount	%	Category Description	Amount	%
135	Other Operational Expenses	2,777,226	53%	Recurrent Goods & Services	3,211,806	61%
143	Grants and Transfers	532,500	10%	Personnel Emoluments	101,462	2%
121	Travel and Subsistence Exp's	454,076	9%	Capital & Projects	1,931,914	37%
225	Construction, Renovation....	344,914	7%			
125	Transport and Fuel	248,229	5%			
	<i>all other codes</i>	888,237	17%			
	Total spending from recurrent & capital	5,245,182	19%	Total spending from recurrent & capital	5,245,182	100%

We can see that:

- More than half of spending on fisheries is described as 'other' which clearly provides little insight in to the intended nature of the budget/expenditure. Fishery managers should be encouraged to budget in a manner that promotes greater visibility to readers.
- Some 10% of spending is recorded as a grant and transfer. Two provinces transfer funds for each district within their province and a third transferred a grant to a fisheries authority within the province.
 - West New Britain transfer about K100,000 per district.
 - Milne Bay transfers about K20,000 per district.
 - Morobe transferred K250,000 to the Morobe Fisheries Management Authority.
- Two travel related codes (items 121 and 125) are present in the Top 5 comprising 14% of sub-sector spending. It would be encouraging to see much more funding targeted in these areas given that extension work is at the heart of fisheries service delivery.

³⁹ These amounts include spending from both national grants and internal revenue on goods and services, personnel emoluments and capital and development. But not spending from PIP and unspecified SSG funds.

8.5 Agriculture Data Table

Agriculture Sub-sector: 2008 to 2012 (recurrent spending)																
	Province	Cost of Services Estimate	2008 Exp.	2009 Exp.	2010 Exp.	2011 Exp.	2012 Exp.	% Change Versus Average	Spending Trend	2012 Internal Revenue Expenditure	Capital & Projects Expend.	Spending Level Achieved Versus Cost of Services Est.			Function Grant % Unspent	Function Grant Exp. Nature
		(Kina millions)	5 year G&S expenditure time series							% of total exp	2012	2011	2012	2012		
Provinces with higher funding & higher internal revenue	West'n	2.886	2.176	1.383	0.781	1.317	1.287	-9%	Steady	23%	5.296	Low	Medium	65%	Average	
	NIP	1.482	1.325	0.482	0.519	0.390	0.345	-50%	Down	13%	0.300	Medium	Low	37%	Average	
	Morobe	4.661	0.402	0.545	0.528	2.222	0.997	8%	Steady	53%	0.200	Low	Low	0%	Good	
	WNB	2.087	1.110	1.410	3.026	2.075	1.660	-13%	Steady	1%	0.522	Medium	Medium	-11%	Average	
	Enga	2.464	0.139	0.264	0.179	0.445	0.347	36%	Up	2%	1.392	Low	Low	2%	Good	
Black - mixed dependency	SHP	3.482	0.306	0.707	0.255	0.653	0.642	34%	Up	-	-	Low	Low	1%	Good	
	ENB	1.887	0.254	1.470	1.815	0.846	1.220	12%	Steady	-	0.007	Medium	Medium	20%	Average	
	Gulf	1.656	0.184	0.283	0.370	0.472	0.480	47%	Up	-	0.134	High	Low	11%	Average	
	Oro	1.768	0.343	0.587	0.470	1.266	0.347	-48%	Down	-	0.035	Low	Low	0%	Not Good	
	Manus	1.049	0.081	0.051	0.096	0.297	0.288	120%	Up	8%	0.084	Low	Low	15%	Good	
	MBP	2.549	0.202	0.459	0.473	0.630	1.318	199%	Up	31%	-	High	Medium	17%	Average	
	WHP	2.251	0.703	1.020	1.314	1.082	2.138	108%	Up	33%	-	Medium	High	32%	Average	
Blue - highly grant dependent	EHP	2.484	0.703	0.891	0.806	0.758	0.811	3%	Steady	-	0.110	Medium	Medium	28%	Average	
	Central	2.613	0.461	0.503	0.172	0.824	0.584	20%	Up	24%	0.128	Low	Low	3%	Good	
	ESP	3.453	0.543	0.580	0.546	1.130	1.120	61%	Up	-	0.205	Low	Medium	30%	Average	
	Simbu	1.506	0.407	0.145	0.135	0.397	0.824	205%	Up	-	-	Medium	High	23%	Good	
	Sand'n	3.244	0.386	0.341	0.268	0.431	0.586	65%	Up	17%	0.172	Low	Low	43%	Average	
	Madang	3.663	0.338	0.705	0.565	1.966	1.298	46%	Up	2%	2.256	High	Medium	2%	Good	
All Provinces		45.184	10.062	11.826	12.315	17.201	16.292	65%	Up	2.278	10.840				(c)	(d)
							(a)									

(a)

(b)

The highest spending year in Kina

Key

above 15%	above 25%	above K0.35m	above 80%	below 5%	Good
in-between			in-between	in-between	Average
below -15%			below 40%	above 10%	Not Good

(a) Includes agriculture-related grant & internal revenue expenditure only.

Other primary production sub-sectors are not included.

(b) Capital & Projects

(c) Function Grant unspent %: refers to all of the Primary Production Function Grant (agriculture, fisheries and forestry)

(d) Function Grant nature rating: refers to all of the Primary Production Function Grant (agriculture, fisheries and forestry)

NB: spending level results have

been adjusted to reflect fiscal capacity

8.6 Fisheries Data Table

Fisheries Sub-sector: 2008 to 2012 (recurrent spending)															
	Province	Cost of Services Estimate	2008 Exp.	2009 Exp.	2010 Exp.	2011 Exp.	2012 Exp.	% Change Versus Average	Spending Trend	2012 Internal Revenue Expenditure	Capital & Projects Expend.	Spending Level Achieved Versus Cost of Services Est.		Function Grant % Unspent	Function Grant Exp. Nature
		(Kina millions)	5 year G&S expenditure time series					%		% of total exp	2012	2011	2012	2012	
Provinces with higher funding & higher internal revenue	West'n	0.731	0.000	0.000	0.000	0.212	0.318	501%	Up	38%	1.634	Low	Medium	65%	Average
	NIP	0.793	0.022	0.027	0.007	0.027	0.019	-11%	Steady	100%	-	Low	Low	37%	Average
	Morobe	0.597	0.080	0.080	0.103	0.200	0.250	116%	Up	100%	-	Low	Medium	0%	Good
	WNB	0.921	0.858	0.149	0.349	0.431	0.625	40%	Up	-	0.298	Medium	Medium	-11%	Average
	Enga	0.000	0.000	0.000	0.000	0.000	0.000	-	Up	-	-		n.a.		
Black - mixed dependency	SHP	0.168	0.000	0.000	0.000	0.000	0.000	-	Up	-	-		n.a.		
	ENB	0.579	0.023	0.020	0.109	0.110	0.200	206%	Up	17%	-	Low	Medium	20%	Average
	Gulf	0.530	0.028	0.220	0.130	0.292	0.324	94%	Up	-	-	High	Medium	11%	Average
	Oro	0.335	0.015	0.130	0.016	0.070	0.065	13%	Steady	-	-	Low	Low	0%	Not Good
	Manus	0.587	0.027	0.035	0.229	0.554	0.218	4%	Steady	-	-	High	Medium	15%	Good
	MBP	1.438	0.059	0.033	0.033	0.157	0.258	266%	Up	-	-	Low	Low	17%	Average
	WHP	0.000	0.160	0.450	0.340	0.812	0.097	-79%	Down	-	-		n.a.		
Blue - highly grant dependent	EHP	0.015	0.028	0.030	0.060	0.069	0.000	-	Up	-	-		n.a.		
	Central	0.494	0.055	0.092	0.518	0.461	0.252	-11%	Steady	74%	-	High	Medium	3%	Good
	ESP	0.727	0.060	0.068	0.114	0.144	0.258	167%	Up	6%	-	Low	Medium	30%	Average
	Simbu	0.016	0.000	0.000	0.010	0.030	0.058	480%	Up	-	-		n.a.		
	Sand'n	0.287	0.046	0.069	0.068	0.091	0.045	-35%	Down	13%	-	Medium	Low	43%	Average
	Madang	0.711	0.090	0.094	0.060	0.099	0.225	163%	Up	-	-	Low	Medium	2%	Good
All Provinces		8.929	1.553	1.495	2.146	3.761	3.212	44%	Up	0.631	1.932				
(a) (b)															

(a)

(b)

The highest spending year in Kina

Key

above 15%	above 25%	above K0.35m	above 80%	below 5%	Good
in-between			in-between	in-between	Average
below -15%			below 40%	above 10%	Not Good

(a) Includes fisheries-related grant & internal revenue expenditure only.

Other primary production sub-sectors are not included.

(b) Capital & Projects

(c) Function Grant unspent %: refers to all of the Primary Production Function Grant (agriculture, fisheries and forestry)

(d) Function Grant nature rating: refers to all of the Primary Production Function Grant (agriculture, fisheries and forestry)

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

9 Village Courts Focus

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

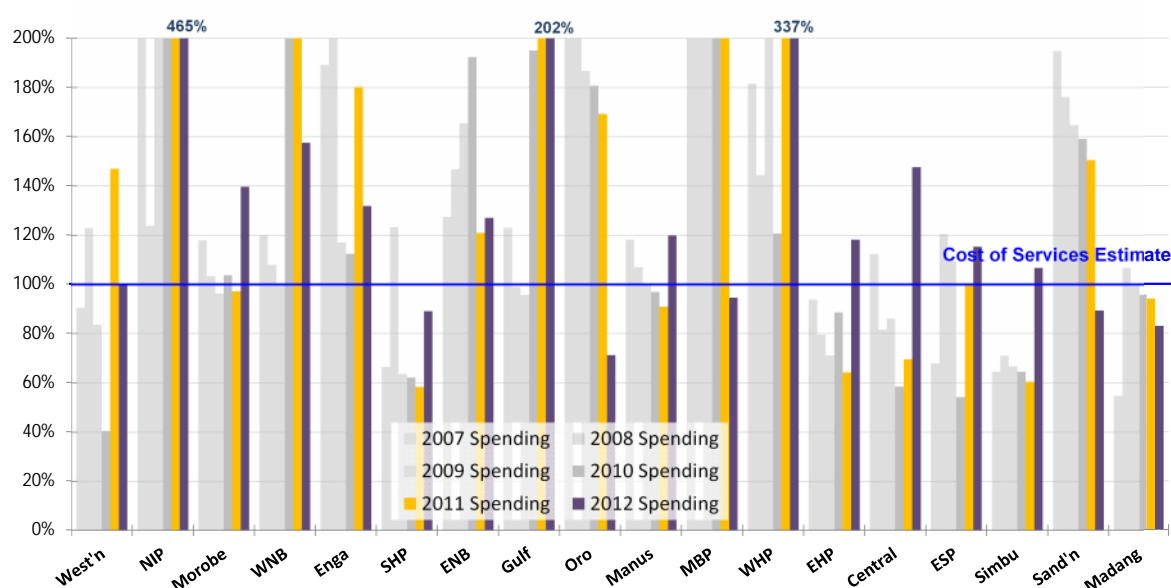
9.1 Background to Village Courts

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 2007, the national government then 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 the change in the way the national government funds the sector our analysis looks at each area separately, first the allowances and then the function grant for operational costs.

9.2 Against the Benchmark: VCAs the 2008 to 2012 trend

No.44. Graph on Spending Performance on Village Court Allowances from 2008 to 2012⁴⁰



⁴⁰ 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 a future updated cost of services study.

9.3 Performance Overview: Allowances

The graph above illustrates the 2008 to 2012 performance of each province using the cost of services estimate as a benchmark.

- The 2012 spending performance results are heavily influenced by the 2011 NEFC Cost of Services Study Update which changed the cost estimates used as the base comparator. Early analysis suggests that the numbers of officials in some provinces has increased, sometimes exceptionally, between the original study in 2005 and the update in 2011.

Examples of this can be seen with Oro, Milne Bay and Sandaun where the apparent decline in spending is actually a marked increase in the cost estimate for each province.

- Significant Kina variations are visible in several higher funded provinces; with Western and West New Britain moving down and Morobe and New Ireland moving upward.

The village courts data table on allowances on page 95 provides snapshots of village courts expenditure data for the period 2008 to 2012 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.

9.3.1 Spending Trend: 2005 to 2011

- Over the seven year period 2005 to 2011 we can see an upward trend where spending on allowances has moved from almost K6 million in 2005 to K8.5 million in 2012.

Table: Spending on Village Court Allowances 2005 to 2012 (millions)

VCA allowances	2005	2006	2007	2008	2009	2010	2011	2012
Kina millions	5.9	10.8	5.5	7.7	6.4	6.5	8.2	8.5
% change		82%	-49%	39%	-16%	2%	26%	3%

- The 2006 high reflects the additional funding provided by Treasury to meet the cost of accumulated arrears of allowances.
- Together with the gradual movement upwards we may also be seeing a secondary trend whereby every two to three years provinces spend a higher amount on allowances to meet accumulated arrears (note the spikes in years 2006, 2008 and 2011).

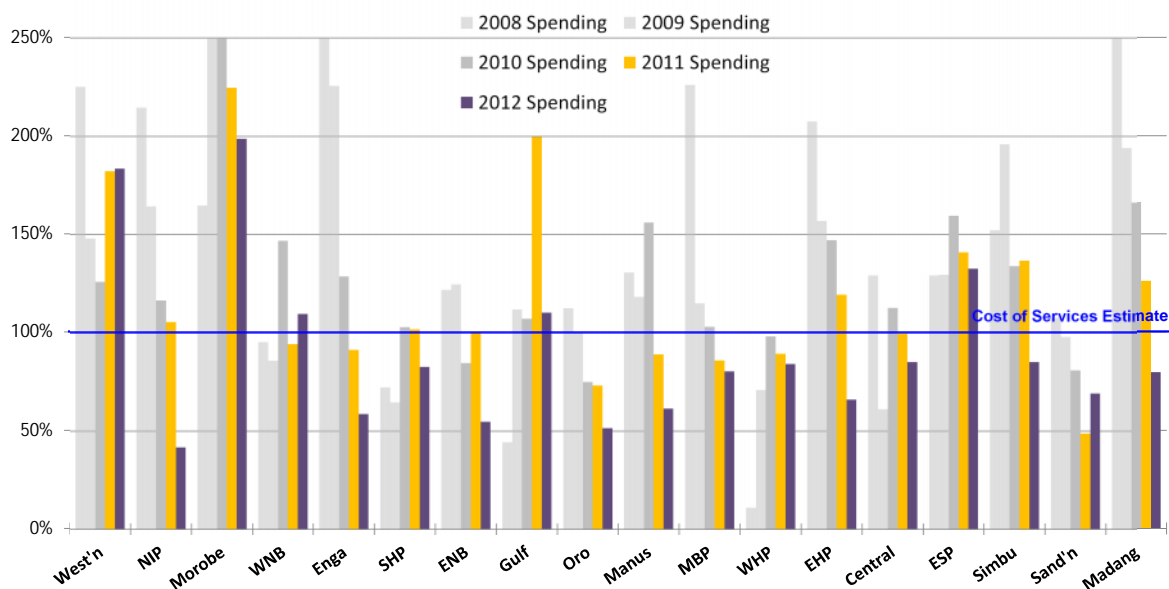
9.3.2 Spending from Internal Revenue

- Spending from internal revenue on allowances almost doubled in 2011, K1.6 million up from K0.87 million in 2010, and has increased further in 2012 to K1.8 million.
- Only two provinces spent with any significance from internal revenue on village court allowances, they were New Ireland and Western Highlands. Both provinces had also spent on allowances from their internal revenue budgets in 2011.

9.4 Against the Benchmark: VC operational costs the 2008 to 2012 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.

No.45. Graph on Village Court Function Grant Spending Performance from 2008 and 2012



9.4.1 Performance Overview: Function Grant (on operational costs)

The graph illustrates the performance of each province from 2008 to 2012 using the cost of services estimate as a benchmark.

- The 2012 spending performance results are heavily influenced by the 2011 NEFC Cost of Services Study Update which changed the cost estimates used as the base comparator.

This can impact significantly on the spending performance chart above. Examples of this can be seen with Enga, Manus and Madang who all significantly increased their spending in Kina terms and yet appear to decline due to the marked increase in the cost estimate for each province. New Ireland maintained their Kina spending level but similarly dipped due to the sharp increase in their cost estimate.

- Overall spending rose in 2012 moving from K2.7 million to K3.3 million.
- Five provinces spent 100% or more of what the cost of services study estimated was required (down from 11 in 2011). Eight provinces had significant levels of unspent function grant at yearend; Western, East New Britain, Milne Bay, Manus, Western Highlands, Eastern Highlands, East Sepik and Sandaun.
- Over time, ten provinces are increasing their Kina spending, seven remain relatively steady and only East New Britain shows a decline.

The village court operational costs data table on page 96 provides a snapshot of village courts expenditure data on operations for the period 2008 to 2012 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:

9.4.2 Spending from Internal Revenue

- Spending from internal revenue on village court operational costs (goods & services) remains very low at K494,000 a small increase on the 2010 high of K464,000.
- In 2012 three provinces contributed internal revenue to village court operations. Western, Morobe and New Ireland.

9.4.3 Village Courts Operations: PGAS Item Coding Analysis

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

No.46. Table Analysing All Village Courts Operational Spending in 2012⁴¹

The 5 Largest Spending Areas (by item)				The Split by Category		
Item #	Item Description	Amount	%	Category Description	Amount	%
135	Other Operational Expenses	1,395,496	37%	Recurrent Goods & Services	3,298,698	88%
124	Office Materials & Supplies	656,617	18%	Personnel Emoluments	106,528	3%
121	Travel and Subsistence Exp's	450,404	12%	Capital & Projects	338,136	9%
125	Transport and Fuel	377,878	10%			
222	Purchase of Vehicles	256,292	7%			
	<i>all other codes</i>	606,674	16%			
	Total spending from recurrent & capital	3,743,361	100%	Total spending from recurrent & capital	3,743,361	100%

The table shows us that:

- In 2012 the highest percentage of spending was again classified as other operational expenses (item 135), however this has reduced as a percentage of total sector spending from 60% in 2007 to 37% in 2012.
Item 135 is a catch-all spending bucket that allows provinces the maximum flexibility in spending.
- Travel related costs are in the top-5, with TA (item 121) and transport & fuel (item 125) together comprises 22% - a similar proportion to prior years.
- Capital Spending was 9% of all spending. Gulf and Sandaun both bought vehicles in 2012.

⁴¹ These amounts include spending from both national grants and internal revenue on goods and services, personnel emoluments and capital and development. But not spending from PIP and SSG funds.

9.5 Village Courts Data Table - Allowances

Village Court Allowances: 2008 to 2012														
	Province	Cost of Services Estimate	2008 Exp.	2009 Exp.	2010 Exp.	2011 Exp.	2012 Exp.	% Change Versus Average	Spending Trend	2012 Internal Revenue Expenditure	Spending Level Achieved Versus Cost of Services Est.		% Function Grant Unspent	Function Grant Exp. Nature
		(Kina millions)	5 year expenditure time series							% of total exp	2011	2012	2012	
Provinces with higher funding & higher internal revenue	West'n	0.188	0.214	0.161	0.085	0.339	0.189	-6%	Steady	39%	High	High	58%	Not Good
	NIP	0.188	0.169	0.744	0.840	0.773	0.876	39%	Up	85%	High	High	32%	Good
	Morobe	0.392	0.321	0.330	0.389	0.400	0.547	52%	Up	27%	High	High	0%	Good
	WNB	0.172	0.167	0.172	0.487	0.508	0.271	-19%	Down	-	High	High	46%	Average
	Enga	0.672	2.513	0.527	0.548	0.962	0.886	-23%	Down	-	High	High	0%	Good
Black - mixed dependency	SHP	0.627	0.893	0.515	0.562	0.578	0.559	-13%	Steady	-	Medium	High	0%	Good
	ENB	0.176	0.180	0.223	0.279	0.192	0.224	3%	Steady	-	High	High	26%	Average
	Gulf	0.220	0.116	0.123	0.278	0.461	0.445	82%	Up	-	High	High	9%	Average
	Oro	0.176	0.124	0.127	0.135	0.138	0.126	-5%	Steady	-	High	High	9%	Good
	Manus	0.201	0.155	0.159	0.168	0.173	0.241	47%	Up	-	High	High	1%	Good
	MBP	0.336	0.284	0.292	0.264	0.313	0.318	11%	Steady	-	High	High	2%	Good
	WHP	0.434	0.636	1.091	0.636	1.306	1.462	60%	Up	55%	High	High	0%	Good
Blue - highly grant dependent	EHP	0.451	0.410	0.403	0.551	0.437	0.533	19%	Up	18%	High	High	8%	Good
	Central	0.215	0.267	0.309	0.228	0.297	0.318	16%	Up	6%	High	High	4%	Good
	ESP	0.529	0.447	0.444	0.240	0.483	0.610	52%	Up	-	High	High	8%	Good
	Simbu	0.356	0.341	0.350	0.370	0.380	0.380	6%	Steady	-	High	High	0%	Good
	Sand'n	0.168	0.154	0.158	0.166	0.172	0.150	-8%	Steady	-	High	High	12%	Good
	Madang	0.393	0.275	0.282	0.298	0.321	0.327	12%	Steady	-	High	High	0%	Good
All Provinces		5.895	7.667	6.409	6.524	8.234	8.458	18%	Up	1.891				
(a)														

(a)

The highest spending year in Kina

Key

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

(a) Includes grant & internal revenue expenditure.

9.6 Village Courts Data Table - Operational Costs

Village Courts Sector, Operations: 2008 to 2012 (recurrent spending)														
	Province	Cost of Services Estimate	2008 Exp.	2009 Exp.	2010 Exp.	2011 Exp.	2012 Exp.	% Change Versus Average	Spending Trend	2012 Internal Revenue Expenditure	Spending Level Achieved Versus Cost of Services Est.		% Function Grant Unspent	Function Grant Exp. Nature
		(Kina millions)	5 year G&S expenditure time series							% of total exp	2011	2012	2012	
Provinces with higher funding & higher internal revenue	West'n	0.212	0.266	0.194	0.192	0.304	0.388	63%	Up	74%	High	High	20%	Average
	NIP	0.127	0.069	0.058	0.053	0.052	0.053	-9%	Steady	52%	High	Medium	0%	Good
	Morobe	0.169	0.114	0.501	0.405	0.245	0.335	6%	Steady	54%	High	High	0%	Average
	WNB	0.201	0.165	0.165	0.325	0.229	0.220	-1%	Steady	-	High	High	0%	Good
	Enga	0.353	0.381	0.235	0.162	0.126	0.207	-9%	Steady	-	High	Medium	5%	Good
Black - mixed dependency	SHP	0.302	0.117	0.117	0.237	0.257	0.250	38%	Up	-	High	High	-15%	Good
	ENB	0.112	0.071	0.079	0.064	0.083	0.061	-18%	Down	-	High	Medium	39%	Average
	Gulf	0.145	0.015	0.041	0.049	0.100	0.159	212%	Up	-	High	High	0%	Not Good
	Oro	0.082	0.043	0.043	0.039	0.041	0.043	3%	Steady	-	High	Medium	0%	Good
	Manus	0.186	0.074	0.073	0.116	0.073	0.114	36%	Up	-	High	Medium	35%	Average
	MBP	0.171	0.155	0.086	0.089	0.082	0.138	34%	Up	-	High	High	35%	Average
	WHP	0.290	0.026	0.184	0.293	0.292	0.244	24%	Up	-	High	High	25%	Average
Blue - highly grant dependent	EHP	0.201	0.135	0.112	0.135	0.120	0.133	6%	Steady	-	High	High	7%	Good
	Central	0.205	0.141	0.073	0.158	0.153	0.175	34%	Up	-	High	High	1%	Good
	ESP	0.267	0.152	0.167	0.252	0.244	0.355	74%	Up	-	High	High	33%	Average
	Simbu	0.167	0.107	0.150	0.134	0.150	0.142	6%	Steady	-	High	High	8%	Good
	Sand'n	0.160	0.067	0.067	0.066	0.043	0.111	83%	Up	-	High	High	30%	Not Good
	Madang	0.214	0.100	0.078	0.094	0.078	0.170	95%	Up	-	High	High	50%	Average
	All Provinces	3.564	2.196	2.425	2.864	2.672	3.299	30%	Up	0.494				
(a)														

(a)

The highest spending year in Kina

Key

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

(a) Includes grant & internal revenue expenditure.

10 Administration Focus

Delivering a high level of public administration is a challenge all around the globe.
We're not alone, and we can learn and share our own learnings with others.



Source: ODI. The 2013 CAPE Conference: Budgeting in the Real World

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.

The Administration Divisions

Executive functions

- Office of Governor
- Deputy Governor
- Provincial 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

- District Administration and Local-Level Governments

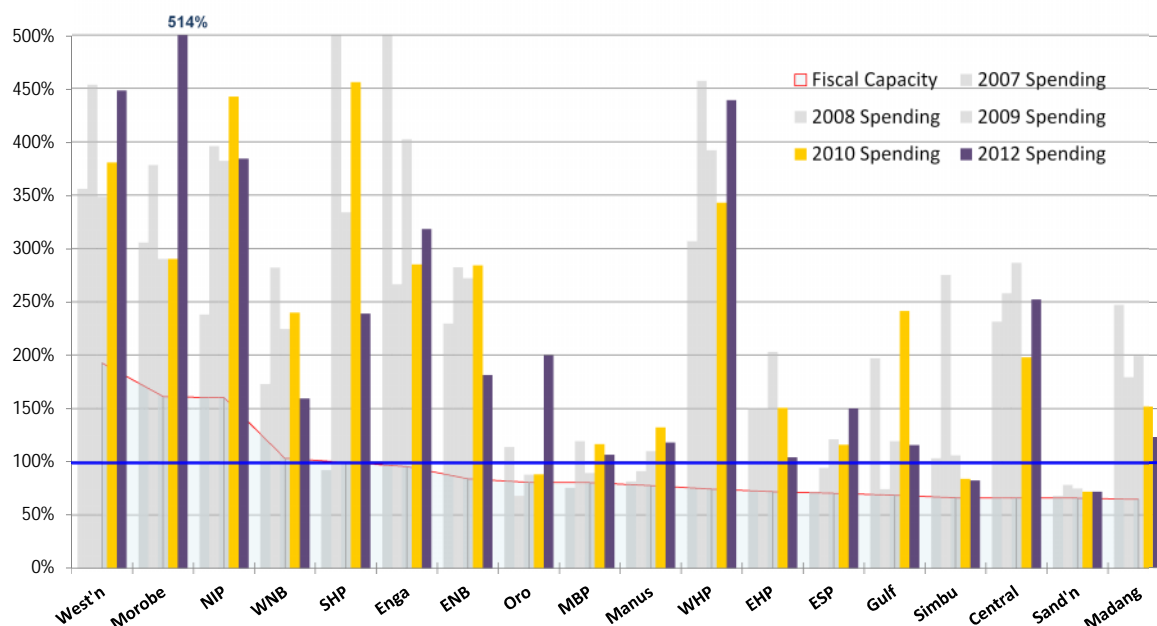
Maintenance

- Provincial and District Administration Building Maintenance

10.2 Against the Benchmark: the 2008 to 2012 trend

The graph that follows illustrates the 2008 to 2012 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.

No.47. Graph on Spending Performance in Administration from 2008 to 2012



10.2.1 Performance Overview

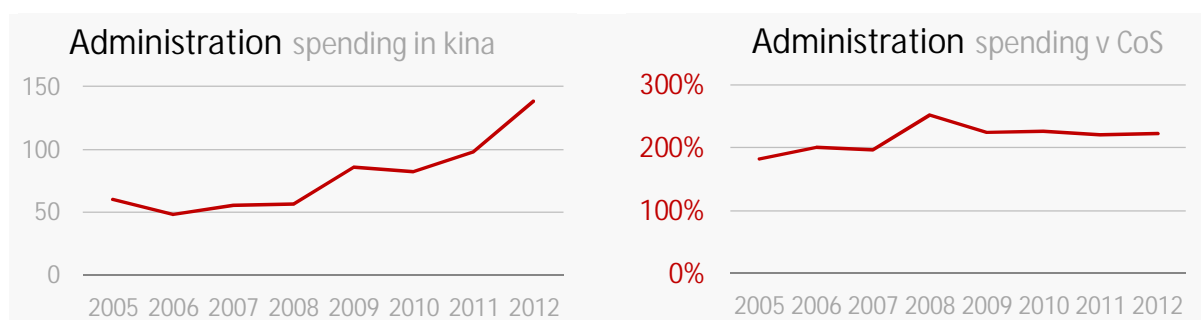
- In 2012 provinces spent on average 223%. So on average provinces continue to spend more than twice the actual administration costs estimated to be required.⁴²
- In kina terms administration spending has increased markedly since 2005, from K47 million to K138.7million.

Table: Recurrent Spending on Administration from 2005 to 2012 (millions)

Recurrent G&S	2005	2006	2007	2008	2009	2010	2011	2012
Kina millions	47.6	55.4	56.8	86.0	82.4	98.0	107.5	138.7
% change		16%	3%	51%	-4%	19%	10%	29%

- However most of this spending is from provinces with higher levels of internal revenue.
- The encouraging signs are some provinces have reduced their spending in 2011 – East New Britain and Madang. Well done to those provinces seeking to promote efficiency and who are opening up the possibilities of reallocating resources to frontline services.

⁴² It is relevant to note that the estimated cost of administration rose steeply in the recent Cost of Services Update Study completed by NEFC. This increase was driven by several variables, notably; an increase in staff numbers in the administration divisions, an increase in the accommodation cost assumption, and the massive increase in the government per diem allowance. The large increases via the cost estimate helps to mask the very high kina increase in spending by provinces between 2011 and 2012.



- The other real positive is the example set by lower-funded provinces who continue to manage the budgets without excessive spending on administration.
- Some provinces spend three or four or five times as much as what is estimated necessary on administration. This includes Western, Morobe, New Ireland, Enga and Western Highlands.

There is a real opportunity for these provinces to better manage administration spending and to reallocate more money to front line services. **This is called creating fiscal space and allows provinces to redirect funding to better support front-line services.**

- In 2012 K110 million which is 80% of spending on recurrent goods and services on administration was funded from internal revenue.

Table: All Spending on Administration from 2005 to 2012 (millions)

All Spending	2005	2006	2007	2008	2009	2010	2011	2012
Kina millions	72.5	111.5	103.9	161.2	137.0	196.8	215.1	239.9
% change		54%	-7%	55%	-15%	44%	9%	12%
% cumulative change		54%	47%	102%	87%	131%	140%	152%

- Total spending on administration (see table above) - being goods & services, staff-related costs and capital & projects - has increased markedly since 2005 (see table below). In the context of Papua New Guinea's development this is disappointing we need to make allocating and spending more funds on the delivery of basic services as our priority.

Table: Spending on Administration on Capital & Projects from 2006 to 2012 (millions)

Capital & Projects	2005	2006	2007	2008	2009	2010	2011	2012
Kina millions		14.2	35.3	35.0	19.0	53.0	50.6	32.9
% change			149%	-1%	-46%	179%	-5%	-35%

- Sending on capital & projects (see table above) has tracked upwards, at times by a lot, but in 2011 there was a small moderation followed by a sharp fall in 2012.

The administration data table on page 102 provides a snapshot of administration expenditure data for the period 2007 to 2012 together with key fiscal indicators. It allows the reader to monitor the trend across the sector and by province. The main findings from the data table are summarised in the following sections.

10.2.2 Spending from Internal Revenue

- In 2012 internal revenue funded 80% of recurrent spending – even in lower funded provinces internal revenue continues to contribute significantly to administration spending. So for many provinces administration costs are funded largely by internal revenue.
- When expenditure on staff-related costs and capital and projects is included 40% of all spending from internal revenue is on administration (41%, 2010).

10.2.3 Administration Divisions: PGAS Item Coding Analysis

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

No.48. Table Analysing All Administration Division Spending in 2012⁴³

The 5 Largest Spending Areas (by item)				The Split by Category		
Item #	Item Description	Amount	%	Category Description	Amount	%
135	Other Operational Expenses	73,813,276	31%	Recurrent Goods & Services	140,274,923	58%
115	Members Salaries & Allowances	14,761,602	6%	Personnel Emoluments	66,634,834	28%
111	Salary and Allowances	13,586,403	6%	Capital & Projects	32,942,308	14%
121	Travel and Subsistence Exp's	13,040,518	5%			
114	Leave Fares	12,821,381	5%			
	<i>all other codes</i>	111,828,884	47%			
	Total spending from recurrent & capital	239,852,064	100%	Total spending from recurrent & capital	239,852,064	100%

We can see that:

- Item 135: The highest single item of spending is still other operational expenses which bounced back up to 31% in 2012 (26% in 2011, 31% in 2010 and 29% in 2008/9). This item is a catch-all spending bucket that allows provinces the maximum flexibility in spending.
- Staff related items 111 & 114: Spending on staff-related costs is 11% (12% in 2011).
Note this IS NOT the regular staff payroll this is staff-related costs such as; allowances, leave fares and casual wages.
- Interestingly, spending on travel related costs - item 121, enters the top 5 group for the first time.

⁴³ These amounts include spending from both national grants and internal revenue on goods and services, personnel emoluments and capital and development. But not spending from PIP and SSG funds.

10.2.4 The impact of Consolidated Expenditure⁴⁴

One of the explanations offered in response to the high spending levels on administration is that a part of the administration expenditure is actually a consolidated or combined cost which relates specifically to a variety of sectors – not just the administration sector. An example of this could be electricity that is paid as a total under one vote, yet it specifically relates to buildings occupied by staff from other sectors such as health and education in addition to administration staff. In 2008 we analysed and illustrated the possible impact of these consolidated costs to see if it painted a significantly different picture of provinces administration spending performance.⁴⁵

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.

⁴⁴ Some provinces centrally pay and record the costs of certain overheads such as utilities and some vehicle related costs. This cost remains in the administration totals. It would be preferable in such instances to allocate the appropriate proportion to the other relevant sectors – however we lack the detailed information necessary to enable us do so.

⁴⁵ Refer to the 2008 Provincial Expenditure Review Walking the Talk available on the NEFC website.

10.3 Administration Data Table

Administration Sector 2005 to 2012 (recurrent spending)													
	Province	Cost of Services Estimate	2008 Exp.	2009 Exp.	2010 Exp.	2011 Exp.	2012 Exp.	% Change Versus Average	Spending Trend	2012 Internal Revenue Expenditure	Capital & Projects Expend.	Spending Level Achieved Versus Cost of Services Est.	
		(Kina millions)	5 year G&S expenditure time series							% of total exp	2012	2011	2012
Provinces with higher funding & higher internal revenue	West'n	3.503	10.034	8.541	10.872	12.090	15.695	52%	Up	88%	3.870	386%	448%
	NIP	2.271	6.446	6.868	9.157	7.560	8.727	17%	Up	99%	1.626	333%	384%
	Morobe	5.528	10.330	8.735	10.467	20.201	28.404	129%	Up	100%	2.044	511%	514%
	WNB	2.865	4.416	3.902	4.810	4.067	4.568	7%	Steady	98%	0.365	185%	159%
	Enga	2.954	4.509	7.522	6.243	7.198	9.395	48%	Up	94%	5.446	300%	318%
Black - mixed dependency	SHP	4.281	13.869	8.151	13.703	7.776	10.221	-7%	Steady	89%	5.360	236%	239%
	ENB	3.193	5.727	6.070	7.256	7.574	5.787	-14%	Steady	99%	0.396	271%	181%
	Gulf	2.461	0.732	1.291	3.119	1.201	2.848	80%	Up	5%	6.048	85%	116%
	Oro	2.023	0.893	1.271	1.489	2.000	4.040	186%	Up	6%	-	108%	200%
	Manus	2.198	1.236	1.641	2.242	2.699	2.598	33%	Up	24%	0.124	145%	118%
	MBP	3.109	2.176	1.793	2.751	2.980	3.311	37%	Up	41%	4.069	115%	106%
	WHP	3.213	7.808	7.367	7.653	7.695	14.110	85%	Up	83%	0.149	315%	439%
Blue - highly grant dependent	EHP	4.093	2.453	3.631	3.250	3.705	4.262	31%	Up	49%	-	157%	104%
	Central	2.927	3.842	4.680	3.855	5.952	7.385	62%	Up	80%	1.336	279%	252%
	ESP	4.506	2.471	3.484	3.946	3.951	6.763	96%	Up	53%	0.498	106%	150%
	Simbu	3.198	4.137	1.743	1.674	2.526	2.635	5%	Steady	57%	0.260	116%	82%
	Sand'n	3.414	1.488	1.568	1.757	2.279	2.457	39%	Up	55%	0.773	85%	72%
	Madang	4.479	3.399	4.159	3.800	6.073	5.521	27%	Up	48%	0.578	222%	123%
All Provinces		60.215	85.963	82.417	98.044	107.525	138.725	49%	Up	110.225	32.942		
							(a)	(b)					
							Key						
							The highest spending year in Kina						
							above 15%						
							above 50%						
							above K1m						
							up to 100%						
							in-between						
							100% to 200%						
							below -15%						
							over 200%						

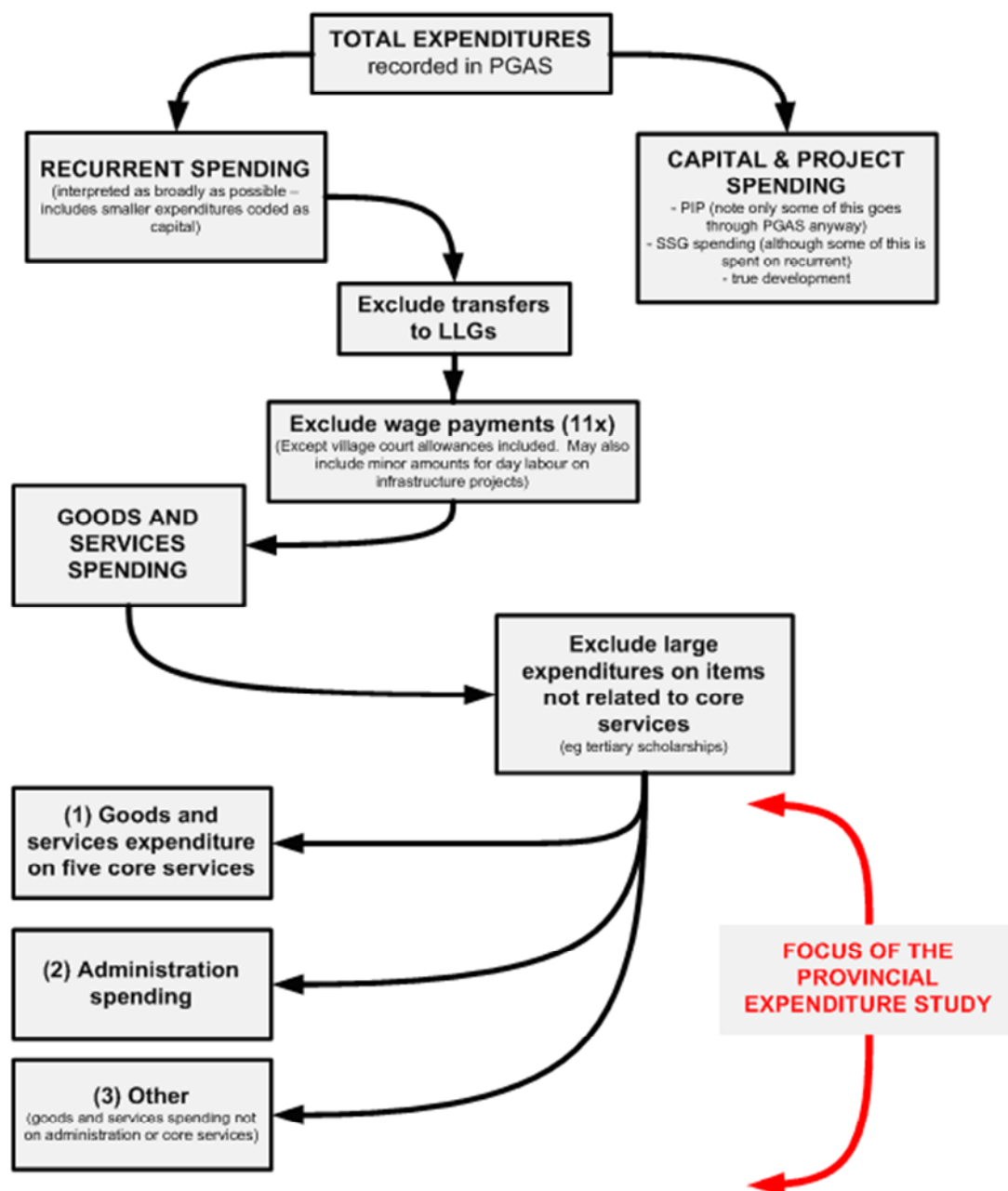
(a) Includes grant & internal revenue expenditure. It does not include capital & projects nor personal emoluments.

(b) The capital & projects amounts are not included in the total (a), capital & projects includes expenditure on buildings and housing

Appendix 1: Data – What’s In and 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.

No.49. Figure Illustrating What Data is Included and What Isn’t⁴⁶



⁴⁶ SSG expenditure was excluded from the initial PER in 2005. Since then, we have increasingly sought to record SSG expenditure under the appropriate sector and to classify it as either recurrent goods & services or capital & projects – whichever is appropriate.

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

SSG expenditure that cannot be meaningfully classified is excluded.

Appendix 2: Understanding the Methodology

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

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

1. Comparing actual spending to cost estimates

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

- We can calculate this as follows:

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

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

MECS

2. Let's look at an example:

Health in Province A:

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

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

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

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

Province A spent 25% of what is required to deliver basic health services.

Yet they had the capacity to spend 45% if all sectors were treated equally.

Health was a lesser priority

MECS

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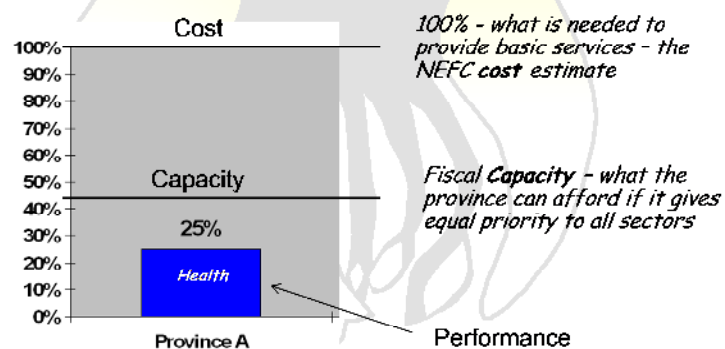
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Comparing Actual Spending to Cost of Services Estimates (slides 3 and 4)

3. Let's illustrate that example:

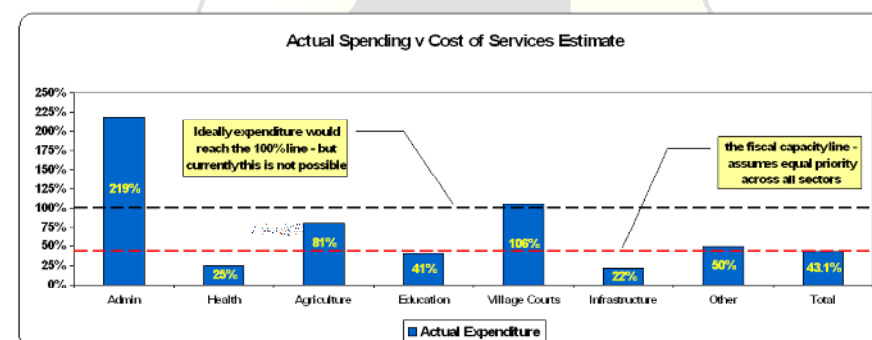
Province A:

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



4. Let's expand the example further

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

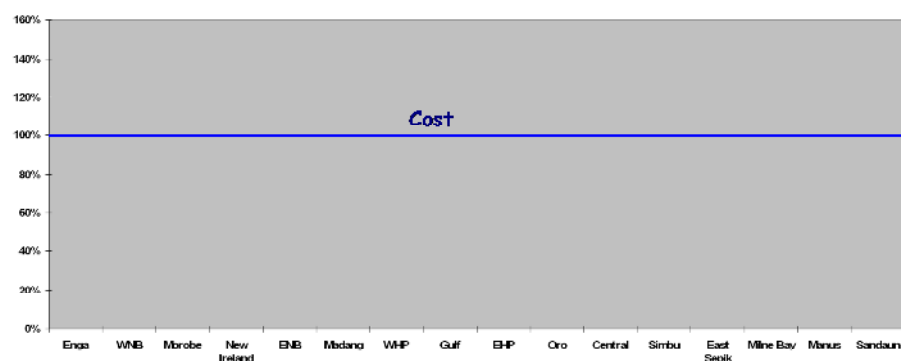


Much of the analysis and findings in this report are presented in a graphical format that compares results by sector across provinces. The graphs bring together the three threads of cost, fiscal capacity and spending performance and enable us to review our progress by comparing performance across provinces.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

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

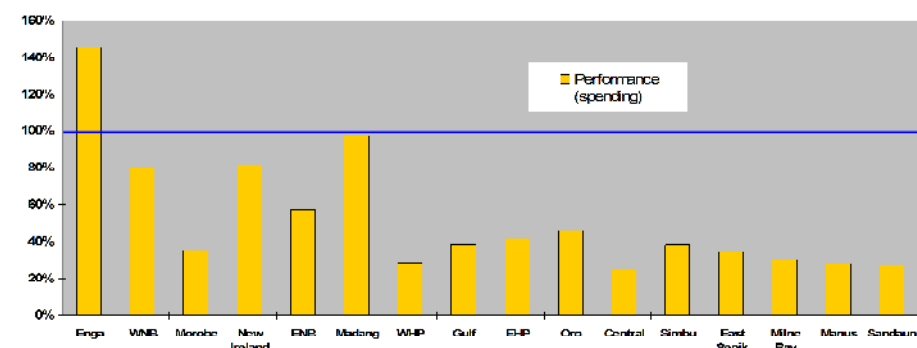
Education Costs

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



Education Spending

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



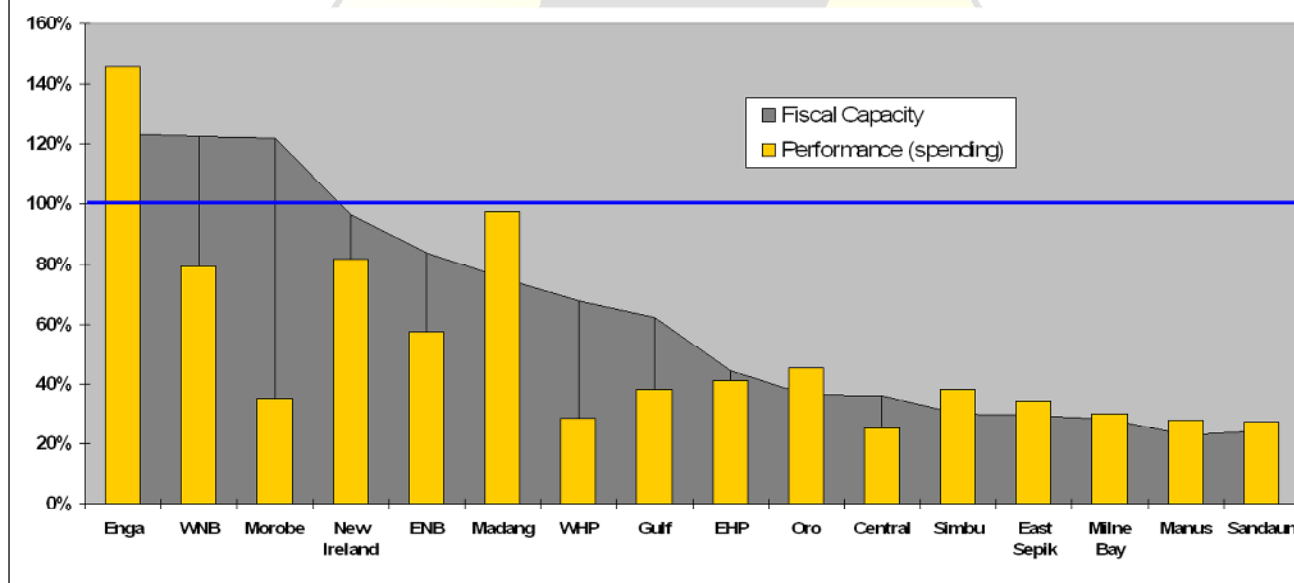
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Performance by all provinces in the education sector (slide 3)

Education - Fiscal Capacity

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



Appendix 3: A Cautionary Note about the NEFC Costing Study

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

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

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

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

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

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

It was assumed that all rural health centres and hospitals operate without electricity, mains water or telephones. There was no allowance for ancillary staff (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: How we Calculate the Spending Performance Level

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

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

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

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

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

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

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

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

An example:

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

A. Performance without adjustment for fiscal capacity

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

B. Performance adjusted for fiscal capacity

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

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

Appendix 5: 2012 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	Fisheries	Education	VC Allowance	VC Operations	Infrastructure	Other	Total Cost Estimate
Central	2,927,330	6,800,230	2,612,541	493,972	6,766,734	215,075	205,316	12,599,961	4,789,737	36,916,923
EHP	4,092,779	6,790,291	2,483,587	15,003	9,564,195	450,699	201,356	18,330,202	4,564,713	46,477,822
ENB	3,192,591	5,150,798	1,886,942	578,829	6,729,599	176,182	112,032	11,357,357	4,123,586	32,729,087
Enga	2,953,666	6,220,952	2,464,207	-	5,956,670	671,951	353,280	12,555,522	3,269,921	34,446,170
ESP	4,506,079	8,692,670	3,452,813	727,294	9,317,070	528,547	267,259	19,559,722	5,353,658	51,677,819
Gulf	2,461,006	4,066,740	1,655,519	529,788	3,231,147	219,795	144,593	5,257,439	2,512,976	19,549,214
Madang	4,478,943	9,103,489	3,662,977	711,207	8,150,681	393,337	214,063	13,725,568	4,761,016	44,490,073
Manus	2,198,468	2,175,564	1,049,344	587,142	2,226,473	200,766	185,534	4,474,860	2,019,024	14,530,032
MBP	3,109,382	7,327,888	2,549,416	1,437,985	6,267,267	335,975	171,220	7,011,485	4,897,734	31,670,368
Morobe	5,528,043	12,056,504	4,661,050	597,072	13,135,464	391,785	168,503	16,541,547	7,245,144	59,728,041
NIP	2,270,619	4,498,407	1,482,039	792,616	4,145,438	188,474	127,109	5,225,831	2,984,984	20,922,902
Oro	2,022,573	4,199,627	1,767,597	334,797	3,217,429	176,182	82,477	3,580,862	2,165,200	17,211,948
Sandaun	3,413,622	7,270,511	3,243,779	287,305	7,022,885	167,988	159,775	7,052,339	4,047,016	32,377,915
SHP	4,280,705	12,267,573	3,482,366	167,843	10,132,607	626,881	302,294	11,991,139	5,322,159	48,405,723
Simbu	3,197,855	5,659,815	1,506,143	15,725	6,223,220	356,462	166,938	8,686,388	3,288,873	29,085,693
Western	3,502,951	8,789,020	2,885,632	731,425	7,559,338	188,474	211,609	14,447,408	4,207,571	41,792,003
WHP	3,213,092	7,709,623	2,251,186	-	10,453,380	434,310	290,386	19,259,364	5,669,418	49,280,760
WNB	2,864,914	5,143,055	2,086,832	920,687	5,621,522	172,085	200,752	4,477,354	3,612,061	24,178,576
TOTAL	60,214,619	123,922,757	45,183,970	8,928,688	125,721,120	5,894,966	3,564,495	196,134,349	74,834,792	644,399,755

Appendix 6: 2012 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	Fisheries	Education	VC Allowance	VC Operations	Infrastructure	Other	Total Cost Estimate
Central	7.9%	18.4%	7.1%	1.3%	18.3%	0.6%	0.6%	34.1%	13.0%	101%
EHP	8.8%	14.6%	5.3%	0.0%	20.6%	1.0%	0.4%	39.4%	9.8%	100%
ENB	9.8%	15.7%	5.8%	1.8%	20.6%	0.5%	0.3%	34.7%	12.6%	102%
Enga	8.6%	18.1%	7.2%	0.0%	17.3%	2.0%	1.0%	36.4%	9.5%	100%
ESP	8.7%	16.8%	6.7%	1.4%	18.0%	1.0%	0.5%	37.8%	10.4%	101%
Gulf	12.6%	20.8%	8.5%	2.7%	16.5%	1.1%	0.7%	26.9%	12.9%	103%
Madang	10.1%	20.5%	8.2%	1.6%	18.3%	0.9%	0.5%	30.9%	10.7%	102%
Manus	15.1%	15.0%	7.2%	4.0%	15.3%	1.4%	1.3%	30.8%	13.9%	104%
MBP	9.8%	23.1%	8.0%	4.5%	19.8%	1.1%	0.5%	22.1%	15.5%	105%
Morobe	9.3%	20.2%	7.8%	1.0%	22.0%	0.7%	0.3%	27.7%	12.1%	101%
NIP	10.9%	21.5%	7.1%	3.8%	19.8%	0.9%	0.6%	25.0%	14.3%	104%
Oro	11.8%	24.4%	10.3%	1.9%	18.7%	1.0%	0.5%	20.8%	12.6%	102%
Sandaun	10.5%	22.5%	10.0%	0.9%	21.7%	0.5%	0.5%	21.8%	12.5%	101%
SHP	8.8%	25.3%	7.2%	0.3%	20.9%	1.3%	0.6%	24.8%	11.0%	100%
Simbu	11.0%	19.5%	5.2%	0.1%	21.4%	1.2%	0.6%	29.9%	11.3%	100%
Western	8.4%	21.0%	6.9%	1.8%	18.1%	0.5%	0.5%	34.6%	10.1%	102%
WHP	6.5%	15.6%	4.6%	0.0%	21.2%	0.9%	0.6%	39.1%	11.5%	100%
WNB	11.8%	21.3%	8.6%	3.8%	23.3%	0.7%	0.8%	18.5%	14.9%	104%
TOTAL	9.3%	19.2%	7.0%	1.4%	19.5%	0.9%	0.6%	30.4%	11.6%	100%

Appendix 7: 2012 Provincial Revenue Table (in Kina)

The following table details the provincial revenues in 2012. 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 (2012 actuals)	GST distributions (IRC data)	Mining and Petroleum Royalties (Company data)	Mining and Petroleum Dividends (MRDC data)	Own-Source Revenue (PGAS)	Total Revenue
Central	13,742,091	2,000,000	10,692,600	101,052		26,535,743
Eastern Highlands	21,196,204	10,550,000	1,734,165			33,480,369
East New Britain	13,552,158	9,611,000	4,345,448			27,508,606
Enga	10,924,765	1,233,000	3,925,930	15,422,355	6,000,000	37,506,050
East Sepik	29,804,934	4,436,000	2,161,094			36,402,028
Gulf	12,646,621	250,000	360,447		2,505,000	15,762,068
Madang	22,334,293	4,747,000	1,809,140			28,890,433
Manus	10,058,067	189,000	1,061,034			11,308,101
Milne Bay	19,612,399	2,512,000	2,458,586			24,582,985
Morobe	7,717,200	57,143,000	9,583,135	4,371,959		78,815,294
New Ireland	2,409,478	3,741,000	1,201,009	20,675,977		28,027,464
Oro	11,378,805	1,249,000	1,105,745			13,733,550
Sandaun	19,065,673	1,128,000	1,200,065			21,393,738
Southern Highlands	14,366,797	1,587,000	1,374,633	25,872,903		43,201,333
Simbu	16,543,930	1,692,000	1,089,573			19,325,503
Western	3,890,737	3,217,000	301,644	32,700,000	22,000,000	62,109,381
Western Highlands	18,988,271	13,190,000	4,530,689			36,708,960
West New Britain	13,002,106	3,930,000	10,976,657			27,908,763
TOTAL	261,234,529	122,405,000	59,911,594	99,144,246	30,505,000	573,200,369

Appendix 8: 2012 Provincial Revenue Table (as a % of total revenue)

The following table details the provincial revenues in 2012 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 (2012 actuals)	GST distributions data)	(IRC Mining and Petroleum Royalties (Company data)	Mining and Petroleum Dividends (MRDC data)	Own-Source Revenue (PGAS)	Total Revenue
Central	51.8%	7.5%	40.3%	0.4%	0.0%	100%
Eastern Highlands	63.3%	31.5%	5.2%	0.0%	0.0%	100%
East New Britain	49.3%	34.9%	15.8%	0.0%	0.0%	100%
Enga	29.1%	3.3%	10.5%	41.1%	16.0%	100%
East Sepik	81.9%	12.2%	5.9%	0.0%	0.0%	100%
Gulf	80.2%	1.6%	2.3%	0.0%	15.9%	100%
Madang	77.3%	16.4%	6.3%	0.0%	0.0%	100%
Manus	88.9%	1.7%	9.4%	0.0%	0.0%	100%
Milne Bay	79.8%	10.2%	10.0%	0.0%	0.0%	100%
Morobe	9.8%	72.5%	12.2%	5.5%	0.0%	100%
New Ireland	8.6%	13.3%	4.3%	73.8%	0.0%	100%
Oro	82.9%	9.1%	8.1%	0.0%	0.0%	100%
Sandaun	89.1%	5.3%	5.6%	0.0%	0.0%	100%
Southern Highlands	33.3%	3.7%	3.2%	59.9%	0.0%	100%
Simbu	85.6%	8.8%	5.6%	0.0%	0.0%	100%
Western	6.3%	5.2%	0.5%	52.6%	35.4%	100%
Western Highlands	51.7%	35.9%	12.3%	0.0%	0.0%	100%
West New Britain	46.6%	14.1%	39.3%	0.0%	0.0%	100%
TOTAL	45.6%	21.4%	10.5%	17.3%	5.3%	100%
