



National Economic and Fiscal Commission

Raising the Bar

THE 2013 PROVINCIAL EXPENDITURE REVIEW **With trend analysis from 2009 to 2013**

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

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This work is a product of the National Economic and Fiscal Commission. The analysis, findings, interpretations and conclusions expressed are based on data obtained from various sources, primarily the provincial accounting data collected and provided to the National Economic and Fiscal Commission by the Department of Finance. These records are yet to be audited. Due to the nature of the exercise, the National Economic and Fiscal Commission does not guarantee the findings and requests users to exercise caution when relying solely on the data, analysis, findings, interpretations and conclusions contained in this report.

FOREWARD

In striving for gold, the athlete endures years of preparation, much in solitude, driven only by a singular desire to compete and prove themselves in their event of choice. They require an enormous focus upon their pursuit. An ability to sacrifice the pleasures that others take for granted – a slave to a punishing cycle of diet, training, rest and competition. Few are willing to pay the price of sacrifice and dedication.

In July of this year, our athletes join with those from other countries to compete in this year's South Pacific Games in Port Moresby. Champions will be crowned, records will be broken, and we will look for our next champions to celebrate, to join the likes of Dika Toua and Steven Kari who reached the summit at the Commonwealth Games in Edinburgh in 2014.

The world of elite athletes may seem remote to us in our day to day lives. And yet, we all participate in a competitive environment, whether we recognise our careers in this way or not. In government, in public service, we have the opportunity like Toua and Kari to make our mark. As an administrator, a legal officer, an accountant, a nurse, a doctor, a teacher, a rural extension officer, a policy officer, an auditor – whatever we are. The determining factor, ultimately, is us.

Like the athletes of old, Toua and Kari raised the bar. They prove to us to all, that Papua New Guineans can compete on the international stage and win gold, the athlete's ultimate crown. In doing so, they pose the question to us as public servants, how high will we set the bar to improve the quality of services we deliver to our people?

We need aspirational people at every level: in provinces, in districts, at health centres, schools and in our national capital. For we are competing, and the contest is to create a world class rural service delivery system for the 87% of our people that are rurally based.

Since the introduction of RIGFA in 2009, close to K1.5 billion has been allocated to provinces, districts, and the local level, to support the delivery of priority services. Yet we know funding alone does not improve outcomes, we need to ensure that we improve the enabling environment, strengthening processes, systems and capacity, to ensure that service delivery takes place for the benefit of all Papua New Guineans.

Let us as public servants individually and collectively 'Raise the Bar' to better serve our people.

Hohora Suve
Chairman and CEO
National Economic and Fiscal Commission

May 2015



EXECUTIVE SUMMARY

"Raising the Bar"

In 2015, we consider the need to 'raise the bar'. Eighty seven per cent of Papua New Guineans continue to live in rural areas, many highly remote, and in response, the government's service delivery system continues to shape to this reality.

The evolution of the country's decentralised architecture – the political arrangements, the administrative roles and responsibilities, and the service delivery systems – is ongoing. The changes are often iterative and largely unnoticed, but sometimes they are transformative. And so, as our political and bureaucratic systems of government evolves and develops, it is helpful to remind ourselves of the enduring fiscal principles that have come to act as markers to guide our development.

The first principle is affordability. The financial arrangements, as set out in the 1995 Organic Law on Provincial Government and Local Level Government (OPLGLLG), proved to be unaffordable. It took fourteen years of determined work, to recalibrate the intergovernmental financing system to match the original aspirations of the 1995 Organic Law in a way that was more affordable and sustainable to the country. These reforms were implemented in 2009.

Over the years, we have accumulated excellent information on functions, costs, revenue and expenditures. The use of this information helps ensure our intergovernmental financing system remains affordable and focused on supporting the evolving shape of decentralisation.

The second principle is a clear understanding of functional responsibilities. Understanding 'who does what' is of absolute importance. Everything else in the system is premised on a clear understanding of what each participant's responsibility actually is. Where there is doubt, or ambiguity, there is a lack of accountability.

The third principle is that funding follows function. For the service delivery system to work, each level, needs to have access to an appropriate amount of revenue. This is complex. Revenues can be generated locally or received via transfers from a higher level of government. Ensuring the funding gets to the right place is of critical importance in a highly decentralised service delivery context like Papua New Guinea. Ultimately, funding is needed by the frontline: by health centres, by schools, and by those undertaking extension work. Making sure they have access to it, is the challenge.

And the fourth principle is the need for an effective system of reporting and monitoring. Accountability is at the heart of any effective government bureaucracy. Developing a clever sustainable system of monitoring, will 'complete the loop', and help ensure the system has the necessary level of direction and probity. The monitoring framework will need to understand the various roles played by national, provincial, district, local and community participants. We need to gather information that is timely and relevant, that will allow government to monitor and respond.

In this regard, the National Economic and Fiscal Commission remains committed to fulfilling its mandate, by providing advice to government on the fiscal aspects of the evolving shape of the decentralised system.

Summarised findings of the 2013 PER

Who leads the 2013 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 sustained improvement. For the fourth consecutive year the provincial administrations of Simbu, Manus and Milne Bay have held the top five positions on the sustainability table. And in 2012 Madang also joined the group.

In 2013, East New Britain entered the sustainability table for the first time. The full table is included below and is further discussed in section 4.1 of this report.

You will note that four provinces with higher levels of internal revenue continue to sit at the foot of the table. Their large resources, mainly royalty income and GST, are not adequately 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 and 2013.

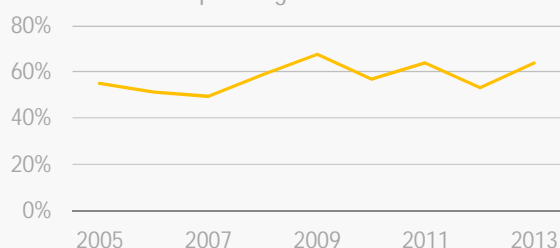
The PER Sustainability Ladder in 2013

Province	2011	2012	2013	Average
1 Simbu	74	70	71	71.5
2 Madang	76	74	61	70.2
3 Milne Bay	76	71	63	70.1
4 Manus	81	68	53	67.3
5 East New Britain	63	59	73	65.4
Central	78	61	54	64
Sandaun	70	54	66	63
Western Highlands	78	67	41	62
Eastern Highlands	65	63	57	62
Jiwaka			60	60
Oro	67	56	54	59
Morobe	61	61	55	59
West New Britain	60	60	53	58
Hela			57	57
East Sepik	62	59	47	56
Southern Highlands	65	42	58	55
Gulf	63	54	46	54
Western	66	50	47	54
Enga	55	51	47	51
New Ireland	72	45	35	51

Are we spending more money in the right areas?

Yes, as the graphs that follow 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 now receive more significant sums of money for these sectors from which they can plan, budget and implement more meaningful service delivery activity plans.

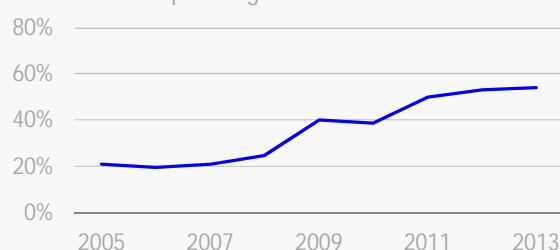
Education spending v CoS



Spending on education continues to increase, but relative to cost it hovers above and below the 60% mark.

This means provinces, overall, spend about 60% of what is necessary to fund a rural education service.

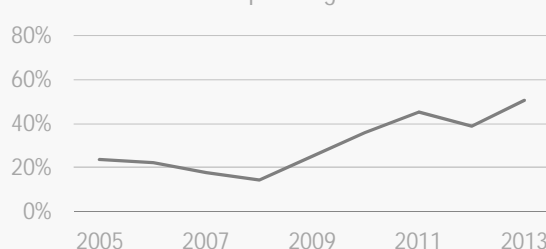
Health spending v CoS



Spending on health continues to increase in Kina terms, but relative to cost it has plateaued at about the 55% mark.

This means provinces, overall, spend about half of what is necessary to fund a rural health service.

Infrastructure spending v CoS



Infrastructure is much cheaper to maintain than to rehabilitate! Provinces have a large stock of government assets to maintain – roads, bridges, jetties – spending money on routine maintenance saves the country a fortune.

Provinces spend about half of what they need to on routine maintenance.

Agriculture spending v CoS



With 87% of the people in rural areas, subsistence farming remains a vital activity. Cash crops provide both food and entry in to the cash economy.

Presently, provinces spend about one-third of what is required. Some spend nothing. Much more needs to be committed to support training and extension activities.

Fisheries spending v CoS



For coastal and river communities, fishing is a vital source of food security and income.

Presently, provinces spend about one-third of what is required. Some spend nothing. Much more needs to be committed to support training and extension activities.

Administration spending v CoS



Provinces need to control their spending on administration. Controlling administration spending will free funds for service delivery.

Some provinces, notably provinces rich in resources and GST, spend up to seven times what is estimated necessary.

Are minimum priority activities being prioritised?

The NEFC has tracked this data for four years. We can see that the answer is again 'yes' (see summary table below). In 2013, 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 2013, 87% of MPAs had an identifiable vote and expenditure against it. This analysis indicates that the MPA initiative is gaining traction, provinces are better understanding the objectives, and compliance continues to grow.

Again, the goal for 2015 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, the province needs to ensure its in-year spending reflects the provincial annual activity plans in these service delivery areas.

Minimum Priority Activities		Exp	Direct	Vote	No vote
Education	1. Provision of school materials	1	1	13	5
	2. Supervision by district/prov staff	4	1	15	0
	3. District education office op's	9	0	5	5
Health	1. Rural health facility op costs	0	4	12	4
	2. Integrated health patrols	5	3	12	0
	3. Medical supply distribution	11	3	5	1
Transport Infrastructure	1. Road & Bridge maintenance	0	2	17	1
	2. Airstrip maintenance	11	3	5	1
	3. Wharf & Jetty maintenance	4	2	4	3
Primary Prod'n.	Agriculture Extension Services	0	2	14	4
	Fisheries Extension Services	0	2	11	0
VC	Operational materials	4	1	9	6
		22%	11%	54%	13%

The 'exp' and 'direct' columns indicate that spending on a minimum priority activity is supported at an adequate level.

For instance, spending on airstrip maintenance appears adequate in fourteen provinces.

In contrast, the level of spending on the provision of school materials is visible as adequate in only two provinces.

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 adequately 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 Supervision
District Education Office Operations	Rural Health Facility Operations & Integrated Health Patrols
Rural Health Facility Operations	Road & Bridge Maintenance
Agriculture Extension	Agriculture and Fisheries Extension
	Village court operational materials

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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 the 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 province's 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 that a 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 occurs when a province has the revenue, but chooses to spend its money on other things which do not support 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 – both from grants and internal revenues.
Revenue (provincial)	Describes the money available to a province, both from national grants and internal revenues.
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 as reflected through a range of specific activities. Examples of services delivery activities include:</p> <ul style="list-style-type: none">– In the area of health; it would include conducting immunisation extension patrols, school visits, and training for village birth attendants. It would also include getting medical supplies from the area stores to the rural health clinics and aid posts.– In the area of education; it would include providing basic educational materials and education subsidies to schools. It also includes school supervision.

List of Abbreviations

Abbrev.	Meaning
200 series	Expenditure from National Government grants
700 series	Expenditure from internal revenue
BEDP	Basic Education Development Program
CoS	Cost of Services Study
DIRD	Department of Implementation and Rural Development
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
LLGSIP	Local level Government Service Improvement Program
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
PHA	Provincial Health Authority
PNG	Papua New Guinea
PIP	Public Investment Program
PSIP	Provincial Service Improvement 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 provincial spending across Papua New Guinea. The reviews seek to inform readers of the progress made 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 of analytical reviews 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)
- Government, Money Arteries & Services (2012)

The latest review entitled Raising the Bar is the ninth edition in the series and reviews the situation in 2013. The 2013 fiscal year is the fifth 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.

Raising the Bar 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 on a more predictable basis. 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.

1.1.2 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.

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 published an updated Provincial Revenue Report in Feb 2014 that covered the period 2008-2012.

- 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.
- 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 2005-2013 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.

1.1.3 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 presently outside the scope of the review.
- Hela and Jiwaka: Transfers for service delivery funding for these newly formed provinces began in 2013. Hela and Jiwaka have been included in this 2013 PER analysis.

1.1.4 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 2013 expenditure we compare it against 2013 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.

³ Population growth is measured as the 1980-2000 average annual growth in each province as supplied and recommended by the National Statistics Office.

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, particularly the Information Technology Division of the Department of Finance.

2 Fiscal Capacity & Revenue

2.1 Provincial revenue: 2005 to 2013

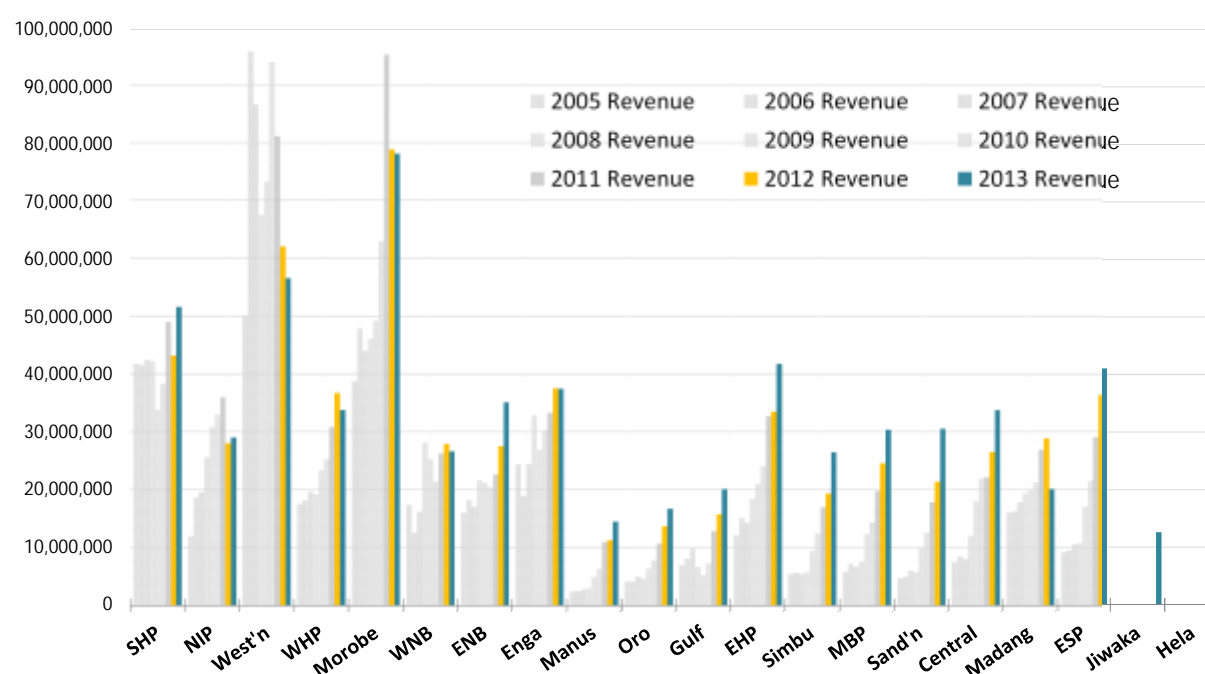
We know that not all provinces are equal.

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

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 these revenues comprise a provinces' resource envelope. This tells us how much money provinces have available to budget and spend. 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 a province is the more the province is able to meet its costs and deliver services to its people.

The following graph illustrates the changes in provincial revenues between 2005 and 2013 that are available to provinces for funding recurrent goods and services.

No.1: Graph comparing available revenues: 2005 to 2013



What can we see?

- The new provinces of Hela and Jiwaka are included.
- You will note the impact that followed the implementation of RIGFA in 2009, where increased funding has been made available to lower-funded provinces (those towards the right of the graph above).
- The overall trend in a majority of provinces, but not all, is of increasing revenues.
- In Western Province a pattern of declining revenues is visible in 2011, 2012 and again in 2013. New Ireland dipped in 2012 and then rebounded a little in 2013.
- In West New Britain revenues appear to have plateaued over recent years and remain constant. Enga and Morobe have maintained their 2012 level in 2013.

- Revenue fluctuations between years are more evident in provinces with revenue from natural resources such as Southern Highlands, New Ireland, Western, Morobe, West New Britain and Enga. Revenue streams from natural resources fluctuate and often have a limited life cycle.
- When revenues from natural resources fall, provinces' that enjoyed the benefit of these natural resource revenue streams are likely to become reliant on RIGFA and national grant transfers to help them meet their service delivery responsibilities.

Whilst the annual total of untagged⁴ provincial revenues has doubled over the nine year period from 2005 to 2013, the growth is nonlinear and varies between years. We are also mindful, that the increases are not spread evenly across all provinces, and RIGFA is seeking to address the underlying inequity in the spread of revenues.

2.2 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 is likely to be allocated and spent on staff related costs (such as casual wages) and/or capital, project and development costs (i.e. 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.

As a consequence, even less money is available for operating costs (i.e. 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 NEFC projections (see the fiscal capacity graph on page 7) and, as a consequence, the levels of expenditure are likely to be less than what is presented throughout this report as well. That said, provinces alone have discretion on how these funds are allocated and spent.

⁴ Untagged provincial revenues refers to grant and internal revenue that is not specifically designated for a purpose other than goods and services. In this sense tagged provincial revenue may include staff related grants and development funds.

2.3 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.

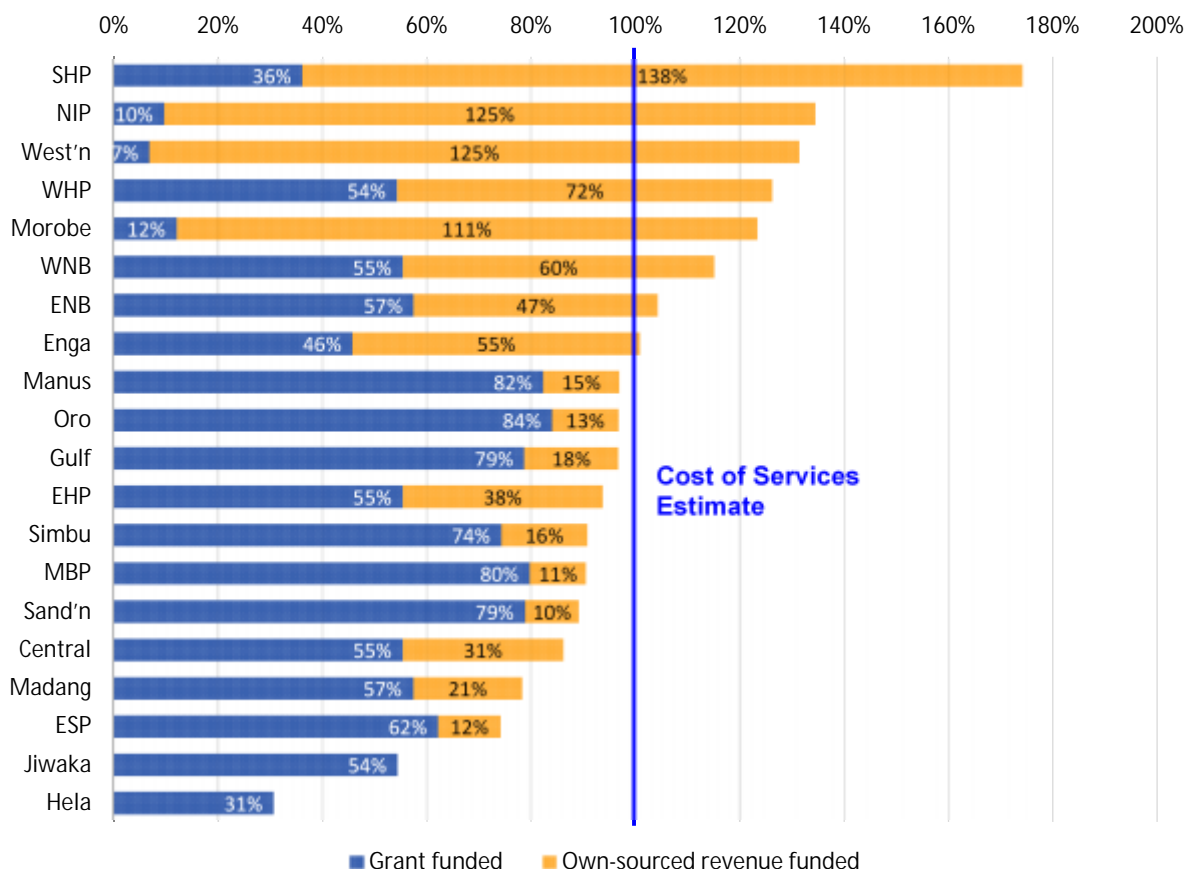
Fiscal Capacity: is a term that describes a province's ability to meet its costs

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. This meant provinces had less than one fifth of the operational funding they required 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 by which the NEFC depicts 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 the operating costs of basic services.

No.2: Graph on fiscal capacity by source in 2013



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 2013, RIGFA has addressed this inequity to the extent that all provinces, excepting the new provinces of Hela and Jiwaka, have 74% or more of what they need to deliver a common set of basic services.
- Eight 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 and resource royalties.
- Typically, lower funded provinces are much more reliant on grant funding from the national government.
- In the past there were quite distinct groups, 'the haves' and the 'have not's'. Those distinctions are now far less pronounced. Most provinces are a lot better funded than pre-RIGFA. There are however, distinctions in the types of revenue that provinces receive and in what proportion:
 - Three, maybe four provinces are largely dependent on their own-sourced revenues: Morobe, New Ireland and Western; and the Southern Highlands to a lesser extent.
 - A second group of provinces are mixed in their dependency, relying on a mix of both grant and own-sourced funding.
 - And a third group is largely dependent on national grant funding.
- In 2013, two new provinces were created. Hela was partitioned from the Southern Highlands, and Jiwaka was partitioned from the Western Highlands. The national government paid grants to these two new provinces in 2013. Other revenue streams will be clarified in due course.

Refer to the notes on how fiscal capacity is calculated.⁵

⁵ 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 - 2011-2013. 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 2013 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.

3 Expenditure Overview

3.1 Overview of where the money went in 2013

Where did provinces collectively spend their revenue in 2013? 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 2013.

No.3: Table overviewing expenditure in 2013⁶

	Administration Sector	MTDS Sectors	LLG Transfers	Economic, Law & Order and Com. Dev.	Other Sectors, Arrears & Unspecified	Total
Internal Revenue						
<i>Goods & Services</i>	140,901,670	37,925,488	13,473,609	33,187,723	13,054,064	238,542,554
<i>Personnel Emoluments</i>	58,181,855	4,790,100	940,851	99,900	-	64,012,706
<i>Capital & Projects</i>	24,848,530	51,313,651	2,996,603	13,889,933	62,347,338	155,396,054
Total Internal Revenue	223,932,055	94,029,239	17,411,062	47,177,556	75,401,402	457,951,314
Grants						
<i>Goods & Services</i>	35,362,606	249,059,290	37,032,147	23,802,658	26,133,452	371,390,154
<i>Personnel Emoluments</i>	12,693,372	30,237,904	154,826	117,600	-	43,203,702
<i>Capital & Projects</i>	36,127,641	202,603,480	38,127,060	173,666,673	-	450,524,855
Total Grants	84,183,619	481,900,675	75,314,033	197,586,931	26,133,452	865,118,710
Total						
<i>Goods & Services</i>	176,264,276	286,984,778	50,505,756	56,990,381	39,187,516	609,932,707
<i>Personnel Emoluments</i>	70,875,227	35,028,004	1,095,677	217,500	-	107,216,408
<i>Capital & Projects</i>	60,976,171	253,917,132	41,123,663	187,556,605	62,347,338	605,920,909
Total All	308,115,674	575,929,914	92,725,095	244,764,487	101,534,854	1,323,070,024

If we analyse the spending between 2006 and 2013 we note that overall spending has increased threefold, moving from K425 million to K1.3 billion. Part of this increase is due to the introduction of development funding, notably PSIP. Whilst overall there is a clear increase in spending during this period, the movements have varied between years.

⁶ Refer to Appendix 1 to see what has been included and excluded in the expenditure data analysis. PIP, PSIP and 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 [or paid on behalf of the LLG] 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.

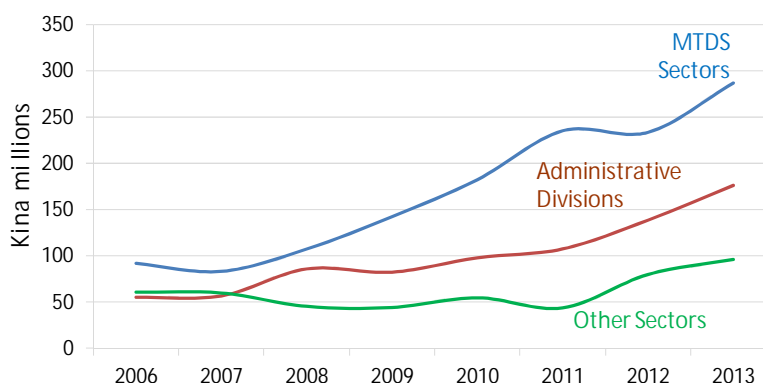
The following series of graphs illustrate high-level spending trends on goods and services, capital & projects and staff-related costs (personnel emoluments) across all provinces. Each graph compares spending in three subsets:

- MTDS sectors
- Administrative divisions
- Other sectors

No.4: Series of graphs, spending trends from 2006-2013

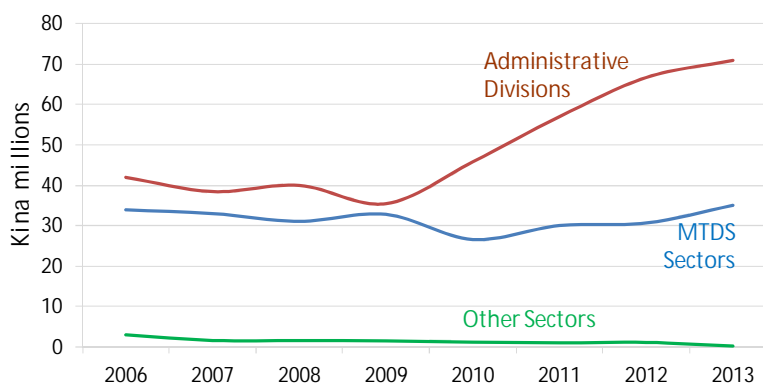
Goods & Services

- Spending on MTDS sectors rose sharply largely due to RIGFA. From K91m in 2006 to K287m in 2013.
- Spending on administration has moved upwards in 2012 and 2013 after remaining relatively steady in earlier years.



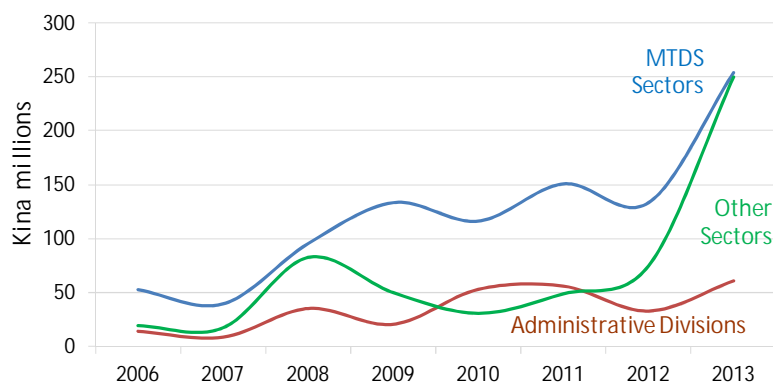
Staff-related Costs⁷

- Spending on staff-related costs in the administrative areas has plateaued in 2013 after rising sharply in recent years.
- Spending on MTDS sectors remains steady.
- Other sector spending is low.



Capital & Projects⁸

- Provincial level capital spending on MTDS and other sectors intersect in 2013, moving upward due, in part, to PSIP.
- Capital spending in administration has recovered from its recent dip.



⁷ In this context, personal emoluments refer to expenditures incurred by the provincial administrations, not the payroll administered by central government that meets the on-going salaries costs for most public servants.

⁸ This is spending through the provincial budget and does not include development spending at the district level through DIRD or development spending by other national agencies that bypass the provincial budget.

3.2 The spending mix, national grants and internal revenue

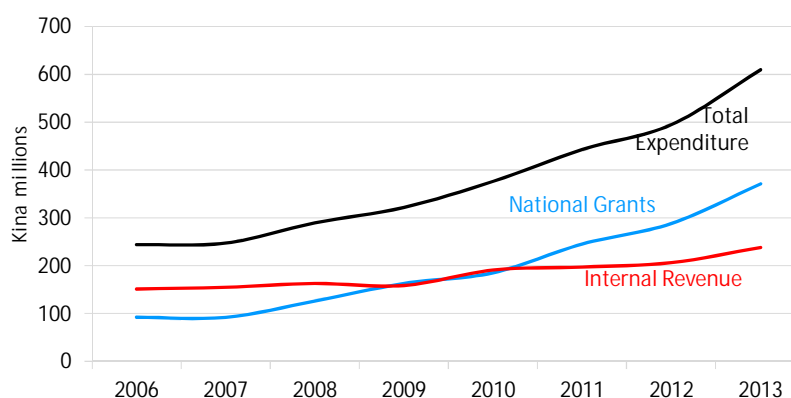
We know that provinces receive their funding from multiple sources that are commonly grouped and described as national grants and internal revenue. The following series of graphs illustrate high-level spending trends on: goods and services; capital and projects; and staff-related costs (personnel emoluments)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

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

No.5: Series of graphs, national grant and internal revenue spending mix 2006-2013

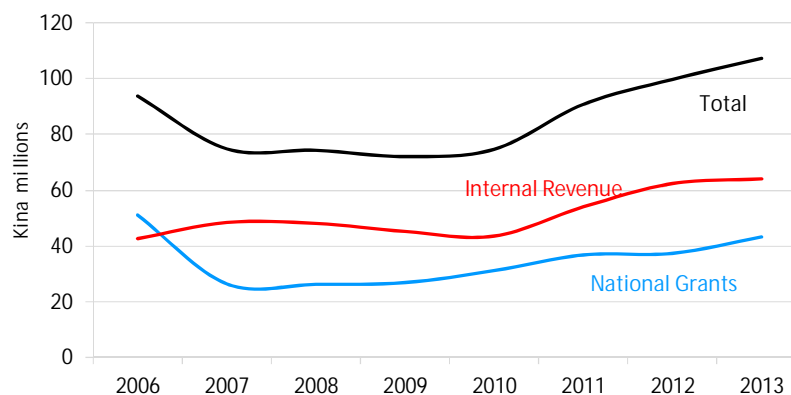
Goods & Services

- Operational spending from grants continues to increase in 2013.
- Despite spending from internal revenue tapering off, the increases in RIGFA grants have ensured a strong upward trend is maintained.
- Spending has more than doubled from about K250m in 2006 to K610m in 2013.



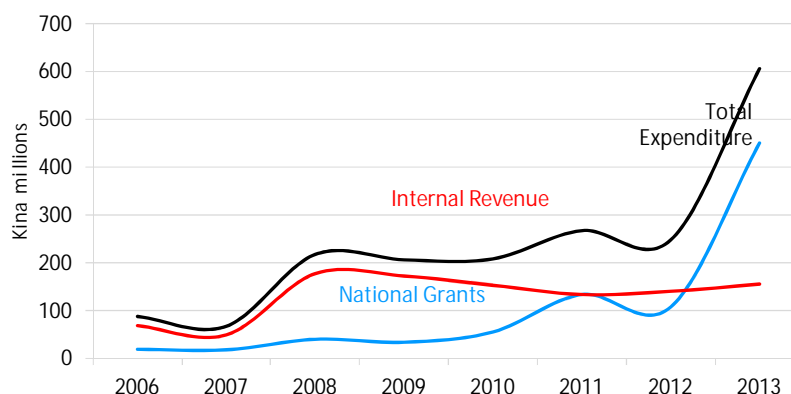
Staff related Costs

- Spending on non-salary staff costs by provinces moves upwards for a third year, after a four year lull.
- Spending from grants rose gently and drove the 2013 increase.
- Spending from internal revenue plateaued in 2013.



Capital & Projects

- Total spending in this area surged mainly due to development grants, notably PSIP.
- Capital spending on internal revenue is relatively flat from 2011 to 2013.



3.3 A look at internal revenue: 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.

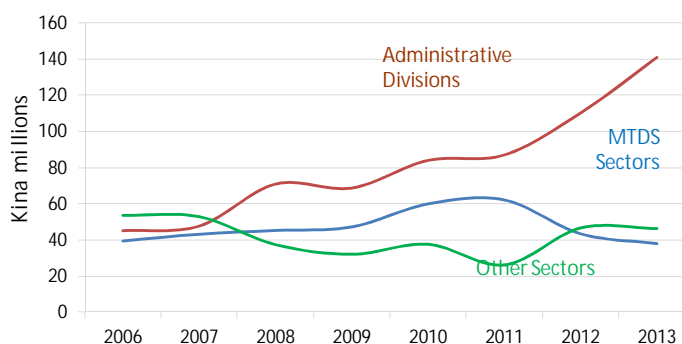
If provinces with higher amounts of internal revenue do not allocate appropriate amounts of internal revenue to support basic service delivery activities, then these activities will simply not happen in those provinces.

Spending from internal revenue has increased significantly between 2006 and 2013. It rose from K263 million in 2006 to K458 million in 2013, an increase of 74%. 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.6: Series of graphs, spending from internal revenue 2006-2013

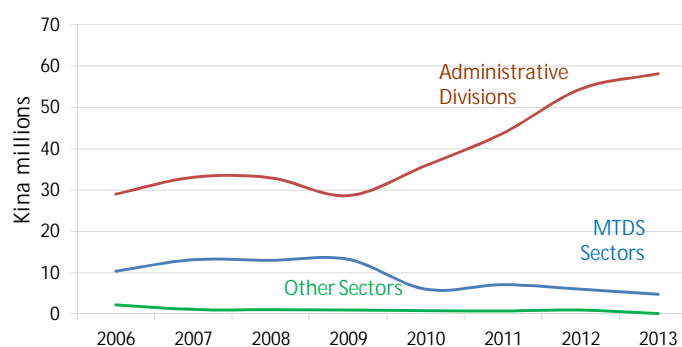
Goods & Services

- Administration spending remains highest and continues the steep rise begun in 2012 in 2013.
- Spending on MTDS sectors which dipped in 2012, dips further in 2013.
- Whilst spending on other sector's has tapered off.



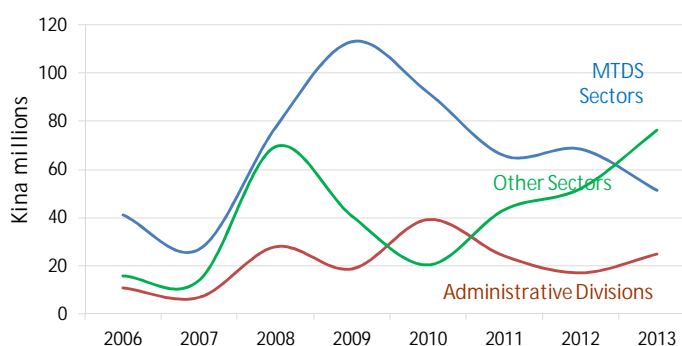
Staff-related Costs

- Administration division spending on non-salary staff costs from internal revenue continues to rise but less sharply than in recent years.
- Spending on MTDS sectors and other sectors slowly taper off.



Capital & Projects

- Capital spending from internal revenue on MTDS sectors has resumed its fall since the high point of 2009.
- Capital spending on other sectors moves upward sharply in 2013, whilst the decline in administration is reversed somewhat.



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.

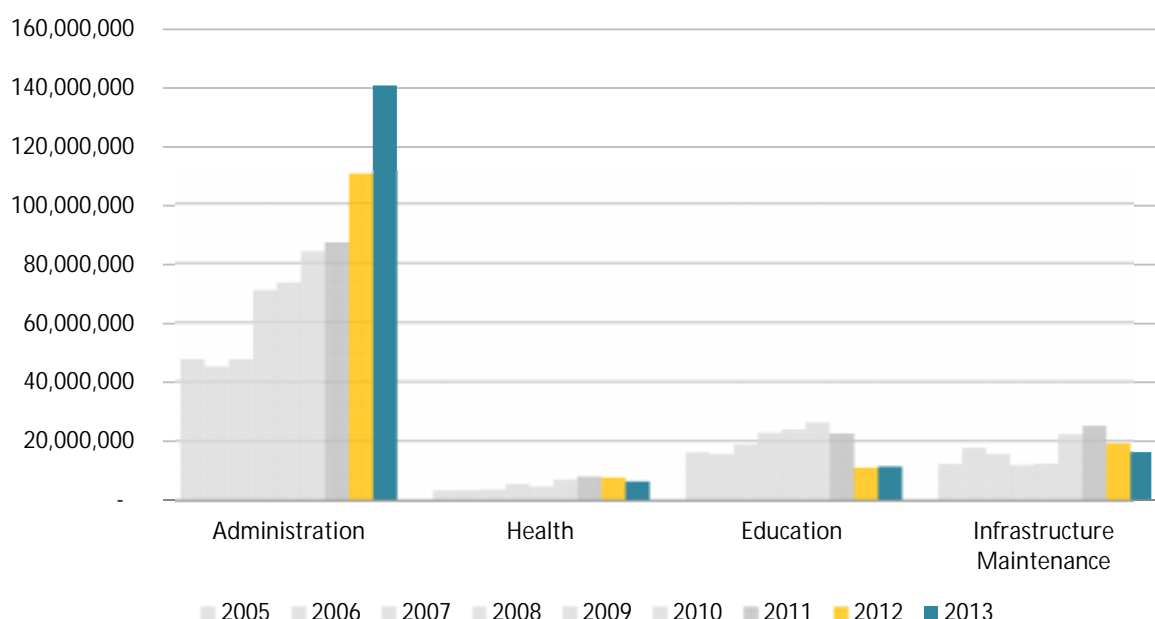
- Support for priority sectors from internal revenue continues to decline in both Kina and real terms. The amount of spending on recurrent goods and services from internal revenue in MTDS sectors has dropped significantly in 2012, and again in 2013.
- This is highly concerning, given the intergovernmental financial system relies on provinces – where possible – to meet the costs of basic service delivery for their people.
- In contrast, spending on: operational funding and staff-related costs for administration divisions; and capital projects for ‘other sectors’ has risen sharply. This suggests a reprioritisation by provinces whereby some funding previously allocated to MTDS sectors is reallocated. It also suggests new internal revenue funding is not directed toward MTDS sectors.
- Historically, spending by provinces from their own-sourced revenue to support priority sectors has 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, and to K38 million in 2013.

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. This is particularly true of provinces with higher levels of internal revenue.

- Yes, more internal revenue needs to be appropriated and expended on recurrent goods & services in MTDS sectors.
- To put it in perspective, in 2013 the K38 million that was spent on core MTDS activities represents only 8% 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 area alone received K224 million or 49% of the internal revenue spending budget.
- More internal revenue was used to fund recurrent goods & services costs in administration (K141 million) than on all MTDS priority sectors (K38 million).
- The need to reprioritise. For those ten provinces with significant amounts 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. This applies particularly to: Southern Highlands, New Ireland, Western, Western Highlands, Morobe, West New Britain, East New Britain, Enga, Eastern Highlands and Central.
- A total of 54% 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. Amongst other things, this highlights the need for provinces to develop more robust systems to manage personnel costs.

No.7: Graph on operational spending from internal revenue in major sectors from 2005 to 2013



The graph above illustrates spending on recurrent goods & services from internal revenue in the major sectors for the 2005-2013 fiscal years.

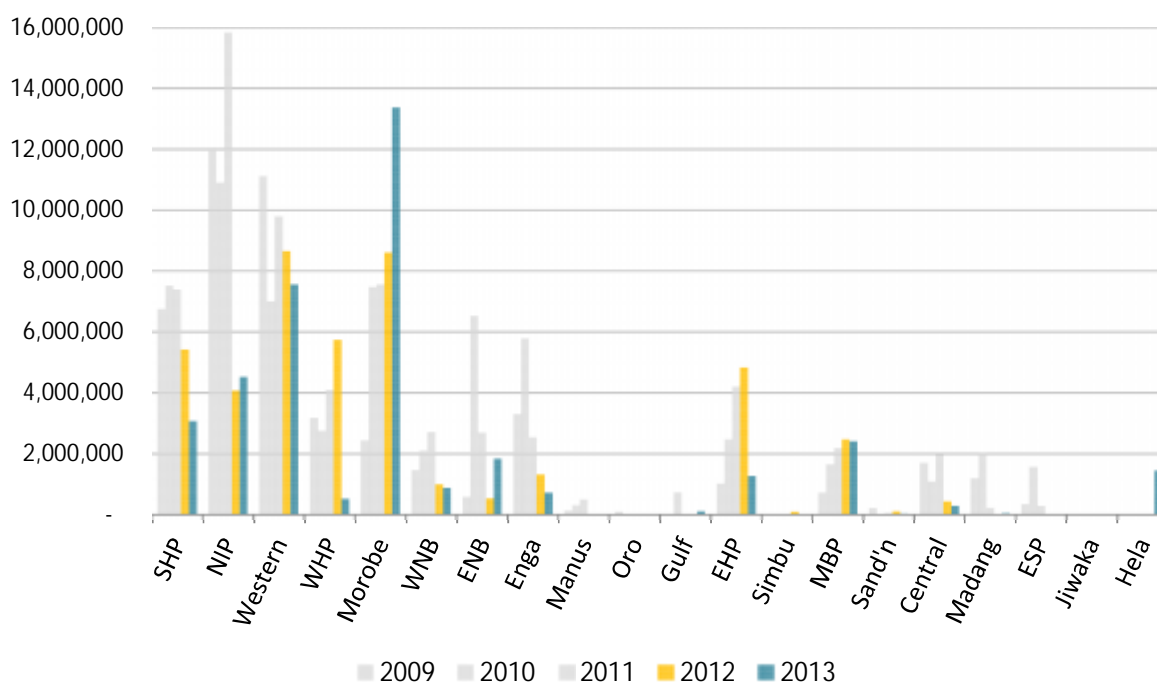
- Recurrent spending on administration has spiked for a second consecutive year in 2013 and continues to receive the largest slice of internal revenue by a wide margin.
- Health continues to receive very little support from internal revenue to fund operational costs in the sector.

This is hugely significant for provinces with higher levels of internal revenue whose health services are reliant on internal revenue for operational funding indicating poor prioritisation.

- Interestingly, provincial spending on education from internal revenue dipped in 2011, dropped even further in 2012, and has remained at that lower level in 2013. Is this a response to the national governments free education policy and the enormous increase in direct subsidies to schools in recent years?
- Spending on infrastructure maintenance dipped again slightly in 2013.⁹ This is in the context of a lot more funding (and ensuing spending) being made available at the subnational levels for infrastructural development via the expanding PSIP, DSIP and LLGSIP funding streams in addition to the longer standing modalities such as PIP and SSG funding. The concern is that this heightened spending on 'capital' – both new infrastructural development and the expensive rehabilitation of dilapidated assets – needs to be matched concurrently with an emphasis on routine maintenance.

⁹ As mentioned elsewhere in this report the variety in provincial expenditure classification practices make it a difficult analytical process to accurately discern and disaggregate infrastructure spending between recurrent and capital purposes. Accordingly, to assist readers in developing their own understanding, a chart in the section beginning on page 75 presents both recurrent and capital spending by provinces on transport infrastructure from 2010 to 2013.

No.8: Graph on internal revenue spending on MTDS sectors - 2009 to 2013

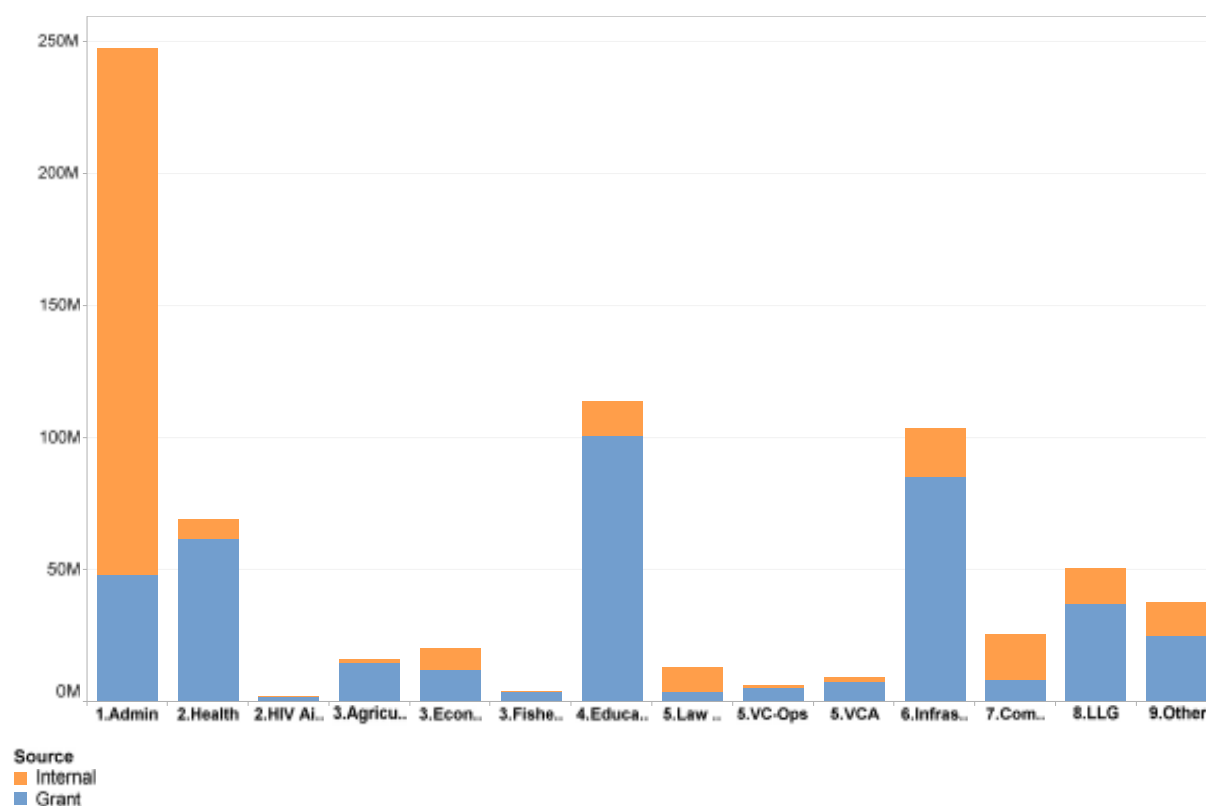


The graph above illustrates spending on recurrent goods and services from internal revenue in the MTDS sectors of health, agriculture, education, infrastructure maintenance, and village courts between 2009 and 2013.

- In 2013, the most notable kina increase in recurrent spending on MTDS Sectors from internal revenue was by Morobe. This is commendable. However, the amount spent is still relatively low compared to what is required for this large province of nine districts.
- Spending from internal revenue on areas of national priority declined in seven provinces. Sometimes these declines were alarming – notably Southern Highlands and Eastern Highlands.
- New Ireland had previously displayed strong support for MTDS sectors by spending relatively high amounts from internal revenue from 2009-2011. This dropped significantly in 2012, and remained down in 2013. East New Britain had followed a similar pattern to New Ireland, but in contrast started to recover in 2013.
- With the exception of Milne Bay, most lower-funded provinces spend very little or no internal revenue in MTDS sectors. Even Central in 2013 continued to reduce its spending from this source.
- Hela, a new province in 2013, appears to have displayed strong spending on MTDS sectors from its internal revenue.

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.9: Graph on sector spending by source in 2013 (recurrent only)

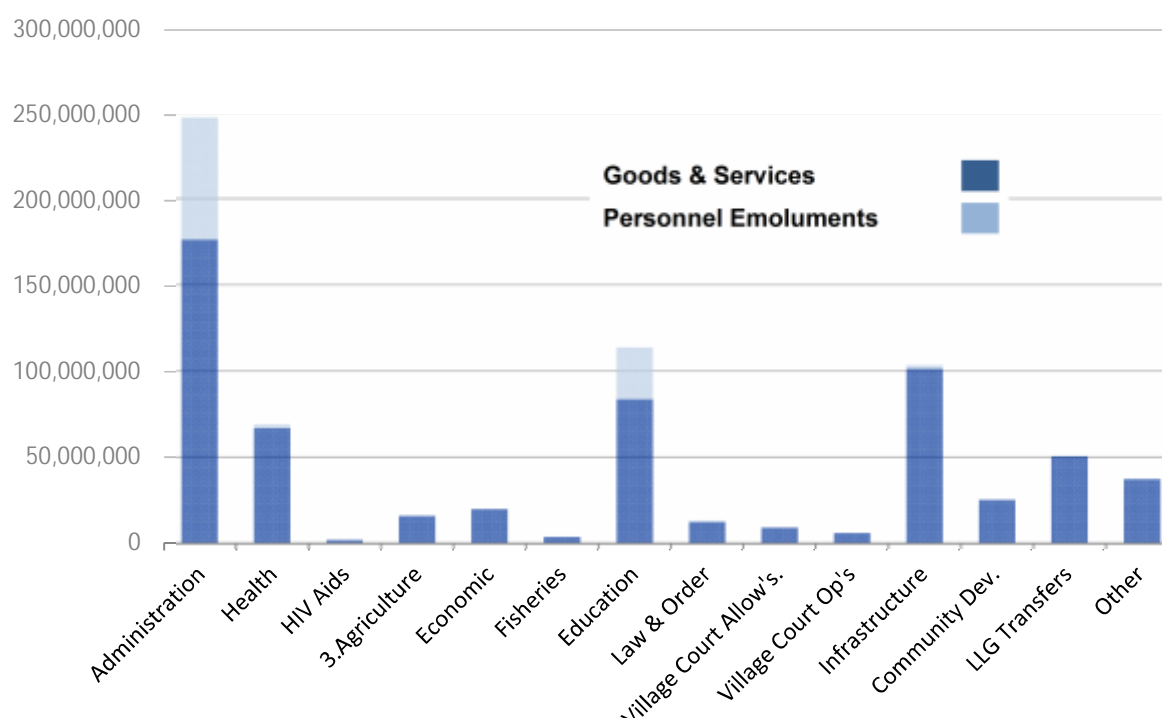


The graph above illustrates the recurrent spending by provincial administrations – it splits the sector spending into funding by national government grant (blue) and funding from provincial internal revenue (orange). Interestingly the themes have stayed consistent over recent years, you will observe 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 the areas of 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 reasonably visible amounts allocated from internal revenue.
- Health funding has improved but is mainly grant dependent.
- Funding for agriculture has also improved markedly in recent years and support for fisheries is beginning to emerge, albeit with limited support from internal revenue.
- In the wider law & order sector, village courts are mostly funded by grants whilst internal revenue supports other law & order sub-sectors.

NB: This chart does not include expenditure from PSIP, LLGSIP, PIP or SSG.

No.10: Graph on sector spending by type in 2013 (recurrent goods and services & personnel)



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 and personnel emoluments (excluding salaries).¹⁰

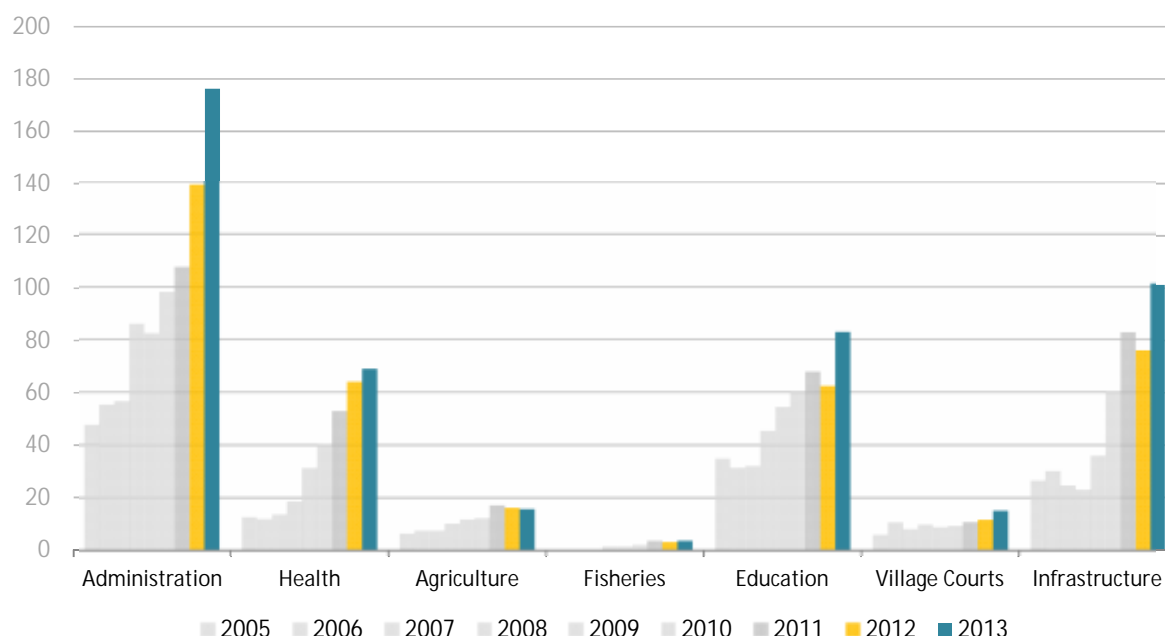
You will observe:

- The spread of expenditure and proportions across sectors remains relatively similar between years.
- 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 the education sector, it relates mainly to teachers leave fares.

In previous PER reports we have included expenditure on 'capital, projects and tertiary' in this chart. However in 2013, with the growing size and relevance of dedicated funding streams for capital activities (PSIP, LLGSIP, SSG and PIP) it seems appropriate to display capital spending from all sources as a separate chart.

¹⁰ Most salaries for provincial public servants and teachers are paid from the national level and are not included in this provincial expenditure data.

No.11: Graph on spending trend by sector: 2005 to 2013

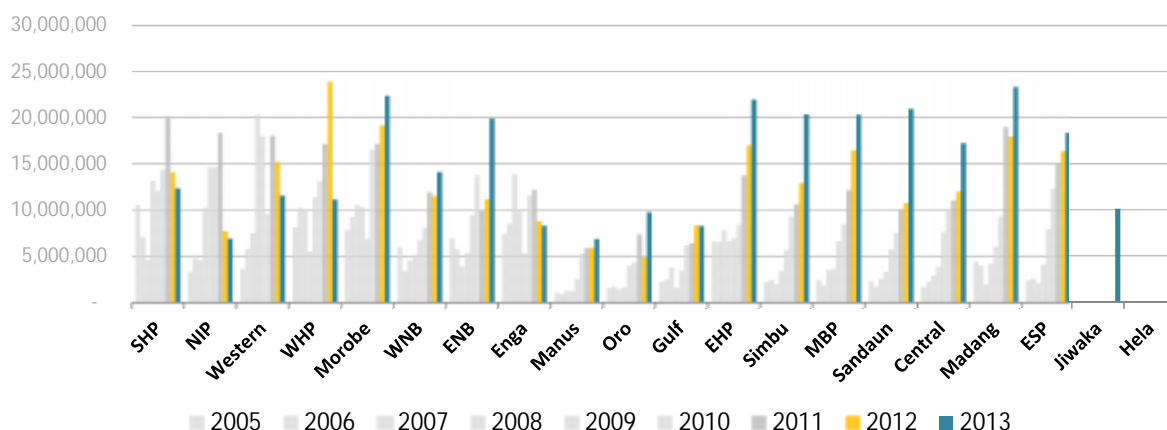


The graph above illustrates and compares how much was spent on recurrent goods and services in each major sector across all provinces from 2005 to 2013.

You will observe:

- The 2012 election year spending dips have mostly been reversed.
- 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. However, spending on education and infrastructure maintenance then regained its upward momentum in 2013.
- 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 markedly.

No.12: Graph on MTDS spending trends: 2005 to 2013



The graph above illustrates spending on recurrent goods and services in MTDS sectors by province from 2005 to 2013.

The graph is useful for illustrating the following:

- Many provinces again showed either notable increases or sustained spending levels in priority sectors. There were large increases in Morobe, East New Britain, Eastern Highlands, Simbu, Milne Bay, Sandaun, Central, and Madang. Increases were also noted in West New Britain and Oro.
- The increased spending levels are generally being sustained.
- The newly created provinces of Hela and Jiwaka appear in the analysis for the first time.
- From 2013, the existing 'mother' provinces of the Southern Highlands and Western Highlands now have significantly reduced boundaries and constituencies. With their land area and populations reduced, the cost to deliver services has also declined markedly, and hence we are likely to see a reduction in spending on MTDS sectors in these provinces from their pre-2013 levels.
- The four highest funded provinces all reduced their spending. Only Morobe increased its spending – kudos to the leadership of this large province.

The increased spending through RIGFA which began in 2009, has been maintained and has increased over the period 2009-2013.

Today, much more is now spent to support priority service delivery sectors in many provinces across the country.

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 (and cash by Finance) 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 (and cash), 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 consistent manner provinces need their service delivery funding provided early and in a predictable pattern.

A standard cash release schedule

Importantly, the total amount of function grants is a relatively small component of the national budget. For service delivery to improve, this amount needs to be ring-fenced and released in a timely consistent manner each year.

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 2013?

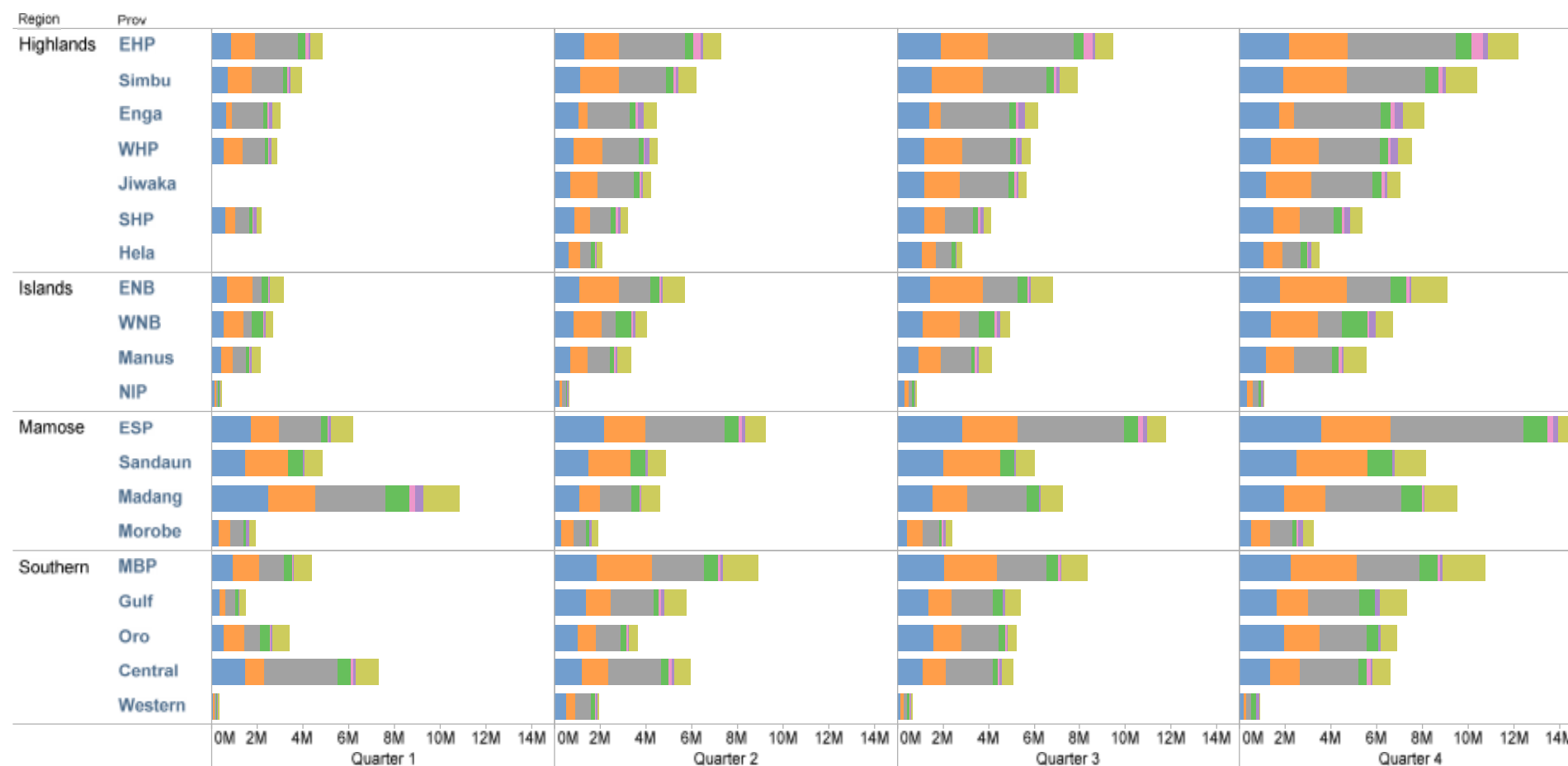
Provinces need a large amount of funding very early in the year to enable them to implement their plans and commence their service delivery activities.

The graphs on the following pages illustrate the release of warrants in 2013. We can observe:

- The situation of warrant releases was mixed in 2013.
- Most provinces received a small amount of funding in either January or February of 2013. This was an improvement over 2012 when no province received funding in these months.
- Broadly speaking, there appears to be a greater consistency in the patterns of warrant release across provinces. This was also an area of improvement over the inconsistency in 2012.
- However, too much funding was withheld and released in August and the last quarter of 2013. Provinces received between 48% (Highlands) and 39% (Southern) between August and November. The cash release schedule the NEFC proposed suggests 10% should be released over this period (see page 23).

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.13: Graph on timing of warrant release by quarter in 2013



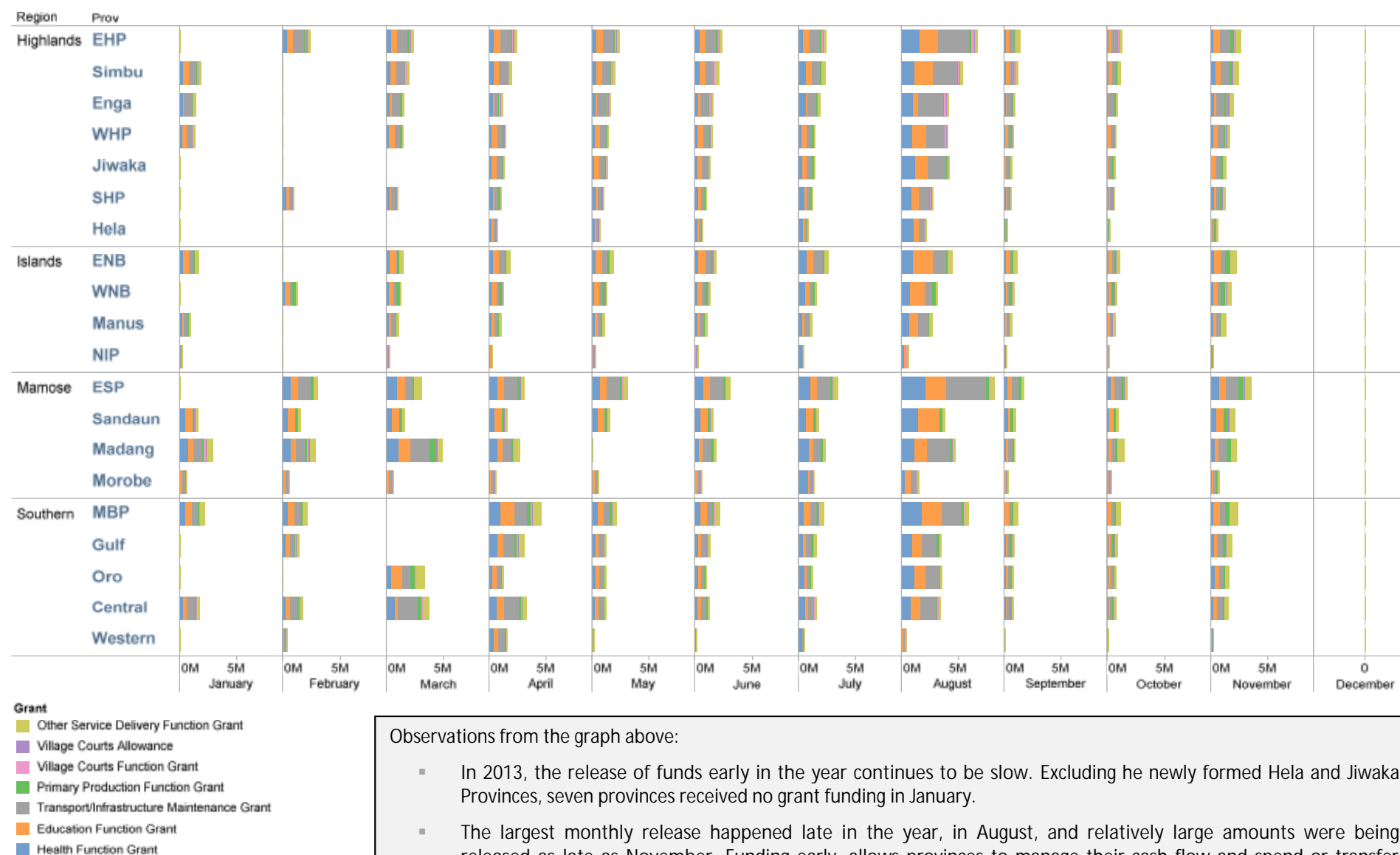
Grant

- Other Service Delivery Function Grant
- Village Courts Allowance
- Village Courts Function Grant
- Primary Production Function Grant
- Transport/Infrastructure Maintenance Grant
- Education Function Grant
- Health Function Grant

Observations from the graph above:

- In 2013, there appears to be a greater consistency in the release of grants across provinces by Treasury. This is encouraging.
- Less encouraging, is the high proportion of operational funding, released by Treasury, in the final quarter. This is very late: leaving limited time for it to be spent on the support of basic services; and contributes to the issue of perpetual rollover of unused funds.

No.14: Graph on timing of warrant release by month in 2013



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 subnational 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.15: 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.

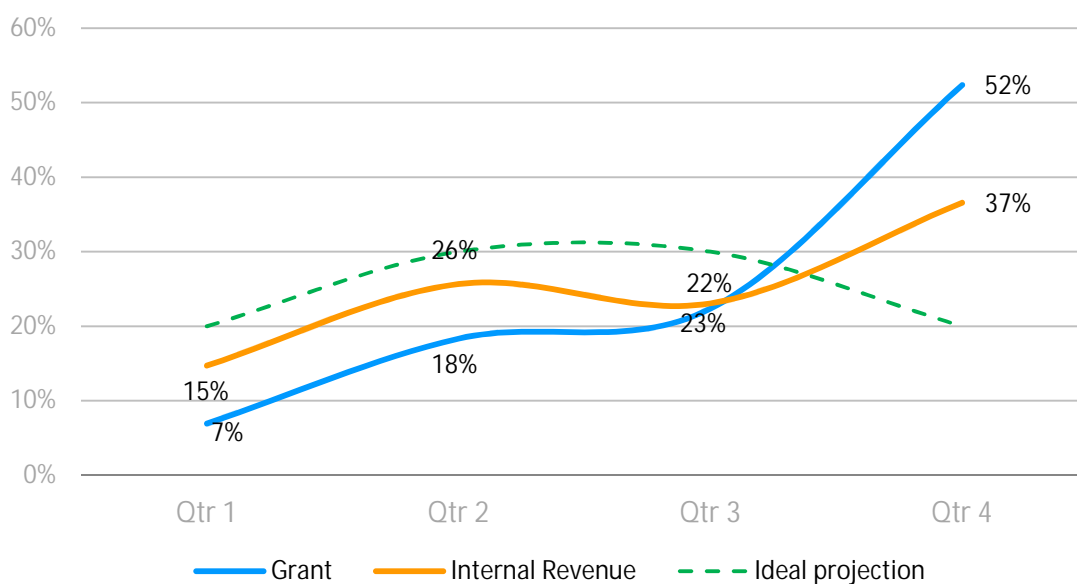
Three effects of late spending are:

- 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 2013, 52% of grant expenditure and 37% of spending from internal revenue occurred in the final quarter of the fiscal year. When one considers that the government accounts close mid-way through December, that means that more than a half of grant spending and more than one third of internal revenue spending occurred in just over two months. So, how much service delivery can happen during the year when the spending to support service delivery is delayed and occurs so late?

- Spending in the first quarter was very low for the fifth consecutive year.
- Spending in the 4th quarter of 2013 remains very high and has got worse.

No.16: Graph, on the average level of spending in each quarter¹¹



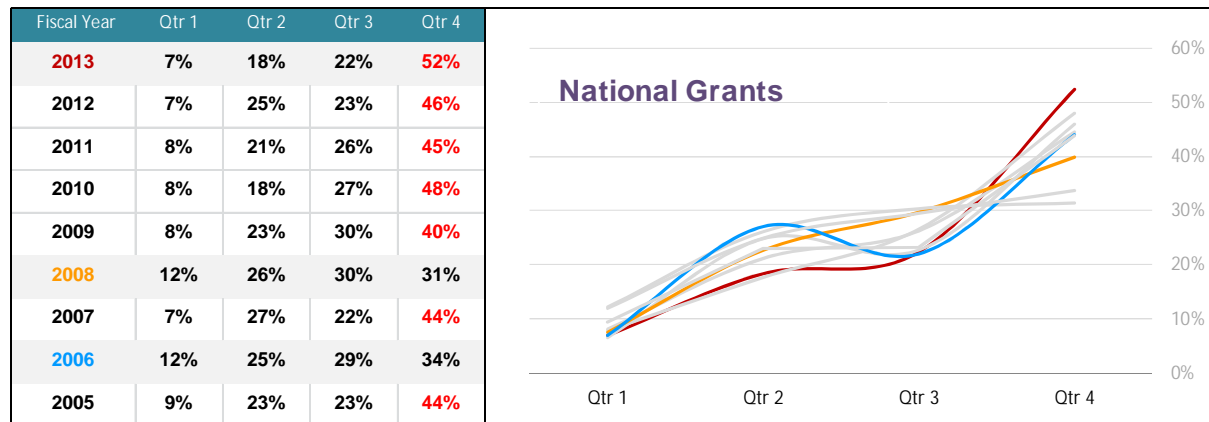
The **ideal projection line** is a theoretical projection of how overall spending may occur during a fiscal year. A typical spending pattern would start slowly, increase throughout the year as service delivery activities move in to full swing, and taper off toward the end of the year as activities wind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

¹¹ 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.

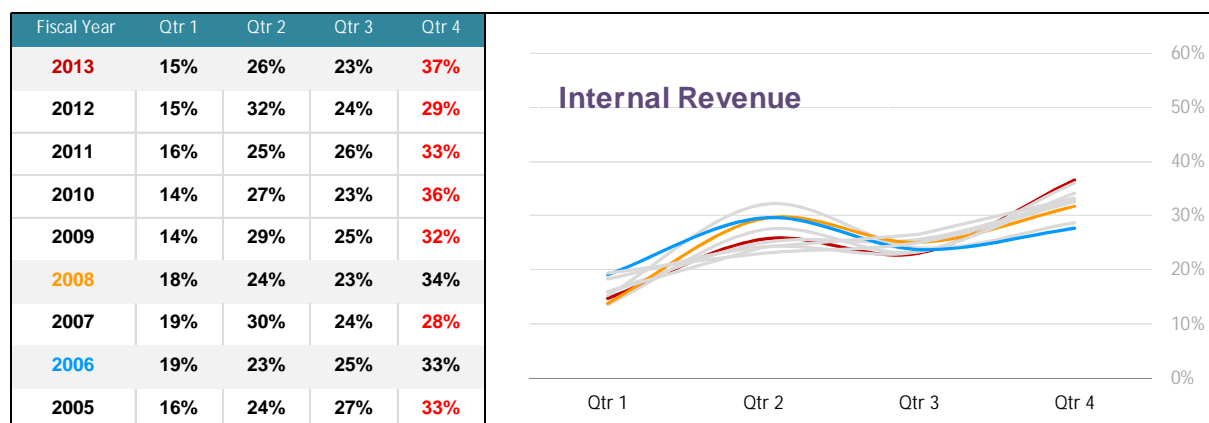
No.17: Table on spending from national grants by quarter 2005 to 2013



The tables above and below detail how much provincial spending took place in each quarter between 2005 and 2013 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 often grant funding 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 the last four years an average 48% 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.

No.18: Table on spending from internal revenue by quarter 2005 to 2013



No.19: 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 2013 and 2012. Information for the 2005-2011 fiscal years is available in previous annual PER's on the NEFC website: www.nefc.gov.pg/publications

Province	Source	2013 Fiscal Year					2012 Fiscal Year				
		Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
Central	Grant	2%	18%	15%	65%	100%	11%	19%	29%	41%	100%
Central	Internal Revenue	12%	32%	20%	35%		19%	29%	26%	26%	
EHP	Grant	4%	20%	29%	47%	100%	3%	18%	20%	60%	100%
EHP	Internal Revenue	7%	45%	17%	31%		9%	21%	16%	54%	
ENB	Grant	5%	22%	26%	47%	100%	4%	36%	24%	36%	100%
ENB	Internal Revenue	10%	32%	23%	35%		15%	38%	30%	17%	
Enga	Grant	6%	25%	17%	53%	100%	3%	40%	4%	53%	100%
Enga	Internal Revenue	21%	31%	18%	31%		27%	41%	10%	22%	
ESP	Grant	16%	23%	19%	42%	100%	3%	7%	32%	58%	100%
ESP	Internal Revenue	21%	26%	19%	34%		17%	45%	21%	17%	
Gulf	Grant	10%	27%	30%	33%	100%	6%	19%	21%	54%	100%
Gulf	Internal Revenue	5%	28%	9%	58%		17%	36%	32%	16%	
Hela	Grant	0%	3%	0%	97%	100%					
Hela	Internal Revenue	1%	0%	0%	99%						
Jiwaka	Grant	7%	0%	19%	74%	100%					
Jiwaka	Internal Revenue										
Madang	Grant	8%	25%	21%	46%	100%	5%	21%	25%	49%	100%
Madang	Internal Revenue	26%	25%	14%	35%		14%	45%	34%	8%	
Manus	Grant	0%	8%	28%	64%	100%	5%	39%	21%	34%	100%
Manus	Internal Revenue	12%	19%	33%	37%		21%	25%	26%	28%	
MBP	Grant	7%	19%	29%	44%	100%	8%	22%	20%	51%	100%
MBP	Internal Revenue	7%	16%	27%	50%		17%	42%	22%	18%	
Morobe	Grant	11%	15%	19%	54%	100%	1%	35%	40%	24%	100%
Morobe	Internal Revenue	19%	33%	25%	24%		10%	30%	23%	38%	
NIP	Grant	7%	23%	42%	28%	100%	2%	13%	32%	53%	100%
NIP	Internal Revenue	17%	22%	25%	35%		15%	26%	30%	29%	
Oro	Grant	5%	25%	21%	49%	100%	1%	29%	34%	35%	100%
Oro	Internal Revenue	11%	37%	18%	34%		0%	32%	34%	34%	
Sand'n	Grant	4%	15%	25%	55%	100%	9%	25%	25%	41%	100%
Sand'n	Internal Revenue	12%	33%	21%	35%		1%	27%	28%	45%	
SHP	Grant	3%	30%	28%	39%	100%	1%	5%	9%	84%	100%
SHP	Internal Revenue	5%	31%	48%	16%		0%	24%	18%	58%	
Simbu	Grant	5%	23%	24%	48%	100%	2%	39%	24%	35%	100%
Simbu	Internal Revenue	37%	19%	20%	24%		25%	24%	26%	24%	
West'n	Grant	32%	2%	10%	56%	100%	36%	14%	24%	25%	100%
West'n	Internal Revenue	13%	13%	59%	15%		43%	20%	22%	15%	
WHP	Grant					0%	17%	38%	6%	39%	100%
WHP	Internal Revenue	33%	14%	16%	38%		20%	42%	14%	24%	
WNB	Grant	0%	25%	20%	55%	100%	0%	28%	20%	52%	100%
WNB	Internal Revenue	11%	34%	28%	27%		6%	32%	19%	43%	
Average of Grants		7%	18%	22%	52%	95%	7%	25%	23%	46%	100%
Average of Internal Revenue		15%	26%	23%	37%		15%	32%	24%	29%	

Notes to assist in reading the table:

- 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'.

Several matters stand out:

- This is the first year that the newly formed Hela and Jiwaka provinces received funding. They are in the process of establishing their administrative and service delivery capacity and processes.
- Unusual accounting practices rendered the Western Highlands 2013 grant accounting data unusable for this analysis.
- The spending of operational grant funding in the last quarter is too high, and as such, unlikely to be effectively supporting the delivery of basic services.
- A timely predictable grant disbursement methodology will greatly assist in improving the timing of spending and support the delivery of basic services.

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 take place from year to 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 does not sustain the improvements in service delivery we aspire to achieve.

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 2013 Top Five table shows the performance of all provinces but highlights the five provinces with the best results over the last three reviewed years – from 2011 to 2013.

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

No.20: Graph on The Top Five – sustaining high performance

Province	2011	2012	2013	Average
1 Simbu	74	70	71	71.5
2 Madang	76	74	61	70.2
3 Milne Bay	76	71	63	70.1
4 Manus	81	68	53	67.3
5 East New Britain	63	59	73	65.4
Central	78	61	54	64
Sandaun	70	54	66	63
Western Highlands	78	67	41	62
Eastern Highlands	65	63	57	62
Jiwaka			60	60
Oro	67	56	54	59
Morobe	61	61	55	59
West New Britain	60	60	53	58
Hela			57	57
East Sepik	62	59	47	56
Southern Highlands	65	42	58	55
Gulf	63	54	46	54
Western	66	50	47	54
Enga	55	51	47	51
New Ireland	72	45	35	51

4.2 How the NEFC 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 that follows is a quick reference guide on the three forms of measurement that we use and the questions they help to answer.

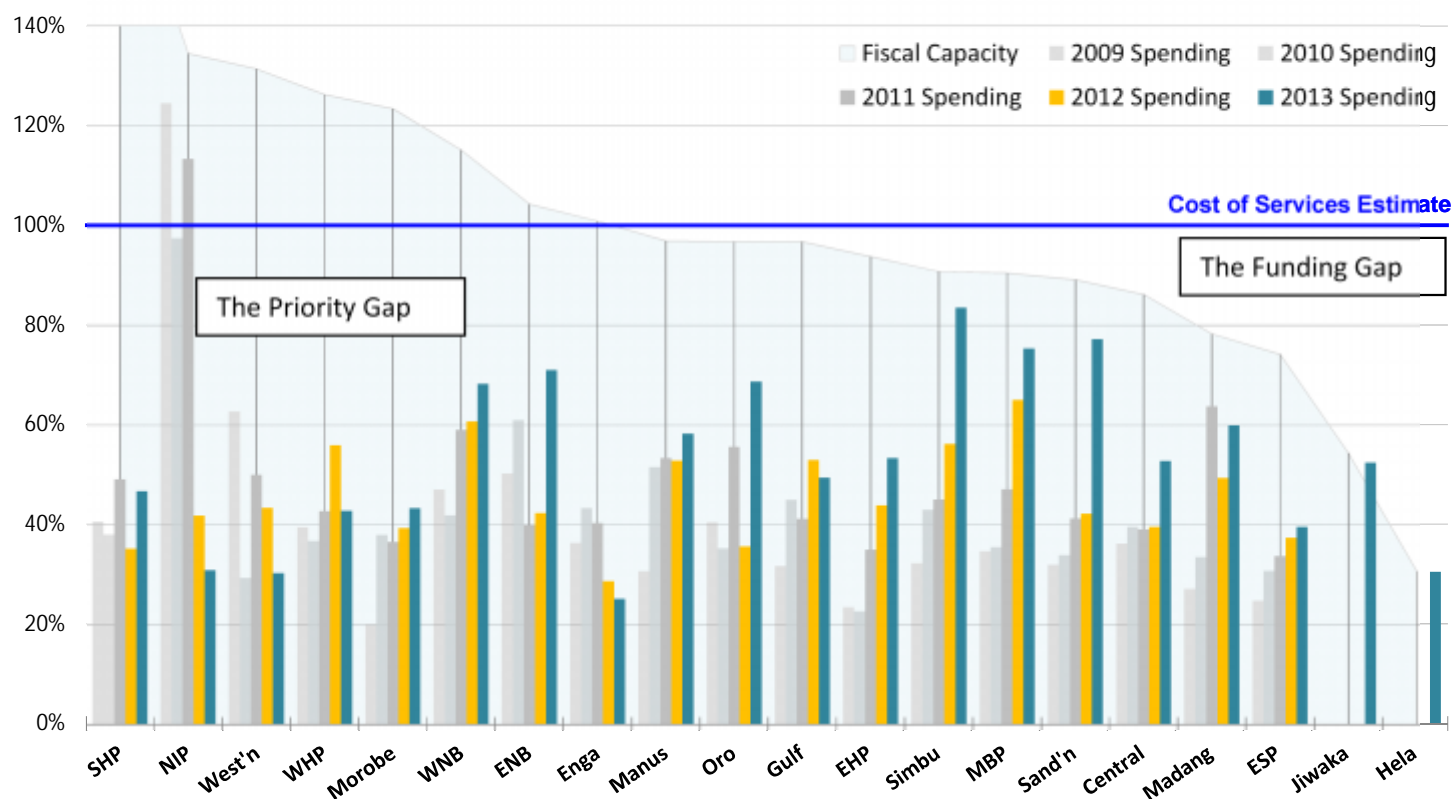
Answering questions about performance

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 or <u>their ability</u> to meet the cost of their service delivery responsibilities (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 gap¹². The second is a matter of funding, many provinces simply do not have sufficient funding – we call this the funding gap.

No.21: Graph on supporting MTDS priorities from 2009 to 2013



¹² 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

- The Funding Gap is being addressed through the implementation of RIGFA (Reform of Intergovernmental Financing Arrangements) from 2009. The intergovernmental financing system has been redesigned in a way to ensure PNG's resources are shared on an equitable basis so that those in most need receive national assistance first.
- The implementation of the government's intergovernmental financing reforms has started the process of addressing this funding gap. The 2013 GoPNG budget provided an overall 27% increase in recurrent goods and services funding to provincial governments, with an extra K86.2 million distributed to those provinces that needed it most. We can see the impact of the increased spending by lower and medium funded provinces.¹³
- The Priority Gap remains. It 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 a priority sector (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. Basic services in GST-rich and resource-rich provinces will not improve until these provinces allocate more funding to intentionally support the delivery of basic services.

This applies particularly to: **Southern Highlands, New Ireland, Western, Western Highlands Morobe and Enga.**

- The level of spending on recurrent goods and services in priority areas is still too low and overall inadequate but there are real 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 network of roads and by developing a 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 of the provinces that have traditionally had small amounts of internal revenue, and have benefited from RIGFA, have increased their recurrent spending on MTDS sectors, both in Kina terms and relative to costs, and have sustained these levels. This is good and pleasing to see.

¹³ This excludes transfers to Local level Governments.

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 as 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.22: Table of Provincial MTDS Priorities in 2013: How well were MTDS priorities supported given fiscal capacity?¹⁵

Rank By Fiscal Capacity	Province	Average Fiscal Capacity	Health & HIV	Agriculture	Fisheries	Education	Infrastructure	Village Courts Op's	Allow's		
1	Southern Highlands	174%	Medium	Low	n.a..	Medium	Medium	High	High	High	above 80%
2	New Ireland	134%	Low	Low	Low	Medium	Low	High	High	Medium	between 40-79%
3	Western	131%	Low	Low	Low	Medium	Low	High	High	Low	below 40%
4	Western Highlands	126%	Medium	Low	n.a..	Low	Medium	Medium	High		
5	Morobe	123%	Low	Low	Low	Low	Medium	High	High		
6	West New Britain	115%	Medium	Medium	Medium	Medium	Medium	High	High		
7	East New Britain	104%	High	Medium	Medium	High	Medium	High	High		
8	Enga	101%	Medium	Medium	n.a..	Low	Low	Medium	High		
9	Manus	97%	High	Low	Low	Medium	Medium	Medium	High		
10	Oro	97%	Medium	Medium	Low	High	High	High	Medium		
11	Gulf	97%	Medium	Low	Low	Medium	Low	High	High		
12	Eastern Highlands	94%	Medium	Low	High	Medium	Medium	High	High		
13	Simbu	91%	Medium	Medium	High	High	High	High	High		
14	Milne Bay	91%	Medium	Medium	Low	High	High	High	High		
15	Sandaun	89%	High	Medium	High	High	High	High	High		
16	Central	86%	Medium	Low	Medium	Medium	Medium	High	High		
17	Madang	78%	Medium	Low	Low	High	High	High	High		
18	East Sepik	74%	Medium	Medium	Low	Medium	Low	High	High		
19	Jiwaka	54%	Medium	High	n.a..	High	High	High	High		
20	Hela	31%	High	Medium	n.a..	High	Medium	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 2013, the general picture is one of improvement in spending on the priority sectors.
2. Improved equity across sectors – since 2011 we have seen a noticeable evening out of funding for basic services across all sectors. However in 2013, the average spending on the larger priority sectors has diverged a little. The broad-based economic sectors of agriculture and fisheries require support.
 - Education average, 62% (2012, 53%)
 - Health average, 52% (2012, 53%)
 - Agriculture average, 32% (2012, 38%)
 - Fisheries average, 39% (2012, 38%)
 - Infrastructure average 48% (2012, 39%)
3. Grant dependent provinces – there are very few ‘low’ scores in the large sectors of education, health and infrastructure amongst provinces with higher levels of grant funding. This is pleasing to observe, and demonstrates function grants are funding large MTDS sectors. However, the broad-based economic sectors of agriculture and fisheries require additional funding support.
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. Education – returns to no.2 priority across most provinces, after briefly losing the position to health in 2012.

There are three provinces that scored low: **Enga, Morobe, Western Highlands**.

In prior years some provinces clearly prioritised education – that is no longer evident.

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).

6. Health – has moved to a better level of overall funding. Of the big sectors health now ranks no.3. 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 fundamental requirement in the MTDS however the low spending levels in **New Ireland, Western and Morobe** provinces do not reflect this prioritisation. Delivering basic health services relies on operational funding. More is needed in these three provinces in particular, and across higher funded provinces in general.¹⁶

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

7. Agriculture – prioritisation of agriculture in resource and GST rich provinces is poor. When one considers the fundamental importance of this sector in providing a source of food and income for rural families and communities, this is discouraging and an area for renewed focus.

Ten provinces achieved low scores.

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 began separately tracking support for the fisheries sub-sector. We need to see an increasing focus upon this area.

Nine provinces achieved low scores.

9. Infrastructure – 2013 sees further signs of tangible improvement across many provinces. Provinces that received larger grants (proportionately) generally outperformed provinces with larger amounts of GST and resource revenues.

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 on maintenance 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 three provinces in the medium band.

4.5 The Provincial Expenditure Matrix

The pages 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 were new in 2012.

No.23: 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 2013 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

No.24: The 2013 Provincial Expenditure Matrix & Scorecard

Sector	Assessment Criteria	East New Britain	Simbu	Sandaun	Mine Bay	Madang	Jiwaka	Southern Highlands	Hela	Eastern Highlands	Morobe	Central	Oro	West New Britain	Manus	Western	East Sepik	Enga	Gulf	Western Highlands	New Ireland
	Rank by Score	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
	Score	73%	71%	66%	63%	61%	60%	58%	57%	57%	55%	54%	54%	53%	53%	47%	47%	47%	46%	41%	35%
	Fiscal Capacity Rank	7	13	15	14	17	19	1	20	12	5	16	10	6	9	3	18	8	11	4	2
	Fiscal Capacity %	104%	91%	89%	91%	78%	54%	174%	31%	94%	123%	86%	97%	115%	97%	131%	74%	101%	97%	126%	134%
Cross Sectoral	Revenue Disclosure Penalty											Issue									
	Treasury Grant Release Rate (Sept-Dec)	23%	46%	20%	21%	17%	56%	46%	56%	45%	20%	14%	21%	23%	22%	12%	21%	47%	23%	46%	21%
	Limited Compensatory Adjustment Applied		Yes				Yes	Yes	Yes	Yes								Yes		Yes	
	Timing: % Nat Grant spending in 4th Quarter	47%	48%	55%	44%	46%	74%	39%	97%	47%	54%	65%	49%	55%	64%	56%	42%	53%	33%	58%	28%
	Timing: % Int Rev spending in 4th Quarter	35%	24%	35%	50%	35%	n.a.	16%	99%	31%	24%	35%	34%	27%	37%	15%	34%	31%	58%	38%	35%
	Internal revenue spending: % on MTDS	11%	0%	1%	18%	1%	0%	6%	15%	9%	17%	2%	0%	3%	0%	10%	0%	2%	4%	2%	17%
	Equity across four large MTDS sectors	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	MTDS sector prioritised												Infrastructure							Health/HIV	Education
Rural Health	Spending Trend	Up	Up	Up	Up	Up	-	Up	-	Up	Up	Up	Up	Up	Up	Steady	Steady	Up	Up	Steady	Steady
	Spending Performance Level	High	Medium	High	Medium	Medium	Medium	Medium	High	Medium	Low	Medium	Medium	Medium	High	Low	Medium	Medium	Medium	Medium	Low
	Function Grant Unspent %	10%	19%	17%	12%	2%	1%	2%	11%	12%	13%	3%	21%	8%	33%	45%	34%	10%	9%	4%	19%
	Function Grant Spending Nature Test	Average	Average	Average	-	Good	Average	Average	Average	Good	Good	Good	Not Good	Average	Average	Average	Average	Average	Average	Average	Average
	MPA Support	Average	Average	Good	Good	Average	Good	Limited	Average	Average	Average	Good	Limited	Limited	Good	Good	Average	Average	Average	Good	Limited
	No Salaries Test	-	-	-	-	-	Fail	Fail	Fail	Ok	-	-	-	-	-	-	-	-	Fail	-	-
Education	Spending Trend	Up	Up	Up	Up	Up	-	Steady	-	Up	Up	Up	Up	Up	Up	Down	Up	Down	Steady	Down	Down
	Spending Performance Level	High	High	High	High	High	High	Medium	High	Medium	Low	Medium	High	Medium	Medium	Medium	Medium	Low	Medium	Low	Medium
	Function Grant Unspent %	5%	15%	14%	27%	10%	0%	2%	4%	23%	5%	0%	7%	20%	35%	58%	19%	5%	34%	22%	19%
	Function Grant Spending Nature Test	Good	Average	Good	Average	Average	Good	Good	Good	Average	Good	Good	Average	Average	Average	Average	Average	Average	Not Good	Not Good	Average
	MPA Support	Good	Average	Average	Average	Average	Average	Limited	Average	Average	Average	Average	Limited	Limited	Average	Limited	Average	Limited	Average	Limited	Limited
Infrastructure Maintenance	Spending Trend	Up	Up	Up	Up	Up	-	Down	-	Up	Up	Up	Up	Up	Up	Down	Up	Down	Up	Down	Down
	Spending Performance Level	Medium	High	High	High	High	High	Medium	Medium	Medium	Medium	Medium	High	Medium	Medium	Low	Low	Low	Low	Medium	Low
	Function Grant Unspent %	1%	0%	15%	11%	41%	0%	6%	65%	73%	17%	15%	0%	10%	26%	71%	28%	7%	22%	18%	71%
	Function Grant Spending Nature Test	Average	Good	Average	Average	Average	Average	Not Good	Average	Average	Average	Average	Average	Average	Not Good	Average	Not Good	Average	Average	Average	Average
	MPA Support	Average	Average	Average	Good	Average	Limited	Average	Limited	Average	Limited	Average	Average	Good	Good	Good	Good	Limited	Average	Average	Limited
Primary Production	Spending Performance Level, Agriculture	Medium	Medium	Medium	Medium	Low	High	Low	Medium	Low	Low	Low	Medium	Medium	Low	Low	Medium	Medium	Low	Low	Low
	Spending Performance Level, Fisheries	Medium	High	High	Low	Low	n.a.	n.a.	Low	High	Low	Medium	Low	Medium	Low	Low	Low	n.a.	Low	n.a.	Low
	Function Grant Unspent %	1%	25%	28%	24%	11%	0%	4%	8%	13%	15%	17%	17%	26%	36%	38%	34%	3%	23%	81%	36%
	Function Grant Spending Nature Test	Good	Average	Average	Average	Good	Not Good	Good	Average	Average	Good	Average	Average	Average	Average	Not Good	Average	Good	Average	Not Good	Average
	MPA Support, Agriculture & Fisheries	Average	Limited	Limited	Limited	Limited	Limited	Limited	Limited	Limited	Limited	Average	Limited	Limited	Limited	Good	Limited	Limited	Limited	Limited	Limited
Village Courts	Spending Performance Level	High	High	High	High	High	High	High	High	High	High	High	High	High	Medium	High	High	Medium	High	Medium	High
	Function Grant Unspent %	2%	0%	27%	16%	7%	0%	0%	24%	6%	4%	2%	15%	11%	42%	30%	47%	4%	8%	4%	14%
	Function Grant Spending Nature Test	Good	Good	Average	Good	Good	Not Good	Average	Average	Good	Good	Good	Average	Average	Average	Average	Average	Good	Good	Average	Average

4.5.1 Understanding the Provincial Expenditure Matrix

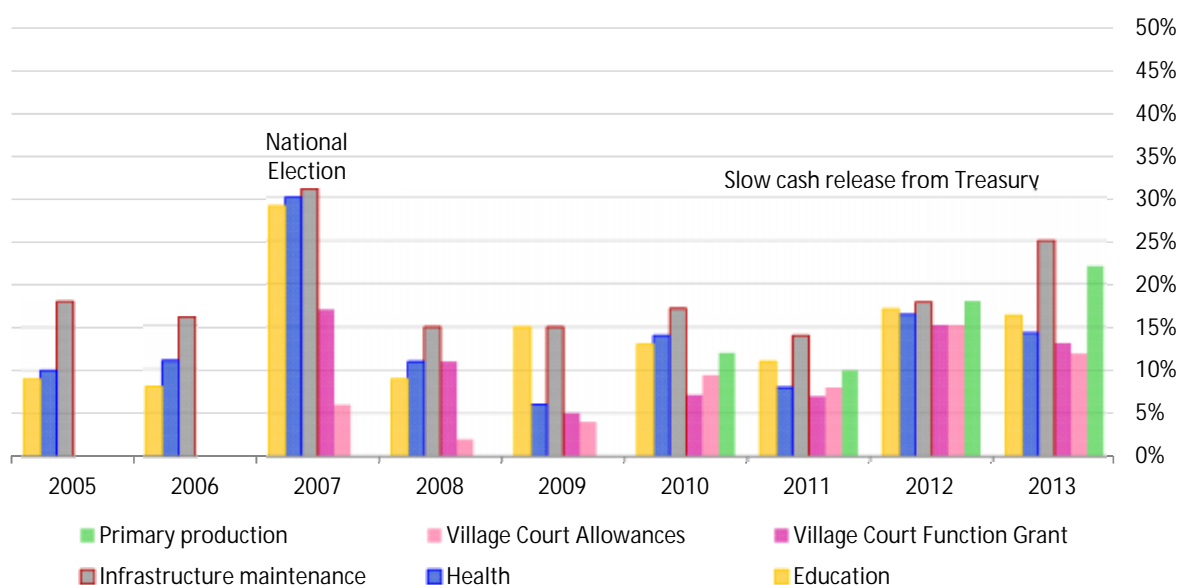
This matrix allows us to easily review the findings of the PER by province (by viewing results vertically) and by sector (by viewing results horizontally). When reading the matrix, remember that provinces are ordered by their performance not by their fiscal capacity. So the provinces that have performed 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 aggregates the results in three groupings that can be categorised 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 2013? Or did they struggle to spend the additional money?

No.25: Graph on unspent function grant percentages from 2005 to 2013



The underspending metric helps us understand provincial capacity to spend the funding they receive to support service delivery. We can observe:

- In 2013, we see several under-spending levels in four sectors decrease slightly.
- The relatively high levels are due, in part, to the slow and late cash release from the Department of Treasury.
- The infrastructure maintenance function grant and the primary production function grant are the sectors with the highest level of under-spending.

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	2013	Average	Average	Average	Average	Good	Good
	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.	

The 'nature test' is a metric that helps us understand whether provinces are using the funding they receive for service delivery on the purpose intended. We can observe:

- Overall, spending of the function grants in the health, education, infrastructure maintenance, primary production, and village courts sector generally appeared in keeping with intention of grants with some areas that were questionable or uncertain.
- Strategies are needed to drive improvements and to ensure that more provinces achieve and maintain a 'good' score in the nature of spending. This may involve a timely feedback loop, technical guidance and visibility of results.

There is opportunity for a variety of actors to participate in this role. Internationally, the Office of the Auditor-General often conducts 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	2013	4	} number of provinces who fail test
	2012	2	
	2011	3	
	2010	2	
	2009	6	
	2008	5	
	2007	4	
	2006	11	
	2005	10	

Tracking this metric will help ensure that recurrent funding is available to support staff engaged in the delivery of services. The number of provinces spending the health function grant on casual wages dropped in 2007 and moved even lower in 2010-2011. This is another very positive result. The number has reduced from eleven to four provinces.

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	2013	Medium	Medium	Medium	Medium	Medium	High	High
	2012	Medium	Medium	Medium	Low	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	Up	Up	Steady	Up	Up	Up
	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

The 'spending performance test' is a metric that compares: provincial spending on MTDS sectors; against the NEFC's estimated cost to deliver those services; adjusted for a provinces capacity to pay the estimated amount required to deliver a service. It helps us understand whether provinces are prioritising MTDS sectors. We can observe:

- 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.
- Infrastructure maintenance: Traditionally, spending on routine maintenance has been low. However as with health, RIGFA is making an impact with the increased funding reaching provinces with low revenues. This results 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. The fisheries sector 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.

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 Government's eleven minimum priority activities in education, health, primary production, transport infrastructure maintenance, and village courts. It provides insight into the MPAs receiving the best support and those that aren't.

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 2013 MPA Matrix - how well are provinces supporting the 11 MPAs?

This matrix has been prepared for the last four years, 2010-2013, 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 spent in support of these activities, the greater the probability that the activities themselves will then happen. Provinces are ordered by region to enable regional comparisons.

Minimum Priority Activities		EHP	Enga	Hela	Jiwaka	SHP	Simbu	WHP	ESP	Madang	Morobe	Sand'n	Central	Gulf	MBP	Oro	West'n	ENB	Manus	NIP	WNB
		Highlands Region							Mamose Region				Southern Region					Islands Region			
Education	1. Provision of school materials	No vote	No vote	Vote	No vote	Vote	Vote	Vote	Vote	No vote	Vote	Vote	Vote	Vote	Vote	Vote	Vote	Exp	Direct	No vote	Vote
	2. Supervision by district/prov staff	Vote	Vote	Vote	Exp	Vote	Vote	Vote	Vote	Vote	Direct	Vote	Exp	Exp	Vote	Vote	Vote	Exp	Vote	Vote	Vote
	3. District education office op's	Exp	Vote	Exp	Exp	Vote	Exp	Vote	Exp	Exp	Vote	Exp	Vote	No vote	Exp	No vote	No vote	Exp		No vote	No vote
Health	1. Rural health facility op costs	Vote	Vote	Vote	Vote	Vote	Vote	Direct	No vote	No vote	Vote	Vote	Vote	No vote	Direct	Vote	Direct	Direct	Vote	Vote	No vote
	2. Integrated health patrols	Vote	Vote	Vote	Exp	Vote	Vote	Direct	Vote	Vote	Vote	Exp	Exp	Exp	Direct	Vote	Direct	Vote	Exp	Vote	Vote
	3. Medical supply distribution	Exp	Exp	Exp	Exp	No vote	Exp	Direct	Exp	Exp	Exp	Exp	Exp	Vote	Direct	Vote	Direct	Vote	Exp	Vote	Vote
Transport Infrastructure	1. Road & Bridge maintenance	Vote	Vote	Vote	Vote	Vote	Vote	Direct	Vote	Vote	Vote	Vote	Vote	Vote	Vote	Vote	Vote	Direct	Vote	No vote	Vote
	2. Airstrip maintenance	Exp	Vote	Vote	No vote	Exp	Exp	Direct	Exp	Exp	Vote	Exp	Exp	Exp	Exp	Vote	Direct	Vote	Exp	Exp	Direct
	3. Wharf & Jetty maintenance								Exp	Vote	Vote	Vote	No vote	No vote	Exp	Exp	Direct	Vote	Exp	No vote	Direct
Primary Prodn.	Agriculture Extension Services	Vote	Vote	Vote	No vote	No vote	Vote	No vote	Vote	Vote	Vote	Vote	No vote	Vote	Vote	Vote	Direct	Direct	Vote	Vote	Vote
	Fisheries Extension Services								Vote	Vote	Vote	Vote	Direct	Vote	Vote	Vote	Direct	Vote	Vote	Vote	Vote
VC	Operational materials	Vote	Vote	No vote	No vote	Vote	Exp	Vote	No vote	Exp	Vote	Vote	Exp	Vote	Exp	Vote	No vote	No vote	Vote	No vote	Direct
Vote with reasonable exp / or Direct to facility level		3	1	2	4	1	4	5	4	4	2	4	6	3	7	1	7	6	5	1	3
Vote (low exp)		6	8	7	2	7	6	4	6	6	10	8	4	6	5	10	3	5	6	6	7
No vote		1	1	1	4	2	0	1	2	2	0	0	2	3	0	1	2	1	0	5	2
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 2013 being the fourth year of RIGFA implementation?

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

- In 2013, 87% of MPAs across all provinces had an identifiable vote and expenditure against it. This is down slightly from the 2012 level of 91%.
- We see that 32% of MPAs (2012, 43%) had a reasonable amount of expenditure, and a further 54% had some expenditure but low relative to the provinces fiscal base (i.e. they had the capacity to spend more).
- In 2013, the number of instances where an MPA had no vote (or expenditure) against it rose to 30 (2012, 19). This is closer to the 2011 level of 33.
- It was good to see Milne Bay's performance, in funding their MPAs at more appropriate levels.
- Five provinces, Simbu, Morobe, Sandaun, Milne Bay and Manus, 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.

- New Ireland needs to allocate and spend more reasonable amounts on MPAs.
- There are too many 'no votes' in the provinces of Jiwaka, Gulf, Central, Western and Southern Highlands. These provinces need to demonstrate their support for minimum priority activities by clearly describing the MPAs in their provincial budgets and in their PGAS chart of accounts.

A greater focus is necessary on these five MPAs 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	Eastern Highlands, Enga , Jiwaka, Madang and New Ireland
District Education Office Operations	Gulf , Oro, Western , New Ireland and West New Britain
Rural Health Facility Operations	East Sepik, Madang, Gulf and West New Britain
Wharf and Jetty Maintenance	Central, Gulf and New Ireland
Agriculture Extension Services	Jiwaka, Southern Highlands, Western Highlands and Central,

These 4 MPAs require more funding to be allocated to the budget votes.

Minimum Priority Activity
Provision of School Materials
Rural Health Facility Operations
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 subnational education comes from a variety of sources. The three major sources of funding available to fund basic education services at the subnational level are:

- Education Function Grants to Provinces (K76.6 million appropriation, 2013)
- Provincial Internal Revenue (K11.3 million spent, 2013)
- National Subsidies Direct to Schools (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 be provided with 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 province's spending and seeks to identify the expenditure made by the province 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'.

No.27: Table support for MPAs in education

	Minimum Priority Activities	Exp	Direct	Vote	No vote
Education	1. Provision of school materials	1	1	13	5
	2. Supervision by district/prov staff	4	1	15	0
	3. District education office op's	9	0	5	5

We can observe:

MPA 1, Provision of School Materials: Overall this activity continues to be poorly supported. In 2013 we can see that only two provinces spent appropriately on this MPA.¹⁸ Thirteen provinces had identifiable votes but did not allocate suitable amounts.

Five provinces had no discrete vote: **Enga, Eastern Highlands, Jiwaka, Madang and New Ireland.**

MPA 2, Supervision Activities by District and Provincial Staff: The strong support for this activity has slipped. Whilst all provinces having identifiable votes and spending, only four of them spend what is estimated to be appropriate amounts.

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

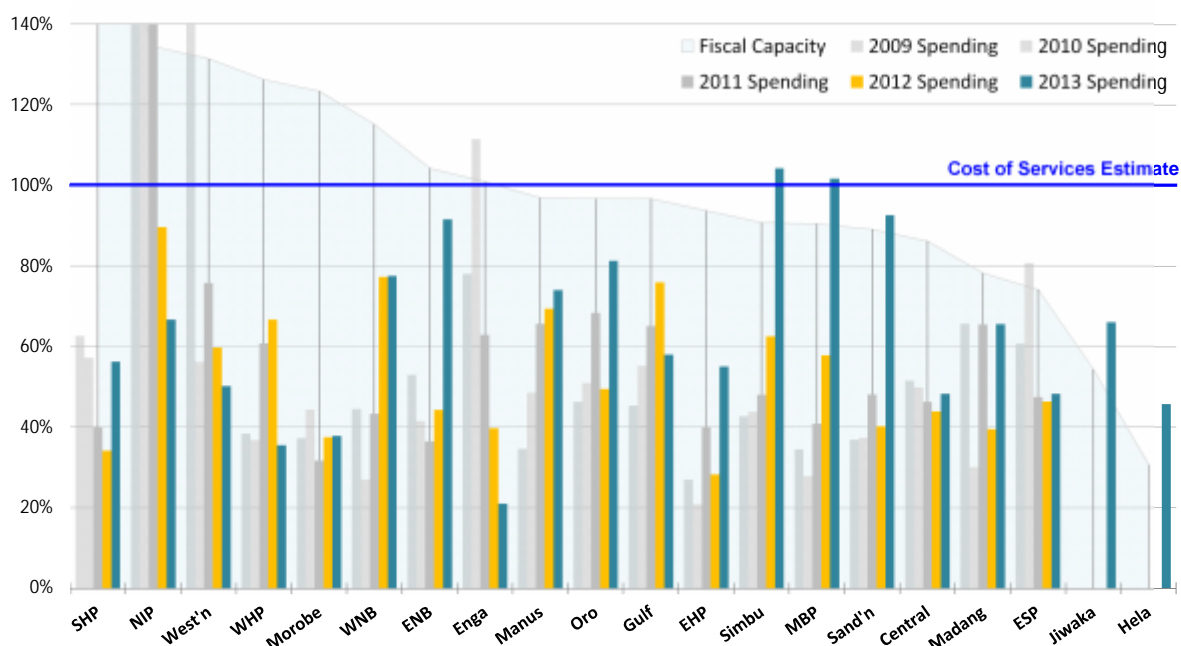
¹⁸ Of the two provinces that spent appropriate amounts, one funded the activity by sending money direct to schools.

5.4 Education spending against the benchmark

5.4.1 Performance by Province

The following graph illustrates the 2009 to 2013 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.

No.28: Graph on spending performance on education from 2009 to 2013



We can observe:

- In 2013, RIGFA continues to make an impact. Education spending by the eleven lowest funded provinces has increased from only 30% in 2008 to 68% in 2013. This is encouraging and demonstrates that more education funding is reaching the provinces with the least.
- In 2012 and 2013 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 and 2013. There may be various explanations for this change. 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.
- Eight provinces spent 80 percent or more of what is estimated necessary: West New Britain, East New Britain, Oro, Simbu, Milne Bay and Sandaun.
- The new provinces, Hela and Jiwaka performed well relative to their fiscal capacity.
- Three of the higher funded provinces decreased their level of recurrent spending: New Ireland, Western and Western Highlands.
- Spending on tertiary was evident in several provinces, including New Ireland, Western, West New Britain, Oro and Central.
- Thirteen provinces increased their kina spending on education between 2012 and 2013 whilst 12 provinces have a generally positive upward trend of increasing spending over the five year period.

5.4.2 Support for the sector over time: 2005 to 2013¹⁹

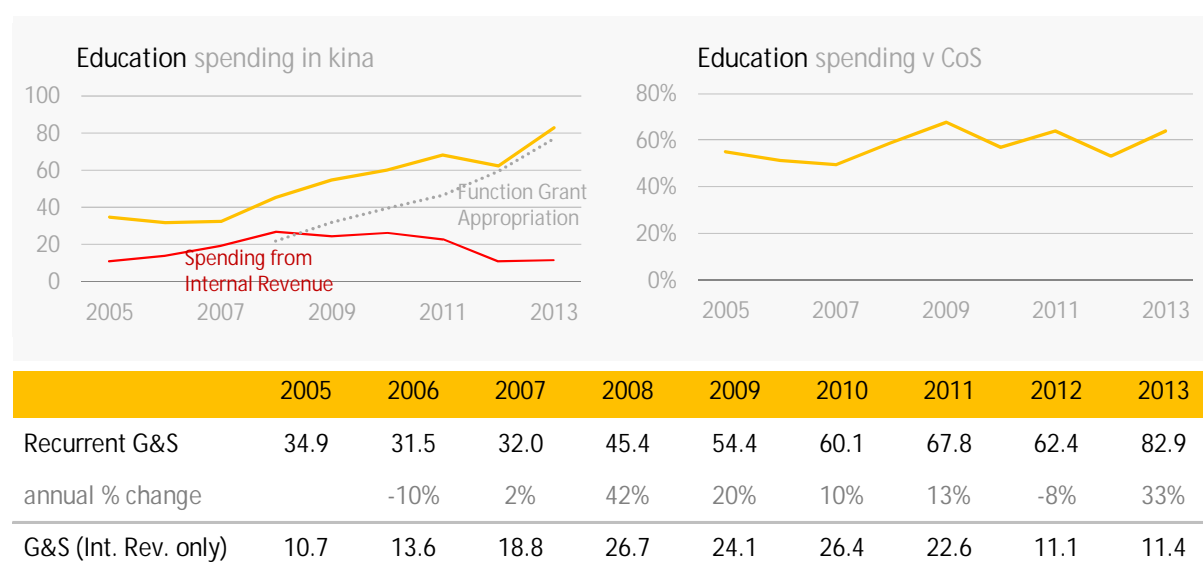
Overall, the spending trend in education between 2005 and 2013 has seen a significant increase in the amount spent in this space as we see the full implementation of RIGFA. The targeted funding provided under RIGFA has provided funding to those provinces with a fiscal need.

From the set of charts and table below we can observe the following:

- Spending on education bounced back in 2013. The yellow line in the chart above to the left, illustrates that kina spending recovered from the small dip in 2012, and achieved a new high in 2013 (moving from K62 million to K82 million).
- Education regained its position on the podium as the best supported MTDS sector by provinces.
- Grant spending high, spending from internal revenue low. We can see that spending from internal revenue has remained low (see the red line). In contrast, spending under 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 some provinces spending favours secondary education.

No.29: Graphs and table of recurrent spending on education from 2005 to 2013 (millions)



The education data table on page 53 provides a snapshot of education expenditure data for the period 2009 to 2013 together with key fiscal indicators. It is a key reference table for the sector allowing the reader to monitor the trend across the sector and by province.

¹⁹ These comments on spending trends exclude the two newly formed provinces – Hela and Jiwaka.

5.4.3 Spending from Internal Revenue

Under the intergovernmental financing system, provinces are expected to allocate and spend their province's internal revenue on basic services, including rural education services. This is particularly relevant for provinces with higher proportionate amounts of internal revenue who receive smaller education function grants. If these provinces do not spend on rural education – their children will not receive the basic education they require. This has enormous implications for the child, the family, the community and the nation.

No.30: Table of recurrent spending from internal revenue on education from 2005 to 2013 (millions)

	2005	2006	2007	2008	2009	2010	2011	2012	2013
G&S (Int. Rev. only)	10.7	13.6	18.8	26.7	24.1	26.4	22.6	11.1	11.4
annual % change		27%	38%	42%	-10%	10%	-14%	-51%	2%
% from internal rev.	31%	43%	59%	59%	44%	44%	33%	18%	14%

- We can observe an interesting phenomena taking place between 2005 and 2013 in education. Spending rose between 2005 and 2008, plateaued until 2010-11, and has now declined markedly 2012-2013.
- Recurrent operational spending on education from internal revenue has declined markedly (K11 million or 14% of all education goods and service spending) and is now at 2005 levels.
- Perhaps the national government's implementation of a free education policy is having an unintended substitution effect whereby provinces, seeing more direct funding going to schools, reprioritise the allocation of their internal revenue budget.
- Predictably this spending was highest in those provinces with higher levels of internal revenue: New Ireland, Western and Morobe.

5.4.4 Spending in comparison to fiscal capacity

Not every province has the same financial capacity, some have more than others.

- Education in 2013 has regained its position as the best supported MTDS sector in terms of provincial spending priorities.
- When we adjust for the differences in fiscal capacity, the provinces that are more dependent on grants outperform provinces with high internal revenue. This suggests that provinces with access to higher levels of internal revenue need to allocate more to operational costs in education – this need has become more pronounced since 2012 with declining support from the provincial internal revenue budgets for education recurrent costs.
- A high spending level was achieved by eight provinces. Of the higher funded provinces, only East New Britain prioritised funding for education. Of the grant-dependent provinces, seven achieved a high spending level relative to their capacity to spend – these were Oro, Simbu, Milne Bay, Sandaun, Madang, Jiwaka and Hela.
- Three provinces performed very poorly relative to fiscal capacity – these were Western Highlands, Morobe, and Enga.
- Enga Province and the Ipatas Foundation. We noted that Enga Province made significant transfers to the Ipatas Foundation in 2013. These monies may, or may not, include support for the province's service delivery responsibilities in basic education. However, the NEFC has no way of ascertaining the purpose and eventual use of these funds, and so they are not included in the PER analysis. We welcome clarification from Enga Province on this matter.

5.5 Education data table

Education Sector: 2009 to 2013 (recurrent spending)																
	Province	Cost of Services Estimate	2009 Exp.	2010 Exp.	2011 Exp.	2012 Exp.	2013 Exp.	Spending Trend	% of G&S exp. from Internal Rev.	Spending Level Achieved Versus Cost of Services Est.		Education Function Grant Percentage Unspent	Nature Test	Capex from Grants	Capex from Internal Revenue	
		(Kina millions)	5 year G&S expenditure time series						2013	2012	2013	2013		2013	2013	
Provinces with higher funding & higher internal revenue	SHP	6.644	4.313	4.945	3.787	3.462	3.740	Steady	21%	Low	Medium	2%	Good	2.130	7.082	
	NIP	4.429	9.311	10.514	10.803	3.716	2.953	Down	84%	High	Medium	19%	Average	0.750	0.947	
	West'n	8.076	8.027	3.839	5.671	4.517	4.055	Down	81%	Medium	Medium	58%	Average	5.658	2.945	
	WHP	6.256	2.729	3.208	5.803	6.975	2.224	Down	1%	High	Low	22%	Not Good	5.240	0.100	
	Morobe	14.033	3.289	4.901	3.831	4.929	5.314	Up	61%	Low	Low	5%	Good	5.283	5.434	
	WNB	6.005	2.104	1.585	2.788	4.346	4.655	Up	7%	Medium	Medium	20%	Average	5.240	0.100	
	ENB	7.189	2.764	2.659	2.561	2.984	6.583	Up	0%	Medium	High	5%	Good	-	-	
	Enga	6.364	3.263	5.709	3.531	2.369	1.340	Down	-	Low	Low	5%	Average	0.296	10.318	
Black - mixed dependency	Manus	2.379	0.677	1.181	1.749	1.545	1.761	Up	-	High	Medium	35%	Average	-	-	
	Oro	3.437	1.110	1.519	2.229	1.591	2.793	Up	-	Medium	High	7%	Average	2.020	-	
	Gulf	3.452	1.159	1.724	2.227	2.453	2.004	Steady	0%	High	Medium	34%	Not Good	1.693	-	
	EHP	10.217	1.737	1.680	3.538	2.703	5.622	Up	-	Low	Medium	23%	Average	0.500	0.100	
	Simbu	6.648	2.066	2.656	3.190	3.893	6.928	Up	-	High	High	15%	Average	3.138	-	
	MBP	6.695	1.748	1.742	2.798	3.628	6.808	Up	1%	Medium	High	27%	Average	1.401	0.771	
	Sand'n	7.503	1.779	2.190	3.087	2.827	6.949	Up	-	Medium	High	14%	Good	3.842	-	
	Central	7.229	2.553	3.085	3.138	2.974	3.491	Up	1%	Medium	Medium	0%	Good	1.487	1.585	
Blue - highly grant dependent	Madang	8.707	2.615	1.506	3.585	3.219	5.709	Up	-	Medium	High	10%	Average	0.727	-	
	ESP	9.953	3.198	5.429	3.498	4.316	4.806	Up	-	Medium	Medium	19%	Average	3.274	-	
	Jiwaka	4.912	-	-	-	-	3.247	-	-	-	High	0%	Good	0.280	-	
	Hela	4.181	-	-	-	-	1.913	-	26%	-	High	4%	Good	-	-	
All Provinces		134.308	54.441	60.069	67.812	62.447	82.895	Up	11.387			ave. 16%		42.959	29.381	
														(a)	(b)	(c)

(a)

(b)

(c)

The highest spending year in Kina

Key

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

(a) Includes grant & internal revenue expenditure.

(b) Capital & projects funded by national grants - includes PSIP, SSG, PIP and function grants used in error

(c) Capital & projects funded from provincial internal revenue

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.31: Table analysing all education spending in 2013²⁰

The 5 Largest Spending Areas (by item)				The Split by Category		
Item #	Item Description	Amount	%	Category Description	Amount	%
135	Other operational expenses	47,793,506	29%	Recurrent Goods & Services	83,544,594	50%
114	Leave fares	29,809,879	18%	Staff-related costs (PE)	30,205,530	18%
225	Construction, renovation....	19,312,782	12%	Capital & Projects	52,113,895	31%
143	Grants and transfers	19,095,115	12%			
124	Office materials & supplies	8,526,726	5%			
	<i>all other codes</i>	41,326,011	25%			
	Total spending from recurrent & capital	165,864,020	100%	Total spending from recurrent & capital	165,864,020	100%

The table above shows us that:

- In 2013, the single largest expenditure item continues to be 'other operational expenses' which increased in kina terms by K10 million but maintained its proportion of total spending at 29%. 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 – 18% (similar to 2012) 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 2013 this would make the 18% 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) have maintained their proportion of total spending but increased significantly in kina terms.
- At 50%, half of the spending was on recurrent goods & services – the other half of education spending was split between teachers leave fares, capital costs and tertiary funding.

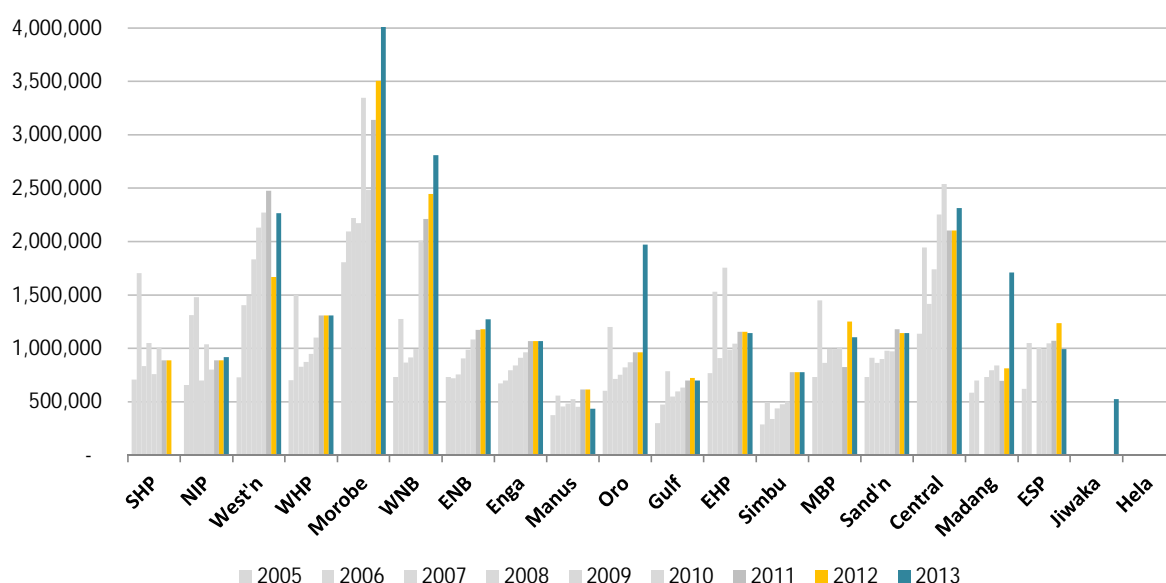
²⁰ These amounts include spending from both national grants and internal revenue on goods and services, personnel emoluments and capital and development. They do not include spending from PIP, PSIP, SSG funds nor tertiary costs that could be clearly identified, and not teachers salaries.

5.6 Drilling down: teacher leave fares

5.6.1 Overview

For the ninth 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 2013 continues the trend of increasing spending levels on teacher leave fares.

No.32: Graph of expenditure on teacher leave fares from 2005 to 2013



5.6.2 Spending between 2005 and 2013

Spending on teachers leave fare continues to increase, quite markedly in 2013.

No.33: Table of spending on teacher leave fares from 2005 to 2013

Teachers Leave fares	2005	2006	2007	2008	2009	2010	2011	2012	2013
Kina millions	12.9	21.0	15.6	18.7	20.5	21.6	23.3	23.8	29.8
% change		63%	-26%	19%	10%	5%	7%	2%	25%

- Three provinces doubled their spending on TLF between 2012 and 2013 – being Morobe, Madang and Oro. Morobe's spending increased from K3.5 million to K7 million.
- The Southern Highlands received a TLF grant but recorded no expenditure against it in 2013
- One province West New Britain, a relatively small province, continues to spend a lot on TLF.
- Six provinces appear to spend a lot on teacher leave fares relative to the number of teachers in the province.²¹ These provinces are: Central, Gulf, Oro, Morobe, Western and West New Britain.

²¹ 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 provinces²²

Providing healthcare to the rural majority throughout Papua New Guinea is contingent on the coordinated interplay of a series of inputs and activities. 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.²³ 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 the provision of 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 (K73.8 million appropriation, 2013)
- Provincial Internal Revenue (K6.4 million spent, 2013)
- Church Health Services Operational Grants (K19.5 million appropriation, 2013)²⁴
- Health Services Improvement Program [HSIP]²⁵

²² Reference to health in this chapter includes costs and expenditure related specifically to HIV AIDS.

²³ There are provinces meeting costs relating to community health workers.

²⁴ Church Health Services Operational Grants are paid to Church Health Service providers not to provincial administrations.

²⁵ 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 being implemented.

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 (as 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.
- It is 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 87% of our people who are rurally based. And yet many facilities across PNG do not have regular access to basic medical supplies. This is why 'drug distribution' was selected as an MPA.

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

6.3.1 The prioritisation of minimum priority activities in rural health

Explanation: Each year the NEFC conducts analysis of each province's spending and seeks to identify the expenditure made by the province 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'.

No.34: Table of support for MPAs in health

Minimum Priority Activities		Exp	Direct	Vote	No vote
Health	1. Rural health facility op costs	0	4	12	4
	2. Integrated health patrols	5	3	12	0
	3. Medical supply distribution	11	3	5	1

We can observe:

MPA 1, Rural Health Facility Operational Costs: There is improvement over 2012, however only four provinces spent appropriately on this MPA.²⁶ Twelve provinces (same in 2012) had identifiable votes but did not allocate suitable amounts.

Three provinces had no discrete vote in 2012 and 2013; **West New Britain, Gulf, Madang. Another province, East Sepik, had no visible vote in 2013.**

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

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

One provinces had no discrete vote in 2013; **Southern Highlands**

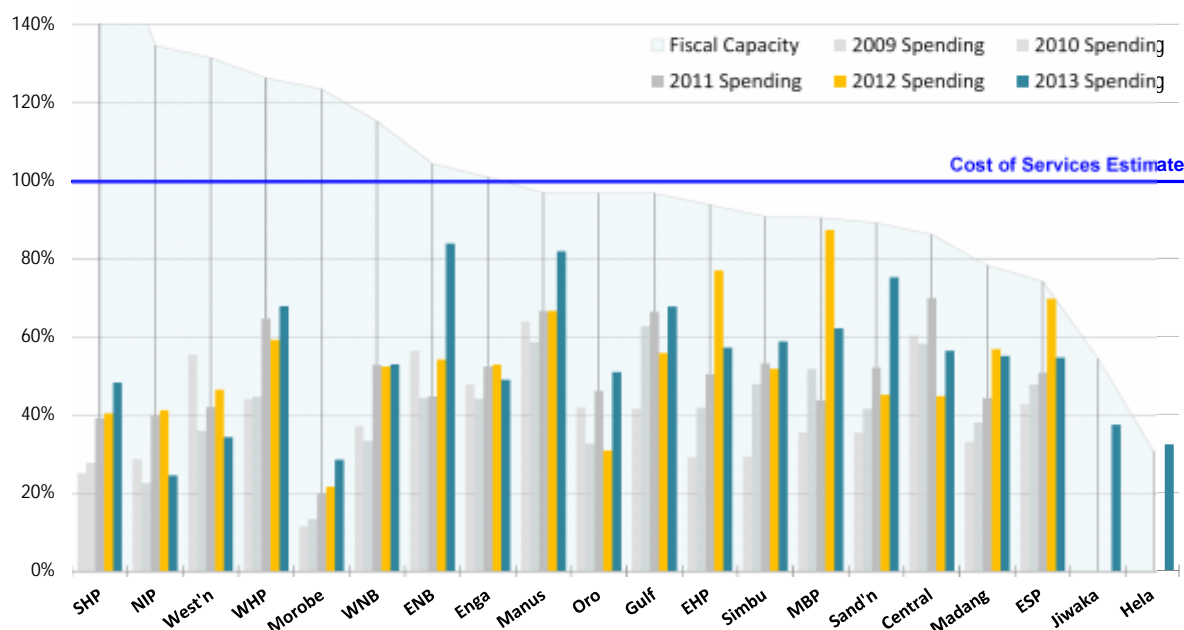
²⁶ Of the two provinces that spent appropriate amounts, one funded the activity by sending money direct to the PHA.

6.4 Rural health against the benchmark

6.4.1 Performance by Province

The following graph illustrates the 2009 to 2013 expenditure performance in health of each province using the cost of services estimate as a benchmark.

No.35: Graph on spending performance in health from 2009 to 2013 (not including donor funds)



We can observe:

- Ten of the eighteen provinces increased their health spending in 2013, and one other maintained its level.
- Somewhat surprisingly, spending in five provinces declined in 2013. **New Ireland, Western, Eastern Highlands, Milne Bay and East Sepik.**
Spending in the partitioned provinces of Southern and Western Highlands declined, perhaps reflecting their reduced jurisdictions.
- Thirteen provinces spent 50% or more of what is estimated necessary to support rural health, with 3 of those exceeding 70%.
- Six of the twenty provinces spent function grant funds on casual wages. The provinces who spent in this area in 2013 and in breach of Department of Treasury guidelines were **Enga, East Sepik, Gulf, Hela, Jiwaka 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 after 2011 as the program went through a review and redesign process.

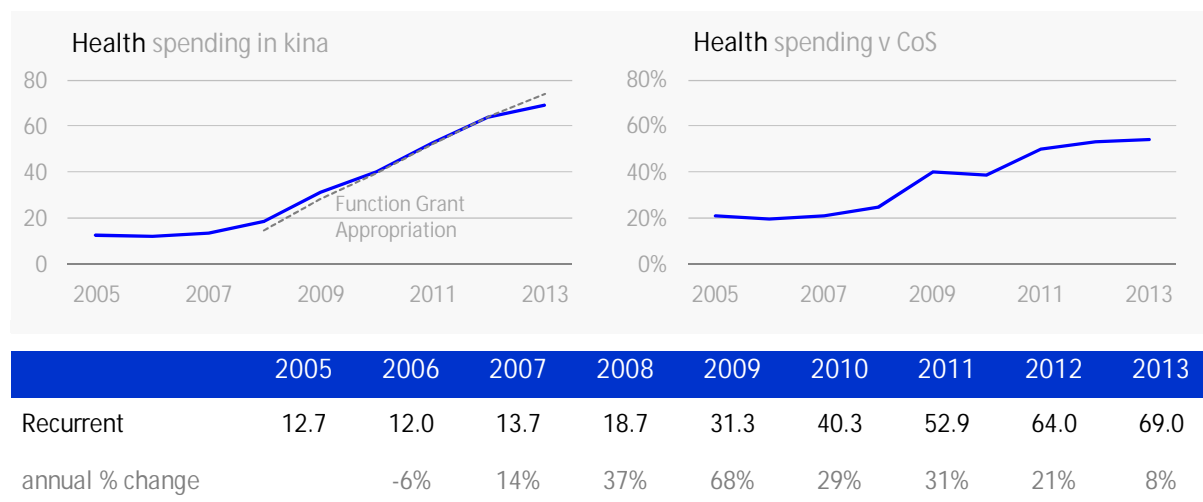
6.4.2 Support for the sector over time: 2005 to 2013

Overall, the spending trend in health between 2005 and 2013 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.

From the set of charts and table below we can observe the following:

- In 2005, the rural health service delivery mechanism at the subnational level had been starved of funding and total recurrent spending on rural health was only K12 million.
- In 2013, rural health was the second best supported MTDS sector by provinces. Overall, recurrent spending on rural health increased for the seventh year in a row. This represents a major longitudinal funding transformation in rural health from the dark days of 2005.
- The graph below and to the left, illustrates in kina terms the level of spending between 2005 and 2013. The steady increase is largely due to the increasing health function grant funding – note the strong correlation between the solid blue line and the dotted grey line (being the function grant appropriation).
- Spending relative to costs has plateaued over the period 2011-2013. 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 52% of what is believed necessary to deliver a basic level of rural health services.

No.36: Graphs and table of recurrent spending on health from 2005 to 2013 (millions)



6.4.3 Spending from Internal Revenue

Under the intergovernmental financing system, provinces are expected to allocate and spend their province's internal revenue on basic services, including rural health services. This is particularly relevant, for provinces with higher proportionate amounts of internal revenue who receive smaller health function grants. If these provinces do not spend on rural health – their people will not receive the health service they require.

- Health spending from internal revenue was K6.4 million, down again on the 2012 and 2011 levels of K7.7 million and K8.4 million respectively. The K6.4 million represents 9% of the total recurrent spending. Disappointingly, K5.2 million of the K6.4 million came from two provinces – being Morobe and Western.
- In 2013, Morobe has joined Western as the only provinces to contribute truly significant sums of internal revenue toward their rural health service. In 2013, Western Province spent K2.7 million (down from K3.8 million in 2011) and Morobe Province spent K2.5 million on rural health from internal revenue. Whilst these allocations are commendable, they each represent a relatively small amount of what is estimated necessary to adequately support rural health. In Western's case, K2.7 million is 29% of the K9.4 million NEFC cost estimate. In Morobe's case, K2.5 million is 19% of the K12.9 million cost estimate.

6.4.4 Spending in comparison to fiscal capacity

Not every province has the same financial capacity, some have more than others.

- In 2013, we see a mixture of both marked improvement and moderate declines in rural health spending. That said, the story is generally positive with the rural health sector today much better supported than before the implementation of RIGFA in 2009. In 2013, there is sustained improvement in the spending performance of medium and lower funded provinces. RIGFA is clearly having a tangible impact.
- The encouraging signs in 2012 from the provinces with higher levels of internal revenue – New Ireland and Western – have been reversed somewhat and they now score 'low' relative to what is required. Morobe has made spending progress, however the estimated costs for this large province mean they still rate 'low' compared to what is estimated necessary.

With these largely optimistic observations, we must however remind ourselves that the immediate challenge is to ensure that this increased spending is being made in the right areas in support of the right activities.²⁷

The health data table on page 64 provides a snapshot of health expenditure data for the period 2009 to 2013 together with key fiscal indicators. It is a key reference table for the sector allowing the reader to monitor the trend across the sector and by province.

²⁷ 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 Analysis: PGAS item coding

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

No.37: Table analysing all health spending in 2013²⁸

The 5 Largest Spending Areas (by item)				The Split by Category		
Item #	Item Description	Amount	%	Category Description	Amount	%
135	Other Operational Expenses	29,430,960	35%	Recurrent Goods & Services	68,963,223	81%
143	Grants and Transfers	14,095,422	17%	Personnel Emoluments	2,143,922	3%
128	Routine Maintenance	6,971,719	8%	Capital & Projects	13,557,165	16%
121	Travel and Subsistence Exp's	6,253,131	7%			
125	Transport and Fuel	6,147,345	7%			
	<i>all other codes</i>	21,765,733	26%			
	Total spending from recurrent & capital	84,664,310	100%	Total spending from recurrent & capital	84,664,310	100%

We can see that:

- Item 135: 'Other operational expenses' which can include almost anything is the highest single spending item at K29.4 million or 35% of total health spending. Spending on item 135 has continued to increase over the last three 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 item 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. Transfers have become more visible in rural health over the last three years. In 2013, six provinces transferred relatively large sums. 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, Morobe and West New Britain also record funds as being transferred under differing approaches.
- Item 128: In 2013, routine maintenance appeared in the Top 5 rankings for the fourth 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 allowances (item 121) and transport & fuel (item 125) each represents about 7% of spending in 2013 and is growing in kina terms. This is encouraging as spending on travel related activities is vital for rural service delivery.

²⁸ 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. The table does not include spending from HSIP, PIP, PSIP, 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: 2009 to 2013 (recurrent spending)																
	Province	Cost of Services Estimate	2009 Exp.	2010 Exp.	2011 Exp.	2012 Exp.	2013 Exp.	Spending Trend	% of G&S exp. from Internal Rev.	Spending Level Achieved Versus Cost of Services Est.		Health Function Grant Percentage Nature Test Unspent		Casual Wages	Capex from Grants	Capex from Internal Revenue
		(Kina millions)	5 year G&S expenditure time series						2013	2012	2013	2013			----- all amounts 2013 -----	
Provinces with higher funding & higher internal revenue	SHP	8.044	1.932	2.577	3.985	4.957	3.886	Up	5%	Medium	Medium	2%	Average	0.264	-	0.500
	NIP	4.806	0.974	0.918	1.780	1.852	1.179	Steady	18%	Medium	Low	19%	Average	-	0.800	-
	West'n	9.389	3.412	2.664	3.411	4.086	3.225	Steady	84%	Medium	Low	45%	Average	0.288	2.980	0.215
	WHP	4.614	1.833	2.169	3.440	4.567	3.130	Steady	6%	Medium	Medium	4%	Average	-	2.750	-
	Morobe	12.880	0.875	1.229	2.002	2.614	3.681	Up	67%	Low	Low	13%	Good	0.005	3.209	-
	WNB	5.494	1.638	1.760	3.052	2.695	2.909	Up	6%	Medium	Medium	8%	Average	0.715	2.750	-
	ENB	5.503	2.033	1.897	2.099	2.793	4.613	Up	0%	Medium	High	10%	Average	-	-	-
	Enga	6.646	1.948	2.168	2.824	3.289	3.255	Up	9%	Medium	Medium	10%	Average	0.196	0.320	-
Black - mixed dependency	Manus	2.324	0.956	1.128	1.403	1.450	1.902	Up	-	High	High	33%	Average	-	-	-
	Oro	4.486	1.219	1.168	1.804	1.299	2.287	Up	-	Low	Medium	21%	Not Good	0.083	1.106	-
	Gulf	4.344	1.073	1.980	2.297	2.273	2.946	Up	0%	Medium	Medium	9%	Average	-	4.070	-
	EHP	7.254	1.504	2.521	3.322	5.223	4.150	Up	4%	High	Medium	12%	Good	0.134	1.200	-
	Simbu	6.046	1.025	1.980	2.411	2.935	3.554	Up	-	Medium	Medium	19%	Average	-	3.354	-
	MBP	7.828	2.200	3.819	3.540	6.400	4.865	Up	-	High	Medium	12%	0%	-	-	-
	Sand'n	7.767	1.813	2.591	3.560	3.282	5.844	Up	0%	Medium	High	17%	Average	-	3.897	-
Blue - highly grant dependent	Central	7.265	1.909	2.330	3.063	3.050	4.100	Up	-	Medium	Medium	3%	Good	-	0.772	-
	Madang	9.725	1.916	2.711	3.455	5.177	5.357	Up	-	High	Medium	2%	Good	-	1.535	-
	ESP	9.286	3.077	4.669	5.422	6.059	5.083	Steady	-	High	Medium	34%	Average	-	2.220	-
	Jiwaka	3.623	-	-	-	-	1.360	-	-	-	Medium	1%	Average	-	0.765	-
	Hela	5.061	-	-	-	-	1.637	-	-	-	High	11%	Average	-	-	0.350
All Provinces		132.387	31.336	40.280	52.871	64.001	68.963	Up	6.435			ave. 14%		1.686	31.727	1.065
										(a)				(b)		(c)

The highest spending year in Kina

Key						
above 15%	above 25%	above 80%	below 5%	Good	above K0.35m	above K1.5m
in-between		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 funded by national grants - includes PSIP, SSG, PIP and function grants used in error

(c) Capital & projects funded from provincial internal revenue

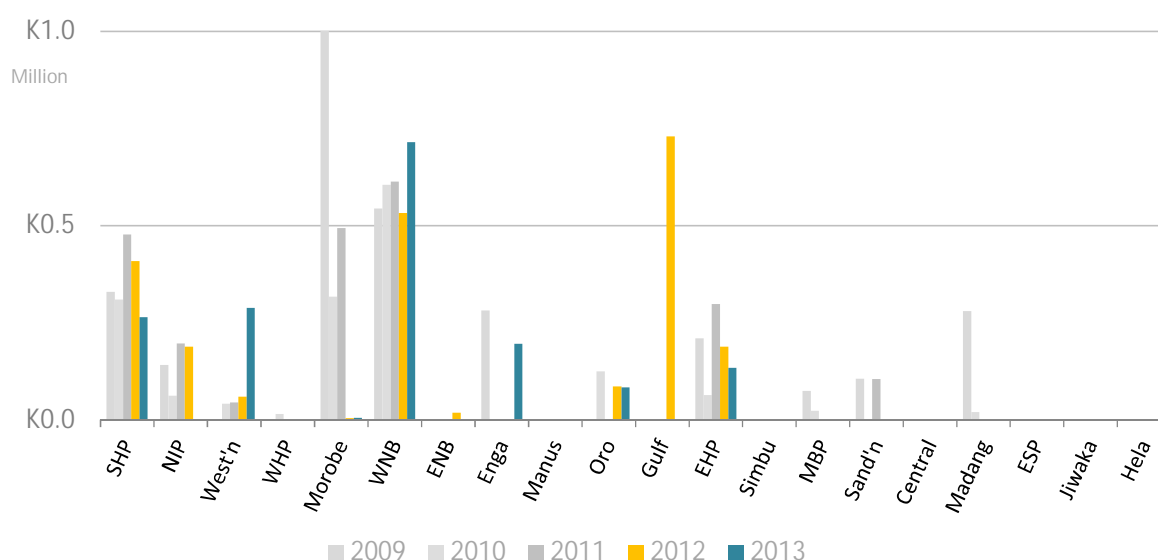
NB: spending level results have been adjusted to reflect fiscal capacity

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 2013. 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 operational 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.38: Graph on spending on health casual wages from 2009 to 2013



6.6.2 Spending between 2006 and 2013

We see a positive downward trend of spending on casual wages across the years 2006-2013.

No.39: Table of spending on casual wages in rural health from 2006 to 2013 (millions)

	2006	2007	2008	2009	2010	2011	2012	2013
Kina millions	9.8	9.0	9.7	9.7	1.6	2.2	2.2	1.7
annual % change		-8%	8%	0%	-84%	38%	0%	-23%

- Overall spending on casual wages has decreased greatly between 2006 and 2013 moving from K9.8 million to K1.7 million. This is a significant and positive change in spending practices.
- Southern Highlands, Enga and Hela all spent significant amounts of function grant funds on casual wages in 2013 which is in breach of Department of Treasury instructions.
- Some provinces – notably Enga and Hela – spent money on casual wages from within function grant votes that were not identified as 'wages'.

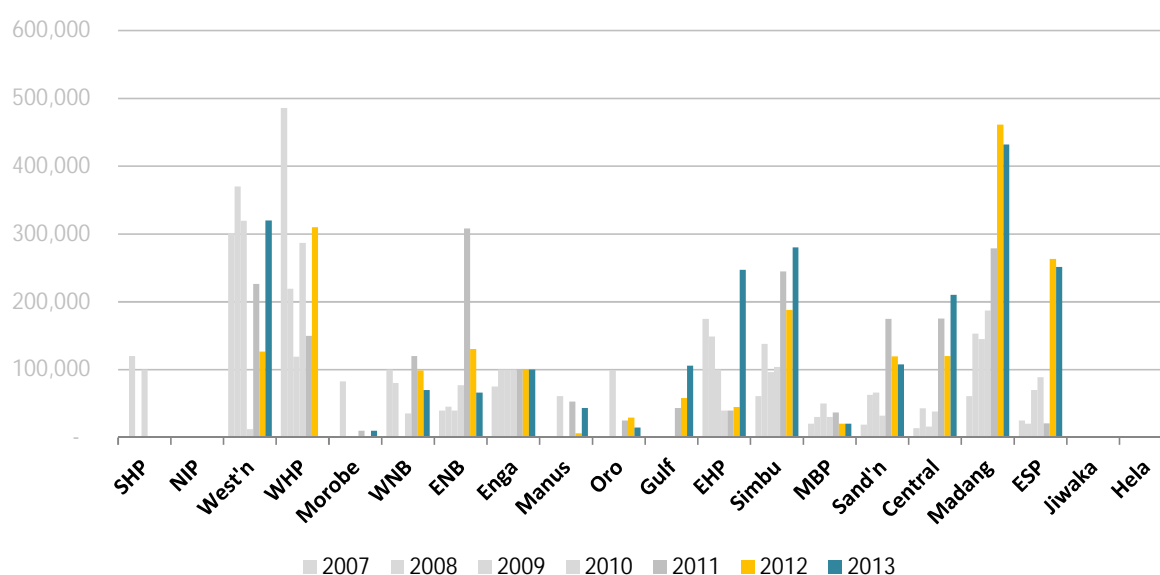
6.7 Drilling down: spending on HIV/AIDS

6.7.1 Overview

Since the PER review of the 2007 fiscal year, 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.40: Graph on spending on HIV/AIDS from 2008 to 2013



We can see that specific spending on HIV/AIDS increased slightly in 2013 although still at modest levels.

No.41: Table of spending on HIV/AIDS from 2007 to 2013 (millions)

	2007	2008	2009	2010	2011	2012	2013
Kina millions	1.4	1.6	1.3	1.1	2.0	2.1	2.3
annual % change		17%	-21%	-12%	78%	3%	12%

- Nine provinces, now spend K100,000 or more (down from ten in 2012).
- Sixteen of the twenty provinces have allocated some funding to HIV/AIDS in 2013.

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 routine maintenance at the sub-national level are:

- Transport Infrastructure Maintenance Function Grants to Provinces (K108.3 million appropriation, 2013)
- Provincial Internal Revenue (K16.3 million spent, 2013)
- There are other funding streams present, intended primarily for capital purposes, such as: substantial maintenance, rehabilitation, reconstruction and new development.²⁹

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 and activities. The transport infrastructure sector selected funding for the maintenance of the following critical infrastructure assets as MPAs: roads and bridges; rural airstrips; and wharves and jetties. As we can see in the box above, the cost of not maintaining 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.

²⁹ Capital funding streams presently include: PSIP, DSIP, LLGSIP, SSG, and PIP's. Provincial internal revenue also often funds capital projects. Capital works are by their nature expensive and quite different to routine maintenance activities.

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.

7.3.1 The prioritisation of minimum priority activities in transport infrastructure maintenance

Explanation: Each year the NEFC conducts analysis of each province's spending and seeks to identify the expenditure made by the province 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'.

No. 42: Table of support for MPAs in transport infrastructure maintenance

	Minimum Priority Activities	Exp	Direct	Vote	No vote
Transport Infrastructure	1. Road & Bridge maintenance	0	2	17	1
	2. Airstrip maintenance	11	3	5	1
	3. Wharf & Jetty maintenance	4	2	4	3

We can observe:

MPA 1, Road and Bridge Maintenance: Overall, spending for this activity was clearly visible, but mostly not in the amounts estimated necessary. One province had no discrete vote: **New Ireland**.

MPA 2, Airstrip Maintenance: Overall support for this activity is evident. Eleven provinces have spent appropriate amounts, three others have transferred funds for this activity, and five may need to spend more. One province had no discrete vote: **New Ireland**.

MPA 3, Wharf and Jetty Maintenance: Overall there continues to be good support for this activity with 10 of the 13 provinces spending in this area. Six of which spent at appropriate levels, four can spend more. Three provinces had no discrete vote; **Central, Gulf and New Ireland**.

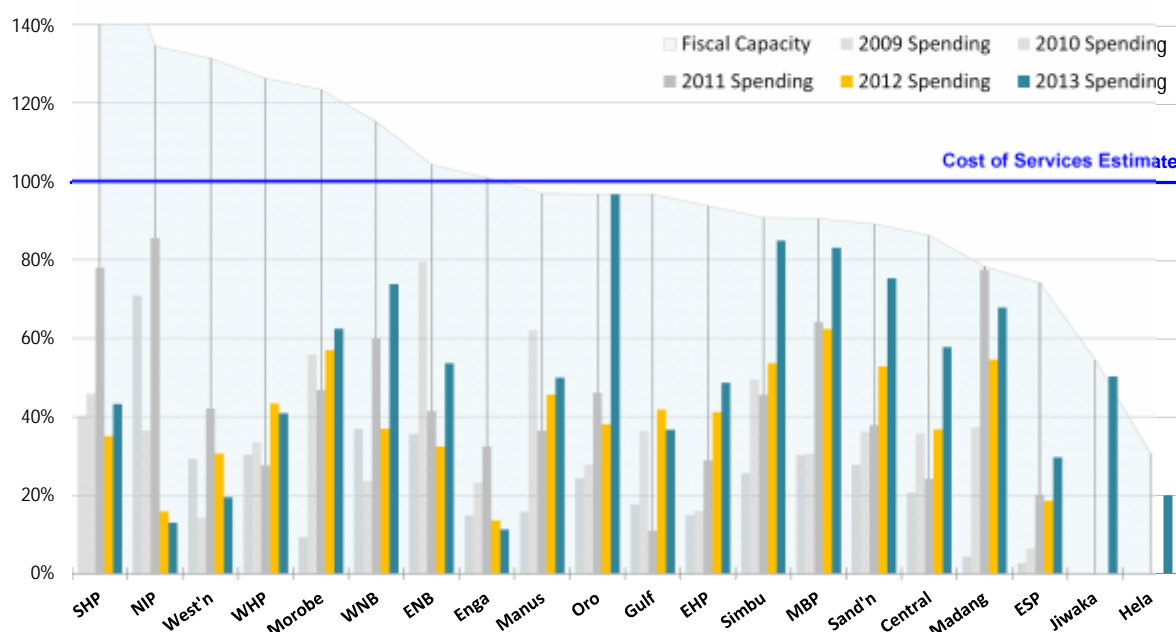
New Ireland had 'no vote' for all three MPA's.

7.4 Spending on infrastructure maintenance against the benchmark

7.4.1 Performance by Province

This graph illustrates the 2009 to 2013 performance of each province using the cost of services estimate as a benchmark.

No.43: Graph on spending performance in infrastructure maintenance from 2009 to 2013



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

We can observe:

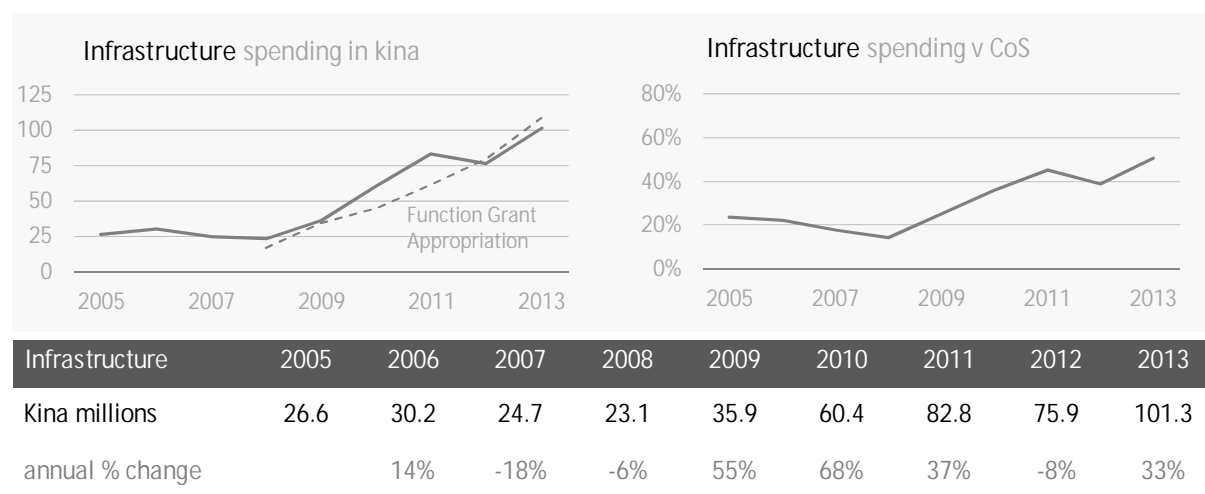
- In 2013, we can see positive signs in about half of the twenty provinces. Six provinces are spending in line with their fiscal capacity: Oro, Simbu, Milne Bay, Sandaun, Madang and Jiwaka.
- In the chart above we can see that in keeping with prior years there are no upper outliers in maintenance spending. The 'spread of spending' sees fourteen of the twenty provinces sitting between the 40% to 80% range up from 30% to 60% in 2012.
- Spending by the 12 lowest funded provinces continues to increase. Rising from K6.3 million in 2008 to K66.9 million in 2013.³⁰ 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.
- Three provinces performed very poorly. Enga spent only 11%, New Ireland 13% and Western 19%, of what is conservatively estimated necessary. These provinces had the capacity to spend much more on routine maintenance in 2013.
- Provinces spend about half of what is very conservatively estimated necessary. A road network that is not maintained will decline and become a massive cost to rehabilitate. Who will meet that cost? The implications of this are enormous and intergenerational.

³⁰ The twelve lowest funded provinces according to fiscal capacity as assessed for the 2013 fiscal year. This group now includes the newly formed provinces of Hela and Jiwaka.

7.4.2 Support for the sector over time: 2005 to 2013

Overall, spending in transport infrastructure maintenance between 2005 and 2013 has quadrupled as we see the full implementation of RIGFA from 2009. The targeted funding provided under RIGFA has gone some way in enabling provinces to maintain their stock of transport assets (roads, bridges, jetties, etc.).

No.44: Graphs and table of recurrent spending on transport infrastructure maintenance from 2005 to 2013 (millions)



From the set of charts and table above we can observe the following:

- From the chart above to the left, with nine years of data we are seeing a tangible increase in overall spending. Overall maintenance spending has quadrupled from K26 million in 2005 to K101 million in 2013.
- More recently, total recurrent spending increased by a third between 2012 and 2013.
- That said, the gap between what is spent and what we need to spend remains high (K101 million spent versus the K209 million conservatively estimated to be required). We need to at least double our spending on routine maintenance.
- We can see from the chart above to the right that the average spending of 48% across all 20 provinces has regained upward momentum after dropping a little in 2012 to 39% of what is required (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.
- It does not seem unreasonable to argue, that such is the nature of infrastructure maintenance, provinces need a reasonably sized budget allocation to enable them to commence a meaningful maintenance plan for 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 better position (funding-wise) to plan and implement maintenance activities within the province.³¹

The infrastructure data table on page 78 provides a snapshot of infrastructure expenditure data for the period 2009 to 2013 together with key fiscal indicators. It is a key reference table for the sector allowing the reader to monitor the trend across the sector and by province.

³¹ 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.

7.4.3 Spending from internal revenue

Under the intergovernmental financing system, provinces are expected to allocate and spend their province's internal revenue on basic services, including maintaining transport infrastructure. This is particularly relevant for provinces with higher proportionate amounts of internal revenue who receive smaller transport infrastructure maintenance function grants. If these provinces do not spend on maintenance – the expensive assets will degrade and need to be rehabilitated or replaced at enormous cost to government.

No.45: Table of recurrent goods and services spending from internal revenue on infrastructure maintenance 2005 to 2013 (millions)

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Kina millions	13.4	19.0	15.6	11.9	12.4	22.3	25.0	19.2	16.3
% change		42%	-18%	-24%	4%	80%	12%	-23%	-15%

- In 2013, 16% of recurrent infrastructure sector spending was from internal revenue, this is down as a proportion from the 25% in 2012 and 30% in 2011. It signifies two things. Firstly, it reflects the steady rise of function grant funding for routine maintenance. But more concerning, it signifies a decrease in the prioritisation of routine maintenance by provinces with higher levels of internal revenue.
- However, spending from internal revenue on infrastructure was highly significant in five provinces; Western, Morobe, Southern Highlands, East New Britain and Milne Bay. All of these provinces, with the exception of East New Britain, have committed relatively significant amounts of internal revenue to infrastructure maintenance in recent years which suggests this is a provincial priority in those provinces.
- In 2013, 13.7% of all sector spending now comes from internal revenue, this represents a proportionate decrease which may be due to several factors.

Firstly, the increase in grant transfers to provinces which then decreases the share of internal revenue as a proportion of total spending.

Secondly, total grant funding has increased due to RIGFA's recurrent funding, but also due to the introduction of the PSIP, DSIP and LLGSIP development funding which introduces large levels of capital funding for subnational projects – including transport infrastructure projects.

And thirdly, the introduction of PSIP, DSIP and LLGSIP development funding may have caused a realignment of how internal revenue is prioritised and allocated.

7.4.4 Spending in comparison to fiscal capacity

- In 2013 we see a positive change, with five provinces improving their spending and moving between spending thresholds. These provinces were: Southern Highlands, West New Britain, East New Britain, Oro and Sandaun.
- One province, Gulf, moved downward between spending thresholds – from medium in 2012 to low in 2013.
- Of the eight provinces with higher levels of internal revenue, five spent in the 'medium' band relative to their fiscal capacity. Three spent 'low', these were New Ireland, Western and Enga.

- Of the remaining twelve provinces who are more-so reliant on grants: six achieved a 'high' spending rating; four a 'medium' rating; and two – Gulf and East Sepik – a 'low' spending rating.

7.4.5 PGAS item coding analysis

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

No.46: Table analysing all infrastructure spending in 2013³²

The 5 Largest Spending Areas (by item)				The Split by Category		
Item #	Item Description	Amount	%	Category Description	Amount	%
128	Routine Maintenance	55,453,482	35%	Recurrent Goods & Services	101,276,549	63%
225	Construction, Renovation....	42,643,811	27%	Personnel Emoluments	2,019,987	1%
226	Substantial & Specific Maintenan	19,709,050	12%	Capital & Projects	56,476,069	35%
135	Other Operational Expenses	15,729,298	10%			
143	Grants and Transfers	10,442,234	7%			
	<i>all other codes</i>	15,794,730	10%			
	Total spending from recurrent & capital	159,772,605	100%	Total spending from recurrent & capital	159,772,605	100%

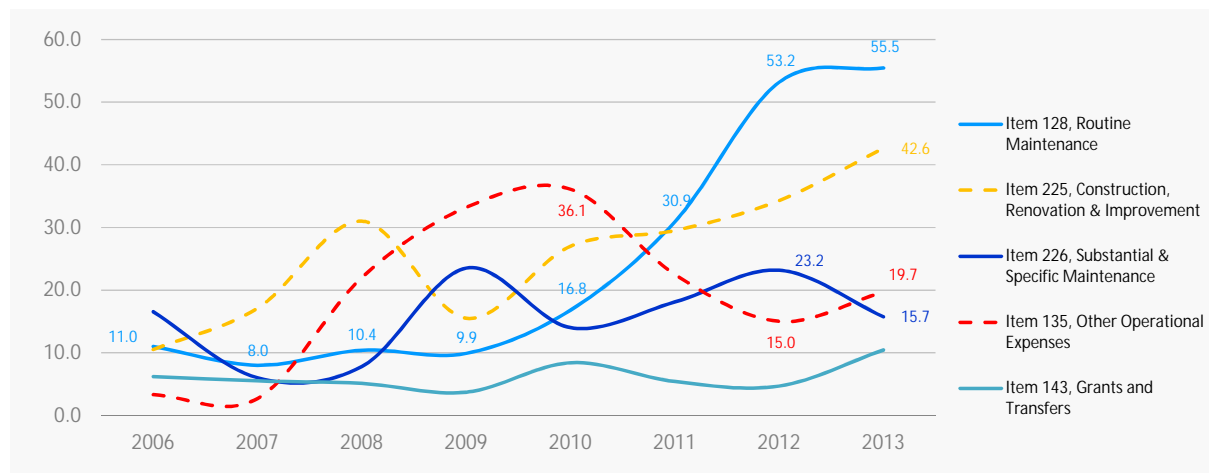
This table shows us that:

- Item 128: 'Routine Maintenance' continues to be the top expenditure item and is increasing in kina terms 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 75 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 that expenditure items 225 and 226 continue to be two of the higher expenditure totals in 2013 as they did in 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 2013 we see an increase in grant transfers (often to local level governments) that reverses the recent trend of decreases 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, PSIP and SSG funds.

No.47: Graph on infrastructure's Top Five items as recorded in PGAS: 2006 to 2013

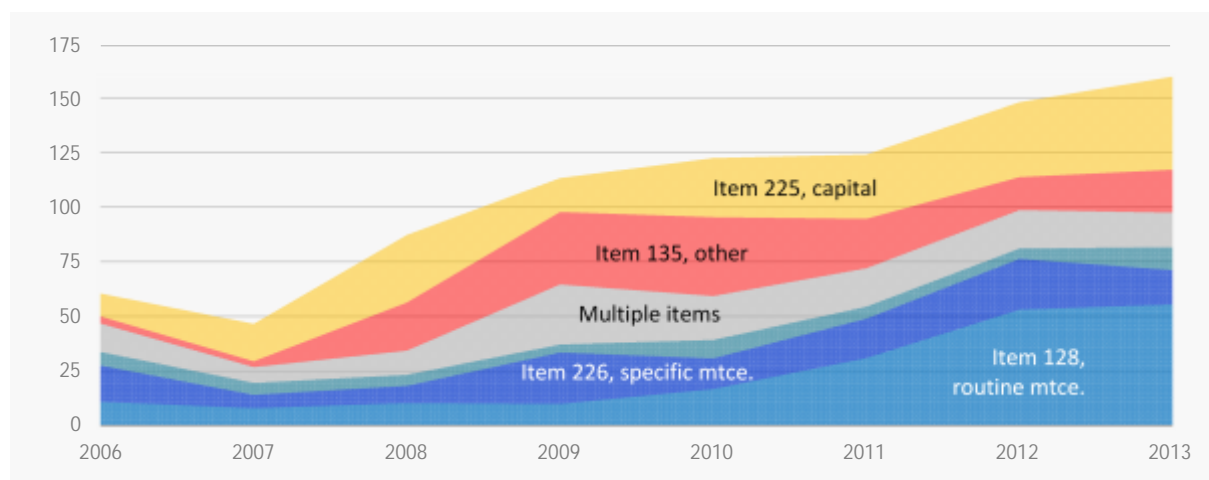


From the chart above we can observe:

- Item 128, the amount recorded as routine maintenance, which grew markedly between from 2009 to 2012 plateaued in 2013. The predominance of this spending activity is encouraging given that 'routine maintenance' is a government 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, spending ebbs and flows but 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 is significant and has tracked upward in recent years.
- 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 an overall decline in its use.

From the chart below we can see the proportional picture. Sectoral spending has risen markedly between 2006 and 2013 with 44% allocated to maintenance. Again, just over half of the spending is recorded as maintenance (being items 128 & 225 and item 143 transfers). In 2013, just over a third was spent on capital and the non-descript item 135.

No.48: Graph on all spending on infrastructure as recorded in PGAS: 2006 to 2013



7.5 Drilling down: the recurrent versus 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. In Papua New Guinea we know, 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.³³

No.49: Table of spending on infrastructure maintenance 2005 to 2013 (millions)

Recurrent v Capex	2005	2006	2007	2008	2009	2010	2011	2012	2013
Recurrent	26.6	30.1	23.8	23.0	35.5	60.4	82.7	75.9	101.3
Capital	20.8	28.6	20.7	62.6	76.0	60.5	39.2	69.8	142.8
The recurrent mix	56%	51%	53%	27%	32%	50%	68%	52%	41%

From the table above we can see:

- That in six of the last nine 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 2008-2009 with 27% and 32% respectively. In 2013, whilst recurrent spending in kina terms has risen notably, as a proportion of spending on the sector it has reduced to 41%.
- Spending on capital & projects in the transport infrastructural space is highly significant at K143 million. This includes spending that appears relevant from PIP, PSIP and SSG.
- Twelve provinces in 2013 spent more than K5 million kina on capital and projects in transport infrastructure. It is possible that some of this capital spending was recurrent in nature (being routine maintenance rather than spending on new infrastructure or rehabilitation).³⁴

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.³⁵

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 much more.

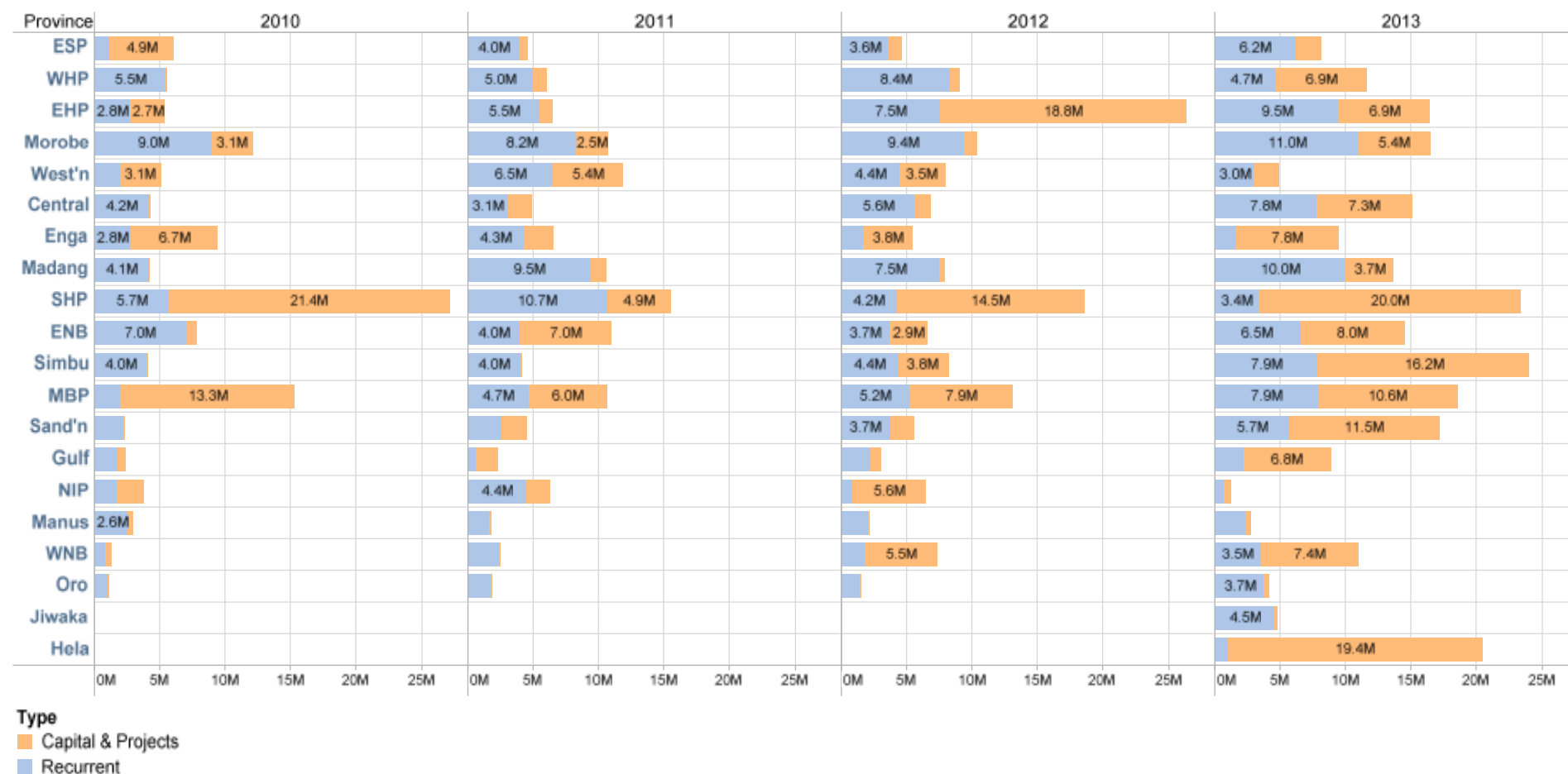
³³ To get a sense of the cost relativities, in 2006 routine maintenance for an unsealed road (on national highway) would cost about K6,000/km (per annum) whilst reconstruction would cost about K250,000/km. For sealed roads on national highway the routine maintenance cost is less, say K4,000/km, whilst the reconstruction is expensive, say K550,000.

³⁴ Refer to section 7.4

³⁵ The chart includes expenditure from PIP, PSIP and SSG were relevant.

- Capital spending is often haphazard reflecting its 'project' nature. It can happen one year and not the next. But when it happens the amounts can be very large.
- 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 four 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.
- In 2013, we can see a lot more capital spending across the group. This reflects the introduction of large development funding streams including PSIP in addition to the pre-existing SSG and PIP funding.

No.50: Graph on infrastructure spending, recurrent & capital from 2010 to 2013



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 2013. 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: 2009 to 2013 (recurrent spending)																				
	Province	Cost of Services Estimate	2009 Exp.	2010 Exp.	2011 Exp.	2012 Exp.	2013 Exp.	Spending Trend	% of G&S exp. from Internal Rev.	Spending Level Achieved Versus Cost of Services Est.		Function Grant Percentage Unspent		Nature Test	Capex from Grants	Capex from Internal Revenue				
		(Kina millions)	5 year G&S expenditure time series							2013	2012	2013	2013		2013					
			SHP	7.863	4.500	5.722	10.669	4.197	3.400	Down	61%	Low	Medium				6%	Not Good	18.280	1.710
Provinces with higher funding & higher internal revenue	NIP	5.583	3.066	1.728	4.433	0.827	0.722	Down	58%	Low	Low	71%	Average	0.535	-					
	West'n	15.434	3.775	2.004	6.508	4.415	3.000	Down	30%	Low	Low	71%	Average	1.938	-					
	WHP	11.525	4.557	5.490	4.954	8.359	4.703	Down	-	Medium	Medium	18%	Average	6.256	0.678					
	Morobe	17.671	1.356	8.991	8.238	9.434	11.026	Up	60%	Medium	Medium	17%	Average	5.008	0.409					
	WNB	4.783	1.250	0.875	2.446	1.652	3.529	Up	9%	Low	Medium	10%	Average	6.256	0.678					
	ENB	12.133	2.895	6.984	3.979	3.683	6.511	Up	27%	Low	Medium	1%	Average	8.000	-					
	Enga	13.413	1.637	2.776	4.258	1.696	1.505	Down	6%	Low	Low	7%	Average	7.123	0.666					
	Black - mixed dependency	Manus	4.780	0.606	2.600	1.672	2.041	2.386	Up	-	Medium	Medium	26%	Not Good	0.326	-				
Oro		3.825	0.798	0.999	1.813	1.363	3.700	Up	-	Medium	High	0%	Average	0.345	-					
Gulf		5.617	0.782	1.784	0.587	2.199	2.062	Up	4%	Medium	Low	22%	Average	6.762	-					
EHP		19.582	2.332	2.751	5.462	7.539	9.530	Up	8%	Medium	Medium	73%	Average	5.400	1.500					
Simbu		9.280	1.884	3.995	4.028	4.657	7.879	Up	-	High	High	0%	Good	16.155	-					
MBP		7.490	1.835	2.019	4.657	4.371	6.219	Up	37%	High	High	11%	Average	8.078	2.530					
Sand'n		7.534	1.565	2.227	2.545	3.723	5.671	Up	0%	Medium	High	15%	Average	11.482	0.000					
Blue - highly grant dependent	Central	13.461	2.223	4.179	3.087	4.630	7.765	Up	-	Medium	Medium	15%	Average	7.047	0.298					
	Madang	14.663	0.444	4.139	9.450	7.486	9.950	Up	-	High	High	41%	Average	3.730	0.000					
	ESP	20.896	0.445	1.171	3.994	3.620	6.184	Up	0%	Low	Low	28%	Not Good	1.908	-					
	Jiwaka	9.050	-	-	-	-	4.546	-	-	-	High	0%	Average	0.240	-					
	Hela	4.947	-	-	-	-	0.989	-	96%	-	Medium	65%	Average	17.849	1.600					
All Provinces		209.530	35.948	60.436	82.780	75.894	101.277	Up	16.343			ave. 25%			132.717	10.069				
															(a)	(b)	(c)			
The highest spending year in Kina																				
Key																				
above 15% above 25% above 80% below 5% Good above K5m above K5m																				
in-between in-between in-between Average																				
below -15% below 40% above 10% Not Good																				

(a) Includes grant & internal revenue expenditure.

(b) Capital & projects funded by national grants - includes PSIP, SSG, PIP and function grants used in error

(c) Capital & projects funded from provincial internal revenue

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.³⁶ 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.51: Areas within the primary production sector



³⁶ 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 agriculture and fisheries relies upon trained extension officers visiting farming and fisher communities (often in remote locations) to offer advice and guidance on good 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.

8.2.1 The prioritisation of minimum priority activities in agriculture and fisheries

Explanation: Each year the NEFC conducts analysis of each province's spending and seeks to identify the expenditure made by the province 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'.

No.52: Table of support for MPAs in primary production 2013

Minimum Priority Activities		Exp	Direct	Vote	No vote
Primary Prod'n.	Agriculture Extension Services	0	2	14	4
	Fisheries Extension Services	0	2	11	0

We can observe:

MPA 1, Agriculture Extension Services: Overall this activity has some identified funding but nowhere near enough. On no occasion has the analysis revealed the allocation of a suitable amount for agriculture extension [and related] work.

Four provinces had no discrete vote: **Jiwaka, Southern Highlands, Western Highlands and Central.**

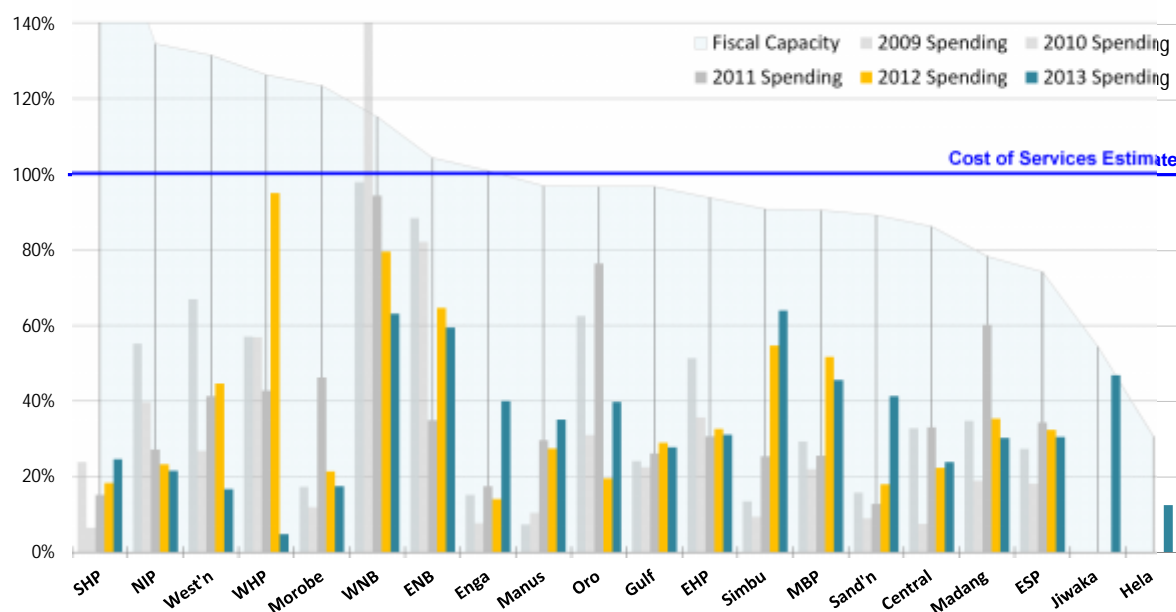
MPA 1, Fisheries Extension Services: Again, overall this activity has some identified funding but nowhere near enough. On no occasion has the analysis revealed the allocation of a suitable amount for fisheries extension [and related] work.

8.3 Agriculture spending against the benchmark³⁷

8.3.1 Performance by Province

The graph that follows, illustrates the 2009 to 2013 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 as well as some project activities that may be recurrent in nature.

No.53: Graph on spending performance in agriculture from 2009 to 2013



We can observe:

- In 2013, the 12 lower funded provinces spent on average 36% of what is required to meet the estimated costs of a basic service. This level is a marked improvement on pre-RIGFA levels in of 18% in 2008. The overall spending trend in agriculture is mixed but broadly positive.
- In 2013, three spent more than 50% of what is estimated necessary to provide a basic agriculture service, there were five in this category in 2012.
- Spending from internal revenue made a relatively significant impact in only three provinces, being Morobe (again), Enga and Western.
- Spending on agriculture in New Britain and Simbu is relatively strong, in New Ireland is declining and in Oro is fluctuating.
- Spending on capital & projects in agriculture is visible across most provinces. In some cases the amount spent is modest. Instances of higher spending included: The Emmaus Farm and a rubber project in Western; in Western Highlands, K7.6 million in support of Pacific Arabica Coffee Development; and in Enga, support for piggery, potato a pyrethrum factory projects.

³⁷ 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.

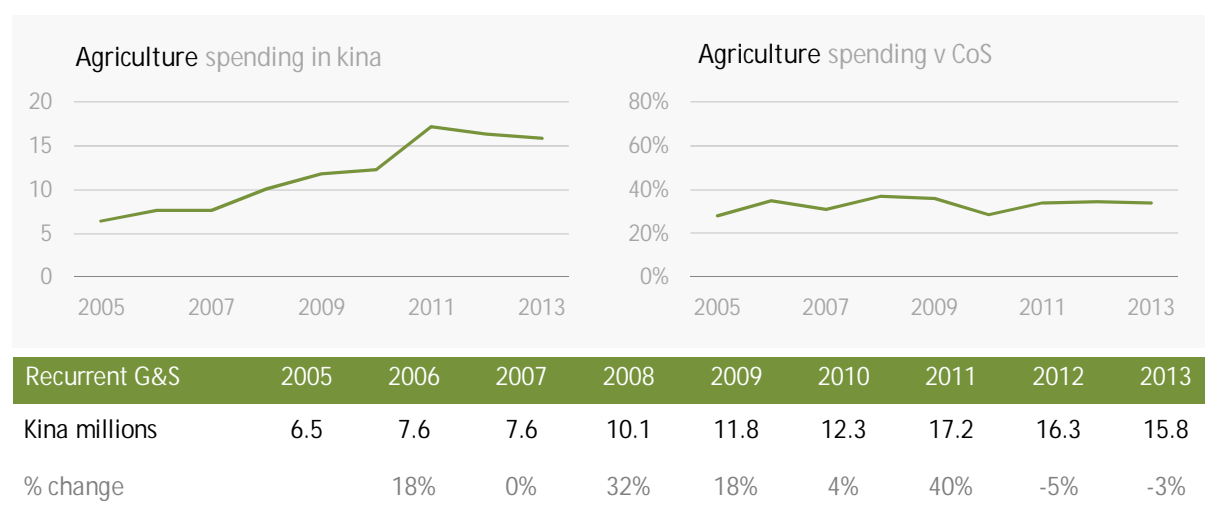
8.3.2 Support for the sector over time: 2005 to 2013

Agriculture is an economic activity that has a broad reach. It impacts ‘the many’ in the rural areas by providing a sustainable cash crop for families. It is worth supporting.

From the set of charts and table below we can observe the following:

- The trend of increased recurrent spending on agriculture, that was particularly evident over the period 2008 to 2011, has plateaued in more recent years.
- This higher level of spending is sustained largely through primary production function grant funding under RIGFA.
- The sector spending gap, being the difference between what is spent on the sector and what is estimated necessary, is K32.4 million. This represents a 67% shortfall.
- Note the impact of inflationary pressures, whilst spending has increased over time so has the cost of carrying out agriculture services.
- Agriculture as a sector continues to receive only one-third of what it needs to sustain basic operations.

No.54: Graphs and table of recurrent goods and services spending on agriculture 2005 to 2013 (millions)³⁸



8.3.3 Spending in comparison to fiscal capacity

- When we adjust for the differences in fiscal capacity there were three notable improvers – Enga, Oro and Sandaun.
- The five 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, Western and Western Highlands. Enga improved, and is the exception.

The agriculture data table on page 88 provides a snapshot of agriculture expenditure data for the period 2009 to 2013 together with key fiscal indicators. It is a key reference table for the sector allowing the reader to monitor the trend across the sector and by province.

³⁸ 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.

8.3.4 Agriculture: PGAS Item Coding Analysis

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

No.55: Table analysing all agriculture spending in 2013³⁹

The 5 Largest Spending Areas (by item)				The Split by Category		
Item #	Item Description	Amount	%	Category Description	Amount	%
135	Other operational expenses	8,567,632	34%	Recurrent Goods & Services	15,837,480	63%
242	Capital transfers	4,386,000	18%	Personnel Emoluments	347,100	1%
143	Grants and transfers	2,152,074	9%	Capital & Projects	8,764,688	35%
121	Travel and subsistence exp's	1,716,993	7%			
125	Transport and fuel	1,377,750	6%			
	<i>all other codes</i>	6,748,819	27%			
	Total spending from recurrent & capital	24,949,268	100%	Total spending from recurrent & capital	24,949,268	100%

We can see that:

- 'Other', item 135: The proportion spent under this vote item is decreasing each year, yet about a third 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.
- Transfers, items 143 and 242: Some 27% of spending is recorded as transfers under items 143 and 242. Three provinces transfer funds for each district within their province.
 - Both East New Britain and West New Britain transfer about K200,000 per district (this was the same practice in 2012).
 - Morobe transfers a flat K20,000 per district (this was the same practice in 2012).
 - Milne Bay did not record transfers in 2013 (in 2012 they transferred about K50,000 per district).
- Travel, items 121 and 125: Two travel related codes (items 121 and 125) are present in the Top 5 comprising 13% of sub-sector spending. The increasing amounts are encouraging, given that extension work is at the heart of agriculture service delivery.

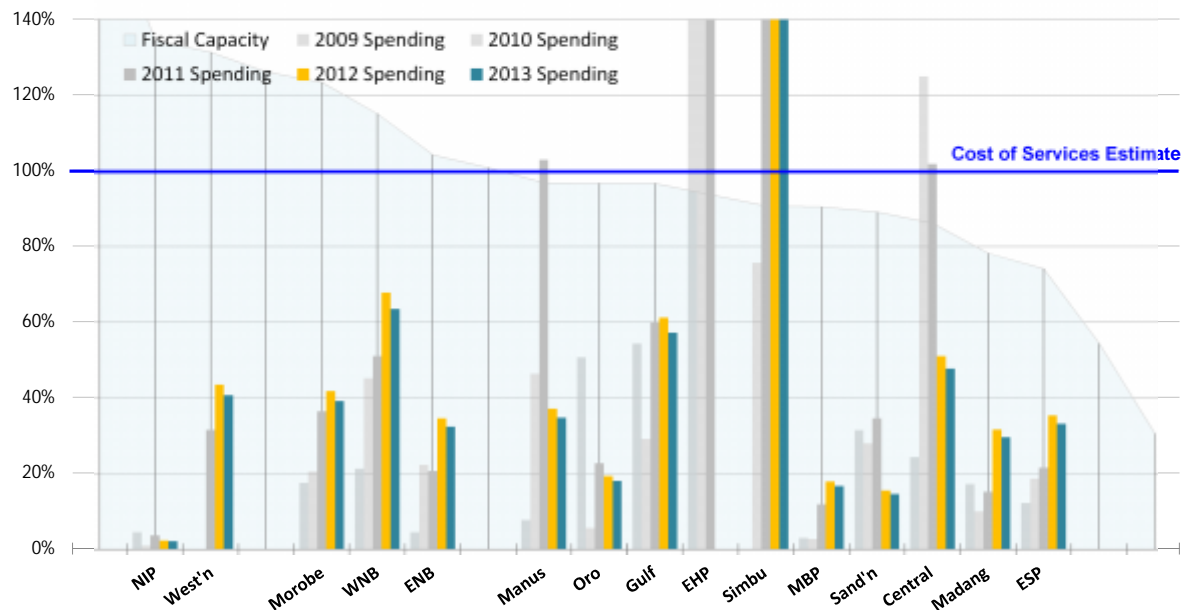
³⁹ These amounts include spending from both national grants and internal revenue on goods and services, personnel emoluments and capital and development. But not spending from PIP, PSIP and unspecified SSG funds.

8.4 Fisheries spending against the benchmark⁴⁰

8.4.1 Performance by Province

The graph that follows illustrates the 2009 to 2013 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.56: Graph on spending performance in fisheries from 2009 to 2013



We can observe:

- 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 2013, two provinces spent more than 50% of what is estimated necessary to provide a basic agriculture service, being West New Britain and Gulf.
- To date, there is very little internal revenue allocated to support the fisheries sector (K0.19 million down from K0.6 million in 2012).
- Spending on fishery capital & projects was evident in four provinces. Western, Morobe, Gulf and Central.

The fisheries data table on page 89 provides a snapshot of agriculture expenditure data for the period 2009 to 2013 together with key fiscal indicators. It is a key reference table for the sector allowing the reader to monitor the trend across the sector and by province.

⁴⁰ 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.

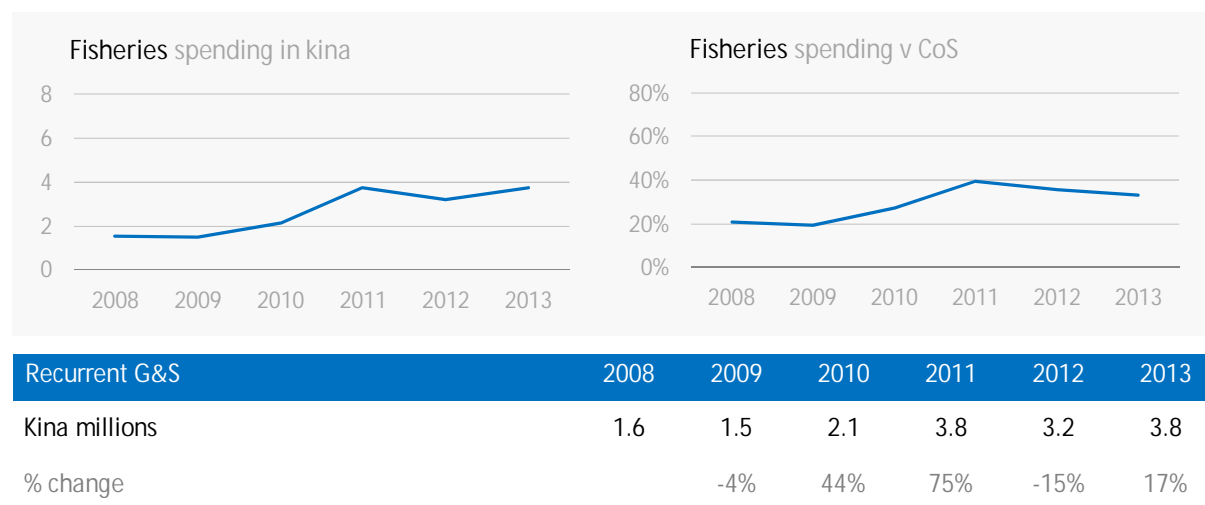
8.4.2 Support for the sector over time: 2005 to 2013

Fisheries is similar to agriculture, it is an economic activity that has a broad reach. Fishing impacts 'the many' in the coastal areas by providing a sustainable source of food and income for families. It is worth supporting and affordable. Indeed, fisheries as a sector is not expensive, providing support for its basic operations is very achievable.

From the set of charts and table below we can observe the following:

- Recurrent goods and services spending in the fisheries sub-sector more than doubled since 2008, albeit from a very low starting point.
- The upward trend in recurrent spending on fisheries has plateaued in more recent years.
- This spending is sustained largely through primary production function grant funding under RIGFA. To date, very little support comes from internal revenue.
- The sector spending gap, being the difference between what is spent on the sector and what is estimated necessary, is K5.8 million. This represents a 61% shortfall.
- Note the impact of inflationary pressures, whilst spending has increased over time so has the cost of carrying out agriculture services.

No.57: Graphs and table of recurrent goods and services spending on fisheries 2008 to 2013 (millions)



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

8.4.3 Fisheries: PGAS item coding analysis

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

No.58: Table analysing all fisheries spending in 2013⁴¹

The 5 Largest Spending Areas (by item)				The Split by Category		
Item #	Item Description	Amount	%	Category Description	Amount	%
135	Other Operational Expenses	1,928,341	41%	Recurrent Goods & Services	3,759,055	79%
143	Grants and Transfers	760,309	16%	Personnel Emoluments	103,365	2%
121	Travel and Subsistence Exp's	538,623	11%	Capital & Projects	898,357	19%
125	Transport and Fuel	383,947	8%			
128	Routine Maintenance	288,668	6%			
	<i>all other codes</i>	860,889	18%			
	Total spending from recurrent & capital	4,760,777	17%	Total spending from recurrent & capital	4,760,777	100%

We can see that:

- 'Other', item 135: Some 41% 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.
- Transfers under item 143: Some 16% of spending is recorded as a transfer. Three provinces transfer funds for each district within their province and a fourth transferred a grant to a fisheries authority within the province.
 - West New Britain transfer around K85,000 per district (same practice 2012).
 - Milne Bay transfers around K25,000 per district (same practice 2012).
 - East New Britain between K55,000 and K100,000 per district.
 - Morobe transferred K175,000 to the Morobe Fisheries Management Authority (same practice 2012).
- Travel, items 121 and 125: Two travel related codes (items 121 and 125) are again present in the Top 5 comprising 19% of sub-sector spending. The increasing amounts are encouraging, given that extension work is at the heart of fisheries service delivery.
- Maintenance, item 128: Interestingly, item 128 being routine maintenance made the Top 5 in 2013.

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, PSIP and unspecified SSG funds.

8.5 Agriculture data table

Agriculture Sub-sector: 2009 to 2013 (recurrent spending)															
	Province	Cost of Services Estimate	2009 Exp.	2010 Exp.	2011 Exp.	2012 Exp.	2013 Exp.	Spending Trend	% of G&S exp. from Internal Rev.	Spending Level Achieved Versus Cost of Services Est.		Function Grant		Capex from Grants	Capex from Internal Rev.
												Percentage Unspent	Nature Test		
		(Kina millions)	5 year G&S expenditure time series					2013	2012	2013	2013		2013		
Provinces with higher funding & higher internal revenue	SHP	2.283	0.707	0.255	0.653	0.642	0.562	Steady	-	Low	Low	4%	Good	-	0.100
	NIP	1.583	0.482	0.519	0.390	0.345	0.342	Down	16%	Low	Low	36%	Average	-	-
	West'n	3.083	1.383	0.781	1.317	1.287	0.517	Down	52%	Medium	Low	38%	Not Good	2.416	-
	WHP	1.347	1.020	1.314	1.082	2.138	0.065	Down	-	High	Low	81%	Not Good	3.586	4.186
	Morobe	4.979	0.545	0.528	2.222	0.997	0.871	Down	74%	Low	Low	15%	Good	-	0.150
	WNB	2.229	1.410	3.026	2.075	1.660	1.407	Down	-	Medium	Medium	26%	Average	3.586	4.186
	ENB	2.016	1.470	1.815	0.846	1.220	1.198	Steady	1%	Medium	Medium	1%	Good	-	-
	Enga	2.633	0.264	0.179	0.445	0.347	1.055	Up	31%	Low	Medium	3%	Good	1.569	1.000
Black - mixed dependency	Manus	1.121	0.051	0.096	0.297	0.288	0.394	Up	-	Low	Low	36%	Average	0.011	-
	Oro	1.888	0.587	0.470	1.266	0.347	0.751	Steady	-	Low	Medium	17%	Average	-	-
	Gulf	1.769	0.283	0.370	0.472	0.480	0.493	Up	3%	Low	Low	23%	Average	0.079	-
	EHP	2.653	0.891	0.806	0.758	0.811	0.825	Steady	-	Medium	Low	13%	Average	0.120	-
	Simbu	1.609	0.145	0.135	0.397	0.824	1.030	Up	-	High	Medium	25%	Average	0.260	-
	MBP	2.724	0.459	0.473	0.630	1.318	1.241	Up	0%	Medium	Medium	24%	Average	0.726	-
	Sand'n	3.465	0.341	0.268	0.431	0.586	1.433	Up	0%	Low	Medium	28%	Average	0.182	-
Blue - highly grant dependent	Central	2.791	0.503	0.172	0.824	0.584	0.667	Up	5%	Low	Low	17%	Average	0.295	-
	Madang	3.913	0.705	0.565	1.966	1.298	1.186	Steady	4%	Medium	Low	11%	Good	0.000	-
	ESP	3.689	0.580	0.546	1.130	1.120	1.125	Up	-	Medium	Medium	34%	Average	0.044	-
	Jiwaka	1.058	-	-	-	-	0.496	-	-	-	High	0%	Not Good	0.260	-
	Hela	1.437	-	-	-	-	0.180	-	-	-	Medium	8%	Average	-	-
All Provinces		48.270	11.826	12.315	17.201	16.292	15.837	Steady	1.402			ave. 22%		13.133	9.622
						(a)					(b)	(c)	(d)	(e)	
						Key									
						The highest spending year in Kina		above 15%	above 25%	above 80%	below 5%	Good	above K0.35m		
								in-between		in-between	in-between	Average			
								below -15%		below 40%	above 10%	Not Good			
(a) Includes agriculture-related grant & internal revenue expenditure only.															

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

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

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

(d) Agriculture capital & projects funded by national grants - includes PSIP, SSG, PIP and function grants used in error

(e) Agriculture capital & projects funded from provincial internal revenue

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

8.6 Fisheries data table

Fisheries Sub-sector: 2009 to 2013 (recurrent spending)															
	Province	Cost of Services Estimate	2009 Exp.	2010 Exp.	2011 Exp.	2012 Exp.	2013 Exp.	Spending Trend	% of G&S exp. from Internal Rev.	Spending Level Achieved Versus Cost of Services Est.	Function Grant		Capex from Grants	Capex from Internal Revenue	
		(Kina millions)	5 year G&S expenditure time series						2013	2012	2013	Percentage Unspent	Nature Test		
												2013		2013	
Provinces with higher funding & higher internal revenue	SHP	0.110	-	-	-	-	-	Up	-	n.a.	n.a.	n.a.	n.a.	-	-
	NIP	0.847	0.027	0.007	0.027	0.019	0.061	Up	62%	Low	Low	36%	Average	-	-
	West'n	0.781	-	-	0.212	0.318	0.172	Up	86%	Medium	Low	38%	Not Good	0.528	-
	WHP	0.000	0.450	0.340	0.812	0.097	-	Up	-	n.a.	n.a.	n.a.	n.a.	-	-
	Morobe	0.638	0.080	0.103	0.200	0.250	0.175	Steady	-	Medium	Low	15%	Good	0.100	0.150
	WNB	0.984	0.149	0.349	0.431	0.625	0.678	Up	-	Medium	Medium	26%	Average	-	-
	ENB	0.618	0.020	0.109	0.110	0.200	0.417	Up	-	Medium	Medium	1%	Good	-	-
	Enga	0.000	-	-	-	-	-	Up	-	n.a.	n.a.	n.a.	n.a.	-	-
Black - mixed dependency	Manus	0.627	0.035	0.229	0.554	0.218	0.084	Down	-	Medium	Low	36%	Average	-	-
	Oro	0.358	0.130	0.016	0.070	0.065	0.071	Steady	-	Low	Low	17%	Average	-	-
	Gulf	0.566	0.220	0.130	0.292	0.324	0.176	Down	-	Medium	Low	23%	Average	0.080	-
	EHP	0.016	0.030	0.060	0.069	-	0.145	Up	-	-	High	13%	Average	-	-
	Simbu	0.017	-	0.010	0.030	0.058	0.122	Up	-	-	High	25%	Average	-	-
	MBP	1.536	0.033	0.033	0.157	0.258	0.420	Up	-	Low	Low	24%	Average	-	-
	Sand'n	0.307	0.069	0.068	0.091	0.045	0.471	Up	1%	Low	High	28%	Average	-	-
Blue - highly grant dependent	Central	0.528	0.092	0.518	0.461	0.252	0.323	Steady	-	Medium	Medium	17%	Average	0.040	0.100
	Madang	0.760	0.094	0.060	0.099	0.225	0.231	Up	-	Medium	Low	11%	Good	-	-
	ESP	0.777	0.068	0.114	0.144	0.258	0.211	Up	-	Medium	Low	34%	Average	-	-
	Jiwaka	0.000	-	-	-	-	-	-	-	n.a.	n.a.	n.a.	n.a.	-	-
	Hela	0.069	-	-	-	-	-	-	-	n.a.	Low	8%	Average	-	-
All Provinces		9.539	1.495	2.146	3.761	3.212	3.759	Up	0.192			ave. 22%		0.748	0.250
							(a)					(b)	(c)	(d)	(e)

The highest spending year in Kina

Key

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

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

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

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

(d) Fisheries capital & projects funded by national grants - includes PSIP, SSG, PIP and function grants used in error

(e) Fisheries capital & projects funded from provincial internal revenue

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 established a village court function grant to contribute toward the operational costs of maintaining village courts and to complement the village court allowance grant.

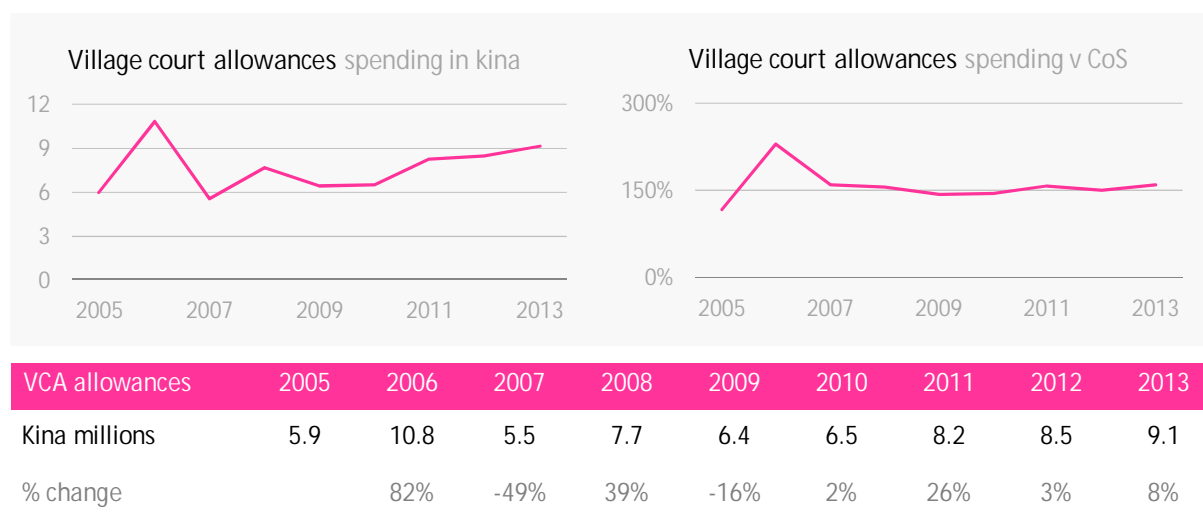
9.2 Village court allowances over time: 2005 to 2013

As a society that is rurally based, Papua New Guinea relies heavily upon its indigenous system of village based officials and ‘village courts’. Remunerating these officials for their service is an important element that recognises their important contribution to society and sustains the institution.

From the set of charts and table below we can observe the following:

- The total amount expended on village court allowances has increased modestly in recent years.
- The year 2006 is an outlier that reflects the additional funding provided by Treasury to meet the cost of accumulated arrears of allowances.
- Spending on allowances has plateaued over 2007-2013, at a level in excess of the NEFC’s cost estimate. There is no visible ‘shortfall’.
- Support for allowances is largely from grant transfers. However five provinces contributed a total of K1.4 million (being 15% of allowance expenditure) from their internal revenue in 2013. New Ireland’s K0.75 million comprised 50% of this amount.

No.59: Graphs & table of spending on village court allowances by provinces 2007 to 2013 (millions)



9.2.1 Observations on provincial performance: village courts allowances

From our analysis of the spending data we have the following specific observations:

- In 2013, Oro is the only province whose spending was well below what is estimated necessary. Oro's spending ranked 'medium'. This due, in part, to underspending. But it also reflects a divergence between what is spent by the province and what the NEFC estimates is required.
- Unspent allowance grants at year end was an issue in nine provinces. Particularly in New Ireland, West New Britain, Oro and Eastern Highlands.
- The nature of spending was of variable quality in two provinces – West New Britain and Oro.

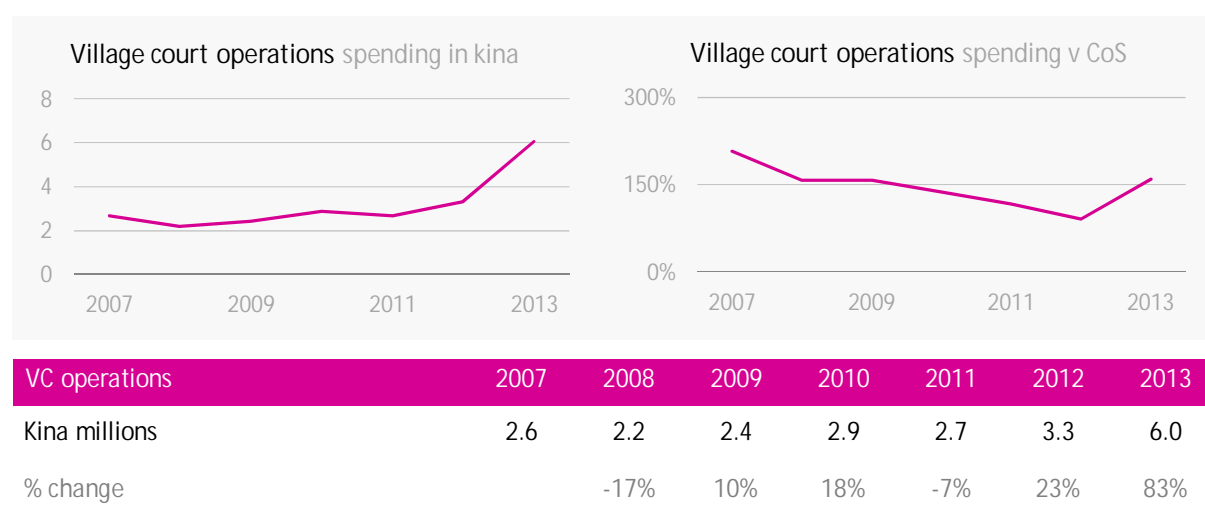
9.3 Village court operational spending over time: 2007 to 2013

Papua New Guinea's indigenous system of village based officials and 'village courts' requires a modest amount of operational funding to maintain its operations. In 2007, the national government established a village court function grant to contribute toward the operational costs of maintaining village courts and to complement the village court allowance grant.

From the set of charts and table below we can observe the following:

- The total amount expended on village court operations increased significantly in 2013. This was due to the increase in function grant funding from K3.5 million in 2012 to K6.4 million in 2013.
- Spending on village court operations is at a level in excess of the NEFC's cost estimate. There is no visible overall 'shortfall'.
- Support for operations is largely from grant transfers. However five provinces contributed a total of K0.9 million (being 15% of allowance expenditure) from their internal revenue in 2013. Morobe's K0.4 million comprised 43% of this amount.

No.60: Graphs and table of operational spending on village courts by provinces 2007 to 2013 (millions)



9.3.1 Observations on provincial performance: village courts operations

From our analysis of the spending data we have the following specific observations:

- In 2013, spending from three provinces – Western Highlands, Enga and Manus – was well below what is estimated necessary. All three ranked 'medium'. In the case of Manus it reflects underspending. But for Western Highlands and Enga it reflects a divergence between what is spent by the province and what the NEFC estimates is required.
- Unspent allowance grants at year end was an issue in nine provinces. Particularly in Western, Manus, Sandaun, East Sepik and Hela.
- The nature of spending was of variable quality in ten provinces and poor in one (Jiwaka). There is clearly room for improvement.

9.3.2 Village Courts Operations: PGAS Item Coding Analysis

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

No.61: Table analysing all village courts operational spending in 2013⁴²

The 5 Largest Spending Areas (by item)				The Split by Category		
Item #	Item Description	Amount	%	Category Description	Amount	%
135	Other Operational Expenses	3,313,998	49%	Recurrent Goods & Services	6,026,388	89%
124	Office Materials & Supplies	769,195	11%	Personnel Emoluments	208,099	3%
121	Travel and Subsistence Exp's	467,465	7%	Capital & Projects	501,872	7%
125	Transport and Fuel	443,712	7%			
222	Purchase of Vehicles	550,772	8%			
	<i>all other codes</i>	1,191,218	18%			
	Total spending from recurrent & capital	6,736,360	100%	Total spending from recurrent & capital	6,736,360	100%

The table shows us that:

- 'Other' item 135: In 2013 the highest percentage of spending was again classified as other operational expenses (item 135). This has increased as a percentage of total sector spending from 37% in 2012 to 49% in 2013.
Item 135 is a catch-all spending bucket that allows provinces the maximum flexibility in spending.
- Travel, items 121 and 125: Travel related costs are in the top-5, with TA (item 121) and transport & fuel (item 125) together comprises 14%, down from 22% in 2012.
- Capital spending was 7% of all spending. Central, Eastern Highlands and West New Britain purchased vehicles. Madang purchase a vehicle and three bicycles.

⁴² 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, PSIP and SSG funds.

9.4 Village courts data table: allowances and operations

		Village Court Allowances								Village Court Operations							
	Province	Cost of Services Estimate	2011 Exp.	2012 Exp.	2013 Exp.	Spending Trend	Spending Level	Function Grant		Cost of Services Estimate	2011 Exp.	2012 Exp.	2013 Exp.	Spending Trend	Spending Level	Function Grant	
		(Kina millions)	3 year exp. time series			2013	2013	Percentage Unspent	Nature Test	(Kina millions)	3 year G&S exp. time series			2013	2013	Percentage Unspent	Nature Test
Provinces with higher funding & higher internal revenue	SHP	0.411	0.578	0.559	0.559	Steady	High	0%	Good	0.198	0.257	0.250	0.175	Down	High	0%	Average
	NIP	0.201	0.773	0.876	0.873	Steady	High	35%	Good	0.136	0.052	0.053	0.114	Down	High	14%	Average
	West'n	0.201	0.339	0.189	0.313	Up	High	19%	Good	0.226	0.304	0.388	0.264	Steady	High	30%	Average
	WHP	0.260	1.306	1.462	0.886	Down	High	14%	Good	0.174	0.292	0.244	0.126	Down	Medium	4%	Average
	Morobe	0.419	0.400	0.547	0.475	Steady	High	8%	Good	0.180	0.245	0.335	0.761	Up	High	4%	Good
	WNB	0.184	0.508	0.271	0.620	Up	High	44%	Average	0.214	0.229	0.220	0.273	Steady	High	11%	Average
	ENB	0.188	0.192	0.224	0.266	Up	High	2%	Good	0.120	0.083	0.061	0.276	Up	High	2%	Good
	Enga	0.718	0.962	0.886	0.878	Up	High	0%	Good	0.377	0.126	0.207	0.256	Down	Medium	4%	Good
Black - mixed dependency	Manus	0.214	0.173	0.241	0.213	Steady	High	9%	Good	0.198	0.073	0.114	0.139	Steady	Medium	42%	Average
	Oro	0.188	0.138	0.126	0.093	Down	Medium	33%	Average	0.088	0.041	0.043	0.071	Down	High	15%	Average
	Gulf	0.235	0.461	0.445	0.418	Up	High	14%	Good	0.154	0.100	0.159	0.183	Steady	High	8%	Good
	EHP	0.481	0.437	0.533	0.554	Up	High	24%	Good	0.215	0.120	0.133	1.054	Up	High	6%	Good
	Simbu	0.381	0.380	0.380	0.431	Up	High	0%	Good	0.178	0.150	0.142	0.358	Up	High	0%	Good
	MBP	0.359	0.313	0.318	0.319	Steady	High	14%	Good	0.183	0.082	0.138	0.386	Up	High	16%	Good
	Sand'n	0.179	0.172	0.150	0.217	Up	High	14%	Good	0.171	0.043	0.111	0.290	Up	High	27%	Average
Blue - highly grant dependent	Central	0.230	0.297	0.318	0.567	Up	High	1%	Good	0.219	0.153	0.175	0.292	Up	High	2%	Good
	Madang	0.420	0.321	0.327	0.450	Up	High	1%	Good	0.229	0.078	0.170	0.342	Up	High	7%	Good
	ESP	0.565	0.483	0.610	0.529	Up	High	1%	Good	0.286	0.244	0.355	0.372	Up	High	47%	Average
	Jiwaka	0.204	-	-	0.261	-	High	0%	Good	0.136	-	-	0.202	-	High	0%	Not Good
	Hela	0.259	-	-	0.196	-	High	7%	Good	0.125	-	-	0.094	-	High	24%	Average
All Provinces		6.298	8.234	8.458	9.118	Up		ave. 12%		3.808	2.672	3.299	6.026	Down		ave. 13%	
(a)																	
(a)																	

(a)

(a)

The highest spending year in Kina

(a) Includes grant & internal revenue expenditure.

Key

above 15%	High	below 5%	Good
in-between	Medium	in-between	Average
below -15%	Low	above 10%	Not Good

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 even spend six or seven 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.

10.1.1 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

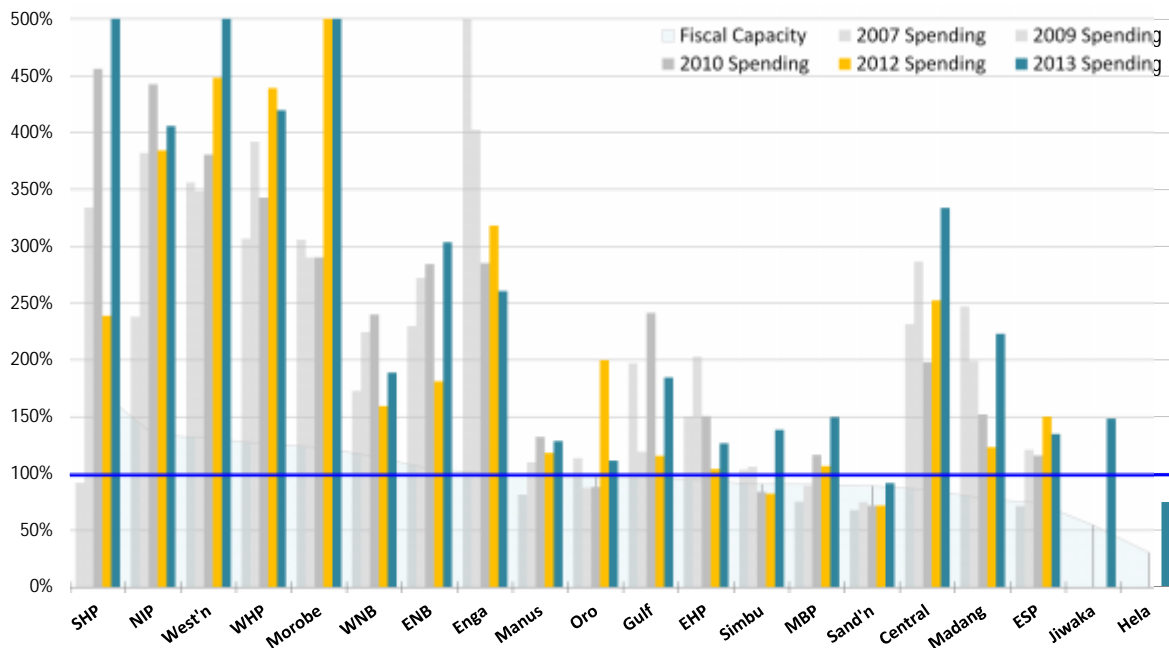
- Provincial and District Administration Building Maintenance

10.2 The administration divisions against the benchmark

10.2.1 Performance by Province

The graph that follows illustrates the 2009 to 2013 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.62: Graph on spending performance in administration from 2009 to 2013



We can observe:

- Spending on administration continues to rise. There are two groups.
- The first group of eleven provinces who in 2013 spent between two times and seven times what is estimated to be required on administration operations.⁴³ This seems a lot. This group includes: Southern Highlands, New Ireland, Western, Western Highlands, Morobe and Central.
- Notably, most of the higher spending is from provinces with higher levels of internal revenue.
- Well done to those provinces seeking to control administration spending, promote efficiency, and who are opening up the possibilities of reallocating resources to frontline services.
- The second group of nine, spent in line with the cost estimates.
- The other real positive is the example set by provinces largely dependent on grants, who continue to manage the budgets without excessive spending on administration.

⁴³ 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.

10.2.2 Support for the administration divisions over time: 2005 to 2013

The various areas of provincial administration are necessary and provide an essential enabling service for local levels. However, we know the expenditure in this area needs to be carefully managed to ensure it does not displace the public services that provinces are mandated to deliver.

This is called creating fiscal space, and allows provinces to redirect funding to better support front-line services.

From the set of charts and table below we can observe the following:

- Recurrent provincial spending on the administration divisions continues to rise at alarming rates. The 2013 total of K176 million is three and a half times higher than the 2005 level of K47 million.
- Of the K176 million spent, a remarkably consistent proportion is funded from provincial internal revenue. On average, over the 2005-2013 period 82% of this spending is from internal revenue.
- In broad terms there are two groups. Those with larger amounts of internal revenue who allocate and spend a lot (between two and seven times cost estimates) to and through the administration divisions, and those with more modest amounts of internal revenue who spend close to what is estimated necessary.
- Some of this spending is nondescript, and is managed through the Provincial Administrator's office and the Governor's office. There may be 'service delivery' items paid through this modality, but we have no way of ascertaining whether that is the case. The use of nondescript spending votes, are generally not considered a good practice for promoting budget visibility.

No.63: Graphs and table of all recurrent spending on the administration divisions from 2005 to 2013 (millions)



The administration data table on page 98 provides a snapshot of administration expenditure data for the period 2007 to 2013 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.

10.2.3 Administration Divisions: PGAS Item Coding Analysis

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

No.64: Table analysing all administration division spending in 2013⁴⁴

The 5 Largest Spending Areas (by item)				The Split by Category		
Item #	Item Description	Amount	%	Category Description	Amount	%
135	Other operational expenses	90,100,532	31%	Recurrent Goods & Services	176,264,276	61%
115	Members salaries & allowances	17,996,859	6%	Personnel Emoluments	70,875,227	24%
111	Salary and allowances	20,135,781	7%	Capital & Projects	42,154,438	15%
143	Grants and transfers	14,839,369	5%			
112	Casual wages	14,823,754	5%			
	<i>all other codes</i>	131,397,646	45%			
	Total spending from recurrent & capital	289,293,941	100%	Total spending from recurrent & capital	289,293,941	100%

We can see that:

- Item 135: The highest single item of spending is still other operational expenses which retains its 2012 level of 31% (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 & 112: Spending on these staff-related costs is 12% (11% in 2012).
Note this IS NOT the regular staff payroll this is staff-related costs such as; allowances, leave fares and casual wages.
- Spending on transfers and grants (item 143) is prominent in 2013.

10.2.4 The impact of Consolidated Expenditure⁴⁵

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.⁴⁶ 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 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, PSIP and SSG funds.

⁴⁵ 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.

⁴⁶ Refer to the 2008 Provincial Expenditure Review Walking the Talk available on the NEFC website.

10.3 Administration data table

Administration Sector 2005 to 2013 (recurrent spending)													
	Province	Cost of Services Estimate	2009 Exp.	2010 Exp.	2011 Exp.	2012 Exp.	2013 Exp.	Spending Trend	% of G&S exp. from Internal Rev.	Spending Level Achieved Versus Cost of Services Est.		Capex from Grants	Capex from Internal Revenue
		(Kina millions)	5 year G&S expenditure time series						2013	2012	2013	2013	2013
Provinces with higher funding & higher internal revenue	SHP	2.807	8.151	13.703	7.776	10.221	16.299	Up	94%	239%	581%	-	7.841
	NIP	2.426	6.868	9.157	7.560	8.727	9.838	Up	100%	384%	406%	0.559	1.305
	West'n	3.742	8.541	10.872	12.090	15.695	27.328	Up	95%	448%	730%	3.033	0.427
	WHP	1.923	7.367	7.653	7.695	14.110	8.068	Steady	86%	439%	420%	-	5.446
	Morobe	5.906	8.735	10.467	20.201	28.404	30.375	Up	100%	514%	514%	2.123	2.610
	WNB	3.061	3.902	4.810	4.067	4.568	5.780	Up	86%	159%	189%	-	5.446
	ENB	3.411	6.070	7.256	7.574	5.787	10.349	Up	86%	181%	303%	-	-
	Enga	3.155	7.522	6.243	7.198	9.395	8.222	Steady	94%	318%	261%	0.554	2.819
Black - mixed dependency	Manus	2.349	1.641	2.242	2.699	2.598	3.020	Up	51%	118%	129%	-	-
	Oro	2.161	1.271	1.489	2.000	4.040	2.404	Steady	26%	200%	111%	0.919	-
	Gulf	2.629	1.291	3.119	1.201	2.848	4.854	Up	20%	116%	185%	6.564	-
	EHP	4.372	3.631	3.250	3.705	4.262	5.533	Up	53%	104%	127%	2.511	-
	Simbu	3.416	1.743	1.674	2.526	2.635	4.729	Up	68%	82%	138%	1.760	0.110
	MBP	3.322	1.793	2.751	2.980	3.311	4.969	Up	47%	106%	150%	2.185	1.140
	Sand'n	3.647	1.568	1.757	2.279	2.457	3.346	Up	49%	72%	92%	1.558	0.140
Blue - highly grant dependent	Central	3.127	4.680	3.855	5.952	7.385	10.434	Up	71%	252%	334%	4.057	0.149
	Madang	4.785	4.159	3.800	6.073	5.521	10.665	Up	63%	123%	223%	1.061	0.200
	ESP	4.814	3.484	3.946	3.951	6.763	6.491	Up	40%	150%	135%	1.763	0.136
	Jiwaka	1.510	-	-	-	-	2.241	-	-	-	148%	-	-
	Hela	1.766	-	-	-	-	1.321	-	67%	-	75%	7.342	0.900
All Provinces		64.327	82.417	98.044	107.525	138.725	176.264	Up	K141m 80%			35.988	28.670
							(a)					(b)	(c)
		The highest spending year in Kina						Key					
								above 15%		above 50%	up to 100%	above K2m	
								in-between			100% to 200%		
								below -15%			over 200%		

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

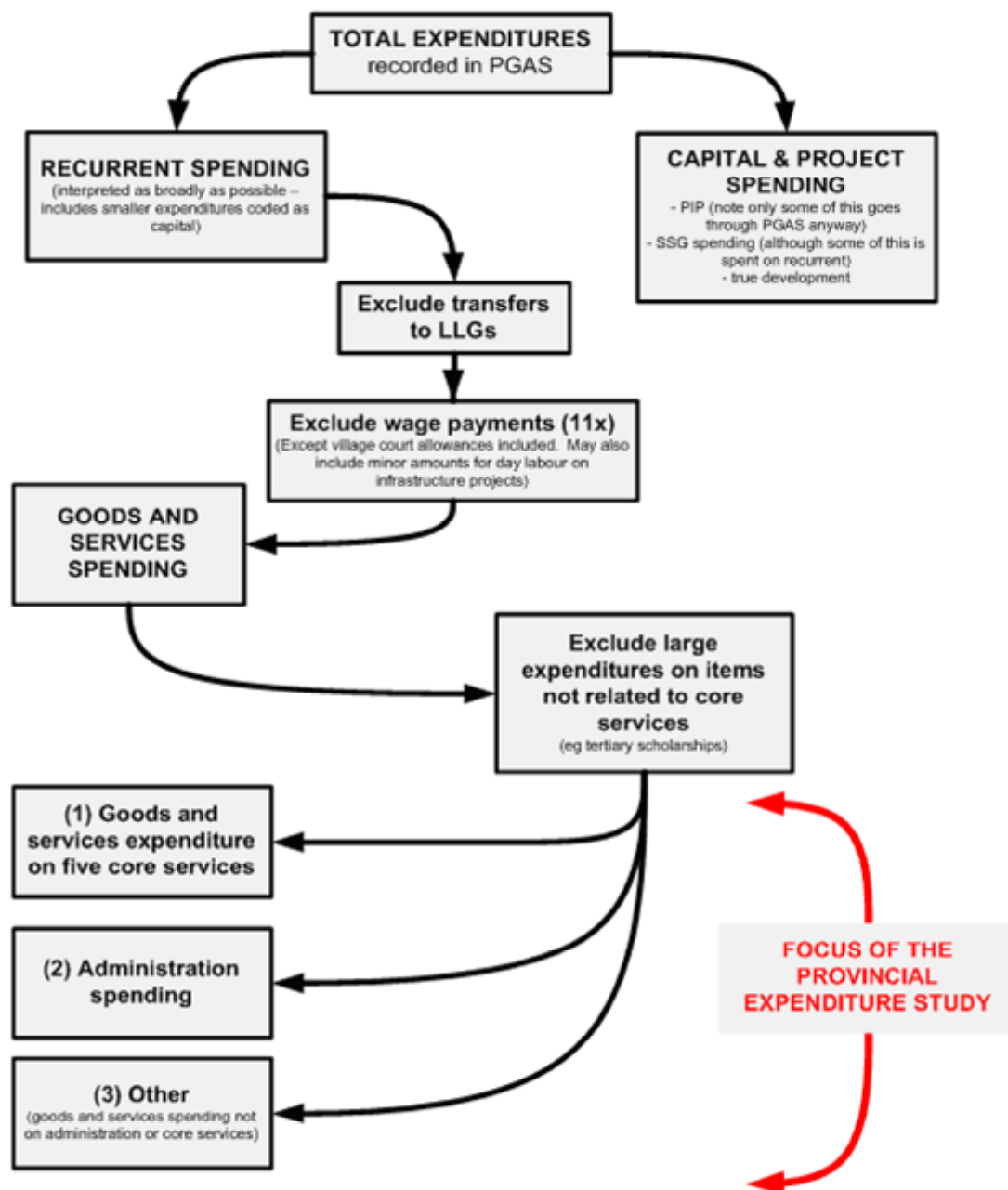
(b) Capital & projects funded by national grants - includes PSIP, SSG, PIP and function grants used in error

(c) Capital & projects funded from provincial internal revenue

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.65: Figure illustrating what data is included and what isn't⁴⁷



⁴⁷ 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

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

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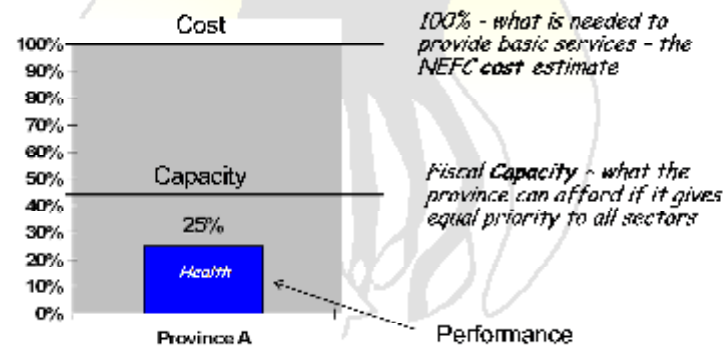
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Comparing Actual Spending to Cost of Services Estimates (slides 3 and 4)

3. Let's illustrate that example:

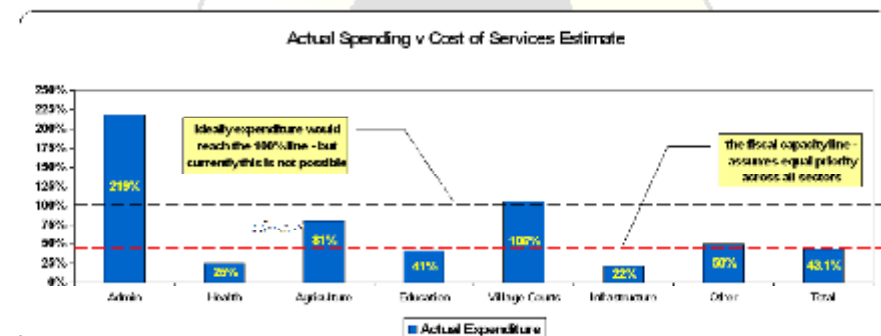
Province A:

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



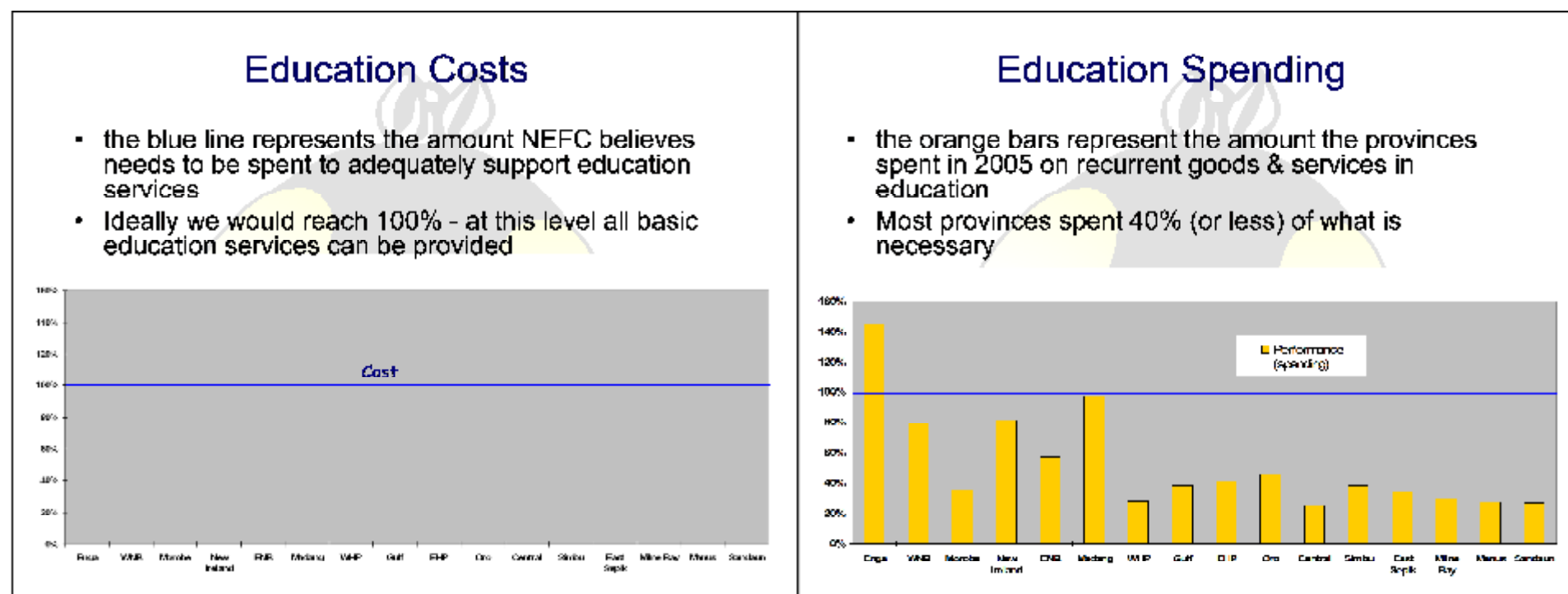
4. Let's expand the example further

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



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

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



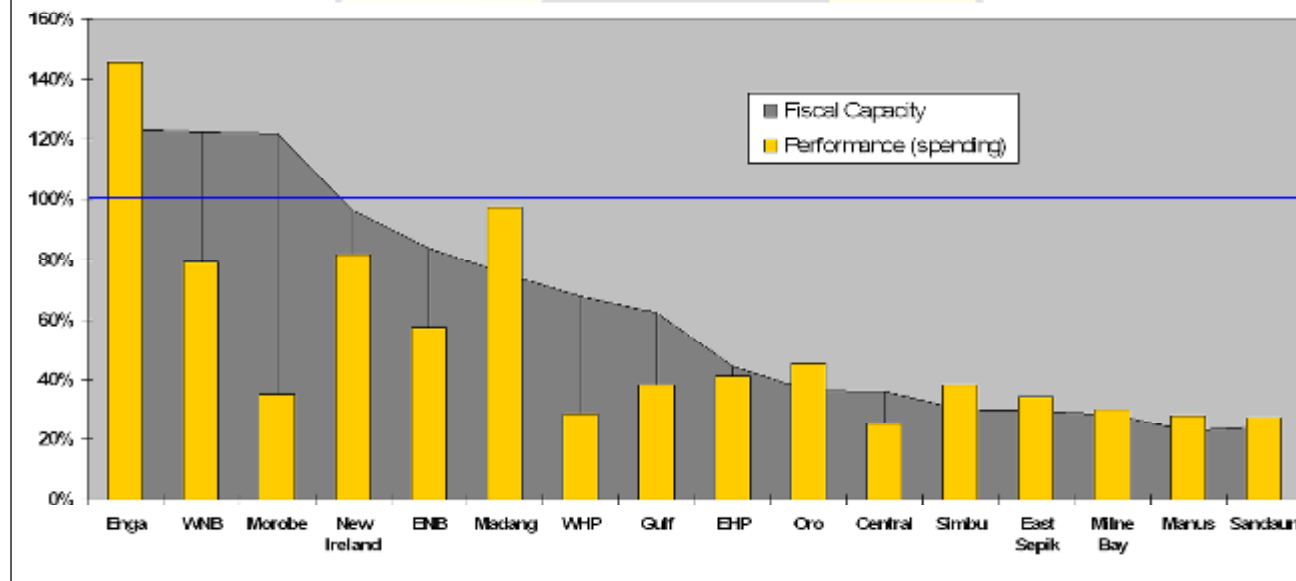
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Performance by all provinces in the education sector (slide 3)

Education - Fiscal Capacity

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



Appendix 3: A cautionary note about the NEFC costing study

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

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

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

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

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

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

It was assumed that all rural health centres and hospitals operate without electricity, mains water or telephones. There was no allowance for ancillary staff (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: Cost of services estimate table 2013 (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	3,127,267	7,264,685	2,790,977	527,711	7,228,902	229,765	219,339	13,460,538	4,589,165	39,438,349
EHP	4,372,315	7,254,068	2,653,216	16,028	10,217,430	481,481	215,109	19,582,155	4,860,455	49,652,257
ENB	3,410,645	5,502,597	2,015,821	618,363	7,189,230	188,215	119,683	12,133,064	3,786,865	34,964,484
Enga	3,155,402	6,645,843	2,632,513	-	6,363,510	717,845	377,409	13,413,065	3,493,257	36,798,843
ESP	4,813,844	9,286,380	3,688,641	776,969	9,953,426	564,646	285,513	20,895,651	4,942,344	55,207,414
Gulf	2,629,093	4,344,499	1,768,591	565,973	3,451,834	234,807	154,468	5,616,522	2,118,640	20,884,426
Hela	1,766,132	5,061,351	1,436,753	69,248	4,180,508	258,638	124,720	4,947,300	2,126,566	19,971,218
Jiwaka	1,509,761	3,622,583	1,057,783	-	4,911,814	204,073	136,446	9,049,553	2,663,935	23,155,948
Madang	4,784,855	9,725,257	3,913,158	759,782	8,707,372	420,202	228,683	14,663,024	4,326,411	47,528,745
Manus	2,348,624	2,324,155	1,121,014	627,243	2,378,541	214,478	198,206	4,780,493	1,529,680	15,522,433
MBP	3,321,753	7,828,382	2,723,541	1,536,199	6,695,322	358,922	182,914	7,490,370	3,696,050	33,833,454
Morobe	5,905,608	12,879,963	4,979,400	637,852	14,032,616	418,544	180,012	17,671,335	7,102,136	63,807,466
NIP	2,425,702	4,805,648	1,583,263	846,752	4,428,571	201,347	135,791	5,582,755	2,342,107	22,351,937
Oro	2,160,715	4,486,462	1,888,323	357,663	3,437,180	188,215	88,110	3,825,435	1,955,420	18,387,524
Sandaun	3,646,772	7,767,087	3,465,329	306,928	7,502,548	179,461	170,688	7,534,014	4,016,500	34,589,326
SHP	2,806,945	8,044,097	2,283,458	110,058	6,644,156	411,058	198,220	7,862,833	3,379,790	31,740,616
Simbu	3,416,268	6,046,381	1,609,013	16,799	6,648,266	380,808	178,340	9,279,668	3,496,703	31,072,246
Western	3,742,202	9,389,311	3,082,720	781,381	8,075,641	201,347	226,062	15,434,166	3,713,567	44,646,396
WHP	1,922,785	4,613,607	1,347,159	-	6,255,532	259,900	173,773	11,525,226	3,392,704	29,490,688
WNB	3,060,588	5,494,326	2,229,363	983,570	6,005,472	183,838	214,463	4,783,158	2,875,195	25,829,972
TOTAL	64,327,277	132,386,682	48,270,035	9,538,518	134,307,872	6,297,592	3,807,950	209,530,325	70,407,490	678,873,740

Appendix 6: Cost of services estimate table 2013 (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%	11.6%	100%
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%	10.8%	100%
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%	9.0%	100%
Gulf	12.6%	20.8%	8.5%	2.7%	16.5%	1.1%	0.7%	26.9%	10.1%	100%
Hela	8.8%	25.3%	7.2%	0.3%	20.9%	1.3%	0.6%	24.8%	10.6%	100%
Jiwaka	6.5%	15.6%	4.6%	0.0%	21.2%	0.9%	0.6%	39.1%	11.5%	100%
Madang	10.1%	20.5%	8.2%	1.6%	18.3%	0.9%	0.5%	30.9%	9.1%	100%
Manus	15.1%	15.0%	7.2%	4.0%	15.3%	1.4%	1.3%	30.8%	9.9%	100%
MBP	9.8%	23.1%	8.0%	4.5%	19.8%	1.1%	0.5%	22.1%	10.9%	100%
Morobe	9.3%	20.2%	7.8%	1.0%	22.0%	0.7%	0.3%	27.7%	11.1%	100%
NIP	10.9%	21.5%	7.1%	3.8%	19.8%	0.9%	0.6%	25.0%	10.5%	100%
Oro	11.8%	24.4%	10.3%	1.9%	18.7%	1.0%	0.5%	20.8%	10.6%	100%
Sandaun	10.5%	22.5%	10.0%	0.9%	21.7%	0.5%	0.5%	21.8%	11.6%	100%
SHP	8.8%	25.3%	7.2%	0.3%	20.9%	1.3%	0.6%	24.8%	10.6%	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%	8.3%	100%
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%	11.1%	100%
TOTAL	9.5%	19.5%	7.1%	1.4%	19.8%	0.9%	0.6%	30.9%	10.4%	100%

Appendix 7: Provincial revenue table 2013 (in Kina)

The following table details the provincial revenues in 2013. 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 (2013 actuals)	Own-Source Revenue (PGAS)	GST distributions (IRC data)	Mining and Petroleum Royalties (Company data)	Mining and Petroleum Dividends (MRDC data)	Total Revenue
Central	21,859,500	2,246,000	7,839,354	2,046,679		33,991,533
Eastern Highlands	27,514,800	15,369,000	3,681,170			46,564,970
East New Britain	20,098,400	10,982,000	5,385,013			36,465,413
Enga	16,851,800	924,000	390,921	15,457,233	3,500,000	37,123,954
East Sepik	34,333,600	4,337,000	2,280,952			40,951,552
Gulf	16,439,800	305,000	1,785,834		1,670,000	20,200,634
Hela	6,129,300					6,129,300
Jiwaka	12,607,200					12,607,200
Madang	27,283,400	7,455,000	2,470,685			37,209,085
Manus	12,779,800	718,000	1,546,234			15,044,034
Milne Bay	26,975,500	2,753,000	894,435			30,622,935
Morobe	7,717,200	57,844,000	10,777,936	2,398,025		78,737,161
New Ireland	2,170,000	4,740,000	626,626	22,523,934		30,060,560
Oro	15,451,800	2,281,000	56,740			17,789,540
Sandaun	27,274,000	1,435,000	2,127,076			30,836,076
Southern Highlands	11,471,000	5,255,000	947,487	23,625,314	13,980,000	55,278,801
Simbu	23,089,400	3,421,000	1,697,338			28,207,738
Western	3,074,200	5,336,000	1,811,788	25,100,000	23,344,512	58,666,500
Western Highlands	16,018,800	16,671,000	4,538,041			37,227,841
West New Britain	14,312,400	7,031,000	8,398,537			29,741,937
TOTAL	343,451,900	149,103,000	57,256,167	91,151,185	42,494,512	683,456,764

Appendix 8: Provincial revenue table 2013 (as a % of total revenue)

The following table details the provincial revenues in 2013 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 (2013 actuals)	Own-Source Revenue (PGAS)	GST distributions (IRC data)	Mining and Petroleum Royalties (Company data)	Mining and Petroleum Dividends (MRDC data)	Total Revenue
Central	64.3%	6.6%	23.1%	6.0%		100%
Eastern Highlands	59.1%	33.0%	7.9%			100%
East New Britain	55.1%	30.1%	14.8%			100%
Enga	45.4%	2.5%	1.1%	41.6%	9.4%	100%
East Sepik	83.8%	10.6%	5.6%			100%
Gulf	81.4%	1.5%	8.8%		8.3%	100%
Hela	100.0%					100%
Jiwaka	100.0%					100%
Madang	73.3%	20.0%	6.6%			100%
Manus	84.9%	4.8%	10.3%			100%
Milne Bay	88.1%	9.0%	2.9%			100%
Morobe	9.8%	73.5%	13.7%	3.0%		100%
New Ireland	7.2%	15.8%	2.1%	74.9%		100%
Oro	86.9%	12.8%	0.3%			100%
Sandaun	88.4%	4.7%	6.9%			100%
Southern Highlands	20.8%	9.5%	1.7%	42.7%	25.3%	100%
Simbu	81.9%	12.1%	6.0%			100%
Western	5.2%	9.1%	3.1%	42.8%	39.8%	100%
Western Highlands	43.0%	44.8%	12.2%			100%
West New Britain	48.1%	23.6%	28.2%			100%
TOTAL	50.3%	21.8%	8.4%	13.3%	6.2%	100%

