National Economic and Fiscal Commission

GAME CHANGER

The 2014 Provincial Expenditure Review With Trend Analysis from 2010 to 2014

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

www.nefc.gov.pg

Foreword

The National Economic and Fiscal Commission (NEFC) has conducted the *Provincial Expenditure Review* (PER) each year since 2006. Since the introduction of RIGFA in 2009, approximately K2 billion has been allocated at local level to provinces and districts in support of high priority public goods and services provision. 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.

Over the past decade, Papua New Guinea (PNG) has seen major developments in service delivery and infrastructure, including the upgrades of roads, communication, airports, hotels, sporting facilities and more. PNG continues to make in-roads into the modern world. In 2015, PNG hosted the Pacific Games, which was a resounding success that brought the nation together.

It is now important to continue to bring our people together by providing meaningful and consistent service delivery to all Papua New Guineans no matter where they live. Infrastructure development must be planned based on community needs, minimum standards of service delivery, access, coverage and, more importantly, consistency. Further, infrastructure must be supported by annual flow-on cost. Rapid asset deterioration must be supported by consistent funding for maintenance costs.

This edition of the PER *Game Changer* is appropriately titled to reflect the status of the country as it makes and adapts to global economic changes. Leaders must make tough decisions to ensure that we continue to enjoy prosperity and improve the lives of all Papua New Guineans. Provinces are showing progress on spending against Goods and Services. I hope this PER will bring about a richer and more meaningful understanding of expenditure and associated constraints in providing service delivery by providing an evidence-based platform for further policy dialogue.

I encourage everyone involved in decision-making on the provision of service delivery to exercise greater diligence, including finding innovative ways of improving service delivery.

Hohora Suve
Chairman and CEO
National Economic and Fiscal Commission

03rd March, 2017

Executive Summary

Much has changed between 2006, when the first ever Provincial Expenditure Review was produced, and 2014, the ninth Provincial Expenditure Review. For example, in 2006, Papua New Guinea operated under the Kina-per-head system. Since 2009 and up until 2014, reforms made under the Inter-governmental Relations (Functions and Funding) Act, established a system that prioritised funding on the principle of equalisation. In essence, the system evolved to prioritise a province's fiscal need.

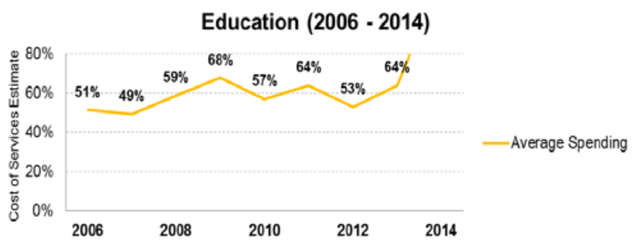
The focus of the PER continues to be on the provision of Public Goods and Services on the part of provincial administrations by examining spending of the recurrent budget. Due to the limitations of the provincial PGAS system and pervasive bottlenecks preventing the flow of funds to service delivery points, the PER focuses on expenditure from the vantage point of the provincial administration although the NEFC is exploring innovative ways to capture expenditure at the end point of service delivery: namely, rural health centres, schools and district administrations who would typically oversee the maintenance of roads, wharves, jetties and bridges.

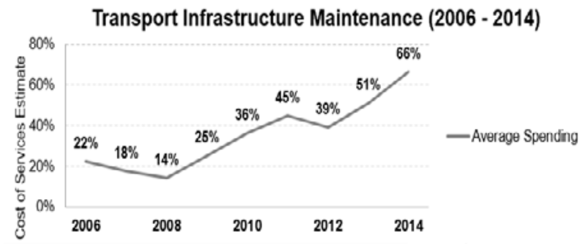
The decentralisation of responsibilities among tiers of local government is common, particularly among developing economies. A key indicator of how well decentralisation occurs at the sub-national level relates to a local government's fiscal health. A fundamental criterion for assessing fiscal health is the net worth of a local government's cash flows, its revenues and expenditures, and assets and liabilities ('Assessing Local Government Performance in Developing Countries', Public Services Delivery, World Bank, 2005). Identifying poor fiscal health at the provincial level is usually less complicated than it seems and for the purposes of this PER, is recognised as the lack of allocation in resources where function grants and internal revenue of provinces are largely tied to expenses in Administration versus the supply, delivery and procurement of Goods and Services in under-supported sectors such as Health, Education and Transport Infrastructure Maintenance.

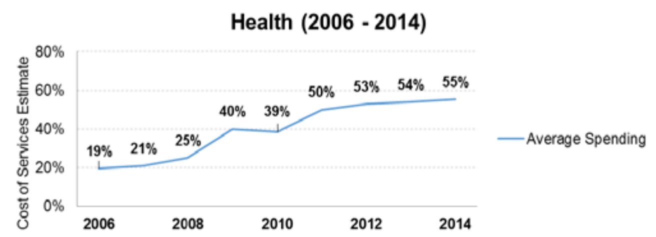
A key finding of the PERs are that some trends are remarkably consistent while others are not. To illustrate the latter, spending trends at the sub-national level can fluctuate, depending on a number of factors including the relevant sector. Provinces are not spending adequately from their function grants and internal revenue in the first two quarters on Goods and Services, particularly provinces that have comparatively larger internal revenues. Provinces with larger internal revenues seem less likely to spend on key sectors except Administration, where they have spent at a statistically significant level over the previous years. Unlike these provinces, the second category of provinces which are primarily grant-dependent spend relatively equitably across key sectors. Provinces that fare well against the NEFC Key Performance Indicators typically spend equitably across the five priority sectors and further, spend equitably across the Minimum Priority Activities.

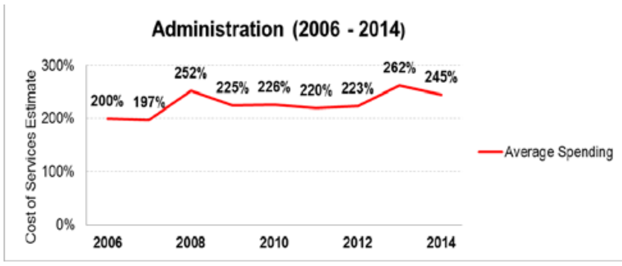
Spending, as captured by this PER, is somewhat of an outlier to previous years. Due to an incline in revenues, spending on Education, Health, Transport Infrastructure Maintenance, Agriculture and Fisheries increased on a year-on-year basis once measured against the National Economic and Fiscal Commission's Cost of Services Estimates for 2014, as illustrated by the following graphs. Provinces that also greatly improved on spending targets as per the NEFC Cost of Services include, East Sepik and Gulf. Particularly in the case of East Sepik, spending seems to have increased two-fold in some sectors for 2014.

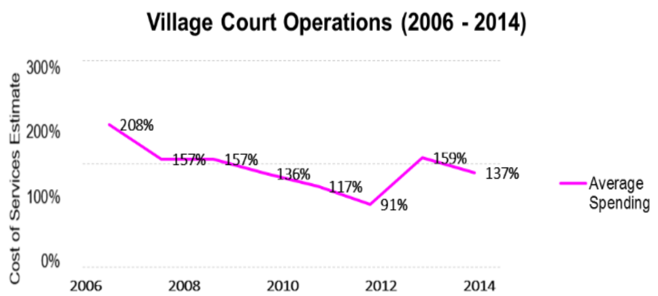
Spending on Key Sectors over the years (2006 – 2014)

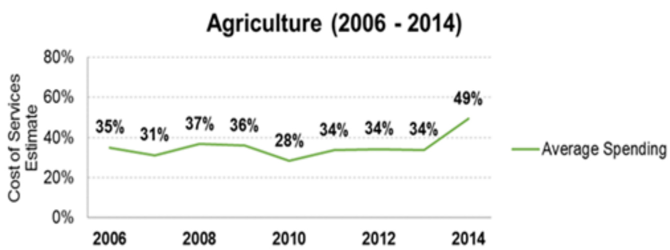












In 2014, Education, Health, Transport Infrastructure Maintenance, Agriculture and Fisheries met approximately 60% of NEFC's Cost of Services estimates with sharp increases in spending against these same estimates. Although still falling short in terms of spending, this is a large improvement from previous years but is partially explained by the year-on-year increase in aggregate revenues.

Despite provincial PGAS showing increased expenditure on Goods and Services, the NEFC continues to recognise the many bottlenecks preventing the access of function grants. A key bottleneck continues to be the late release of warrants from the Department of Treasury, which often leads to a delay in cash authorisations which obstructs the access of funds for service delivery. Although cash release delays impede on resource-scarce provinces such as Simbu, Oro and Gulf, they do not explain why resource-rich provinces continue to stall their spending until later in the year.

Based on the provincial PGAS, provinces have begun to rely on roll-over funds from the previous year to support Goods and Services spending in the first quarter. On average, half (50%) of all spending from function grants occurred in the 4th and final quarter in 2014. This last-quarter spending pattern is not unique to 2014. On average, 43 per cent of function grants were spent in the last quarter between 2009 and 2014. The NEFC is reviewing why provinces tend to wait till the last quarter to spend. On an anecdotal basis, various provinces have specific Public Financial Management issues that need to be addressed. Only some of these issues relate to procurement and purchasing Goods and Services.

It is expected that a province should spend from their internal revenue across all four quarters although this has not been the case from the first PER carried out in 2006. On average, one third of all provincial internal revenue was spent in the final quarter of every year between 2009 and 2014. It is difficult to provide an explanation for why provinces delay spending from their internal revenue as reports do not indicate that monthly GST payments from provinces receiving their GST contributions are delayed in any way.

PNG is dependent on oil and gas extraction exports particularly in 2014 and is considered a commodity-dependent economy. Due to its commodity dependence, the pool of funds used to divide function grants may fluctuate more rapidly than not. Despite fluctuations, provinces should still have sufficient funds to meet their service delivery objectives due to the design and architecture of the NEFC grant calculation model prioritising fiscal need. To that end, the NEFC and other sector agencies have discussed the ring-fencing of funds for function grants as one option to protect local government administrations at all levels to access funds on a consistent basis.

One of NEFC's key responsibilities is to ensure that function grants are allocated on an optimal basis. The NEFC has been examining indicators mined from datasets outside of expenditure that may triangulate insights on the nature of efficiency in sectors such as Health and Education. In Health, it is found that the more remote a province is, the more likely it spends higher on primary healthcare on a per capita level. In Administration (a sector attracting a consistent and substantial proportion of expenditure from the recurrent budget), provinces with higher fiscal capacities are more likely to spend more on Administration than provinces with lower fiscal capacities. All of these preliminary findings lead to opportunities to further explore the unique barriers in accessing service delivery on the part of the population.

NEFC has always maintained that funding should follow 'function'. When examining the PGAS data over time, it seems that funding bottlenecks have gotten more convoluted over time, preventing access of funds to service delivery points. Although NEFC has continued to take an active approach to work with provinces to improve the provincial budgeting process and particularly during budget formulation, funding for service delivery seems to be blocked, largely, at the provincial administration levels.

At the start of Game Changer, the NEFC set out to disaggregate the recurrent and development budgets as shown on the provincial PGAS system. Due to the piecemeal nature of reporting on the development funding, the NEFC only examined the Transport Infrastructure Maintenance section to examine whether the co-mingling of funds occurred in 2014. While there is evidence that provinces used development funding to spend on key functions that usually fall under the recurrent budget, more adherence on the part of provinces to the Chart of Accounts is necessary to fully examine co-mingling of funds, which provinces report as a 'coping mechanism' to deal with ongoing liquidity constraints.

The intended rollout of the Integrated Financial Management System (IFMS) to provinces will play an important role in greatly improving Public Financial Management practices at the sub-national level, although the roll-out and integration of the IFMS has been postponed for some time. Meanwhile, the NEFC continues to work with partner agencies such as the Department of Finance, the Department of Treasury and other sector agencies to promote the application of effective Public Financial Management practices which will subsequently lead to a greater shared understanding of the availability and access to public goods and services in Papua New Guinea.

Table of Contents

List of Figures, Graphs and Tables

List of Terms

Term	Definition
Capital and Projects expenditure	Spending to acquire or upgrade physical assets such as buildings, roads, and equipment. This is from the recurrent budget
Cost	In the context of this report, ***cost*** refers to what the NEFC estimates it will cost, not necessarily what is spent as per the NEFC's Cost of Services estimate (referred to as 'CoS' hereafter.
Cost of Services study/estimates (CoS)	The NEFC study that estimated how much it costs to support service delivery within a province on a district-by-district basis. The most recent CoS review was carried out in 2011. It is typically carried out every five years
Fiscal capacity	A province's revenue divided by its cost of services estimates, which are derived from the NEFC's CoS studies and adjusted every year according to PNG's national average percentage in population growth and the Consumer Price Index
Fiscal need	A province's revenue (excluding grants) divided by the NEFC CoS estimates
Development	Funding that is pre-approved by the Department of National Planning and Monitoring, generally for Capital purposes
Goods & Services expenditure	A GoPNG term that refers to operational expenditure/costs. In our analysis, Goods & Services excludes any personnel-related expenditure. This definition has changed over time (i.e. the list of item codes identifying this expenditure has grown over time)
Grants	Revenue that a province receives from the national government. Typically, 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	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
Minimum Priority Activities (MPA)	These activities are associated as fundamental to routine service delivery
Medium Term Development Plan	Development plans that form the implementation of the Papua New Guinea Development Strategic Plan (2010 – 2030) which, in turn, sets out the 20 year strategies and targets to achieve Vision 2050

Performance	Typically, performance is how effective a type of expenditure is in reaching a particular goal in a specific period of time. That is, how output is achieved with the least amount of input required. This is not possible to measure due to the limitations in expenditure data as well as the accounting system. For the purposes of this review, the NEFC has historically assumed that spending more leads to increased service delivery. For this review, NEFC assumes this is the case but recognise the many issues with this assumption. For example, a province spending higher on G&S in a particular sector may not necessarily have better performance outcomes. NEFC suggests that a case-by-case method is used to examine performance by sector, taking into account sectoral outcome indicators, where good quality data is prevalent. While this is not possible in Papua New Guinea at this time due to challenges in meeting good quality Public Financial Management processes and practices, an alternative approach to performance can be used. As such, the use of several indicators including good PFM, outcome indicators etc. will provide a better understanding of provincial performance against intended outcomes outlined in PNG's Vision 2050.
Provincial Wage and salary costs (referred to as Personnel Emoluments in PER 2005 – 2013)	Expenditure that relates directly to staffing costs and includes salaries, wages, allowances, retirement benefits and gratuities.
Resource envelope	The revenue a province has available from all sources – both from grants and internal revenues
Provincial revenue	The money available to a province, both from national grants and internal revenues
Recurrent Goods & Services expenditure	Spending directed to purchasing regular/routine operational supplies and services, transport costs and routine maintenance of buildings. It does not include Provincial Wage and salary costs, Capital and project costs
RIGFA	The Reform of Intergovernmental Financing Arrangements, introduced in 2009, prioritised equalisation and a more targeted approach to reaching provinces that did not have large sources of revenues flowing in.
Service Delivery	Refers to public service delivery. For the purposes of this review, a few broad assumptions have been made for previous PERs as well as this PER. They are as follows: 1. Increased spending toward Minimum Priority Activities suggests a higher commitment to service delivery. 2. Increased spending on G&S suggests higher spending on service delivery.

	Both these assumptions have not been tested as the PER only looks at expenditure and does not go out to the provinces to examine whether services have *actually* occurred.

Introduction

The PER has been carried out for nine years from 2006 to 2014. The purpose of the PER was to reflect on how provinces have spent on Goods and Services, an estimate for service delivery. The NEFC has attempted to provide answers on how much provinces 1. Spend on service delivery (as measured against the NEFC's CoS estimates) and 2. If they spend adequately, what would the most efficient combination of spending on Goods and Services look like? In the pursuit to answer these questions, the NEFC will be able to track the allocative efficiency of expenditure across provinces in PNG over a given time period.

RIGFA, which was in its sixth year of implementation in 2014, ensured that money is allocated in a targeted manner to effectively bridge gaps in service delivery at the provincial level. This is a step towards allocative efficiency and effective Public Financial Management practices.[1] Funding for RIGFA is being targeted firstly at those who need it most. These essential services are identified in Vision 2050 and the Medium-Term Development Strategy (MTDS).

For the scope of this review, a few broad assumptions have been made on what service delivery entails within public administration at the sub-national level. The first assumption holds that spending toward Minimum Priority Activities (a set of defined activities to help provinces prioritise core service delivery) suggests a higher commitment to service delivery. The second assumption holds that increased spending on Goods & Services subsequently leads to marginal benefits in service delivery that is reaped primarily by the population.[2]

The objective of the PER and, more specifically, *Game Changer,* is to understand how provinces expend on routine service delivery activities. Typically, the NEFC has used Goods & Services as an estimator on how provinces provide basic service delivery. *Game Changer* uses Provincial Government Accounting System (PGAS) data. This means that the line of sight that NEFC has, is primarily within provincial accounts and transfers to other public authorities (Item 143: Grants and Transfers to Public Authorities).

[1] The concept of 'allocative efficiency' takes into account not only of the productive use of resources which are used to produce outcomes but also the efficiency of these outcomes but also the efficiency of these outcomes are distributed among a local government's population. In a practical sense, allocative efficiency can be achieved at the local government level when resources are allocated so as to maximise the welfare of its population.

[2] Both these assumptions have not been tested as the PER only looks at expenditure and does not go out to the provinces to examine whether services have actually occurred as this is beyond the scope of the NEFC's mandate. The Department of Treasury and Department of Provincial and Local Government Affairs.

Funding flows to the district level are meant to be recorded although final transactions expended at the district level and beyond are not recorded in the provincial PGAS system. A constraint in only examining PGAS data is that spending outside the recurrent budget is not captured although NEFC's mandate has primarily to do with function grants. As such, this review does not include sub-national expenditure from Development (capital) budgets which are monitored by the PNG Department of Planning, Tuition Fee-Free Grants provided by the Department of Education, Church Health services, Provincial Health Authorities and funds that flow directly from GoPNG and donors.

The PER has traditionally assisted provincial governments in contributing to policy dialogue on service delivery. With *Game Changer*, the approach has been to substantiate observations made in previous PERs and at regional policy dialogues such as the Annual NEFC workshops. *Game Changer* highlights findings using an evidence-basis and poses conceptual and practical questions that can be explored further.

Using Cost of Services estimates to measure expenditure

How does NEFC measure whether a province is spending sufficiently? In 2005, NEFC spearheaded the Cost of Services estimates, which examined the cost of providing services within all districts receiving function grants. These estimates provide a benchmark to examine provincial spending on Goods & Services, Capital and Projects and Provincial Wage and Salary costs, and are updated every five years to compensate for cost variations among provinces. For the latest Cost of Services published by NEFC, please refer the *Thin Blue Line* (2011).

Key assumptions of this study include the following:

- To cost core service delivery, every province must has a common set of services that they provide;
- Costs are adjusted by updating the price of the list of Goods & Services and Capital Expenditure that have been included in the Cost of Services Estimates in 2011. Note that this list of Goods & Services and Capital Expenditure is not exhaustive but were deemed as most essential during the first Cost of Services estimate in 2005. In 2014, prices collected in 2011 were adjusted for CPI corresponding with 2014;
- Costs are adjusted for annual population growth and the corresponding Consumer Price Index for the year of the expenditure review. It was calculated as 8.32% for 2014.

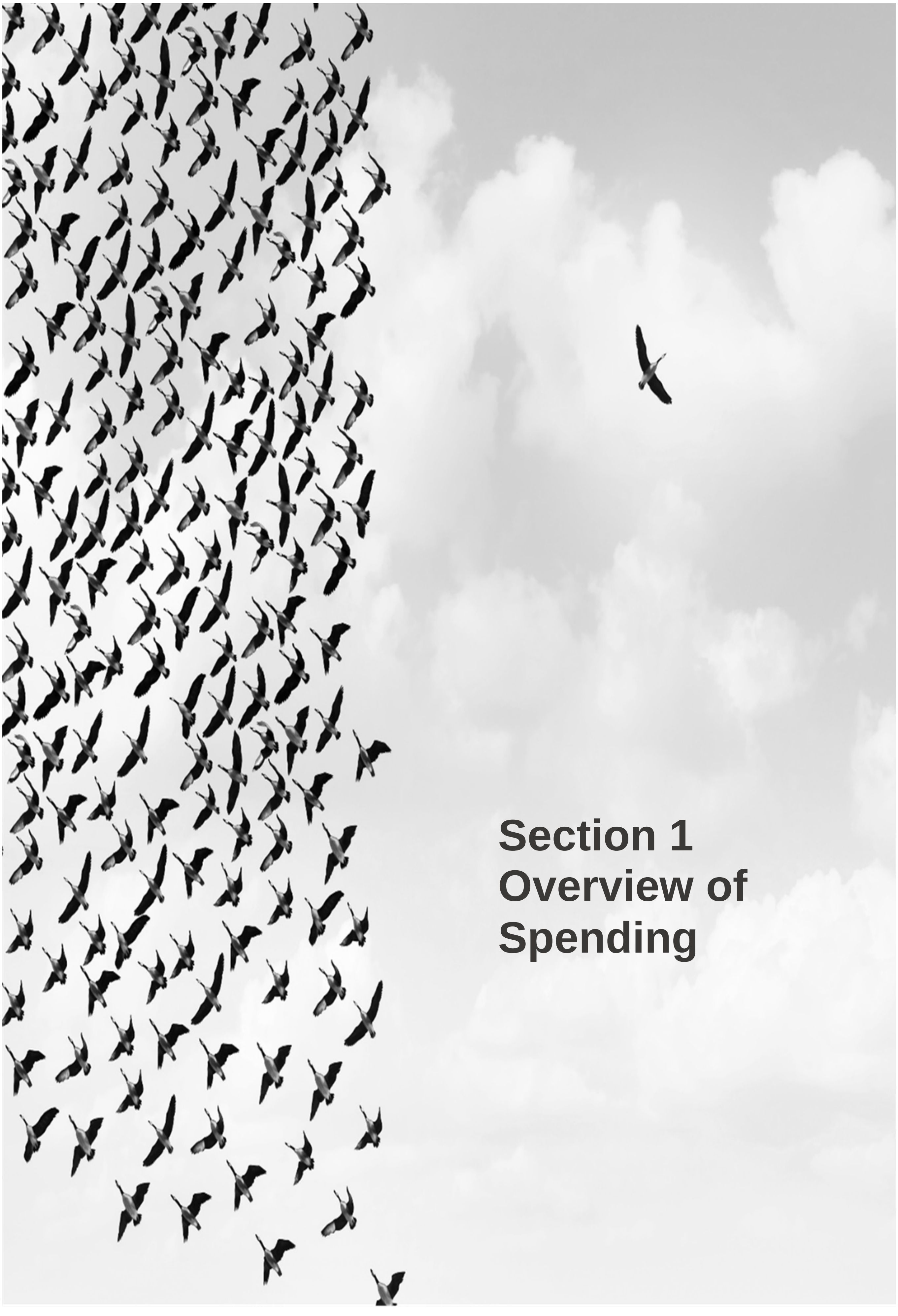
Sources of data used in PER 2014

All expenditure data used in the PER is from the Provincial Government Accounting System for 2014. Although reporting on PGAS has improved over the years, there remain issues with the overall quality of the data. Primarily, the issues stem from the lack of compliance to the Treasury Chart of Accounts, which is an allocation of codes or numbers to identify where the expenditure will happen by program and activity.[3]

The definitions remain unchanged throughout the PERs to ensure consistency, although there have been a few codes that have changed between Goods & Services and Capital Expenditure over time. The code, 'Acquisition of Lands, Buildings and Intangible Assets (211)' was considered Goods & Services between 2005 and 2013, but was updated as Capital Expenditure in 2014 to further improve accuracy as per GoPNG guidelines.[4]

[3] Numerous entries are made in the translation descriptions, which do not always match the coding. To improve the overall data integrity of the PGAS, steps will be taken by a number of agencies including NEFC. Generally, during the annual regional workshops spearheaded by NEFC, the PFM and budget support staff from NEFC and other agencies reach out to provinces to provide suggestions on ways to improve their coding and compliance on the Chart of Accounts (CoA). As an example, in 2014, a major error identified in the PGAS included amounts that were recorded as negative due to input errors.

[4] To assist the reader in understanding the terms used in this PER, the below definitions clarify what is meant by G&S, Provincial Wage and Salary Costs and Capital Expenditure: (i) Goods & Services (G&S): In our analysis, Goods & Services excludes any personnel-related expenditure and include 125 through 136, 143 and 144 on the CoA. (ii) Provincial Wage and Salary Costs (referred to as 'Personnel Emoluments' in PERs 2005-2013): note that these are not the payments made into the ALESCO system. Rather, these are expenditure entries relating directly to staffing costs, and include salaries, wages, allowances, retirement benefits and gratuities. They include codes 111: salaries and allowances, 112: wages, 113: overtime, 114: leave fares, 116: contract officers' education benefits. (iii) Capital Expenditure (CAPEX): The spending to acquire or upgrade physical assets such as buildings, roads and equipment. The definition includes codes 211 through to 242 on the CoA.



Section 1 Overview of Spending

Background

Like many countries that are rich with natural resources, PNG has found it challenging to translate increased revenues into substantial gains in human development outcomes. It is suggested that the poverty headcount has not substantially improved after 2002, although resource revenues have grown during this period. In 2014, GDP growth was 7.4% but is forecast to decline to 3% in 2017 due to stagnation in prices following the decline in the production of copper and the output of liquefied natural gas reaching a peak.

While liquefied natural gas and oil production is set to face further reductions from 2015, a steady increase in the contributions of Agriculture and Fisheries to annual GDP growth is forecast from 2016 after lower contributions to growth at the tail-end of 2014 and 2015.[5] Although the macro-economy presents a dynamic picture of revenues and does not, often, immediately represent local government revenues, it is important for provinces to reflect on the macro-economy, particularly when planning on expending their function grants and internal revenue on MPAs such as extension activities in Agriculture and Fisheries to contribute to national priorities and key growth sectors in the medium-term.

NEFC uses a few measures to assess a province's ability to meet its requirements on service delivery. As part of the grant calculation process, NEFC examines the overall fiscal capacity of a province using NEFC Cost of Services estimates to determine the need of a province. Funds are allocated based on a province's need. The revenue earned two years prior by a province is a key determinant in how much a province is allocated in terms of function grants during the grant calculation process.

Measure of capacity to provide Service Delivery: Fiscal capacity

Fiscal capacity is a key measure used by the NEFC to assess the ability of provinces to provide service delivery in their respective provinces. The calculation of fiscal capacity is a province's revenue divided by total costs for a province to deliver routine services. Total costs are derived from the NEFC's CoS study carried out in 2011 and adjusted for the latest figures on the Consumer Price Index as well as the population growth percentage at national level.

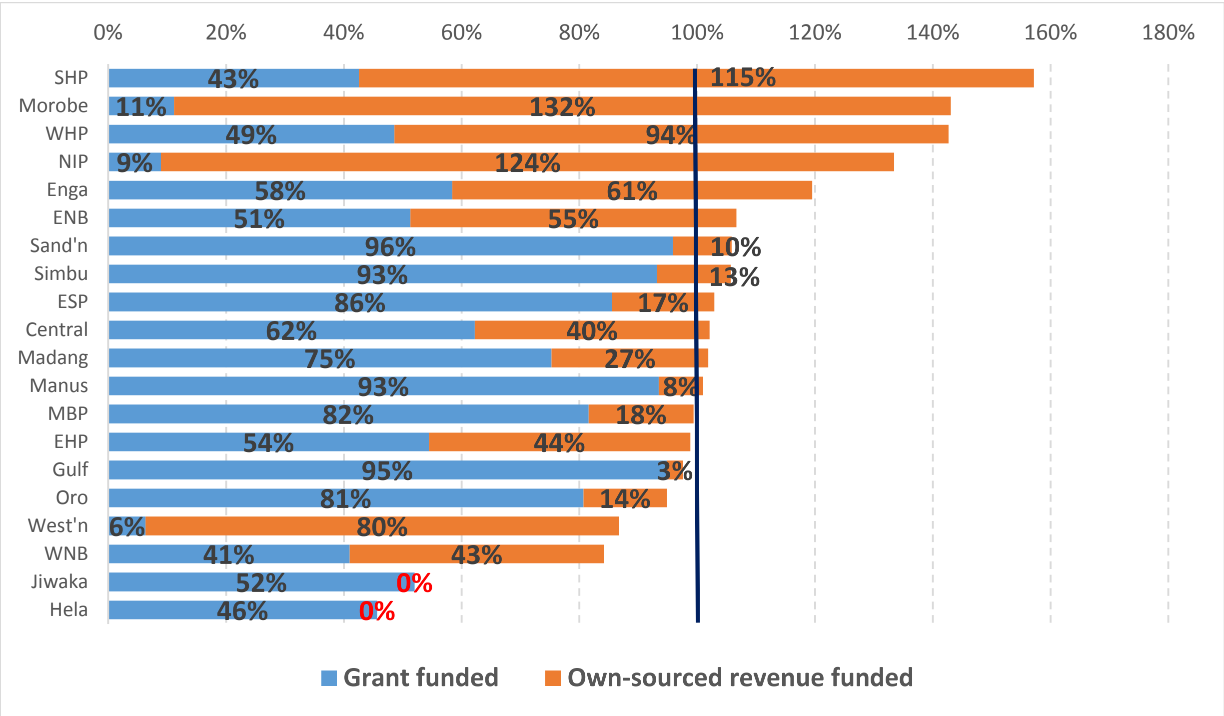
In 2005, the lowest funded provinces had just over one-fifth (20%) of capacity needed to deliver a set of routine services. This year, 13 provinces are able to meet their full

[5] World Bank East Asia and Pacific Economic Update, October 2016. pp.136.

fiscal capacity and, according to the Cost of Services estimates, able to meet service delivery obligations as denoted in Figure 01. Although this is theoretically the case, the PER has consistently found that provinces do not spend at the level of their Cost of Services estimates and often do not exceed them for MTDS sectors (see 'Study: Relationship between fiscal capacity and spending in G&S in 2014' on page 22).

Due to varying external demand and other factors affecting the prices of resource revenues, provinces are able to meet their Cost of Services estimates in some years but not others. As the grant calculation system is based on principles of equalisation, a few provinces will receive large function grants in some years to compensate for lower internal revenue and others years, not so. On a statistical basis, an exception to this are three provinces including Enga, Western and Manus. Two provinces where fiscal need (excluding function grants) has significantly grown between 2007 and 2014 include Enga and Western while Manus shows a trend of decreasing fiscal need during the same time period.[6] Figure 01 shows the fiscal capacity of provinces for 2014. Southern Highlands has the highest fiscal capacity for 2014 at 158%, while Hela, a newly formed province, is recorded as having the lowest fiscal capacity at 46%. Although Hela did not have any internal revenue estimated for 2014 as part of the grant calculation process, an amount of about K11 million is shown on the PGAS, presumably miscoded as 'recurrent' instead of 'development'.

Figure 01: Fiscal capacity estimate of provinces including the CoS at 100% used during the Grant Calculation process for 2014



[6] P-values calculated as part of a linear trend model includes the significance at 0.009 and 0.0008 for Enga and Western respectively.

Study: Relationship between fiscal capacity and spending in G&S in 2014

This study finds that fiscal capacity is not a predictor of spending at Cost of Services estimates for Education, Health and Transport Infrastructure Maintenance (see Figure 02). There is no positive correlation between fiscal capacity and these three key sectors.

Figure 02: A province's fiscal capacity and sector spending in 2014

Province	Fiscal Capacity (highest to lowest)	CoS estimate on Administration	Education	Health	Infrastructure	Agriculture	Fisheries	Administration
Southern Highlands	157%	100%	19%	21%	26%	11%	NA	281%
Morobe	143%	100%	37%	20%	45%	28%	NA	418%
West'n	143%	100%	64%	17%	51%	118%	0%	458%
New Ireland	133%	100%	126%	59%	15%	70%	14%	659%
Enga	120%	100%	29%	33%	40%	21%	NA	195%
ENB	107%	100%	59%	32%	31%	30%	44%	374%
Sand'n	106%	100%	99%	52%	65%	54%	132%	150%
Simbu	106%	100%	114%	38%	90%	91%	550%	140%
East Sepik	103%	100%	108%	90%	134%	78%	47%	205%
Central	102%	100%	65%	74%	81%	44%	68%	354%
Madang	102%	100%	55%	55%	107%	37%	45%	204%
Manus	101%	100%	101%	53%	192%	47%	24%	95%
Milne Bay	99%	100%	76%	99%	106%	46%	16%	149%
Eastern Highlands	99%	100%	55%	87%	67%	53%	NA	85%
Gulf	98%	100%	90%	64%	61%	34%	79%	82%
Oro	95%	100%	84%	66%	55%	45%	13%	139%
West'n	87%	100%	36%	42%	104%	14%	130%	351%
West New Britain	84%	100%	99%	118%	21%	31%	36%	196%
Jiwaka	52%	100%	65%	45%	7%	61%	NA	51%
Hela	46%	100%	52%	41%	32%	518%	133%	316%

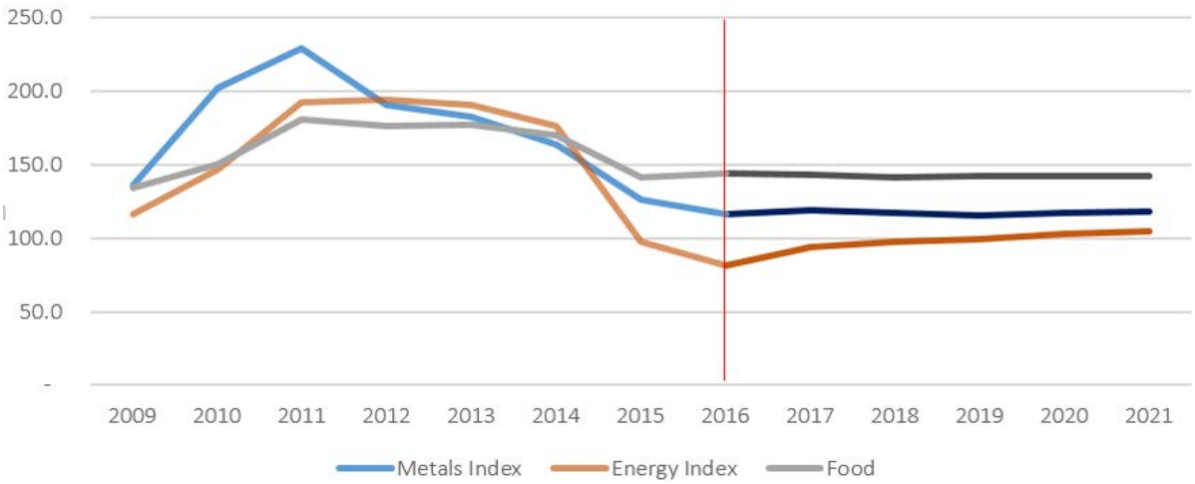
Although fiscal capacity does not seem to have a relationship with Education, Health and Transport Infrastructure Maintenance spending, provinces do seem to have a significant positive relationship with Administration. In a positive relationship, high values on one variable are associated with high values on the other and low values on one are associated with low values on the other. This means that provinces with higher fiscal capacities are more likely to spend more on Administration than those who do not have higher fiscal capacities.

Composition of provincial revenue

GST distributions are received by most provinces each year and typically make up a sizeable portion of a province's revenue in the case that they receive these distributions.[7] In 2014, eighteen of the twenty provinces received GST distributions from 2012 (these distributions are collected two years prior). Apart from GST distributions, some provinces also received Bookmaker's Tax (approximately K3.3 million), Royalties, (K139 million) while Western, Southern and Western Highlands contributed 72% of the earnings, Own-Source Revenues (K66 million) and Dividends (K22.2 million). With the exception of Simbu and Western Province, a few provinces including Morobe, East New Britain and Madang faced an increase in GST distributions through 2014 and between the 2013 and 2015 distribution period.

Like many resource-rich countries, the rise and fall of GST earned by provinces in PNG is dependent on the price of resources. Commodity prices began to drop in 2014 and 2015, as denoted in figure 03. The International Monetary Fund (from where the data for figure 03 was extracted, using estimated numbers from the GoPNG Department of Treasury) predicts a decline and subsequent flat-lining of commodity prices, including those of metals and energy, between 2016 and 2021. Further, based on available data, provincial revenues are likely to decrease after 2014, which would impact a province's fiscal capacity and ability to contribute to service delivery using their own revenue. As such, it is important for provinces to plan to reprioritise spending in 2017.

Figure 03: Commodity price estimated forecasts based on available International Monetary Fund data, 2009 – 2021



[7] A few provinces are exceptions to this statement including Gulf and Central, and newly established provinces such as Hela and Jiwaka, which did not receive any GST distributions for 2014.

How did provinces spend from the PGAS in 2014?

Spending on Goods & Services remains significantly above Provincial Wage and Salary Costs and Capital and Projects Expenditure for 2014 at a total level of 80% from the three types of spending incurred in the recurrent budget. Capital and Projects expenditure spending was approximately 11%.

The bulk of spending was concentrated in MTDS and Administration sectors for 2014, from both internal revenue and grants for 2014. Provincial Wage and Salary costs referred to staff salary costs that were not covered under the National Government payroll system. In 2014, a total spend of K1.417 billion occurred across sectors including MTDS sectors, as denoted by figure 04.

MTDS typically attracts the largest amount in terms of expenditure, and the gap in spending between MTDS and sectors such as Administration continues to widen over the years. From a sectoral standpoint, spending on Administration was K309M, which was second to spending on MTDS sectors at K702 million with internal revenue. Spending on ‘other sectors, arrears and unspecified’ is K217 million, of which K131 million was spent on Goods & Services. It is important to be able to distinguish these sectors as well as ‘unspecified’ funds and spending on arrears, as it is not very clear in the current PGAS system on their definitions and details of some of the arrear payments.

Figure 04: Key expenditure areas including MTDS Sectors in 2014

	Administration Sector	Economic, Law & Order and Com. Dev.	LLG Transfers	MTDS Sectors	Other Sectors, Arrears & Unspecified	Total
Internal Revenue						
Goods & Services	137,756,274	55,742,453	17,914,485	94,015,021	23,132,794	328,561,027
Personnel Emoluments	38,675,051	838,028	1,000	3,457,864	874,088	43,846,032
Capital & Projects	13,922,117	3,893,889	151,403	46,904,134	1,624,192	66,495,735
Other	6,990,382	229,820	-	287,070	16,583,451	24,090,723
Total Internal Revenue	**197,343,823**	**60,704,190**	**18,066,888**	**144,664,090**	**42,214,526**	**462,993,518**
Grants						
Goods & Services	95,273,493	52,275,849	47,257,779	488,984,338	131,005,908	814,797,367
Personnel Emoluments	11,724,447	107,046	-	30,641,696	-	42,473,189
Capital & Projects	3,580,265	9,120,120	228,300	37,721,376	44,215,624	94,865,685
Other	2,069,459	6,094	-	515,609	-	2,591,162
Total Grants	**112,647,665**	**61,509,109**	**47,486,079**	**557,863,018**	**175,221,533**	**954,727,404**
Total						
Goods & Services	233,029,767	108,018,302	65,172,264	582,999,359	154,138,703	1,143,358,394
Personnel Emoluments	50,399,498	945,074	1,000	34,099,561	874,088	86,319,221
Capital & Projects	17,502,383	13,014,009	379,703	84,625,510	45,839,816	161,361,420
Other	9,059,841	235,914	-	802,679	16,583,451	26,681,885
Total All	**309,991,488**	**122,213,299**	**65,552,967**	**702,527,109**	**217,436,058**	**1,417,720,921**

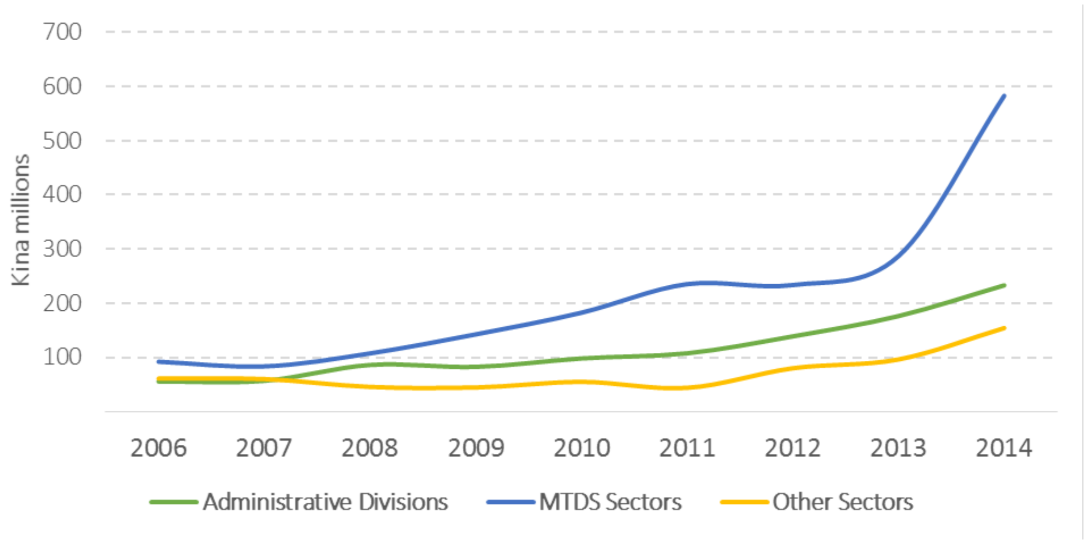
Key expenditure trends, 2006 – 2014

All spending sources

Spending on MTDS sectors rose sharply from 2013 to 2014, even after adjusting for Goods & Services spending, which was calculated differently between 2005 and 2013[8] (see figure 05). The growth of expenditure in MTDS sectors grew approximately six-fold over eight years [K91 million (2006) to K582 million (2014)] and 103% between 2013 and 2014, from K286.9 million to 582.9 million. This is an important trend illustrating that additional funding is flowing to provincial administrations for service delivery, although there are bottlenecks that exist in provincial administrations receiving these funds. Further, there is limited visibility on funds being channelled down to the districts and subsequently, facilities, using the provincial PGAS system although item 143: Grants and Transfers to Public Authorities should be used at all times to denote funding flows to district administrations.

It is imperative that provinces keep spending on Goods & Services and continue to distinguish between MTDS spending versus spending on provincial administration overheads, using the Chart of Accounts. It is useful for provinces to work with NEFC's PFM team to ensure that coding on their budget is accurate and that the transaction summary descriptions and codes are consistent with each other.

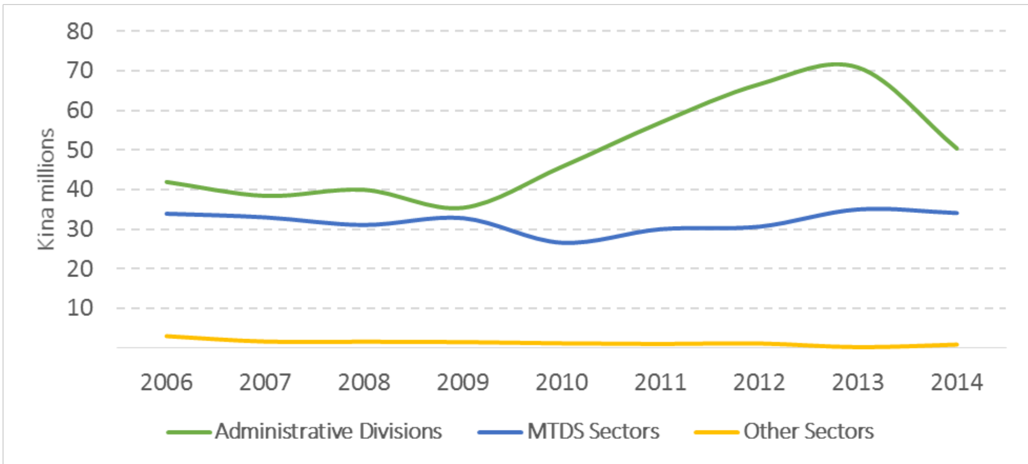
Figure 05: Goods & Services spending in 2014



[8] Items that were initially coded as Goods & Services were subsequently classified as Capital Expenditure. For example, codes such as Acquisition of Lands, Buildings and Intangible Assets (211) and Plant, Equipment and Machinery (224) were counted as Goods & Services. This is no longer the case in the *Game Changer*, therefore it is now possible for the NEFC to more accurately adopt coding standards.

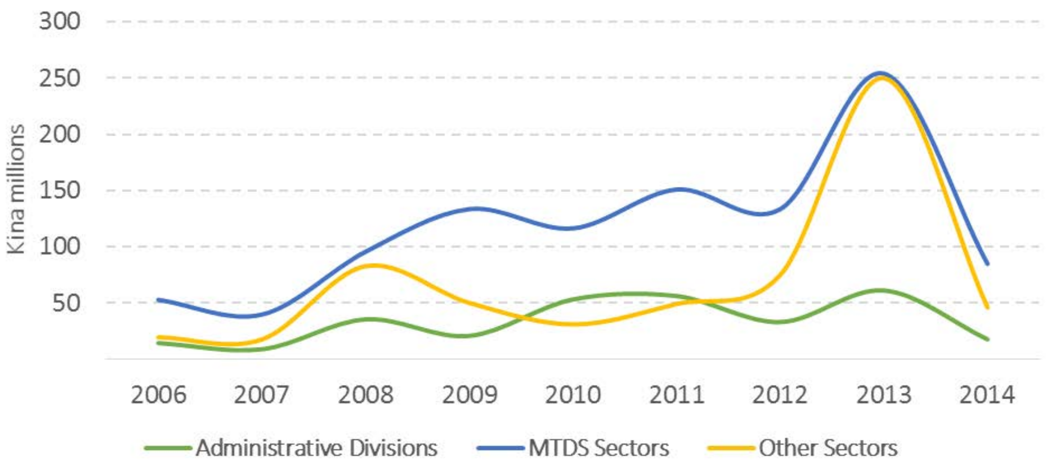
In terms of Provincial Wage and Salary costs only, spending was recorded at K50 million for 2014. Spending in the Administration sector is on the decline for a second consecutive year in 2014 (29% decrease from 2013) as denoted by figure 06; this is an encouraging sign as most wages should be covered by the National Government.

Figure 06: Provincial Wage and salary costs in 2014



When considering Capital and Projects expenditure only (figure 07), MTDS spending rose sharply in 2013 to K253.9 million but declined again to K84.6 million in 2014. This is somewhat unusual as Capital and Projects expenditure has historically been significantly higher than the 11% spend recorded for 2014. It is possible that the gradual increase in spending from Capital funding including the SIP and PIPs, have reduced spending from the more traditional Capital and Projects spending bucket.

Figure 07: Capital Expenditure in 2014

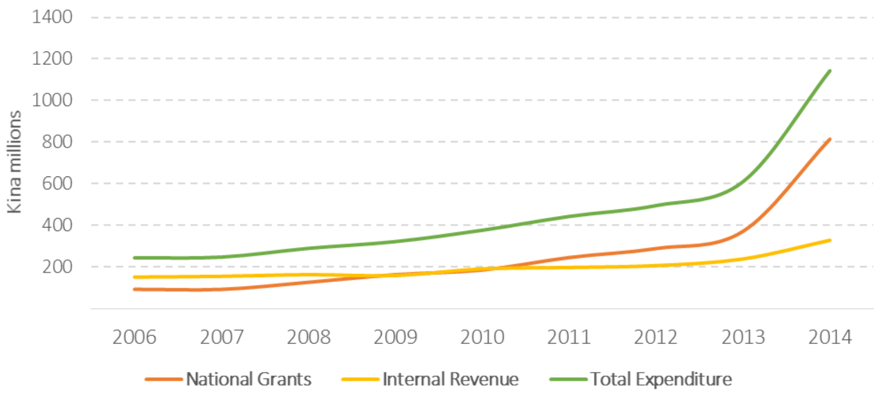


Composition of expenditure

The following graphs depict spending in three ways: spending from national grants, spending from internal revenue and total aggregate spending. Total expenditure increased 87% between 2013 and 2014 to K1.143 billion. Most of the K1.14 billion was comprised of function grants (K416 million).

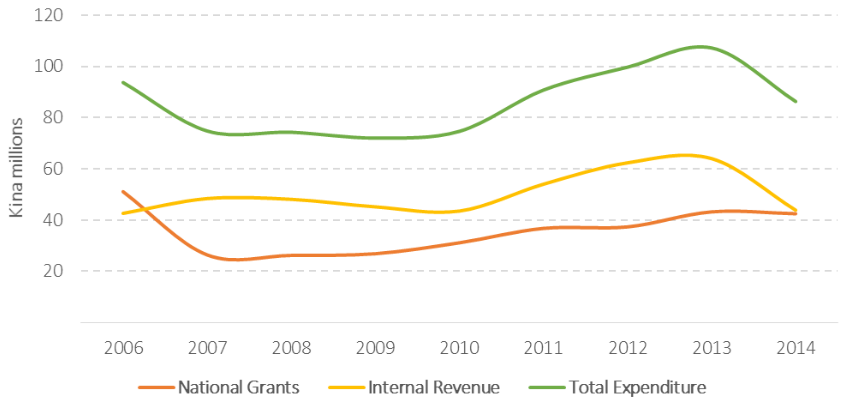
Provincial internal revenue contributed K328 million to the K1.14 billion. Largely due to the spike in revenues reflected in 2014, spending from internal revenue increased significantly to approximately K90 million more (from K238 million in 2013 to K328 million in 2014) as denoted by figure 08.

Figure 08: Goods & Services spending in 2014



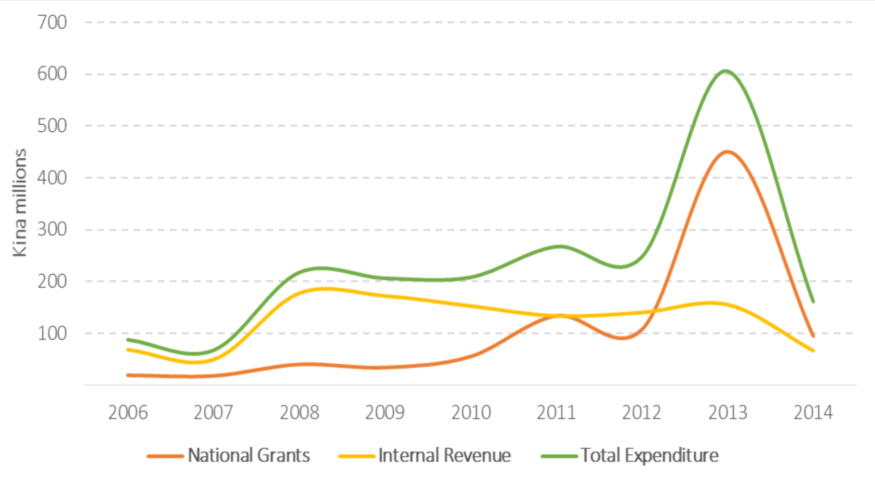
Spending on Provincial Wage and Salary costs was on an overall decline in 2014. Spending from function grants hovered at approximately K35 million in 2006, while spending from internal revenue was slightly more, particularly from 2011 onwards (see figure 09). For 2014, spending from internal revenue on all Goods & Services was K43 million. This cost was absorbed by the National Government in 2013, which explains the decrease in spending in 2014.

Figure 09: Provincial Wage and Salary costs in 2014



For Capital and Projects expenditure, as noted previously, an overall decline occurred, presumably due to the increase in spending for new projects financed under the Development (Capital) budget, as suggested by figure 10. A significantly large decrease of 73% occurred in year-on-year spending from both function grants and internal revenue on Capital and Projects expenditure. This is possibly due to provinces beginning to rely on their SIP (Development) funds for new projects.

Figure 10: Capital & Projects spending in 2014

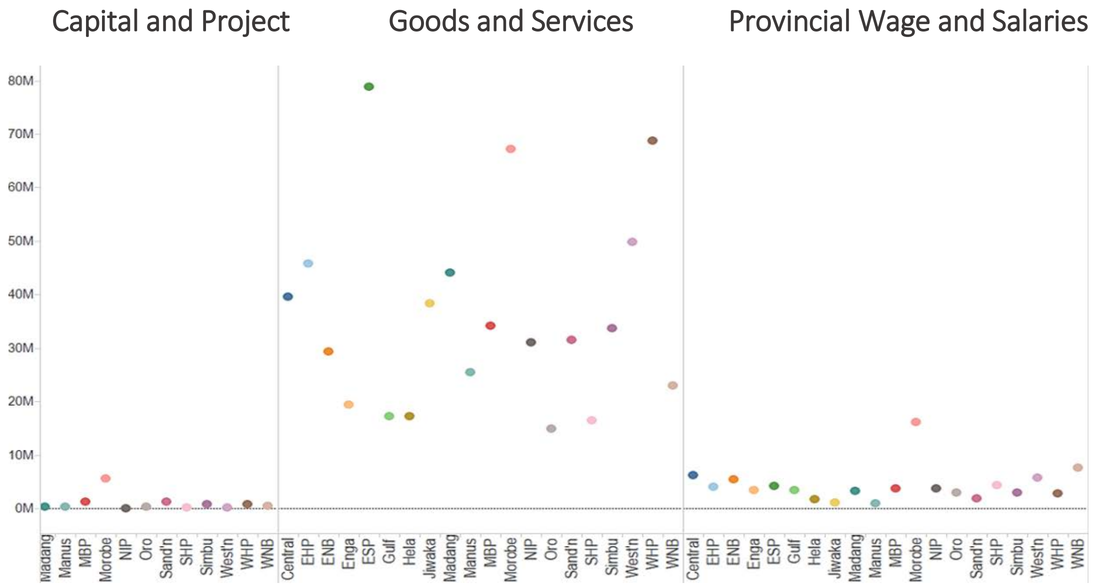


Spending from internal revenue in 2014

Of PNG's total population, 87% is classified as rural.[9] Provincial and local-level governments have continued to be responsible for spending on almost all public Goods & Services in a majority of provinces. For these funding arrangements to work on a systematic basis, a consistent commitment to spending internal revenue must be undertaken by provinces.

Figure 11 illustrates how provinces spent on Goods & Services, Provincial Wage and Salary costs and Capital and Projects expenditure in 2014. Spending from internal revenue was K462.9 million (almost triple to what was spent from internal revenue in 2005). Provinces spent at least 60% of what was budgeted from their internal revenue, which demonstrates that provinces are strengthening their commitment to the upkeep of public goods from their internal revenue.

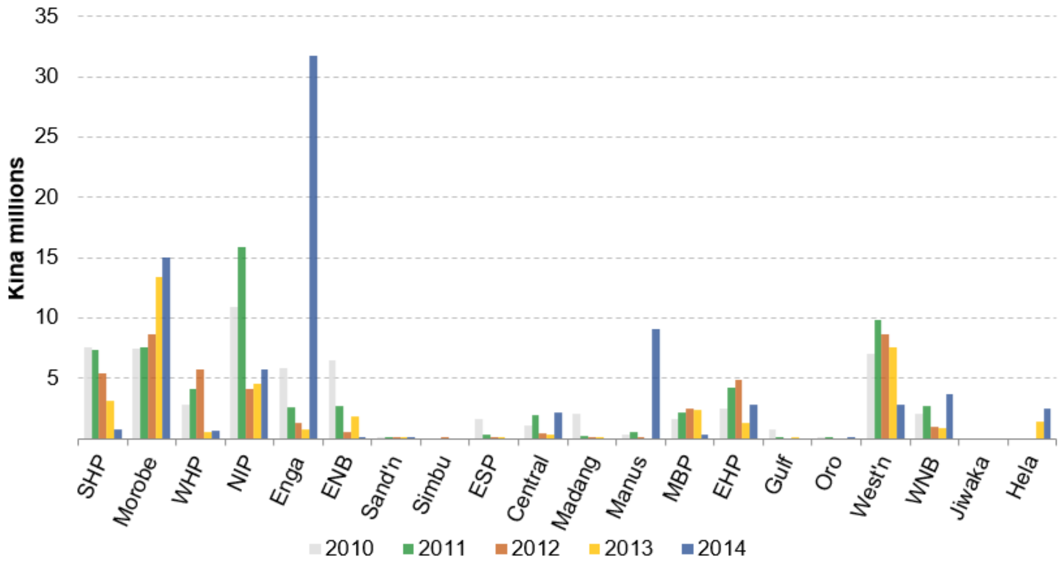
Figure 11: Provincial spending from internal revenue in 2014



A key observation is that spending from internal revenue on MTDS increased by approximately 100% between 2013 and 2014 (K38M in 2013 to K77M in 2014). Figure 12 illustrates the spending on Recurrent Goods & Services from internal revenue in the MTDS sectors (Health, Agriculture, Education, Infrastructure Maintenance, and Village Courts) between 2009 and 2014. It is interesting that provinces seem to spend a sizeable amount of their internal revenue in the last quarter. In 2014, provinces spent 38% on average, from their internal revenue in the last quarter alone. Much of this is on Goods and Services spending.

[9] World Bank Development Indicators for PNG, http://data.worldbank .org/country/Papua-New-Guinea, accessed 11 May 2016

Figure 12: Spending on MTDS sectors from internal revenue, 2009 – 2014



Provinces that spent the highest from their internal revenue in 2014 include Enga, Central and West New Britain provinces. Enga's spending increased from K0.715M to K31.7M due to additional support provided by its internal revenue to supplement GoPNG's Tuition Fee Free grants possibly due to delays in receiving these grants in 2013, when the policy had just been established.

Apart from Enga, Central ramped up its spending from internal revenue by K2.1M in 2014. Further, West New Britain spent K3.6M which is a 320% increase from the previous year. Both, Madang and East Sepik faced significant increases in their internal revenue between 2013 and 2014, by 160% and 50%, respectively although both provinces did not record any recurrent spending from internal revenue on MTDS sectors for 2014.

Spending on Provincial Wage and Salary costs as per Provincial PGAS

Spending on Provincial Wage and Salary costs is approximately 10% of expenditure from function grants. Provincial Wage and Salary costs were not factored in as part of function grants when RIGFA was introduced in 2009.

The exact composition of Provincial Wage and Salary costs varies depending on the sector. For example, Provincial Wage and Salary costs in the Administration sector primarily constitutes of public servants' leave fares and politician allowances, whereas in the Education sector, much of it is limited to teacher’s leave fares.

Spending on Provincial Wage and Salary costs do not include public servant salaries, paid by the central government. Rather, it includes areas that are budgeted and controlled at the provincial level, such as leave entitlements and casual wages for employees who are not on the national payroll. Spending on casual wages using the function grants has been actively discouraged from the Budget Expenditure Instructions and by NEFC.

In 2014, a total of K24.5M was spent at Provincial Headquarter level on Provincial Wage and Salary costs, while at District Headquarter level, a total of K1.4M was expended. This suggests that the bulk of casual employees were condensed at the Provincial Headquarter level. From an efficiency point of view, it is important for provinces to assess the long-term cost burden of hiring casual wage employees, which contributes towards downward spending pressures against the recurrent budget.

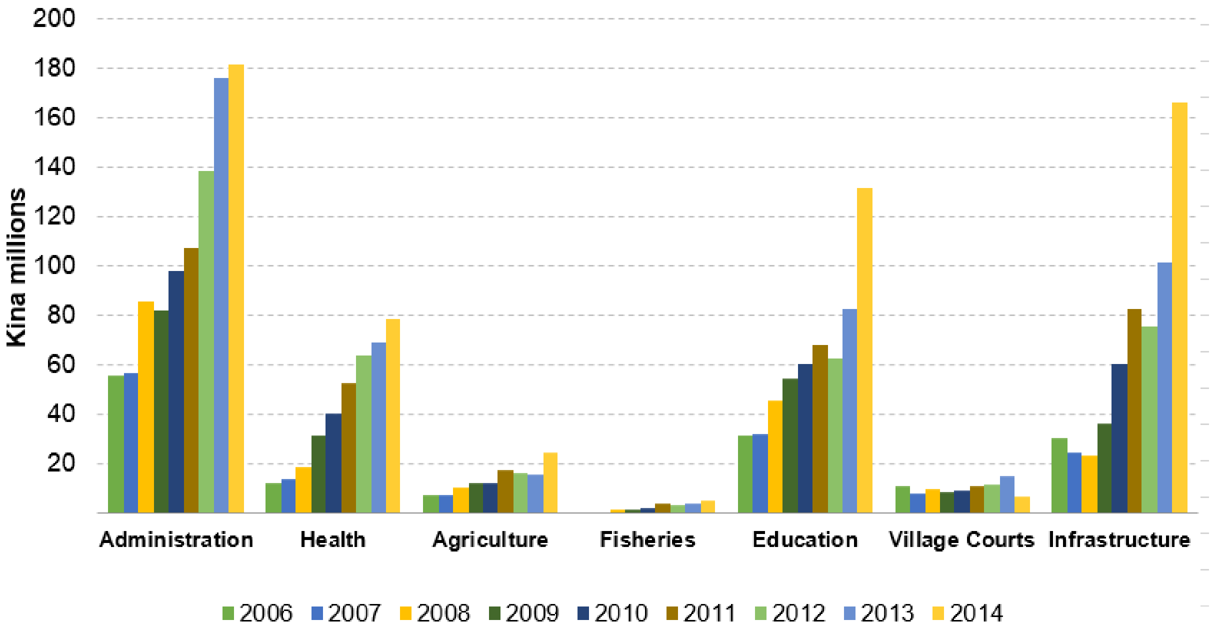
The function grants were never intended for use towards Provincial Wage and Salary costs. All of these costs should be met by a province’s internal revenue although the hiring of casual staff, in particular, is considered a significant cost burden that is often under-estimated during the provincial budgeting process by most provinces.

Sectoral spending trends on Goods & Services (2005 – 2014) as per Provincial PGAS

A key priority of the MDTP is to achieve better service delivery. A rough measurement of service delivery is how consistently provinces fund Goods & Services to upkeep public goods and quasi-public goods – Goods & Services that have benefits extending beyond the direct users of services.

Unprecedented growth in spending generally occurs during a peak period in provincial revenues, which helps explain Goods and Services spending in MTDS for 2014. The increase in Goods and Services spending was concentrated primarily in Infrastructure Maintenance (165% year-on-year increase), Agriculture (50% year-on-year increase) and Education (18% year-on-year increase) sectors for 2014 (figure 13).

Figure 13: Spending trends by sector, 2006 – 2014



Bottlenecks in providing Service Delivery: trends since RIGFA, 2009 – 2014

A few issues have been consistently addressed in the PER, since the establishment of the current Reform of Intergovernmental Financing Arrangements (RIGFA) in 2009. These bottlenecks to service delivery are relevant to 2014. They can be summarised as follows:

1. A lack of timeliness in receiving warrants;
2. Late spending of function grants and internal revenue for service delivery in the year;
3. Unspent funds not being reported on the PGAS in the subsequent year (using the NEFC's Cost of Services estimates as a benchmark);
4. A 'priority gap', where provinces typically spend on priorities outside of Goods & Services, and,
5. The flow of funding, where funds largely remain at the level of the Provincial Administration and do not reach the intended service delivery points at the necessary rate and frequency.

It seems that these bottlenecks and others have hindered service delivery at the provincial level in the previous five years, as observed from the PGAS data.[10] The following section examines these bottlenecks in further detail:

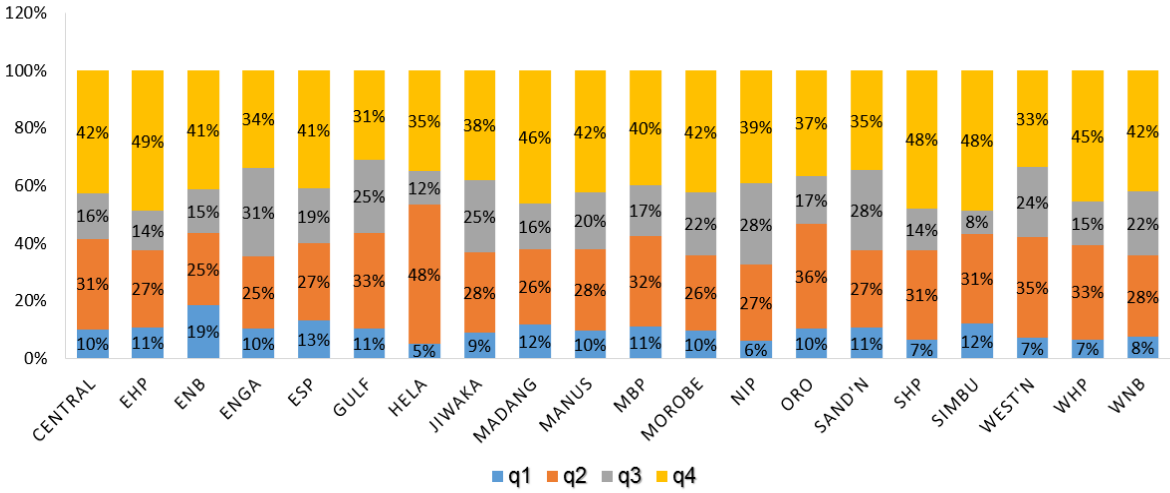
Bottleneck #1: The delay in warrant releases impedes the ability to carry out service delivery

The late release of warrants remains a significant bottleneck for 2014. Throughout RIGFA, the late release and CFC authorisation of warrants have led to the delay in spending on Goods & Services, Capital and Projects expenditure and the payment of Wages that are not covered by the national budget. According to warrant release data provided by the Department of Treasury, K70 million was released in the fourth quarter, which is approximately 42% of all function grant fund allocations for 2014.

[10] Other bottlenecks to service delivery have been raised in the literature including constraints in funding flows between provincial administrations and service delivery points but have not been addressed in this PER due to its scope being defined to the PGAS system.

Figure 14 depicts each province's warrant release amounts in percentages. It is important to note that the median average for provinces receiving function grants in the first quarter was 10%. An exception is East New Britain, which received 19% in the first quarter. Most provinces received a majority of their function grants in the last quarter. Eastern Highlands Province received 49% of their function grants in the last quarter. Apart from the Department of Treasury releasing funds later in the year, a key learning gleaned from the NEFC regional workshops is that specific provinces do not formally request the subsequent year's function grants by December of the previous year to the Department of Treasury, delaying their cycle of payments.

Figure 14: Warrant releases per quarter



Each province has its own spending priorities on service delivery. Further, provinces use their discretion to frontload or delay spending, particularly during the first quarter. Hence, most provinces do not spend at or close to even a quarter of what should be spent on service delivery in the first quarter, based on NEFC Cost of Services estimates.

One warrants for function grants are authorised in the fourth quarter, it is very likely that provinces roll-over a substantial amount of these funds to the following year. From an accounting standpoint, it is a challenge to reflect on expenditure year on year when rollover funds continue to stream through to subsequent years. These rollover funds are to be spent in the first quarter of the subsequent year and reported in the PGAS as such although it is not always spent in the first quarter.

Bottleneck #2: The bulk of spending on service delivery occurs in the last quarter. For service delivery to occur, equal spending on Goods & Services should occur across all quarters.

Spending percentages from function grants in the fourth quarter of the fiscal year have increased over the years. Cumulative spending (Goods & Services, Capital and Projects expenditure and Provincial and Wage costs) has largely hovered within the 40-50% range in the fourth quarter since 2009 when RIGFA came into being.

Figures 15 and 16 indicate that provinces spent more from internal revenue than they did from function grants in the first quarter and, inversely, in the fourth quarter, they spent more from function grants than they did from internal revenue. From a historical standpoint, this makes sense as provinces have received more funds in the second and fourth quarter, possibly aligned to the Department of Treasury's own cash flow patterns and decisions on fiscal consolidation based on the mid-year outlook. Figure 17 indicates that spending from internal revenue did occur in the first quarter among the resource-rich provinces who have indicated issues with service delivery, such as Morobe and Western provinces.

Figure 15: Spending trends from function grants by quarter, 2005 – 2014

Fiscal Year	Qtr 1	Qtr 2	Qtr 3	Qtr 4
2014	5%	20%	25%	50%
2013	7%	18%	22%	52%
2012	7%	25%	23%	46%
2011	8%	21%	26%	45%
2010	8%	18%	27%	48%
2009	8%	23%	30%	40%
2008	12%	26%	30%	31%
2007	7%	27%	22%	44%
2006	12%	25%	29%	34%
2005	9%	23%	23%	44%

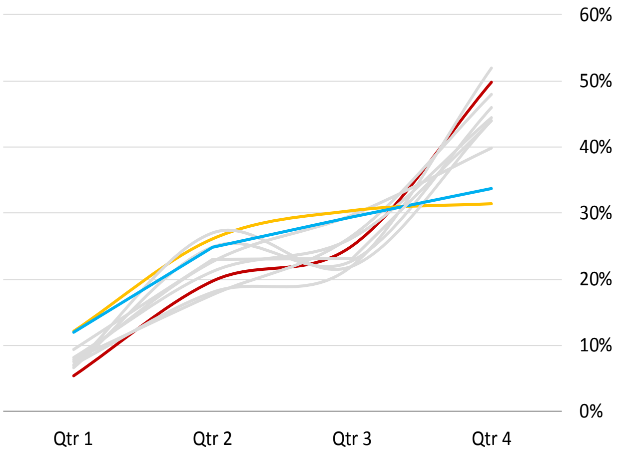


Figure 16: Spending trends from internal revenue by quarter, 2005 – 2014

Fiscal Year	Qtr 1	Qtr 2	Qtr 3	Qtr 4
2014	9%	27%	26%	38%
2013	15%	26%	23%	37%
2012	15%	32%	24%	29%
2011	16%	25%	26%	33%
2010	14%	27%	23%	36%
2009	14%	29%	25%	32%
2008	18%	24%	23%	34%
2007	19%	30%	24%	28%
2006	19%	23%	25%	33%
2005	16%	24%	27%	33%

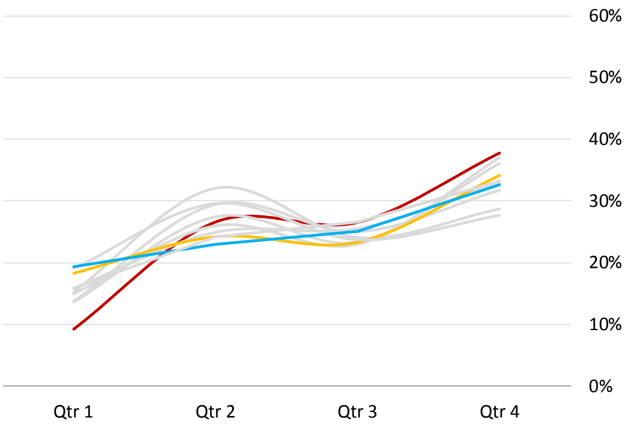


Figure 17: Spending percentages from internal revenue by quarter, for 2014

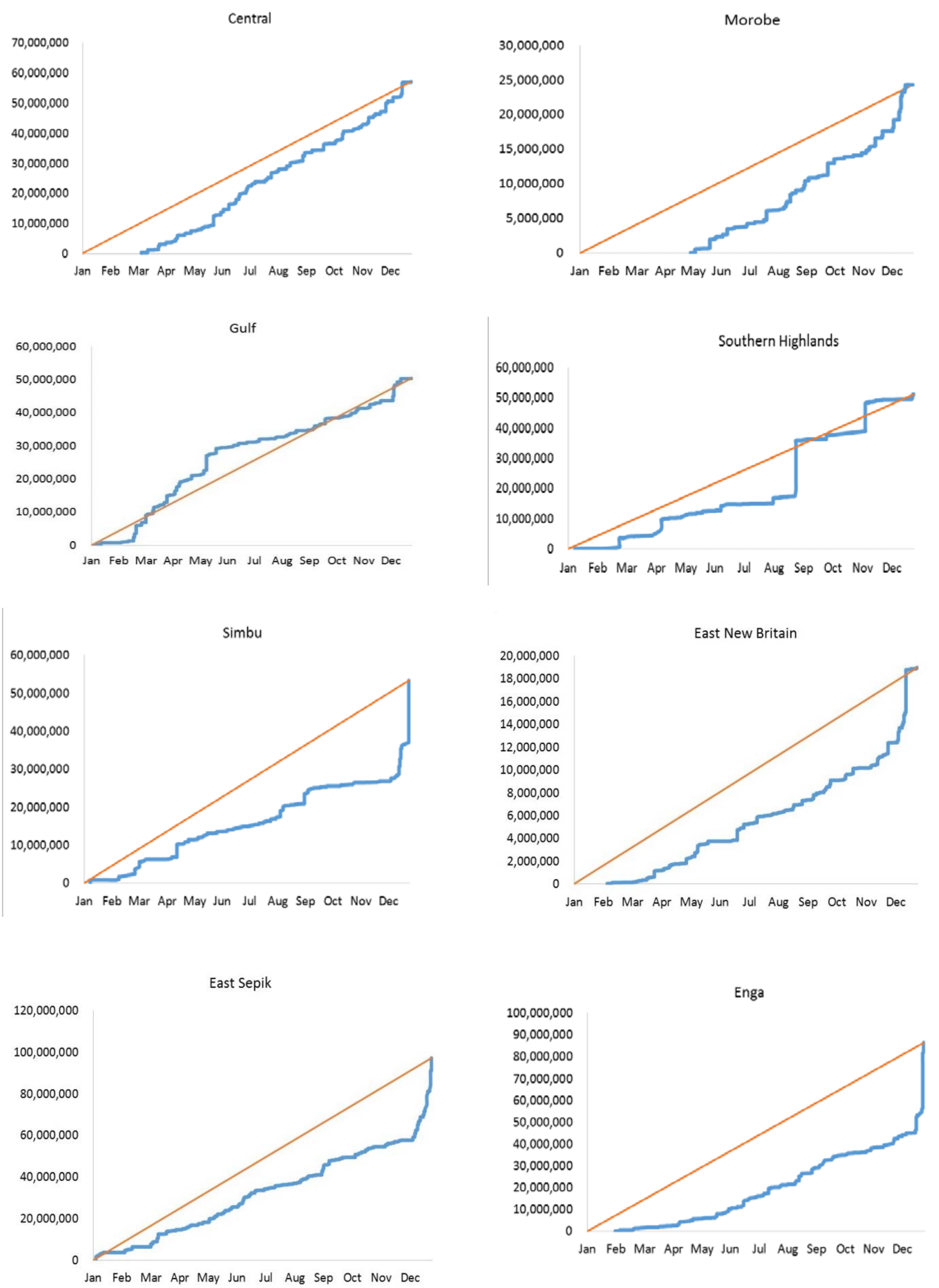
Province	Q1	Q2	Q3	Q4
Central	13.4%	25.8%	17.5%	43.3%
EHP	2.8%	28.3%	22.5%	46.4%
ENB	9.8%	17.6%	15.5%	57.1%
Enga	3.8%	22.0%	39.0%	35.2%
ESP	7.6%	32.0%	30.9%	29.5%
Gulf	11.4%	30.1%	11.0%	47.4%
Hela	0.0%	48.3%	25.5%	26.2%
Madang	7.5%	24.6%	21.9%	46.1%
Manus	1.4%	7.0%	35.9%	55.7%
MBP	11.8%	27.2%	23.7%	37.3%
Morobe	16.9%	32.5%	30.1%	20.5%
NIP	14.5%	35.8%	21.7%	28.0%
Oro	19.5%	30.4%	12.0%	38.1%
Sand'n	5.2%	20.1%	30.2%	44.5%
SHP	8.0%	8.1%	24.3%	59.6%
Simbu	13.9%	19.2%	21.3%	45.6%
West'n	19.0%	28.1%	28.0%	25.0%
WHP	0.0%	42.0%	22.5%	35.5%
WNB	10.6%	24.2%	31.7%	33.5%
Grand Total	**9.23%**	**26.56%**	**26.50%**	**37.71%**

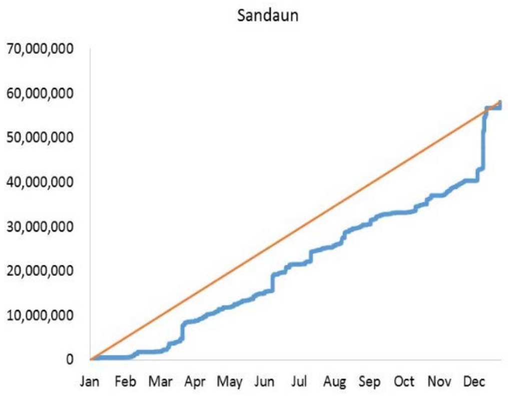
The graphs contained in figure 18 in the subsequent pages plot *actual provincial expenditure* (in blue) from *function grants* by the provinces as denoted on the PGAS between 1st January and the 31st of December, 2014. The orange line is a hypothetical line of function grant spending smoothed out over the year, based on warrant release data. These graphs do not include spending from internal revenue.

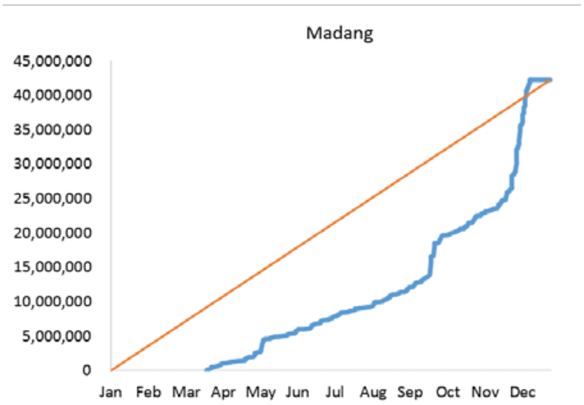
Figure 18 includes function grants rolled over from the last month of the previous year (December, 2013) and as recorded by the Department of Treasury's warrant release schedule. Often, provinces did not receive warrants till late in the first quarter, and roll-over funds from the previous year were used for service delivery. Although warrants were released, CFC authorisations needed to occur without time-lags for provinces to easily access their funds from the bank accounts.

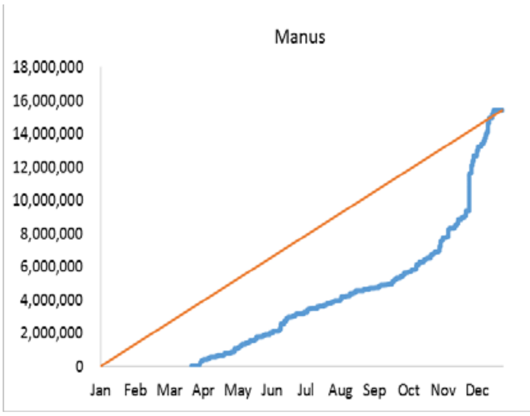
Theoretically, provinces should be spending consistently on Goods & Services across all quarters and prioritising Capital and Projects expenditure spending in the last two quarters. Typically, if they were to spend 25% on Goods and Services each quarter, an equal proportion of internal revenue and function grants would need to be spent across all four quarters. The trend of spending is inverse to the recommendations made by previous PERs to spend function grants by frontloading expenditure at the beginning of the year in the following spending pattern: 40% (1st quarter), 30% (2nd quarter), 20% (3rd quarter), 10% (1st quarter). An investigative study of provincial procurement and preferred supplier payment practices is important to understand why spending on service delivery can be delayed, from both internal revenue and function grants, particularly for provinces that are largely reliant on internal revenue such as Southern Highlands.

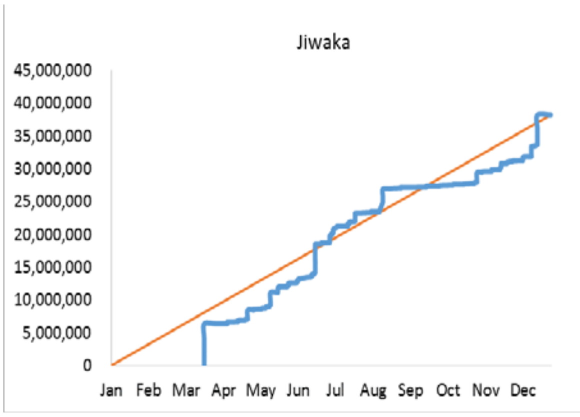
Figure 18: Hypothetical spending (orange line) versus actual spending (blue line) based on releases for 2014

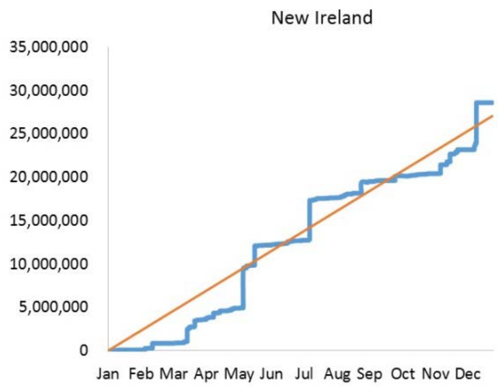


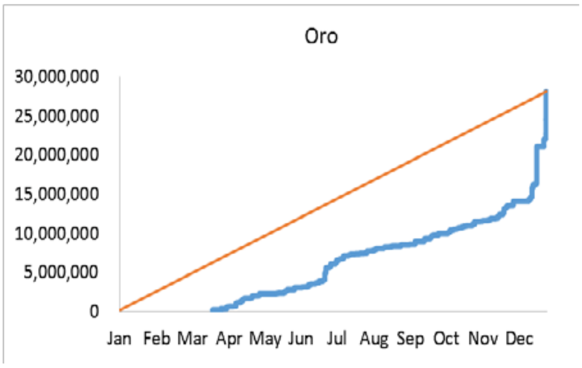

Sandaun
70,000,000
60,000,000
50,000,000
40,000,000
30,000,000
20,000,000
10,000,000
0
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

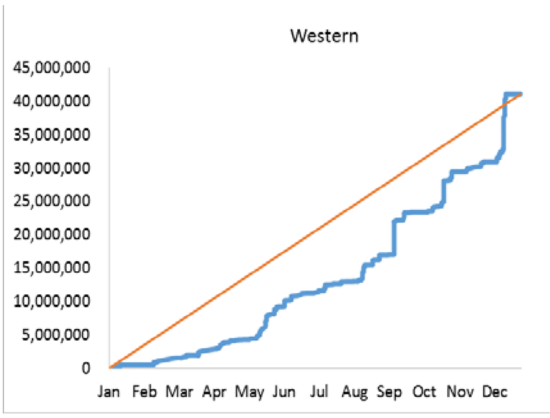

Madang
45,000,000
40,000,000
35,000,000
30,000,000
25,000,000
20,000,000
15,000,000
10,000,000
5,000,000
0
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

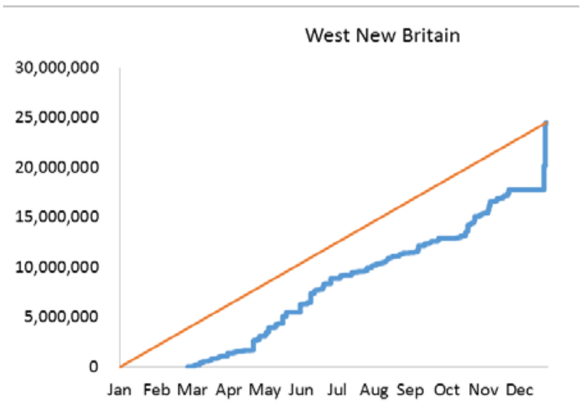

Manus
18,000,000
16,000,000
14,000,000
12,000,000
10,000,000
8,000,000
6,000,000
4,000,000
2,000,000
0
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

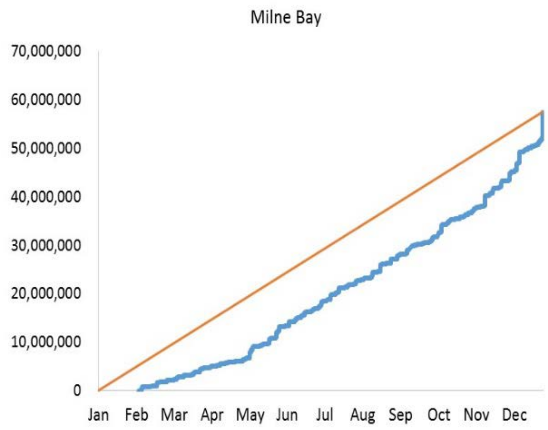

Jiwaka
45,000,000
40,000,000
35,000,000
30,000,000
25,000,000
20,000,000
15,000,000
10,000,000
5,000,000
0
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

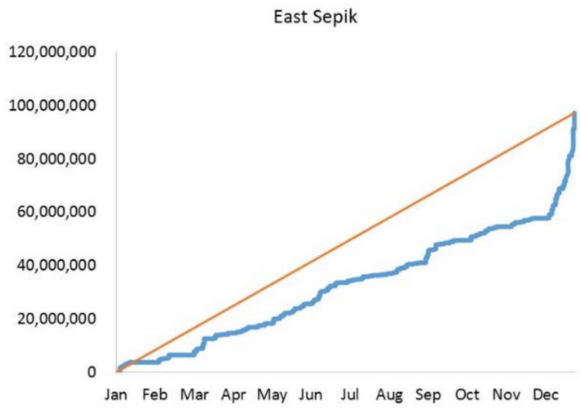

New Ireland
35,000,000
30,000,000
25,000,000
20,000,000
15,000,000
10,000,000
5,000,000
0
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

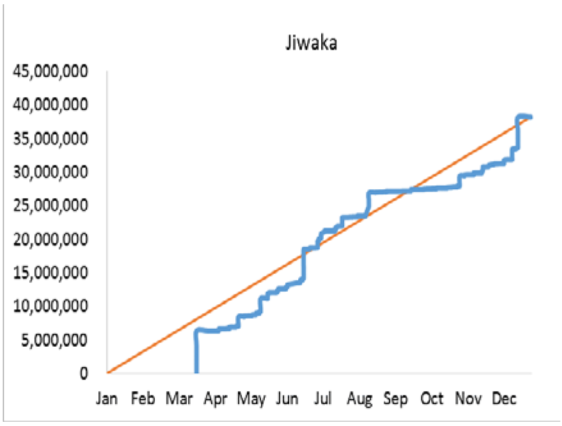

Oro
30,000,000
25,000,000
20,000,000
15,000,000
10,000,000
5,000,000
0
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

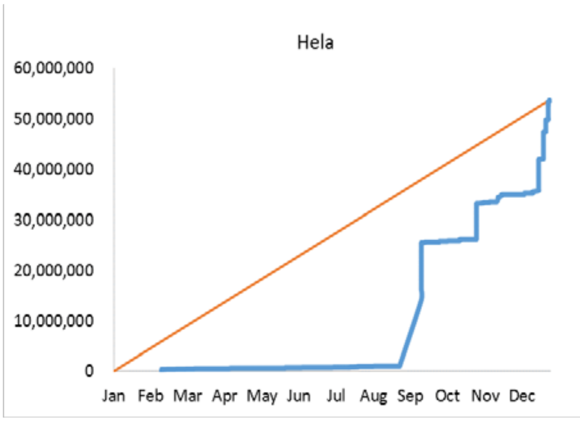

Western
45,000,000
40,000,000
35,000,000
30,000,000
25,000,000
20,000,000
15,000,000
10,000,000
5,000,000
0
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec


West New Britain
30,000,000
25,000,000
20,000,000
15,000,000
10,000,000
5,000,000
0
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec







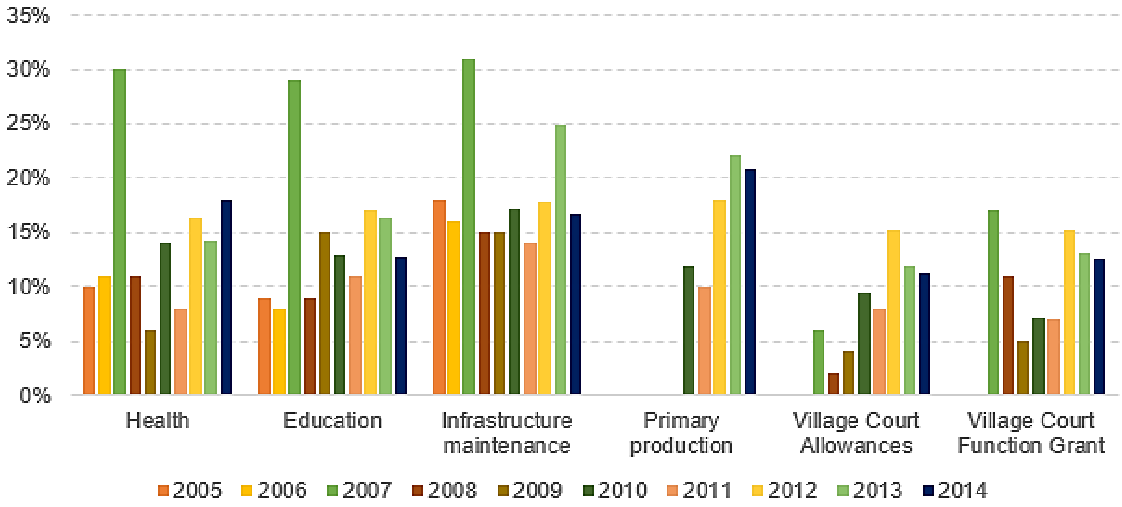


Bottleneck #3: When function grants are not spent in a given year, service delivery does not occur at the level that is initially estimated for the province.

The under-spending of function grants primarily occurred due to the late release of warrants during the fiscal year. Provinces are often provided a short time in the fourth quarter to spend a substantial amount of money, as reported elsewhere in this report.

Figure 19 identifies unspent function grants between 2005 and 2014. In 2014, primary production was the most impacted by underspending of function grants, with 28% of the grants not being spent at the end of the year probably due to the beginning of El Niño in late 2014 negatively impacting agricultural production and the possibility of carrying out extension activities in smaller-scale industries. Other key sectors where funds remained unspent include Transport Infrastructure Maintenance (17%), Health (18%) and Education (13%).

Figure 19: Trends in unspent function grants, 2005 – 2014

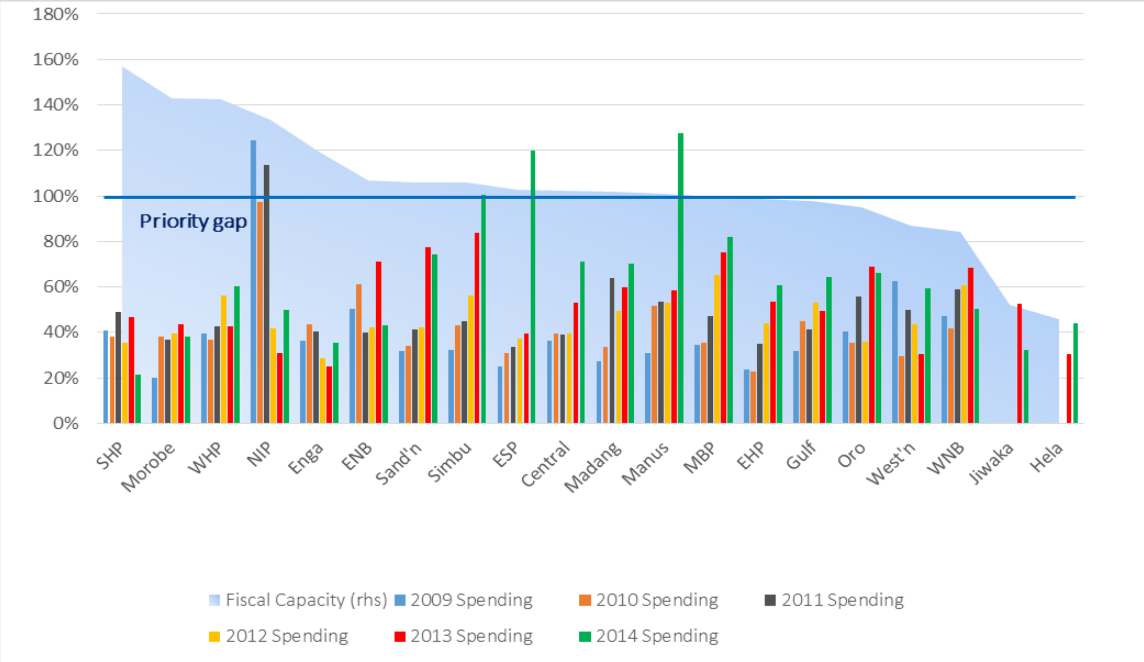


The expected transition from PGAS to the Integrated Financial Management System (IFMS) in the subsequent years may assist provinces to strengthen reporting on provincial spending, capturing the overall spending bucket, which includes function grants, development funds and grants provided by donors. At this time, the PGAS also allows provinces to record unspent funding in a few ways which enables inconsistency within the expenditure data. For example, Simbu records unspent funds using the 'new indicator' codes while other provinces often use other options including text-based descriptions to identify unspent funds. While IFMS is being instituted across provinces in the medium-term, it is important that the NEFC and provinces agree on how these funds should be reported within PGAS.

Bottleneck #4: a persistent priority gap exists.

The priority gap (figure 20), as identified by NEFC, is when a province is less likely to spend on service delivery using its recurrent budget. The assumption when calculating this gap is that discretionary funding for staffing, capital and development costs is not used when calculating a province's fiscal capacity. It is assumed that all untagged funds can be applied to funding routine service delivery. For example, Morobe is a province that would need to rely on its internal revenue to fund Goods & Services as it is the second highest in fiscal capacity among all 20 provinces for 2014.

Figure 20: the Priority Gap, 2009 – 2014



Bottleneck #5: The flow of funding, where funds largely remain at the level of the Provincial Administration and do not flow down to the intended service delivery points at a consistent rate and frequency during the year.

The flow of funds to service delivery points has been significantly low when reflecting on previous PERs and 2014 is no exception. When examining recurrent funds, the median average for transfers (Item 143: Grants and Transfers to Public Authorities) on the six key sectors are only 8 per cent. Health, by far, is the only sector where funds are flowing out and beyond provincial administrations at 22 per cent for 2014.

In theory, the NEFC Cost of Services estimates are costed in such a way that service delivery points, such as health facilities, schools, village courts and transport mechanisms are costed on an individual basis. Provinces are not transferring close to the ballpark of what they should be, to districts and LLGs. It is noted that service delivery points have received in-kind support although it is unclear to what extent when examining the provincial PGAS data.

How can these bottlenecks be addressed?

As per the ‘Determination Assigning Service Delivery Functions and Responsibilities to Provincial and Local-Level Governments (2009)’, provincial governments are expected to spend on the governance, policy, infrastructure and operations of a sector. Local-Level Governments (LLGs) have also been provided a list of responsibilities although the grant provided to them (K0.1 million per LLG per year) was insufficient for spending on Goods & Services. It is reported on an anecdotal level, that this amount is usually spent on day-to-day basic administration costs incurred by the LLG.

Anecdotal evidence from provinces also suggest that although funding is allocated to provinces in the form of function grants, districts have had issues with accessing these funds until much later, leading to gaps in providing service delivery. It is imperative that funds are accessible to service delivery points throughout the year.

Measuring Provincial Performance

An expected gain in efficiency is a key driver behind central governments choosing to opt for fiscal decentralisation at the sub-national level. Further, evidence from outside of Papua New Guinea suggests that provinces are not only more likely than higher-level governments to provide the right services, but also more likely to provide these services in the right way (World Bank, 2005).[11]

How can provincial spending against service delivery be measured to examine whether they are spending efficiently? One way would be to assess a province's spending against outcomes such as health indicators. Where comparable, NEFC has begun to analyse some relationships between spending and outcomes but would need to further examine other drivers that could be driving these relationships (see Part II: Sectoral Trends). Another possible approach of measuring efficiency could be to compare the spending of one unit, such as a health facility by looking at its individual costings and measuring its expenditure. NEFC is taking steps to improve budgeting at all levels, including at service delivery points.

Historically, Key Performance Indicators (KPIs) were identified as part of the PER scorecard to measure provincial expenditure on a comparative basis (see Figure 21). In 2014, weights were introduced to reduce the effect of outliers in terms of large numbers. Additionally, final transactions recorded by the provincial administrations on MPAs were included as part of the comparative assessment on provincial expenditure.[12]

---

[11] Public Services Delivery. Public Sector Governance and Accountability Series. The World Bank, 1818 H St. NW, DC.

[12] The function provides a number between 0% and 100% (or equivalent, 0 and 1), for the lowest and highest scores, respectively. Where a higher score indicated less effective performance on a relative basis, (depends on the indicator), then the score was reversed by deducting it from 100 percent (e.g. 80% score becomes 100% - 80% = 20%). Once the scoring is complete, a matrix (grid) of scores of dimensions 20 x 18 should exist (i.e. 20 provinces and 18 indicators = 360 scores). We can name these scores s. The final score is calculated as a weighted average of the individual indicator scores:

$$Final\ Province\ Score_j = \sum_{i=1}^{18} w_i * s_{ij}$$

Above, J refers to the province (i.e. j = 1 to 18); ij refers to indicator I of province j, and w and s are the weights and scores, respectively. Figure 50 provides the indicators and weights used as part of the PER composite index.

Figure 21: KPIs used and description of provincial rankings for 2014

KPI	KPI description	Description of how KPI was calculated
Treasury Grant Release date	Indicates the percentage of function grants that the Department of Treasury released to a province over Sept-Dec	Adjusted in Grant Spending in 4th quarter to allow for late release of funds
Grant spending in Q4	Indicates whether a province is spending its funds in a timely manner	Amount of grant spending in Q4, as a percentage of total spending. An adjustment has been made for the timing of the warrant releases (i.e. if the Q4 releases is <25%, then the province's score is boosted somewhat). The resulting number has been converted to a percentile rank
Spending in Q4	Indicates whether a province is spending its funds in a timely manner	Amount of internal revenue spending in Q4, as a percentage of total spending. The resulting number has been converted to a percentile rank
Spending in Education (vs. CoS)	Indicates how much a province is spending on the sector relative to the NEFC Cost of Services estimates. The calculation takes into account a provinces fiscal capacity	Amount of spending on Education (both Recurrent and development) as a % of CoS estimates. Resulting number has been converted to a percentile rank
Spending in Health (vs. CoS)	Indicates how much a province is spending on the sector relative to NEFC's Cost of Services estimates. The calculation takes into account a province's fiscal capacity	Amount of spending on Health (both Recurrent and development) as a % of CoS estimates. Resulting number has been converted to a percentile rank
Spending in Infrastructure (vs. CoS)	Indicates how much a province is spending on the sector relative to the NEFC's Cost of Services estimates. The calculation takes into account a province's fiscal capacity	Amount of spending on Infrastructure (both Recurrent and development) as a % of CoS estimates. The resulting number has been converted to a percentile rank
Spending in Agriculture (vs. CoS)	Indicates how much a province is spending on the sector relative to the NEFC's Cost of	Amount of spending on Agriculture (both recurrent and development) as a % of CoS estimates. The

	Services estimates. The calculation takes into account a province's fiscal capacity	resulting number has been converted to a percentile rank
Spending in Fisheries (vs. CoS)	Indicates how much a province is spending on the sector relative to NEFC Cost of Services estimates. The calculation takes into account a province's fiscal capacity	Amount of spending on Fisheries (both recurrent and development) as a % of CoS estimates. The resulting number has been converted to a percentile rank
Spending in Village court operations (vs. CoS)	This indicates which MTDS sector achieved the highest spending level	Amount of spending on Village Court Operations (both recurrent and development) as a % of CoS estimates. The resulting number has been converted to a percentile rank
Spending in MTDS	Indicates whether the four larger MTDS sectors are receiving a similar amount of funding according to what they need to provide basic services and according to what a province can afford	Amount of spending on MTDS (Goods & Services) as a % of total expenditure. The resulting number has been converted to a percentile rank
Spending in MTDS equity	The amount of unspent funds at year-end. Calculated against the Budget (actual)	Measures the consistency of MTDS sector spending across sectors. This is based on looking at absolute deviations against the average spending amount. The resulting number has been converted to a percentile rank
Unspent monies	Spending on salaries and Wages is not intended or permitted under the Function Grant	Measures the total of grant monies unspent as a % of the amount authorised. The resulting number has been converted to a percentile rank
Salaries and Wages spent in Provincial Wage and Salaries	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	Measures the total of grant monies spent as a % of total spending. The resulting number has been converted to a percentile rank

MPA spending on Education per capita	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	See below for source. Shows MPA spending on Education per capita, for each province. The resulting number has been converted to a percentile rank
MPA spending on Health per capita	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	See below for source. Shows MPA spending on Health per capita, for each province. The resulting number has been converted to a percentile rank
MPA spending on Transport per capita	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	See below for source. Shows MPA spending on Transport per capita, for each province. The resulting number has been converted to a percentile rank
MPA spending on Primary Production per capita	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	See below for source. Shows MPA spending on Primary Production per capita for each province. The resulting number has been converted to a percentile rank
MPA spending on Village Court Operations per capita		See below for source. Shows MPA spending on VC Operations per capita for each province. The resulting number has been converted to a percentile rank

How did provinces perform against the NEFC KPIs in 2014?

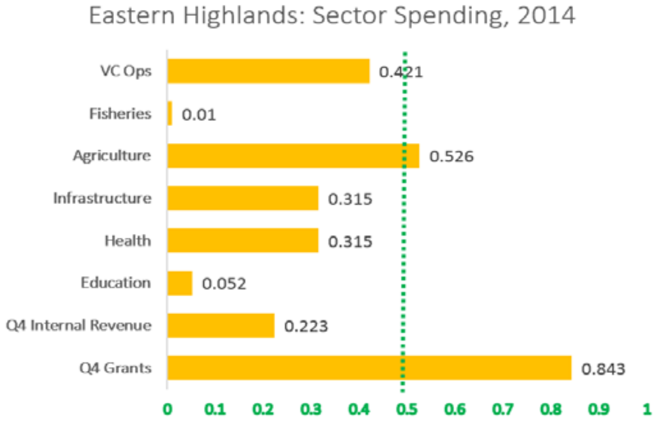
The performance of provinces against NEFC KPIs has been calculated on a per capita basis using the provincial population numbers from the 2011 census and were adjusted based on estimated provincial population growth figures as reflected by the National Office of Statistics. A per capita basis was used to be able to better compare spending on spending from the recurrent budget between provinces. A few things to note for figure 22 and figure 23.

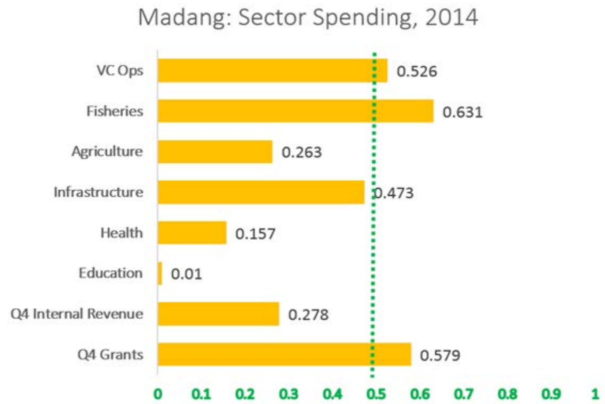
- The priority sectors include Village Court Operations, Primary Production (Agriculture and Fisheries), Infrastructure, Health and Education. These sectors are mapped on the ‘y’ axis while the ‘x’ axis denotes the score that helped provide the expenditure rankings for 2014.

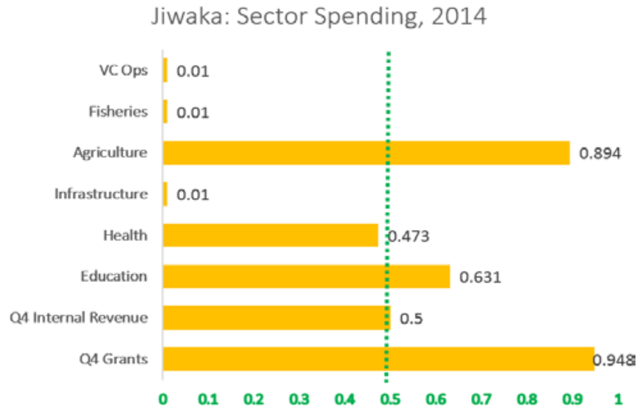
- The red lines at 0.5 indicate the median spending level. The score out of 1 is a comparative score, meaning that each provincial score on spending is relative to another’s spending.

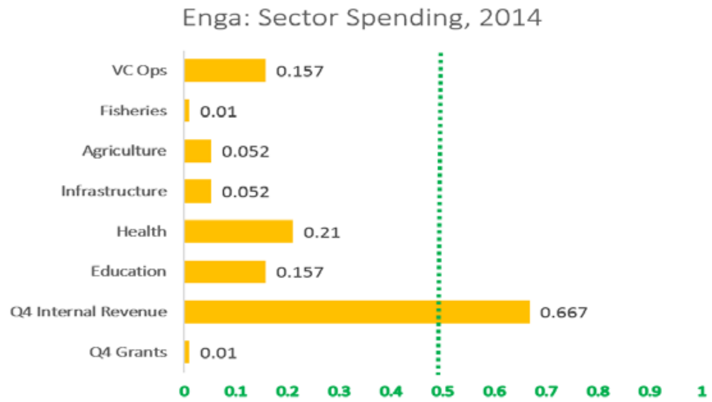
- Due to reflecting only on the recurrent budget, the expenditure identified in figure 21 and 22 are not comprehensive; spending from Church Health Services, Provincial Health Authorities, Tuition Fee Free Grants and Development (Capital) funding has not been captured and so is only a partial line of sight on provincial spending against sectors.

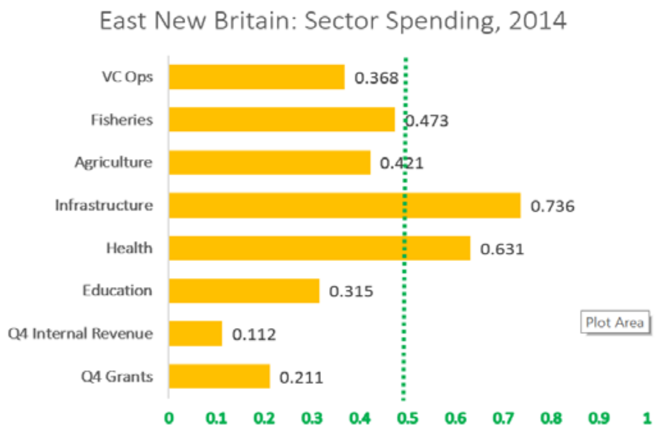
Figure 22: Spending on priority sectors in 2014

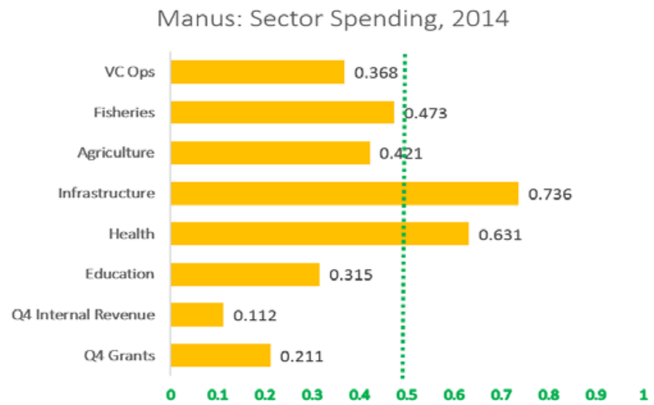


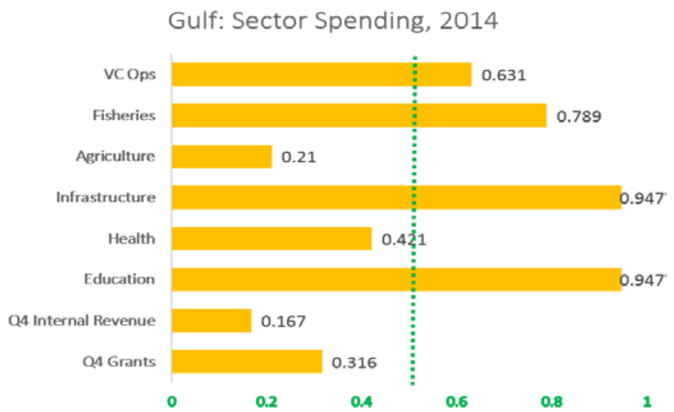


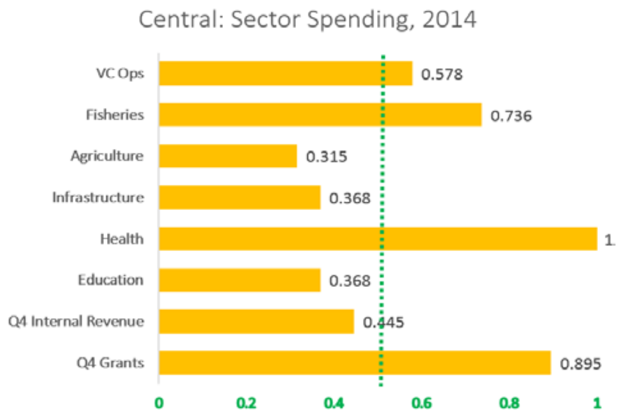


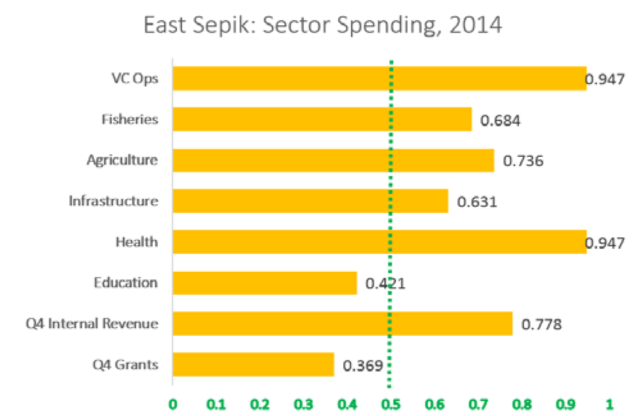


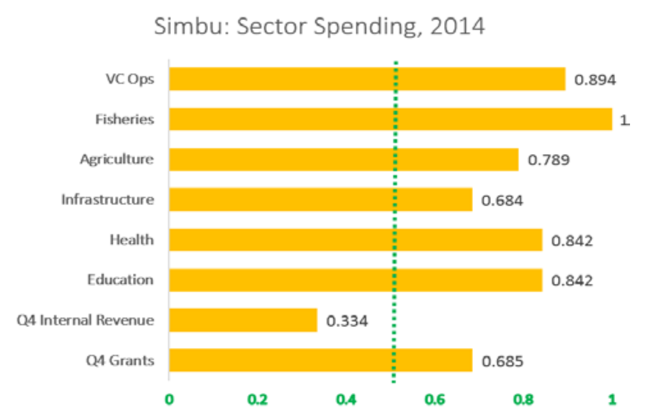


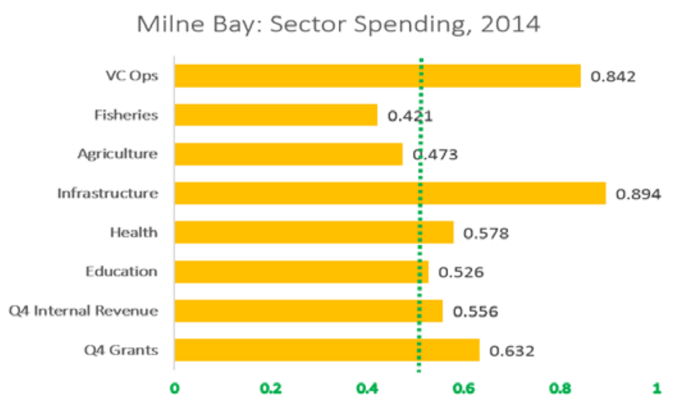


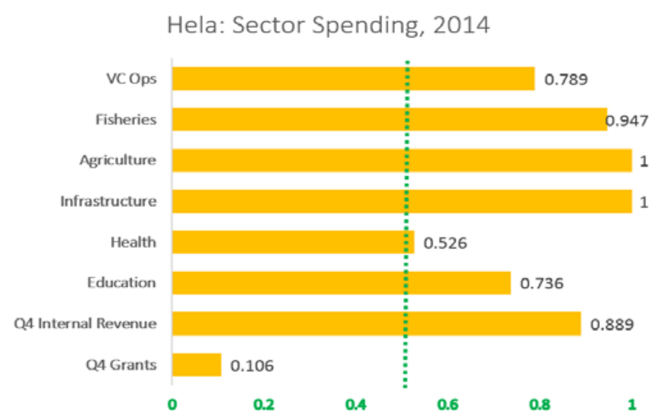


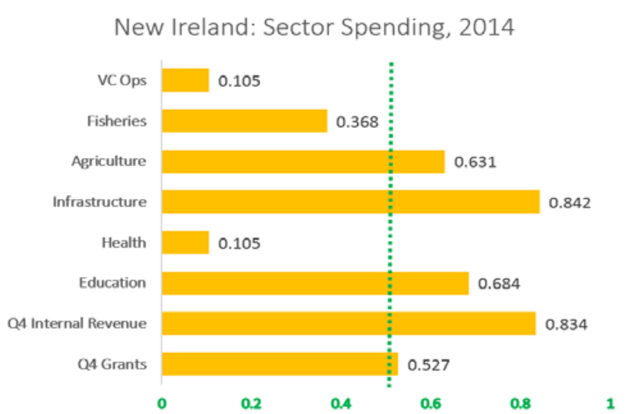


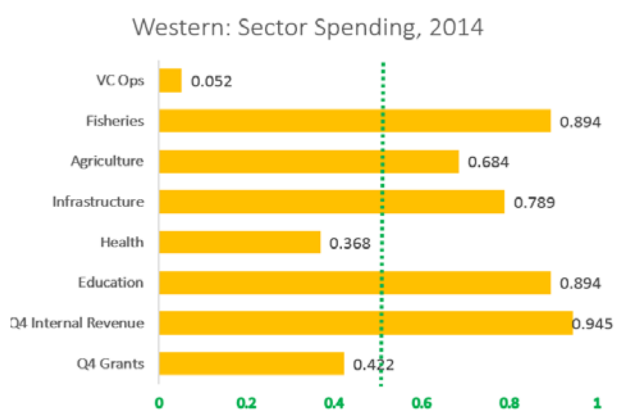

East Sepik: Sector Spending, 2014
VC Ops 0.947
Fisheries 0.684
Agriculture 0.736
Infrastructure 0.631
Health 0.947
Education 0.421
Q4 Internal Revenue 0.778
Q4 Grants 0.369
0 0.1 0.2 0.3 0.4 0.5 0.6 0.7 0.8 0.9 1

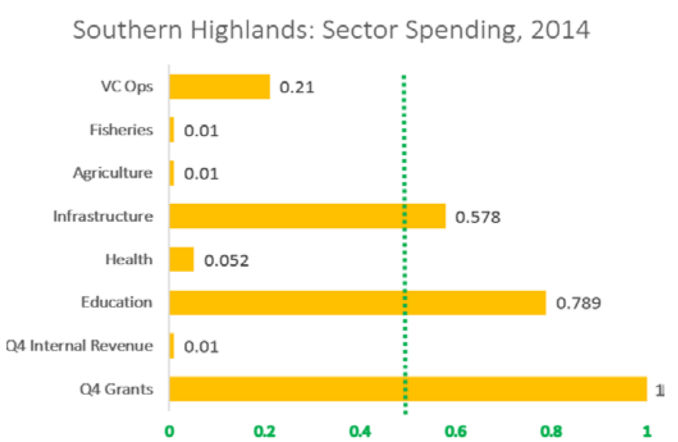

Simbu: Sector Spending, 2014
VC Ops 0.894
Fisheries 1
Agriculture 0.789
Infrastructure 0.684
Health 0.842
Education 0.842
Q4 Internal Revenue 0.334
Q4 Grants 0.685
0 0.2 0.4 0.6 0.8 1

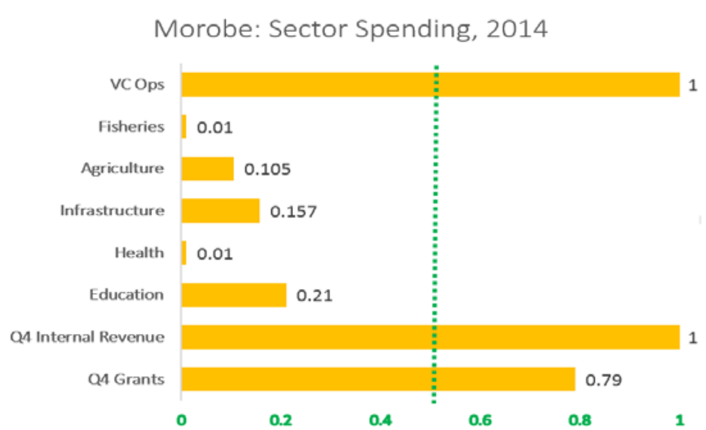

Milne Bay: Sector Spending, 2014
VC Ops 0.842
Fisheries 0.421
Agriculture 0.473
Infrastructure 0.894
Health 0.578
Education 0.526
Q4 Internal Revenue 0.556
Q4 Grants 0.632
0 0.2 0.4 0.6 0.8 1

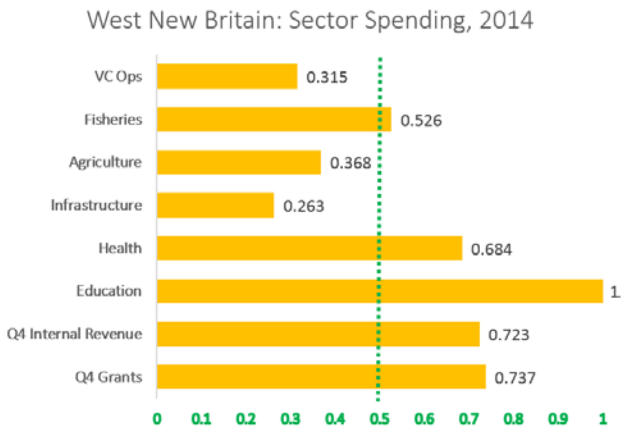

Hela: Sector Spending, 2014
VC Ops 0.789
Fisheries 0.947
Agriculture 1
Infrastructure 1
Health 0.526
Education 0.736
Q4 Internal Revenue 0.889
Q4 Grants 0.106
0 0.2 0.4 0.6 0.8 1

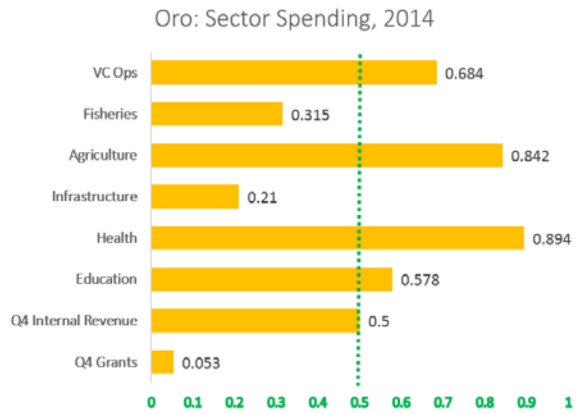

New Ireland: Sector Spending, 2014
VC Ops 0.105
Fisheries 0.368
Agriculture 0.631
Infrastructure 0.842
Health 0.105
Education 0.684
Q4 Internal Revenue 0.834
Q4 Grants 0.527
0 0.2 0.4 0.6 0.8 1


Western: Sector Spending, 2014
VC Ops 0.052
Fisheries 0.894
Agriculture 0.684
Infrastructure 0.789
Health 0.368
Education 0.894
Q4 Internal Revenue 0.945
Q4 Grants 0.422
0 0.2 0.4 0.6 0.8 1


Southern Highlands: Sector Spending, 2014
VC Ops 0.21
Fisheries 0.01
Agriculture 0.01
Infrastructure 0.578
Health 0.052
Education 0.789
Q4 Internal Revenue 0.01
Q4 Grants 1
0 0.2 0.4 0.6 0.8 1


Morobe: Sector Spending, 2014
VC Ops 1
Fisheries 0.01
Agriculture 0.105
Infrastructure 0.157
Health 0.01
Education 0.21
Q4 Internal Revenue 1
Q4 Grants 0.79
0 0.2 0.4 0.6 0.8 1

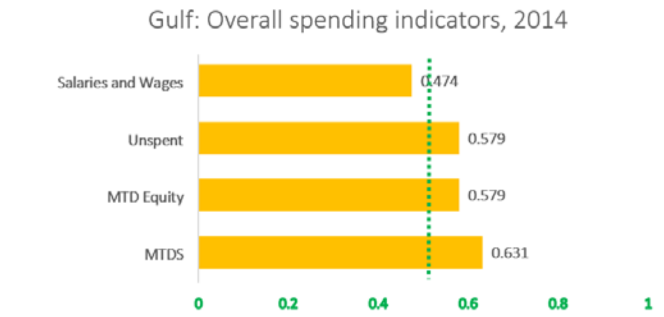

West New Britain: Sector Spending, 2014
VC Ops
Fisheries
Agriculture
Infrastructure
Health
Education
Q4 Internal Revenue
Q4 Grants
0.315
0.526
0.368
0.263
0.684
1
0.723
0.737
0 0.1 0.2 0.3 0.4 0.5 0.6 0.7 0.8 0.9 1

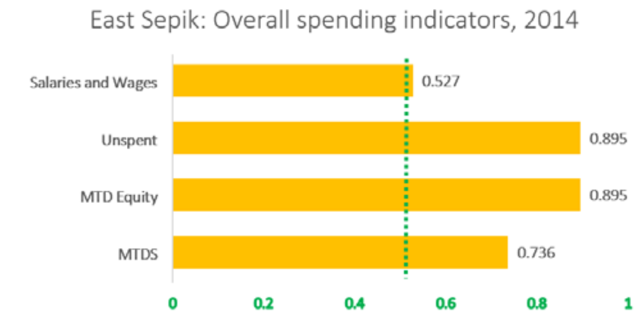

Oro: Sector Spending, 2014
VC Ops
Fisheries
Agriculture
Infrastructure
Health
Education
Q4 Internal Revenue
Q4 Grants
0.684
0.315
0.842
0.21
0.894
0.578
0.5
0.053
0 0.1 0.2 0.3 0.4 0.5 0.6 0.7 0.8 0.9 1

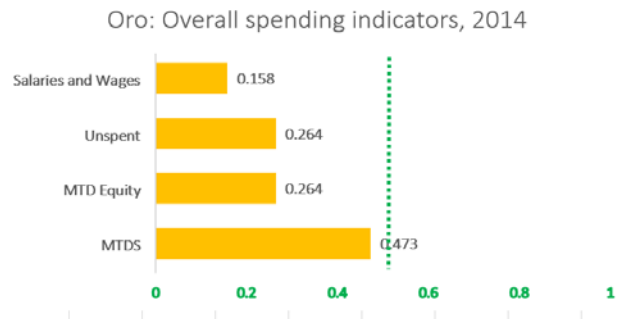
A weighted and comparative score was provided on unspent funds and spending on provincial wage and salary costs (see figure 23). Both these indicators reflected in figure 23 work inversely to other indicators and the scores are adjusted to reflect this. A province spending all its function grants by April of the subsequent year at the latest (what we call ‘rollover funds’) and spending minimally on provincial wage and salary costs from the recurrent budget are considered to be spending habits that are in line with GoPNG’s budget expenditure instructions and therefore, it is presumed that funds that would be tied up for provincial wage and salary costs would be spent on Goods and Services.

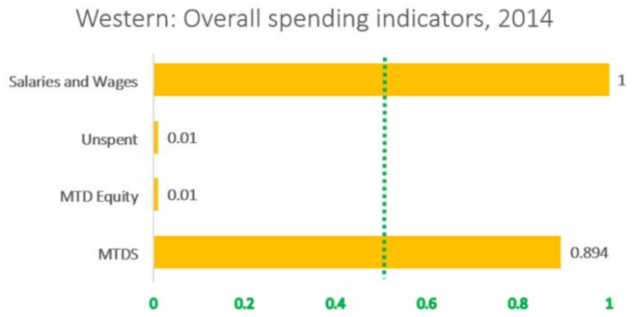
It must be noted that a province may well spend on activities that do not directly relate to daily operations nor infrastructure maintenance although they may largely refrain from spending on provincial wage and salary costs and/or exhaust their function grants by the due date.

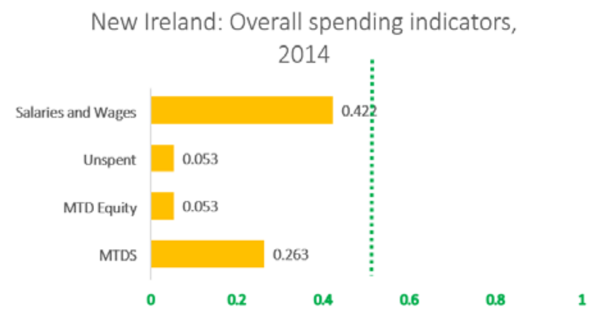
Figure 23: Spending on other factors and unspent funds (2014)

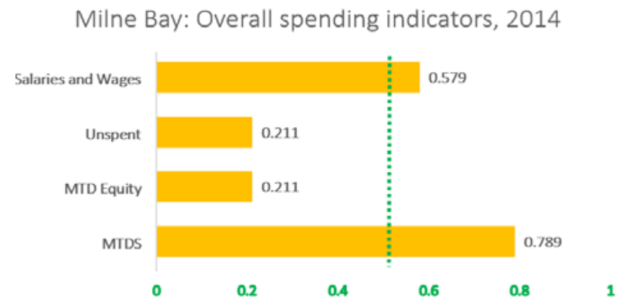

Gulf: Overall spending indicators, 2014
Salaries and Wages
Unspent
MTD Equity
MTDS
0.474
0.579
0.579
0.631
0
0.2
0.4
0.6
0.8
1

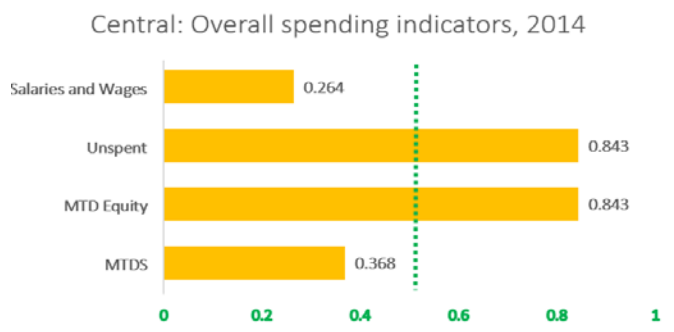

East Sepik: Overall spending indicators, 2014
Salaries and Wages
Unspent
MTD Equity
MTDS
0.527
0.895
0.895
0.736
0
0.2
0.4
0.6
0.8
1

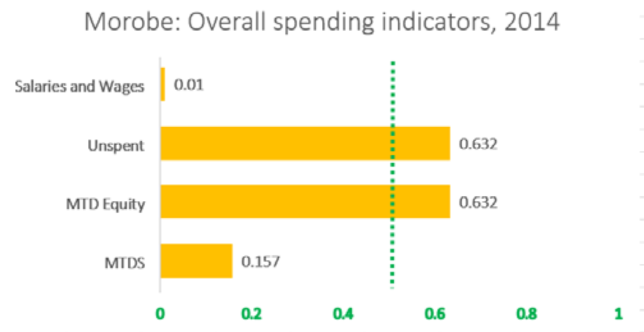

Oro: Overall spending indicators, 2014
Salaries and Wages
Unspent
MTD Equity
MTDS
0.158
0.264
0.264
0.473
0
0.2
0.4
0.6
0.8
1

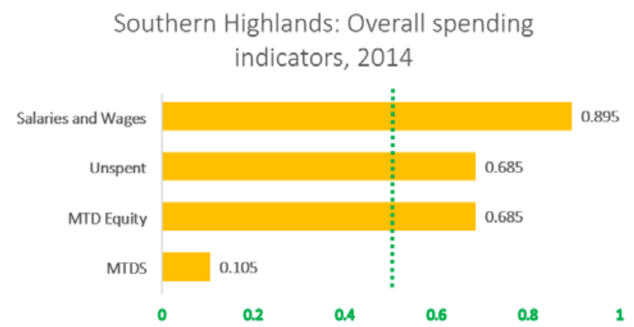

Western: Overall spending indicators, 2014
Salaries and Wages
Unspent
MTD Equity
MTDS
1
0.01
0.01
0.894
0
0.2
0.4
0.6
0.8
1

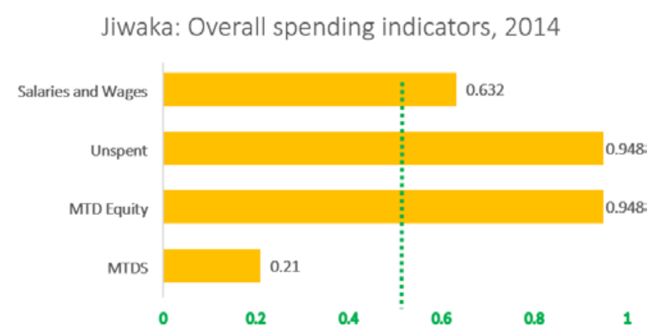

New Ireland: Overall spending indicators, 2014
Salaries and Wages
Unspent
MTD Equity
MTDS
0.422
0.053
0.053
0.263
0
0.2
0.4
0.6
0.8
1

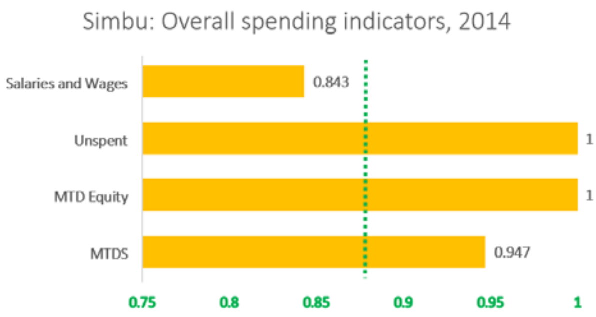

Milne Bay: Overall spending indicators, 2014
Salaries and Wages
Unspent
MTD Equity
MTDS
0.579
0.211
0.211
0.789
0
0.2
0.4
0.6
0.8
1

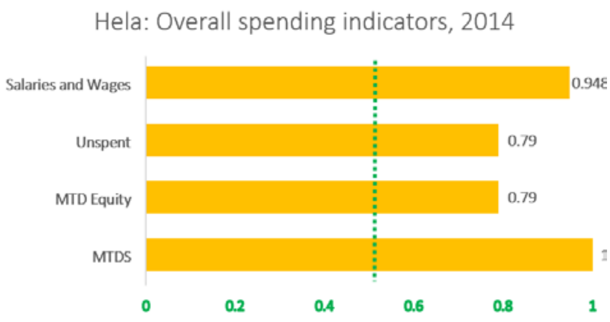

Central: Overall spending indicators, 2014
Salaries and Wages
Unspent
MTD Equity
MTDS
0.264
0.843
0.843
0.368
0
0.2
0.4
0.6
0.8
1


Morobe: Overall spending indicators, 2014
Salaries and Wages
Unspent
MTD Equity
MTDS
0.01
0.632
0.632
0.157
0
0.2
0.4
0.6
0.8
1


Southern Highlands: Overall spending indicators, 2014
Salaries and Wages
Unspent
MTD Equity
MTDS
0.895
0.685
0.685
0.105
0
0.2
0.4
0.6
0.8
1


Jiwaka: Overall spending indicators, 2014
Salaries and Wages
Unspent
MTD Equity
MTDS
0.632
0.21
0
0.2
0.4
0.6
0.8
1





To adjust for large variances in expenditure across budgets and typical spending decisions, the PER scorecard typically calculates a three-year average to balance out the rankings. Figure 24 denotes the rankings of the provinces from 2011 to 2014. High performing provinces against the PER KPIs have been fairly consistent during this period including Simbu and Central provinces.

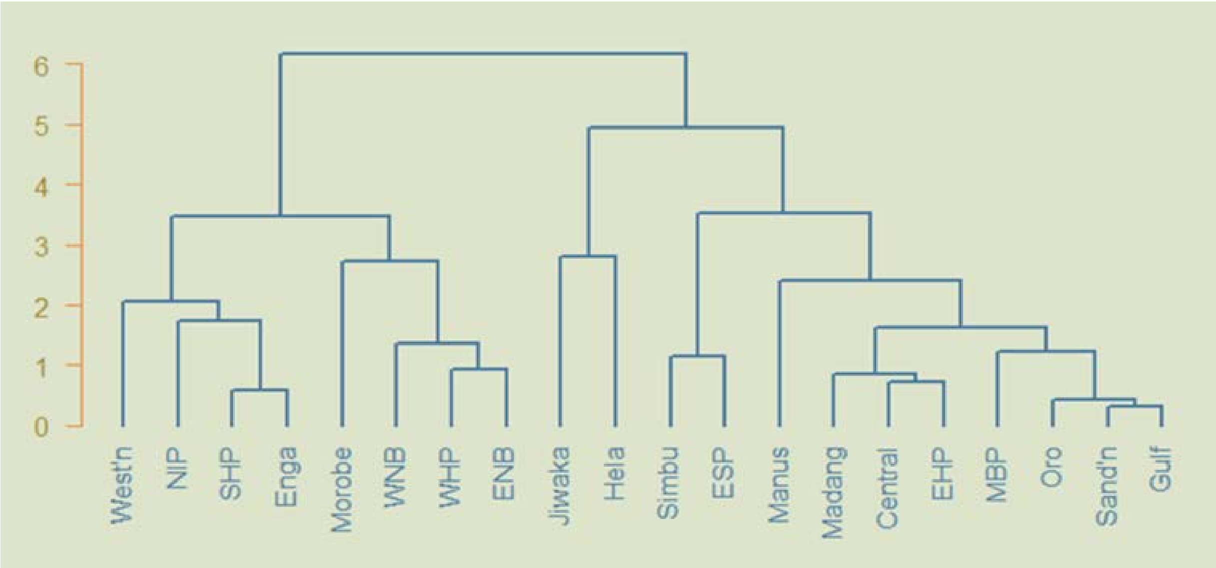
Figure 24: Scores for 2014 using three year average (2012 – 2014)

	2011	2012	2013	2014
Simbu	74	70	71	72
Madang	76	74	61	42
MBP	76	71	63	60
Manus	81	68	53	63
ENB	63	59	73	46
Central	78	61	54	79
Sand'n	70	54	66	50
WHP	78	67	41	44
EHP	65	63	57	31
Jiwaka			60	31
Oro	67	56	54	56
Morobe	61	61	55	38
WNB	60	60	53	50
Hela			57	54
ESP	62	59	47	61
SHP	65	42	58	31
Gulf	63	54	46	70
West'n	66	50	47	33
Enga	55	51	47	36
NIP	72	45	35	41

Spending patterns for 2014

There is no one way of spending efficiently on service delivery. Provinces have specific needs based on the average remoteness between service centres and the population, as well as associated variables such as infrastructure. A population's dispersion, health needs, literacy rates, preferred income-generating activity, and weather conditions can all be exogenous factors that impact provincial spending patterns over a period of time. For 2014, provincial spending on Goods and Services can be grouped into two major categories (figure 25).

Figure 25: High and low spending provinces on G&S for 2014



The first category largely consists of provinces that spent relatively little against their Cost of Services estimates and generally have larger fiscal capacities, with the exception of Western Province. The second category includes provinces that spent relatively higher against the NEFC Cost of Services estimates and are more dependent on function grant than the first group of provinces. Even within the second category, there exists two sub-groups. Most notably, provinces that spent most alike were Simbu and East Sepik for 2014. Their key characteristic is that they both spent above their NEFC Cost of Services estimates for all six key sectors.

In the case of East Sepik, they received a larger than usual function grant for 2014 while their internal revenue also spiked more than initially expected. Based on revenue collections in 2012, East Sepik was provided a function grant of K51 million to assist with their declared internal revenue amount of K9.5 million (a total of K60.5 million). Based on PGAS 2014 data, East Sepik spent much more than anticipated on Goods and Services at K78 million.

Spending for all the key sectors including Administration was calculated to adjust for a province's fiscal capacity. For example, the cost estimate for Southern Highlands for Goods and Services spending in Education was K7.2 million for 2014. Southern Highlands spent K1.40 million during this year. Southern Highland's spending ration is 0.89/7.2 which is equivalent to 12 per cent when taking into account its fiscal capacity.

It is worth noting that although similar characteristics group provincial expenditure together in figure 24, provinces within sub-groups may have distinctly different rankings. This is primarily due to *Game Changer* prioritising the spending of MPAs in the provincial scorecard of KPIs to better reflect NEFC priorities in line with GoPNG's Vision 2050.

Study: the relationship between a province's remoteness and its spending on G&S

A number of statistical studies were carried out by the NEFC to assess how service delivery occurs and what factors may impact provincial expenditure. Using the PARI index from the *Go Long Ples* report in 2014 produced by the NEFC and the Department of Education, the NEFC examined whether remoteness was a factor that could influence provincial spending in 2014 and subsequently, its performance on the Scorecard (it should be noted that the NEFC Cost of Services estimates, which serve as a benchmark for spending, uses proxy measurements for calculating remoteness. It is built into the costing model).

In the event that a province is more remote, they were significantly less likely to spend on G&S in 2014. This is possibly due to higher administration costs that can be incurred in reaching service delivery points that are less accessible to a province's population and to suppliers alike. More remote provinces do incur more costs than provinces that are less remote, leading them to spend less on service delivery and more on administration and provincial wage and salary costs.

Education

Background

The 2012 implementation of the Free Education Policy (FEP), also known as Tuition Fee Free Policy (TFFP) gave way to a significant increase in PNG's student population. Grants were introduced along with the TFFP. The TFF grants cover school costs incurred for Administration (40%), Teaching and Learning (30%) and Infrastructure (30%) of which the Administration and Teaching and Learning components are paid directly to schools on a quarterly basis. The Infrastructure component is paid to Trust Accounts held by the District Treasuries and released to schools, as required.

The Education function grant is typically used to fund district Education operations and supervision and distribute basic learning materials to schools and is supplemented by a province's own revenue. Although the PER 2014 only examines spending on function grants and internal revenue, basic service delivery in Education is also financed by the following:

- Tuition Fee Free (TFF) payments, as part of GoPNG's efforts to reduce the opportunity cost of attending school and increasing the number of Papua New Guineans with at least primary school Education. The PGAS does not normally capture payments from TFF. As such, the PER does not include expenditure made from these grants;[13]
- Church funding provided in addition to function grants and provincial revenue, which in some schools, is significantly larger than schools funded by TFFs or other types of government funding.

Spending against NEFC Cost of Services estimates

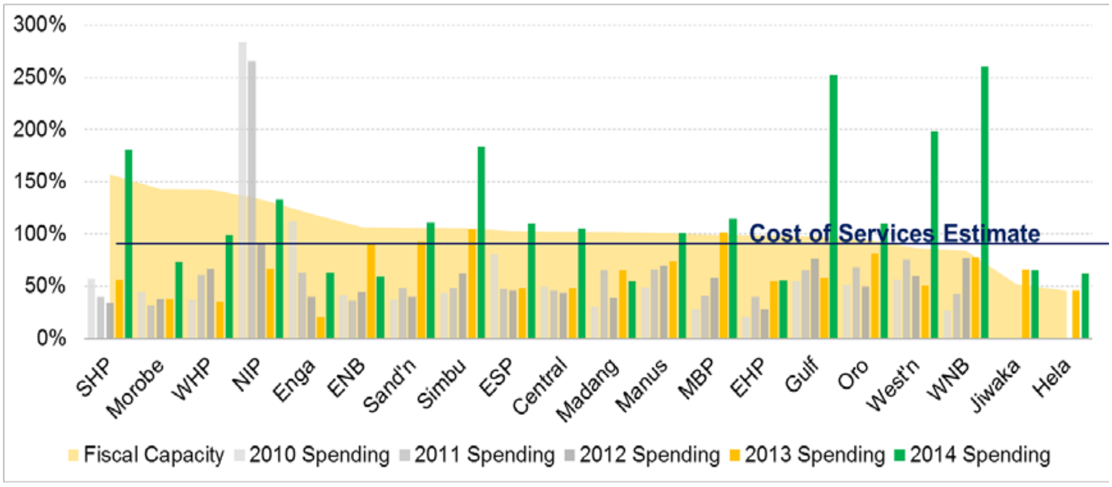
A spending shortfall of 67% was recorded against the 2014 NEFC CoS estimate for Goods & Services from the recurrent budget.

Southern Highlands, Morobe and Hela were not able to fully spend their function grants on Education by the end of the year, spending K1.4 million, K5.5 million and K2.3 million, respectively. The remaining shortfall to meet CoS estimates was 81% (Southern Highlands), 63% (Morobe) and 48% (Hela) as indicated in figure 26. Provinces that spent more than the NEFC CoS estimates included East Sepik, New Ireland and Simbu, spending K11.6 million, K6 million and K8.2 million, respectively.

[13] Another key policy reform implemented in recent years is the TFF policy introduced by the present government, leading to relative under-spending from function grants on some of the same cost functions as the TFF.

From a trend analysis perspective, spending on Education against the NEFC CoS estimates progressively improved between 2010 and 2014 although fluctuations in spending occurred, particularly in 2012 when spending decreased by 8%. This is possibly due to the introduction of the TFF grants during the same year.

Figure 26: Spending on Education against the NEFC CoS, 2010 – 2014



Spending in Minimum Priority Activities

The NEFC uses the Minimum Priority Activities (MPAs) as one estimate of spending on service delivery. As illustrated in section one, the higher a province spends on the MPAs, the higher they are ranked on the NEFC expenditure Key Performance Indicators. One key challenge with examining spending against MPAs is the lack of consistency in the compliance against the Treasury's CoA although the NEFC Public Financial Management team frequently provides advice and feedback to provinces, beginning from the budget formulation phase.[14]

Recognising that compliance against the Treasury's CoA remains an issue, the NEFC took stock of how MPAs were being supported by looking at expenditure flowing down to the provinces. From the three Education MPAs, namely: 1. provision of school materials; 2. school supervision by district and provincial officers; and 3. operation of district Education offices, spending on the provision of school materials is by far the

[14] Another key policy reform implemented in recent years is The TFF policy introduced by the present government, leading to relative under-spending from function grants on the part of provinces due to school operating costs in the function grants covering some of the same cost functions as the TFF.

most supported by provinces (K5.3 million) and further, the most relevant MPA in measuring 'core' service delivery. [15]

A snapshot of spending on MPAs include the following:

- On MPA 1: Procurement and distribution of school materials, large spenders included Central (K1.2 million), East New Britain (K1.3 million) and, Hela (K0.71 million),
- On MPA 2: school supervision by district and provincial officers, K2.7 million was spent by all provinces, which is unusually low. Comparatively large spending provinces included Central (K0.54 million) and East New Britain (K0.38 million),
- On MPA 3: Operation of District education offices, a total of K2.5 million was spent in 2014. Milne Bay spent K0.72 million while Simbu K0.55 million, contributing approximately half of all spending on district Education offices in 2014

Spending on Education from the recurrent budget

Total spending for Education from Capital and Projects expenditure, Provincial Wage and Salary costs and Goods & Services stood at approximately K158 million in 2014 (see figure 27). The major spending item was Goods & Services (62%), followed by Capital and Projects expenditure (21%) and, finally, Provincial Wage and Salary costs (17%). Year-on-year spending patterns in Education indicated that spending in Goods & Services increased for a few provinces including Western Highlands (96% year-on-year increase), New Ireland (104% year-on-year increase) and East Sepik (143% year-on-year increase) in 2014.

Figure 27: Key spending categories from the recurrent budget in 2014

Category	Amount	%
Capital Expenditure	33,159,954	21%
Goods and Services	98,188,196	62%
Personal Emoluments	26,745,616	17%
Other	45,000	0%
Total spending from recurrent & capital	**158,138,766**	**100%**

[15] There seem to be challenges in coding MPAs on a consistent basis within and across provinces. Western, Western Highlands, and New Ireland did not report on a few of the three MPAs. Western Province did not report on any of the three MPAs for Education for 2014 in the PGAS although NEFC recognises that these provinces do spend on MPAs. Recognising that the practice of coding against MPAs is still a relatively new exercise, the NEFC examined transaction summaries to ensure that spending is accurately coded by provinces. Although this process is still in place, the spending on MPAs is very low – particularly for some provinces – which may not be a fair nor accurate indication of spending at provincial level. To consistently reflect on MPA spending, provinces would need to adhere fully with the CoA and revisit the function assignments of grants. Ideally, provinces should be tracking MPA expenditure on a frequent basis based on the needs of the population and industries in the informal and formal sector of the province.

From the K158 million spent in Goods & Services, ‘other operational expenses’ was the most commonly coded item. Unfortunately, this item included a host of purchases that were not easily identifiable, even when examining transaction summary details. It is important for the NEFC and provinces to be able to go into detail on large expenditure items such as ‘other operational expenses’ in the event that provinces are encouraged to embark on cost-saving measures by GoPNG.

In a few instances, it is also apparent that prioritising spending on Goods & Services can occur by using funding allocated for Capital and Projects expenditure. Much of the Capital and Projects expenditure is spent on infrastructure. As an example, Enga spent approximately K32 million from its Capital and Projects expenditure budget towards resourcing schools to supplement the TFF policy. This is, in part, a unique circumstance as Enga has historically supported the resourcing of schools. This has been anecdotally identified as the ‘co-mingling’ of funds, where provinces spend Goods & Services using funds allocated for Capital and Projects expenditure although it is difficult to evidence further through the PGAS.

It was reported that the transfer of TFF payments was irregular in a few provinces in 2013 as the policy was just getting off the ground, possibly having led to the renewal of support from the Engan Provincial Administration for spending on school operating costs through their Capital and Project expenditure funds.

Education spending: what next?

To measure the efficiency and performance of spending in education, an overall examination of spending must be taken into consideration. This should include spending of TFF and other sources of funding. A whole-of-budget comparison between appropriation and spending will allow for the better understanding of where funds are not being spent efficiently and where they could be re-routed based on need.

As the study, ‘Relationship between an increase in net enrolment rates and higher spending in Education in primary schools’ included at the end of this section, it is possible that the advent of the TFF gave way to an increase in enrolment rates from 2012, barring the possibility of misattribution to other factors at play, it is likely that short-term descriptive indicators in performance are influenced by the TFF (The PNG Promoting Public Expenditure report, pp. 92).[16]

[16] Howes, S, Mako, AA, Swan, A, Walton, G, Webster, T and Wiltshire, C. Oct, 2014. A Lost Decade? Service Delivery and Reforms in Papua New Guinea 2002 – 2012. The National Research Institute and the Development Policy Centre, Canberra.

It is concerning that an aggregate spending shortfall of 72% in G & S was recorded in 2014 (see figure 28). Based on the analysis that some of the functions of TFF grants overlap with the functions of the Education function grant, it is also assumed that spending on G & S from function grants and internal revenue will reduce further unless the flow of the TFFs are hampered.

It is important that the receipt of both, the TFF and transfers to districts are examined before further fine-tuning the cost functions of the Education Function Grant as it is reported that there is a delay in the release of TFF grants in a few provinces which may lead to function grants being substituted to spend on school operating costs.

Figure 28: Spending on Education, 2010 – 2014

	Cost and Spending									Total	
Province	Cost of Services Estimate (Kina millions)	2010	2011	2012	2013	2014	% change in expenditure between '13 and '14	Trend	Shortfall from Recurrent G&S as % of CoSS	% Total Spending on Education	Unspent on Education for 2014
SHP	7.20	4.94	3.79	3.46	3.74	1.40	-63%		19%	**12%**	1%
Morobe	15.20	4.90	3.83	4.93	5.31	5.55	4%		37%	**15%**	2%
WHP	6.78	3.21	5.80	6.98	2.22	4.33	95%		64%	**9%**	2%
NIP	4.80	10.51	10.80	3.72	2.95	6.03	104%		126%	**12%**	4%
Enga	6.89	5.71	3.53	2.37	1.34	1.97	47%		29%	**35%**	13%
ENB	7.79	2.66	2.56	2.98	6.58	4.61	-30%		59%	**12%**	31%
Sand'n	8.13	2.19	3.09	2.83	6.95	8.03	16%		99%	**17%**	27%
Simbu	7.20	2.66	3.19	3.89	6.93	8.23	19%		114%	**26%**	0%
ESP	10.78	5.43	3.50	4.32	4.81	11.68	143%		108%	**13%**	0%
Central	7.83	3.09	3.14	2.97	3.49	5.09	46%		65%	**16%**	6%
Madang	9.43	1.51	3.58	3.22	5.71	5.19	-9%		55%	**14%**	23%
Manus	2.58	1.18	1.75	1.55	1.76	2.60	47%		101%	**11%**	63%
MBP	7.25	1.74	2.80	3.63	6.81	5.53	-19%		76%	**15%**	55%
EHP	11.07	1.68	3.54	2.70	5.62	6.12	9%		55%	**11%**	4%
Gulf	3.74	1.72	2.23	2.45	2.00	3.35	67%		90%	**20%**	4%
Oro	3.72	1.52	2.23	1.59	2.79	3.11	11%		84%	**21%**	7%
West'n	8.75	3.84	5.67	4.52	4.05	3.13	-23%		36%	**18%**	47%
WNB	6.51	1.58	2.79	4.35	4.65	6.42	38%		99%	**38%**	21%
Jiwaka	5.32	0.00	0.00	0.00	3.25	3.48	7%		65%	**10%**	0%
Hela	4.53	0.00	0.00	0.00	1.91	2.35	23%		52%	**4%**	2%
Total	**145.48**	**60.07**	**67.81**	**62.45**	**82.89**	**98.19**		**Average**	**72%**	**16%**	

Study: Relationship between Net Enrolment Rates and Spending in Education in Primary Schools in 2014

The PNG Promoting Effective Public Expenditure project finds that enrolment rates rose in primary schools, between 2002 and 2012 by 58%. Further, the study finds that girls enrolled in primary school also increased by 55% during the same time.

A few analyses were undertaken to measure provincial performance on service delivery. One approach to measure whether service delivery is effective is to examine and compare indicators such as net enrolment rates of students. Using data compiled by the National Research Institute, the NEFC examined the possibility of a relationship between additional spending and net enrolment of students disaggregating data by primary schools.

A positive relationship was found between additional spending and an increase in the net enrolment of students at the primary school level for 2014. Further regression study needs to be carried out with data from a number of years to test whether provincial spending on Education among certain levels of schooling does, in fact, lead to higher enrolment rates.

It is important to note that the PGAS data is inconsistent and exploring spending amounts disaggregated by only primary school spending was challenging. Although it is important to explore outcome indicators, it is probably equally or more important to strengthen the overall quality of data in PNG.

It should be noted that enrolment rates are not exactly representative of attendance in primary schools. More pertinent variables would be attendance rates and associated expenditure at a particular school level, looking beyond the recurrent budget and including the TFF grants.

Rural Health and HIV and AIDS

Background

In PNG, rural health service delivery is mainly provided by government and church health facilities which is funded by a mix of government tax revenues, out-of-pocket payments and donor funds. Due to the introduction of the free health policy to support the abolishment of user fees charged by facilities, GoPNG embarked on providing additional subsidies in the national budget including in 2014 when K20M was appropriated to offset user-fees being charged by facilities, particularly attempting to offset the significant opportunity and associated costs for rural populations.

Apart from GoPNG direct financing and church health facilities (which are subsidised by the national government), a few other financing arrangements have been put in place in the recent past such as the Provincial Health Authorities (PHAs) which were voluntarily instituted in seven provinces including in Eastern Highlands, Western Highlands, Milne Bay, Enga, Manus, Sandaun and West New Britain.[17] Funding provided to PHAs are not included in the PGAS and as such, have not been included in this review. Both, church health funding and PHAs are integral when cohesively reflecting upon spending at the primary healthcare level in rural PNG.

Public and Private Partnerships also exist in Papua New Guinea. These partnerships may also ensure health service delivery to GoPNG supported facilities as well as church-run facilities. With the commencement of Liquefied Natural Gas production in 2015 and a few other extractive industry projects, it is likely that per capita spending on health will increase, although tracing funding flows will still continue to be a significant challenge, due to the fragmentation of the health financing system.

It is estimated that an overall 47 percent of primary healthcare is funded by Christian Health Services (CHS). Along with government-funded facilities, CHS plays an important role, as 87% of PNG's population is concentrated in remote areas. Although the PER does not include the costs and expenditure incurred by church-run health facilities, it does include services that Provincial Administration offices are mandated to provide for church health services, including CHS.[18]

[17] Provincial Health Authorities: Management and Structure: Independent Review, March, 2015.
[18] Christian Health Services Technical Assistance Mission Report, 2013.

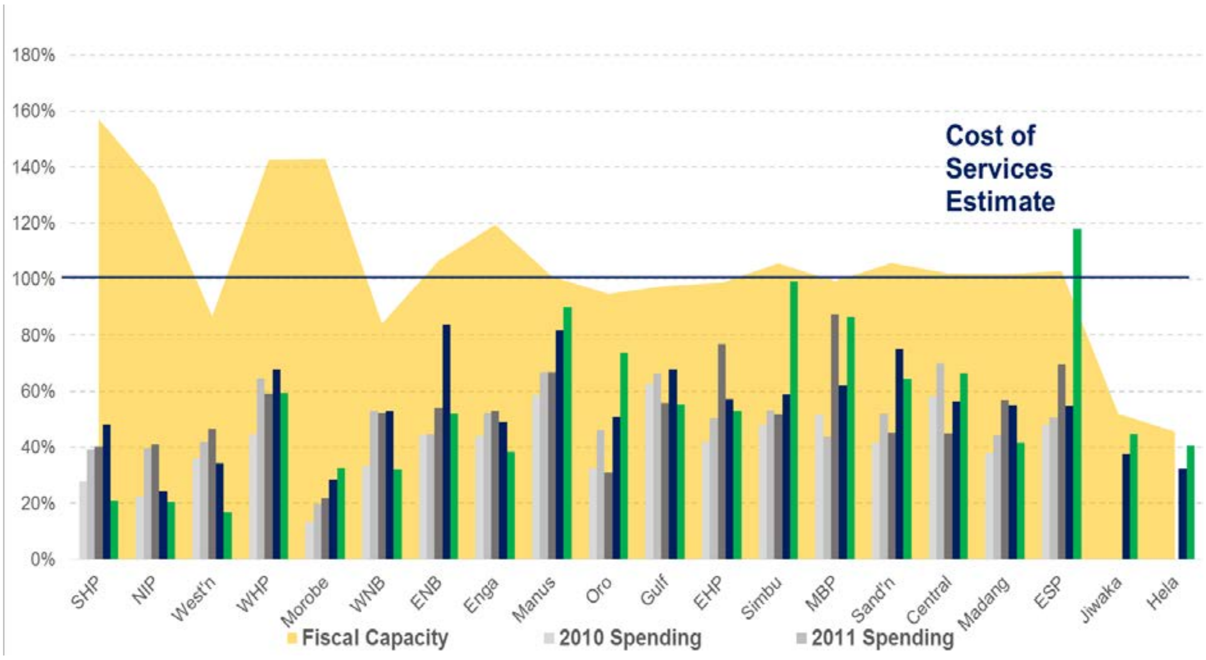
In more remote areas, the bulk of patient care falls on aid posts and outreach patrols and as such, provincial spending from internal revenue and function grants are important for the rest of the 50% of the population concentrated in rural PNG. It has been a challenge to unpack expenditure of aid posts as funding toward aid posts is meant to flow down in a few ways including through the LLG Grant, which is a considerably smaller grant than provincial function grants.

Additionally, the PGAS typically shows expenditure from the provincial share of grants and captures spending from aid posts, community health posts, sub-health centres and beyond although it is not possible to disaggregate spending according to the facility level due to a majority of the funding being transferred to districts to then provide to the facilities. Unpacking spending on outreach patrols is easier, as it is an MPA although it should be noted that consistent MPA coding across provinces is of issue.

NEFC CoS Estimates

As part of meeting the NEFC CoS in Health expenditure from the recurrent budget for 2014:

Figure 29: Spending in relation to Cost of Services, 2010 – 2014



- Three provinces spent at their CoS estimates in 2014. They are Simbu, East Sepik and Manus as denoted above in figure 29;
- Southern Highlands Province's spending faced a year-on-year decrease of 53 per cent;

- Morobe's spending increased two-fold to K4.5 million from two years prior, although it is still not spending at the CoS estimate;

- Western's spending decreased significantly from 2012, with a 47% decrease from 2013, spending a total of K1.7 million on Goods & Services and Capital and Projects expenditure in 2014;

- New Ireland spent approximately one-fifth of its CoS estimate for 2014 (K1 million);

- East Sepik's spending increased two-fold from two years prior, spending approximately K11.87 million in 2014. The figure on the next page suggests that it is an outlier, spending K1.8 million more than estimated according to NEFC CoS estimates for 2014.

Spending on Minimum Priority Activities for 2014

A few provinces did not record any expenditure against NEFC's MPAs for 2014. Provinces included Western Highlands and Milne Bay, while Morobe, West New Britain and Hela reported spending against only one MPA. Key spenders for rural facility operations (MPA 1) included East New Britain (K1.5 million) and West New Britain (K0.52 million). Key spenders on MPA 2: outreach patrols included Central (K1.48 million), Eastern Highlands (K0.64 million) and Simbu (K0.53 million). Madang (K0.68 million) stood out as the key spender on MPA 3: distribution of drug and medical supplies, outspending the second highest province, Gulf (K0.19 million) by approximately K0.49 million.

Spending on Goods & Services in Health from the recurrent budget for 2014

A total of 97% of the entire recurrent budget in health was spent on Goods & Services (figure 30). Spending on Goods & Services more than doubled since the introduction of RIGFA in 2009, although spending is yet to reach the benchmark (the NEFC CoS estimates).

Figure 30: Spending categories from the recurrent budget in 2014

Type of spending	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Recurrent Goods and Services	12.7	12	13.7	18.7	31.3	40.3	52.9	64	69	79
annual % change		-6%	14%	37%	68%	29%	31%	21%	8%	14%

When examining spending only from provincial internal revenue, an estimated K6.4M (50%) was recorded as expenditure on Health and HIV and AIDS spending. The key spender from internal revenue included Morobe (K2.9 million). With Morobe, a persistent shortfall of spending has occurred in health continuing from previous years with a 64% shortfall against the CoS estimates recorded for 2014.

Key Spending Categories in the recurrent budget

‘Other operational expenses’ (figure 31) is 40% of all recurrent expenditure. There is little clarity on operational spending and as such, it is difficult to disaggregate and sort through the PGAS. It is also worth noting that K0.7 million was spent on training and workshops (item 136) although it is unclear from the PGAS on whether these funds were being utilised to up-skill Health workers.

Figure 31: Key spending categories (recurrent budget) for 2014

Item #	Item Description	Amount	%
135	Other Operational Expenses	30,799,720	40%
143	Grants and Transfers	17,191,550	22%
128	Routine Maintenance Expenses	7,173,815	9%
121	Travel and Subsistence Expenses	5,509,682	7%
125	Transport and Fuel	5,428,518	7%
	all other codes	11,098,874	14%
	Total spending from recurrent	**77,202,159**	**100%**

Spending from the Health Services Improvement Program (HSIP) for 2014

The Health Services Improvement Program, which is a SWAP was reviewed and redesigned in 2012, and became a significant contributor of funding for recurrent operational functions in 2014.

A total of K18 million was recorded as receipts by all provinces for 2014. East Sepik, Madang, Milne Bay, Morobe and Simbu received approximately K1.2 million, K1.3 million, K1.4 million, K2 million and K1.2 million, respectively, while other provinces received amounts of less than K1 million. Under the program, K1.6 million was provided by GoPNG to Morobe in 2014. Another major disbursement includes K0.8 million to Milne Bay provided by the Government of Australia. Spending on ‘Travel and Subsistence’ and ‘Other Operational Expenses’ (e.g.: Sandaun) was substantially larger than the other types of items listed in the accounts.

Spending on Casual Health Wages in 2014

The payment of salaries and wages for permanent rural health staff, including Community Health Workers, is listed as a National Government responsibility. Hence, spending on casual health wages is considered a breach of the Department of Treasury guidelines.

Spending on casual health wages gradually decreased in most provinces over a period of three years including 2014. Four provinces were recorded as spending on casual health wages including Southern Highlands, West New Britain, Oro, and Eastern Highlands while Western, Morobe and Enga did not spend on casual health wages in 2014 although they had done so in the previous year.

Spending on key priorities in Health for 2014

It is concerning that spending on HIV and AIDS decreased by 41% from the previous year, with a total spending amount of K1.3 million recorded by the PGAS for 2014. Over K1 million of this amount was spent on Goods & Services, while approximately K0.2 million was transferred to Local-Level Governments (LLGs). Key spenders included Gulf and East New Britain, spending K0.11 million and K0.12 million, respectively.

Health spending: what next?

With the exception of Southern Highlands, Western and West New Britain provinces have showed a commitment to spending more from the recurrent budget between 2010 and 2014 although they have a long way to reach benchmark spending on Goods and Services. A significant shortfall of 55% was recorded for 2014 (see figure 32).

To fully examine total spending on health and compare with health outcomes, an examination of all spending in the health sector is necessary. This means taking into consideration spending from church health services, which can sometimes account for a significant portion of primary health care provision as in the case of Sandaun, where 80% of all health services are provided by church-supported services.[19]

It also means that spending from the Provincial Health Authorities should be captured as part of the PER. It was reported that a number of the pilot Province Health Authorities did not receive their function grants from the Provincial Administration in 2014 as part of the independent review carried out on PHA's shortly after this year.

The findings of the PER are clear in that each province has a different story to tell, in terms of health outcomes, which have not improved despite increased funding over the past few years. It is beyond the scope of the PGAS to identify these bottlenecks although evidence from elsewhere including the Promoting Effective Public Expenditure Project (2014) suggest that funds from health function grants do not reach the facilities, as hoped, but are kept at the provincial and district offices and sometimes extended to facilities in the form of in-kind support (pp. 124).

[19] Christian Health Services Technical Assistance Mission Report, 2013.

Figure 32: Summary of spending on Health and HIV and AIDS activities and operations, 2010 – 2014

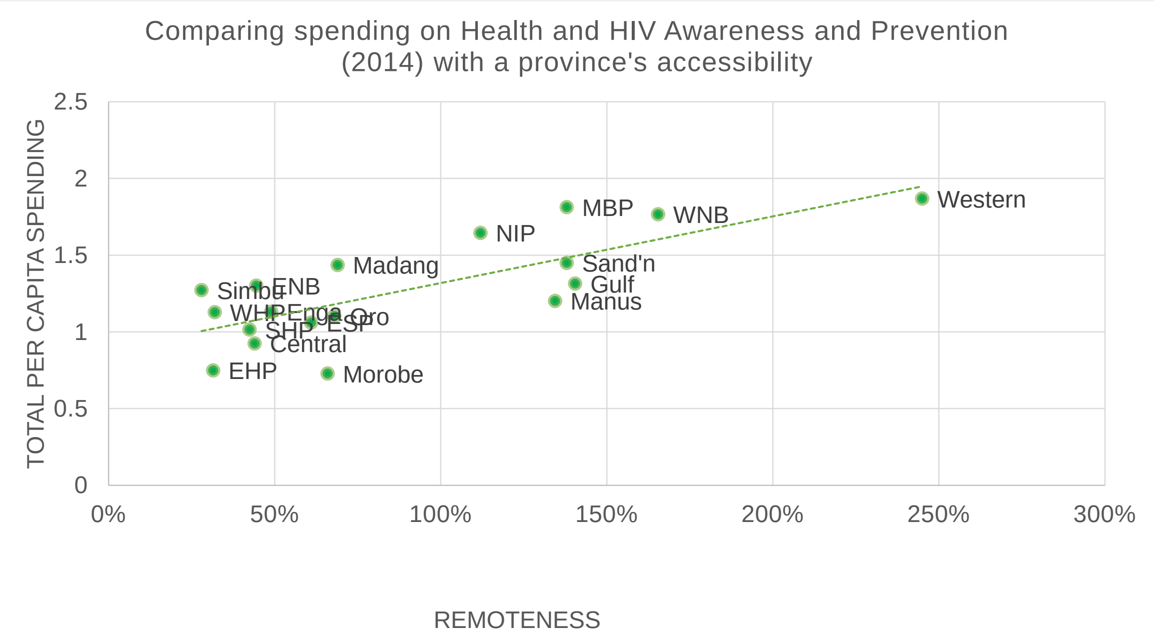
Cost and Spending											
Province	Cost of Services 2014 Estimate	2010	2011	2012	2013	2014	% change in expenditure between '13 and '14	Trend	Shortfall Spending from Recurrent G&S as % of	% Total Spending on Health	%Total unspent on Health
SHP	8.71	2.58	3.98	4.96	3.89	1.82	-53%		21%	3%	4%
Morobe	13.95	1.23	2.00	2.61	3.68	4.54	23%		33%	4%	8%
WHP	5.00	2.17	3.44	4.57	3.13	2.97	-5%		59%	5%	0%
NIP	5.21	0.92	1.78	1.85	1.18	1.06	-10%		20%	4%	54%
Enga	7.20	2.17	2.82	3.29	3.26	2.75	-15%		38%	6%	11%
ENB	5.96	1.90	2.10	2.79	4.61	3.10	-33%		52%	6%	35%
Sand'n	8.41	2.59	3.56	3.28	5.84	5.42	-7%		64%	15%	21%
Simbu	6.55	1.98	2.41	2.93	3.55	6.49	83%		99%	13%	0%
ESP	10.06	4.67	5.42	6.06	5.08	11.87	133%		118%	12%	3%
Central	7.87	2.33	3.06	3.05	4.10	5.23	27%		66%	15%	4%
Madang	10.53	2.71	3.46	5.18	5.36	4.38	-18%		42%	11%	38%
Manus	2.52	1.13	1.40	1.45	1.90	2.27	19%		90%	9%	101%
MBP	8.48	3.82	3.54	6.40	4.86	7.35	51%		87%	12%	19%
EHP	7.86	2.52	3.32	5.22	4.15	4.15	0%		53%	6%	15%
Gulf	4.71	1.98	2.30	2.27	2.95	2.60	-12%		55%	7%	26%
Oro	4.86	1.17	1.80	1.30	2.29	3.59	57%		74%	18%	18%
West'n	10.17	2.66	3.41	4.09	3.23	1.72	-47%		17%	6%	119%
WNB	5.95	1.76	3.05	2.70	2.91	1.91	-34%		32%	10%	47%
Jiwaka	3.92	0.00	0.00	0.00	1.36	1.75	28%		45%	5%	0%
Hela	5.48	0.00	0.00	0.00	1.64	2.23	36%		41%	4%	1%
Total	**143**	**40.28**	**52.9**	**64**	**69**	**77.2**		**Average**	**55%**	**9%**	**26%**

Study: Link between per capita Health spending in 2014 and the remoteness of a province

Spending (per capita) on Health, HIV and AIDS and remoteness, as measured by the NEFC's PARI index (Go Long Ples, 2014) shows a statistically significant positive relationship (at the 99% confidence level) based on simple linear regression (figure 33). Barring problems with attribution, this means that the more remote a province is, the more likely it is to be associated with higher health spending on a per capita basis. It is important to note that this relationship may not be causal and other drivers that have not been factored into the analysis, could be at play.

The expenditure data from PGAS, is adjusted on a per capita basis using provincial population figures for 2014. The PARI data categorises remoteness by comparing distance to service centres and the concentration of populations as demarcated by the LLG. The NEFC Cost of Services estimates also take into account proxy measures to calculate remoteness. Hence, the calculation of remoteness could be exaggerated in this study, leading to a statistically significant positive relationship.

Figure 33: Spending on Health and HIV and AIDS and the remoteness of a province in 2014



Transport Infrastructure Maintenance

Background

Function grants for transport infrastructure maintenance are particularly important, in light of development expenditure outpacing recurrent expenditure in 2014. The focus of the PER is to assess whether adequate funding is flowing down to the provinces, in order that essential services can be delivered at provincial and (where possible to assess) district level.

Funding streams for transport infrastructure maintenance

Like other sectors that are of focus for this expenditure review, spending on infrastructure is assigned to specific levels of government. Funding for provincial roads originates from the provinces and is covered by the function grants for infrastructure maintenance, as well as a province's internal revenue. Apart from these two sources, infrastructure is also supported by development funding. A total of K167 million was spent from the recurrent budget, while K128 million was spent from the development budget by provinces. Both figures include Goods & Services and Capital Expenditure but do **not** include Provincial Wage and Salary costs.

Spending against CoS estimates from the recurrent budget

Approximately K161 million (70% of what was estimated) was spent from the recurrent budget to support Goods & Services in 2014. Between 2012 and 2014, provinces such as Western, East Sepik and Enga significantly increased their spending on Goods & Services, spending K17 million, K30 million and K5.7 million respectively, contributing to a 59% overall increase in spending from the recurrent budget between 2013 and 2014.

Figure 34: Transport infrastructure maintenance spending against CoS, 2014

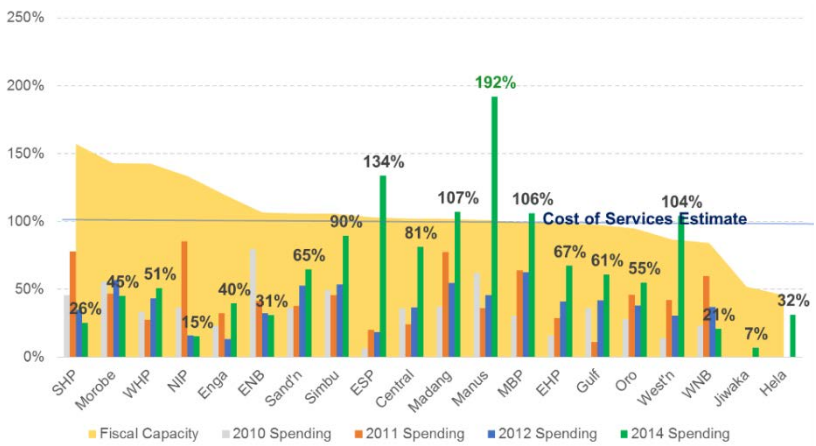


Figure 34 marks spending against the CoS. Manus also increased its spending by 317% from 2013, spending a total of K9.95 million on Goods & Services from the recurrent budget in 2014, possibly due to an increase in internal revenue from the establishment and function of Australia's offshore processing centre. East Sepik also spent approximately K30M, an increase in spending of **389%** from 2013.

Figure 35: Annual percentage change on spending from the recurrent budget on transport infrastructure maintenance, 2005 – 2014

Transport Infrastructure Maintenance	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Recurrent G&S (Kina millions)	26.6	30.2	24.7	23.1	35.9	60.4	82.8	75.9	101.3	161.1
annual % change		14%	-18%	-6%	**55%**	**68%**	**37%**	-8%	**33%**	**59%**

Provinces that have consistently underspent in the previous two years (2012-2014) include Southern Highlands, Morobe, West New Britain and Jiwaka. The CoS estimate suggests that Southern Highlands should be spending on infrastructure rehabilitation at approximately K8.5 million. In 2012, it spent approximately K4 million, while in 2014, Southern Highlands spent K2.17 million, demonstrating a slight decrease in spending over time.

A similar pattern of expenditure exists for Morobe, West New Britain and Jiwaka. The CoS estimate for 2014 suggests an amount of K19 million as a suggested spending estimate, looking at points of service delivery in terms of transportation. Morobe spent approximately 45% of the CoS, expending K8.65 million in 2014. West New Britain consistently underspent from 2010, spending at approximately 20% of the NEFC's recommended CoS estimates in 2014. Similarly, Jiwaka spent approximately K0.67 million on transportation infrastructure maintenance, approximately 7% of its 2014 CoS estimate of K9.8 million.

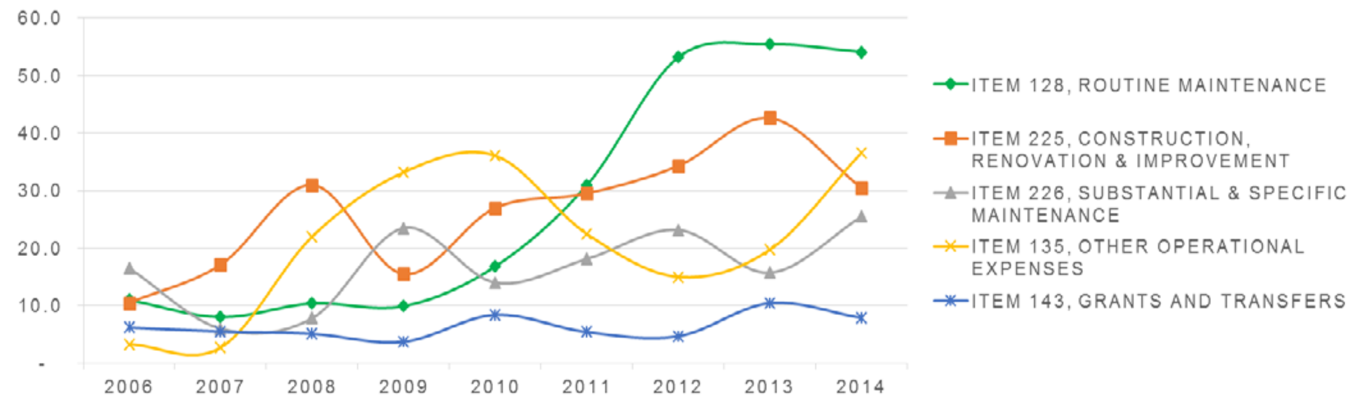
There is more clarity than other sectors on spending in transport infrastructure maintenance from the recurrent budget. When considering Capital and Projects expenditure only, Jiwaka spent K1.3 million, the highest spender. Enga and Sandaun also spent large amounts, spending K0.858 million and K0.851 million, respectively. When considering spending on Goods & Services only, East Sepik was the highest spender, spending approximately K30.2 million in 2014. Other high spenders included Eastern Highlands province (K14 million), Madang (K17 million), Western (K17.4 million) and Simbu (K9 million).

Between 2010 and 2014, East Sepik and Western show an incremental increase in spending on this sector, in line with the NEFC's CoS. Hence, it remains important to examine the level of development in terms of access and utilisation of transport service delivery points, particularly bridge, airstrip and wharf maintenance by province, to clearly identify whether the allocated spending has been effective.

Spending on routine maintenance is approximately K55 million and 35% of all recurrent expenditure for 2014. Routine maintenance has maintained its place in spending priorities within this sector and has exceeded K50 million in the previous two years, which is a positive sign.

The outflow of funds leaving the provinces and entering the districts and LLGs remain significantly low. It is estimated that at least 80 per cent of these funds should be spent at the district or LLG level although only 5 per cent of recurrent funds left provinces to local government offices as transfers. In some provinces, it is possible that services are provided by a province to a specific district, and it is therefore not recorded as a 'transfer' but as a 'consultancy service' or similar.

Figure 36: Transport Infrastructure Maintenance, 2010 – 2014



Half of all provinces (10 provinces) contributed to transport infrastructure maintenance using their internal revenue. When examining Capital and Projects expenditure and Goods & Services and excluding Provincial Wage and Salary costs, Manus and Morobe were the highest spenders for 2014. Manus spent approximately K8 million, while Morobe spent K6.8 million from its internal revenue. As Figure 35 suggests, a substantial increase of 26% in spending from internal revenue led to approximately an additional K20.5 million being spent, reversing the beginning of a spending pattern from 2012 and 2013 where spending from internal revenue had declined.

Figure 37: Spending contributions from internal revenue on transport infrastructure maintenance (2005 – 2014)

Transport Infrastructure Maintenance (Internal Revenue)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Spending from G&S	13.4	19.0	15.6	11.9	12.4	22.3	25.0	19.2	16.3	22.0
annual % change		42%	-18%	-24%	4%	80%	12%	-23%	-15%	35%

Spending on MPAs

The MPAs for transport infrastructure maintenance are a basic set of activities to ensure that the most basic of delivery can be adequately measured. The MPAs for infrastructure maintenance are transport-related. These include roads and bridge maintenance, airstrip maintenance and wharves and jetty maintenance, all of which are activities that must be supported by a province's recurrent budget. A total of K48.4 million was spent on the three MPAs (road maintenance, bridge maintenance, airstrips maintenance and wharves and jetties maintenance). Of all MPA spending, 70% was channelled towards provincial roads maintenance (K35.7 million on provincial roads maintenance for 2014).

Spending on transport infrastructure maintenance: what next?

A few provinces have increased their spending on Goods & Services on an incremental basis since 2009 including East Sepik and Western. Due to the possibility of co-mingling of funds, a symptom of late warrant releases, the NEFC also considered including spending from all sources of funding, including funding that would originate from different types of Development funding including the SIP grants in the 2014 PER. When considering both recurrent and funding from specific development projects, spending trends against CoS are significantly different due to the fact that CoS is limited to measure spending against the recurrent budget **only**.

The NEFC finds that the co-mingling of funds is still important to consider in depth in a more detailed study that reaches the district levels to understand how routine maintenance is supported by the province, including the nature of procurement by the provinces for the districts, if services are provided 'in-kind' instead of a transfer (item 143) made to the province. It is important to consider this potential dilution of the recurrent budget to support routine maintenance (a function that is generally mostly funded by the recurrent budget). Smaller provinces with limited revenues of their own, such as Hela did not spend significantly from the recurrent budget in 2014, but did, in fact, spend from the PSIPs and other types of specific project funds on routine maintenance. This is potentially due to cash flow constraints that result in CFCs being authorised and the funds hitting the provincial bank account much later than expected, even after delays in releasing the warrants, which depend on multiple factors including liquidity constraints at the national level.

The co-mingling of funds cannot be reflected with complete accuracy due to each of the development projects having different timelines that run across the PGAS data for a particular year. Further, the intent of the PER is to measure whether spending occurs using the benchmark that is the Cost of Services estimate, which is limited to reflecting the recurrent budget, at this time.

The sector summary table (figure 38 suggests that provinces who scored highly on the 2014 KPIs (Simbu, Central, Manus and East Sepik) have consistently continued to spend more on transport infrastructure maintenance since 2010.

Figure 38: Support for the sector over time: 2005 – 2014

					Cost and Spending					**Total**
Province	Cost of Services 2014 Estimate	2010	2011	2012	2013	2014	% change in expenditure between '13 and '14	Trend	Shortfall from Recurrent G&S as % of CoSS	% Unspent on Transport Infrastructure Maintenance
SHP	8.52	5.72	10.67	4.20	3.40	2.17	**-36%**		26%	2%
Morobe	19.14	8.99	8.24	9.43	11.03	8.65	**-22%**		45%	3%
WHP	12.48	5.49	4.95	8.36	4.70	6.37	**35%**		51%	2%
NIP	6.05	1.73	4.43	0.83	0.72	0.94	**30%**		15%	44%
Enga	14.53	2.78	4.26	1.70	1.50	5.74	**282%**		40%	41%
ENB	13.14	6.98	3.98	3.68	6.51	4.08	**-37%**		31%	78%
Sand'n	8.16	2.23	2.55	3.72	5.67	5.29	**-7%**		65%	6%
Simbu	10.05	4.00	4.03	4.66	7.88	9.01	**14%**		90%	0%
ESP	22.63	1.17	3.99	3.62	6.18	30.27	**389%**		134%	6%
Central	14.58	4.18	3.09	4.63	7.77	11.85	**53%**		81%	4%
Madang	15.88	4.14	9.45	7.49	9.95	17.01	**71%**		107%	11%
Manus	5.18	2.60	1.67	2.04	2.39	9.95	**317%**		192%	19%
MBP	8.11	2.02	4.66	4.37	6.22	8.61	**39%**		106%	16%
EHP	21.21	2.75	5.46	7.54	9.53	14.28	**50%**		67%	28%
Gulf	6.08	1.78	0.59	2.20	2.06	3.71	**80%**		61%	9%
Oro	4.14	1.00	1.81	1.36	3.70	2.28	**-38%**		55%	61%
West'n	16.72	2.00	6.51	4.41	3.00	17.41	**480%**		104%	62%
WNB	5.18	0.88	2.45	1.65	3.53	1.08	**-69%**		21%	19%
Jiwaka	9.80	0.00	0.00	0.00	4.55	0.67	**-85%**		7%	1%
Hela	5.36	0.00	0.00	0.00	0.99	1.69	**71%**		32%	0%
Total	**226.96**	**60.44**	**82.78**	**75.89**	**101.28**	**161.06**		**Average**	**66%**	**21%**

Primary Production

Background

PNG's MTDS advocates for primary production to remain at the centre of GoPNG's priorities in economic growth due to potential gains in GDP in the medium-term. As part of the PER, the NEFC considers agriculture and fisheries due to its large expenditure size. Primary production also includes livestock and forestry, although these spending amounts are relatively smaller. Further, forestry is considered a national responsibility at this time and, as such, expenditure appropriated and incurred falls under the central government's budget. It stated, the NEFC considers spending on extension activities in forestry as an MPA.

The focus of expenditure on primary production sectors are extension activities. Extension activities is an umbrella term that differs according to the relevant sector. It generally involves the provision of technical advice to help farmers solve problems faced on a day-to-day basis. These interventions are targeted toward increasing the productive efficiency of the relevant group to help scale-up their livelihoods ('Understanding extension', Food and Agriculture Organisation, 2016).[20]

Funding streams for Primary Production

Funding streams for extension grants are mainly from function grants. K29 million was allocated to Primary Production for Goods & Services. The NEFC's CoS estimates suggest that K52 million should be spent on Goods & Services for both Agriculture and Fisheries in 2014 by all provinces. In an attempt to achieve clarity, observations on spending in Agriculture and Fisheries has been separated into distinct sections below.

1. Agriculture

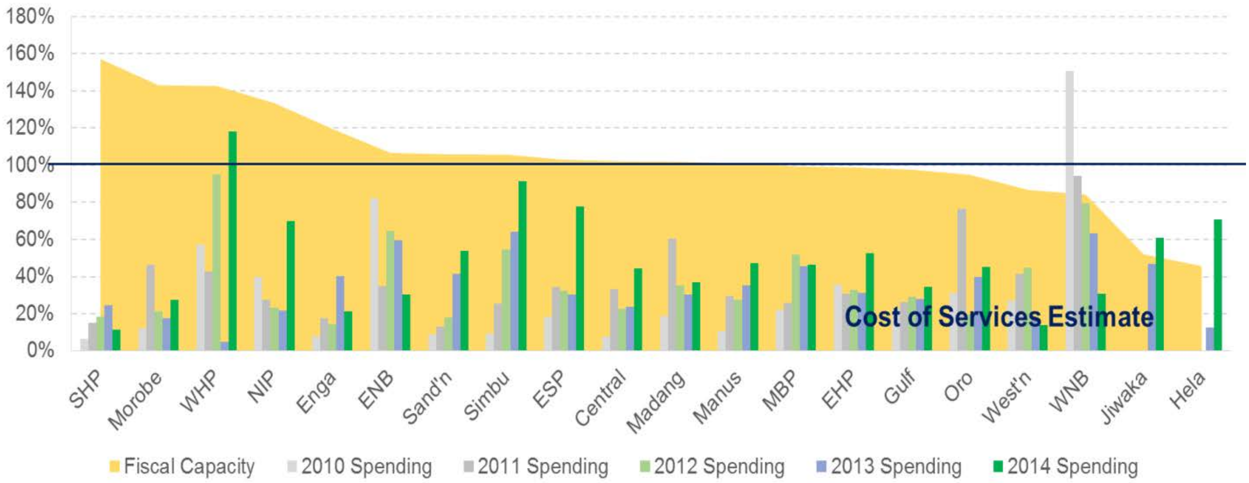
Spending on Agriculture against CoS

Approximately K23 million (45% of what was estimated by the CoS) was spent to support Goods & Services when considering only the Agriculture sector. High spenders included: Western Highlands (spent 118% of CoS, a total of K1.72 million) Sandaun (spent 54% % of CoS, a total of K2 million), and, East Sepik (spent 78% of CoS, a total of K3 million). It is encouraging to note that spending against Agriculture

[20] "Understanding Extension". Food and Agriculture Organisation. Assessed 18 October, 2016. http://www.fao.org/docrep/t0060e/T0060e/T0060E03.htm

was the highest it has ever been through the recurrent budget as denoted by Figure 39. In 2011, spending increased 40% for the first time in a few years to K17.2 million until 2014, when provincial expenditure on Agriculture reached a total of K22.2 million.

Figure 39: Spending in Agriculture against CoS, 2014



Spending on Agriculture from the recurrent budget

Spending on Agriculture when examining function grants alone was K22.2 million for 2014 (Capital and Projects expenditure and Goods & Services) which was only 45% of what was intended to be spent on Agriculture. Of this, K0.48 million was spent on Administrative activities. A mere K0.02 million was spent on making agriculture more inclusive at the provincial level through the integration of women and youth in agriculture and training. This spending was comprised of travel and subsistence expenses as well as transportation and fuel costs incurred during extension and coordination activities.

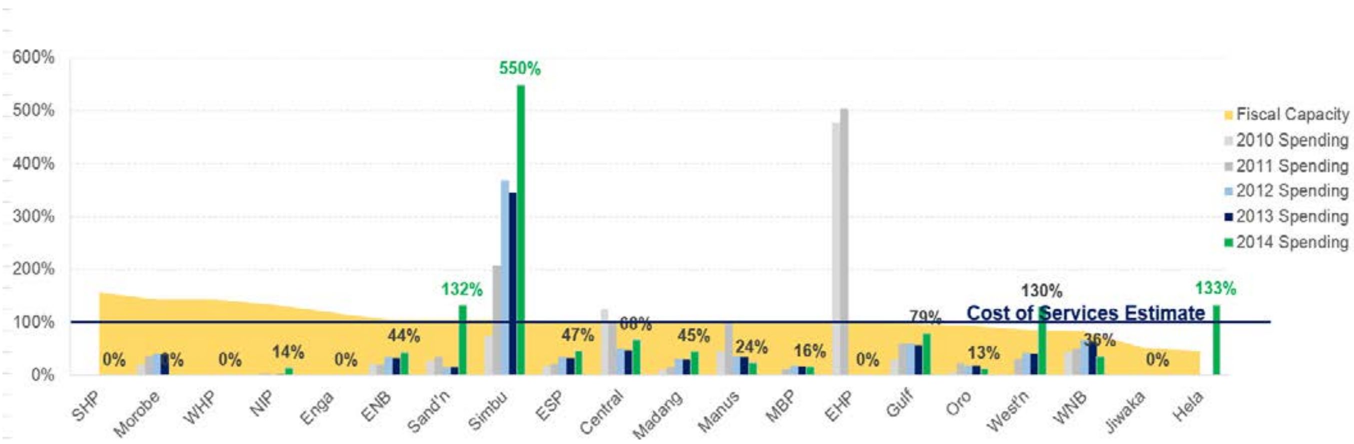
It is a reflection of provincial priorities that spending from internal revenue in Agriculture has been consistently low over the years. Only 45% of the NEFC CoS estimates are met in terms of expenditure. Spending from internal revenue has stagnated and continued to do so in 2014. From the nine provinces that spent from their own revenue, Morobe spent the highest for 2014 (K0.74 million). This is an example of the provincial ‘priority gap’ explored in section 1 of this PER.

2. Fisheries

Spending on Fisheries against CoS

The CoS estimates an aggregate expenditure of K10.33 million for 2014. Forty-five (45) per cent of this expenditure was made by provinces in the largest spending effort to date, in gross terms. In 2010, all spending on Fisheries, specifically focusing on extension activities was approximately K2.15 million. This number has since doubled four years later.

Figure 40: Spending in Fisheries against CoS, 2014



Western spent slightly higher than its CoS estimates for 2014, expending approximately K1.10 million. All the other provinces spent under NEFC CoS including Milne Bay and West New Britain. Milne Bay missed the CoS estimate by 85% while West New Britain missed the CoS estimates by 64%. This indicates that extension activities for subsistence fisheries have not been carried out as frequently as needed.

Advocacy for relevant and consistent extension activity planning would need to be led by fishery groups, development partners and line ministries to ensure that extension activities continue to occur at a consistent pace over time.

Spending on fisheries from the recurrent budget

Spending from function grants on fisheries increased in the past three years after a lapse in spending in 2012 as indicated by figure 41. A year-on-year increase of 23% in spending on Goods & Services occurred between 2013 and 2014. In 2014, Western spent the highest, expending K1.96 million for Goods & Services alone. It is worth noting here that although these funds seem to be used for extension activities on PGAS, they may be used for other indirect administration costs that do not directly relate to fishery extension activities.

Figure 41: Spending on Goods & Services over time from recurrent budget, (2008 – 2014)

Fisheries	2008	2009	2010	2011	2012	2013	2014
G&S	1.6	1.5	2.1	3.8	3.2	3.8	4.7
% change		-4%	**44%**	**75%**	**-15%**	17%	**23%**

Figure 42: Largest spending areas by item for 2014

Item #	Item Description	Amount	%
135	Other operational expenses	2,522,079	53%
121	Travel and subsistence expenses	712,333	15%
125	Transport and fuel	480,243	10%
143	Grants and Transfers	386,000	8%
124	Operational Materials and Supplied	209,935	4%
	all other codes	484,701	10%
	Total spending from recurrent	**4,795,291**	**100%**

Spending from internal revenue for this sector, even in coastal provinces was smaller than expected. A total of K0.35 million was spent from internal revenue. These funds were all spent toward Goods & Services and not Capital and Projects expenditure. Hela spent the highest (K0.1 million) from the six provinces that recorded any spending from internal revenue.

Spending on MPAs

Provincial spending patterns differed based on priorities in agriculture and fisheries. Three MPAs were identified by NEFC as priority expenditure activities during the process of carrying out expenditure reviews.

These MPAs are:

1. Agriculture extension activities (K4.3 million for 2014),
2. Fishery extension activities (K1.1 million), and,
3. Forestry extension activities (K0.2 million).

Costs incurred during these extension activities included: travel allowance and accommodation (for overnight visits), fuel (for both vehicles and boats), and in some instances, vehicle and boat hire costs. In some cases, airfares or air charter costs may also be necessary to get agriculture personnel to remote locations.

The highest spender for MPA 1: Agriculture extension activities was the Western Highlands (K1.57 million) while Central spent a substantial amount besides the Western Highlands (K0.63 million). Spending on MPA 2: fishery extension activities was much smaller in volume. Central spent the most from all the provinces at K0.3 million. Milne Bay spent K0.06 million while Manus spent K0.03 million on fishery extension activities. On MPA 3, the spending amounts were minimal. East New Britain outspent all the other provinces with K0.03 million.

Spending on Agriculture and Fisheries: what next?

The Cocoa, Coffee, Coconut and Oil palm industries can be major opportunities for PNG, bringing small-holder farmers into the fore. Diversification into new crop and livestock industries, depending on suitability, may also strengthen opportunities for livelihood and sustained income. It seems, however, that the focus from GoPNG is to strengthen resourcing to commodity-based industries and move away from supporting agriculture and fisheries, which can explain the consistently low spending on extension activities on the part of provincial administrations (see figure 43 and 44).

Spending on Agriculture and Fisheries is approximately only **half** (45%) of what is estimated as necessary by NEFC and has remained distinctly low since the inception of the existing grant calculation system that advocates for extension activities in agriculture and fisheries as a priority. Aggregate spending from internal revenue seems to also have declined over time, even after adjusting for inflation.

Figure 43: Support for Agriculture, 2010 – 2014

Cost and Spending										
Province	Cost of Services 2014 Estimate	2010	2011	2012	2013	2014	% change in expenditure between '13 and '14	Trend	Spending from Recurrent G&S as % of CoS	% of unspent in Agriculture
SHP	2.47	0.25	0.65	0.64	0.56	0.28	-50%		11%	0%
Morobe	5.39	0.53	2.22	1.00	0.87	1.48	70%		28%	2%
WHP	1.46	1.31	1.08	2.14	0.07	1.72	2529%		118%	0%
NIP	1.71	0.52	0.39	0.34	0.34	1.20	251%		70%	1%
Enga	2.85	0.18	0.45	0.35	1.06	0.60	-43%		21%	29%
ENB	2.18	1.82	0.85	1.22	1.20	0.66	-45%		30%	27%
Sand'n	3.75	0.27	0.43	0.59	1.43	2.03	41%		54%	26%
Simbu	1.74	0.13	0.40	0.82	1.03	1.59	54%		91%	0%
ESP	4.00	0.55	1.13	1.12	1.12	3.11	177%		78%	1%
Central	3.02	0.17	0.82	0.58	0.67	1.34	101%		44%	3%
Madang	4.24	0.56	1.97	1.30	1.19	1.57	32%		37%	30%
Manus	1.21	0.10	0.30	0.29	0.39	0.57	46%		47%	23%
MBP	2.95	0.47	0.63	1.32	1.24	1.37	10%		46%	97%
EHP	2.87	0.81	0.76	0.81	0.83	1.51	83%		53%	3%
Gulf	1.92	0.37	0.47	0.48	0.49	0.66	34%		34%	21%
Oro	2.05	0.47	1.27	0.35	0.75	0.92	23%		45%	6%
West'n	3.34	0.78	1.32	1.29	0.52	0.47	-10%		14%	344%
WNB	2.41	3.03	2.07	1.66	1.41	0.75	-47%		31%	93%
Jiwaka	1.15	0.00	0.00	0.00	0.50	0.70	41%		61%	0%
Hela	1.56	0.00	0.00	0.00	0.18	1.10	512%		71%	19%
Total	**52.29**	**12.32**	**17.20**	**16.29**	**15.84**	**23.64**		**Average**	**49%**	**36%**

Figure 44: Support for Fisheries over time, 2010 – 2014

Cost and Spending									
Province	Cost of Services 2014 Estimate	2010	2011	2012	2013	2014	% change in expenditure between '13 and '14	Trend	Spending from Recurrent G&S as % of CoS
SHP	0.12	0.00	0.00	0.00	0.00	0.00			0%
Morobe	0.69	0.10	0.20	0.25	0.18	0.00	-100%		0%
WHP	0.00	0.34	0.81	0.10	0.00	0.00			
NIP	0.92	0.01	0.03	0.02	0.06	0.13	113%		14%
Enga	0.00	0.00	0.00	0.00	0.00	0.00			
ENB	0.67	0.11	0.11	0.20	0.42	0.30	-29%		44%
Sand'n	0.33	0.07	0.09	0.04	0.47	0.44	-7%		132%
Simbu	0.02	0.01	0.03	0.06	0.12	0.10	-18%		550%
ESP	0.84	0.11	0.14	0.26	0.21	0.40	88%		47%
Central	0.57	0.52	0.46	0.25	0.32	0.39	20%		68%
Madang	0.82	0.06	0.10	0.23	0.23	0.37	61%		45%
Manus	0.68	0.23	0.55	0.22	0.08	0.16	90%		24%
MBP	1.66	0.03	0.16	0.26	0.42	0.26	-38%		16%
EHP	0.02	0.06	0.07	0.00	0.14	0.00	-100%		0%
Gulf	0.61	0.13	0.29	0.32	0.18	0.48	175%		79%
Oro	0.39	0.02	0.07	0.06	0.07	0.05	-31%		13%
West'n	0.85	0.00	0.21	0.32	0.17	1.10	537%		130%
WNB	1.07	0.35	0.43	0.62	0.68	0.39	-43%		36%
Jiwaka	0.00	0.00	0.00	0.00	0.00	0.00			
Hela	0.08	0.00	0.00	0.00	0.00	0.10			133%
Total	**10.33**	**2.15**	**3.76**	**3.21**	**3.76**	**4.66**		**Average**	**78%**

Village Courts

Background

Village courts began operating in Papua New Guinea in 1975. Since then, the number of village courts have greatly increased and it is estimated that these courts served approximately two-thirds of the population as of 2014. In 2007, GoPNG introduced a Village Court function grant to assist with maintaining village courts. The Inter-governmental Relations Act (2009) specifies that this grant be used to fund the operational, supervision and maintenance costs incurred within the sector. Along with this grant, provinces are provided allowances to remunerate village-based officials who manage the courts. In March 2014, GoPNG moved to pay village court allowances through the National Payroll system. As a directive, these allowances were transferred directly to the bank accounts of the officials, to avoid officials having to travel to collect the allowances from district administration offices.

Spending on Village Court Allowances against CoS

An estimated 17,000 village court officials accessed monthly allowances in 2014. The transition from Provincial Government to National Government indicated that spending on allowances should have decreased by a 100 per cent. As it was a transition year, a few provinces were recorded as spending on allowances. These provinces include New Ireland (K0.06 million), Simbu (K0.04 million), Madang (K0.04 million) and Western (K0.06 million), which is an expected decrease of 87% that should reach a 100% by 2015.

Spending on Village Court Operations against CoS

Similar to previous years, provinces spent above Cost of Services estimates for 2014 in Village Court operations, spending approximately K1.4 million above the NEFC estimates provided for 2014, reflecting the need for ongoing financial support from GoPNG to maintain the traditional judiciary system at the local level.

Spending on Village Court Operations from the recurrent budget

High spending provinces on Village Court operations included: East Sepik (K0.9 million), Morobe (K0.64 million) and Simbu (K0.54 million). Almost all the funds (93% or K1.2 million) spent in this sector were on Goods and Services, which is unique to the Village Courts Operations Sector. A spending of 6% on "other" was categorised. This spending is not classified as Goods and Services, Capital and Projects Expenditure, nor Provincial Wage and Salary costs. Like in most other sectors, item 135 was the most frequently coded item number (item 135) and was used as a catch-all for a variety of expenses that included administrative spending (see figure 45).

Figure 45: Largest spending items for Village Court operations, 2014

Item #	Item Description	Amount	%
135	Other Operational Expenses	2,096,135	38%
143	Grants and Transfers to Public Authorities	864,295	16%
124	Office Materials and Supplies	851,417	15%
125	Transport and Fuel	522,922	9%
121	Travel and Subsistence Expenses	448,409	8%
	all other codes	770,510	14%
	Total spending from recurrent	**5,553,688**	100%

Spending on Village Court Operations: What next?

Apart from the Administration sector, spending on Village Court Operations is the only other sector where provinces surpassed their Cost of Service Estimates for Goods and Services in 2014. East Sepik (144%) and Oro (118%) stood out for spending higher than their CoS estimates. While the percentage increases seem fairly large, the actual amounts spent were usually less than a million kina.

Figure 46: Spending on Village Court operations over time (2005 – 2014)

Cost and Spending									
Province	Cost of Services 2014 Estimate	2010	2011	2012	2013	2014	% change in expenditure between '13 and '14	Trend	Spending from Recurrent G&S as % of CoS
SHP	0.21	0.56	0.26	0.25	0.17	0.15	**-13.02%**		70.9%
Morobe	0.19	0.39	0.24	0.33	0.76	**0.65**	**-15.03%**		331.7%
WHP	0.19	0.64	0.29	0.24	0.13	**0.25**	**102.91%**		135.5%
NIP	0.15	0.84	0.05	0.05	0.11	0.03	**-75.20%**		19.3%
Enga	0.41	0.55	0.13	0.21	0.26	0.22	**-15.52%**		52.9%
ENB	0.13	0.28	0.08	0.06	0.28	0.11	**-59.79%**		85.6%
Sand'n	0.18	0.17	0.04	0.11	0.29	0.31	**8.69%**		170.3%
Simbu	0.19	0.37	0.15	0.14	0.36	**0.51**	**41.92%**		263.1%
ESP	0.31	0.24	0.24	0.35	0.37	**0.91**	**143.98%**		293.6%
Central	0.24	0.23	0.15	0.17	0.29	0.39	**32.72%**		163.2%
Madang	0.25	0.30	0.08	0.17	0.34	0.37	**7.13%**		147.9%
Manus	0.21	0.17	0.07	0.11	0.14	0.24	**70.95%**		110.7%
MBP	0.20	0.26	0.08	0.14	0.39	0.38	**-2.73%**		189.4%
EHP	0.23	0.55	0.12	0.13	1.05	0.30	**-71.95%**		126.9%
Gulf	0.17	0.28	0.10	0.16	0.18	0.28	**51.51%**		165.7%
Oro	0.10	0.13	0.04	0.04	0.07	0.15	**117.68%**		161.2%
West'n	0.24	0.08	0.30	0.39	0.26	0.04	**-86.08%**		15.0%
WNB	0.23	0.49	0.23	0.22	0.27	0.18	**-34.93%**		76.4%
Jiwaka	0.15	0.00	0.00	0.00	0.20	0.00	**-100.00%**		0.0%
Hela	0.14	0.00	0.00	0.00	0.09	0.11	**12%**		77.9%
Total	**4.12**	**6.52**	**2.67**	**3.30**	**6.03**	**5.55**		**Average**	**133%**

Administration

Background

As observed in previous PERs, administration costs have become significant over the years and have often taken priority above spending on sectors such as Health and Education. In certain provinces, it is difficult to deliver services without incurring increased administrative costs due to factors such as rapid increases in population growth over time.

Spending on Administration against CoS in 2014

The Administration sector is a unique sector among the six key sectors because it has consistently exceeded NEFC CoS estimates over time. Although a slight year-on-year decrease of only two per cent, the CoS estimates continued to be surpassed with a total of K102M spend recorded in 2014 on the provincial PGAS.

Spending on Administration from the recurrent budget

Administration costs incurred in this section explicitly refer to the costs incurred by Provincial Administrations, District Administrations and Local-level Governments. Forty-five million Kina was provided through the function grants while K126.8M was spent through provincial internal revenue in 2014. Only K8M was transferred to districts and LLGs as denoted by item 143: Grants and Transfers to Public Authorities. This suggests that K119M, alone was spent at the provincial administration level in 2014.

It is also interesting to note that contributions from internal revenue were consistent for this sector between 2006 and 2014 as per figure 47. On average, 81% of spending originated from provincial internal revenue between 2006 and 2014. This means that spending on administration is consistently prioritised although provinces may allocate a portion of their internal revenue on another sector, such as health in their budgets submitted annually to the Department of Treasury. When a province has limited resources, it is problematic to continue to budget for public goods and services in a priority sector and spend it in another sector.

Figure 47: Spending on Administration from the recurrent budget, 2005 – 2014

Administration	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Spending from function grants and internal revenue (in millions)	47.6	55.4	56.8	86.0	82.4	98.0	107.5	138.7	176.3	171.9
% change		16%	3%	51%	-4%	19%	10%	29%	27%	-2%
From internal revenue only		45.0	47.6	70.8	68.7	83.9	86.9	110.2	141.0	126.8
% from internal revenue		81%	84%	82%	83%	86%	81%	79%	80%	74%

Much of the Goods and Services spending is also on administrative operational costs (Item 135), and classified as ‘Other Operational Expenses (figure 48). Similar to other sectors, it is difficult to quantify the types of spending within this item due to the architecture of the PGAS. For detailed observations, the NEFC examined the transaction summaries although they can often be quite different to the activity codes and descriptions present in the PGAS.

Figure 48: Key spending items from the recurrent budget for 2014

Item #	Item Description	Amount	%
135	Other Operational Expenses	92,213,161	39%
111	Salaries and Allowances	20,469,472	9%
112	Wages	16,945,976	7%
121	Travel and Subsistance Expenses	15,336,260	6%
114	Leave Fares	11,781,737	5%
	all other codes	81,977,493	34%
	Total spending from recurrent	**238,724,099**	**100%**

The 2014 total spend of K171 million on Goods and Services is three and a half times higher than the 2005 spend levels of K47 million. Naturally, this is expected for an increase in Administration costs to occur over time due to various factors including population growth although the Administration sector is particularly singular for the pace of growth in spending.

Administration Sector: What next?

It is important for the PER to further understand why resource-rich provinces need to spend higher on Administration (see figure 49). The increase in spending is incremental. This means that every year, more and more funds are spent on the upkeep and maintenance of provincial and district administrations. The year-on-year growth in spending in Administration increases rapidly although the Cost of Services takes population growth into consideration by adjusting with the CPI for every year. The amount spent by provinces far exceeds the estimate adjusted for inflation.

The NEFC Cost of Services estimates for Administration have sometimes been titled as too conservative. These estimates take into consideration administration costs that are fulfilled within the sectors other than the Administration sector, which is why the Cost of Services estimate is perceived as low by the provinces.

Figure 49: Spending on Administration over the years (2010 – 2014)

Province	Cost of Services 2014 Estimate	2010	2011	2012	2013	2014	% change in expenditure between '13 and '14	Trend	Spending from G&S as % of CoS	% Unspent on Administration
	Cost and Spending								**Totals**	
SHP	3.04	13.70	7.78	10.22	16.30	8.55	**-48%**		**281%**	13%
Morobe	6.40	10.47	20.20	28.40	30.37	26.74	**-12%**		**418%**	0%
WHP	2.08	7.65	7.69	14.11	8.07	9.53	**18%**		**458%**	20%
NIP	2.63	9.16	7.56	8.73	9.84	17.33	**76%**		**659%**	17%
Enga	3.42	6.24	7.20	9.39	8.22	6.68	**-19%**		**195%**	15%
ENB	3.69	7.26	7.57	5.79	10.35	13.83	**34%**		**374%**	2%
Sand'n	3.95	1.76	2.28	2.46	3.35	5.91	**77%**		**150%**	7%
Simbu	3.70	1.67	2.53	2.64	4.73	5.18	**10%**		**140%**	0%
ESP	5.21	3.95	3.95	6.76	6.49	10.68	**64%**		**205%**	0%
Central	3.39	3.85	5.95	7.38	10.43	11.98	**15%**		**354%**	1%
Madang	5.18	3.80	6.07	5.52	10.67	10.57	**-1%**		**204%**	16%
Manus	2.54	2.24	2.70	2.60	3.02	2.41	**-20%**		**95%**	20%
MBP	3.60	2.75	2.98	3.31	4.97	5.37	**8%**		**149%**	27%
EHP	4.74	3.25	3.71	4.26	5.53	4.01	**-28%**		**85%**	11%
Gulf	2.85	3.12	1.20	2.85	4.85	2.33	**-52%**		**82%**	2%
Oro	2.34	1.49	2.00	4.04	2.40	3.26	**36%**		**139%**	58%
West'n	4.05	10.87	12.09	15.69	27.33	14.22	**-48%**		**351%**	11%
WNB	3.32	4.81	4.07	4.57	5.78	6.49	**12%**		**196%**	13%
Jiwaka	1.64	0.00	0.00	0.00	2.24	0.84	**-63%**		**51%**	1%
Hela	1.91	0.00	0.00	0.00	1.32	6.04	**357%**		**316%**	0%
Total	**69.68**	**98.04**	**107.52**	**138.72**	**176.26**	**171.94**		**Average**	**245%**	**12%**

Conclusion

This review is the sixth since the establishment of the existing inter-governmental reforms. It is timely for the NEFC and partner agencies to reflect on how service delivery has been provided under the existing funding arrangements. Provinces can improve and predict their spending patterns once they further adopt processes in Public Financial Management. Apart from practices that increase efficiency such as open tendering processes in the procurement of Goods and Services, provinces can improve by:

- improving budget formulation, taking a bottom-up approach in consultation with LLGs and districts;

- improving adherence to the official Chart of Accounts when inputting transactions on the PGAS. This means that data entry officers at the district level, in particular, need to understand and identify why adhering to the Chart of Accounts is important, as it allows provinces to adopt measures on how to best address spending inefficiencies over time;

- targeting spending from provincial internal revenue on public goods and services and core service delivery activities including but not limited to the Minimum Priority Activities using a sectoral approach. The 2014 PER indicates that spending trends on Goods and Services although higher than previous years, do not yet meet the NEFC Cost of Services estimates. It is worth noting that the Cost of Services estimates are but a conservative attempt to capture costs associated with public goods and services at a local government level and acts as a minimum spending benchmark;

- supporting the planning of service delivery using a sectoral approach. Provinces should adopt plans to better achieve allocative efficiency in expenditure across sectors. Improved planning practices will also assist provinces better integrate their recurrent and development budgets, subsequently improving spending linkages across provincial and district administrations as provincial administrations rely more on the recurrent budget and function grants than districts, as observed in this PER;

- addressing liquidity issues by adopting measures to plan cash flows, particularly in the situation when provinces have a predictable flow of provincial revenue. This allows provinces to smoothen out their spending of Goods and Services and thereby improve the level of consistency in service delivery;

- defining development priorities, after examining demographic data such as population growth around and away from key service delivery points. For example, provinces that have a high young female population or an older population will need to re-orient spending priorities based on primary health care facilities that are frequently accessed and utilised by these same populations; and

- submitting budgets earlier in the previous year to support the release of cash from function grants earlier on in the financial year.

Innovative ways to examine spending at service delivery points are required. The Provincial Expenditure review raises a few key issues in each year’s publication including cash release delays which impede on a province’s ability to spend on public goods and services in a consistent manner over the year. These issues have been raised by NEFC in the annual regional workshops over the years with national agencies such as the Department of Treasury.

Although provinces show signs of improving their commitment to spend further on Goods and Services, a targeted approach to the budget formulation process, an increased adherence to expenditure floors and an improved commitment to transferring funds to districts and LLGs is necessary for service delivery to occur across PNG. For effective decentralisation to occur, provincial administrations should engage further in a bottom-up approach where Local-Level Governments participate in provincial planning to ensure that the needs of communities are being adequately met through the delivery of public goods and services on the part of the provincial administration.

PNG remains vulnerable to schisms that affect the sound application of fiscal and monetary policies. These policies greatly impact the size of the National Tax Revenue and impact the net national revenue of which a percentage is used to calculate a pool for function grants which will be divided across the twenty provinces based on their calculated fiscal need. Apart from studying funding flows and their bottlenecks that prevent service delivery at the point of demand (e.g.: health service centres), NEFC hopes to continue to engage with national agencies such as the Department of Treasury to advocate for a stable fiscal environment for inter-governmental fiscal transfer to occur as effectively as possible.