National Economic and Fiscal Commission

REVIEW OF INTERGOVERNMENTAL FINANCING ARRANGEMENTS

PROVINCIAL AND NCD REVENUES 1996-2003

April 2005

TABLE OF CONTENTS

List of Acronyms

CPI	Consumer Price Index
GST	Goods and Services Tax
IRC	Internal Revenue Commission
MoA	Memoranda of Agreement
MRDC	Minerals Resource Development Corporation
NCD	National Capital District
NEC	National Executive Council
NEFC	National Economic and Fiscal Commission
OLPG	Organic Law on Provincial Government
OLPGLLG	Organic Law on Provincial Governments and Local Level Government
PGAS	PNG Government Accounting System
RIGFA	Review of Intergovernmental Financial Arrangement
RSTs	Retail Sales & Service Taxes
TMS	Treasury Management System
VAT	Value Added Tax

EXECUTIVE SUMMARY

Background.

In November 2001, the National Executive Council (NEC) instructed the National Economic and Fiscal Commission (NEFC) to investigate the problems with the current system of intergovernmental financing and recommend changes to improve its operation. The Commission is therefore Reviewing the Intergovernmental Financing Arrangements between the three levels of government (RIGFA)

This is Information Paper forms part of the RIGFA. It sets out detailed data on provincial revenue collections from 1996-2003, provides analysis on trends for total sub-national revenues over time and between provinces.

Fiscal decentralization

Fiscal decentralization is about looking at two key considerations when designing a framework for an integrated system of intergovernmental fiscal arrangements. These are:

expenditure assignment: ie, which level of government will undertake what activities and functions?; and

revenue assignment: ie, which level of government will impose what taxes, charges and fees?

This paper focuses on the second consideration, revenue assignment, which involves assessing the revenue capacity of the provinces, in order to identify how much provinces are receiving in revenue, and how much they can be expected to receive in future years.

Sources of Revenues

Provinces fund their activities from three main sources and these are:

1. Locally-generated revenues
2. Transfers of shared nationally-collected taxation revenues
3. Grant transfers from the National Government

Locally-generated revenues

These are local taxes, charges, and receipts collected by the provincial administration, which are the only revenue base that provinces have some local control and influence over. These comprises of; motor vehicle registration and license fees, land taxes, liquor license fees, gambling taxes, bookmakers' turnover tax returns on investments proceeds from business activities, rents, sale of assets, court fees & fines and other fees & charges.

Transfers of shared national taxes

These are taxes collected centrally by the National Government and then transferred to the provinces - VAT/GST, Mining and Petroleum royalties.

Grants from the National Government

Provinces also receive a range of recurrent grants by the National Government as stipulated under the *OLPGLLG*. The most significant of these are the staffing and teachers' grants, administration and infrastructure grants, town and urban grants (for LLGs) and economic grants (Derivation Grants).

Data sources and methods

No single data source provides accurate collated information on provincial revenues. In particular, receipts of VAT and benefits from natural resources are not always accurately recorded in provincial accounts. In some cases, there are large discrepancies between the data on royalty transfers appearing in different data sources.

To ensure the data are compatible, the following data sources were selected to generate the detailed tables of revenue information appearing in this information paper:

VAT distributions: PGAS electronic files and Internal Revenue Commission distribution records

Benefits from Natural Resources: PGAS electronic files, and several other sources were compared to select the most complete information.

Local revenues and pre-1999 retail sales tax (RST) collections: PGAS electronic files, Provincial Governments budgets and financial statements and/or audited financial statements were used.

Main observations and conclusions of this study are:

1. *the distribution of provincial revenues, in per head terms, is very inequitable, in favour of the large scale mining and oil provinces and chief VAT beneficiaries. In Kina per head terms:*

- *the poorest 8 provinces' (from Central downwards) revenue collections have been about 20 times lower than Western Province's.*

- *the top five provinces (i.e., those above the national average), have earned about 9 times the average of the poorest half.*

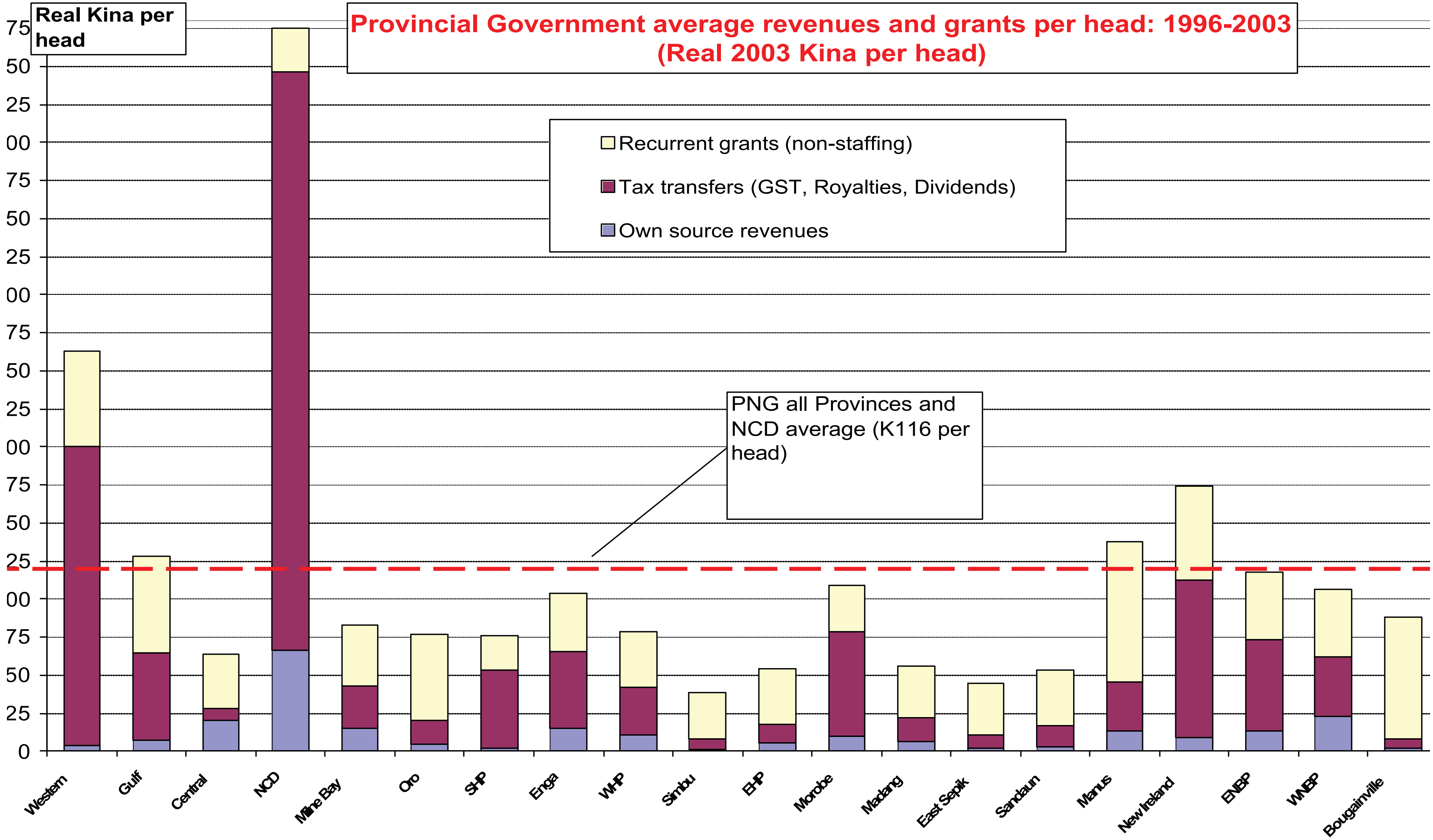
2. *The inequitable distribution of revenues is likely to worsen into the future*

3. *NCD's GST's share make it the wealthiest government in PNG. NCD has revenues that are about 9 times the average of all the Provincial Governments. Its revenues are also very high compared to other large towns in PNG*

4. *Although most provinces received unchanged VAT distributions during 1999-2003, the arrangements provided a safety net for some*

5. *Sub national discretionary tax bases offer limited revenue potential, and might be too costly to collect in all regions*

6. *The medium term fiscal sustainability of some Provincial Governments is a concern if their revenue streams are unsustainable.*


Provincial Government average revenues and grants per head: 1996-2003
(Real 2003 Kina per head)
Real Kina per head
75
50
25
00
75
50
25
00
75
50
25
00
75
50
25
00
75
50
25
0
Recurrent grants (non-staffing)
Tax transfers (GST, Royalties, Dividends)
Own source revenues
PNG all Provinces and NCD average (K116 per head)
Western
Gulf
Central
NCD
Milne Bay
Oro
SHP
Enga
WHP
Simbu
EHP
Morobe
Madang
East Sepik
Sandaun
Manus
New Ireland
ENBP
WNBP
Bougainville

1. Introduction

In November 2001, the National Executive Council (NEC) instructed the National Economic and Fiscal Commission (NEFC) to undertake a Review Intergovernmental of Financial Arrangements (RIGFA) between the three levels of government. The Commission will report back to the NEC with findings and proposals for a new integrated system of intergovernmental financial arrangements.

This Information Paper sets out detailed data on provincial revenue collections from 1996-2003, and provides analysis on trends for total sub-national revenues over time and between provinces. Reliable data for provincial revenues is essential for designing an integrated system of intergovernmental financing arrangements.

Fiscal decentralization – an overview

It is well accepted in the fiscal decentralization literature[1] that two key considerations are essential parts of the framework for designing an integrated, efficient system of intergovernmental fiscal arrangements in any country with sub-national governments. These are:

expenditure assignment: ie, which level of government will undertake what activities and functions?; and

revenue assignment: ie, which level of government will impose what taxes, charges and fees?

This paper is intended to inform the RIGFA about the second consideration, revenue assignment. Part of the work of designing a new system of intergovernmental financing will involve assessing whether the revenue streams sub national governments have access to are high enough to cover the cost of their expenditure responsibilities. The revenue streams reflect the local taxing powers given to provincial and local-level governments in the Organic Law, shares of revenues collected by or with other governments, and revenues from commercial and other activities.

In nearly every country with a decentralized system of government, revenues available to sub national governments are insufficient to meet

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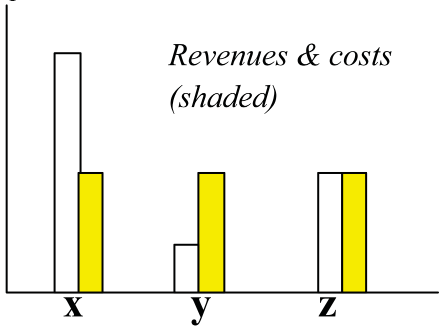
1 For a clear discussion of the key issues, see for example, Bird, R (2001) *Intergovernmental Fiscal Relations in Latin America: Policy Design and Policy Outcomes,* Inter-American Development Bank (see http://www.iadb.org).

BOX 1: What is a fiscal gap?

This is the difference between revenues raised by a government and the cost of its expenditure responsibilities.



In the diagram above, fiscal gaps for three imaginary provinces are shown. The unshaded bars represent each government's revenues. Province X's revenues easily exceed its costs (shaded), so it has a **positive fiscal gap**. Province Y's revenues, however, leave it well short of meeting the cost of its expenditure responsibilities, so it has a **negative fiscal gap**. Province Z has no fiscal gap, as its revenues are exactly equal to the cost of its expenditure responsibilities. The fiscal gaps inform you of the extent of inequity between provinces (**horizontal equity**), once their expenditures are taken into account.

The idea of a fiscal gap is also relevant for the financial relationship between National Government and total Sub-National Governments. If total sub national expenditure responsibilities cost more than its revenues, than it has a **negative** fiscal gap, and the National Government will have a **positive** fiscal gap of the same size in its favour. **Vertical equalization** is the process of adjusting resources flowing to National and Sub-National Governments to reduce these gaps.

their expenditure responsibilities. Therefore, the central government normally needs to make transfers to the lower levels to assist them to meet their expenditure responsibilities. These transfers take many forms: they are usually designed according to a formula(e), can be completely discretionary, tied or a mix of the two. They can be tied to a sector, function, activity, form or even period of time.

The information set out in this paper is important in the design of transfers for three reasons. In order to identify the **fiscal gap** (between available revenues and how much is needed to meet expenditure responsibilities – see Box 1) we need to know how much provinces are receiving in revenue, and how much they can be expected to receive in future years. In conjunction with an understanding of National Government revenue trends and prospects, this data will inform **vertical equalization** (adjusting resources between national and sub-national levels of government).

A second reason why this information is important is that it helps us to understand the relative trends and prospects of the relative revenue positions of each province. This helps to inform design of the mechanisms and degree of **horizontal equity** in the system. These arrangements aim to even up the natural distribution of resources across the country, between different sub-national governments and different regions.

Sources of information on provincial revenues

At present, information about sub national revenues is only available in Provincial and LLG Budgets, and in annual audited Financial Statements.

However, this information is not readily accessible. Provincial budgets are hard to obtain, even in a province itself. Audited financial statements, which record actual collections, are often not released until several years after the year to which they relate. There is no source of information that presents actual collections. The information in this paper has not been presented in any single source previously.

2. Sources of Provincial Revenue

Overview of provincial financial resources

Provinces fund their recurrent activities and development from three sources:

- Locally-generated revenues
- Transfers of shared nationally-collected taxation revenues
- Grant transfers from the National Government

In addition to the National Grant and transfers of shared national taxation, the Provinces are empowered under the *Organic Law on Provincial and Local Level Government* (OLPGLLG) to raise their own taxes/fees and charges as revenues. However, not all the provinces are raising the same kinds of taxes, nor do all have the capacity or sufficient revenue base to do so.

Locally-generated revenues

These are local taxes, charges, and receipts collected by the provincial administration. In 2003, NEFC estimates that provinces raised about **K37.3 million** in local revenues. Returns reflect both the level of enforcement and administrative effort put in by the provinces and the size of the local taxable economy (ie, the tax base). Importantly, local revenues are the only revenue base that provinces have significant local control and influence over, since both the rates and collection effort can be adjusted. In order of returns, the most significant of these revenues have been:

- motor vehicle registration and license fees;
- liquor licence fees;
- land taxes;
- gambling taxes;
- bookmakers' turnover tax[2]

[2] This tax is collected by the IRC and was transferred to Provincial Governments and the NCD until about 2002.

- returns on investments proceeds from business activities;
- court and other fines;
- rents; and
- sale of assets.

Transfers of shared national taxes

These are taxes collected centrally by the National Government and then transferred to the provinces - VAT/GST, Mining and Petroleum royalties. These tax transfers are distributed largely on a derivation basis. For VAT/GST, provinces have received 30% of VAT/GST collected within the province, or their 1989/99 distribution (whichever is the higher). The National Government has retained the remainder.

For every new project since the late 1980s, the National Government has not exercised claims over mining & oil royalties in the MOAs. Instead, the royalties have been split between landowners, local and provincial governments, in various permutations depending on the project. In turn, provincial governments have also sometimes made various long-term commitments regarding their share of royalties (for specific projects, to local governments and/or non-government agents).

Grants from the National Government

Provinces also receive a range of recurrent grants by the National Government as stipulated under the OLPGLLG. During 1996-2003, the most important of these were the staffing and teachers' grants, administration and infrastructure grants, town and urban grants (for LLGs) and economic grants (Derivation Grants). Although this paper focuses on revenues, summary tables of the National Government grants made to provinces from 1996-2003 can be found in APPENDIX C, so that readers can observe the total resource envelope for each province.

Problems with the term "internal revenue"

The focus of this Working Paper is the revenue sources which are generally referred to in PNG as "internal" revenue. It covers the first two categories of revenue described above, that is, all revenue excluding grants from the National Government.

It should be noted that the description “internal” is misleading. In fact, only the first category, local revenues are truly internally generated. The second category is actually nationally collected and administered taxes that are transferred to provinces through multilateral sharing arrangements. Provincial governments themselves do not exert any “collection effort” in order to generate this revenue. Similarly, these sources of revenue are not within the control of provinces, in the sense that provincial governments do not control the rate of tax nor the base.

One reason for the “internal” revenue description is that provinces have always kept two separate sets of accounts in PGAS[3], one for national grants,[4] and another for all other revenues,[5] including both tax transfers and locally-generated revenues.

Further, until July 1999, each province (and the NCD) imposed unique, retail sales and service taxes (RSTs). These were set at different rates, levied on different tax bases, and administered locally. Since VAT replaced the suite of RSTs, it is still generally regarded as a similar “internal” type of revenue by provinces.

Lastly, provincial 700 series (“internal revenue”) accounts also include some national grant funds, which have been “rolled over” as unspent funds from the previous year. These are not strictly revenue in the sense that the funds were raised in the previous year. Rollovers are not the result of revenue raising activities in that year. Rather, they are the outcome of slow grant transfer (ie, expenditure decisions) by the National Government.[6]

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3 PGAS is the PNG Government Accounting System, which is used by provincial governments and national departments to record transactions. At the national level, this data is then transferred into another system, the Treasury Management System (TMS).

4 Known as the “200 series” accounts.

5 Known as the “700 series” accounts

6 Over recent years, a pattern has emerged where a significant proportion of the annual grants payable to provinces are not transferred to the provincial operating account until very late in the financial year. If the provincial accounts for the year have already closed, the funds cannot be spent against that year’s appropriation. However, unlike national departments, which return unspent funds to consolidated revenue, provincial grants are regarded as a legal entitlement of the provincial government, and so they are “rolled over” from the 200 series accounts to the 700 series accounts and treated as revenues in the following year.

Provincial "internal" revenue tables

Data tables presenting provincial internal revenue for the years 1996-2003 are appended to this paper. Different revenues sources have been grouped into three main categories as follows:

1. **Value Added Tax** (which is collected nationally by the IRC and shared between provinces and the National Government) is grouped together with the **Retail Sales/Services Taxes** levied by individual provinces before VAT replaced them in 1999.
2. **Benefits from Natural Resources** includes mining & oil royalties; dividends and equity receipts (shares in the profit of the company) resulting from provincial government shares in mining or oil ventures; timber royalties and levies, and dividends from investments in oil palm and other ventures.
3. **Local revenues** covers motor vehicle registration and drivers license fees, gambling and bookmaking fees, and liquor licensing fees, collected under National legislation by provincial government officers;

   taxes or fees levied under provincial government legislation;

   court fines; and

   provincial government rents and sales, and dividends from investments or business activities (other than natural resource project investments).

   Rollovers from the previous year's budget also appear in the accounts. However, these have been excluded for reasons outlined above.

Data sources and methods

No single data source provides accurate collated information on provincial revenues. In particular, receipts of VAT and benefits from natural resources (royalties and receipts from investments in natural resource projects) are not always accurately recorded in provincial accounts. In some cases, there are large discrepancies between the data on royalty transfers appearing in different data sources.

To ensure the data are compatible, the following data sources were selected to generate the detailed tables of revenue information appearing in this information paper:

VAT distributions:

PGAS electronic files and Internal Revenue Commission distribution records were compared to ensure consistency. It should be noted that there are problems in determining the actual timing of VAT distribution payments in 1999 and 2000. In particular, it was not possible to easily separate RST collections in 1999 from VAT distribution payments in that same year. Consequently, the RST/VAT amounts appear to fluctuate during this period, before settling down by 2001.

Benefits from Natural Resources:

PGAS electronic files, and several other sources were compared to select the most complete information.

- Data are sourced from the respective mining companies' records of actual payments and information provided by the Departments of Mining and Petroleum. PGAS electronic accounts have not recorded all royalty benefits paid to provincial governments.
- The Minerals Resource Development Corporation (MRDC) and the companies provided information about dividend streams that Provincial governments recrieve ownerhip of received from ownership in mining and oil projects.
- For timber royalties and timber levies, PGAS data has been used as there was no other readily available source of data.

Local revenues and pre-1999 retail sales tax (RST) collections:

PGAS electronic files, Provincial Governments budgets and financial statements and/or audited financial statements were used. PGAS data was used in the first instance. Ninety-eight percent of the data came from this source. In some cases, however, data was clearly incorrectly entered[7], so provincial budgets and financial statements were used as a cross check. Sample checks were carried out to

[7] For example, one province recorded K987,000 rather than the actual K687,000 for VAT receipts one year.

ensure consistency between the different data sets. The NCDC provided revenue data as it does not use the PGAS system.

Generally, the cross-checks between different data sources revealed a close correspondence between PGAS records, budgets, unaudited and audited financial statements, except in relation to benefits from mining and oil projects. The reasons why this might be the case are discussed below.

In summary, users of the data should note that the main deviation from PGAS accounts and audited financial statements is in the area of mining and oil benefits, where primarily mining companies' records and MRDC data have been used instead of relying on PGAS records.

RST/VAT/GST[8]

The most important revenue source available to Provincial governments has been the various locally collected and administered retail sales and service taxes and their shares of the nationally-collected VAT from August 1999 onwards. RST was generally imposed at a rate of between 2.5% and 3.5%, although a number of provinces imposed higher rates for alcohol, tobacco and hydrocarbon based fuels. VAT has been imposed at 10% since its inception. The national government also imposes excises on alcohol, tobacco and hydrocarbon fuels, but provinces do not share in this revenue base.

There are two significant differences between the suite of RSTs and VAT. The RST is a single stage tax, which is only levied at the retail stage. Business to business intermediate transactions are conducted tax free using exemption certificates. In contrast, VAT is a multi-stage tax, so that every transaction is taxed, but businesses receive full credit for the VAT they pay on their inputs, so as to avoid double taxing. Therefore, only the final consumer actually pays any VAT. Importantly, since VAT is imposed at all stages of the production and distribution chain, a higher share of tax ends up being paid in the larger commercial centres (Port Moresby, Lae, Mount Hagen, Madang, Rabaul) where a greater share of manufacturing and wholesaling businesses are located. Further discussion about these issues can be found in **Appendix D**.

From a revenue assignment perspective, the VAT arrangements saw provinces lose their autonomy in setting and altering the base and rates of

8 Since the data discussed in this information paper relates to the period before GST replaced VAT, the term VAT is used in the following discussion.

what was their main revenue source. The arrangements for each province's VAT share are set out in the *VAT Revenue Distribution Act 1998*, replaced in 2003 by the *GST Distribution Act*[9]. Broadly, these provide for each province to receive either (a) 30% of VAT collected in the province, or (b) an amount equivalent to retail sales tax collections in the period July 1998 to June 1999, which ever is the greater. Essentially, these arrangements have provided provinces with a guaranteed minimum – of at least their nominal 1998/99 RST returns.

Benefits from natural resources

Under various National laws, the National Government may impose royalties on the value of exports of natural resources.

Mining and oil benefits

The State owns certain sub-surface resources, as provided for in the *Mining Act 1992* and *Oil and Gas Act 1998*. The *Organic Law on Provincial Government* (OLPG) which set out intergovernmental financing arrangements from 1977 to 1995, provided for provincial governments to receive a grant equivalent to the amount of royalties collected in a province, less the costs of collection by the national government.

The 1995 OLPGLLG <u>does not</u> require royalties to be transferred to provincial governments, but in practice a proportion of royalties have continued to be paid in respect of all current projects to provincial governments (see Box 2). The terms under which each mining or oil project proceeds in PNG are determined through a

BOX 2: Why are royalties are paid to provincial governments?

Generally, royalties are payable to which ever level of government has the legal ownership over mineral resources. However, the perception by many Bougainvilleans that the national government was benefiting from wealth flowing from the Panguna Copper Mine led to a threatened secession only two weeks before Independence.

The agreement to settle this conflict included provisions for the establishment of a system of provincial government, including the financial arrangements that would apply. It was agreed that all mining royalties would be transferred to the provincial governments.

After a process for negotiation of mining and oil projects (called the development forum) was introduced in 1989, most of the subsequent benefit sharing agreements included provision for a proportion of royalties to go to landowners.

The National Government retains 0% of royalties for the current mining and oil projects.

9 VAT was abolished and replaced with GST in 2003, following an agreement reached between the Governor of Morobe Province and the Prime Minister. The Morobe Governor had obtained an order from the Supreme Court declaring the national VAT unconstitutional. The *GST Act* is identical to the *VAT Act* except for the name of the tax.

‘development forum’ process involving landowners and provincial governments. Memoranda of Agreement (MoA) are entered into which describe the benefits payable to these two stakeholders. In all projects developed to date, the National Government has agreed to transfer all royalties to provincial and/or local governments and landowners.

In addition, Provincial governments in mining and oil provinces are entitled to purchase or be assigned significant equity stakes in projects which generate both dividends and profit shares. These equity stakes are held through corporate vehicles to manage the provincial and landowner equity shares (for example, Mineral Resources Enga, Petroleum Resources Kutubu). These are managed through trust arrangements by MRDC, in which the State of PNG is sole shareholder and the Ok Tedi Sustainable Development Program (Western Province).

For the purposes of both this study and the RIGFA, the Commission considers these streams as revenues from natural resources. This is because these are public resources that are available to the government to potentially provide benefits to all local residents.

Other natural resources

Over 90% of the benefits from natural resources relate to mining, oil and gas projects. Although timber in PNG is privately owned unless it is growing on government land, a proportion of royalties were payable to the national government per its powers to set taxes on trade (export of timber). Timber royalties were collected until the late 1990s,[10] but more recently, there have been levies on smaller scale projects.[11]

The entitlement of provincial governments to receive royalties or other revenues from natural resources has been somewhat confused since the new Organic Law was enacted. Under the old arrangements, some provinces received royalties in relation to other products, including fish and

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[10] Timber royalties were payable to provincial governments under provisions of the Timber Permits, and by virtue of the OLPG provisions on transfer of royalties to provincial governments. The new Organic law (Section 98) provides that royalties are “landowner benefits”. When the new forestry benefits system was developed in the second half of the 1990’s it was therefore designed to exclude payments of royalties to provincial governments.

[11] Royalties are tax revenues associated with the value of exports. Levies are intended to compensate for the social, economic, environmental and other <u>costs</u> of logging.

electricity generated through hydro electricity schemes, although these were relatively small amounts.

Provinces receive no significant revenues from marine resources. 99% of PNG's economic fisheries zones are managed exclusively by the National Government through the National Fisheries Authority.

Local revenues

The OLPGLLG provides that provinces are permitted to raise their own taxes as revenues. Not all provinces are raising the same kinds of taxes, nor do they all have the capacity or sufficient revenue base to do so. Part of the reason for this variability probably lies in the complex legal arrangements underpinning provincial tax collection. In summary, although provinces have been given the right to impose taxes in a range of areas under the OLPGLLG, the legal status of those taxes that do not have national government enabling legislation underpinning them is unclear. The legal and administrative structure of provincial tax collection is being thoroughly investigated by the NEFC as part of the RIGFA, which is due to present findings and recommendations during the course of 2005.

A key observation made by the study so far is that some provincial taxes are being collected without the required National enabling legislation being in place (as the data in individual province tables indicates). It is possible that some of these taxes are a hangover from the period prior to 1995, when enabling national legislation was not required. A list of taxes, fees and charges legally administered up to the end of 1995 can be found in **Appendix E** for comparison. The question of whether these taxes have been validly imposed is not discussed here. This paper concentrates on *actual* revenue collections, rather than assessing their legality.

3. Revenue trends

Total revenues

Table 1 in the summarises the total (nominal[12]) "internal" revenues collected by all provinces and the NCD[13] between 1996 and 2003. It can be seen that the provinces collected a total of K162.3 millon in 1996, which increased to K229.1 million in 1999 and to K252.8 million in 2001.Despite the drop in 2002 to K230.4 million it picked up again in 2003 to K255.3. The drop of about 10% in 2002 can partly be attributed to the weak domestic economic conditions during that period in PNG (see Box 3),[14] but also changes in the revenue base impact on the overall story. For example, mining dividend and equity receipts for Western Province fluctuated markedly between 2000 and 2002.

BOX 3: The impact of economic slow-down on revenue collections

When an economy grows more slowly a government's revenue collections will also be adversely affected. Revenues growth will slow or decline, although this will not generally happen straight away. This lag occurs because consumers and businesses' incomes and spending takes some time to adjust. Revenues dependant on exports (eg, mining, oil and agriculture) are not affected by shifts in domestic economic activity though, but rather by the pace of economic growth in PNG's major export partners.

From Table 2 – total (nominal) "internal" revenues by province, it is apparent that NCD followed by Morobe raised more revenue than any other province, mostly because of their RST/VAT receipts. These are followed by Western Province, Southern Highlands, Enga because of miming and oil benefits. Western

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12 Refer to **Appendix A**, where the difference between nominal and real estimates are explained.

13 From here onwards, provinces would include NCD

14 The economy contracted (ie, real growth was negative) in 2000, 2001 and 2002 (source: BPNG data).

Highlands is next reflecting high RST/VAT receipts. Bougainville, Simbu, and Manus raised the lowest amounts of revenue.

TABLE 1 - TOTAL PROVINCIAL GOVERNMENT REVENUES by Major Categories (nominal and real terms)

	1996	1997	1998	1999	2000	2001	2002	2003
				Actuals				
RST/VAT	93,457,664	109,056,082	117,604,966	138,182,357	150,148,422	148,905,676	146,900,887	145,732,695
Real RST/VAT	*205,494,099*	*230,648,038*	*219,014,211*	*223,888,180*	*210,444,245*	*190,972,528*	*168,496,836*	*145,732,695*
BENEFITS FROM NAT RES	38,804,982	42,023,009	42,654,717	57,935,710	59,855,602	69,481,817	55,736,977	72,192,834
Real Benefits Nat Res	*85,324,140*	*88,876,515*	*79,435,329*	*93,869,586*	*83,892,103*	*89,110,896*	*63,930,889*	*72,192,834*
LOCAL REVENUES	29,626,581	30,084,310	39,424,862	33,025,832	44,049,015	34,387,865	27,724,889	37,331,727
Real Local Revenues	*65,142,732*	*63,626,777*	*73,420,412*	*53,509,679*	*61,737,990*	*44,102,667*	*31,800,734*	*37,331,727*
TOTAL REVENUES	**161,889,227**	**181,163,400**	**199,684,544**	**229,143,899**	**254,053,039**	**252,775,358**	**230,362,753**	**255,257,256**
TOTAL REAL REVENUES	***355,960,972***	***383,151,331***	***371,869,952***	***371,267,444***	***356,074,339***	***324,186,090***	***264,228,459***	***255,257,256***

Note: Real revenues are expressed in constant 2003 kina terms

Memo - Consumer Price Index (CPI)

Year	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
CPI	348.1	361.9	411	472.4	546.1	596.8	667.3	765.4
Inflation rate (%)	**11.6%**	**4.0%**	**13.6%**	**14.9%**	**15.6%**	**9.3%**	**11.8%**	**14.7%**

Source: NSO

TABLE 2: TOTAL PROVINCIAL GOVERNMENT REVENUES (exluding Former Year's Appropriations), 1996

PROVINCES	ACTUALS - nominal terms							
	1996	1997	1998	1999	2000	2001	2002	2003
WESTERN	9,147,577	17,329,054	22,198,703	25,684,837	13,327,285	29,778,254	19,391,914	20,427,707
GULF	6,122,845	3,484,278	2,016,719	4,241,420	6,452,152	4,820,955	3,815,094	4,060,242
CENTRAL	1,808,043	2,604,935	2,899,598	2,688,100	3,734,007	2,284,042	5,114,904	3,092,659
NCDC	51,383,393	61,159,112	65,637,500	74,776,742	83,352,686	80,866,784	79,363,644	83,760,615
MILNE BAY	5,018,443	6,780,319	4,932,855	5,363,347	5,966,630	4,646,146	4,499,741	6,684,328
ORO	1,218,803	1,514,887	2,496,463	1,416,098	1,548,942	1,557,099	1,514,874	1,637,951
SOUTHERN HIGHLANDS	20,034,639	14,720,047	10,748,146	17,300,257	21,968,984	17,790,268	16,001,414	30,286,940
ENGA	5,426,743	5,506,797	10,194,721	11,064,046	21,052,663	21,318,484	11,795,620	17,991,446
WESTERN HIGHLANDS	7,443,395	10,119,129	12,155,140	12,643,954	14,700,809	12,821,294	11,987,516	10,824,351
SIMBU	1,103,988	1,213,442	1,470,456	1,529,458	1,199,656	1,151,084	1,179,132	1,141,093
EASTERN HIGHLANDS	3,809,995	4,472,260	4,694,991	4,534,980	5,449,914	5,223,339	5,001,685	5,021,303
MOROBE	21,653,330	22,768,110	26,664,544	27,113,138	29,189,386	29,803,956	28,884,743	28,047,674
MADANG	3,717,053	3,754,891	3,980,683	5,794,578	6,881,533	5,413,705	5,525,260	5,845,444
EAST SEPIK	2,454,398	2,415,837	2,492,482	2,110,180	1,962,140	1,925,498	2,028,651	2,800,526
SANDAUN	2,061,987	2,402,556	1,309,152	1,102,570	1,336,798	2,106,808	2,794,242	2,362,380
MANUS	952,191	907,868	988,511	1,432,679	1,547,498	1,459,246	1,528,341	1,366,430
NEW IRELAND	3,280,145	4,991,955	7,849,490	9,459,877	10,941,944	12,211,630	12,805,651	12,112,734
EAST NEW BRITAIN	9,060,112	8,827,723	9,428,199	11,513,813	11,809,708	10,813,490	10,881,026	11,438,354
WEST NEW BRITAIN	6,028,593	5,412,363	6,761,537	8,275,213	10,356,512	6,063,628	5,380,404	5,465,110
BOUGAINVILLE	594,353	777,837	764,653	1,098,613	1,273,794	719,648	868,896	889,968
TOTAL	162,320,026	181,163,400	199,684,544	229,143,899	254,053,039	252,775,358	230,362,753	255,257,256

RST/VAT

RST/VAT and mining revenues dominate provincial revenue collection. Table 3 shows actual (nominal) RST/VAT receipts for all provinces from 1996-2003. In 1996 provincial governments collected a total of K93 million in RST, which increased to K138 million in 1999 when the VAT was introduced[15]. Since then, growth has slowed, reflecting the sharing agreements.[16] The provinces in total received around K148 millon in each of 2000, 2001, 2002 and 2003.

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15 VAT was introduced on August 1 1999. The rise in total revenues in the changeover to VAT partially reflects the economic efficiency advantages of a VAT type tax. In brief, a VAT is technically superior to an RST as it: avoids distortions in the location, size and structure of domestic business operations, it removes cascading taxes from domestic prices and exports, and it is inherently self enforcing once all businesses have been registered. However, much of this efficiency "dividend" was retained by the National Government, since it started to receive revenue from indirect taxes on consumption of most goods and services, a base it previously did not tax very broadly. Issues regarding VAT and RST are further discussed in **Appendix D**.

16 The first VAT sharing deal gave each province the HIGHER of:

30% of net VAT collections in their province, OR

the Retail Sales Tax collected in the year to 30 June 1999.

This agreement applied from 1999 to 2003. If a province's 1998/99 RST collections were always higher than "the 30%", its returns remained flat. In three-quarters of the provinces, their 1998/99 RST collections always exceeded 30% of net VAT collections

Distribution of RST/VAT

VAT returns are broadly based on the level of economic activity, since individual provinces receive shares proportionate to VAT collected within their borders. Not surprisingly, provinces with large commercial centres receive the lion's share.

On average Morobe province received the highest amount of RST/VAT (34%) during 1996-2003, followed by Western Highlands (13%), East New Britain (12%), West New Britain & New Ireland with 5% each. Gulf on the other hand has the lowest returns at 0. 6%, slightly below Central (0. 9%) and Western (0. 8%). These shares change markedly if NCD is included.

(as measured by the IRC), so was no growth in their VAT distributions from 1999 to 2003.

TABLE 3: RETAIL, SALES & SERVICE TAXES (1996-1999) AND VAT/GAT (1999-2003)

PROVINCES	Actuals - nominals							
	1996	1997	1998	1999	2000	2001	2002	2003
WESTERN	133,092	201,305	325,288	261,284	892,908	892,908	892,908	892,908
GULF	275,570	349,979	299,843	450,390	510,314	511,459	510,312	510,312
CENTRAL	997,408	493,805	370,014	343,038	687,936	687,936	687,936	687,936
NCDC	41,094,409	50,859,573	53,796,751	66,249,876	72,651,683	71,821,279	71,088,992	71,059,209
MILNE BAY	1,267,539	1,321,915	1,804,307	2,057,967	1,988,748	1,988,748	1,988,748	1,988,748
ORO	924,778	1,156,027	1,269,218	1,277,740	1,355,388	1,355,388	1,355,388	1,355,388
SOUTHERN HIGHLANDS	631,857	376,718	859,331	922,642	1,419,732	1,419,732	1,419,732	1,419,732
ENGA	799,925	1,011,432	1,478,287	2,981,201	3,259,155	3,239,213	3,174,898	3,174,516
WESTERN HIGHLANDS	6,127,044	7,805,979	8,911,030	10,773,649	9,368,200	9,368,200	9,368,200	9,368,200
SIMBU	883,390	1,015,781	1,255,861	1,277,355	1,031,724	1,052,282	1,031,621	1,031,724
EASTERN HIGHLANDS	2,633,577	2,666,996	2,862,330	2,956,338	3,957,905	3,919,094	3,917,910	3,916,218
MOROBE	18,109,573	19,699,037	21,694,180	24,178,141	26,797,629	26,691,501	25,504,604	24,394,944
MADANG	2,848,694	2,924,310	3,130,561	3,448,166	4,185,744	4,185,744	4,185,744	4,185,744
EAST SEPIK	1,836,114	1,831,574	1,967,127	1,738,172	1,559,700	1,559,700	1,559,700	1,559,700
SANDAUN	982,462	1,208,901	1,040,751	931,812	1,127,664	1,127,664	1,127,664	1,127,664
MANUS	558,935	748,480	783,667	754,900	1,033,908	1,033,908	1,033,908	1,033,908
NEW IRELAND	2,765,316	3,337,168	2,976,647	3,476,484	3,924,437	3,783,792	3,783,792	3,783,792
EAST NEW BRITAIN	5,875,750	7,250,161	8,280,209	9,112,991	9,373,074	9,257,620	9,239,712	9,239,712
WEST NEW BRITAIN	4,241,125	4,178,522	3,905,865	4,034,438	4,356,120	4,356,120	4,375,730	4,356,120
BOUGAINVILLE	471,106	618,419	593,698	955,773	666,453	653,388	653,388	646,220
TOTAL	**93,457,664**	**109,056,082**	**117,604,966**	**138,182,357**	**150,148,422**	**148,905,676**	**146,900,887**	**145,732,695**

The mining provinces, on the other hand, do not raise much revenue from RST/VAT—together the six mining provinces only receive 10% of the VAT revenue, despite the significant apparent taxable incomes of mine workers. Most of these incomes are received by a relatively small number of people, who typically travel to other provinces to do their shopping, since the mining provinces typically have relatively small commercial centres[17]. Further, as many of these mineworkers (engineers etc) are foreigners, large proportions of their incomes are returned to their home country and not spent in PNG.

NCD RST/VAT collection

Nearly half of the VAT share for sub national governments goes to the NCD, which also raised a 3.5% sales tax prior to the introduction of VAT in 1999. In 1996 NCD collected a total of K41m, and rising to K66m in 1999. Since then, growth has ceased to around K72m from 2000 – 2003 as per the VAT sharing deals.

NCD probably captures a large proportion of VAT spent by Central province residents. NCD and Central province have negotiated a sharing arrangement through which 5% of the NCD VAT is shared with Central. The VAT "shared" by the NCD with Central Province has not been included in this category since it is not part of the formal VAT distribution arrangements, but has been through a series of informal and formal bilateral annual agreements. The lack of an urban centre in Central province distinguishes it from all other provinces, and limits revenue collection for other revenue categories too. More on this issue can be found under the Central Province overview in **Appendix F**.

Impact of the VAT on sub national revenues

There are several observations about patterns of RST/VAT receipts which are significant for understanding overall revenue trends and prospects.

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17 For example, Mendi, Daru, Goilala, Wabag, Kerema and Kavieng (the provincial capitals in the mining and oil provinces) offer a relatively limited range of retail/wholesale goods and services. That said, the imperfect attempt to split VAT on a derivation basis (particularly with regard the distribution of credits) favours provinces with a greater proportion of manufacturing and wholesaling industries. See **Appendix D** for further explanation of this issue.

First, the replacement of RST with VAT did result in a slowdown in the overall growth in this revenue stream to provinces, although there was a large "one-off" rise in returns on introduction. The key reason for this relates to the sharing arrangements described in footnote 16.

The VAT sharing deals have had the effect of protecting provinces from the impact of economic slowdown, but have also curtailed the flow-on of benefits from stronger total VAT revenue growth. Prior to the VAT's introduction in 1999, provinces had experienced year-to-year volatility in their RST collections, in line with variations in local economic conditions. Under the national VAT, weak macroeconomic conditions prevailing during 2000-02 slowed growth in total VAT collections in 2001, but the National Government has to top up some provinces to keep them at their guaranteed minimums.

When total VAT collections picked up from 2002 as the economy improved, the total sub national distribution remained constant, even in nominal terms. Further analysis of trends in each province demonstrate a "flatline" zero growth trend. Many provinces that had shown strong RST growth prior to 1999 experienced no growth during 2000-2003, as can be seen **Appendix G**

One apparent solution to the flatline effect, that is the result of the VAT agreements might be distributive arrangements that automatically provide for an annual positive adjustment to returns. This may not be easy to achieve from derivation based GST distribution shares, especially if non-mining local economic activity is stagnant in some provinces. In this case, the National Government VAT share would have to decline, as occurred during 2001 when the adverse impact on VAT collections of the recession necessitated it "topping up" provinces to their "guaranteed" minimums. The minimums in the VAT sharing agreements have provided "insurance" against lower revenues for many provinces under the VAT arrangements. Provinces with stagnant economies may be better off under such "no disadvantage" arrangements.

A second observation is that the changeover to VAT in 1999 resulted in some big winners and big losers, since no attempt was made to determine what a "normal" level of inflation adjusted collections under the RSTs were over a longer period, say five years. Some provinces, with unusually high levels of income in 1998/99 that therefore collected an above average level of RST did very well. For example, in Milne Bay, collections were strong during 1998/99 largely because of record high palm oil prices. On the other hand, Central had a very poor return during 1998/99, compared to even the previous two years. Consequently, their VAT share was low. See **Appendix G** for RST collection levels as determined by the IRC for 1998/99.

Third and perhaps most obviously, provinces lost the right to alter tax rates and base, for which there was significant variation under the RSTs. Some provinces collected goods only taxes against a narrow range of items, others had broader bases extending to most services, and some drew on a mix of the two with high tax rates on sin goods, such as alcohol, tobacco and fuels. Additionally, local administrations have no influence over the level of administrative effort exerted by the IRC in a given area at a given time as they had previously[18].

Benefits from natural resources

As Table 4 – Benefits from Natural Resources – indicates, there were six mining and oil provinces during 1996-2003, and these are Southern Highlands, Enga, Western Province, New Ireland, Milne Bay, Central Province and Gulf province. Other provinces like Oro, Madang, ESP, Sandaun and West New Britain received timber royalties and levies during this period.

Benefits from Natural Resources provided provinces K39 million in 1996, K58 m in 1999, increasing to K69 m in 2001 and further increased to K72m in 2003. Over 1996-2003, Western Province has recorded the biggest share with K150m, Southern Highlands with K138m, Enga K65m, New Ireland K40m and Milne Bay with K15m. Sandaun had the greatest return from timber activities, at K3.1m. Because of the nature of the accounts, it is not possible to always disaggregate the timber benefits from mining and oil benefits in all provinces.

The volatility evident from year to year for this category mostly reflects movements in exchange rates, world commodity prices and the pace of economic growth in PNG's major export markets, which all impact on mining and oil revenues in Kina terms. In 1999-2000, for example, world prices of PNG commodity exports rose strongly (25%) and the Kina depreciated sharply. The price of the output of the oil & gas extraction

[18] Provincial Administrations generally claim they exerted greater effort in revenue collection for their RSTs than the IRC has done for the national VAT.

industry rose by 80% in Kina terms in 2000[19]. Actual production does not usually vary as sharply from year to year.

[19] Source: Bank of Papua New Guinea and Treasury – GDP estimates in the 2004 Budget

TABLE 4: BENEFITS from NATURAL RESOURCES 1996-2003

PROVINCES	Actuals - nominals							
	1996	1997	1998	1999	2000	2001	2002	2003
WESTERN	8,790,936	16,340,597	21,539,000	25,067,000	12,303,000	28,488,000	18,460,280	19,314,901
GULF	4,785,000	3,028,588	1,323,200	3,702,840	5,850,499	3,156,300	3,132,003	1,503,000
CENTRAL	137,329	122,673	204,982	290,342	217,958	291,314	290,905	429,368
MILNE BAY	2,357,420	2,475,205	1,529,746	1,694,000	1,914,000	1,643,000	1,770,510	1,559,997
ORO	91,113	56,052	88,472	13,322	-	-	-	-
SOUTHERN HIGHLAND	18,096,531	13,869,091	8,899,947	15,787,403	19,994,036	15,647,406	14,499,794	27,100,000
ENGA	3,715,780	3,774,194	4,898,716	5,773,662	13,024,041	12,302,106	7,857,920	13,647,883
WESTERN HIGHLANDS	-	-	-	-	-	-	-	-
SIMBU	-	-	-	-	-	-	-	-
EASTERN HIGHLANDS	-	-	-	-	-	-	-	-
MOROBE	-	-	-	-	-	-	-	-
MADANG	64,260	20,988	13,030	19,213	17,929	12,390	20,313	32,111
EAST SEPIK	3,719	7,562	247	-	-	403	438	368
SANDAUN	727,222	846,444	70,136	19,372	-	-	1,482,809	891,156
MANUS	35,672	-	-	4,885	140,000	118,511	-	20,000
NEW IRELAND	-	1,190,054	3,982,233	5,417,437	6,315,636	7,778,294	8,211,105	7,683,893
EAST NEW BRITAIN	-	-	-	-	-	-	-	-
WEST NEW BRITAIN	430,799	291,560	105,009	146,234	78,503	44,093	10,900	10,157
BOUGAINVILLE	-	-	-	-	-	-	-	-
GRAND TOTAL	**38,804,982**	**42,023,009**	**42,654,717**	**57,935,710**	**59,855,602**	**69,481,817**	**55,736,977**	**72,192,834**

Mining and Oil MOAs and estimating revenues: methodological issues

It was noted earlier that the MOAs govern the distribution of sub surface (mining & oil) benefits. In most provinces, the distribution share is accordance with the MOAs. However, some provincial governments have given up additional royalty shares to landowners. For example, from 2000-2003, all of Central's Tolukuma gold royalties were directed into a landowners' trust account. This presents a difficulty in comparing revenues. On the one hand, in an actual resources sense, we know that Central did not receive royalties in its hand as "cash", so did not receive a financial benefit. If we take this perspective, Central's revenues would be lower. However, this approach presents a difficulty with judging all provinces' revenues, since in the extreme case, if all provinces agree to transfer out all of their revenues to non-government entities, our measures of their revenue would be zero. Therefore, at this stage, the Commission is regarding "benefits" as revenues.

Mining and oil benefits in the form of dividends and equity are significant revenue streams, and have been larger than royalties in some years. Typically, provinces use these funds for recurrent expenditure activities. As an aside, the common approach in natural resource economic analysis is to regard unsustainable natural resource benefits in the same way as a bank account – it can only be run down once. Therefore, these one-off revenue streams would ideally be regarded as "capital" amounts, which should thus be reinvested into other sectors to generate a broader base of sustainable income earning sources. Of the large scale mining provinces, only Enga (through Mioks Investments) has generated some noticeable non-mining investment returns.

Timber benefits

Regarding timber benefits, there has been a move away from royalties since the mid 1990s, to a system of levies. This study suggests that the level of returns from timber levies is low. One policy consideration may be whether the levies are set sufficiently high so that they cover all of the Provincial Government's social and environmental costs of logging[20].

[20] It should be noted that in 2004 & 2005, Derivation Grant is been paid against log exports, since there are no royalties being paid to Provincial Governments. This grant, however, is intended to support export generation and growth generally, not compensate for damage of logging.

Provincial Governments, and other stakeholders, are a party at the negotiations with logging companies on the levies.

Local revenues

Revenues collected from this source are generally low from 1996-1999 at around K30m to K40m. There was a pickup in 2000 to K44m (reflecting some one-offs) before a drop off to K27m in 2002 (see Table 5). The decline in 2002 likely reflects weak economic conditions generally and a decline in revenue collection effort in some provinces.

In aggregate, the provinces that are getting the largest returns from local revenues are NCD, Morobe, Western Highlands, Enga, West New Britain, Central Province and East New Britain Province. On the other hand, provinces that collect the lowest amounts are Simbu, Gulf, Bougainville and Western Province. It can be seen that although Enga and Central province have benefited from mining royalties, they have still performed well in collecting other revenues. Morobe, whose VAT share is high also does well in other revenue collections. Those provinces that do not have much revenue from VAT and little or no benefits from natural resources are heavily dependent on the revenues collected especially from motor vehicle registration, drivers licenses, gaming machine/bookmakers tax, liquor license fees and occasional returns on investments. These are Simbu, Oro, Bougainville, Gulf, Sandaun and East Sepik.

It should be remembered that local revenues inevitably grow more slowly than broad taxes on large economic income flows, such as those on wages (income tax), profits (corporate tax) and consumption (eg, VAT/GST). This is partly because they are levied on the <u>number</u> of vehicles, drivers, businesses etc, not on income flows. Further, the charges and fees only tend to be adjusted every few years, which means that inflation eats into real collections more sharply. Motor vehicle registration fees, for example, would not increase if new car purchases do not exceed the number of "retired" vehicles in a given year. A further constraint on growth of this category is that local service fees charged by the provincial government must broadly reflect the quality of the service provided, or risk taxpayers refusing to pay. If the government sets charges too high for say sanitation fees or office rental, compliance or willingness to consume this service might be weak.

TABLE 5: LOCAL REVENUES, 1996-2003

PROVINCES	1996	1997	1998	1999	2000	2001	2002	2003
	Actuals - nominals							
WESTERN	223,549	787,152	334,415	356,553	131,377	397,346	38,726	219,898
GULF	1,062,275	105,711	393,677	88,189	91,339	1,153,196	172,779	2,046,930
CENTRAL	673,305	1,988,456	2,324,602	2,054,720	2,828,113	1,304,792	4,136,063	1,975,355
NCDC	10,288,984	10,299,539	11,840,749	8,526,866	10,701,003	9,045,505	8,274,652	12,701,406
MILNE BAY	1,393,484	2,983,198	1,598,802	1,611,380	2,063,882	1,014,398	740,483	3,135,583
ORO	202,912	302,808	1,138,773	125,035	193,554	201,711	159,486	282,563
SOUTHERN HIGHLANDS	1,306,252	474,238	988,867	590,212	555,216	723,130	81,888	1,767,208
ENGA	911,038	721,171	3,817,718	2,309,183	4,769,467	5,777,164	762,802	1,169,047
WESTERN HIGHLANDS	1,316,351	2,313,150	3,244,110	1,870,305	5,332,609	3,453,094	2,619,316	1,456,151
SIMBU	220,598	197,660	214,595	252,103	167,932	98,802	147,511	109,369
EASTERN HIGHLANDS	1,176,418	1,805,263	1,832,661	1,578,641	1,492,009	1,304,245	1,083,775	1,105,085
MOROBE	3,543,757	3,069,074	4,970,364	2,934,997	2,391,757	3,112,455	3,380,139	3,652,730
MADANG	804,099	809,593	837,092	2,327,199	2,677,859	1,215,571	1,319,203	1,627,589
EAST SEPIK	614,566	576,702	525,108	372,008	402,440	365,395	468,513	1,240,458
SANDAUN	352,303	347,211	198,266	151,387	209,134	979,144	183,769	343,560
MANUS	357,583	159,388	204,844	672,894	373,590	306,827	494,433	312,522
NEW IRELAND	514,829	464,734	890,610	565,956	701,871	649,544	810,754	645,049
EAST NEW BRITAIN	3,184,363	1,577,562	1,147,989	2,400,822	2,436,634	1,555,870	1,641,314	2,198,642
WEST NEW BRITAIN	1,356,669	942,281	2,750,663	4,094,541	5,921,889	1,663,415	993,774	1,098,833
BOUGAINVILLE	123,246	159,418	170,955	142,840	607,340	66,260	215,508	243,748
TOTAL	**29,626,581**	**30,084,310**	**39,424,862**	**33,025,832**	**44,049,015**	**34,387,865**	**27,724,889**	**37,331,727**

What explains differing local revenue trends in provinces?

Local revenue collections vary considerably between provinces. For example, West New Britain's collections were an average 20 times higher per head than Simbu's during 1996-2003. Some of this difference is no doubt because of the size of the local economy (ie, the tax "base"), but this cannot explain it all. This suggests that administrative revenue collection effort varies as well.

There are several possible explanations for variations in revenue collection effort. First, provinces must have appropriate approved legislation in place to have the power to collect taxes, fees and charges, apart from motor vehicle registrations and liquor licenses[21]. Provinces argue that they have not had the administrative, policy and legal resources to prepare and draft legislation, so have not been able to collect from as many revenue sources as they would like. It is of some conjecture, however, whether this is necessarily a binding constraint – an imperfect legal environment was no constraint on East New Britain collecting head tax prior to 2004 (when National enabling legislation reinforced its legitimacy).

A more relevant factor is that administrative effort varies. This reflects the amount of resources put into revenue collection, particularly staffing and resources for travel around the province. In practice, higher administrative effort and resultant enforcement might be thought of as regular visits by revenue officers across a province.[22]

In some cases, local disturbances have had a negative effect on collection effort. For example, in Southern Highlands in 2002, revenue collections were extremely low since an effective local administration was not operating and election related disruptions curtailed non-mining business activity.[23]

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[21] In these cases, there are National Acts which facilitate all provinces to undertake collections - Motor Traffic Act PNG and Liquor Licensing Act.

[22] Revenue efforts need to be judged against "fiscal capacity" – a province's ability to raise revenue, defined by its taxable base. A complete measure of revenue effort requires intimate knowledge of the relative tax base and some adjustment to revenues to reflect different tax settings. In other words, an accurate specification of revenue effort should answer the question: " what level of revenues would a province raise if it put in the national average for revenue collection effort and all provinces had identical tax policy settings."

[23] A recent example of this phenomenon is in Simbu, second quarter 2004. The regional by election contributed to local revenue collections coming in at only 20% of their first quarter level.

By 2002, Southern Highlands and Western Province had very low other local revenues and low apparent collection effort. This is probably explained by the presence of large scale mining activities, and associated revenue streams. That is, the marginal worth of additional revenue collection effort would be very low.

High administrative costs may also explain different collections and apparent lower effort. For example, few sea provinces effectively impose charges on small craft for maritime safety. On the one hand, this might seem odd, since there are strong safety arguments for registration of most sea craft that go beyond mere revenue raising needs[24]. However, if collection costs far exceed returns (with a dispersed population), it may not be feasible.

A last explanation for differences in local revenue returns is the preference for different types and levels of local taxes and the local preference for paying taxes – that is, the local willingness to comply with tax laws. The decentralization literature argues that residents will be more willing to comply with local tax laws if they observe and experience the benefits of government service delivery.

A further discussion of province-by-province local revenue trends can be found in **Appendix F**.

[24] Milne Bay is an exception. It has relatively successfully imposed the charge at the point of purchase of the craft. Milne Bay has the most dispersed population of the sea provinces.

4. Relative revenue trends

In assessing the sub national revenues, for the purpose of the RIGFA, it is most useful to look at revenues in relative manner – that is, how high are one province's revenues against another's? To make like-with-like assessments of relative revenues, a few adjustments are necessary. First, the revenue data was adjusted for price movements – this allows us to compare the real value of 1996 to 2003 revenues, by removing the misleading effect of inflation[25]. Secondly, the revenues are expressed in kina per head terms, to allow ease of comparison between provinces.

Using this inflation-adjusted kina per head revenue data, "high", "medium" and "low" benchmarks were set for the three main revenue categories, based on the average 1996-2003 revenues in real kina per head terms in Table 6. NCD revenues were excluded from this analysis.

Table 6: Revenues H/M/L rating benchmarks – Annual average **real kina per head**			
	Low	Medium	High
TOTAL	**<26**	**26-75**	**>75**

Table 7 below shows all Provinces eight year average total revenues in real Kina per head.

[25] Since prices rose by an average of 12% per year during 1996-2003, the expenditure possible with K1 in 2002 was less than half of what K1 would have purchased in 1996. Since revenues are only raised to allow expenditures, adjusting for inflation allows a comparison of the real purchasing power of revenues at the time they are raised. See the note in **Appendix A** for more information.

Table 7 – Annual average real revenues per head 1996-2003 (Kina)

Province	1996-2003 REAL ANNUAL AVERAGE REVENUES PER HEAD	OVERALL RATING
NCDC	447	High
WESTERN	200	High
NEW IRELAND	112	High
MOROBE	78	High
EAST NEW BRITAIN	75	High
GULF	66	Medium
ENGA	64	Medium
WEST NEW BRITAIN	60	Medium
SOUTHERN HIGHLANDS	54	Medium
MANUS	45	Medium
MILNE BAY	42	Medium
WESTERN HIGHLANDS	41	Medium
CENTRAL	25	Low
MADANG	22	Low
ORO	20	Low
EASTERN HIGHLANDS	17	Low
SANDAUN	17	Low
EAST SEPIK	11	Low
SIMBU	8	Low
BOUGAINVILLE	8	Low

These tables indicate that during 1996-2003, revenues were:

- **Low** (less than K25/head) in Central, Madang, Oro, Sandaun, Eastern Highlands, East Sepik, Simbu and Bougainville.

- **Medium** (K26 to less than K75/head) in Manus, Milne Bay, Gulf, Western Highlands, Enga, West New Britain and Southern Highlands

- **High** (more than K75/head) in NCD, Western Province, New Ireland, Morobe, East New Britain.

The key conclusions from this table about **horizontal equity** are that:

the distribution of provincial revenues, in per head terms, is clearly in favour of the large scale mining provinces and chief VAT beneficiaries. This is demonstrated by the median being somewhat lower than the average, since the mining, oil and VAT provinces skew the average upwards.

- *the poorest 8 provinces' (from Central downwards) revenue collections have been about 20 times lower than Western Province's.*

- *the top five provinces (i.e., those above the national average), have earned about 9 times the average of the poorest half.*

A further discussion of the implications of this distribution of revenues for the intergovernmental financing system follows.

5. Revenue study – considerations and issues for the RIGFA

Inequitable distribution will worsen into the future ……

The demonstrated inequitable distribution of revenues between provinces is the key observation from this study. Since this is primarily a result of high mining and oil benefits and VAT, the inequity flows directly from the distribution arrangements for these nationally collected transferred taxes. The Commission expects this inequity to worsen over the next five years, since mining and oil revenues are likely to grow more quickly than both GST distributions and Local Revenues. In particular, this means that the bottom seven provinces (table 7) are likely to experience weak, at best, nominal revenue growth, assuming no new GST distribution agreement is formulated.

NCD's revenues make it the wealthiest government in PNG

A second key observation regarding the distribution of revenues is that the NCD has been, and will easily remain, the wealthiest sub national government, because of its large GST share. NCD has revenues that are about 9 times the average of all the Provincial Governments, even though it has a narrower range of expenditure responsibilities. NCD's revenues are also very high compared to other large towns in PNG, which is probably a more appropriate comparison, as can be seen in Table 8.

Table 8: Major towns in PNG – Revenues of the Urban LLG (nominal, kina per head terms)

	2002	**2003**	**2004**
	Actual	**Actual**	**Budget Forecast**
NCD total (of):	**328**	**352**	**350**
VAT/GST	*277*	*280*	*279*
Local revenues	*51*	*73*	*71*
Lae, Morobe	Na	na	110
Kokopo-Vunamami, ENB	25	22	na
Mount Hagen, WHP	Na	na	68

Sources: IRC (VAT), Budgets (NCD, Lae, Hagen), ENBPG- (Unaudited financial statement)

Although most provinces have received unchanged distributions under the VAT, the National Government has provided a safety net"….

Regarding the changeover to VAT in 1999, since the shares were based on RST performance in one year only, there were some "lucky" provinces, particularly those experiencing above average economic conditions during 1998/99. All provinces experienced a one off "boost" on the VAT introduction from their RST collections though all provinces experienced unchanged returns during 2000-2003. The new GST agreement in 2004, has resulted in an increase to five provinces, though the other 15 remain on the 1998/99 benchmark. When economic activity is expanding (eg, after the 2000-2002 recession) and VAT collections have risen, this has benefited the National Government, especially as it does not share VAT on imports.

However, when economic activity has been weak, the National Government has guaranteed provinces a minimum distribution, for which it has to "dip" into its share to fund. Naturally, this has acted as a "safety net" for provinces with weak economic growth trends and prospects. These distributional issues aside, it should be strongly emphasised that any attempt to reintroduce an RST or introduce a localized "piggybacking" VAT arrangements with local bases and discretion over rates is highly undesirable. This is because of the extreme complexity of administration and compliance, distortions in the private sector and the potentially adverse impacts on exports[26].

Sub national discretionary tax bases offer limited revenue potential ……and might be too costly to collect in all regions

Overall, this study reveals that there is little scope for provinces to easily raise revenue collections. The powers to impose new taxes on income, consumption and expenditure, and vary the rates or base of transferred taxes (VAT and royalties), all rest with the National Government.

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26 Canada essentially runs a VAT that has Provincial discretion over only the rate, <u>not the base</u>. These basically "piggyback" on the National collections of VAT. As both the Canadians and Brazilians have discovered, there are pervasive complexities in tax administration from such an arrangement. This is because there needs to be rigorous and constant information sharing protocols between various collection agencies. Arrangements for businesses can be complex, even on intra jurisdictional transactions. The economic impact may be negative too. See **<u>Appendix D</u>** for a further discussion about tax design issues.

Regarding local revenues, there are several constraints. Naturally, the potential revenues will be a function of the potential revenue base. As highlighted earlier, this depends on the size of the local economy. In addition, the legality of some sub national taxes, fees and charges, is unclear. Provincial administrations assert that this uncertainty results in a reluctance to too vigorously enforce tax laws that may subsequently be declared invalid.

A further constraint may be weak administrative capacity and willingness for revenue collection. This may not only reflect bureaucratic inefficiencies, but rational behaviour of the revenue office to keep collection costs well below revenues earned – in many provinces, the revenue office would only travel close to the main town areas. This last approach might also reflect the fact that, surprisingly, running the local revenue collection function is not necessarily a high priority budget expenditure item[27].

Fiscal sustainability is a concern if revenue streams are unsustainable…

A last consideration for the RIGFA is that of fiscal sustainability[28]. This is a concern where a province relies heavily on one revenue source, particularly the natural resource related "windfall" revenues. Although provincial governments cannot run deficits, so their borrowing and indebtedness is not a concern, there are ongoing commitments associated with "windfall" level of revenues that will be difficult to adjust. For example, long-term casual staff, expensive road and infrastructure projects (maintenance), counterpart funding for donor projects and "free" education policies add a long term expenditure commitment burden. These will be difficult to sustain and adjust when revenues inevitably decline. Western Province and Southern Highlands (mining/oil making up more than 90% of their revenues) in particular are worth considering, particularly as their local revenue returns are so low, as can be seen in the pie charts (**<u>APPENDIX F).</u>**

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[27] In one province, in one year, the Government budgeted K5,000 to cover the non-salary operating costs of the revenue office.

[28] Broadly, a fiscally sustainable government is one that can cover its expenditures and binding commitments out of its revenues and grants.

APPENDICES

APPENDIX A: "Nominal", "real" data and inflation adjustment

Original, unadjusted data is known as "**nominal**" data. It shows the actual amount, in kina terms, in a given year. However, nominal revenue can be distorted by price movements, particularly if one is analyzing trends over a number of years. A more meaningful way to examine data across time periods is to adjust for inflation. Adjusting for inflation allows a comparison across time periods without the usual annual rise in prices distorting the picture. Therefore, the revenues are expressed in terms of their "real" purchasing power at the time they are collected, which makes them comparable over time.

The "**real**" estimates shown here adjust for inflation. This is done by dividing **nominal** revenues by the level of the consumer price index (CPI). The CPI measures the price level for an identical basket of goods and services four times per year. The annual inflation rate measures changes in the CPI from year to year, as can be seen in the table.

Table A.1: Annual inflation rate 1996-2003

Year	1996	1997	1998	1999	2000	2001	2002	200
CPI	348.1	361.9	411	472.4	546.1	596.8	667.3	765.
Inflation rate (%)	11.6%	4.0%	13.6%	14.9%	15.6%	9.3%	11.8%	14.7

Source: NSO

The **real** (inflation adjusted) revenue series' in this in this paper have 2003 as their base year, as table A.2 demonstrates using total revenues. In 2003, the base year, K255m could purchase K255m worth of goods and services. A year earlier in 2002, inflation was about 12%, so the K230m raised would have been able to actually purchase K264m worth of goods and services in 2003. For real revenues to be constant during 1996-2003, nominal revenues would have had to rise by an annual average rate equal to inflation, about 11.9% per year – they only rose by 7% per year, so that real revenues fell.

Table A.2: Total revenues in nominal and real terms (kina millions)

	1996	1997	1998	1999	2000	2001	2002	2003
TOTAL NOMINAL REVENUES	161.9	181.2	199.7	229.1	254.1	252.8	230.4	255.3
TOTAL REAL REVENUES	356.0	383.2	371.9	371.3	356.1	324.2	264.2	255.3

APPENDIX B: Data sources and methods – an example of a PGAS account

<u>Notes about electronic files</u>

1. The base source files NEFC has used were provided as electronic PGAS files in September 2003, and additional files in December 2003 and February 2004, by Department of Finance.

2. These data files are per local PGAS entries, as recorded in PGAS by provincial budget staff.

3. The files were provided as "tilda delimited" text files, that NEFC has extracted into *.xls format, that each provincial sheet is linked to. There are about 120 files for the seven years, 19 provinces. An example of an extracted file is below - ENB 2001.

4. It should be noted that the PGAS system does not allow aggregation and reporting of time series in the manner presented here. NEFC understands from IT Division that a software update to the PGAS query system makes the task of extracting historical provincial revenue data from PGAS labour intensive, as each individual file needs to be extraced and copied.

5. NEFC had sought provinces' revenues for the period 1996 to 2002. ITD was able to provide all of the electronic revenue files for this period.

6. As highlighted in the notes above, some adjustments have been made to royalties, dividends and VAT in the NEFC dataset, based rather on actual payments by MRDC, the Departments of Mining and Petroleum and resource company records.

Sampl **EAST NEW BRITAIN 2001**

Divisn	Division Description	Func	Function Description	Orig Estimate	Pro-Rata Est	**YTD Actual**	Variance	Remrk	% YTD
603	Provincial Taxation	1	VAT on Goods	5,530,000	5,530,000	**5,529,858**	142	UNDER	100
603	Provincial Taxation	2	VAT on Services	1,450,000	1,450,000	**1,449,858**	142	UNDER	100
603	Provincial Taxation	3	VAT on Liquor	910,000	910,000	**909,996**	4	UNDER	100
603	Provincial Taxation	4	VAT on Fuel	1,350,000	1,350,000	**1,353,820**	3,820	OVER	100.3
603	Provincial Taxation	5	Land-O/Standing Sales Tax 1999	100,000	100,000	**17,908**	82,092	UNDER	17.9
603	Provincial Taxation	6	Land Rates Tax	1,000,000	1,000,000	**201,915**	798,085	UNDER	20.2
604	Provincial Licences & Fees	1	Motor Vehicle Registration	800,000	800,000	**823,529**	23,529	OVER	102.9
604	Provincial Licences & Fees	2	Driving Licences	200,000	200,000	**197,811**	2,189	UNDER	98.9
604	Provincial Licences & Fees	3	Liquor Licences	180,000	180,000	**152,903**	27,097	UNDER	84.9
604	Provincial Licences & Fees	4	Commercial Earnings(ENB Dev.Co	700,000	700,000	**-**	700,000	UNDER	0
604	Provincial Licences & Fees	5	Former Years Appropriations	3,000,000	3,000,000	**774,750**	2,225,250	UNDER	25.8
604	Provincial Licences & Fees	6	Sundries	400,000	400,000	**179,712**	220,288	UNDER	44.9
			GRAND TOTAL	15,620,000	15,620,000	**11,592,060**	4,027,940	UNDER	74.2

APPENDIX C: Detailed revenue and grants tables 1996-2003

Appendix C.1

Nominal and real Kina per head revenues tables by province for each of the three main categories: Local revenues, RST/VAT and benefits from Natural Resources. Real Kina per head revenues have been calculated using: the Consumer Price Index (to inflation adjust nominal revenues) and annual Provincial and NCD populations derived from NSO recommended Census growth rates (1980 to 2000 average annual population growth rate has been used).

Appendix C.2

Summary tables of recurrent National Government grants made to Provinces and the NCD from 1996-2003

APPENDIX C.1
WESTERN PROVINCE

	1996	1997	1998	1999	2000	2001	2002	2003
TOTAL REVENUES (excluding former year's appropriations)	**9,147,577**	**17,329,054**	**22,198,703**	**25,684,837**	**13,327,285**	**29,778,254**	**19,391,914**	**20,427,707**
RST/VAT	133,092	201,305	325,288	261,284	892,908	892,908	892,908	892,908
BENEFITS FROM NATURAL RESOURCES	8,790,936	16,340,597	21,539,000	25,067,000	12,303,000	28,488,000	18,460,280	19,314,901
LOCAL REVENUES:	223,549	787,152	334,415	356,553	131,377	397,346	38,726	219,898
MOTOR VEHICLE REG/DRIVING LICENCES	77,364	10,749	164,408	60,624	83,515	332,294	12,404	141,684
MISCELLENEOUS REVENUES	14,487	666,195	15,742	268,967	15,423	32,050	13,096	5,917
LIQUOR LICENCES	39,457	30,350	31,459	-	-	-	9,130	34,160
HOUSING RENTS	15,332	16,999	32,216	26,832	32,440	24,870	2,979	20,714
GAMBLING TAXES	62,475	31,174	56,033	130	-	-	-	-
OTHER MINOR REVENUES	14,435	31,685	34,557	0	- 0	8,132	1,117	17,423

GULF PROVINCE

	1996	1997	1998	1999	2000	2001	2002	2003
TOTAL REVENUES (ex former yrs)	6,122,845	3,484,278	2,016,719	4,241,420	6,452,152	4,820,955	3,815,094	4,060,242
RST/VAT	275,570	349,979	299,843	450,390	510,314	511,459	510,312	510,312
BENEFITS FROM NATURAL RESOURCES	4,785,000	3,028,588	1,323,200	3,702,840	5,850,499	3,156,300	3,132,003	1,503,000
LOCAL REVENUES:	1,062,275	105,711	393,677	88,189	91,339	1,153,196	172,779	2,046,930
MOTOR VEHICLE REG/LIC FEES	23,482	40,787	28,393	20,178	33,586	16,486	10,199	6,861
SUNDRY RECEIPTS	509,601	-	269,956	41,136	5,590	834	1,320	526,730
SANITATION/GARBAGE CHARGES	11,155	11,820	13,391	4,986	4,649	3,213	-	2,920
SALES - CROCODILES, PRODUCE AND SHIPPING SERVICES	20,989	1,303	16,748	5,885	24,972	100,000	-	2,637
INVESTMENTS - NON OIL	100,000	-	29,310	-	-	500,000	-	-
OTHER MINOR REVENUES	397,049	51,801	35,880	16,005	22,542	532,664	161,260	1,507,782

CENTRAL PROVINCE

	1996	1997	1998	1999	2000	2001	2002	2003
TOTAL revenues (ex fmr yrs)	1,808,043	2,604,935	2,899,598	2,688,100	3,734,007	2,284,042	5,114,904	3,092,659
RST/VAT	997,408	493,805	370,014	343,038	687,936	687,936	687,936	687,936
BENEFITS FROM NATURAL RESOURCES	137,329	122,673	204,982	290,342	217,958	291,314	290,905	429,368
LOCAL REVENUES:	673,305	1,988,456	2,324,602	2,054,720	2,828,113	1,304,792	4,136,063	1,975,355
NCDC GRANT	-	970,000	420,000	7,559	500,000	160,000	3,549,730	887,955
MOTOR VEHICLE REG	455,403	659,016	837,364	565,042	599,551	330,977	105,000	160,000
LIQUOR LICENCES	133,414	110,689	18,129	46,127	25,740	26,973	18,099	18,524
GAMBLING TAXES	-	-	96	854,445	1,678,766	750,820	377,519	323,460
MISCELLENEOUS	-	-	998,135	533,087	4,296	23,326	72,527	570,862
RENTALS	22,842	11,206	46,319	18,233	19,741	9,716	13,188	
OTHER MINOR REVENUES	61,647	237,545	4,559	30,226	20	2,979	-	14,554

NATIONAL CAPITAL DISTRICT

	1996	1997	1998	1999	2000	2001	2002	2003
TOTAL REVENUES (ex Eda Ranu debt)	**51,383,393**	**61,159,112**	**65,637,500**	**74,776,742**	**83,352,686**	**80,866,784**	**79,363,644**	**83,760,615**
RST/VAT/GST	41,094,409	50,859,573	53,796,751	66,249,876	72,651,683	71,821,279	71,088,992	71,059,209
LOCAL REVENUES:	10,288,984	10,299,539	11,840,749	8,526,866	10,701,003	9,045,505	8,274,652	12,701,406
Land Rates	3,336,920	2,044,824	2,280,063	2,434,354	3,205,596	2,632,317	2,505,427	3,536,029
Garbage and sanitation charges	760,419	1,034,659	1,013,254	1,083,172	658,546	596,111	397,018	905,867
Building, trading and other licences	1,630,277	1,545,304	1,687,669	1,560,984	1,943,488	1,784,357	1,711,859	1,787,622
Gambling Taxes	2,360,901	4,496,564	5,100,070	1,485,144	1,207,326	2,200,222	585,435	2,500,000
Other income	1,459,831	360,788	932,059	914,551	2,337,928	255,382	473,288	891,677
Fees & Fines	452,111	654,971	638,911	425,873	372,384	385,083	208,194	619,480
Interest Income	288,525	162,429	188,723	622,788	975,735	1,158,523	2,317,200	2,415,366
Other minor revenues	-	-	-	-	-	33,510	76,231	45,365

Notes:
1. Eda Ranu debt (principal) receipts have been excluded.

MILNE BAY

	1996	1997	1998	1999	2000	2001	2002	2003
TOTAL REVENUES (ex fmr yrs)	**5,018,443**	**6,780,319**	**4,932,855**	**5,363,347**	**5,966,630**	**4,646,146**	**4,499,741**	**6,684,328**
RST/VAT	1,267,539	1,321,915	1,804,307	2,057,967	1,988,748	1,988,748	1,988,748	1,988,748
BENEFITS FROM NATURAL RESOURCE	2,357,420	2,475,205	1,529,746	1,694,000	1,914,000	1,643,000	1,770,510	1,559,997
LOCAL REVENUES:	1,393,484	2,983,198	1,598,802	1,611,380	2,063,882	1,014,398	740,483	3,135,583
LIQUOR LICENCES	35,552	23,997	24,256	27,810	29,844	56,590	80,591	124,003
MOTOR VEH REG/DRIVERS LIC	151,526	173,805	213,798	166,912	237,481	260,515	270,563	389,857
MARITIME: SAFETY AND REGISTRATION CHARGES	4,573	10,111	6,239	8,760	6,666	7,260	12,335	11,247
FEES, FINES, PERMITS, OTHER MISC REVENUES	6,596	24,679	24,122	10,128	156,057	21,462	86,831	190,915
GAMBLING TAXES	8,265	9,943	7,750	3,482	-	-	-	-
ASSET SALES	43,489	62,150	12,248	8,199	276,439	628	2,093	771,048
RENTALS AND SALES	96,723	90,009	114,264	117,731	209,383	168,298	135,287	109,583
INTEREST ON DEPOSITS	1,035,474	421,936	976,094	1,087,008	901,949	303,626	124,326	178,066
INVESTMENT DIVIDENDS	-	2,155,129	210,950	163,139	223,838	171,200	-	59,361
OTHER MINOR REVENUES	11,286	11,441	9,081	18,212	22,224	24,820	28,457	1,301,503

ORO

	1996	1997	1998	1999	2000	2001	2002	2003
TOTAL REVENUES (ex fmr yrs)	**1,218,803**	**1,514,887**	**2,496,463**	**1,416,098**	**1,548,942**	**1,557,099**	**1,514,874**	**1,637,951**
RST/VAT	924,778	1,156,027	1,269,218	1,277,740	1,355,388	1,355,388	1,355,388	1,355,388
BENEFITS FROM NATURAL RESOURCES	91,113	56,052	88,472	13,322	-	-	-	-
LOCAL REVENUES:	202,912	302,808	1,138,773	125,035	193,554	201,711	159,486	282,563
MOTOR VEHICLE REG/DRIVING LICENCES	88,945	110,697	107,725	71,603	94,674	99,411	99,568	120,129
LIQUOR LICENCES	56,913	94,767	95,097	31,557	24,810	26,794	36,920	27,620
LAND TAXES/RATES	-	162	21,032	-	5,103	560	-	-
MISCELLENEOUS RECEIPTS	4,402	80	871,158	-	19,320	20,893	417	113,786
OTHER MINOR REVENUE HEADS	52,652	97,102	43,761	21,876	49,647	54,053	22,581	21,028

SOUTHERN HIGHLANDS

	1996	1997	1998	1999	2000	2001	2002	2003
TOTAL REVENUES (ex fmr yrs)	**20,034,639**	**14,720,047**	**10,748,146**	**17,300,257**	**21,968,984**	**17,790,268**	**16,001,414**	**30,286,940**
RST/VAT	631,857	376,718	859,331	922,642	1,419,732	1,419,732	1,419,732	1,419,732
BENEFITS FROM NAT RESOURCES	18,096,531	13,869,091	8,899,947	15,787,403	19,994,036	15,647,406	14,499,794	27,100,000
LOCAL REVENUES:	1,306,252	474,238	988,867	590,212	555,216	723,130	81,888	1,767,208
MOTOR VEH REG/HEAVY TRUCKS/PMVS	92,632	56,839	131,442	143,321	166,852	140,296	52,476	150,000
DRIV LICENCES	49,990	36,565	68,977	54,240	46,880	39,769	16,044	30,000
LIQUOR LICENCES	4,307	-	7,954	14,500	3,450	12,300	9,050	12,000
HOUSING RENTALS	19,922	5,751	240,398	11,091	12,940	9,118	3,888	50,000
INVESTMENTS (NON MINING)	6,038	100,890	30,000	140,000	138,000	50,000	-	180,000
DEFAULT RECOVERY EXERCISE	1,120,000	184,135	334,674	204,853	169,963	-	-	250,000
OTHER MINOR REVENUES	13,363	90,058	175,423	22,208	17,131	471,646	430	1,095,208

ENGA PROVINCE

	1996	1997	1998	1999	2000	2001	2002	2003
TOTAL REVENUES (ex fmr yrs)	**5,426,743**	**5,506,797**	**10,194,721**	**11,064,046**	**21,052,663**	**21,318,484**	**11,795,620**	**17,991,446**
RST/VAT	**799,925**	**1,011,432**	**1,478,287**	**2,981,201**	**3,259,155**	**3,239,213**	**3,174,898**	**3,174,516**
NAT RES BENEFITS	**3,715,780**	**3,774,194**	**4,898,716**	**5,773,662**	**13,024,041**	**12,302,106**	**7,857,920**	**13,647,883**
LOCAL REVENUES:	**911,038**	**721,171**	**3,817,718**	**2,309,183**	**4,769,467**	**5,777,164**	**762,802**	**1,169,047**
MOTOR VEHICLE REG/DRIVING LICENCES	128,894	108,754	167,586	137,981	150,478	103,471	102,613	135,436
PMV LIC	10,299	45,580	47,999	51,244	49,030	34,174	35,774	31,657
LOAN PROCEEDS	-	-	1,100,000	1,326,339	2,500,000	-	-	-
NON MINING INVESTMENTS	-	-	672,846	-	1,200,000	5,241,827	433,278	762,492
SUNDRY INCOME	23,984	132,846	805,790	38,609	633,706	318,325	1,578	70,870
INTEREST BEARING DEPOSIT	255,005	419,331	263,080	90,468	50,908	-	6,332	3,666
LIQUOR LICENCES	1,224	-	7,737	21,927	13,008	18,570	26,413	54,269
OTHER MINOR REVENUES	491,631	14,660	752,681	642,616	172,337	60,797	156,813	110,657

WESTERN HIGHLANDS

	1996	1997	1998	1999	2000	2001	2002	2003
TOTAL REVENUES (ex fmr yrs)	**7,443,395**	**10,119,129**	**12,155,140**	**12,643,954**	**14,700,809**	**12,821,294**	**11,987,516**	**10,824,351**
RST/VAT	**6,127,044**	**7,805,979**	**8,911,030**	**10,773,649**	**9,368,200**	**9,368,200**	**9,368,200**	**9,368,200**
LOCAL REVENUES:	**1,316,351**	**2,313,150**	**3,244,110**	**1,870,305**	**5,332,609**	**3,453,094**	**2,619,316**	**1,456,151**
MOTOR VEHICLE REG	610,317	663,600	98,530	616,778	617,108	691,680	734,783	728,159
PMV REGISTRATIONS	251,724	266,635	-	343,029	287,744	246,716	256,413	265,042
LIQUOR LICENCES	62,068	-	707,022	70,800	89,963	1,040,500	1,593,416	198,854
LAND TAX	100,682	42,314	-	90,544	126,618	4,288	-	9,408
TRUCK LICENCES	-	-	1,239,910	-	45,081	-	150	-
IBD	285,353	-	1,183,580	-	2,500,000	-	-	-
GAMBLING TAXES	-	1,310,630	12,768	682,162	327,444	428,857	200	200
OTHER MINOR REVENUES	6,206	29,971	2,300	66,992	1,338,651	1,041,054	34,354	254,488

SIMBU

	1996	1997	1998	1999	2000	2001	2002	2003
TOTAL REVENUES (ex fmr yrs)	**1,103,988**	**1,213,442**	**1,470,456**	**1,529,458**	**1,199,656**	**1,151,084**	**1,179,132**	**1,141,093**
RST/VAT	**883,390**	**1,015,781**	**1,255,861**	**1,277,355**	**1,031,724**	**1,052,282**	**1,031,621**	**1,031,724**
LOCAL REVENUES:	**220,598**	**197,660**	**214,595**	**252,103**	**167,932**	**98,802**	**147,511**	**109,369**
MOTOR VEHICLE REG/DRIVING LICENCES	103,117	94,506	107,646	87,856	58,592	31,980	47,332	52,742
PMV LICENCES/FEES	-	-	-	428	25,948	20,903	20,810	16,350
RENTALS	62,307	40,197	50,839	37,461	60,530	38,354	47,439	23,044
ASSET DISPOSALS	13,390	19,799	23,900	-	3,000	-	500	13,723
VILLLAGE COURT FEES/FINES	-	-	-	-	10,374	3,620	452	-
OTHER MINOR REVENUES	41,783	43,158	32,211	126,358	9,488	3,945	30,979	3,510

EASTERN HIGHLANDS

	1996	1997	1998	1999	2000	2001	2002	2003
TOTAL REVENUES (ex fmr yrs)	**3,809,995**	**4,472,260**	**4,694,991**	**4,534,980**	**5,449,914**	**5,223,339**	**5,001,685**	**5,021,303**
RST/VAT	**2,633,577**	**2,666,996**	**2,862,330**	**2,956,338**	**3,957,905**	**3,919,094**	**3,917,910**	**3,916,218**
LOCAL REVENUES:	**1,176,418**	**1,805,263**	**1,832,661**	**1,578,641**	**1,492,009**	**1,304,245**	**1,083,775**	**1,105,085**
MOTOR VEHICLE REG/DRIV LIC	639,549	697,021	782,919	759,283	886,900	731,921	782,152	750,286
GAMBLING TAXES	439,542	981,077	809,342	584,882	328,421	344,969	84,755	76,540
LIQUOR LICENCES	78,354	110,948	96,255	105,015	89,965	116,494	106,627	110,615
PROCEEDS FROM ECO PROJ	-	-	-	30,457	40,908	23,075	25,155	59,775
RENTALS AND SALES	11,541	-	63,658	68,302	112,506	64,575	64,172	79,650
OTHER MINOR REVENUES	7,431	16,217	80,488	30,702	33,310	23,211	20,914	28,219

MOROBE

	1996	1997	1998	1999	2000	2001	2002	2003
TOTAL REVENUES (ex fmr yrs)	21,653,330	22,768,110	26,664,544	27,113,138	29,189,386	29,803,956	28,884,743	28,047,674
RST/VAT	18,109,573	19,699,037	21,694,180	24,178,141	26,797,629	26,691,501	25,504,604	24,394,944
LOCAL REVENUES:	3,543,757	3,069,074	4,970,364	2,934,997	2,391,757	3,112,455	3,380,139	3,652,730
MOTOR VEHICLE REG/DRIV LIC/PMV/HEAVY MOTOR VEHCLE	1,724,735	1,763,322	1,701,793	1,652,451	1,912,311	2,256,813	2,714,331	3,455,812
GAMBLING TAXES	133,961	817,854	517,310	932,053	264,532	499,268	130,187	75
LIQUOR LICENCES	205,590	239,499	190,054	163,254	213,371	211,984	431,629	56,162
RENTALS, SALES	58,184	60,033	56,055	40,486	62,743	46,344	44,197	45,597
INT BEARING DEPOSITS	-	28,566	283,692	78,091	-	81,032	40,824	26,176
LAND TAX	1,310,386	-	19,402	17	- 77,394	-	-	30,296
OTHER MINOR REVENUES	110,900	159,801	2,202,059	68,645	16,194	17,015	18,972	38,612

MADANG

	1996	1997	1998	1999	2000	2001	2002	2003
TOTAL REVENUES (ex fmr yrs)	**3,717,053**	**3,754,891**	**3,980,683**	**5,794,578**	**6,881,533**	**5,413,705**	**5,525,260**	**5,845,444**
RST/VAT	**2,848,694**	**2,924,310**	**3,130,561**	**3,448,166**	**4,185,744**	**4,185,744**	**4,185,744**	**4,185,744**
BENEFITS FROM NATURAL RESOURCES	**64,260**	**20,988**	**13,030**	**19,213**	**17,929**	**12,390**	**20,313**	**32,111**
LOCAL REVENUES	**804,099**	**809,593**	**837,092**	**2,327,199**	**2,677,859**	**1,215,571**	**1,319,203**	**1,627,589**
MOTOR VEHICLE REG/DRIVING LICENCES	409,162	406,375	387,419	411,446	523,899	574,608	585,868	613,177
LIQUOR LICENCES	116,301	106,913	105,104	120,833	100,150	119,829	103,893	83,229
INTEREST BEARING DEPOSITS	64,389	86,830	34,521	30,693	469,145	354,459	366,148	594,750
GAMBLING TAXES	15,336	19,195	14,167	7,202	350	50	-	-
SALES, CHARGES, RENTALS	56,258	56,689	98,998	109,902	71,129	43,786	92,821	283,896
DIVIDENDS	80,000	100,000	108,419	17,684	-	-	-	-
SUNDRY REVENUES	21,907	9,836	11,563	1,446,991	1,400,514	21,956	32,978	16,525
OTHER MINOR REVENUES	40,747	23,753	76,901	182,448	112,673	100,884	137,495	36,012

EAST SEPIK

	1996	1997	1998	1999	2000	2001	2002	2003
TOTAL REVENUES (ex fmr yrs)	**2,454,398**	**2,415,837**	**2,492,482**	**2,110,180**	**1,962,140**	**1,925,498**	**2,028,651**	**2,800,526**
RST/VAT	**1,836,114**	**1,831,574**	**1,967,127**	**1,738,172**	**1,559,700**	**1,559,700**	**1,559,700**	**1,559,700**
BENEFITS FROM NATURAL RESOURCES	**3,719**	**7,562**	**247**	**-**	**-**	**403**	**438**	**368**
LOCAL REVENUES:	**614,566**	**576,702**	**525,108**	**372,008**	**402,440**	**365,395**	**468,513**	**1,240,458**
MOTOR VEHICLE REG/DRIV LIC/HEAVY VEH LIC	*190,932*	*190,319*	*220,813*	*215,372*	*197,750*	*229,863*	*277,286*	*408,301*
MISCELLENEOUS FEES/LEVIES	*71,856*	*39,730*	*10,337*	*7,955*	*111,052*	*23,831*	*26,151*	*69,716*
LIQUOR LICENCES	*17,140*	*103,972*	*97,210*	*65,410*	*80,200*	*67,470*	*101,150*	*742,907*
EXTRAORDINARY ITEMS	*310,629*	*130,255*	*120,020*	-	-	-	-	-
OTHER MINOR REVENUES	*24,009*	*112,427*	*76,728*	*83,271*	*13,438*	*44,231*	*63,926*	*19,534*

SANDAUN

	1996	1997	1998	1999	2000	2001	2002	2003
TOTAL REVENUES (ex fmr yrs)	**2,061,987**	**2,402,556**	**1,309,152**	**1,102,570**	**1,336,798**	**2,106,808**	**2,794,242**	**2,362,380**
RST/VAT	**982,462**	**1,208,901**	**1,040,751**	**931,812**	**1,127,664**	**1,127,664**	**1,127,664**	**1,127,664**
BENEFITS FROM NATURAL	**727,222**	**846,444**	**70,136**	**19,372**	**-**	**-**	**1,482,809**	**891,156**
LOCAL REVENUES	**352,303**	**347,211**	**198,266**	**151,387**	**209,134**	**979,144**	**183,769**	**343,560**
MOTOR VEHICLE REG/DRIVING LICENCES/PMV	138,251	149,890	132,584	123,939	167,224	181,404	147,545	213,356
SUNDRY RECEIPTS	182,098	168,008	34,286	2,785	14,177	755,125	5,620	66,311
LIQUOR LICENCES AND FINES	15,015	13,937	21,542	13,494	17,603	34,740	25,731	25,080
OTHER MINOR REVENUES	16,939	15,377	9,854	11,168	10,130	7,875	4,873	38,813

MANUS

	1996	1997	1998	1999	2000	2001	2002	2003
TOTAL REVENUES (ex fmr yrs)	**952,191**	**907,868**	**988,511**	**1,432,679**	**1,547,498**	**1,459,246**	**1,528,341**	**1,366,430**
RST/VAT	**558,935**	**748,480**	**783,667**	**754,900**	**1,033,908**	**1,033,908**	**1,033,908**	**1,033,908**
BENEFITS FROM NAT RES	**35,672**	**-**	**-**	**4,885**	**140,000**	**118,511**	**-**	**20,000**
LOCAL REVENUES:	**357,583**	**159,388**	**204,844**	**672,894**	**373,590**	**306,827**	**494,433**	**312,522**
MOTOR VEHICLE REG/DRIVING LICENCES	39,468	37,679	55,613	47,990	57,322	45,448	67,393	63,639
LIQUOR LICENCING	2,840	23,155	31,015	27,360	23,281	45,170	44,050	80,330
SALES, RENTALS, UTILITY CHARGES, PRINTING SERVICES, PRODUCE	195,370	72,746	104,423	372,215	242,909	148,363	309,267	144,700
RETURN ON INVESTMENTS	104,355	353	353	177,927	12,085	20,484	34,099	2,615
ASSET SALES/SUB-DIVISION LAND SALES	6,695	10,631	1,130	42,262	34,850	43,972	37,365	16,162
OTHER MINOR REVENUES	8,855	14,825	12,310	5,140	3,144	3,390	2,260	5,076

NEW IRELAND

	1996	1997	1998	1999	2000	2001	2002	2003
TOTAL REVENUES (ex fmr yrs)	**3,280,145**	**4,991,955**	**7,849,490**	**9,459,877**	**10,941,944**	**12,211,630**	**12,805,651**	**12,112,734**
RST/VAT	**2,765,316**	**3,337,168**	**2,976,647**	**3,476,484**	**3,924,437**	**3,783,792**	**3,783,792**	**3,783,792**
BENEFITS FROM NATURAL RESOURCES	**-**	**1,190,054**	**3,982,233**	**5,417,437**	**6,315,636**	**7,778,294**	**8,211,105**	**7,683,893**
LOCAL REVENUES:	**514,829**	**464,734**	**890,610**	**565,956**	**701,871**	**649,544**	**810,754**	**645,049**
MOTOR VEHICLE REG/DRIVING LICENCES	256,368	273,444	274,421	278,228	346,510	342,595	328,786	358,061
LIQUOR LICENCES	8,660	32,156	51,419	19,137	11,665	19,198	29,107	39,932
PROPERTY TAX	-	13,728	6,628	-	-	10,188	62,097	7,577
ROAD USER CAHRGES	-	-	2,048	11,135	3,062	8,416	15,188	3,928
MISCELLENEOUS	-	56,088	457,992	121,441	171,102	115,214	152,532	91,745
OTHER MINOR REVENUES	249,801	89,318	98,102	136,015	169,533	153,933	223,045	143,806

EAST NEW BRITAIN

	1996	1997	1998	1999	2000	2001	2002	2003
TOTAL REVENUES (ex fmr yrs)	**9,060,112**	**8,827,723**	**9,428,199**	**11,513,813**	**11,809,708**	**10,813,490**	**10,881,026**	**11,438,354**
RST/VAT	**5,875,750**	**7,250,161**	**8,280,209**	**9,112,991**	**9,373,074**	**9,257,620**	**9,239,712**	**9,239,712**
LOCAL REVENUES	**3,184,363**	**1,577,562**	**1,147,989**	**2,400,822**	**2,436,634**	**1,555,870**	**1,641,314**	**2,198,642**
MOTOR VEHICLE REG/DRIVING LICENCES	708,116	785,059	903,594	886,732	1,103,469	1,021,340	1,093,224	1,681,213
SUNDRIES	2,343,295	670,808	- 137,358	689,161	235,322	179,712	139,608	137,123
LIQUOR LICENCES	108,399	90,500	111,774	207,599	160,124	152,903	161,367	155,277
LAND TAX	22,787	31,185	69,979	217,242	237,719	201,915	208,155	218,918
OTHER MINOR REVENUES	1,765	10	200,000	400,089	700,000	-	38,959	6,111

WEST NEW BRITAIN

	1996	1997	1998	1999	2000	2001	2002	2003
TOTAL REVENUES (ex fmr yrs)	**6,028,593**	**5,412,363**	**6,761,537**	**8,275,213**	**10,356,512**	**6,063,628**	**5,380,404**	**5,465,110**
RST/VAT	**4,241,125**	**4,178,522**	**3,905,865**	**4,034,438**	**4,356,120**	**4,356,120**	**4,375,730**	**4,356,120**
BENEFITS FROM NATURAL RESOURCES	**430,799**	**291,560**	**105,009**	**146,234**	**78,503**	**44,093**	**10,900**	**10,157**
LOCAL REVENUES:	**1,356,669**	**942,281**	**2,750,663**	**4,094,541**	**5,921,889**	**1,663,415**	**993,774**	**1,098,833**
TRAFFIC REGISTRY	486,515	503,641	491,530	452,303	489,143	543,745	477,495	759,124
HEAVY VEHICLES	14,993	12,659	5,748	7,621	1,390	14,072	9,999	9,042
LIQUOR LICENCES	89,435	123,444	127,194	113,715	94,909	88,070	53,276	74,880
LAND TAX	203,767	194,238	163,933	166,300	40,860	85,770	328,920	215,227
RENTALS AND SALES	62,550	26,859	41,071	19,449	92,438	51,589	35,044	24,536
INVESTMENTS	105,990	-	-	2,895,000	2,997,335	232,951	30	-
GAMBLING TAXES	77,313	22,127	8,892	31,533	8,550	115,778	-	-
OTHER MINOR REVENUES	316,105	59,314	1,912,296	408,619	2,197,265	531,440	89,011	16,024

BOUGAINVILLE

	1996	1997	1998	1999	2000	2001	2002	2003
TOTAL REVENUES (ex fmr yrs)	**594,353**	**777,837**	**764,653**	**1,098,613**	**1,273,794**	**719,648**	**868,896**	**889,968**
RST/VAT	**471,106**	**618,419**	**593,698**	**955,773**	**666,453**	**653,388**	**653,388**	**646,220**
LOCAL REVENUES:	**123,246**	**159,418**	**170,955**	**142,840**	**607,340**	**66,260**	**215,508**	**243,748**
MOTOR VEHICLE REG/DRIVING LICENCES	45,924	66,591	72,367	64,340	72,199	55,345	46,977	54,565
SUNDRY REVENUES	39,276	25,726	57,353	21,260	527,501	5,104	4,128	18,359
LIQUOR FEES AND LICENCES	-	-	-	-	-	-	121,203	117,059
RETURN ON INVESTMENTS	35,122	6,550	24,341	1,800	2,600	2,430	38,600	35,200
ASSET SALES	2,830	58,027	14,665	54,701	5,040	3,380	4,600	18,565
OTHER MINOR REVENUES	95	2,524	2,230	740	-	-	0	-

Appendix C.2

RST/VAT REAL REVENUES PER HEAD - 1996 TO 2003									
									8 year average
	1996	1997	1998	1999	2000	2001	2002	2003	
WESTERN	2	3	4	3	8	7	6	5	5
GULF	6	7	5	7	7	6	5	4	6
CENTRAL	13	6	4	3	5	5	4	3	5
NCDC	411	472	424	438	401	350	299	251	380
MILNE BAY	15	14	17	16	13	12	10	9	13
ORO	17	20	19	16	14	13	11	9	15
SOUTHERN HIGHLANDS	3	2	3	3	4	3	3	2	3
ENGA	7	8	10	17	15	14	12	10	12
WESTERN HIGHLANDS	34	40	40	41	30	27	23	20	32
SIMBU	8	9	9	8	6	5	4	4	7
EASTERN HIGHLANDS	15	14	13	11	13	11	10	8	12
MOROBE	82	84	79	75	70	62	51	42	68
MADANG	19	18	17	16	16	14	12	11	15
EAST SEPIK	13	12	11	8	6	6	5	4	8
SANDAUN	13	15	11	8	9	8	7	6	9
MANUS	31	39	35	29	33	30	26	22	31
NEW IRELAND	58	65	50	49	46	40	35	29	46
EAST NEW BRITAIN	65	75	74	69	60	53	46	39	60
WEST NEW BRITAIN	58	53	42	37	33	29	25	21	37
BOUGAINVILLE	6	8	7	9	5	5	4	4	6

BENEFITS FROM NATURAL RESOURCES REAL REVENUES PER HEAD - 1996 TO 2003									Average
	1996	1997	1998	1999	2000	2001	2002	2003	
WESTERN	144.1	249.2	279.7	273.9	112.5	230.5	129.2	114.0	192
GULF	109.0	64.7	24.3	57.6	76.7	36.9	31.9	13.0	52
CENTRAL	1.8	1.5	2.2	2.6	1.7	2.0	1.7	2.2	2
MILNE BAY	27.2	26.8	14.2	13.4	12.7	9.8	9.2	6.9	15
ORO	1.7	1.0	1.3	0.2	-	-	-	-	1
SOUTHERN HIGHLANDS	86.1	60.9	33.0	48.8	51.3	35.2	28.0	43.7	48
ENGA	31.1	29.5	32.8	32.6	61.9	51.9	28.8	42.4	39
WESTERN HIGHLANDS	-	-	-	-	-	-	-	-	-
SIMBU	-	-	-	-	-	-	-	-	-
EASTERN HIGHLANDS	-	-	-	-	-	-	-	-	-
MOROBE	-	-	-	-	-	-	-	-	-
MADANG	0.4	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0
EAST SEPIK	0.0	0.0	0.0	-	-	0.0	0.0	0.0	0
SANDAUN	9.5	10.4	0.7	0.2	-	-	8.7	4.5	4
MANUS	2.0	-	-	0.2	4.5	3.4	-	0.4	1
NEW IRELAND	-	23.2	66.4	76.4	74.8	81.9	75.1	59.5	57
EAST NEW BRITAIN	-	-	-	-	-	-	-	-	-
WEST NEW BRITAIN	5.9	3.7	1.1	1.3	0.6	0.3	0.1	0.0	2
BOUGAINVILLE	-	-	-	-	-	-	-	-	-
PNG Average	23.3	26.2	25.3	28.2	22.0	25.1	17.4	15.9	22.9

REAL LOCAL REVENUES PER HEAD 1996 TO 2003

	1996	1997	1998	1999	2000	2001	2002	2003	AVERAGE
WESTERN	13	5	5	1	4	0	2	2	4
GULF	2	8	2	1	15	2	21	6	7
CENTRAL	26	29	22	25	10	28	12	11	20
NCDC	103	110	67	71	50	40	53	36	66
MILNE BAY	34	17	15	16	7	4	16	8	15
ORO	6	20	2	2	2	1	2	2	5
SOUTHERN HIGHLANDS	2	4	2	2	2	0	3	1	2
ENGA	6	30	15	27	27	3	4	8	15
WESTERN HIGHLANDS	13	17	8	20	11	7	4	6	11
SIMBU	2	2	2	1	1	1	0	1	1
EASTERN HIGHLANDS	10	10	7	6	4	3	3	3	6
MOROBE	14	21	11	7	8	8	7	6	10
MADANG	5	5	13	12	5	5	5	4	7
EAST SEPIK	4	3	2	2	1	2	4	2	3
SANDAUN	5	2	2	2	7	1	2	2	3
MANUS	9	11	30	14	10	14	8	8	13
NEW IRELAND	10	17	9	10	8	9	6	5	9
EAST NEW BRITAIN	17	12	21	18	10	9	11	9	13
WEST NEW BRITAIN	13	35	44	54	13	7	6	11	23
BOUGAINVILLE	2	2	2	6	1	2	2	1	2
PNG AVERAGE	14.8	18.1	14.1	15.0	9.7	7.3	8.6	6.5	11.8

Appendix C.2

Non-staff recurrent grants to Provincial Governments

Millions of Kina (nominal terms)

Administration, Infrastructure, Education subs, Derviation Grant and Church health servcies (143) grants

	1996	1997	1998	1999	2000	2001	2002	2003
Western	5.5	7.0	9.1	5.3	5.3	4.8	3.7	2.4
Gulf	5.6	4.3	5.4	4.0	4.0	3.0	2.0	1.5
Central	2.6	5.1	6.5	4.4	4.4	3.7	2.4	2.0
NCD	3.3	6.9	6.9	3.4	3.7	3.2	2.2	1.5
Milne Bay	3.6	6.2	7.8	5.8	5.8	4.7	3.4	2.3
Oro	6.4	5.1	5.3	3.8	3.8	4.4	3.2	2.2
SHP	5.4	11.2	12.0	5.7	5.7	6.2	5.2	3.3
Enga	4.8	8.8	10.7	6.7	6.7	6.3	4.7	3.2
WHP	7.4	13.7	13.7	9.1	9.1	9.1	7.1	5.0
Simbu	3.7	6.1	6.8	5.4	5.1	4.3	3.6	3.1
EHP	5.4	11.5	14.3	10.6	10.9	11.4	8.0	4.7
Morobe	9.4	13.3	12.7	10.2	10.2	9.4	6.9	4.7
Madang	5.1	9.0	10.1	8.6	8.6	7.7	6.0	4.1
East Sepik	4.7	9.6	9.8	7.4	7.4	6.6	5.7	3.9
Sandaun	2.9	6.2	5.4	4.2	4.7	3.8	2.8	1.6
Manus	4.4	2.2	3.0	2.1	2.1	1.6	1.4	0.8
New Ireland	5.8	4.0	4.8	4.6	4.6	4.3	3.3	2.2
ENBP	4.0	6.4	8.1	6.3	6.3	7.1	5.2	3.6
WNBP	3.1	5.0	5.0	5.6	5.6	7.8	5.6	3.9
Bougainville	8.3	12.1	2.8	2.2	12.1	9.4	10.2	17.5
TOTAL	101.6	153.6	160.2	115.6	126.3	119.0	92.5	73.5

Source: Budget papers

Staffing recurrent grants to Provincial Governments

Millions of Kina (nominal terms)

Salaries of public servants and teachers

	1996	1997	1998	1999	2000	2001	2002	2003
Western	11.0	12.3	14.7	16.3	16.6	19.2	23.3	21.4
Gulf	7.6	8.5	8.7	9.1	9.4	11.5	12.9	13.4
Central	16.3	13.3	15.4	16.6	18.7	22.5	25.7	26.3
NCD	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Milne Bay	13.5	15.4	15.9	16.5	17.2	20.3	23.7	22.5
Oro	4.7	9.9	10.4	10.7	10.9	13.4	14.3	14.1
SHP	20.2	24.9	21.3	27.3	29.8	33.0	37.2	38.9
Enga	14.2	15.1	17.2	18.1	19.6	21.4	25.5	26.0
WHP	18.6	18.8	20.1	22.6	24.8	28.6	31.9	32.2
Simbu	13.5	15.4	17.1	17.8	19.1	23.3	26.7	28.0
EHP	18.7	19.5	21.8	23.4	24.3	29.4	33.3	35.2
Morobe	23.6	26.7	27.9	29.5	30.7	36.1	41.8	43.7
Madang	15.6	17.5	18.1	19.4	20.9	23.9	28.6	28.6
East Sepik	16.6	18.3	19.3	21.0	22.1	25.8	30.6	29.3
Sandaun	10.5	11.8	12.6	13.3	13.5	16.6	18.4	20.0
Manus	5.5	6.6	6.8	7.3	8.0	9.2	10.3	10.6
New Ireland	10.4	11.6	12.3	13.6	14.0	16.2	17.6	17.3
ENBP	15.1	18.2	19.8	20.3	21.8	25.0	28.5	28.3
WNBP	12.7	13.9	15.3	16.3	17.1	20.4	22.3	23.0
Bougainville	2.4	9.9	19.0	19.2	10.4	13.9	15.0	18.6
TOTAL	250.6	287.3	314.1	338.4	348.9	409.5	467.6	477.1

Source: Budget papers

APPENDIX D: RST and VAT – a theoretical perspective

Principles for analyzing taxes

Before examining the main differences between RSTs and the VAT, it is worth stepping back and considering some standard public finance principles under which any tax can be assessed. In brief, these are:

- Revenue sufficiency – *does the tax raise sufficient revenue compared to the cost of collection?*
- Vertical equity – *how does the tax treat wealthier taxpayers relative to poorer taxpayers?*
- Horizontal equity – *to what extent does the tax discriminate or favour otherwise like individuals because of their different consumption preferences?*
- Efficiency – *does the tax distort the choices of businesses and households in their investment and consumption decisions?*
- International competitiveness – *is the tax internationally competitive, if this is relevant*
- Federalism, decentralization considerations – *is the tax suited to collection by this level of government?*
- Simplicity – *how simple is the tax to administer and understand*

Overview of RST and VAT

The RST and VAT are fundamentally different taxes. Chief amongst these differences is that RST a single stage tax and VAT is a multi-stage tax

Under the **RST**, taxing occurs at one (single) stage, at the retail outlet on the final product. The RST operates by excluding larger businesses from RST when purchasing inputs from other businesses. This is so that businesses are not double taxed. Everyone else pays RST, including smaller businesses on their inputs. These businesses do not receive any subsequent credit from the tax authorities for this. This creates what are known as cascading taxes, that are in effect, levied on top of each other. Cross border transactions (say between Morobe and Rabaul) were, however, not exempt (there was no provision), so cascading was worsened. Because of the cascading, RST systems create a price disadvantage in world export markets, since domestic consumption taxes are not stripped from export prices. A system of 20 differentiated RSTs

risks impinging on *efficiency*, particularly where business location decisions are distorted – the Morobe tyre tax being a case in point.
Under a multi stage **VAT**, tax is imposed at all stages (multi) of production, from manufacturer all the way to the final consumer. However, all businesses are required to be registered, so that the tax authorities can give a rebate for the VAT paid on business inputs. Only the final consumer pays tax since all businesses are fully compensated for VAT they incur by the rebate. Exports are taxed at 0%, since the final consumer is overseas, but businesses still receive a rebate on the inputs. In the shift from an RST to VAT, a country's terms of trade should improve slightly on introduction, since exports are now priced more favourably in world markets.

RST versus VAT

Regarding the principles above, the PNG VAT is favourable to the former RSTs with regard:

- revenue sufficiency – 10% VAT in its first year raised more on any comparable measure than the RSTs, mostly by virtue of bringing more people and entities into the tax system
- efficiency – favourable since a single administration and identical base and rate remove the incentive for distortions and tax competition between jurisdictions.
- international competitiveness – lower taxes on exports, aiding competitiveness
- fiscal federalism and revenue adequacy – assuming revenue sufficiency is a concern, a national VAT is preferable, notwithstanding subnational jurisdictions' rights issues. Distribution arrangements can, ideally, deal with revenue adequacy concerns for each jurisdiction.
- simplicity – VAT is superior in administrative ease (1 system versus 20), treatment of business-to-business and cross border transactions (effective real time information sharing between 20 jurisdictions no longer necessary, if it occurred at all with any effectiveness).

VAT and derivation

Although the VAT distribution arrangements are regarded as returning VAT to its source of collection (ie, its derivation), it should be strongly emphasized that the arrangements can only provide a very rough attempt at derivation distribution. In particular, there are significant complexities in allocating refund credits. Since it is impossible to determine at the point of refund where VAT refunded was originally collected, refunds are allocated proportionally to collections. This may overstate net revenue in exporting provinces, particularly those with mines, and understate revenues in others. In other words, some provinces have too few credits deducted, some too many.

APPENDIX E: List of fees, charges and taxes imposed

Provincial Government Laws in Force Exclusively on Provincial Taxes up till 1995.

Laws Imposing Exclusively Provincial Taxes:

Betelnut Sellers and Chewers Act 1985
Entertainment Tax Act 1980
Head Tax Administration Act 1982
Head Tax Rates Act 1982
Land and Building Tax Administration Act 1986
Land and Building Tax Rates Act 1986
Land Tax Administration Act 1982
Land Tax Rates Act 1988
Land Transport Board Act 1986
Liquor Control Act 1980-1978
Liquor Licensing Act 1978
Lottery Act 1980
Mobil Traders Licensing Act 1980
Retail Sales Rates (Alcoholic Liquor) Act 1978
Retail Sales Rates (Hotel Accommodation) Act 1983
Retail Sales Rates (Petroleum) Act 1981
Retail Sales Rates (Tobacco) Act 1981
Retail Sales Rates (Tyre) Act 1981
Retail Sales Rates (Video Tape Hire) Act 1983
Retail Sales Tax Administration Act 1978
Signs and Advertising Act 1987
Small Craft Act 1983
Village Courts Act 1987

Provincial Government Taxes, Fees and Charges introduced since 1995.

Airport Service Tax
Alcoholic Beverages
Bookmakers Turnover Tax
Business Licensing Tax
Court fees and Fines
Developed Property Tax

Discipline Fines
Driving Licenses
Electrical charges
Entertainment Tax
Forestry Levy
Gamining Machine Proceeds
General Sales Tax
Health fees
Heavy Vehicle Licensing
Hotel Accommodation Tax
Housing Rents
Land Tax
Liquor Licensing Fees
Market Fees
Medical Fees
Mining Royalties
Motor Vehicle Registration & License
Other Taxes (AIR NIUGINI)
Penalties Heavy Vehicles
Permits
Petroleum Products Taxes
PMV Application and License Fees
Postal Agency Fees
Registration Fees Youth Women etc
Rental Fees
Sales & Services Tax
Sea Worthiness
Second Hand Dealers License
Small Crafts Registration
Survey Fees
Tenders Board Application Fee
Tobacco Sales – Cigarettes
Trade Store License .
Vehicle Hire
Vehicle Rental

APPENDIX F – 1996-2003 revenue trends, province by province

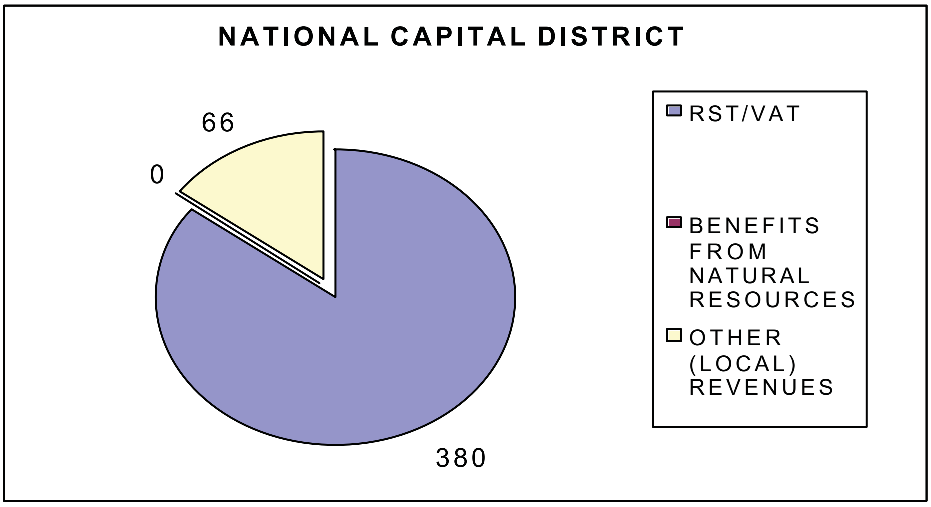
An analysis and explanation for the revenue trends in each province follows. This is undertaken, in a relative sense, using the high/medium/low benchmarks outlined above.

Revenues H/M/L rating benchmarks – Annual average real kina per head			
	Low	Medium	High
TOTAL	**<26**	**26-75**	**>75**

The HIGH/MEDIUM/LOW comments (in capitals) for each province are made with under this framework that describes relative revenue collection.

APPENDIX F – 1996-2003 revenue trends, province by province

WESTERN PROVINCE



RST/VAT: LOW at first, jumping sharply up to MEDIUM on VAT introduction. The trend has flattened after VAT though, since Western has always exceeded the "30%", so received 1998/99 RST collections as these were higher. The apparent volatility in VAT collection in 1999-2000 reflects differences in the timing of distributions[29].

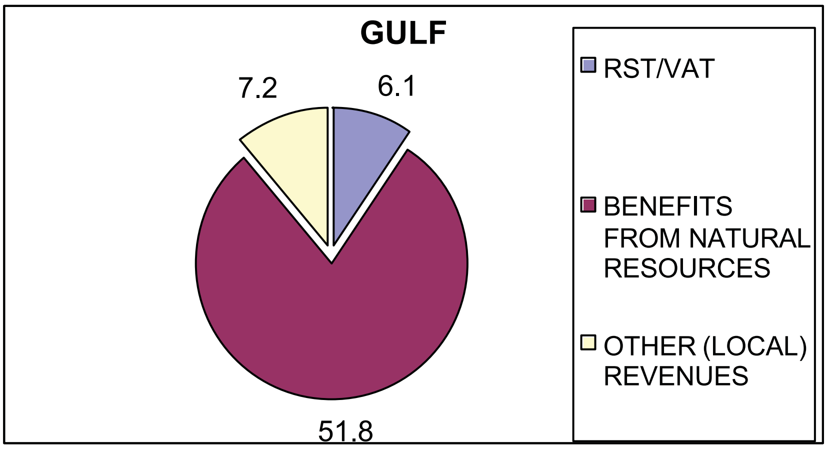
LOCAL: LOW, and becoming lower. Collections have been from diverse sources, transport charges, liquor licenses and rentals. By 2002, there were very low returns (K40,000 in total). This reflects extremely weak revenue collection effort[30], high collection costs and a poor compliance environment. Apart from mining the overall collection is low.

[29] Provinces received VAT distributions on the 21st of each month. There are timing problems in attributing distributions to the correct year that impact on apparent VAT returns in 1999 and 2000. This can also slightly affect other years PGAS records, if a province closes their accounts before receiving the December distribution.
[30] A good indicator of revenue effort is motor vehicle registrations, since this is regarded as an essential revenue to collect for law enforcement purposes, if not for any other reason.

NATURAL RESOURCES: HIGH throughout. The royalties, dividends and equity in the Ok Tedi copper project are so high as to make Western a HIGH overall.

APPENDIX F – 1996-2003 revenue trends, province by province

GULF



RST/VAT: LOW throughout. A large proportion of RST collections were from petroleum, alcohol and tobacco[31]. However, returns rose significantly on the introduction of VAT, but have been flat since the 30% was always exceeded. PGAS records show no VAT was received in 1999. However, this again reflects timing issues – VAT from 1999 has appeared on the 2000 accounts.

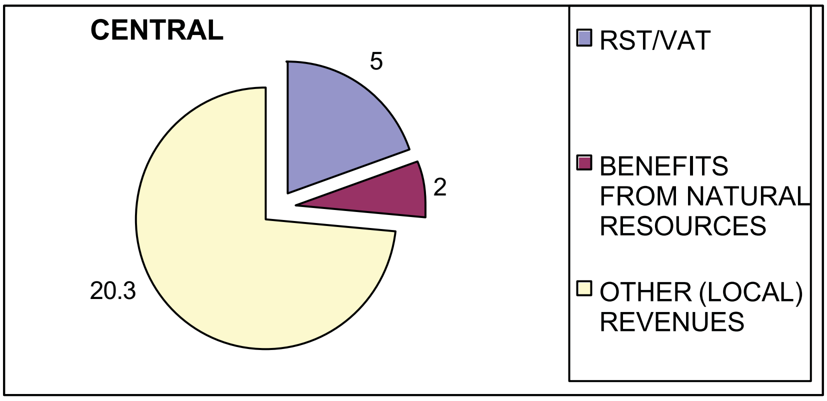
LOCAL: LOW throughout. Transport, investments and sales have returned some revenue and some spikes from investment and sundries. Collection effort appears to be quite low by 2002.

NATURAL RESOURCES: LOW throughout. This is from the oil pipeline and some timber royalties.

[31] Gulf, and other provinces, levied higher rates of RST on "sin goods" – petroleum products, alcoholic beverages and cigarettes/tobacco. When the VAT was introduced, provinces lost control of the base and rates. Therefore, provinces with a preference for high taxation of sin goods, were forced to accept the national rates on these goods. These taxes (excises more accurately) typically grow more quickly than those on other goods, since consumers' demand for them is relatively income inelastic – that is, demand by consumers tends to rise more quickly than income growth.

APPENDIX F – 1996-2003 revenue trends, province by province

CENTRAL

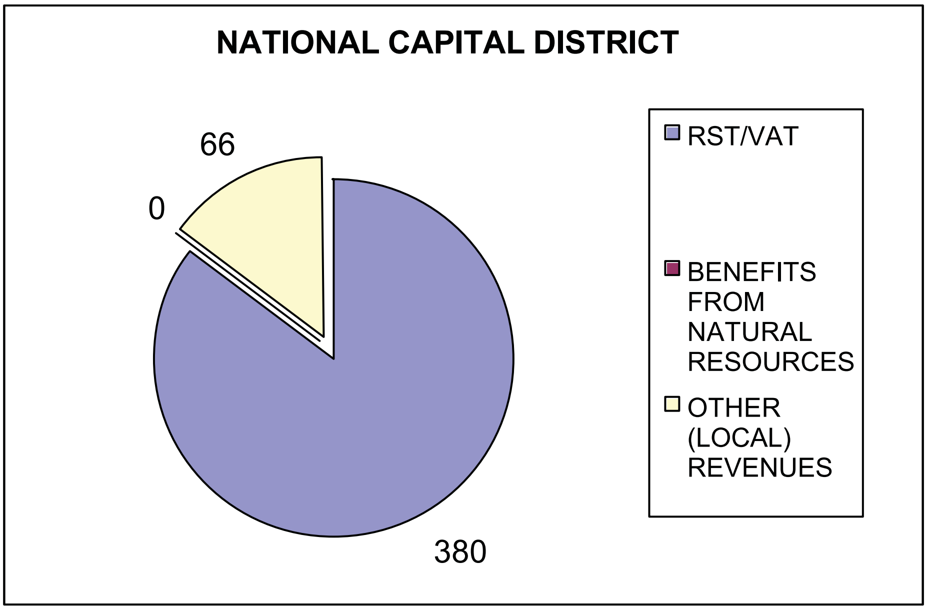


RST/VAT: LOW. RST collections declined significantly during 1996-99. Central also imposed higher rates on "sin goods". After the VAT introduction, there was an initial increase in returns, however this has flattened as Central's 1998/99 RSTs always was above "the 30%".

LOCAL: HIGH throughout. The main source has been RST/VAT revenue sharing deal with NCDC. These deals have been typically renegotiated on an annual basis, sometimes well into the Budget year. These sharing deals partly explain the reduction in RST collections from 1996-1999. In 2002, Central negotiated a 5% sharing deal, far higher than in previous years (the NCDC deal accounts for 90% of other local revenues). Transport charges, gambling taxes and liquor licenses have also provided some returns, though collection effort/returns had fallen sharply by 2002.

NATURAL RESOURCES: LOW. Modest return from the Tolukuma gold mine and some timber royalties/levies. Since 2001, the Province's share from Tolukuma was provided directly to landowners.

APPENDIX F – 1996-2003 revenue trends, province by province

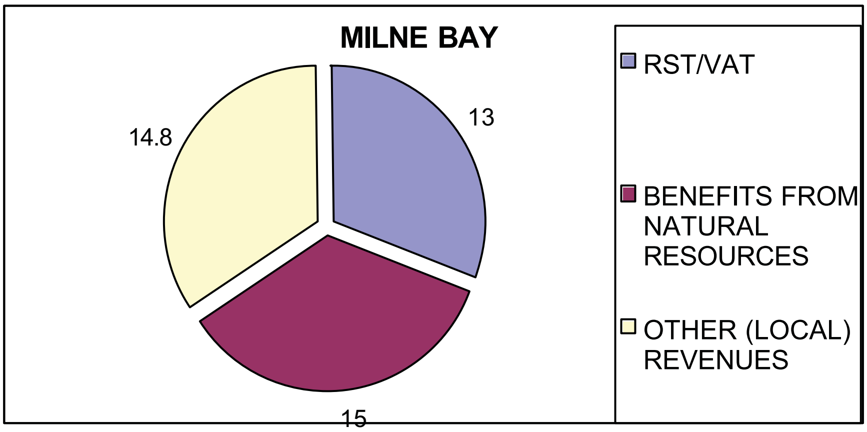


RST/VAT: Very high overall, since NCD is the major city in the country, with a large number of high income earners. It is the major center for all economic activities.

Local Revenues: Very high overall, although it has not have motor vehicle registration. It has very large returns from land rates, garbage & sanitation fees and gambling transfers which have ceased in 2004.

APPENDIX F – 1996-2003 revenue trends, province by province

MILNE BAY



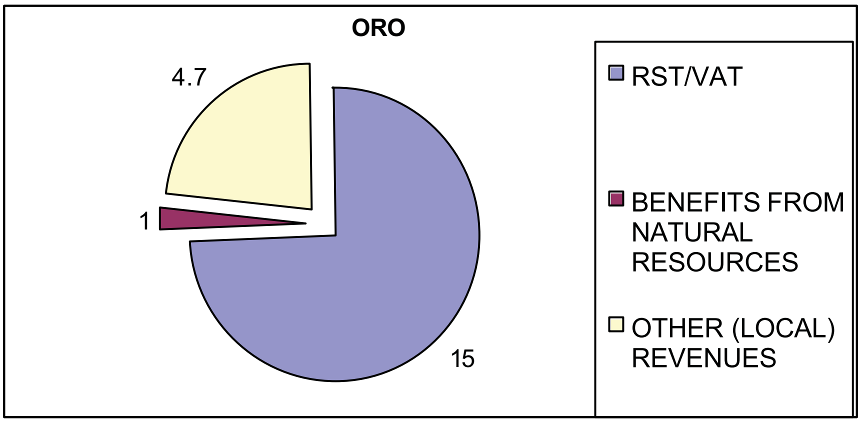
RST/VAT: MEDIUM. Collection of RST was LOW to MEDIUM before VAT, with an average collection of K1.5m between 1996-98. A very strong collection was experienced in 1998 with K1.8m which is attributed to new activities, high level of production in palm oil and very high world prices. The level of returns rose with the VAT introduction, but the trend has flattened since Milne Bay's 1998/99 RSTs always exceeded "the 30%".

LOCAL: HIGH overall. Revenue collections were HIGH at first, dropping to MEDIUM in 2002. "One-off" sales and investments inflated collections in 1997 and 2000. Main revenue sources are transport charges, liquor licenses, investments and interest bearing deposits. The last two revenue heads have declined in importance in recent years, now accounting for about one quarter of the total. That said, the province has a relatively broad base for local revenue collections.

NATURAL RESOURCES: LOW overall. This reflects the Misima medium scale gold mine royalties and timber royalties.

APPENDIX F – 1996-2003 revenue trends, province by province

ORO

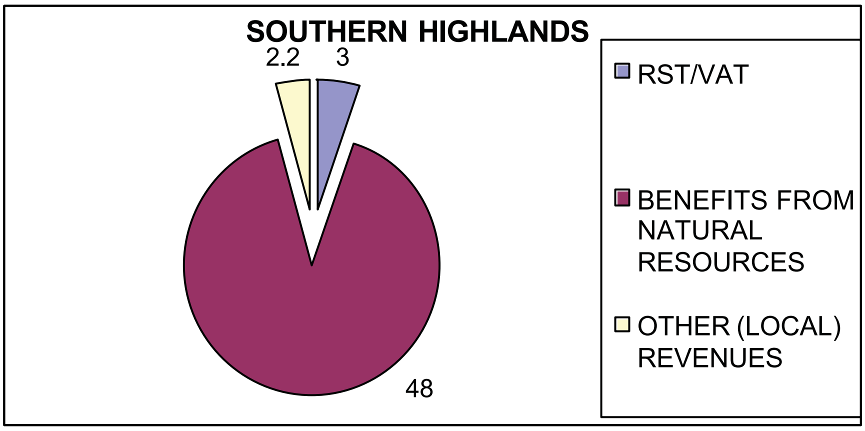


RST/VAT: LOW overall. Collections were good and relatively about MEDIUM before the introduction of VAT. VAT introduction did raise returns, but then remained flat as Oro's 1998/99 RSTs always exceeded "the 30%". In addition, Oro's returns under the RST were heavily dependant on the sin taxes.

LOCAL: LOW overall. Collections were initially LOW, then picked up to MEDIUM due to miscellaneous receipts in 1998, before returning to LOW. Liquor licenses and transport fees/charges account for three-quarters of total collections.

APPENDIX F – 1996-2003 revenue trends, province by province

SOUTHERN HIGHLANDS



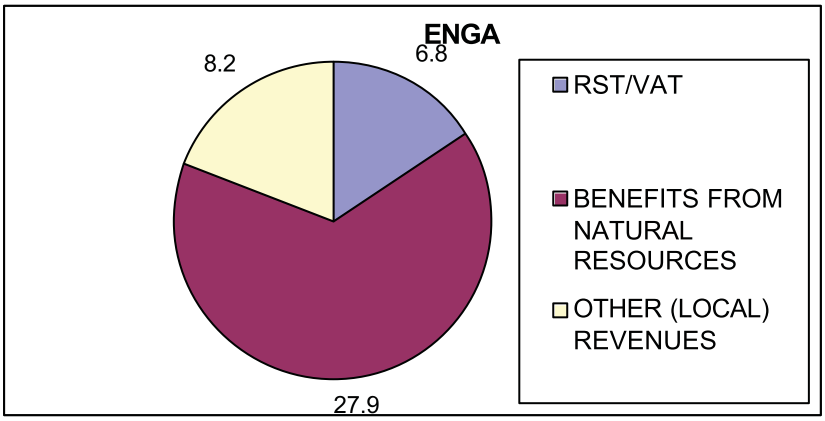
RST/VAT: LOW. Returns have been LOW overall and have been at a LOW level throughout. There was a slight improvement on VAT introduction, but 1998/99 RSTs always exceeded "the 30%", so distributions have been flat.

LOCAL: LOW. Collection efforts have dropped away significantly resulting in very low returns. This has been attributed to troubles leading up to the 1997 and 2002 elections, overall weak administrative and governance structures, low collection effort and compliance environment. Transport charges, non-mining investments and liquor licenses provided some revenues in the late 1990s, but these had fallen to extremely low levels by 2002.

NATURAL RESOURCES: HIGH. Southern Highlands is host to significant oil and gas projects. The province has received significant revenues in the form of royalties, dividends and returns equity sales. As these are influenced by market prices, the exchange rate and production, these have increased strongly in recent years.

APPENDIX F – 1996-2003 revenue trends, province by province

ENGA



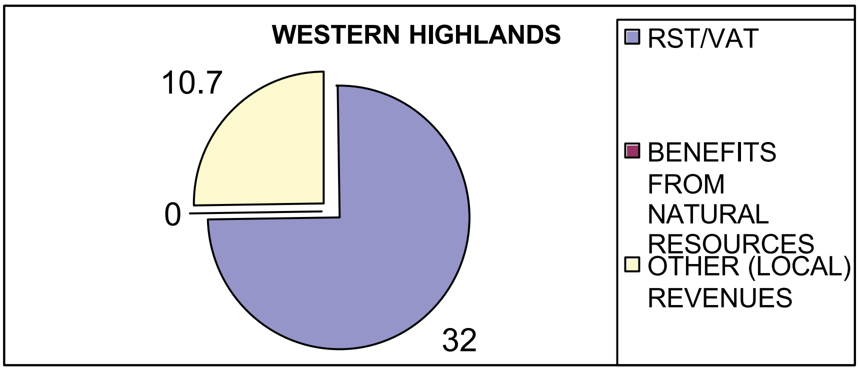
RST/VAT: LOW. Revenue returns were LOW under the RST, with significant revenues from petroleum (mining related) and tobacco RSTs. The introduction of VAT has brought its revenue closer to a MEDIUM level However, returns from VAT remain LOW, since RSTs always were higher than “the 30%”.

LOCAL: HIGH. This category rose from about MEDIUM to HIGH, mostly because of higher non-mining investment return since 2000 and loan proceeds in 1998, 2000 and 2001. Enga is unique in successfully reinvesting its mining returns to provide broader based revenues for the province. Transport charges and liquor licenses provide some, albeit relatively LOW, returns. Collection effort thus appears low.

NATURAL RESOURCES: HIGH. This has been the high revenue earner for the province with significant equity/dividend receipts in 1997, 2000-01. Its earnings are volatile, depending on production and prices.

APPENDIX F – 1996-2003 revenue trends, province by province

<u>WESTERN HIGHLANDS</u>

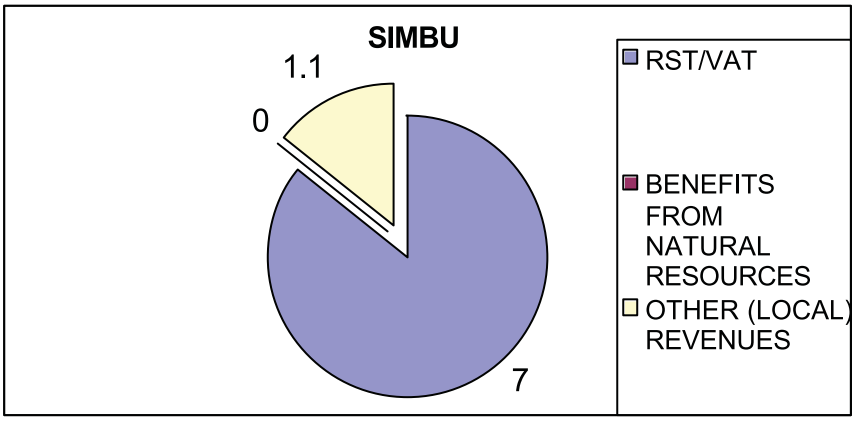


RST/VAT: HIGH throughout. HIGH collection under RST and with the introduction of VAT, the trend flattened as the 30% mark was always exceeded by 1998/99 RST collections. Large returns from petroleum taxes characterized WHP's RST.

LOCAL: HIGH. From a MEDIUM level of returns, becoming HIGH. It appears that collection effort is strong, with good returns for transport charges, liquor licenses and gambling taxes in most years. Occasional spikes due to interest bearing deposits. Overall, this category has shown an upward trend.

APPENDIX F – 1996-2003 revenue trends, province by province

SIMBU

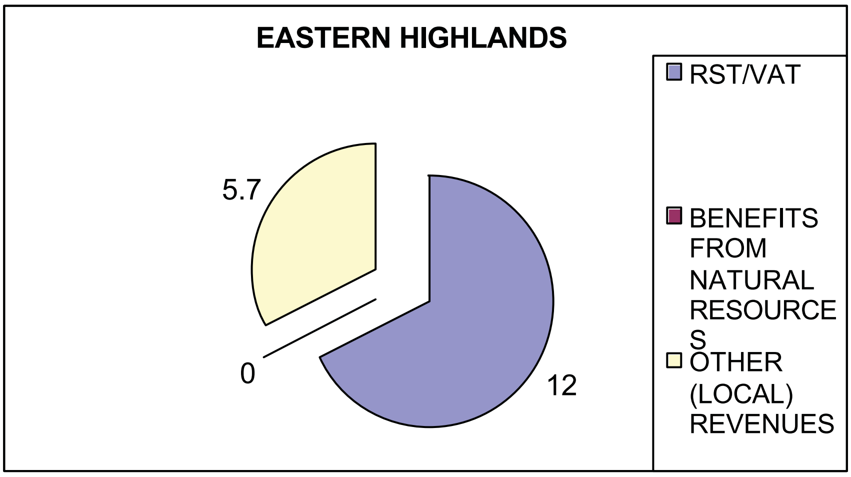


RST/VAT: LOW throughout. Very LOW collection under RST. Introduction of VAT probably resulted in a slightly higher level of returns with the sharing agreement but remains LOW since the "30%" was always exceeded. Simbu received a good return from Lottery Tax, though these were lost with the VAT.

LOCAL: Very LOW throughout. Transport charges and office rentals have been the main revenue earners, Simbu having a liquor ban in place. From 2004, the lifting of the liquor ban should improve collections otherwise there is no growth due to weak activity, particularly stagnant coffee.

APPENDIX F – 1996-2003 revenue trends, province by province

EASTERN HIGHLANDS

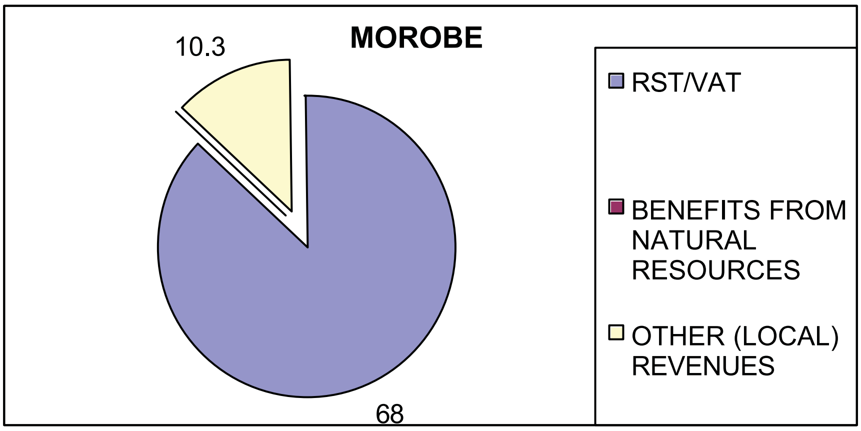


RST/VAT: LOW. It is however, up the top end of LOW. Collections were LOW under RST, and the introduction of VAT has caused a rise to a higher level and the trend flattened afterwards because "the 30%" was always exceeded.

LOCAL: MEDIUM. MEDIUM level of collection in the mid 1990s, but declined to a LOW level afterwards. This downward trend is entirely due to lower returns from gambling taxes (fell by 90%, from K1.0m 1997 to K0.1m in 2002). Partially offsetting this, transport charges, gambling taxes, liquor licenses have been solid. Returns from investments/economic projects have picked up in recent years, to about K25,000 per year by 2002.

APPENDIX F – 1996-2003 revenue trends, province by province

MOROBE

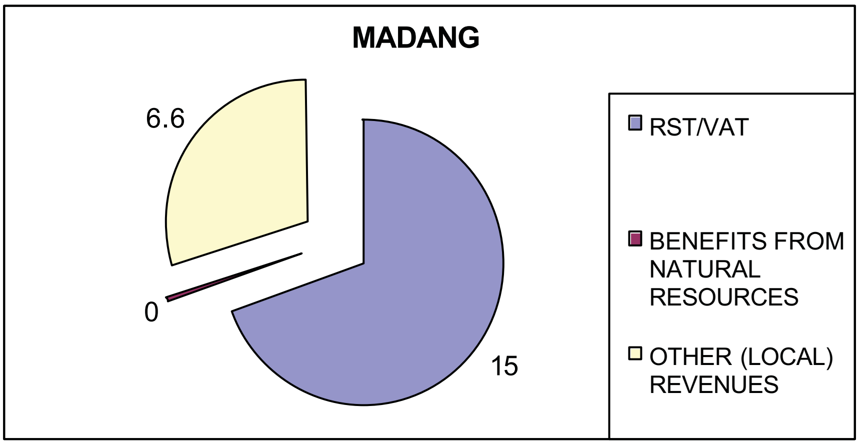


RST/VAT: HIGH throughout. RST returns were relatively very HIGH with a broad base, strong effort and good compliance. Between 1996 and 1998, RST grew by nearly 10% per year. The introduction of VAT saw the trend flatten – Morobe experienced relatively weak growth in VAT distributions between 2000 and 2002.

LOCAL: MEDIUM. Transport charges, liquor and gambling taxes are the chief earners with solid growth performances. Sundries spiked in 1998.

APPENDIX F – 1996-2003 revenue trends, province by province

MADANG



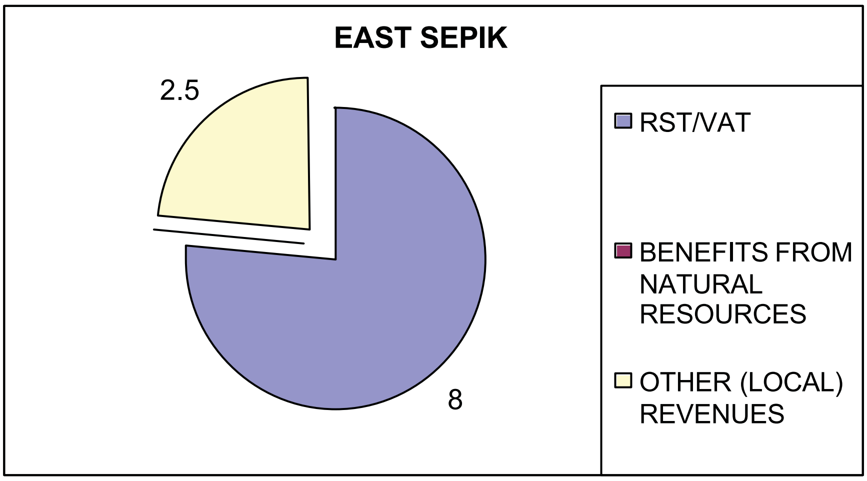
RST/VAT: MEDIUM. Under RST, Madang imposed significant sin taxes on petroleum, tobacco and beer. The months before the introduction of VAT in 1999 saw returns from the RST drop, the reason(s) for which is unclear. The 1999 and 2000 records are clouded by the timing issue mentioned earlier, which makes it difficult to separate VAT from RST in this period. The trend has flattened since the VAT, as Madang's RST always exceeded "the 30%".

LOCAL: MEDIUM throughout, except in 1999 and 2000 when there were spikes in sundry receipts. Transport charges, liquor licenses and returns on deposits (IBD) are the main revenue sources.

NATURAL RESOURCES: LOW throughout. A very low return from timber royalties (1996 only) and timber levies (throughout).

APPENDIX F – 1996-2003 revenue trends, province by province

EAST SEPIK

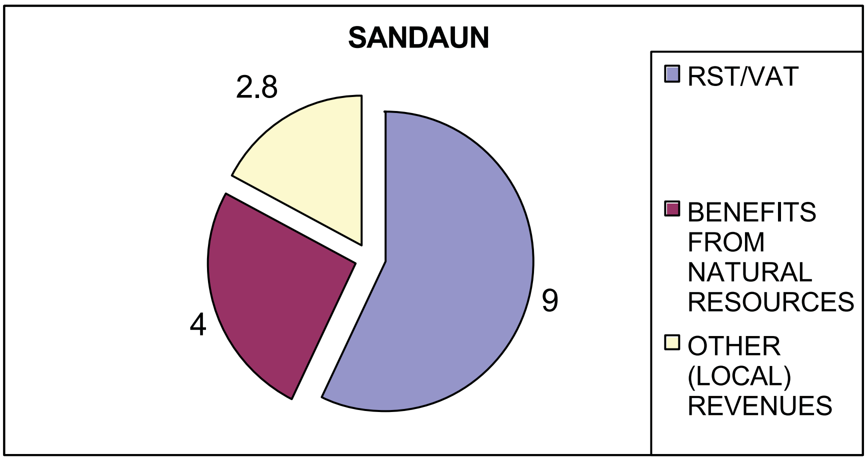


RST/VAT: LOW. Between 1996 and 1998, returns were low, but this was levied on a broad base, including significant returns from services and sin goods. Average collections were about K1.9m per year. However, during the first half of 1999, collections appear to have declined sharply (down by 50%). Consequently, the VAT distributions was only flat at K1.6m in the following years (ESP always exceeded "the 30%").

LOCAL: Very LOW, with a declining trend. Collection efforts Transport charges and liquor licenses are the most consistent earners. Miscellaneous revenues spiked in 2000. Overall, the province has a small revenue base, with a low level of formal sector activity.

APPENDIX F – 1996-2003 revenue trends, province by province

SANDAUN



RST/VAT: LOW level of returns under RST. These picked up with the introduction of VAT causing higher returns, although this is clouded by timing issues in the records for 1999-2000 (ie, RST and VAT cannot be differentiated in these years). The rise in 2002 is likely former year's VAT[32].

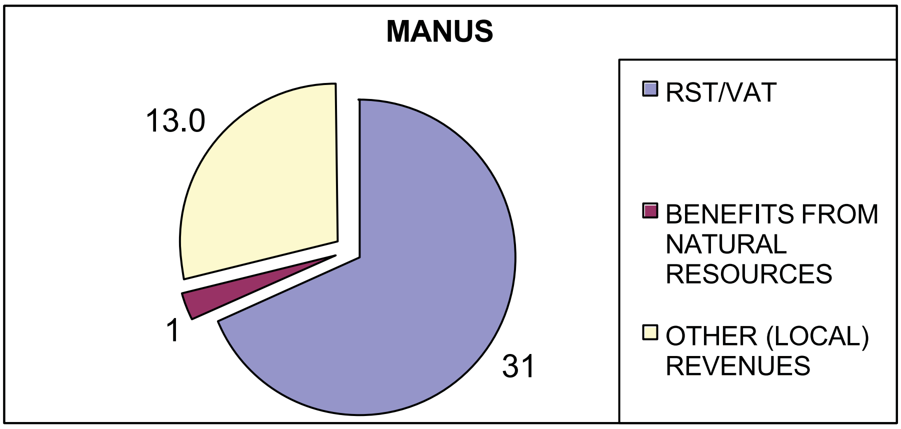
LOCAL: Very LOW level of collection. Transport charges and liquor account for the overwhelming majority of collections. Sundry revenues spiked in 2001, but are usually low. Overall, the province has a narrow local revenue base.

NATURAL RESOURCES: LOW. Various royalties and levies on timber resources have been collected though a very LOW amount in 1998 to 2001.

[32] If a province closes their books on or before 21 December, then a VAT distribution could easily show up in the following year's internal revenue accounts, as has likely occurred in this case.

APPENDIX F – 1996-2003 revenue trends, province by province

MANUS

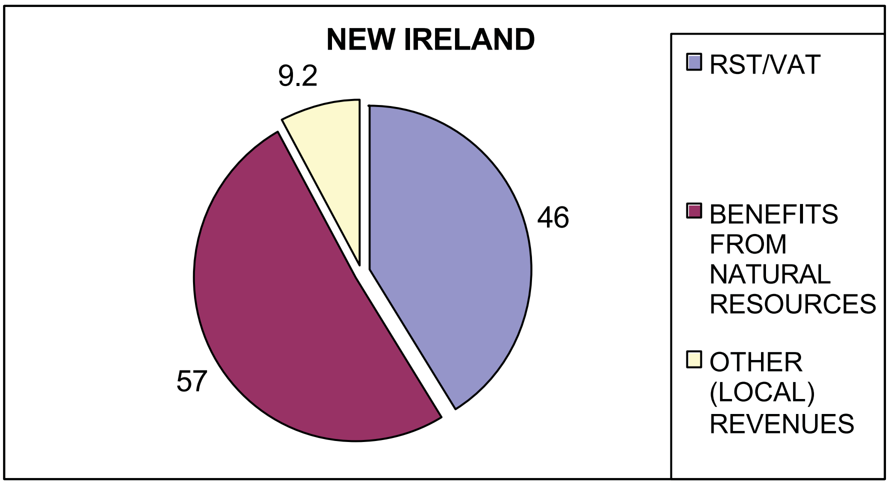


RST/VAT: HIGH overall and rising. Initially, under the RST, collections showed moderate growth between 1996 and 1998. VAT introduction raised the province's return, though this has followed a broadly flat trend because Manus always exceeded "the 30%". It appears that the 2001 figure is higher because of payment timing issues.

LOCAL: HIGH, increasing to very HIGH. Very broad base of revenue collections, especially sales (of provincial government goods/services and assets), investments, transport charges, and tuna levies.

APPENDIX F – 1996-2003 revenue trends, province by province

NEW IRELAND



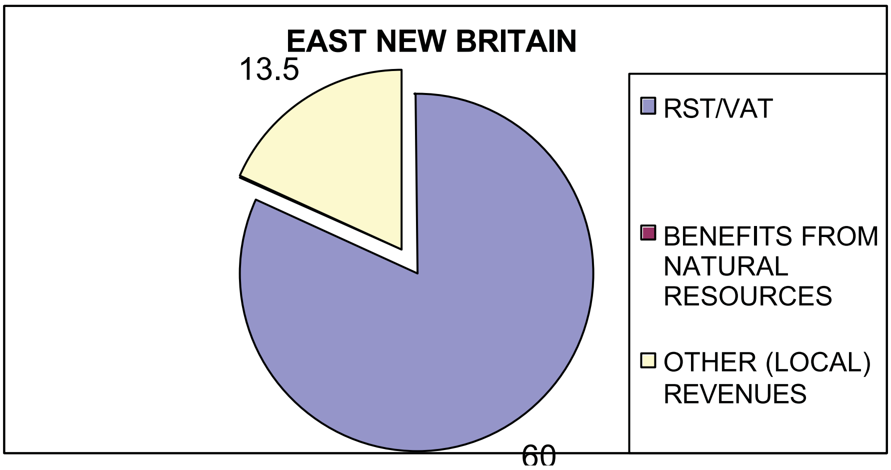
RST/VAT: HIGH throughout. Returns were HIGH under the RST. Since the VAT, NIP experienced a sharp rise and thereafter faster growth in distributions than under the RST. Significant formal sector activity, primarily related to mining activity has ensured that returns have risen in every year, since the 1998/99 RST was less than "the 30%". Therefore, returns have risen every year since VAT introduction.

LOCAL: HIGH overall, but dropping to MEDIUM. Transport charges and liquor licenses are the main sources.

NATURAL RESOURCES: HIGH. Lihir gold mine provides significant benefits in the form of royalties. These benefits steadily increased during 1996-2002 as production increased and gold prices and exchange rates recorded favourable movements.

APPENDIX F – 1996-2003 revenue trends, province by province

EAST NEW BRITAIN



RST/VAT: HIGH overall. ENB imposed a broad based suite single stage taxes on goods and services that recorded strong growth in 1996-98 (averaging 20% per year in this period). However, the period following the 1994 volcanic eruption was unique for several reasons:

- There was obviously a large amount of reconstruction activity and reinvestment occurring in Rabaul, rebounding from the lull after the eruption.
- The National Government provided an exemption from import levies for goods imported into Rabaul, to assist reconstruction and recovery. This probably raised the level of imports and resultant economic activity in East New Britain.

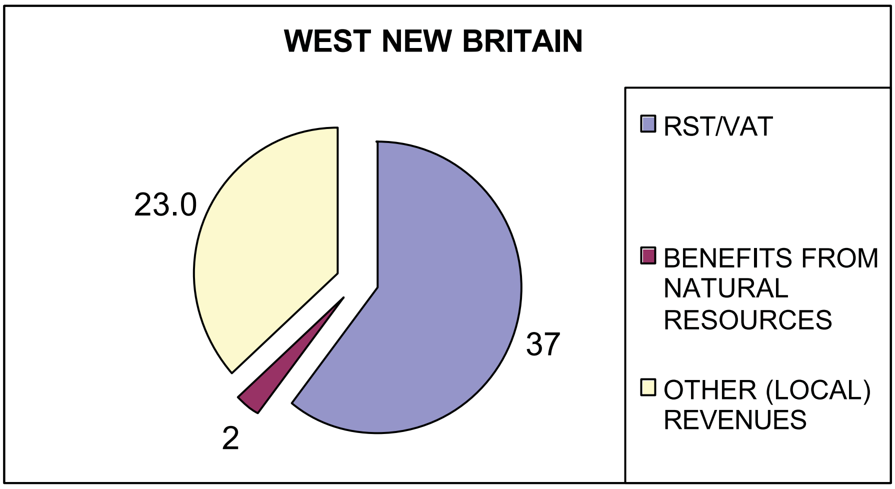
Overall, these factors contributed to an unusually high level of economic activity, which explains the sharp increases in RST collections.

Following VAT introduction, ENB's returns have been flat, since 1998/99 RST was always higher than "the 30%". This supports the theory that economic activity in 1996-99 grew at an unsustainably strong pace, reflecting the rebound from the eruptions.

LOCAL: HIGH overall, but easing into MEDIUM by 2002. Transport charges, land taxes and liquor licenses are the key revenue raisers, all recording a solid upward trend. Of note, land taxes in both ENB and WNB are the most effectively administered of any province, with by far the largest relative returns.

APPENDIX F – 1996-2003 revenue trends, province by province

WEST NEW BRITAIN



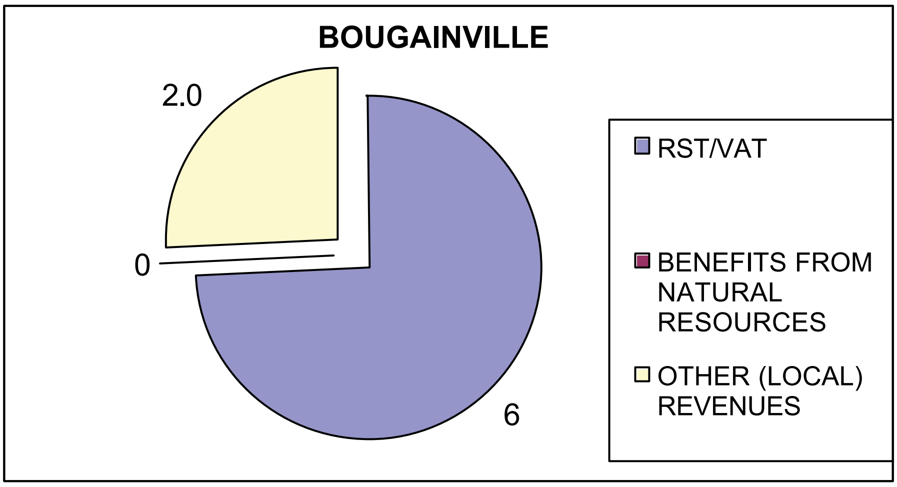
RST/VAT: HIGH throughout. The RST was relatively broadly based, with significant returns from services and fuel as well as goods. The RST collections trended downwards between 1996 and 1998. VAT introduction raised the level of returns, but not the trend, which has been broadly flat since WNB's .1998/99 RST's were always higher than "the 30%".

LOCAL: HIGH overall, briefly becoming VERY HIGH (1999-2000), before dropping to MEDIUM. The period of VERY HIGH returns was associated with strong investment dividends. The reliable revenue earners are transport charges, liquor licenses and land taxes (note comment under ENB).

NATURAL RESOURCES: LOW. These are from timber levies. WNB has received the highest returns from timber resources of any province. Returns were lower by 2002 than in earlier years. This may reflect some scaling down of logging operations, since there has been logging activity for several decades.

APPENDIX F – 1996-2003 revenue trends, province by province

BOUGAINVILLE



RST/VAT: LOW overall, at times very LOW. However, there was an upward trend between 1996 and 1998, with growth of 13% per year. VAT introduction slightly raised the level of returns, but flattened the trend, since "the 30%" was always lower than 1998/99 RST collections.

LOCAL: VERY LOW. Transport charges, investments and asset sales have provided some revenues. Liquor licences started providing a return in 2002, since the liquor ban was lifted. Collection effort appears to be quite low by 2002, for example note the decline in transport charges in recent years.

APPENDIX G: Various RST/VAT data

i) IRC's measure of 1998/1999 RST collections by province – (kina thousands)

WESTERN	722.9
GULF	420.3
CENTRAL	428.1
NCD	64,641.2
MILNE BAY	2,300.7
ORO	1,284.0
SOUTHERN HIGHLANDS	886.3
ENGA	2,819.0
WESTERN HIGHLANDS	8,674.0
SIMBU	972.4
EASTERN HIGHLANDS	2,908.7
MOROBE	21,493.4
MADANG	4,144.0
EAST SEPIK	1,439.7
SANDAUN	1,063.4
MANUS	951.2
NEW IRELAND	3,174.4
EAST NEW BRITAIN	8,801.7
WEST NEW BRITAIN	4,112.2
BOUGAINVILLE	624.6
TOTAL	**131,862.2**

APPENDIX G: Various RST/VAT data

ii) 2004 GST distribution by Province (thousands of Kina)

	GST
	2004 estimated - 60% of inland VAT, or 2003 distribution, which ever is greater
Western	3,833.7
Gulf	510.3
Central	1,071.2
NCD	67,484.6
Milne Bay	2,198.7
Oro	1,355.4
SHP	1,419.7
Enga	3,174.5
WHP	9,384.2
Simbu	1,031.7
EHP	4,806.2
Morobe	29,203.6
Madang	10,176.2
East Sepik	3,002.1
Sandaun	1,127.7
Manus	1,099.4
New Ireland	3,720.4
ENBP	9,177.4
WNBP	4,362.5
Bougainville	542.6
TOTAL	**158,682.0**

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