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PNG Promoting Effective Public Expenditure Project

Samples of published analysis

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The Development Policy Centre is part of the Crawford School of Public Policy at the Australian National University. We undertake analysis and promote discussion on Australian aid, Papua New Guinea and the Pacific and global development policy.

Lessons from PNG's budget trends over the last decade

By Stephen Howes and Andrew Anton Mako

Published November 12, 2012

INTRODUCTION

It is said that those who do not learn from history are doomed to repeat it. PNG has experienced massive revenue growth over the past decade. How has it made use of that revenue, and what lessons can be learned from those choices?

As part of the PNG Promoting Effective Public Expenditure (PEPE) project carried out by the National Research Institute (NRI) and the Australian National University's Development Policy Centre, an analysis was done on the budgetary trends in PNG of the last decade. The outcomes of the analysis were presented at a Budget Forum on 12 September 2012 at NRI (click here for videos and presentations). This brief (published as an NRI Spotlight Article) summarizes the analysis and highlights key lessons to be learned for the 2013 and subsequent budgets.

SYNOPSIS OF PAST BUDGET TRENDS

PNG has experienced a rapid rise in revenue over the last decade. In nominal terms, national revenue nearly tripled to an estimated K10.2 billion in 2012 from K3.6 billion in 2003. Adjusting for inflation, revenue increased by about 75 percent. Revenue growth was stronger before the Global Financial Crisis (GFC) (about 8 percent a year from 2003 to 2008 after inflation), but has nevertheless been impressive since then (at 5 percent a year from 2008 to 2012, again adjusting for inflation). Minerals revenue (mining and petroleum tax and dividends) was very strong before the GFC (annual average of 25 percent after inflation), but has fallen since. Aid did little more than keep pace with inflation. Other sources (including personal income tax, trade taxes, and the GST) have grown strongly throughout the last decade, and at an average real rate of 10 percent since the GFC, indicating the broad-based nature of PNG's rapid revenue growth.

This large increase in revenue led both to improved public finances (including a fall in public debt and an improvement in fiscal balance) and also a significant increase in public expenditure, mainly post-2007. Adjusting for inflation, total expenditure increased by less than 5 percet between 2003 and 2007. By 2012, however, total expenditure was almost double its 2003 level (a 94 percent increase), even after accounting for inflation.

As Figure 1 below shows, government spending is increasingly in the development rather than the recurrent budget. Recurrent budget as a share of total expenditure fell from two-thirds or more in the early 2000s to about half by 2012. Unlike ten years ago, the development budget is now largely financed by the Government of PNG rather than by donors.

Trust funds were used in the middle of the decade to mop up a surge in revenue and direct it to various projects, but this is widely viewed as not having resulted in productive spending.

Spending at the district level by MPs increased rapidly in the first part of the last decade, but has since stabilised, and is now only about 2 percent of total spending.

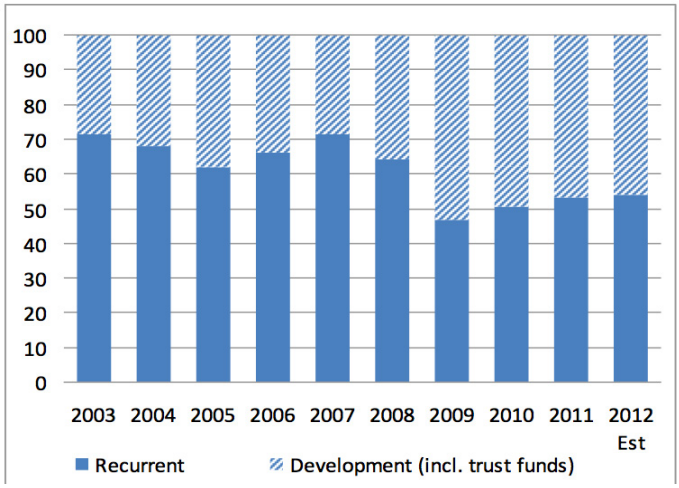

Figure 1: Share (%) of development and recurrent spending in total expenditure

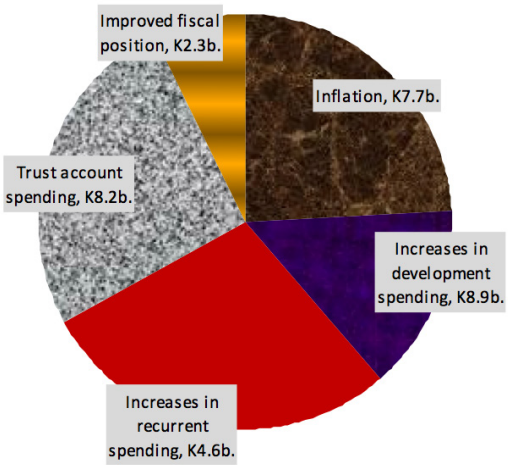

Figure 2: Where PNG's additional revenue over the last decade has gone

In the recurrent budget, spending on goods and services has grown faster than spending on salaries. Over the course of the decade, national government spending has increased by more than provincial government spending. The national government is responsible for about 90 percent of total goods and services spending, whereas salary spending is evenly shared between national and provincial governments.

One way to summarise the experience of the last ten years is to observe that the total increase in revenue over this period, compared to what PNG would have seen if revenue had stayed at its 2003 level, has been K32 billion. Where has that that K32 billion gone? One-quarter (K8 billion) was needed just to keep pace with inflation. After adjusting for inflation, just over half (K17 billion) was used for additional development budget and trust fund projects. K2 billion was used to improve the fiscal position, and less than K5 billion was used to meet recurrent needs.

POSITIVE POINTS

These trends have resulted in a number of positive developments in PNG. Compared to ten years ago, the national government has almost twice as much revenue (after inflation). It also has twice as much choice in how to spend each Kina because the share of salaries, interest and aid (all areas over which the government has no or very limited discretion) has halved. Importantly, spending in priority areas of national development, such as health, education and roads maintenance, has risen sharply.

NEGATIVE POINTS

Expenditure levels did not kept up with population growth prior to the last decade, and even now are only back to the per capita levels of expenditure seen at Independence. All areas of public expenditure have increased – there is no sign of a shift in focus to priority areas. And, despite increases in spending to date, there are still massive funding gaps in critical areas. For example, to fully achieve targets in education and maintain priority national roads, an extra K1 billion and K1.4 billion, respectively, is needed annually (according to the partnership agreements signed between PNG and Australia). Filling these gaps largely requires increases in recurrent funding, whereas it is the development budget which has been increasing rapidly to date. To add to the challenge, revenue growth in the next few years may be slow due to subdued global economic conditions, the maturing of current mines and oil fields, and delayed revenue from new minerals projects due to tax arrangements.

CHALLENGES AHEAD

Seven lessons and questions can be drawn from this analysis for the future.

First, given still scarce and limited resources, the Government needs to prioritise. The priority should be plugging funding gaps in priority areas to achieve national development targets.

Second, the key funding gaps – education, law and order, health, roads maintenance – are


Photo: Flickr/Christopher.Michel

in the recurrent budget, so there needs to be a shift in the focus of public spending away from the development budget to give more priority to recurrent spending. More funding should be allocated for the maintenance of existing public infrastructure, for example, rather than building new roads or other assets.

Third, and related, in the last decade the aim apparently has been to maximise the development budget. This is not the same as maximising development! Indeed, there is a question as to whether the recurrent and development budgets should still be separate parts of the overall annual budget or be combined, as they once were. This obviously has implications for the current roles of the Department of National Planning and Monitoring which formulates the development budget and the Department of Treasury which formulates the recurrent budget.

Fourth, large funding gaps cannot be filled in a single year. Consideration should be given to adopting medium-term multi-year expenditure frameworks with sectoral targets.

Fifth, more debate is needed around decentralisation. At the moment, the trend is towards greater centralisation of spending, and away from provinces. Does this make sense? Should the provinces be better funded, or should funding be direct from the central government to service delivery facilities, as in the case of the school subsidy?

Sixth, more revenue effort is needed to promote broad-based revenue generation, both by increasing the revenue base and by preventing revenue leakages through tackling tax evasion. Although revenue growth in the last ten years has been strong, it has already slowed, and, without revenue reforms, a further slow down is possible.

Seventh, more evidence is needed on expenditure effectiveness. There has been little research undertaken on this in this last ten years. The major facility and expenditure tracking survey which the NRI and ANU are currently undertaking as part of the Promoting Effective Public Expenditure project will help shed light on what impacts increased expenditures have had on the ground.

This post was originally published as a National Research Institute Spotlight Article and on the Devpolicy Blog.

Stephen Howes is Director of the Development Policy Centre. Andrew A. Mako is currently working on the PEPE expenditure tracking survey.

Urban primary schools in Papua New Guinea: A decade of (rusty) swings and roundabouts

By Grant Walton

Published March 13, 2013

In past Development Policy Centre blog posts about the Promoting Effective Public Expenditure (PEPE) survey, Colin Wiltshire and Andrew Anton Mako have described the enormous challenges facing rural, particularly remote, schools in Papua New Guinea. This post focuses on the metropolis: it explores positive and negative changes that have occurred in three urban schools in PNG over the past decade. But first, some background.

In 2002, the World Bank and the National Research Institute (NRI) of PNG jointly undertook research into funding for, and the condition of, schools and health facilities in the country. Following a wide-reaching quantitative survey (followed up in 2012), researchers conducted in-depth qualitative research with 12 schools in four 'provinces' – the National Capital District (which incorporates Port Moresby), East New Britain, Eastern Highlands and Morobe. This research resulted in the publication of the Wok Bung (Tok Pisin for 'working together') report. It found that while there were numerous factors contributing to improved performance of schools, community involvement in school affairs was often crucial for success.

Ten years later and the NRI, this time with the ANU's Development Policy Centre, revisited these 12 schools to see how they had fared. Three were located in an urban centre – Port Moresby – while the rest were in rural locations. In this post I draw on conversations with head teachers (principals), teachers, administration staff and parents from these three government-run schools in Port Moresby: Koki primary school (located near the popular but sometimes dangerous Koki market), Tatana primary school (located on Tatana island, which is linked to the mainland by a causeway, 12 kilometres north-west of the central business district) and Hohola primary school (a few kilometres north-east of the central business district). As can be imagined, many issues were discussed with respondents, including the quality of teaching, academic performance and national education policy. Here I will report on respondents' perceptions about infrastructure and community participation (both key issues for respondents, and central to the Wok Bung report).

As we are speaking of schools, I thought it fitting to describe the results in terms of a proverb that reminds me of school play grounds: 'what is lost on the roundabouts is gained upon the swings'.

SWINGS: THE POSITIVES

All three schools have seen some improvements over the past decade. In Hohola a new toilet block, drinking taps, desks, benches and fencing have been provided through funding from donors, government, non-governmental organisations and parents. At the time we visited, the school was also in the process partitioning a room in the library, which would house new computers (presented to Hohola and other schools by National Capital District Governor Powes Parkop). The computers promise to greatly improve student's IT literacy, and there was great hope that the school would add to this initial contribution over time.

Over the past ten years Tatana has started to address what the Wok Bung report identified as

its most serious problem: a lack of water. The report noted that on most school days children had to take their own water to school, and that the school was often closed due to poor water supplies. To address this, a water pump was installed in 2010 to transfer water from a tank located in the nearby village. The infrastructure was supplied by InterOil and managed and housed by the president of the school's board of management. This new infrastructure has meant that teachers do not have to leave the school to collect water and that, on most days, children no longer carry their own water from home. The school still experiences days when water is scarce, but respondents agreed that the situation has vastly improved since 2002.

Security was a key issue for all schools. To address this, Hohola and Tatana have recently had surrounding fences repaired; resulting in a marked drop in crime. For example, before the fence was repaired in 2011 – by funds provided by Governor Powes Parkop – Tatana primary school was constantly being broken in to. In 2010, raskolsbroke into the school and stole fuses, lighting and wires (see picture) – classrooms are still without electricity. But, after repairs to the fence, the school has not recorded a single break in.

While respondents from all schools complained about the lack of community involvement, there were numerous examples of individuals giving up their time to make the school a better place. A member of the Koki parents and citizens committee told of his efforts to ensure greater transparency and accountability within the school's management body. Hohola engages parents and community members in working bees – although the frequency of these events has reduced in recent years. From time to time the school also organises local non-governmental organisations to deliver talks and training for teachers and students.

ROUNDABOUTS: THE NEGATIVES

While there have been tangible improvements to infrastructure at these schools, much more is needed. This was evidenced by the large (and dangerous) holes in the floors and stairs at Tatana, the creaking pre-World War Two buildings of Koki, and a shortage of teachers housing in all schools. In one school, the lack of teachers' housing was so acute that a classroom

was transformed into sleeping quarters. Even when money was spent on infrastructure it didn't always benefit the schools. For example, in Tatana a toilet block, supplied by a new water tank, was built in the mid-2000s; however, as a water pump – needed to pump water from the tank to the toilet – was never delivered, the toilet facilities have not been used. Instead, students use pit toilets – built with funds secured by the school's board of management – while the water tank rusts and the toilet block is boarded up.

Respondents reported a decline in community engagement. In 2002 the Wok Bung showed that Hohola had forged strong relationships between it and the community. But our interviews with respondents in 2012 revealed difficulties in getting the community involved in the school. For example, a senior teacher – a jolly man with a booming voice – who'd worked at the school for more than a decade, was concerned that parents' involvement was dropping: 'They [parents] clean up on working bee days, but this does not occur as much as previous years'. He lamented that unlike five or ten years ago, parents and community members do not like doing things for free: 'now everyone needs money to survive'.

Many respondents also expressed frustration that those in the community did not value or trust the schools. In one school, teachers and board of management members told stories about school property turning up in nearby houses, despite community pledges to take responsibility for the school's security. For their part, parents complained about school management. There were rumors of missing funds, hidden budgets, nepotism and secret meetings. Asked about community involvement in the school, one grade six teacher said it was almost non-existent because, 'at the moment the community does not embrace the board of management'. He called for 'greater coordination and harmonisation between

the board of management, administration, student representatives, staff and church representatives'. Unfortunately, as the Wok Bung report highlights, his comments echoed that of his predecessors ten years earlier.

Some expressed concern about the government's free education policy, introduced in 2012. While parents embraced the initiative, teachers were concerned about its long-term effects. In Hohola, a senior teacher was concerned that since the introduction of the free education policy parents have been less willing to volunteer or provide funding for special projects. 'They hear the word "free" and think the government is responsible [for everything]', he said.

CONCLUSIONS

While primary schools in Port Moresby are surrounded by better infrastructure than most of their rural counterparts, they still have their own unique set of challenges. For the schools we visited, while there have been some improvements, the blight of under-spending, possible mismanagement and misdirected funding is apparent.

Comparing our visit to these schools with their description in the Wok Bung report gave us a sense of déjà vu: the schools were facing similar sorts of issues to those identified by the Wok Bung report. For example, in 2002 some schools thought they had turned a corner in securing their premises; in 2012 respondents were similarly hopeful, even though they recounted stories of break-ins and thefts over the past decade. To ensure that the gains made over the past ten years are not wasted, it is crucial that maintenance of existing infrastructure is prioritised. New computers need IT support, fences need repair and water pipes need to be safeguarded. All of this requires funding.

Although government, non-governmental organisations, the private sector and donors play a key role in providing funding and expertise, it is imperative that communities play an active role in school affairs. Community members help improve school management and resources by demanding transparency and accountability, and by helping with security, management and even maintenance. But revisiting these three schools – ten years since the Wok Bung report found that community involvement was crucial for school success – brings up numerous questions around engaging communities, such as:

- How can schools build trust with the communities they serve?;
- With the pressures of the modern world, how much is it realistic to expect (or hope for) communities to contribute to schools?;
- What incentives motivate communities to get involved in schools? How can these be incorporated into education policy?;
- How will the government's new free education policy affect community participation?

These questions, and others about the involvement of local communities in school affairs, are equally important for head teachers of Papua New Guinean schools as they are for donors, government, businesses and non-governmental organisations working in this area.

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Reflections on the PNG Budget Forum: Can devolved funding be effectively utilised?

By Colin Wiltshire

Published on April 3, 2013

One of the major talking points of the recent PNG Budget Forum was the huge increase in devolved funding to provinces, districts and local level governments. Both Finance and Treasury Ministers speaking at the forum seemed cautiously optimistic and nervous in justifying these funding allocations. On paper, it seems like a large increase to subnational levels of government, up from 5% of the budget in 2012 to 15% in 2013. However, upon reviewing implementation arrangements outlined by the Finance Minister and Treasurer, it is the Members of Parliament (MPs) who have been put at the centre of decision-making power for how this funding will be spent and accounted for at all levels. They are effectively allocating much more funding to their own committees in a large expansion of the District Services Improvement Program (DSIP).

Maybe this should come as no surprise, but have the MPs bitten off more than they can chew by embedding themselves in each layer of project decision making right down to the local level? How will they demand accountability for their projects with limited implementation capacity and what will be sacrificed? This post unpacks the governance and implementation arrangements for the new devolved funding.

Previous blog posts (here) have made reference to the huge increase in devolved funding and have questioned the capacity of sub-national levels of government to spend it but have stopped short at outlining the implementation mechanisms. Fortunately at the recent budget forum, the Minister for Finance, Hon. James Marape, helped fill this gap by detailing (in this presentation available here)

the rationale and arrangements behind the K1.5 billion increases in allocations to provincial, district and Local Level Government (LLG) development funds. This might have seemed like endless technical details for the audience but it is critical to understanding how this devolved funding will be spent. For me, it was fascinating, as I have spent several years working on the inside of provincial, district and local level financing systems in PNG.

In justifying these funding allocations, the Finance Minister pointed to PNG's decentralised but underfunded system of service delivery. The Treasurer, Hon. Don Poyle, backed up these claims in his presentation stating, "It is time to empower our sub-national governments. To trust them. To allow them to serve the people." While provinces, their districts and LLGs have responsibility for core service delivery, funding has not been sufficient to support these functions. This was a major reason behind sustained increases in 'function grants' for recurrent health, education, transport and law and justice services since 2007. The implementation mechanisms for spending function grants (basically through the provincial governments) are very different to the governing arrangements around devolved development funding in the 2013 budget (basically through the MPs).

GOVERNANCE ARRANGEMENTS FOR DEVOLVED FUNDING

All of the three new or increased devolved funds will be governed by existing structures. Of the devolved development funding programs in the 2013 budget, DSIP is by far the largest. Each of PNG's 89 districts is set to receive K10m. This is a sharp increase from the K2 million provided per district since 2008, which itself is up from the just K0.5 million per district provided prior to the resources boom.

Before DSIP was first introduced, the now famous Joint District Planning / Budget Priority Committee (JDP/BPC), or 'JDP' as it is known in most villages, existed, but rarely met due to a lack of funding. Since the MP is the Chairman of the JDP, there is a common belief that DSIP is the "Member's money." The other members of the JDP are made up of the LLG Presidents, representing the Ward Councillors, with other representatives from community and church groups. There have been widespread reports that MPs used this committee as a rubber stamp, but some were known to operate with integrity. However, no matter the function or the fairness, the MP always had the final say.

Regarding lessons learnt from spending previous increases in DSIP funding, the Treasurer's presentation conceded that "our monitoring and evaluation systems are non-existent". Needless to say, little is known about the effectiveness of previous DSIP spending, although a lot has been said about it, ranging from positive examples of rehabilitated social infrastructure to serious allegations of misappropriations. Early findings from our PEPE survey presented at the budget forum showed that of more than 200 schools visited, 25% had received a DSIP project. Just under half of these schools that were allocated a project said they were either incomplete or significantly behind schedule and of these, 41% never expected the project to be completed.

The Provincial Support Improvement Program (PSIP) is a new funding source that will be managed through an existing committee – the Joint Provincial Planning / Budget Priority Committee (JPP/BPC) or 'JPP'. While this committee has been dormant in many provinces, it is set to become increasingly active, as K5 million per district in each province will be allocated to the JPP. JPPs may favour projects that will benefit the whole province, like rehabilitating a major road network, provincial hospital or high school. However, Governors may also be motivated to fund projects to benefit their own local bases. Of course, whether Governors can dominate, given that other MPs from the province are also on the Committee, remains to be seen. (For readers not familiar with PNG, most MPs (89) represent districts, but one MP (the Governor) is elected for each of the country's 22 provinces.)

Finally, under the Local Level Government Services Improvement Program (LLGSIP) K500,000 has been allocated to each of PNG's 313 LLGs. Interestingly though, LLGSIP does not have a separate implementation and decision-making committee. Instead, it will be administered like the DSIP through the JDP. (Each district usually contains about three LLGs). This arrangement means that funding has not really been devolved to the LLG level at all. The Finance Minister stated that Ward Councillors will determine project priorities, but this remains to be seen. Again, it is the MP who will most likely be able to make funding decisions for LLGSIP as well. In any case, it will be hard to distinguish between DSIP and LLGSIP projects.

IMPLEMENTATION CAPACITY TO SPEND DEVOLVED FUNDING

One benefit of MPs governing these committees could be improved accountability. The MPs would presumably want to see their projects implemented on time and within budget, but who will do this? The answer is the same people who already have their hands full implementing gradually increasing recurrent budgets, essential for improving basic services. They are Provincial and District Administrators who are the Executive Officers to the JPP and JDP respectively and are financially accountable for managing this devolved funding. If the political imperative is to prove this development funding can be spent effectively, it seems inevitable their focus will shift from implementing recurrent expenditure to managing development projects.

The process from receiving allocations in provincial budgets to the successful completion of a project is rarely straightforward in PNG. Identifying projects, submitting proposals for

endorsement, obtaining JDP or JPP approval, and then gaining final approval from the Department of Implementation and Rural Development may be difficult and time consuming. The process of tendering and awarding contracts may be even longer, and then funds have to be released and payments made.

The government has allowed 10% of the new devolved funding to be used for administration, and some of this could be used to hire staff. But new contract staff, operating informally outside of the provincial and district administrations, will at best only take some of the administrative burden of the new devolved funding, and at worst may increase coordination problems with existing provincial and district administration.

In summary, the new changes have put MPs at the centre of decision-making, at the provincial, district and local level. Each MP will become a donor in their district or province with K10 million or more at the disposal of a Committee which they either chair or are a member of. While greater devolved funding may be well intended, it will put more pressure on an already overstretched provincial and district administrative system and risks unintended consequences, such as a diverting attention away from the effective management of recurrent expenditure.

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Service delivery realities in Gulf Province, PNG

By Colin Wiltshire

Published on December 6, 2012

Service delivery in Gulf Province, PNG, requires a 'never say die' attitude. This is the motto for government and church service providers according to the Provincial Administrator. The PEPE Gulf survey team can confirm a great deal of truth behind these words after completing a representative survey of schools and health facilities across one of PNG's most rural, remote and underdeveloped provinces. While experiencing the predictable dysfunction of a system struggling to implement new reforms in incredibly difficult circumstances, we also met some of PNG's less-talked-about heroes operating at the end of a long service delivery chain that continue to teach many classes and provide basic health care to isolated communities.

Seeking to understand the impact of increasing revenues over the last decade in PNG at the service delivery frontline, the Promoting Effective Public Expenditure Project (PEPE), a joint venture of PNG's National Research Institute (NRI) and ANU'sDevelopment Policy Centre has just completed an expenditure tracking and facility survey covering more than 200 schools and about 150 health facilities. Eight teams covering a province each from each of PNG's four regions have been conducting the survey since October. Many have been visiting very rural and remote locations only reachable by chartered flights, boat, and/or several days walk. The PEPE Project has attempted to visit the exact same schools and health facilities that were surveyed ten years ago as part of an NRI/World Bank Public Expenditure and Service Delivery Project to ensure direct comparability between both surveys. This post is a reflection on conducting the survey in Gulf Province.

The Gulf Provincial Administration was direct in their assessment of the province when meeting the survey team. Unwilling to skirt their responsibilities for ensuring health and education services reach the people under PNG's decentralised system of service delivery, they acknowledge they have 'let the people down'. Kerema, the provincial capital of Gulf, has been a ghost town for the better part of the last five years with poor road conditions disconnecting it from Port Moresby. Unsurprisingly, health and education indicators in Gulf Province rank among some of the worst in PNG. But the Administration has a new attitude and sense of purpose after launching their new development plan – 'Gulf Vision 2020'. The province was full of enthusiasm for our survey team to experience first-hand the challenges its own officers face in delivering basic services.

Most of Gulf is only accessible by the open ocean and the multitude of channels connecting villages except for the large inland populations, Kantiba and Kotidanga, situated near the borders of Morobe and the Eastern Highlands Provinces. Travelling further west to Kikori District, the largest of the two districts that make up Gulf Province, is very difficult as the airstrip is not operational. The only option is to hire a dinghy with an outboard motor to travel in the open sea, which takes a day and over 100 litres of fuel, making the trip expensive, exhausting and often dangerous. The Survey Team made this arduous journey and on arrival in Kikori people asked us if we saw any signs of a dinghy that had supposedly gone missing along the same route we had travelled. The rumours were confirmed in the days that followed while implementing the survey in nearby villages as bodies were known to be washing up on the shoreline. It was alleged that at least five people had gone missing trying to transport themselves together with a live deer and cassowary from Kikori to Kerema. This was an ambitious journey, especially considering the cargo on board. The outcome was tragic but as we learnt this was not an isolated event. It was unsettling to hear the villagers describe the trip to Kerema as 'taking your chances in the sea', making our inevitable return trip a more daunting proposition.

Implementing the survey in this environment proved equally challenging. One of the most glaring observations from fieldwork was the number of schools closed since the previous survey was carried out ten years earlier. On a trip to West Kikori, closer towards the boarder of Western Province, the lack of schools and health facilities serving more remote populations became clearer. In our particular case, provincial and district officials assured us certain schools and health facilities were operational but when we visited we found they had been closed for at least five years. We had to travel in the dinghy (pictured left) up a river known to have many crocodiles to get to this village and were taken aback by casual fleeting comments from parents such as "sometimes the crocodiles take the small children". The lack of access to basic services became more apparent when we looked at our detailed map to see this particular village was hardly the most remote in West Kikori. We could

not help to think if this village had no access to schools and health services then it would surely be at least the same or worse for the more remote villages.

While it might seem obvious that difficulties with transport and remoteness can have a crippling impact on the level of services provided, it is by no means the determining factor. A more easily accessible school, just five minutes off the main highway on the road to Kerema, was experiencing a rapidly decreasing enrolment rate despite a new double classroom recently built with donor funding. The school records showed official enrolment figures at the start of the year to be between 30-40 students per class, whereas class size was below ten students per class at the time of the survey. This was mainly due to chronic teacher absenteeism and 'unknown' reasons for not receiving school subsidy funding, leaving no operational funding as parents could not be charged school fees in an election year with a clear government policy of 'free education'. Similarly, the aid post in the village, standing no less than 50 metres away, was closed despite a new health worker's house built right next to it. Both health workers were present but had not been paid for two months and were told to close the clinic until more reliable funding could be accessed by the responsible church agency.

The team experienced entirely different circumstances upon approaching another school that was definitely receiving its school subsidy funding. Watching our dark blue land cruiser approaching the village, which looked a lot like a police vehicle, a group of people rushed to a dingy on the shore and set off into the sea. At the same time, disgruntled parents ran to the car yelling that the Head Teacher and School Board Chairman were escaping and demanding the team chase them down and arrest them. After explaining that we were not the police and the purpose of the team's visit was to conduct a survey, we learnt there was a rumour that the police were coming to arrest the Head Teacher and School Board Chairman who had supposedly been misusing the schools funding.

In further cases of increased funding not translating into better services, the survey team visited a school and health centre near the Oilsearch Headquarters, the new LNG pipeline and forestry roads leading into the highlands. Despite better-looking infrastructure, the functioning of the school and health facility were not dissimilar from others surveyed in the rest of Gulf. A desperate lack of teachers, health workers and suitable houses persisted despite rumours that families were receiving hundreds of thousands of kina in royalties from the associated resource companies. It was also common across many villages to find unfinished District Services Improvement Program 'DSIP' infrastructure projects, commonly referred to as the Members' projects (since the funds are allocated to Members of Parliament). On the outside, the new classrooms or aid posts normally looked like a positive development. But all too often they lacked important features such as a connected water supply, chairs and tables and perhaps the most important feature of all – the workers. These incomplete projects were normally complemented with stories of serious delays and concerns over the competence of contractors.

We encountered a decaying service delivery system in Gulf Province that is unable to reliably ensure a teacher will be present and able to teach classes each weekday or that a health worker will have an operational clinic, drugs or lighting to treat a medical emergency at night. In place of a robust and well regulated system were individuals determined to ensure basic services persist despite all the problems. There were inspiring examples of retired and retrenched teachers and health workers that continue to help communities when no other services are provided. There are also cases of teachers and health workers that go well beyond their official

duties. The survey team met a dedicated Head Teacher at a remote school in Kikori who teaches all classes at her Primary School (Grade 3 – 8), as she is the only one left. She has also volunteered to be the community health worker for the past few years, as there is no health worker in the village despite a new aid post built over a year ago that that has not been used due to a dispute between government and church officials. Instead, this selfless teacher operates a health service out of her house, providing basic drugs and advice for sick people in her village. When asked about subsidies received for her school, the value seemed insignificant compared to the time and expense to access the funds. For the Head Teacher and the School Board Chairman, the closest bank is Port Moresby, which takes them at least a week to get there and back and would cost around 3000 Kina in travel expenses, not to mention risking their lives out at sea, something this incredibly dedicated teacher and health worker has done many times.

Our return trip back to Kerema proved more challenging. The prospect of rougher seas saw us use the river channels, which are calmer and safer but much more indirect. Finally needing to confront the open ocean, we made an attempt to make it beyond the break but were swamped by waves requiring us to bail water out of the dinghy while we raced back to shore and finally conceded that it was safer to try again the next day. Stranded with all our gear, we walked along the shore to a village where some of our team had local contacts to arrange an overnight stay. During the evening we were told village sorcerers were unhappy and casting spells into the sea to make it rough because they are short of sugar and tea. Some of the team visited them to make a small offering.

The next day, however, the sea was still ominous and it was not until a respected village elder gave us his approval that the team and the skipper felt comfortable to make the journey. With half the village watching us this time, we waited patiently in shallow water for our opportunity to make another attempt to get past the break. Unlike the day before, this time we eventually made it out into the ocean encountering rough and choppy conditions. Despite the wind and rain, the skipper skilfully rode the dinghy up over the crest of large passing waves until we made it back to Kerema. Once the skipper knew we were safe, he let out a deafening howl of exhalation. As the team celebrated our arrival back to Kerema with the surveys completed and intact, we also reflected on the teachers and health workers who regularly take their chances in the sea to teach classes or deliver essential medicines when they could easily defect from their posts like so many others have and continue to do. They give the 'never say die' motto in Gulf Province a literal meaning and deserve increased support to keep holding up a fledging service delivery system.

Other survey teams visiting remote parts of PNG (including Morobe, Enga, Eastern Highlands, West Sepik and West New Britain) no doubt will have similar stories, and we look forward to bringing you some more of these soon. We are now at the debriefing, data cleaning and data entry stage for the survey. We will be analysing the results of the survey next year. One of our aims is to share the results with the provincial administrations such as Gulf, which did so much to help facilitate our work. We hope to be able to identify some practical proposals as well as a useful diagnosis.

Colin Wiltshire is the Devpolicy Program Manager for the PNG Promoting Effective Public Expenditure Project. He is also undertaking a PhD in the State, Society and Governance in Melanesia Program at ANU.

Challenges and opportunities at the frontline of service delivery in PNG: Enga province

By Andrew Anton Mako

Published on March 1, 2013

In a recent post, Colin Wiltshire shared his experience of gathering data in the Gulf province of Papua New Guinea (PNG) for a major survey into public service delivery in PNG. The survey, completed in December 2012, is a key component of the Promoting Effective Public Expenditure (PEPE) in PNG project. The three-year project is being implemented collaboratively by the National Research Institute (NRI) of PNG and the ANU's Development Policy Centre, and is financially supported by AusAID through the Economic and Public Sector Program.

Survey teams working for the project have covered some of the most remote parts of the country. I was part of a team of five that surveyed 30 primary schools and 19 health facilities in the Highlands province of Enga, one of two in that region to be covered. Enga is mostly rural and very remote, thanks to a difficult and mountainous terrain with high annual rainfall and poor infrastructure.

We conducted our survey in three districts (Wabag, Lagaip-Porgera and Wapenamanda) over two months. On our arrival in Enga, we visited the provincial administration building in Wabag, the provincial capital. We were surprised to find the provincial administrator's office closed, although this explained why our phone calls had rung out and our faxes hadn't transmitted when we'd tried to send notice a couple of weeks earlier about the upcoming survey.

Grade 8 examinations were approaching so the survey team had to push ahead. We met with the provincial health and education directors who were very keen and supportive of the research in Enga province. However, to our dismay, the provincial education director informed us that all schools in Kandep (one of the districts originally in our survey) had been suspended due to election-related tribal fighting (see the photo on the right of the notice posted on the education director's office door). So another district (Wapenamanda) was selected in its replacement and we randomly nominated the same number of facilities.

Most of the schools and health facilities we surveyed were quite remote, far from major towns and urban centres. It took hours of walking to reach them after driving on roads that were severely deteriorated due to lack of maintenance. Poor roads and bridges consistently made accessing remote facilities a challenge.

For facilities in remote parts of the province, access to funds, including school subsidies, is difficult. For these schools and health facilities there are many obstacles to sourcing materials and basic infrastructure, even with an increased allocation of funds such as school fee subsidies. Apart from the time it would take to travel to the next town with banks and shops, it also takes time to access funds due to the strict procurement processes required, especially before funds are released.

We noticed that before schools could withdraw their school subsidies, the provincial education office had to verify and approve their current spending. This procurement requirement is commendable so far as it deters abuse of school funds, but it also has costs, such as the time taken by teachers to travel to the provincial education office to have their school expenditure approved.

In some schools, especially government-run schools, the communities often suspect that Head Teachers and BOM Chairpersons are colluding over the management of funds. This is largely because the Head Teachers and BOM Chairpersons are not really transparent in dealing with the financial matters of the schools. Also, the capacity to manage funds and keep adequate records is variable and wanting in most remote facilities. This inadequate financial capacity adds to community mistrust.

The level and frequency of contact or support from the district, provincial, and national government is also variable. Facilities in remote parts of the province had minimal to no visits and support in many years, including compulsory school and health inspections.

Neglect in the maintenance of existing infrastructure is a major challenge for effective service delivery in Enga. First impressions of the entire survey revealed that this is common across all the provinces surveyed. The survey team surveyed a particular school in Wabag district which was about one hour walk from the main road, and one and half hours' drive from the provincial capital. We crossed a river on foot-bridge to get to the school. The school was really rundown as most of the classrooms and teacher houses which were built in the 70s and 80s had never been refurbished. Two of the houses for teachers and three classrooms had been built by the local community using funds raised by themselves through several fundraising activities. Some of these classrooms had large holes in the walls no desks, so students sat in the dirt. The only aid post in the village was shut down early last decade because it was so rundown due to lack of maintenance. There were only four teachers and a couple of volunteers from the community who were teaching the entire primary school – some of them teaching multi-grade classes.

On our return after surveying the school, to our surprise a huge crowd (nearly the entire village) was waiting for us. Thinking that we were government officials or representatives from a donor agency, they started describing their development needs. They demanded that a road be built connecting their village to the main road, as well as new teacher housing and classrooms, a new aid post and that the village be given a water supply.

We tried to explain why we were there, but they repeated their demands for basic government services for nearly two hours. We learned later that they had not received any government officials on visits to their school or health facility, and had not seen any improvement in basic services for over 15 years. Luckily for us, it started to rain, and we took the opportunity to leave, literally running from the meeting place until we crossed the river and got to our vehicle.

The challenges involved in providing public services in Enga province are many and real, but there are also opportunities to improve public service delivery, especially in the remote areas of the province.

The survey team met some very dedicated teachers and health workers, including volunteers, retired teachers and health workers, who continued to work under very trying conditions to ensure that facilities stayed open. Most of these officers take on extra responsibilities, such as teaching multi-grade classes. We met two retrenched health workers

at two separate locations, who continue to work in their village aid posts, and carry out health patrols to other remote villages by walking hours with heavy bags and boxes of drugs and medical kits, even though they were no longer on the payroll. No health workers had been appointed in their place since they were retrenched early last decade.

Now that provinces, districts and local government have more funds, district officers, such as health and school inspectors, should be assisted with logistical support (such as vehicles and airfares) to carry out periodic school and health inspections at remote facilities. This would greatly boost the morale of the dedicated health workers and teachers in remote places.

Communities are determined to see change. There is a need to engage with people who can bring it about. Involving local communities more deeply in development promotes ownership. It also provides a way for them to be a part of the solution by demanding accountability for public funds received and spent by schools.

With more funds now at the lower levels of government, it is time to maintain the existing infrastructure. Roads and bridges in the districts need to be fixed immediately, as well as the classrooms, housing for teachers and health facilities that are vital to health and education services for rural communities.

Churches are also a vital part of service delivery. We found that where the government wasn't present, the churches are, including in remote parts of the province. All survey teams

reported that in the most rural and remote areas, churches have the greatest presence. With more funds now available, the churches must be more included in the development process.

These are only some first impressions having completed the survey. More in-depth analysis of the survey results is underway, and findings will be disseminated in due course, including at the next Budget Forum on 29 August 2013.

As for me, I will never forget my time in Enga in October and November 2012. I grew up in Enga, so going back there, and especially seeing remote areas I had never been to before, confirmed my view (expressed here) that the last decade has indeed been a lost one for development in Papua New Guinea. But seeing dedicated teachers and health workers, paid and unpaid, continue to provide services to their communities in the most difficult conditions was also inspirational. It taught me that we must not give up, and that things can get better.

Andrew Anton Mako is a research fellow at the National Research Institute. He was the research facilitator for the survey team that covered Enga province. Prior to that, he was a post-graduate student at Crawford School and a researcher at the Development Policy Centre.

Navigating the potholes that plague infrastructure development in PNG

By Anthony Swan and Matthew Dornan

Published on August 20, 2013

With the Rudd–O'Neill asylum deal likely to involve a "realignment" of the Australian aid program toward new infrastructure spending in PNG, the mother of all potholes – one that severed four lanes of Port Moresby's Poreporena Freeway in March 2012 – is a reminder of the challenges facing infrastructure development in PNG. Although the collapse of Port Moresby's main road was due to a blocked culvert that was washed away, the underlying cause was a lack of maintenance, poor planning and institutional arrangements, and bad weather – problems that afflict most public infrastructure across PNG. Addressing these underlying problems could bring significant benefits to PNG through better infrastructure and lower costs associated with repairs, rehabilitation, reconstruction, and loss of service. Indeed, the cost of the repairs to the Poreporena was around K5 million (approx. $A2.3 million) and most in Port Moresby will attest to the lost time and income spent in congested traffic resulting from the road collapse.

There is scope to improve infrastructure development in PNG through the government's Infrastructure Development Authority (IDA), which is in the process of being established by the Department of National Planning (with help from development partners). The IDA proposal came about through the advocacy of former Prime Minister Sir Mekere Morauta. Sir Mekere proposed an independent infrastructure authority that would utilise resource revenues, particularly dividends from the PNG-LNG project, to finance the rehabilitation and maintenance of PNG's debilitated infrastructure. He argued that his proposal would not only result in greater levels of infrastructure funding, but would combine within the new infrastructure authority the functions of a large number of disparate government agencies that suffer from unclear and uncoordinated responsibilities.

The authority would undertake infrastructure planning, funding and implementation for major infrastructure assets. The operation and associated policy responsibilities for that infrastructure would remain with the government agencies that are currently responsible for those assets. Sir Mekere emphasized the need for the authority to have the freedom to "operate outside of the public sector box" if the poor infrastructure development outcomes over the last ten years are to be avoided.

National Planning Minister, Charles Abel, recently reiterated the government's commitment to the establishment of the IDA. He said that the IDA would deal with projects valued above K50 million and, it seems, relieve the Central Tenders and Supply Board (CSTB) of its procurement and tender functions for these projects. However, there are many questions that remain unanswered. These relate to the functions that the IDA will perform; its funding mandate; level of independence from government; and transparency, financial reporting obligations and oversight provisions.

Earlier this year we submitted a review of the IDA concept to the Asian Development Bank as part of its support for infrastructure development in PNG. We argued for the IDA to be established as an "apex" infrastructure agency, which would have a broad range of responsibilities and a significant level of independence from the machinery of government.

In our view, the IDA should be required to:

- Undertake and maintain a register of infrastructure assets of national importance that are public goods. The register should state the condition of infrastructure assets; cost of rehabilitation to a predefined standard of service delivery; an appropriate maintenance schedule, including cost of ongoing maintenance; and likely timing of asset end-of-life and replacement cost.
- Produce and regularly update a publicly available Infrastructure Investment Master Plan based on the asset register in consultation with government, international donors, infrastructure experts, private sector, and members of the public. Through the Master Plan, the IDA would direct spending to where the returns are the highest, such as by allocating appropriate funding to asset maintenance, thereby preventing the continuation of the build-neglect-rebuild paradigm.
- Undertake independent project procurement and tendering. This process could replace the functions of the CSTB and the National Executive Council (NEC), which have a track record of major delays in the approval process, little or no transparency in decision making, and decisions made with seemingly little regard to recommendations provided by technical committees.
- Undertake project construction or rehabilitation as well as oversight for large or nationally significant projects. However, the implementation of routine maintenance for these assets should remain with the current asset owners but be funded by the IDA in accordance with the Infrastructure Investment Master Plan.

Our preference for the "apex" IDA model reflects our view that the alternative, which would most likely involve restricting its function to infrastructure financing and/or review, would do nothing to fix an already broken or at least largely ineffectual system. Fundamental changes are needed to fix infrastructure in PNG. The establishment of an organisation with a narrow set of responsibilities will not suffice.

Inevitably, there are risks that the IDA will under perform due to lack of capacity and coordination, and duplication of roles. The IDA in this context could become another layer in an already inefficient and bureaucratic process for infrastructure development. The key to managing these risks is strong governance arrangements, transparency and financial reporting requirements, regular audit and peer review, and high-level political support. We should also be realistic about the prospects for immediate change. It will take years for the IDA to develop the capacity to effectively carry out a wide range of responsibilities. Transitional arrangements are therefore of great importance.

In terms of governance arrangements, Sir Mekere proposed that IDA management should report to a board of directors consisting of government and independent nominees, but with a government majority. Indeed, we believe that not only should the government have the majority of positions on the board, but that the Chair of the Board should be the prime minister or some other readily identifiable and

influential government minister. The idea behind this is to ensure political support and greater accountability by aligning the performance of IDA with the actions of those in the highest level of government. We view this as necessary to avoid a repeat of the experience with the National Road Authority, which was established with donor support, but was never given the necessary resources by government to perform its mandate.

Some people may be concerned that under this proposal, the prime minister and other government representatives would have substantial control over infrastructure development, including planning, procurement and tendering decisions. Yet in the current system, these decisions are made by a multitude of public servants across sector based government departments, SOEs, and CSTB – all behind closed doors and with little accountability or transparency. International experience (in India and South America) has shown that high level political representation on the Board of infrastructure agencies can be a powerful mechanism for achieving real improvements in infrastructure services.

There are some similarities between our proposal for IDA's governance structure and the recent announcements by Prime Minister O'Neill on the restructure of the PNG government's petroleum and mining assets and SOEs. These assets and enterprises will be transferred into three new "Kumul" entities that would be overseen by current and former prime ministers. It is hard to evaluate these reforms without further details; not very much information has been released by the PNG Government. And whether government should be investing its time in running commercial businesses is unclear. What is clear is that, as in our proposal for the IDA, leaders need to play a central role in ensuring that government entities are accountable to Papua New Guineans. The success of infrastructure development in PNG will depend on the strength and good-intention of the political leadership. It may be some consolation that if infrastructure development in the long-run does not improve, then at least the politicians can be voted out of office.

Anthony Swan and Matthew Dornan are Research Fellows at the Development Policy Centre.


Source: Flickr/Jonathan E Shaw

PNG's lost decade? Understanding the differences between health and education

By Thomas Webster, Andrew Anton Mako, Stephen Howes, Anthony Swan, Grant Walton and Colin Wiltshire

Published on September 27, 2013

Last Thursday, September 19th, we released preliminary results from the 2012 PEPE (Promoting Effective Public Expenditure) survey of schools and health clinics undertaken by the National Research Institute (NRI) and the Australian National University's Development Policy Centre. The survey included randomly selected schools and health clinics (but not hospitals) from eight provinces in a nationally representative sample. The provinces covered were Gulf, West Sepik, Morobe, Enga, Eastern Highlands, National Capital District and East and West New Britain.

Our 2012 survey included the same 166 schools and 63 clinics surveyed ten years ago by the NRI, in 2002. (In total we visited 214 schools and 141 health facilities.) By comparing the results from 2012 with those from 2002, we are able to address, for the first time, the pressing question of whether PNG has so far been able to translate its booming mineral wealth into services for ordinary people.

The results are revealing. The most striking difference is that the number of children recorded as being present at school increased by 69%, whereas the average number of patients utilizing a health clinic fell by 18%. We also know that the population grew over the last decade by about 30%, and that the number of schools increased slightly, whereas the number of health clinics fell. Putting all this together, we can conclude that the proportion of kids attending primary school increased by more than 40%, whereas the proportion of the population utilizing a health clinic fell by more than 50%.

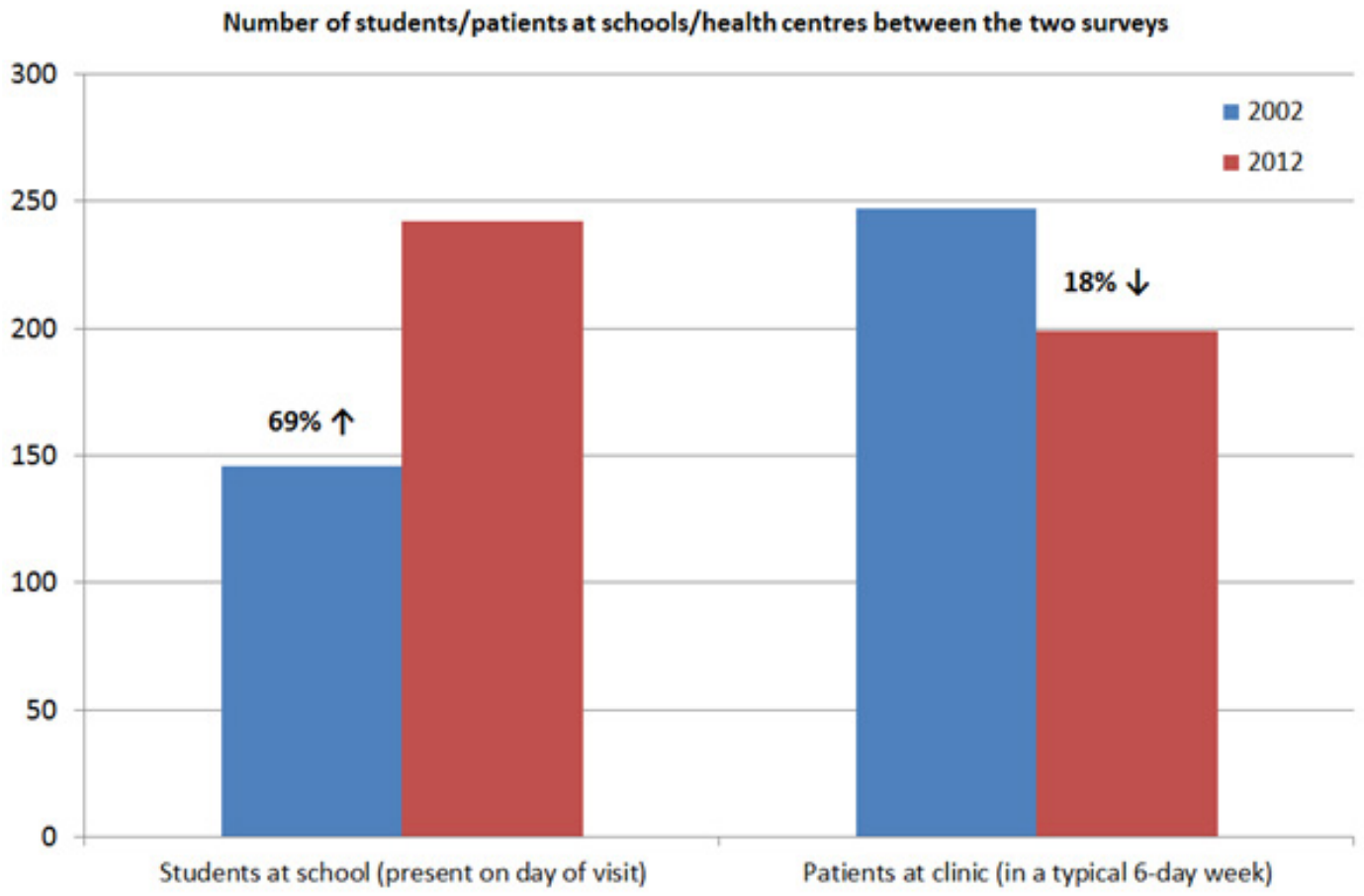
There are other indicators that the education sector has done much better than health. The number of teachers and classrooms increased over the last decade, the quality of classrooms also improved, and teachers reported greater adequacy of school supplies, such as textbooks.

The performance of health clinics unfortunately went in the opposite direction over the last decade. There was a decline in the availability of some key drugs and medical supplies. While many health staff are clearly very dedicated (three-quarters contribute from their own salary to running costs), the number of health staff working at clinics fell by around 10%, as the graph on page 22 shows.

This is not to say that there are not problems in education. To the contrary, the results show schools face some of the same problems which hinder health clinics. For example, about 40% of staff homes for both teachers and health workers and 25% of class rooms and clinics require rebuilding due to a lack of maintenance.

Nevertheless, these clear differences in the direction of performance between the education and health sector over the last decade demand an explanation.

The policy of abolishing school fees has boosted school attendance, but the number of clinics charging fees has also fallen. The new policy of free health care will not be enough to turn around performance, and indeed may



exacerbate existing problems as health centres are starved of cash.

The analysis undertaken so far suggests four reasons for these differences. First, more teachers have been hired than health workers. The inability to replenish the health labour force is a critical problem which will require both funding and training to address.

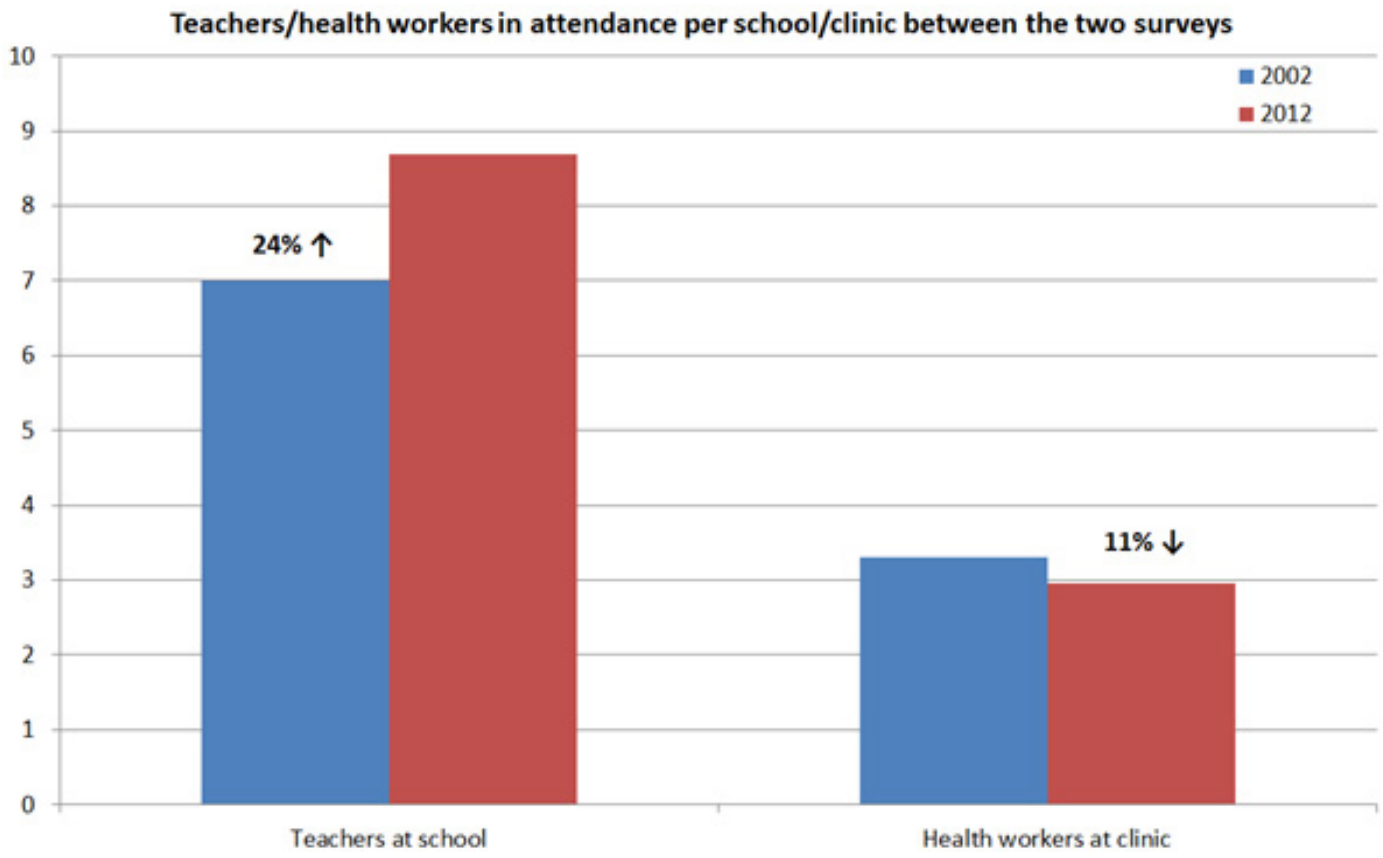
Second, primary schools have benefited from funding direct to schools from the national government (85% reported receiving both their 2012 subsidies). By contrast, health centres are reliant on the health function grants, and in most provinces these funds are not reaching the health centres (whether directly or in-kind). As a result, they are unable to carry out basic functions such as patrols and drug collection or distribution.

Third, primary schools seem to be better connected to their communities. Nearly all have boards of management with community representation and a parent and citizens (P&C) committee. Health clinics don't have a board of management and only 60% have a village health committee. School P&C committees are also more active than village health committees, meeting almost twice as often on average.

Fourth and finally, primary schools are more likely to receive a visit from their supervisor than rural health clinics are.

These initial results illustrate the sort of analysis now possible with this unique longitudinal data set. Other results presented and discussed last week show that there is enormous variation in performance across provinces. A lot can be learnt from looking at the better-performing provinces. There is also some evidence that church-run health facilities perform better than government ones. We will be releasing further results and analysis in the coming months. We will be also undertaking much more detailed analysis at the facility level to better understand the determinants of performance over the last decade. We look forward to sharing more detailed findings from the survey as they become available.

The fact that we can now look at these questions shows just what a huge gap this new data set fills in our knowledge about service



delivery in PNG. For the first time we actually have data on what is working and what is not, what has improved and what has gone backwards in service delivery in PNG.

While data and analysis are essential, so too are engagement and dialogue. The point of this exercise is not to lay blame or to point fingers. Over the last month, we have gone back to seven of the eight provinces from which we collected our data last year, presented our preliminary results, and sought their feedback. All have welcomed the availability of this new data and expressed their desire to use it to improve service delivery.

And last week we had the Acting Secretaries of both the Education and Health Departments there for the entire forum. Both talked about the value of this data, and the way they want to respond to its findings.

Was the last decade a lost one for PNG? As often happens, the answer is more complex than the question suggests. The last ten years have not been good ones for the health sector, and it is hard to see evidence of the additional money allocated to the sector on the ground. But for education, while many challenges remain, there are also important indicators of significant progress.

This variable performance has much to teach us. Free education or free health is not enough to guarantee expanded and improved provision of service. Getting frontline staff in place, getting funds and/or resources to the facility level, and strengthening community engagement and supervisory arrangements all seem to be important for improving service delivery in PNG.

Thomas Webster is Director of the PNG National Research Institute, and Andrew Anton Mako is a Research Fellow and PEPE Manager at the NRI. Stephen Howes is Director of the Development Policy Centre at the Australian National University. Anthony Swan and Grant Walton are Research Fellows at the Centre, and Colin Wiltshire is the PEPE Manager at the Centre.

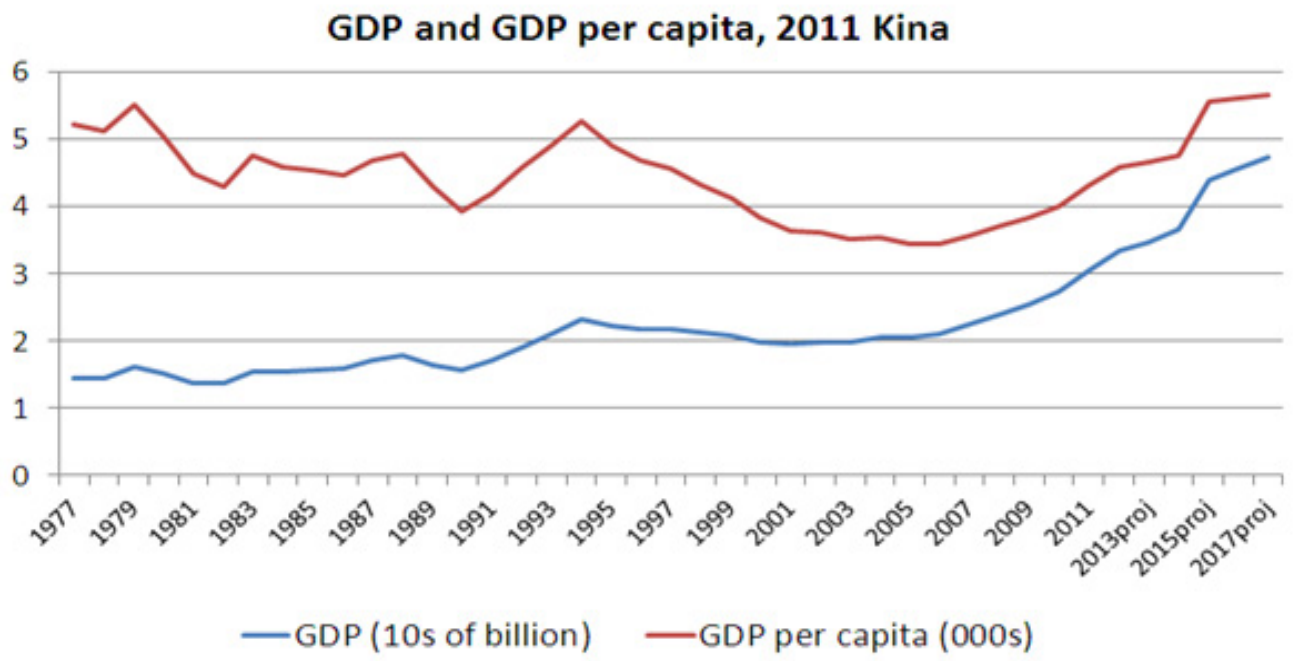
PNG's 2013 National Budget: the end of the expenditure boom, and implications for service delivery

By Stephen Howes, Anthony Swan and Andrew Anton Mako

PNG experienced uninterrupted, exceptional economic growth in the last decade. In the last few years, LNG-related construction further spurred economic growth and the country recorded a healthy 9% growth in 2012 when the global economy was slowly picking its way out of recession by recording a 3% growth. Going forward, PNG's economic growth will lose steam although it is forecast to remain positive in the medium term largely due to the winding down of construction of the LNG project.

However, growth prospects continue to be positive with Gross Domestic Product (GDP) per capita expected to increase in the medium term, even though the increase will be only to 1970s level by 2017, as shown by the following graph.

With improved growth performance, poverty has stagnated, but has not fallen in PNG over the last 15 years. From 37.5% in 1996, PNG's 2009-2010 Household Income and Expenditure (HIES) survey shows that poverty level is 39.9% (a small increase of 2.4%) in 2010. However, more recent figures on job creation are promising: more jobs have been created in the last decade than in the 1990s. See tables on page 24 for figures on the level of poverty and employment. The 2013 national budget is significant in many respects including: another record budget of K13billion, a medium-term budgeting strategy has been adopted for the first time, devolved public expenditure, and a deficit budget (K2.6billion deficit) which is the first of its kind passed in 10 years.



	GDP per capita (Kina, 2011 prices)	Poverty (%)
1996	4693	37.5
2009-10	3921	39.9

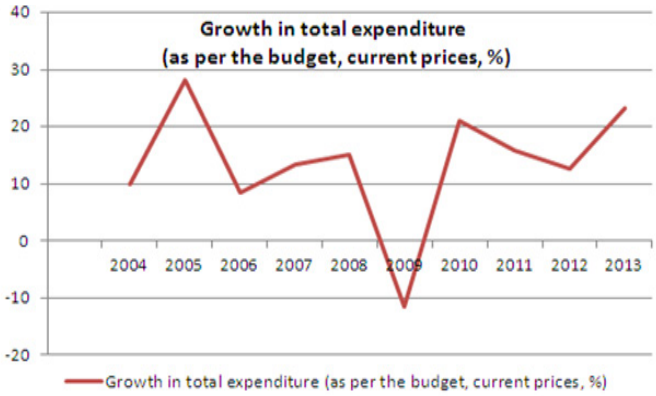
Cumulative growth

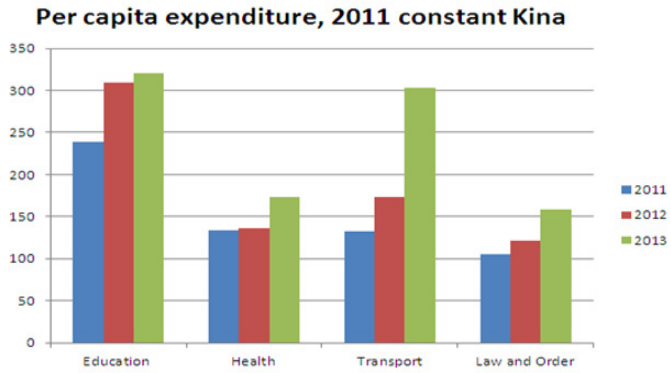
	96-09/10	02-12
Growth in formal sector jobs	43%	72%
Growth in population	45%	32%

So "how is the budget significant to the development prospects of PNG?" is the question many continue to pose? For a country such as PNG, the budget is indeed the most significant strategy to convert the proceeds of growth, and more so revenue generated, particularly from the "enclave" minerals (mining and petroleum) sector to the other sectors, including to finance the delivery of public services at the frontline. And the national budget needs to do a better job of converting growth into development in the next few years (when economic growth is projected to be moderate), given that the last ten years of public expenditure seem to have been wasted, quality of spending has been really poor, and consequently, frontline service delivery seem to have suffered, when the country was experiencing strong economic growth.

In spite of the fact that the 2013 national budget is being described as history, bold, and innovative, it is no different to the budgets of the last ten years as far as its most important feature (expenditure) is concerned. In other words, the 2013 budget continues the trend over the last decade of rapid expenditure growth. The graph (top right column) confirms that, except for 2009, real expenditure growth since 2004 has increased and averaged 15% annually in the last decade, and is projected to be around 17-18% per year in the next few years.

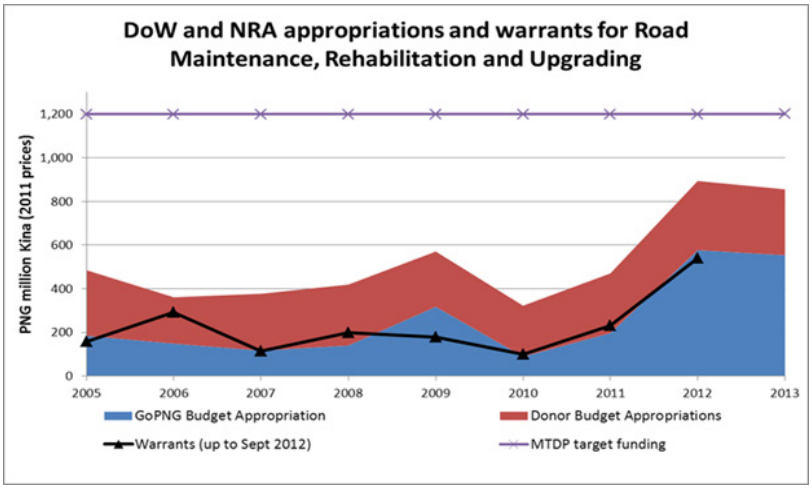
When the increase in public expenditure is further analyzed, it reveals that more funding is flowing to the priority areas of the government under the auspices of the Medium Term Development Plan (MTDP). The second graph on this page shows that the MTDP enablers of Education, Health, Transport





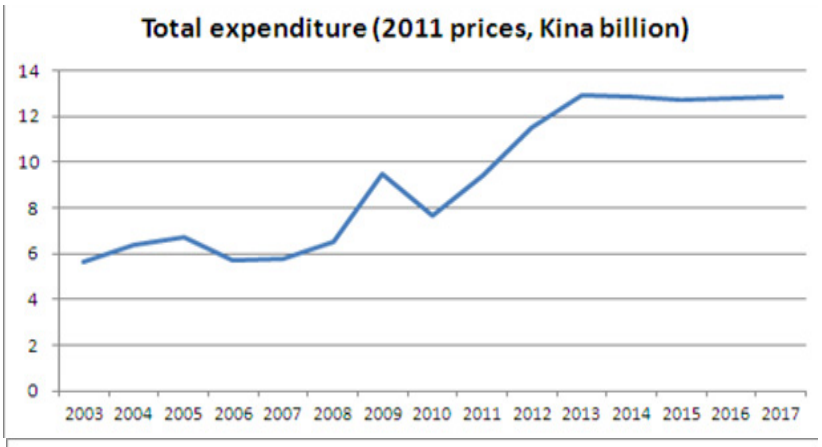
and Law & Order have all received increased funding from 2011 to 2013. The transport sector, in particular, has been a success story of the recent increased allocation of funding to key sectors. However, this does not discount the fact that there are still large annual funding gaps for all MTDP enablers to fully attain their MTDP goals.

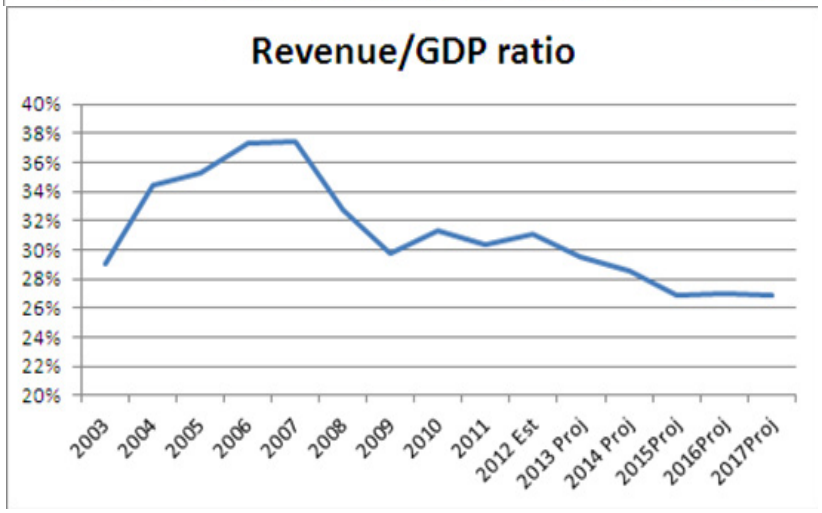
For the transport sector (see graph immediately above), and the national road in particular (refer to graph below) funding which was appropriated has been increasingly spent, even though large funding gaps still remain each year to fully maintain and refurbish all the national roads in line with MTDP funding targets. Based on best available data, the drawdown and use (warrants) of funding appropriation



for maintenance of all national roads has increased since 2010. This implies that the actual use of the funding allocated through the national budget to maintain, refurbish and improve the national roads in PNG has increased.

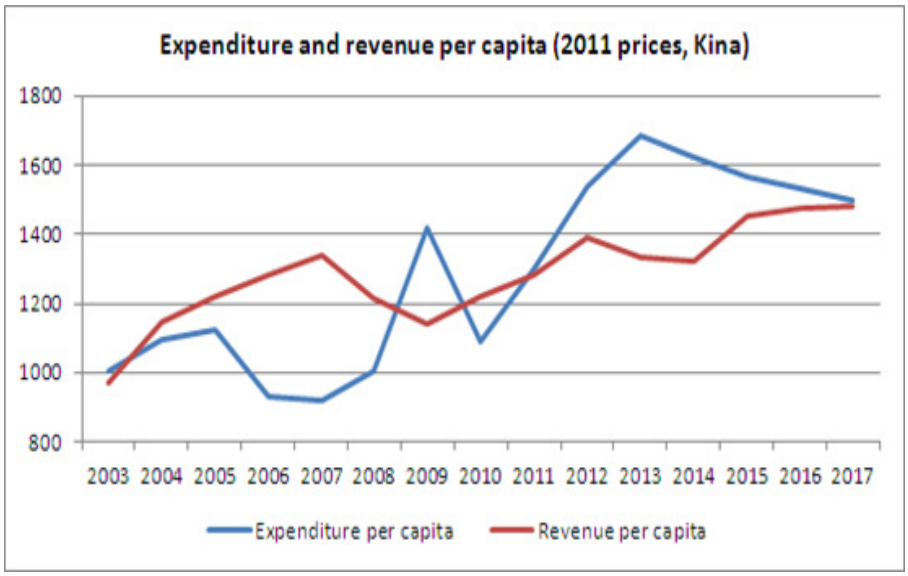
However, the 2013 budget figures show that the boom in public expenditure during the last decade seems to have reached its peak in 2013, and will flatten off in the medium term as illustrated by the graph opposite. As per the graph, unlike in the last ten years real expenditure (i.e. adjusting for inflation) is predicted to hover around K13billion from 2013 and into the medium term. This could reverse the recent trend in increased funding allocation to the MTDP enablers (Education, Health, Transport, Law & Order and Economic Growth) as mentioned above.



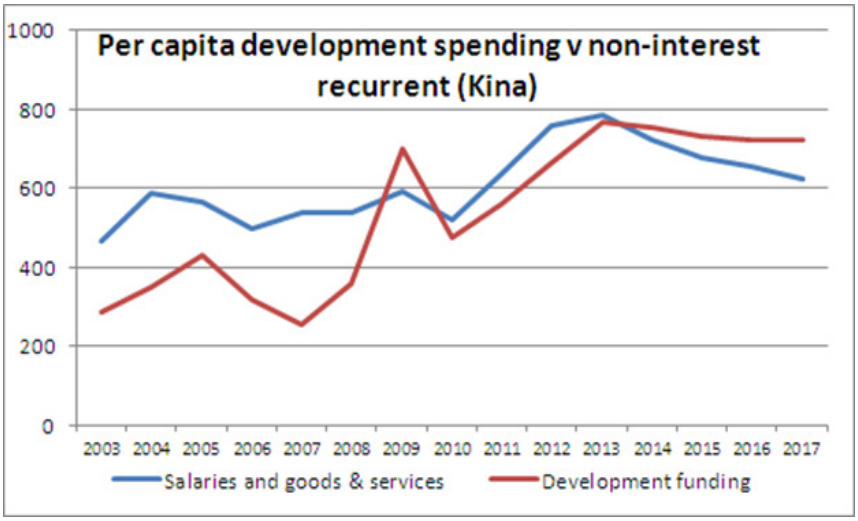


There are two principal reasons behind this medium term scenario.

1. As shown by the graph below, expenditure has and is projected to outstrip revenue which will usher in fiscal risks. The government's decision to pass deficit budgets in the medium term before balancing the budget in 2017 means that public expenditure will exceed revenue growth, with the deficit being financed by loans (this means PNG's total public debt will increase although it will be sustainable – i.e. the government expects public debt to be below 40% of GDP).
2. Revenue is not growing fast enough to close off the fiscal gap (refer to graph immediately above), which explains why the government has to borrow to finance the deficit budgets in the next few years. Revenue growth in fact has fallen from 2007 which warrants an immediate review of the country's taxation system to broaden revenue generation (more on this later).

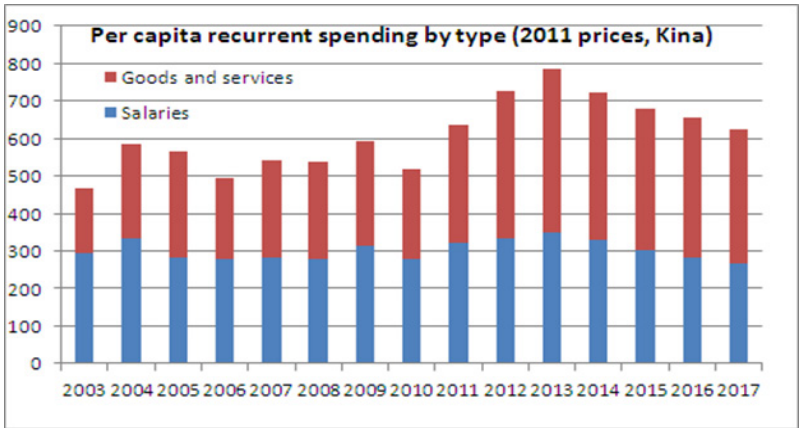


The implications of the above fiscal scenario is that the country will face constraint fiscal conditions in the medium term, which is quite contrary to the claim by many, including the government, that the government has created sufficient fiscal space in the last decade for the government to go into deficit budgeting in the medium term.



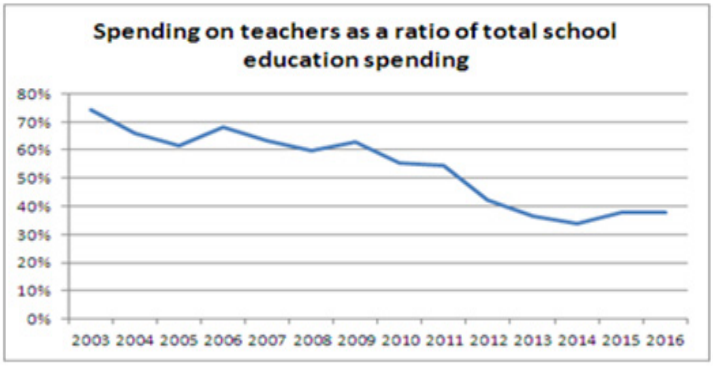
Furthermore, despite the tight fiscal condition from 2013, the national budget continues the pattern of the last decade of prioritizing the development (project) budget. From 2008, the government's spending in the development budget doubled and will maintain that trend into the medium term (see graph immediately above). In a tight fiscal context, continued expansion of the development budget implies that funding for core service delivery functions will be squeezed. As illustrated by the graph immediately below, salary and goods and services (recurrent/ operational funding) falls below development (project) funding from 2013 to 2017. A key explanation of such expenditure regime lies in the realm of political economics – development/ project spending is more politically popular than spending money on vital and ongoing operational costs such as maintenance of existing transport infrastructure, health facilities, and schools!

Even when the recurrent spending is further analysed, preference has been given to goods and services spending over salaries. In fact salaries have stagnated in the past decade and are projected to fall in the medium term as recurrent expenditure is squeezed as illustrated by the following graph.



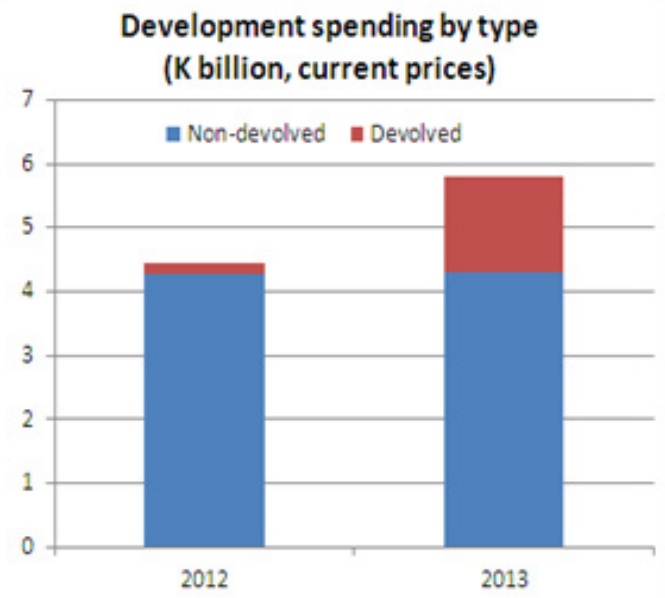
Salaries are crucial if funding allocated to development and other recurrent expenditure such as on goods and services were to be effectively implemented.

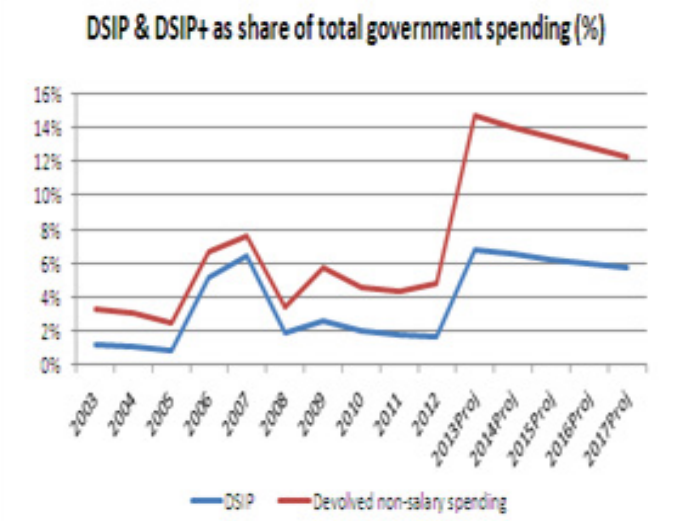
The impact of allocating more of the recurrent spending to goods and services is especially stark in education as shown by the next graph. Teachers' salary falls, but goods and services spending (education subsidies) and other education spending increase. This means that there will be not enough teachers to teach the expected rise in students due to the tuition-free education policy the government plans to pursue.



Much of the first round of resource boom spending, especially under the development budget (and trust account funds) in the last decade is widely argued to have been wasted and has produced little impact on service delivery at the frontline. Consequently, the government has decided to devolve or decentralize the development budget to the sub-national and local levels of government. From just over K4.5 billion (adjusting for inflation) in 2012, the development budget will expand to nearly K6billion (refer to the graph on page 27) in 2013. This is a radical shift even in international standards representing almost 60% of the increase in the budget, as the budget share of devolved spending rises from about 5% to 15% (refer to graph on page 27), or in monetary terms from K50million to K2billion (in nominal Kina).

There are several arguments both for and against the devolved budget, including the fact that more than 80% of





the total population of PNG lives in rural areas, hence more money has to be spent at the local, district and provincial levels to improve the lives of the people. However, the major argument against such large devolved spending which has resonated everywhere and at every forum is that implementation capacity is wanting or lacking, particularly in the districts and the LLGs. Even initial data and results from the major PEPE survey into facility and public expenditure which was conducted recently by ANU and NRI confirms the notion of lack of capacity in the districts and local level governments. The following is an example from the PEPE survey, especially in relation to DSIP funded development projects in the districts. Of 208 schools surveyed across the country, 25% of them (52 schools) received some form of DSIP funded projects. The average funding received by the schools was K65,652. 29 school projects were completed, and 22 schools projects were incomplete or behind schedule. Of the 22 school projects, the average years behind schedule was 1.1years, average degree of completion was only 60%, and the number of school projects expected to be never completed was 41%. This example clearly shows the lack of capacity to implement development spending in the lower levels of government.

Moreover, the hype with the Soverign Wealth Fund (SWF) bankrolling PNG's development in the medium and long term could be unrealistic if public expenditure follows the current trend. In addition, under the current arrangment, the SWF in fact will also expand the development budget rather than the recurrent budget. This is because the SWF's Development Fund will receive PNG LNG Dividends, with smoothing expected, and as stipulated by the SWF legislation, the Development Fund will be spent to "support the development plans of the Government in accordance with an Act of Parliament". Unlike the Stabilsation Fund, there is no requirement in the Organic Law for Development Fund proceeds to be "through the National Budget." This means the Development Fund will be used as the government wishes, which implies, could lead to more project/development expenditure, and less on recurrent/operation.

So what do all these mean to the fundamental question of improving service delivery at the frontline through the national budget, i.e. at the rural areas where the bulk of the country's population lives? The most likely result is as shown by the following PEPE survey photograph. This picture was taken of a newly built health facility in Gulf Province, which was funded by DSIP funds. The buildings are brand new, however, the health facility is not in operation even after 18months of completion because there are no health workers to work at the new health facility. This implies that there is little to no capacity at the frontline of service delivery due largely to the continuous neglect of the recurrent budget!

In conclusion, it is important to reiterate the fact that more financial resources are being allocated to the MTDP priorities/enablers, especially the transport sector, which is a

welcome development. However, frontline serve delivery has taken a back seat to expanded national and devolved spending. With fiscal constraints tightening in the medium term, the recurrent budget needs to be given greater priority or else frontline service delivery will continue to suffer, and fiscal risks will increase when spending cuts are made because usually the recurrent budget will have to give.

The government's announcement in the national budget to review the country's taxation system should be applauded. Given a constraint fiscal condition in the medium term, revenue generation has to be broadened, leakages including through tax evasion need to be addressed, and importantly the taxation regime of the minerals sector needs an urgent review.

It is also exciting time for budget analysis in PNG due to the number of changes and reforms the government introduced to the national budget and will take shape in the near term. And importantly, there is need for monitoring and evaluation of the implementation of the national budget which apparently is the ultimate goal of the Promoting Effective Public Expenditure (PEPE) in PNG research project.

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Source: Flickr/World Bank

About the PNG Promoting Effective Public Expenditure Project

PNG is experiencing a minerals boom and confronts serious challenges in translating increased resource revenues into effective development outcomes. Together with the National Research Institute, the Development Policy Centre is undertaking the "Promoting Effective Public Expenditure Project" over the next three years to help navigate this critical period.

The project aims to better understand how PNG allocates its public funds and then how their funds are provided to and used by those responsible for delivering basic services.

Formally, the objectives of the project are as follows:

- To analyse the allocation of public funds across expenditure priorities in PNG.
- To analyse the performance of a range of current PNG Government expenditure reforms in translating budget allocations into effective service delivery performance, and to understand the reasons for their success or failure.
- To feed these results back to PNG's political and bureaucratic leadership, civil society and general public and to influence allocations and expenditure rules to promote better allocations and more effective and transparent expenditure.
- The project consists of two inter-related components. The first focuses on analysing the allocation of PNG's public resources through the budget process. The findings of this analysis, as well as the surveys discussed below, will be presented at twice yearly budget fora to provide a more systematic understanding of how PNG allocates its public resources, which helps reveal the government's policy priorities.

The second component focuses on understanding local expenditure dynamics and reforms. Though an expenditure tracking survey focusing on local schools and health facilities, we will get a better understanding of whether funds are being effectively managed to deliver services. In particular, we will focus on recent reforms to see whether they are yielding improvements in service delivery.

The project runs from 2012 to 2015.

About the Devpolicy Blog

Established in September 2010, the Development Policy Blog provides a platform for the best in aid and development analysis, research and policy comment, with global coverage and a focus on Australia, the Pacific and Papua New Guinea. By the start of 2013 Devpolicy has published over 540 blog posts from more than 180 contributors.

By mid-2013, the blog was reaching an audience of more than 20,000 unique visitors each month.

The blog is run out of the Development Policy Centre housed in the Crawford School of Public Policy at the Australian National University.

The Development Policy Blog is edited by Stephen Howes and Jonathan Pryke.

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