PEPE research implications and the 2015 budget

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PEPE and the 2015 Budget

• Evidence based budgeting
• 2015 Budget implications
• Holistic approach in Government’s policies
Evidence based budgeting

• Good policy requires good evidence
  – Budget a tough competition of not enough money chasing many priorities
    • Evidence helps inform how best to use scarce money – what works?
• PEPE very important source of data
  – Especially as it allows comparisons over time
• More research could even better inform the budget cycle
  – Importance of linking other work
    • eg NRI considering more work on literacy and numeracy
  – As well as a second phase of the current PEPE to examine through case studies what seems to be working well
  – And future PEPE studies possibly every 5 years
2015 budget implications

• Financing matters
  – PEPE – financing is one of the four critical factors explaining the difference in performance between sectors, provinces and facilities
  – PEPE – increased funding is reaching the schools
    • but not health clinics where 41% starved of external support (including from GoPNG)
  – PEPE – importance of revenue for activity levels and for schools, infrastructure quality

• But 2015 start of tough budgets
  – Big expenditure increase years are over - not just for 2015 but onwards
  – Need more teachers (with 10 per cent pay increases granted)
  – This does not easily fit within a budget with a 2.3 per cent nominal increase over the next three years
    • Given inflation, this represents a real decrease of over 15 per cent
  – Similar situation with health
### 2015 Budget Starting Point

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Education (Km)</strong></td>
<td>1,343</td>
<td>1,502</td>
<td>1,468</td>
<td>1,502</td>
<td>1,536</td>
</tr>
<tr>
<td><strong>Growth rate</strong></td>
<td>13.4%</td>
<td>11.8%</td>
<td>-2.3%</td>
<td>2.3%</td>
<td>2.3%</td>
</tr>
<tr>
<td><strong>Health (Km)</strong></td>
<td>1,089</td>
<td>1,382</td>
<td>1,349</td>
<td>1,380</td>
<td>1,412</td>
</tr>
<tr>
<td><strong>Growth rate</strong></td>
<td>12.4%</td>
<td>26.9%</td>
<td>-2.4%</td>
<td>2.3%</td>
<td>2.3%</td>
</tr>
<tr>
<td><strong>Revenue (Km)</strong></td>
<td>10,482</td>
<td>12,689</td>
<td>14,029</td>
<td>14,816</td>
<td>15,678</td>
</tr>
<tr>
<td><strong>Growth rate</strong></td>
<td>9.6%</td>
<td>21.1%</td>
<td>10.6%</td>
<td>5.6%</td>
<td>5.8%</td>
</tr>
<tr>
<td><strong>Expenditure (Km)</strong></td>
<td>13,219</td>
<td>15,042</td>
<td>15,344</td>
<td>16,022</td>
<td>16,746</td>
</tr>
<tr>
<td><strong>Growth rate</strong></td>
<td>20.8%</td>
<td>13.8%</td>
<td>2.0%</td>
<td>4.4%</td>
<td>4.5%</td>
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<tr>
<td><strong>Deficit</strong></td>
<td>-2,737</td>
<td>-2,353</td>
<td>-1,315</td>
<td>-1,206</td>
<td>-1,068</td>
</tr>
<tr>
<td><strong>%GDP</strong></td>
<td>-7.9%</td>
<td>-5.9%</td>
<td>-2.5%</td>
<td>-2.2%</td>
<td>-1.8%</td>
</tr>
</tbody>
</table>
PEPE 2015 budget implications

• High level – need more training and teachers and medicines and salaries and maintenance
  – This is all “recurrent budget expenditure” – needs to grow relative to the “development budget”
A new, but unopened health clinic built in Gulf Province with funding from the District Service Improvement Program.
PEPE 2015 budget implications

• High level – need more training and teachers and medicines and salaries and maintenance
  – This is all “recurrent budget expenditure” – needs to grow relative to the “development budget”
  – The reallocation challenge.

• Education and health budgets have expanded significantly
  – Education has more than trebled over the last five years
  – Health has more than doubled
## 2015 Budget Starting Point
(including 2009 as a reference point)

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2014</th>
<th>2015</th>
<th>Growth from 2009 to 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Education (Km)</strong></td>
<td>486</td>
<td>1,502</td>
<td>1,468</td>
<td>3.1 times larger</td>
</tr>
<tr>
<td>Growth rate</td>
<td>11.8%</td>
<td>-2.3%</td>
<td></td>
<td>25%</td>
</tr>
<tr>
<td><strong>Health (Km)</strong></td>
<td>618</td>
<td>1,382</td>
<td>1,349</td>
<td>2.2 times larger</td>
</tr>
<tr>
<td>Growth rate</td>
<td>26.9%</td>
<td>-2.4%</td>
<td></td>
<td>17%</td>
</tr>
</tbody>
</table>
PEPE 2015 budget implications

• High level – need more training and teachers and medicines and salaries and maintenance
  – This is all “recurrent budget expenditure” – needs to grow relative to the “development budget”
  – The reallocation challenge.
• Education and health budgets have expanded significantly
  – Education has more than trebled over the last five years
  – Health has more than doubled
• Can any of this money be spent more effectively?
  – The quality challenge.
• And can we translate more of the budget allocations at national level to the school and health clinic level?
  – PEPE indicates funds are getting through to school accounts but not health
  – The implementation challenge.
Holistic approach

• Improving the standard of living of all Papua New Guineans a shared ideal
• Budget expenditure important
• Tax policy also important – indeed, payment of user charges an approach to tax policy
  – Somebody has to pay for services
• Exchange rate – setting the Kina 15 per cent above market rates cuts many rural families’ incomes by more than abolishing fees
• Monetary policy – printing money can push up inflation and hurt the ability of families to send their children to school or get good health care
Conclusion

• PEPE makes an important contribution to improved evidence based budget decision making
  – Importing to build on this base and sustain it
• 2015 Budget will be very tough
  – Some preliminary PEPE lessons can be included.
    • Reallocation challenge
    • Quality challenge and
    • Implementation challenge
  – Next discussion will focus on the report and others views on its practical implications including for the 2015 Budget.
• A holistic approach is critical for good government policy – fiscal, tax, exchange rate, monetary policy
  – All affect standards of living for Papua New Guineans