

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

		2013	2014	2015	2016	2017
Education (Km)		1,343	1,502	1,468	1,502	1,536
Growth rate	37.4	13.4%	11.8%	-2.3%	2.3%	2.3%
Health (Km)		1,089	1,382	1,349	1,380	1,412
Growth rate	7.4	12.4%	26.9%	-2.4%	2.3%	2.3%
Revenue (Km)		10,482	12,689	14,029	14,816	15,678
Growth rate		9.6%	21.1%	10.6%	5.6%	5.8%
Expenditure (Km)		13,219	15,042	15,344	16,022	16,746
Growth rate		20.8%	13.8%	2.0%	4.4%	4.5%
Deficit		-2,737	-2,353	-1,315	-1,206	-1,068
%GDP		-7.9%	-5.9%	-2.5%	-2.2%	-1.8%

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)

	2009	2014	2015	Growth from 2009 to 2014
Education (Km)	486	1,502	1,468	3.1 times larger
Growth rate		11.8%	-2.3%	25%
Health (Km)	618	1,382	1,349	2.2 times larger
Growth rate		26.9%	-2.4%	17%

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