The 2014 budget: implications for service delivery

The PEPE team

NRI-ANU April 2014 Budget Forum

Themes

1. Budget reform: what has happened to the development budget?
2. Budget reform: what has happened to the Sovereign Wealth Fund?
3. Budget policy: what are the key policies of the 2014 PNG budget?
4. Budget risks: what are the key budget risks this year and in the future?

1. Recurrent-development budget integration

2014 Budget integration

- ‘Critically, the 2014 Budget will be a truly national Budget with expenditure shown on an agency basis and the artificial distinction between the old “Recurrent” and “Development” Budgets removed.’
  - (p.5 of Vol. 1)

The integration is well-intentioned

- ‘Ensure an appropriate alignment between the construction of new roads and the provision of money to maintain them. Likewise, ensuring funding is available for staff when new health or education buildings are constructed, including through integrating the “Recurrent” and “Development” Budgets and the introduction of multi-year budgeting in 2014.’ (p.2)

But there is still a development budget

INDEPENDENT STATE OF PAPUA NEW GUINEA

VOLUME 3

PUBLIC INVESTMENT PROGRAM

2014 – 2018

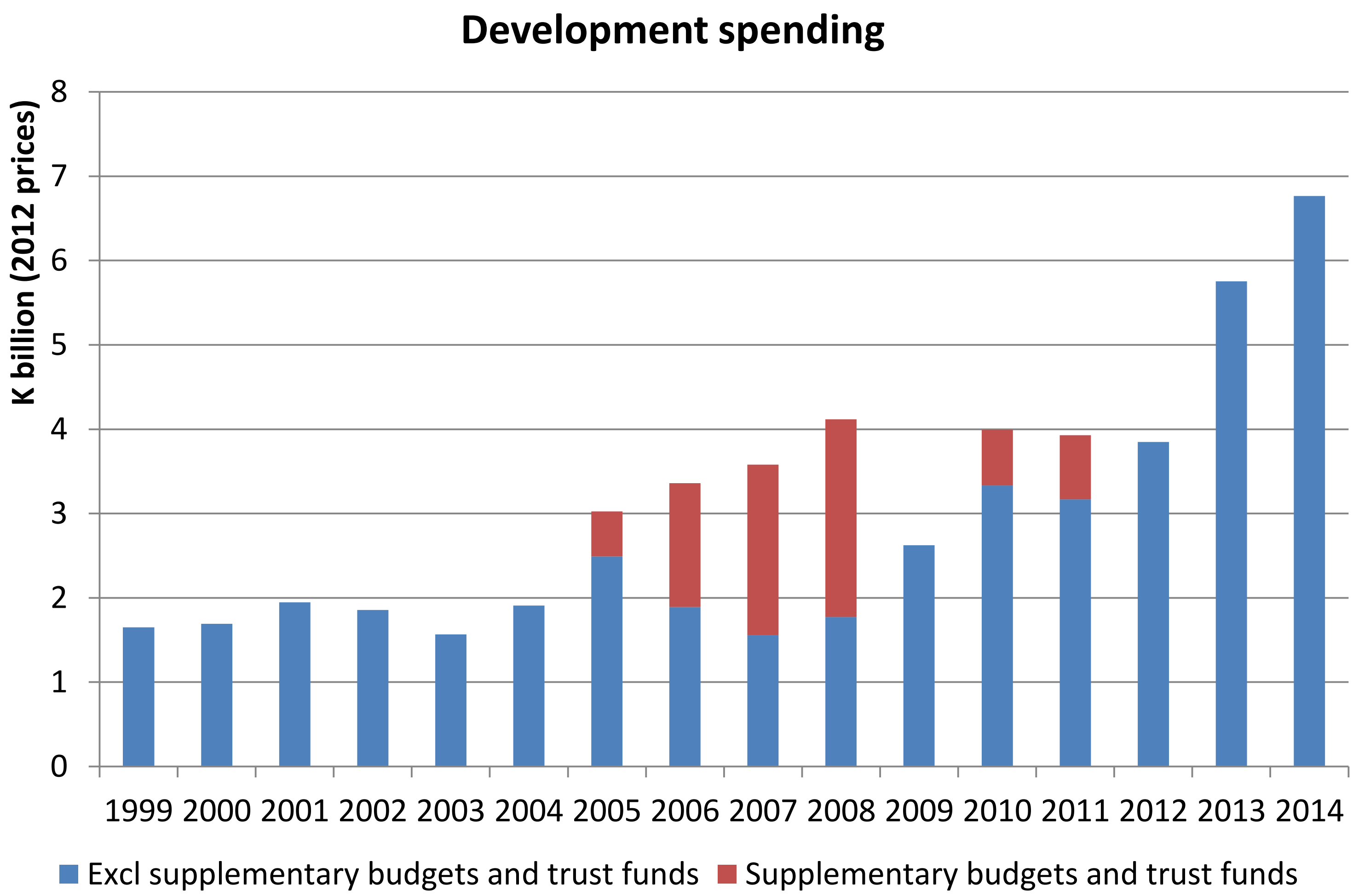
"Sustainable Growth Through Fiscal Consolidation & Prudent Management"

FOR THE YEAR ENDING 31ST DECEMBER, 2014

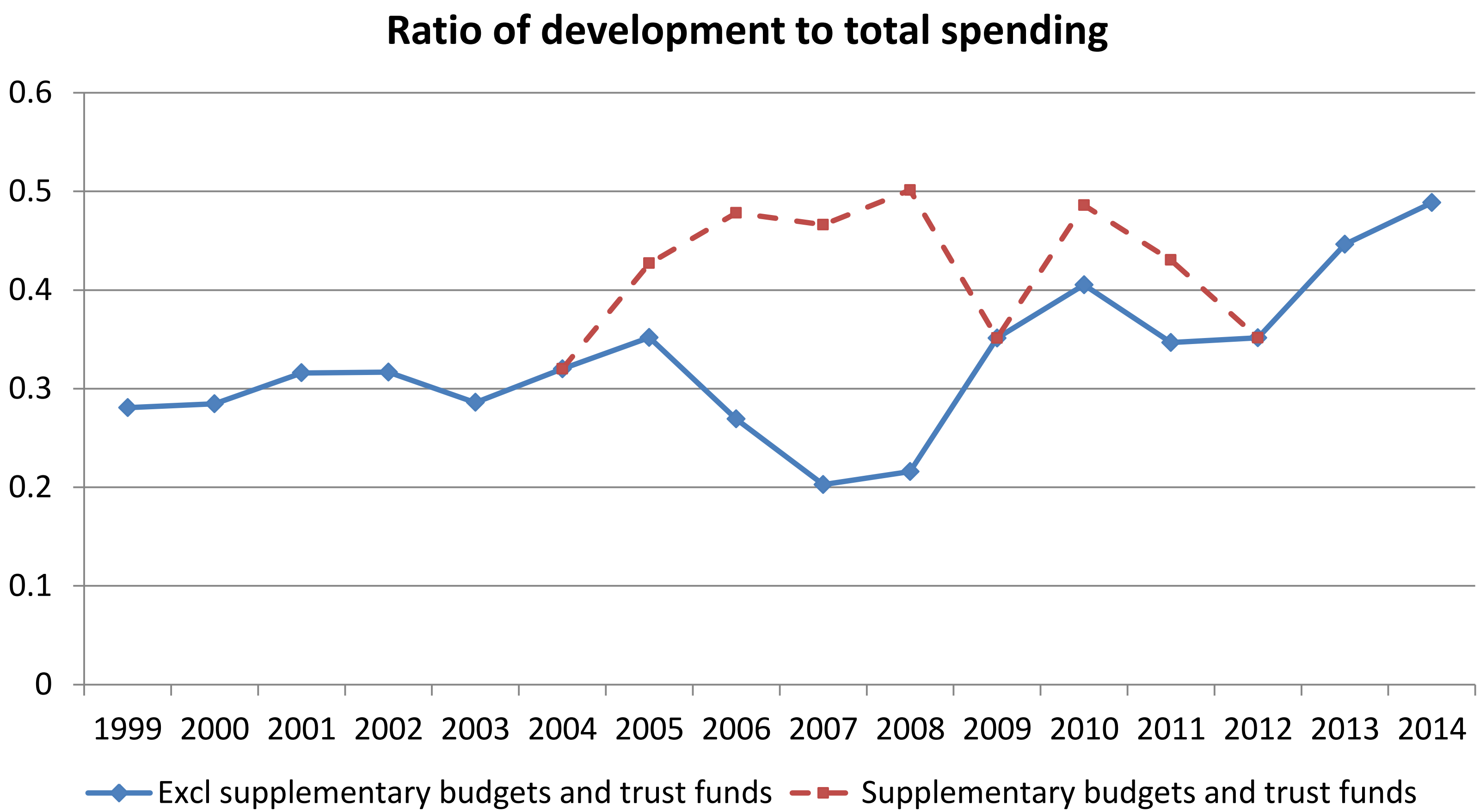
And its definition is unchanged.

- The development budget is a PROJECT budget.
- Less than half is actually capital spending
- It cannot be used for core, ongoing SERVICE DELIVERY functions, such as:
  - Front-line service-delivery staff
  - Drugs
  - Textbooks
  - School inspectors
  - Road maintenance

It is larger than ever



And a bigger share of the budget than ever



Note: Years where there is no red line are ones where there were no supplementary or trust fund allocations

The budget has become not more but less aligned

	2013	2014	Increase	Percentage increase	Percentage increase after inflation
	K million	K million	K million	%	%
Development	5,900	7,471	1571	27%	18%
Recurrent	7,319	7,824	505	7%	-1%
Total	13,219	15,295	2076	16%	7%

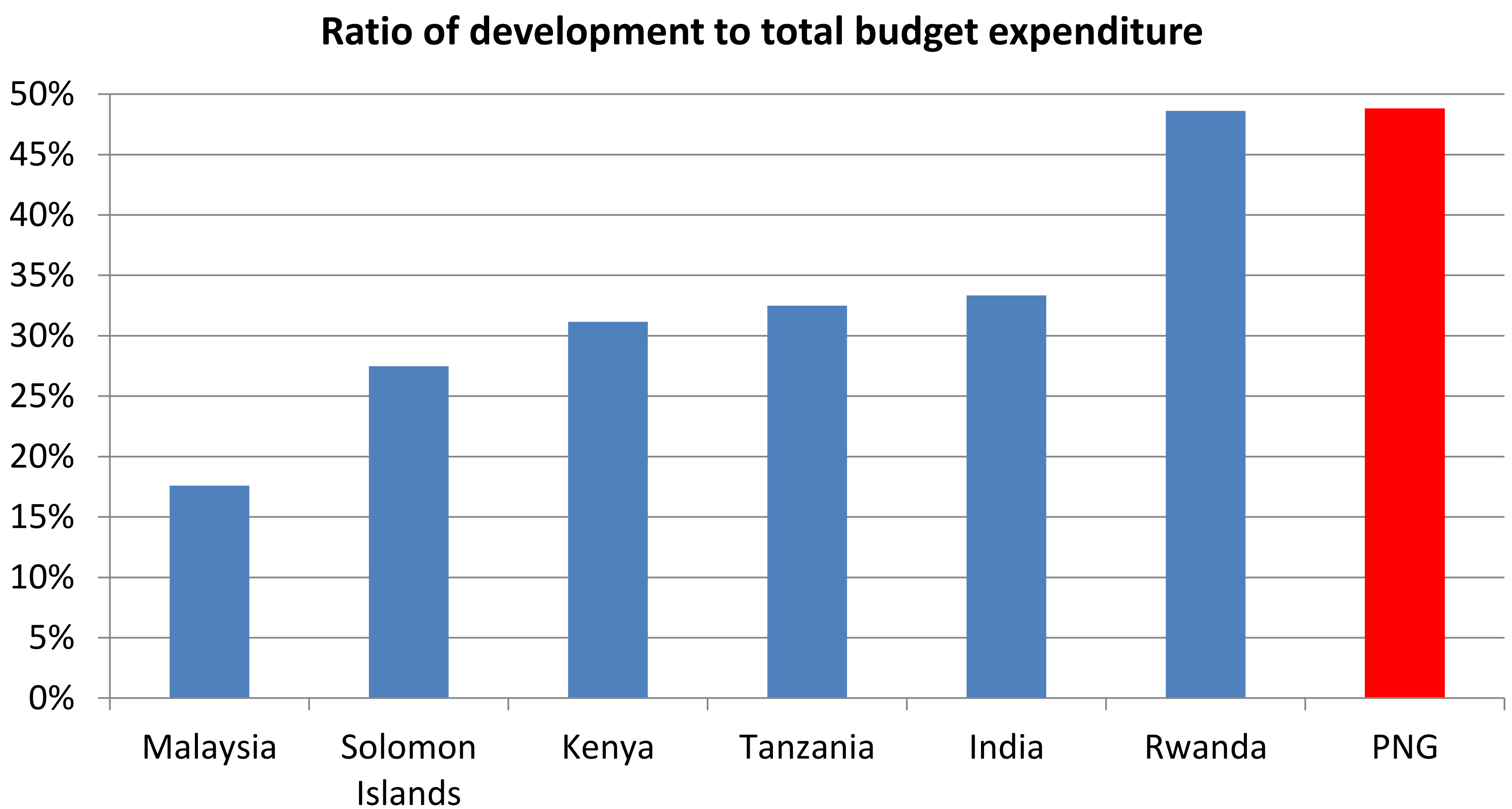
Since 1999, adjusting for inflation, recurrent budget has grown on average at 3.5% a year, but development budget on average at 9.9% a year.

In 2014, no increases, e.g, for school education, or road maintenance.

Questions

- If there is still going to be a separate development budget, shouldn’t it be a prominent part of the budget documentation?
- Why does the development budget keep growing relative to the recurrent budget?
- Is development spending too large relative to recurrent?

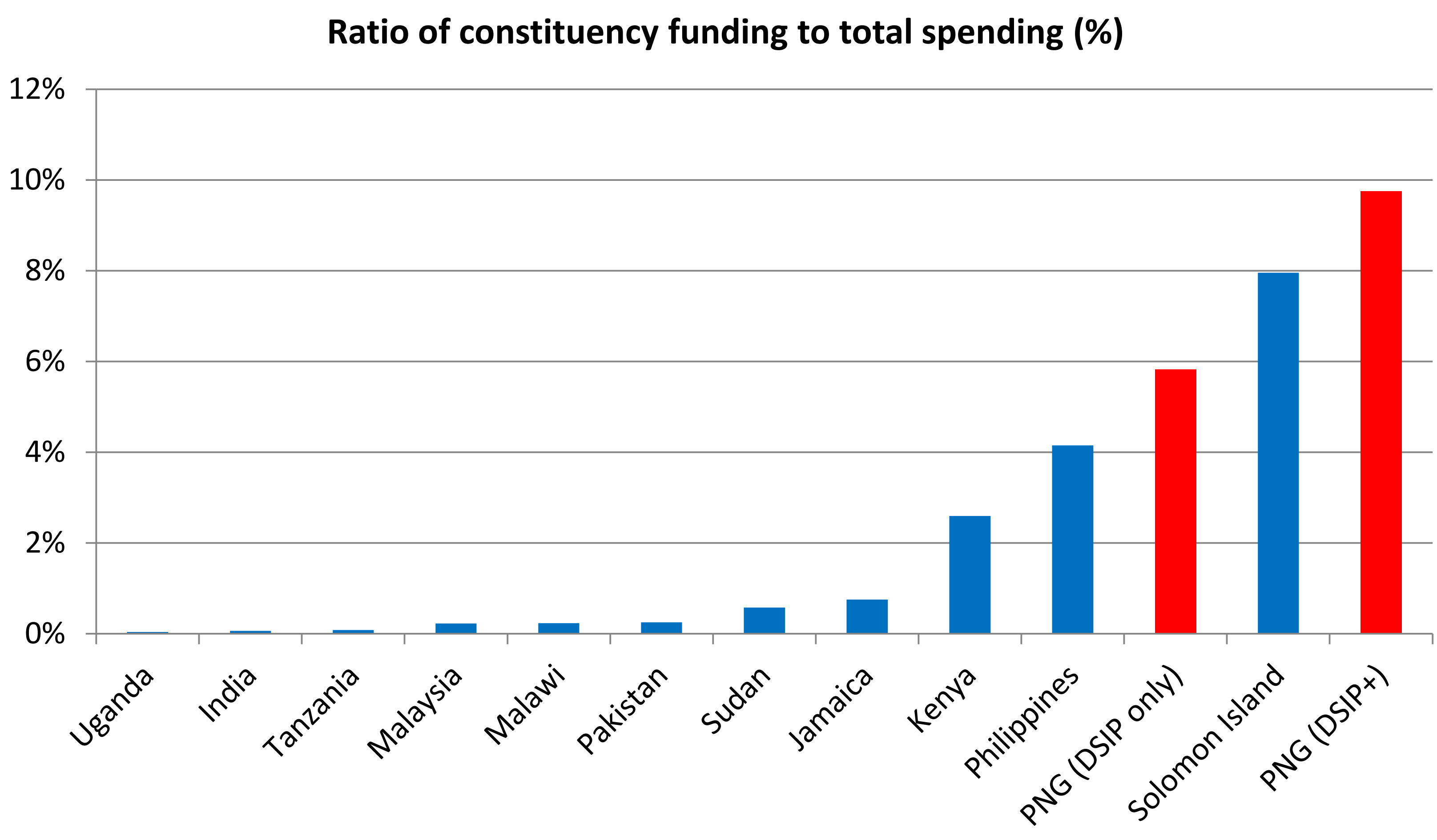
PNG's emphasis on development spending is high by international standards



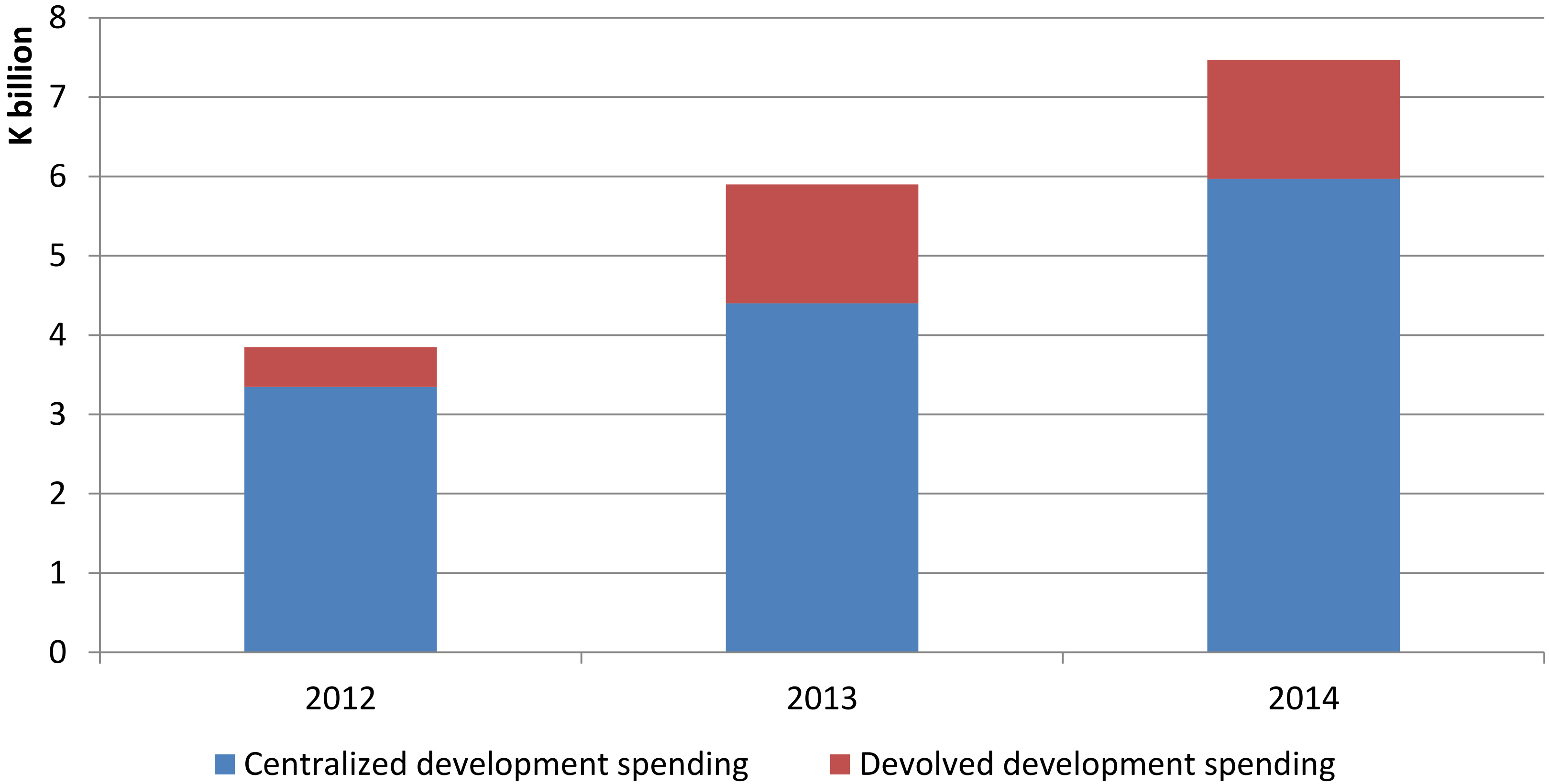
Note: Rwanda has very high levels of aid dependency

Note: For most recent year available; various sources

PNG's constituency spending also very high by international standards

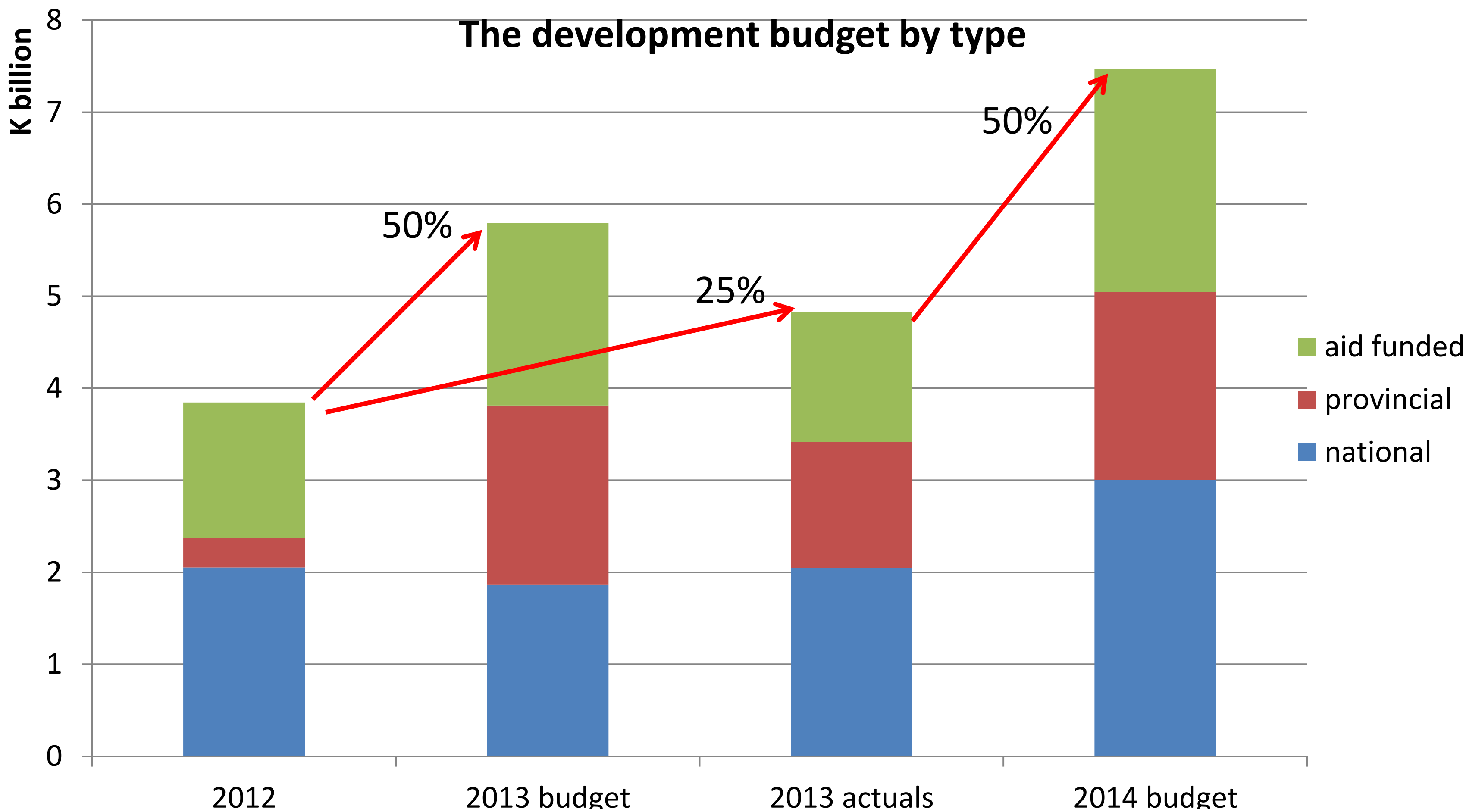


Both devolved and centralized development spending have increased rapidly over the last two years



Note: In 2014, infrastructure spending increases by K550 million; economic and agricultural projects increases by K290 million.

Is there the capacity to spend the development budget?

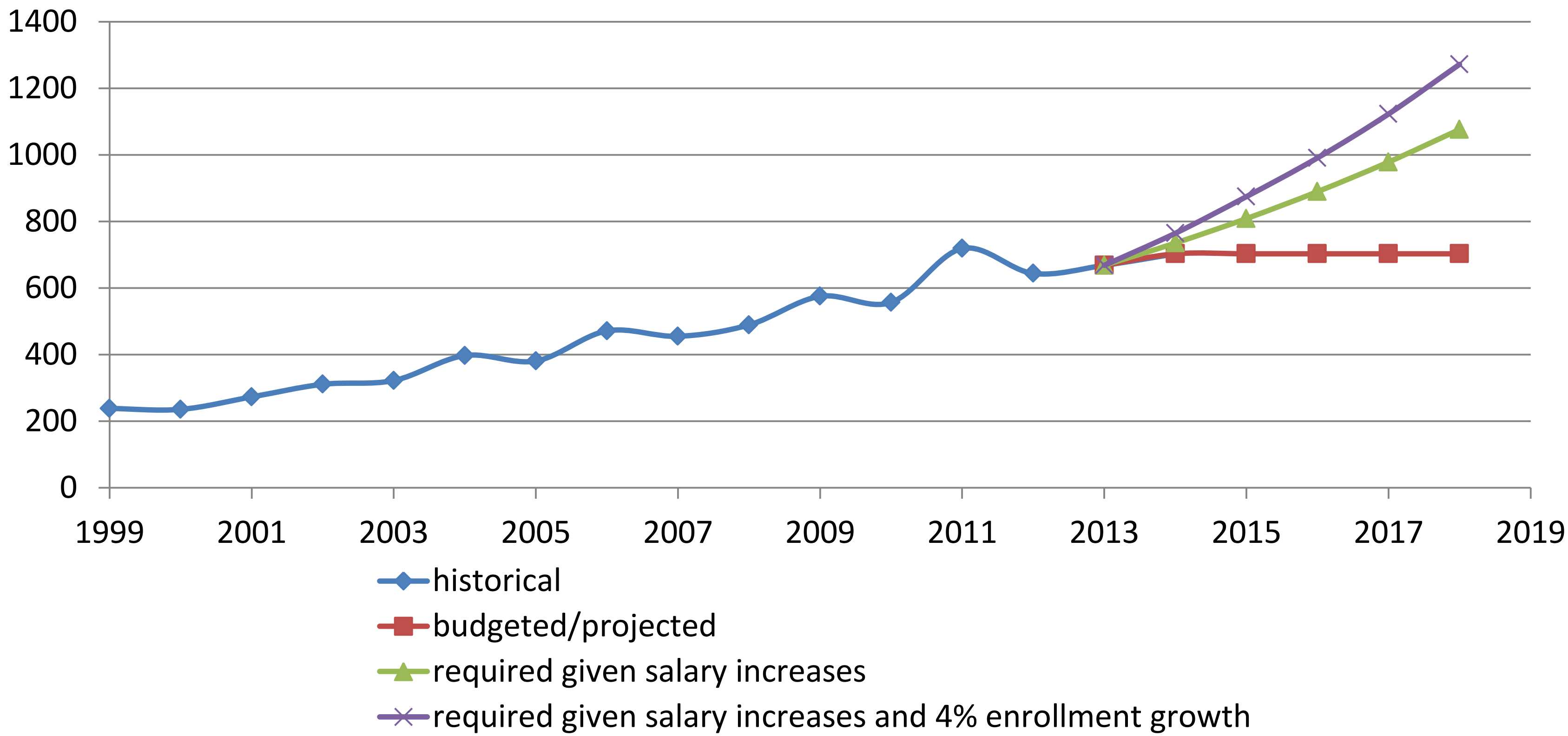


Note: tax credits included with aid-funded

Underfunding of recurrent commitments: teacher salaries

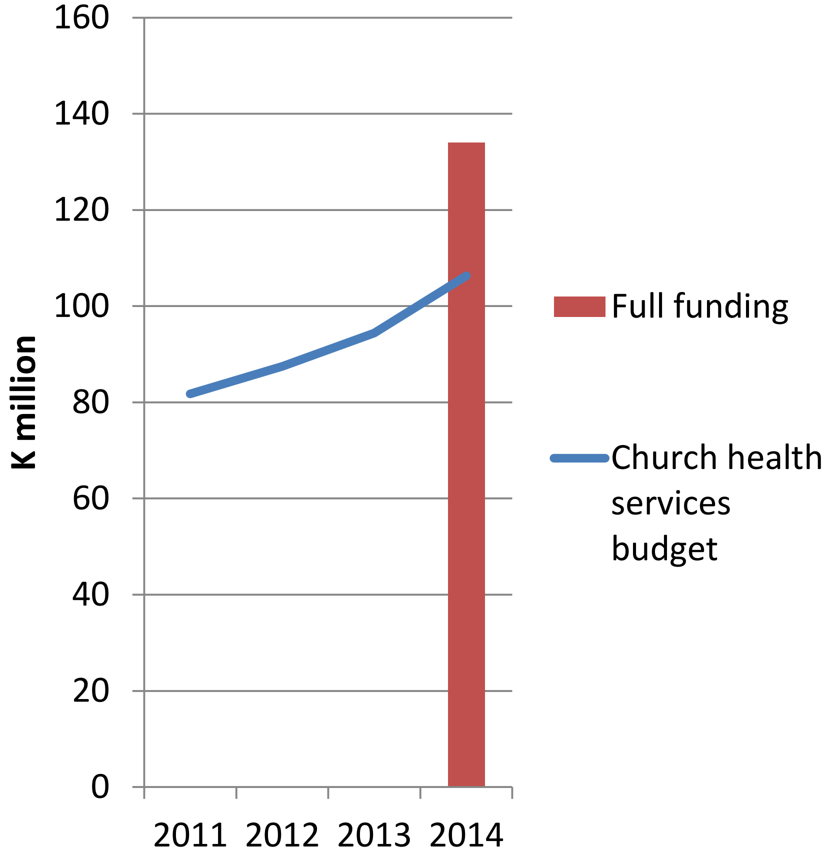
The teacher salary budget is underfunded even without taking into account the need for recruiting new teachers.

Teacher salary budgets and requirements (K million)



Underfunding of recurrent commitments: church health facilities

- Full funding requirement:
  - to bring church health worker salaries to parity with government
  - To fund an additional 209 church health centres operating but not receiving funding (on top of 504 already funded).
  - To fund an additional currently unfunded 375 positions (on top of existing funded 2915 positions)



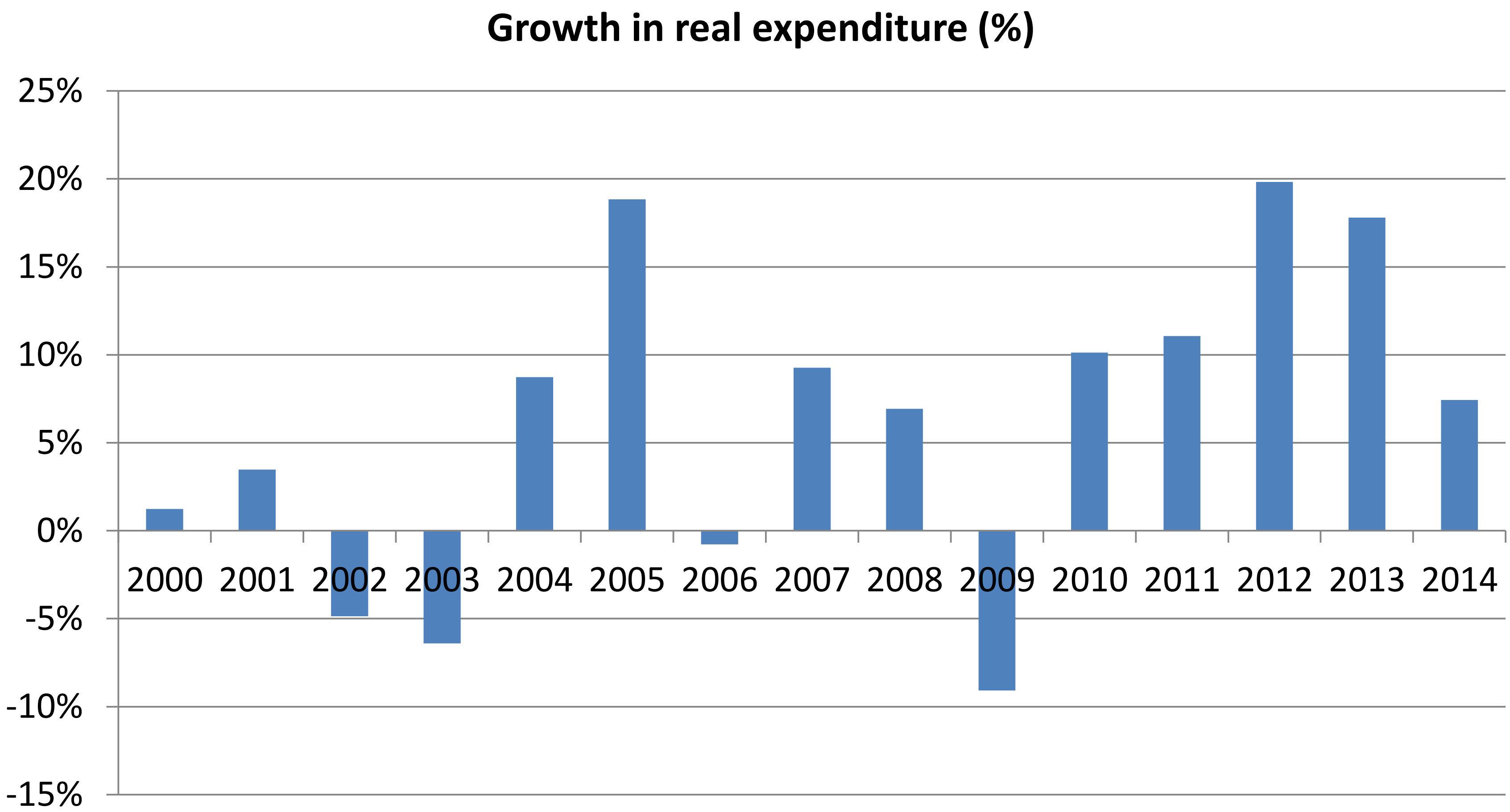
2. Sovereign Wealth Fund

Sovereign Wealth Fund

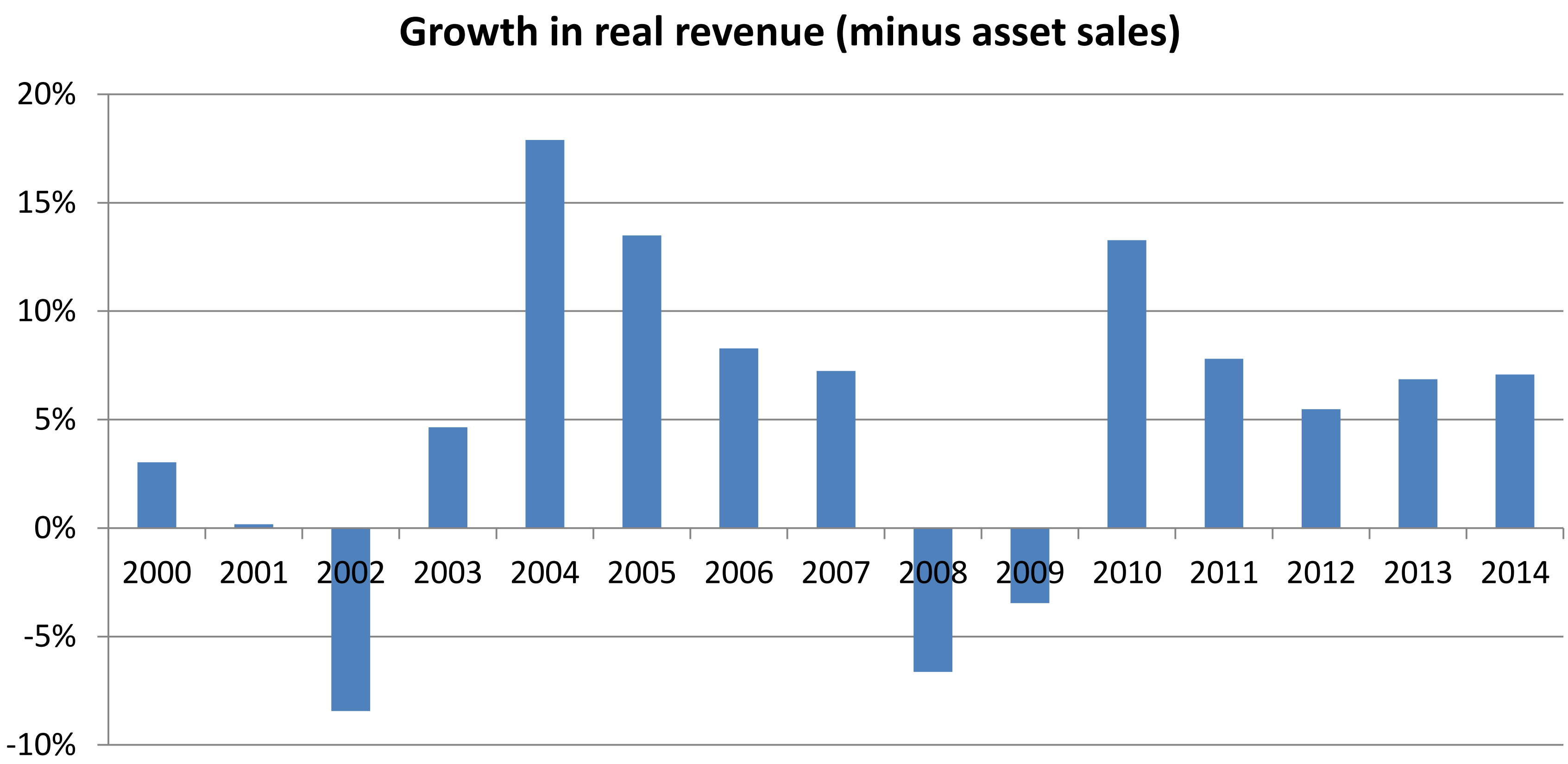
- Legislation passed in 2012, but procedurely invalid.
- 2014 budget indicated changes to SWF to replace Development by Savings Fund.
- All LNG dividends were meant to be paid to the Development/Savings Fund, but now some share of LNG dividends to go to repay Oil Search Loan.
- 2014 budget indicated that legislation would be revised and resubmitted in 2014, but now?
- LNG dividends are included in the budget revenue projections (p. 37 of Vol.1) but if they are to be spent on Oil Search loan repayments or SWF, fewer funds will be available for the budget.
  - Will service delivery get hit again?

3. 2014 budget policies

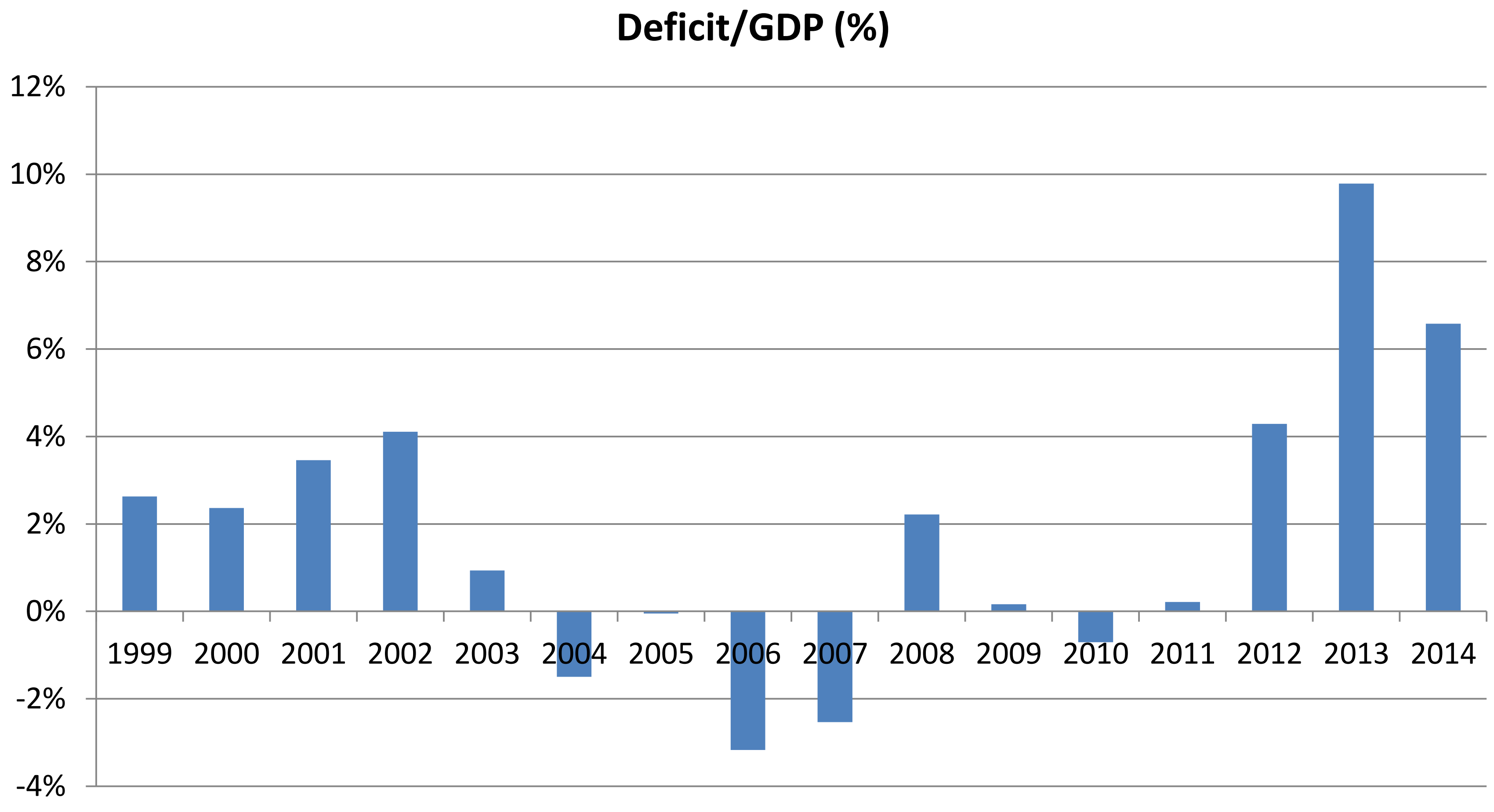
Continued rapid growth in expenditure



Supported by continued revenue growth



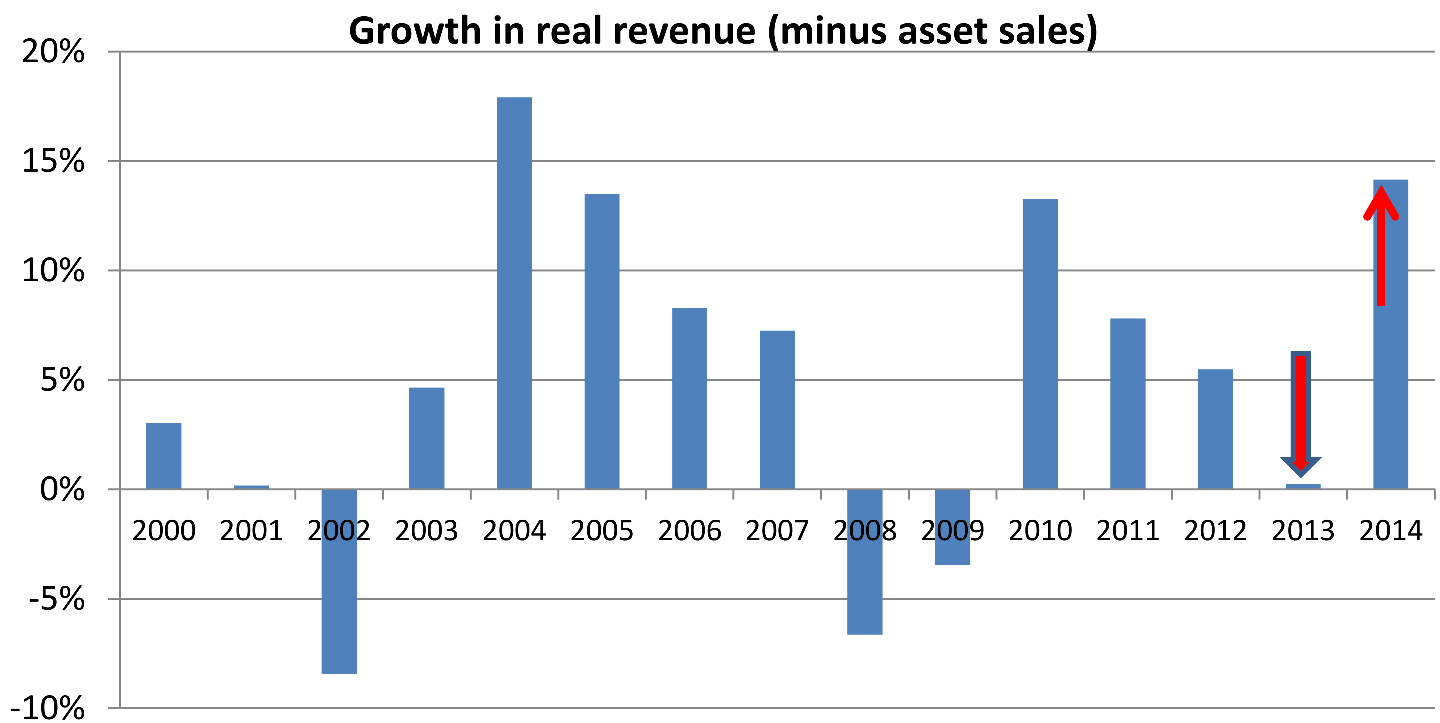
Continued large deficits



4. 2014 (and beyond) budget risks

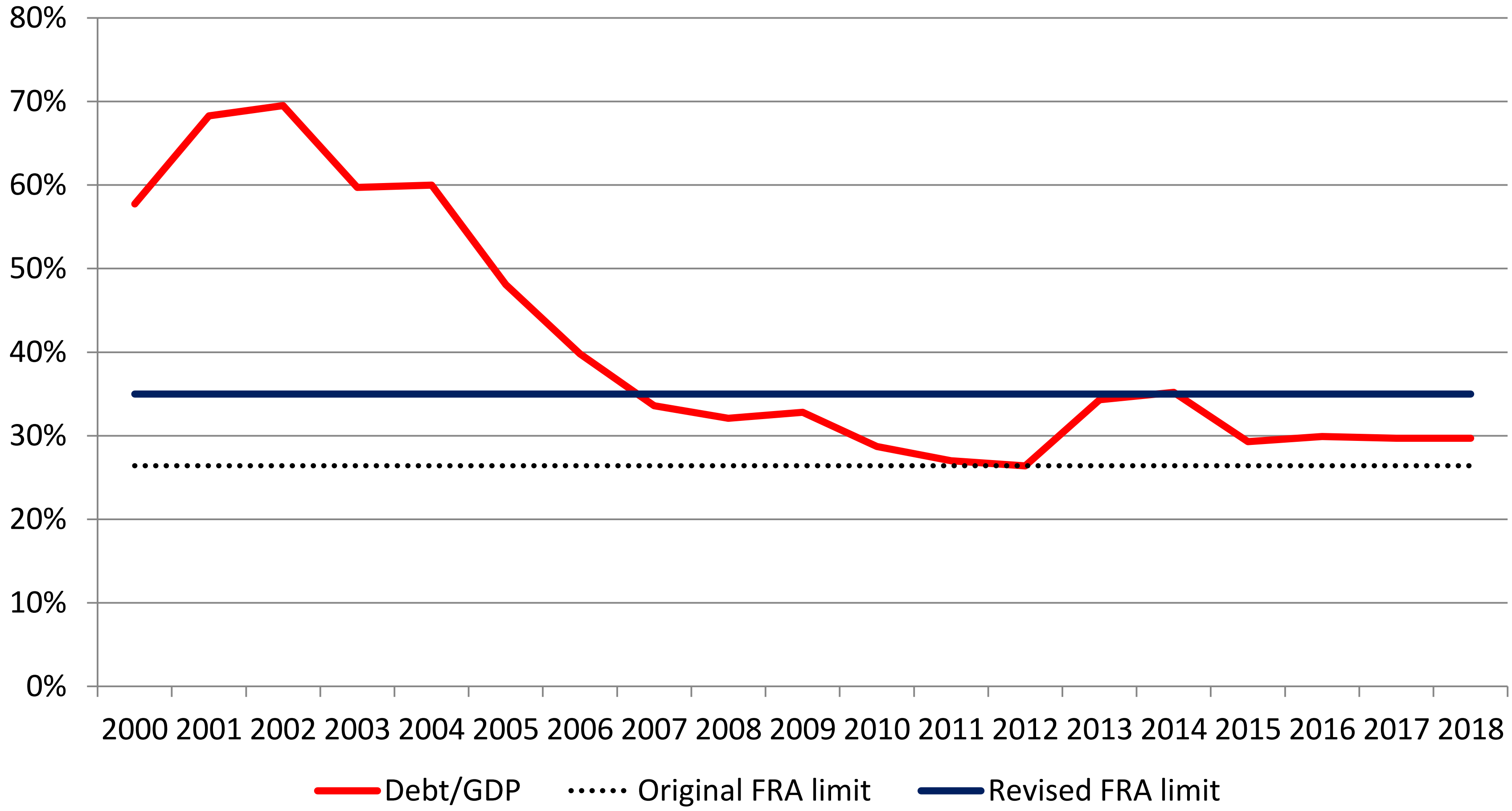
2014 budget now requires very rapid revenue growth

- 2013 revenue actuals K650 million (6%) below budget making 2014 targets difficult to reach.



- Note: this graph, unlike the previous, based on *actuals*, for 2013 rather than revised estimates.
- Ok Tedi woes and Oil Search loan will make revenue growth targets difficult to achieve.

With debt already at its (revised) ceiling, no room for additional borrowing



Conclusion: Two risks for service delivery

- Despite the budget integration exercise, the development budget is larger than ever, and there is no real growth in the recurrent budget.
  - While the government struggles to spend the development budget, there is strong evidence that front-line service delivery is underfunded.
  - The approach to budgeting needs to shift to one which fully funds existing recurrent commitments before making funding available for the development budget: not the other way round, as at present.
- This year, the risks to front-line service delivery spending are particularly high from low revenue growth and limited borrowing capacity.

Thank you!