The 2013 PNG budget: the end of the expenditure boom, and implications for service delivery

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Growth prospects continue to be positive
No surprise that poverty has stagnated in PNG over the last 15 years...

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP pc (Kina, 2011 prices)</th>
<th>Poverty (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>4693</td>
<td>37.5</td>
</tr>
<tr>
<td>2009-10</td>
<td>3921</td>
<td>39.9</td>
</tr>
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...but more recent figures are more promising

<table>
<thead>
<tr>
<th></th>
<th>Cumulative growth</th>
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<tbody>
<tr>
<td></td>
<td>96-09/10</td>
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<tr>
<td>Growth in formal sector jobs</td>
<td>43%</td>
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<tr>
<td>Growth in population</td>
<td>45%</td>
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The budget needs to do a better job of converting growth into development, esp. in the coming years.
The 2013 budget continues the trend over the last decade of rapid expenditure growth.
And increased funding is flowing to key priority areas (MTDP enablers)
National roads funding has been a particular success story
But are we reaching the end of the expenditure boom?

Note: In this and other graphs, unless specified otherwise (as in the first graph), expenditure (either total or development) includes trust funds, as spent on a net basis; 2012 are estimates; 2013 budget numbers and 2014 onwards forward estimates.
Expenditure has outstripped revenue, giving rise to fiscal risks,
And revenue is not growing that fast
Despite constrained fiscal circumstances, the budget continues the pattern of the last decade of prioritizing the development (project) budget.
In a tight fiscal context, continued expansion of the development budget means that funding for core service delivery functions will be squeezed.

Transfers to statutory authorities also excluded from non-interest recurrent.
Within the recurrent budget, preference has been given to goods and services over salaries.
The impact of all this is especially stark in education.
The result is just not enough teachers...

School-teacher salaries and related expenses
(index with 2003=1, 2011 prices)
Much of the first round of resource boom spending under the development budget (and trust funds) was wasted, so the government has decided to devolve or decentralize the development budget.
In a radical shift (representing almost 60% of the increase in the budget), the budget share of devolved spending rises from about 5% to 15%.
Or from K500 million to K2 billion
Arguments in favour of devolution, but questions around implementation capacity...

An example from PEPE

• Number of schools: 208
• No. with DSIP funding: 52 (25%)
• Average funding: K65,652
• Number of projects completed: 29
• Number incomplete and behind schedule: 22
• Of these
  • Average years behind schedule: 1.1 years
  • Average degree of completion: 60%
  • Number expected never to be completed: 41%
... and a bias in favour of development?
Sovereign Wealth Fund will also expand development rather than recurrent spending

- Under the original plan, SWF resources will flow to the development rather than the recurrent budget.
- Under the new plan, SWF resources will go to SOEs?
The problem in a PEPE picture.
Conclusion

• More resources for priority areas, especially transport, a welcome development.
• But front-line service delivery has taken a back seat to expanded national and devolved development spending.
• With fiscal constraints tightening, it needs to be given greater priority or front-line service delivery will suffer (and fiscal risks increase).
Conclusion

- Taxation review is urgent.
- Exciting time for budget analysis in PNG as lots of changes and reforms
  - Need for monitoring and evaluation of implementation.
    - What the PNG PEPE project is all about!
Conclusion

- BUDGET PRIORITIZATION HAS TO BE TURNED ON ITS HEAD –
  - GIVE RECURRENT BUDGET FIRST CALL, AND DEVELOPMENT THE RESIDUAL
  - NOT THE OTHER WAY ROUND AS CURRENTLY
Thank you!

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