Fiscal Decentralisation in Papua New Guinea

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Outline

1. Introduction – the meaning of fiscal decentralisation
2. Theory and Practice of fiscal decentralisation
3. Fiscal decentralisation in PNG measured against (2)
4. Policy Implications – lessons for ongoing debates
5. Conclusions
Fiscal Decentralisation

• Fiscal decentralisation entails the devolution of the powers from the National Government to subnational governments for raising of revenues and delivery of services to the local public.

• The powers which are devolved under fiscal decentralisation include those to tax economic activities and spend public funds for the exercise of responsibilities assigned to the subnational government.

• Subnational Governments in Papua New Guinea include the Provincial Governments, the District Development Authorities (?), and Local-level Governments.
Designing fiscal decentralisation

Policymakers must ensure that:

(i) subnational governments have access to adequate revenues to exercise their responsibilities for service delivery (i.e., Funding follows Function);

(ii) the transfers from the national budget to subnational governments are equitable (i.e. fair) and sustainable (i.e., can be maintained over time without creating macroeconomic distress); and,

(iii) subnational governments have an incentive to raise revenues that both supplements their own resources and that of the nation at large.
5 guiding principles for fiscal decentralisation

1. **Subsidiarity principle**: Assign functions to subnational governments for economic efficiency

2. **Asymmetric decentralisation**: consider context when assigning functions to subnational governments

3. **Fiscal equivalence**: local services must be financed locally. Could employ Benefit taxation/User-pays principle for financing.

4. **Fiscal equalisation**: for equity of access to services across the nation – match COS to LRC using ‘gap-filling’ grants.

5. Tax mobile/immobile income at the national/local level.
5 common mistakes with fiscal decentralisation

1. Under-funding of functions
2. Over-spending by SNGs => Macroeconomic management
3. Over-dependence on the National Budget ⇔ Muted incentives for local revenue generation
4. Failure to recognise economies of scale
5. Rigid structures thus unable to adapt to change
Fiscal Decentralisation in PNG

• Subsidiarity - √
• Asymmetric decentralisation – √; e.g., ARoB (2001), NIP, Enga, ENB (2019)
• Tax mobile/immobile income at the national/local level - √
• Fiscal equalisation – NEFC √;
• PSIP and DSIP - motivations???
• Funding follows function - ×
• Fiscal equivalence - ×
• Local revenue generation – limited and varied across SNGs!
Figure 1: Self-generated revenues % of Total, 2016
Figure 2: Extent of fiscal decentralisation

Source: Pouru, 2021; Fig. 1, p.23)
Figure 3: Revenues raised by National/Provincial Govts.

Source: Pouru, 2021; Figure 2, page 25
Figure 4: Inter-governmental relations 1975-95
Recentralisation through practice: DDAs and DSIP

Q1: Governance structure? Accountability mechanisms?
Summary: Fiscal decentralisation in PNG

• Subsidiarity has been followed
• Little expenditure and even less revenue decentralisation
• The National Government has close to complete control over all recurrent expenditures in the provinces
• Over-dependence on the National Budget
• DDAs have centralised power through practice against the rhetoric decentralisation.
Incentives for Grassroot democracy: Revenue and Expenditure Autonomy:

1. Devolve more revenue –raising power to the Provinces – e.g., return ALL of the GST revenues.
2. Devolve more of the powers to spend revenues raised locally (including GST).
3. Incentives for LLGs, PGs, and NG to improve service delivery - IGR
4. Mechanisms to increase ‘grassroot accountability’ while reducing the risk of financial abuse.
### What if ALL GST was returned to source?

<table>
<thead>
<tr>
<th>PROVINCE</th>
<th>GST(60%)</th>
<th>Grants</th>
<th>Revenues</th>
<th>GST (100%)</th>
<th>Gap-filling Grants (@GST100%)</th>
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Five questions for a National Conversation

1. How do DDAs fit into the overall structure of decentralisation?
2. How much of the GST collected should be returned to the source province? Specifically, why limit this share to 60 percent?
3. What proportion of royalties and dividends should accrue to the source province?
4. What additional revenue raising powers, if any, should be granted to the provinces?
5. Should provinces be allowed to borrow to fund any shortfalls in revenues, and if so, then how much?
Community empowerment for accountability

• Role of information for grassroot accountability – proposal for an independent NSMA

  School enrolment
  National exam results
  Immunisation rates
  Crime rates

• Structure of NSMA – NEFC, NSO, NDoH, NDoE, NRI, etc

• Risks: clientelist politics leading to poor accountability
Conclusions

1. Autonomy runs deep in the veins of PNG – celebrate this & harness it for improved service delivery!!!
2. CPC has many lessons for ongoing efforts at reform
3. Little progress (regress) has been made w.r.t. fiscal decentralisation
4. Questions for National Conversation:
   I. What is the desired level of decentralisation?
   II. How do DDAs fit into the structure of decentralisation?
   III. Why have local communities not succeeded in demanding better services from their local government?
5. Comments, Corrections, and Questions