Intergovernmental Fiscal Arrangements

*Background, Impacts & Issues*

**AUTONOMY & DECENTRALIZATION RESEARCH PROJECT (ADRP)**

Wednesday 22nd September 2021
National Research Institute
Port Moresby

Mr. Patrick Kennedy Painap
Chairman & CEO
NEFC
Objective:

1: Encourage and Contribute to the discussion on the Autonomy & Decentralization Reforms

2: Raise awareness and generate knowledge on areas or options relating to fiscal autonomy and greater fiscal decentralization

3: Inform participants about a key priority (by NEFC) to review the Intergovernmental financial arrangements in line with the decentralization reforms
Presentation Outline:

1: The Role of NEFC in the Decentralization of Government
2: Background on Intergovernmental Financing in PNG
3: Current Status of the Sub-national Financial Arrangements
4: Key Issues, Challenges and Expectations
5: Way forward – A Review is now Necessary
1.0: Role of NEFC in PNG’s Decentralized System of Government
1.1 Roles of NEFC – Independent Advisory body

In many countries in the world, there are independent institutions established with a strong role in providing independent advice to the executive and parliamentary arms of the government in areas of fiscal decentralization.

In PNG, NEFC was established as an independent Constitutional Advisory Institution of the State. Its establishment is made under Section 187H of the National Constitution as well as Section 117 of the Organic Law on Provincial Governments & Local-level Governments [OLPLLG].

The broad mandate of the Commission as per the legislations, is to;
- (a) **assess and monitor** the economic and fiscal policies of the National Government, Provincial Governments and Local-level Governments.;
- (b) **advise and recommend** to the National Executive Council [NEC] appropriate economic & fiscal policies;
- (c) **make recommendations** to the NEC and the National Parliament on intergovernmental financial arrangements as well as the allocation and administration of grants between levels of government.

The detailed roles and responsibilities of the Commission are further specified under the;
1) Intergovernmental Relations (Functions & Funding) Act 2009
2) National Economic & Fiscal Commission Act 2009
2.0 Background on Intergovernmental Financing Arrangements in PNG
2.1 Background to Intergovernmental Financing (IGF)

- 1977: Organic Law on Provincial Governments
- 1995: Organic Law on Provincial & Local-level Governments
- 1998: Establishment of the NEFC
- 2002 - 2006: 1st Review of Intergovernmental Financing
- Under the Financial Arrangements – pre 2009
  - Grants to Provinces & LLGs based on kina per-head
  - Derivation Grants
  - GST/VAT Top-up
- 2009: Reforms on Intergovernmental Financing (RIGFA)
  - 2009 Function Assignment Determination (Roles and Responsibilities of Provinces and Local Level Governments) Established
  - Introduced Cost of Sub-national Services for Sub-national Functions
  - Introduced Service Delivery Function Grants
  - GST distributed on Derivation basis
2.2 Intergovernmental Financing and Decentralization

<table>
<thead>
<tr>
<th>Political</th>
<th>Administrative</th>
<th>Fiscal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure Assignment</td>
<td>Revenue Assignment</td>
<td>Intergovernmental Financing Arrangements</td>
</tr>
<tr>
<td>Who should do What (Functions &amp; Responsibilities)</td>
<td>Taxing Powers (Who should Tax What)</td>
<td>National Government Transfers</td>
</tr>
</tbody>
</table>
2.3 Intergovernmental Financing and Decentralization

1. Expenditure Assignment: Who should do what?
2. Revenue Assignment: Who should charge what?
3. Intergovernmental Financing Fiscal Transfers
4. Sub-national Borrowing
3.0 Assessing Impact of Intergovernmental Financing

3.1 – Assessing the share of Functional Responsibilities
3.2 – Assessing the share of Revenue Generation Responsibilities
3.3 – Assessing the Fiscal Capacity of Provinces
3.1 Current Status of Decentralization
(measure of the level of responsibilities)

78% of all responsibilities or activities happen at National Level
28% of all responsibilities or activities happen at Sub-national
3.2 Current Status of Decentralization
(measure of the level of revenue responsibilities)

- 90% of all Revenue is Collected at National Level (by National Govt Authorities)
- 10% of Revenue is Collected by SNG levels
3.3 Current Status
[Fiscal Gap – Provincial Revenue and Cost of Services]

- Total Cost of Services = K1.4billion
- 8 prov. Entirely depend on Grant transfers
- 5 prov have considerable revenue levels
- 7 prov have sufficient revenue
3.4 Current Status (Grant Transfers—[Addressing the Horizontal Gap Problem])

- Over K5.2 billion since 2009.
- Over K5.1 billion GST & Bookmakers Transfers.
- Core Sectors were given priority since 2009
  - Health – K779m
  - Infrastructure – K1.1b
  - Education – K816m
- This excludes other SNG funding such as DSIP/PSIP/PIPs,

Grant transfers since 2002-2019 (nominal)

- Pre-2009
- 2009 IGFA Reform

Kina Millions

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>90</td>
<td>55</td>
<td>82</td>
<td>90</td>
<td>102</td>
<td>122</td>
<td>134</td>
<td>195</td>
<td>226</td>
<td>254</td>
<td>312</td>
<td>398</td>
<td>473</td>
<td>525</td>
<td>578</td>
<td>565</td>
<td>547</td>
<td>563</td>
</tr>
</tbody>
</table>

Intergovernmental Financing: Arrangements
National Research Institute - ADRP
4.0 Issues, Challenges and Expectations
4.1 Sub-national vs National Expectations

- Provinces want more decision-making powers to administer their affairs, control their finances and develop their constituencies.
- Provinces want more revenue and taxing powers to be devolved to grow their economies.
- National government objectives, among others, are to ensure there are systems in place for governance and accountability, macroeconomic stability, equity, affordability, efficiency and sustainability.
## 4.2 Key issues in the current IGFA Systems

<table>
<thead>
<tr>
<th><strong>Parallel Funding Systems</strong></th>
<th>Various allocation, institutional, legislative, administrative, governance, monitoring &amp; reporting systems adopted for respective funding streams. Not coordinated, managed and reported in a cohesive, integrated and holistic manner.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Inconsistencies in functions &amp; responsibilities</strong></td>
<td>Confusion/duplication over functions and responsibilities and funding arrangements at different levels of government/institutions</td>
</tr>
<tr>
<td><strong>Ad-Hoc &amp; Concurrent Reforms</strong></td>
<td>Ad-Hoc and concurrent Institutional, Legislative, Political, Administrative &amp; Sectoral Reforms (DDAs, PHAs, City Authorities, greater autonomy arrangements, New Provinces, LLGs, Electoral Boundaries etc.)</td>
</tr>
<tr>
<td><strong>Unaffordability</strong></td>
<td>Cannot adequately fund funding arrangements – late release of funds and not meeting funding commitments.</td>
</tr>
<tr>
<td><strong>Vertical &amp; Horizontal Imbalances</strong></td>
<td>Between the national &amp; sub nationals – functions and responsibilities and related funding arrangements. Between provinces - disparities - cost of providing services, financial, economic, demographic, geographic, infrastructure, education, health, law &amp; justice, provincial &amp; district administrations and other factors.</td>
</tr>
<tr>
<td><strong>Less Sub National Revenue Generation Efforts</strong></td>
<td>Limited sub national revenue generation initiatives. Sub Nationals highly dependent on National Government transfers creating disincentives for sub nationals to raise their own internal revenues.</td>
</tr>
<tr>
<td><strong>Governance, Accountability, Monitoring &amp; Reporting</strong></td>
<td>Inefficiencies - in compliance, governance, accountability, monitoring &amp; reporting systems</td>
</tr>
<tr>
<td><strong>Development &amp; Recurrent Not Integrated</strong></td>
<td>Development &amp; Recurrent Funding not integrated as one funding system.</td>
</tr>
</tbody>
</table>
4.3 KEY EXISTING PROBLEM

- Currently there are INEFFICIENCIES and FRAGMENTATIONS in the sub-national financing systems.

- If NOT ADDRESS, it is likely to contribute to:
  - GREATER FISCAL IMBALANCES leading to greater economic implications.
  - ERODE the effectiveness of delivering basic and quality services.
5.0 Way Forward

A Review of Intergovernmental Financing Systems is now NECESSARY
5.0 Government Directives to Review IGF Systems

- 2017 Alotau Accord 2
  - No 33: Review of Taxation: Review of IGFA
- 2020 Loloata Government Caucus Retreat:
  - Decentralization of Financial & Administrative Functions
- 2020 PLSSMA *(September Meeting_Lae)* PLSSMA Meeting directing NEFC and Treasury to Co-Chair the Review
- 2021 PLSSMA *(May Meeting_Kupiano)* endorsement of the PLSSMA Sub-Committee members
Objective of the Review:

Undertake a Holistic Review to IDENTIFY key Issues and RECOMMEND to government some directions and options for a new reform
INTER-GOVERNMENTAL FINANCING ARRANGEMENT REVIEW FRAMEWORK

PHASE ONE
- National Agencies Consultations
- Provincial Administration Consultations
- Collective Workshop Discussion

PHASE TWO
- National Agencies Consultations
- Provincial Administration Consultations
- Collective Workshop Discussion

PHASE THREE
- Publication of Reports
- Policy Paper
- Recommendations
- Policy Submission

PHASE FOUR
- Legislative Changes
- Policy Changes
- Design Integrated IFA Model
- Peer Review

2022
- Fiscal Decentralization & Revenue Mobilization
- Integrated Development Planning and Budgeting
- Public Financial Management Systems
- Policy, Institutional and Legislative Amendments
- Monitoring & Evaluation

2023

2024

2025
With the Ultimate Goal in mind:

To Improve the Quality of Life for all Papua New Guineans, no matter where they live.
THANK YOU

Mr. Patrick Kennedy Painap
Chairman & CEO
National Economic & Fiscal Commission
Kumul Haus, Building No. 2 Ground Floor
Email: P Painap@nefc.gov.pg