



# BOUGAINVILLE REFERENDUM RESEARCH COMMENTARY

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## **“Increasing Revenues for the Bougainville Government”; A Special PNG NRI Research Report for Post Referendum Bougainville.**

### ***Introduction***

In a Referendum conducted in December 2019, as provided for in the Bougainville Peace Agreement (BPA) of 2001, ninety eight percent (98%) of the people who voted chose “Independence” on the ballot paper. The results of the referendum will be ratified by the National Parliament following consultations between the PNG Government and the Bougainville Government.

The Bougainville Referendum Research Project at the PNG NRI commissioned two independent research reports to inform critical developments in the Post Referendum era. One report presents ideas on how to raise the required revenues for the ABG to achieve fiscal independence, whilst the other report discusses possible institutional arrangements for ‘Self Determination for Bougainville’.

This commentary outlines briefly the purpose of and some key points from the first report, titled “Increasing Revenues for the Bougainville Government” undertaken by Professor Satish Chand, Professor Ron Duncan and Dr Theodore Levantis.

### ***Purpose and Objective of Report***

There is currently a large gap between the revenues raised locally and the total expenditures of the ABG. In 2020, for example, the total ABG budget was approximately K440 million - of which only K47 million was raised within Bougainville meaning that the rest amounting to nearly K393 million were funded through the National budget.

Several of the services provided under the law and justice sector, the health department, and the education department were funded directly from the National Budget and not captured in the ABG Budget. Additionally, some of the funding provided by the development partners are missed from the ABG Budget. Consequently, the gap between revenues raised locally in Bougainville for the ABG Budget and the total cost of all public services provided in Bougainville may be a lot larger than the K393 million reported in the analysis.

This research report was commissioned to generate ideas for discussion to increase revenues for the ABG budget.

### ***Key Areas of the Report***

The report is structured in three main sections: the first provides an assessment of the current fiscal situation, drawing on the information provided in the ABG Budget for 2020; the second delves into potential sources of revenues for the ABG in the short to medium term; and, the third projects into the future to highlight the possible sustainable sources of revenues for the ABG.

Chapter 2 presents the key Expenditure items and Revenue sources. This then enables an assessment of the size of the fiscal gap; that is, the difference between the value of revenues raised internally and the total cost of public services in Bougainville. It then outlines the different options to raise revenues for the budget.

Chapter 3 discusses potential additional sources of revenue, especially on how to broaden the tax base by growing the economy. The short-term opportunities are in the agricultural sector, especially small holder cocoa production and small-scale tourism opportunities. An increase in income within Bougainville will raise VAT collections as people spend to purchase goods and services to improve their livelihoods. However, institutional reforms especially town planning, land administration, law and order, improved roads and transport infrastructure, and an effective tax administration are essential to raise income and VAT revenues.



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Other revenue sources considered are from sale of public resources including licence fees from tuna fisheries and the potential for employment generation through the establishment of onshore processing. The latter will require foreign direct investment that in turn requires all of the institutional reforms mentioned above, including an attractive investor climate. Similarly, the potential for growth of mining is also considered. The challenge the authors point out is for the Government to manage the revenues received from the sale of public assets for the benefit of current and future generations. They point to the Alaska Permanent Fund as an example that Bougainville could consider.

Chapter 4 provides options on what a future revenue system for Bougainville may look like, drawing on the comparative experiences of similarly sized economies around the world. The comparative analysis presents Tourism as a promising source of sustainable revenues for the budget. Minerals is an option, though its value as a sustainable source of revenues for the budget is questionable. The experiences of Trinidad and Tobago, Timor-Leste, and Nauru provide useful lessons for Bougainville.

## ***Conclusion***

Value Added Tax is the largest source of revenue for the budget of most small island nations. With this in mind, policymakers in Bougainville may wish to employ VAT to raise revenues in the immediate term. It has the potential to raise K100 million given that the total value of output in Bougainville is estimated at approximately one billion Kina. This would then provide the space to explore revenue sources over the medium to long term.

Two further observations are made. First, the report points to the urgent need for an accurate assessment of the financing gap. Only then can the ABG begin to plan for filling this gap. Fundamental to such an assessment is data on the value of all transfers from the National Budget to Bougainville. Such an assessment may also provide the opportunity for the National Government to provide a single lump-sum transfer to the ABG budget, leaving it to the ABG to decide how best to use the funding.

Regardless of the form of self-determination that is granted to Bougainville, the ABG will have to generate most (and possibly all) of its revenues locally. This outcome will take time, planning, and implementation to materialise. Each of the above-mentioned is in short supply thus work on raising revenues for the ABG budget has to commence now.

## ***Disclaimer***

The PNG NRI is a publicly funded think-tank. The views expressed in this report, as well as other reports produced by the Bougainville Referendum Research Report, are those of the researchers. The NRI however ensures that all of its publications are reviewed by experts before publication, and that the outputs contribute to informed decision making for a peaceful and prosperous Bougainville.

Further information can be obtained through reading the research reports commissioned by PNG National Research Institute at [Referendum.Research@pngnri.org](mailto:Referendum.Research@pngnri.org).

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