



BOUGAINVILLE REFERENDUM FORTNIGHTLY COMMENTARY

By Dr Thomas Webster – Team Leader of the PNG NRI Bougainville Referendum Research Project

Fiscal Autonomy: Fiscal Self Reliance in Bougainville

Introduction.

The Research Report commissioned by the PNG NRI on Fiscal Autonomy and undertaken by Professor of Finance at the University of New South Wales, Professor Satish Chand makes a number of important observations.

First, fiscal self-reliance is not a legal prerequisite for the conduct of the referendum.

However, political independence without fiscal autonomy, defined as the capacity to fund the recurrent budget from internal sources on a sustainable basis, is problematic and so the issue of fiscal autonomy will remain important regardless of the outcome of the Referendum.

Other observations are around current revenue sources, expenditure, and areas for growing the economy in order to broaden and expand the tax base.

This commentary attempts to elicit and present key financial information based on limited data available, for information and considerations in discussions.

The 2017 ABG Budget provides insight on revenue and expenditure areas.

<u>Revenue</u>	
Internally Generated Revenues	K20,816,045.
Recurrent Grants from the National Government	K140,916,035.
Total Recurrent Budget	K161,777,080.
<u>Some Major Expenditure Areas</u>	
Education (mostly Teachers' salaries)	K64,581,406 (40%)
Personnel Management (Salaries)	K30,408,471 (19%)
Other Government Functions	K66,787,203
Total Recurrent Budget Expenditure.	K161,777,080 (87.1%)

The internally generated revenues consisted of Income Tax collected by the IRC. In 2016, of the total K20,716,002 raised internally, K19,403,000 was group tax collected by the IRC and remitted to the ABG Treasury.

The recurrent budget above does not include 'Restoration and Development Grants' and 'Special Intervention Funds'. The inconsistency in the amounts disbursed and the timely release of these funds has been the subject of considerable debate and discussion between the two governments.

It also does not include what is described as off budget costs such as expenses for government services provided on Bougainville including the Judiciary, Magisterial Services, etc. which are all paid through the national government agency budgets.

It also excludes the Provincial Services Improvement (PSIP) and the District Services Improvement (DSIP) grants provided through the members of the National Parliament representing Bougainville. The PSIP and DSIP total about K40,000,000 for the AROB.

Challenges for ABG Government to move towards Fiscal Autonomy.

The challenge for the ABG is to improve revenue flows and bridge the gap between the revenues raised locally and expenditures of the Government.

The data for 2016 shows that the ABG had reached six percent of the distance to 'fiscal self-reliance' as defined in the legislation. Revenues from all sources within Bougainville amounted to 56 percent of the recurrent grant



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provided by the National Government in 2016.

The author estimates that an independent nation of Bougainville will need at least double the resources currently required by the ABG, meaning that the gap between revenues raised locally and expenditures will be larger still. How can the ABG grow its tax base then?

Professor Chand proposes several measures to generate revenues for the ABG. This includes about K100 million annually from fisheries rents, but such a transfer needs agreement of the National Government.

Other sources include a tax on exports of cocoa, something that can also create accountable government system; property taxes; and, through special access to employment for Bougainvilleans in Australia and New Zealand.

These hard data bring to the fore the revenue needs of the ABG and put into perspective the challenges that lie ahead and what clearly must be a priority for both the ABG and the National Government.

Conclusion.

The civil war destroyed much of the economic infrastructure and thus the tax base of Bougainville fell from being one of the richest provinces in PNG to the very bottom. Restoration of peace following the signing of the peace agreement in 2001 has seen some recovery but locally raised revenues are insufficient to fund the ABG. This places high priority to grow the economic base such that the tax base is sufficient to fund local public services.

In terms of growing the economy, much remains to be done. The original signatories to the Bougainville Peace Agreement had envisioned that Bougainville Copper Limited would be up and running soon after the peace agreement was signed and provide the necessary revenues for the ABG. This vision has not materialised. Whilst there is potential for agriculture and tourism to expand, much of the transport infrastructure remains to be fully restored to facilitate movement of produce to markets and movement of people.

The obligation to restore the health of the economy in Bougainville is a joint responsibility of the National Government, the ABG Government, and the international community especially through the development partners.

Growing the economic base to provide jobs for the unemployed, incomes to households, and basic services to the people must remain a high priority for all stakeholders.

Note;

An Electronic copy of the research report; 'Financing for Fiscal Autonomy: Fiscal Self Reliance in Bougainville', can be obtained at Referendum.Research@pngnri.org

Authorised for release by:

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