

FACT SHEET

Financing for Fiscal Autonomy: Fiscal Self-Reliance in Bougainville



THE NATIONAL
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MAIN CHALLENGES

This report, commissioned and released in 2018, looks at the area of fiscal self-reliance, a formal objective of the Bougainville Peace Agreement (BPA). It provides data and discussion on the progress made towards achieving fiscal self-reliance in Bougainville. The BPA envisaged a transition to fiscal autonomy, defined here as the capacity to fund the recurrent budget from internal sources. Fiscal self-reliance with the BPA is a narrow measure of fiscal autonomy and is defined as being reached in “the first year in which the revenues from company tax, custom duties and 70% of value added tax collected in Bougainville are equal to the value of the recurrent grant on a sustainable basis.” (BPA, Section 137). (See Chapter 1)

FISCAL CAPACITY, STATE STRENGTH, AND THE ECONOMY

The report states that the crisis in Bougainville sapped state capacity and strength, and with it the legitimacy of the local and national governments to restore order was dissipated. Fiscal capacity, which is a subcomponent of state capacity was also affected. The signing of peace agreement in 2001, saw peace returned and the restoration of democracy. The ABG since then regained legitimacy, and the capacity, to deliver basic services, enact laws, and enforce law and order within the region. The report argues for the ABG to implement common interest policies that support market activity throughout Bougainville without prejudice to any particular sector or community rather than undertake redistributive policies that give priority to the development of large projects within narrowly defined industries and/or geography. (See Chapter 2)

FISCAL SELF-RELIANCE – THE MEANING, MEASURE AND PROGRESS

In terms of fiscal self-reliance, in 2016 the total of all company tax revenue, custom duties and 70% of value added tax amounted to K2.3 million while recurrent grants provided by the National Government amounted to K41.3 million. This means that in 2016 the ABG had achieved 5.66% of fiscal self-reliance, as defined under the BPA. On fiscal autonomy, calculated as the share of the recurrent budget funded from all internal sources plus the K100 million arising from fishing in the waters of Bougainville (assuming the ABG received it), the total revenues for 2017 would amount to K123 million which is 76% of the recurrent budget of K162 million for 2017. The 76% figure could be lower given that the ARoB receives several off-budget transfers from the National Government. It should also be noted that no milestones have been provided in the Organic Law or the Bougainville Constitution to track progress towards fiscal self-reliance. Furthermore, the incentives for the ABG to aspire towards reaching fiscal self-reliance are weak. (See Chapter 3)

FISCAL DECENTRALIZATION AND AUTONOMY

Figures from 2017 show that Bougainville receives the highest amount of per capita grants from the National Government compared to the provinces of

KEY POINTS

- Fiscal autonomy, defined here as the capacity to fund the recurrent budget from internal sources, is relevant regardless of the degree of political autonomy.
- Fiscal self-reliance is defined in the BPA as being reached in “the first year in which the revenues from company tax, custom duties and 70% of value added tax collected in Bougainville are equal to the value of the recurrent grant on a sustainable basis.” (BPA, Section 137). In 2016 the ABG had achieved 5.66% of fiscal self-reliance.
- On fiscal autonomy, in 2017, all internally generated revenue amounted to K123 million which is 76% of the recurrent budget of K162 million for 2017. The 76% figure could be lower as this does not include several off-budget transfers from the national government.
- The referendum has raised the urgency of attaining fiscal independence for political autonomy as otherwise fiscal dependence can provide the opportunity for political control
- A levy on cocoa production, a property registration levy and access to temporary employment overseas are three specific examples explored of how taxes can be used to support economic growth.
- The options for raising revenue in the short to medium term are limited to personal income taxes, trade taxes, property levies and resource rents.
- Estimates based on comparisons to PNG and other Pacific Island countries indicate that the resource cost of

PNG. This is due to the legacy of the limited fiscal capacity that was present in 2001 when the Peace Agreement was signed, the large demand for resources in the immediate aftermath of the conflict, and the formula legislated then for fiscal transfers. Now that the referendum is over, it may be timely to clarify the principles for fiscal transfers. However, regardless of the final political settlement on the form of self-determination the importance of fiscal autonomy is likely to remain pertinent. The referendum has raised the urgency of attaining fiscal independence for political autonomy as otherwise fiscal dependence can provide the opportunity for political control. (See Chapter 4)

FISCAL STRATEGY TO BROADEN THE TAX BASE

Taxes can be used to support economic growth. Three specific examples have been used to illustrate the above; namely: (i) a one percent levy on cocoa exports with the proceeds being used to expand production; (ii) a property registry to provide the legal infrastructure for growth of private enterprise; and (iii) a labour export scheme that allows people from the ARoB to seek temporary employment in and exposure to government services in Australia. These are examples of policies to improve service delivery, cement ties between the government and the governed, and broaden the tax base. The success of these policies is to be judged in terms of incremental gains to GDP. (See Chapter 5)

REVENUE NEEDS OF, AND OPTIONS FOR THE ABG

It is extremely difficult to ascertain how much revenue an autonomous Bougainville government would need but a figure of K300 million has been proposed. The question then is as to how best to meet the shortfall of K138 million from the current budget ceiling of K162 million. This implies the need for a tax system that is efficient and equitable. It must also be taken into consideration that tax compliance will be a challenge in any case, given the large informal sector and low literacy rates. This argues for a tax system that has low rates and is administratively simple to implement. The options for raising revenue in the short to medium term are limited to personal income taxes, trade taxes, property levies and resource rents. (See Chapter 6)

REVENUE REQUIREMENTS OF AN INDEPENDENT NATION OF BOUGAINVILLE

Consideration must be given to the question of the resource requirements for an independent nation of Bougainville. Estimates based on comparisons to PNG and other Pacific Island countries indicate that the resource cost of political independence is likely to be anything between two to three times the total budget of the ABG for 2017 (that is, K162 million). (See Chapter 7)

FINAL THOUGHTS

Preliminary estimates suggest the following: (i) Bougainville is well short of reaching fiscal self-reliance; (ii) The resource needs of an independent nation of Bougainville are twice to three times the current level of expenditure; and (iii) That rents from fisheries provides the shortest route to improving fiscal self-reliance but accessing funds will require agreement from and cooperation with the PNG National Government. Resumption of large-scale mining, in contrast, is a longer-term proposition and has major risks in terms of tying the ABG into policies of redistribution and conflict mediation rather than having a policy-focus on growing the revenue base for the ABG. As to whether the risks are worth the rewards is a decision that only the people of Bougainville can make.

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ABOUT THE RESEARCH

This fact sheet summarises the research paper produced by the PNG National Research Institute in 2018 to help understand and promote discussion in preparation for the Referendum that was to be held in 2019.

The full research paper is available here.

References to the related sections of the research paper are included in this fact sheet.

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