

FACT SHEET

Increasing Revenues for the Bougainville Government



THE NATIONAL
RESEARCH INSTITUTE
PAPUA NEW GUINEA

MAIN CHALLENGES

Consultations on the nature of the political settlement that will be reached between the Government of Papua New Guinea (PNG) and the Autonomous Bougainville Government (ABG) will take place in 2021.

Both governments are looking to a future where Bougainville will have economic independence. This goal will rely on attaining fiscal independence—defined as the capacity of the Bougainville Government to fund its budget from locally generated revenues.

The role of government is to provide goods and services to the public. The government must raise revenues to pay for the services provided. The existing revenue streams for the ABG include: value-added tax (VAT), personal income tax, corporate income tax, and licences and fees charged on local supplies.

The ABG is well short of raising all of the revenues to fund the prevailing level of services provided. The total appropriation for the 2020 ABG budget was approximately K440 million, of which recurrent expenditures amounted to K179 million (equalling 41 percent of the total). (See Chapter 2)

Of this, some 84.4 percent was sourced from the PNG government and domestic sources within Bougainville made up just 15.6 percent (i.e. K28 million) of the total recurrent expenditure.

POTENTIAL SOURCES OF REVENUE FOR THE ABG

Opportunities exist in the short, medium and long term to increase revenues for the ABG.

Short term opportunities

1. The use of a Value-Added Tax. The value of total goods and services produced in Bougainville is estimated to be around one billion Kina. However, much of this production is within the subsistence sector and thus falls outside the VAT net. Bringing some of this production into the formal monetary economy will increase collections of VAT. (See Chapter 3)
2. Expand access to grants and loans from the PNG government, donors and multilateral agencies. Such funding may be used to invest in public infrastructure, both hard and soft, to encourage private sector growth. Hard infrastructure investments in water and sanitation, telecommunications, and electricity networks require detailed cost-benefit analysis, which is best undertaken with specialist input. These developments lead to improvements in social outcomes and help lower the costs of doing business in Bougainville. Soft infrastructure includes systems that ensure law and order, improve access to land such as that held under customary ownership, and to government services.

KEY POINTS

- The PNG and Autonomous Bougainville governments have agreed that Bougainville should work towards economic independence.
- The ABG is well short of realising fiscal independence - the 2020 ABG budget was approximately K440 million, but recurrent expenditures amounted to K179 million (41 percent of the total).
- Some services paid for and provided directly from National Government Agencies such as the Courts are not captured in the calculations. So, the total cost of Government Services in Bougainville for 2020 would have been more than K440m stated in the ABG Budget.
- Around 84 percent of recurrent expenditure is sourced from the PNG Government – only 15 per cent comes from Bougainville sources.
- Potential sources of revenue include short term, medium term, and long term opportunities.
- Short term sources include the application of a Value-Added Tax (VAT); and grants and loans from PNG and other donors, with a focus on public infrastructure.
- Medium term sources include expanding agriculture production (mostly cocoa) and fisheries.
- Long term sources include mining - this requires significant investment and needs to be environmentally sustainable and socially harmonious.
- Research in small island states similar to Bougainville show that increasing tourism and remittances are the most likely way to grow the economy.

Medium term opportunities

3. Expansion of agricultural production (mainly cocoa) and from domestication of fisheries. Cocoa remains the main export crop for Bougainville, but cocoa output remains below the peak attained before the crisis. There are prospects for significantly increasing cocoa yields, exports and household incomes, and thus increasing the VAT revenues. Improving living standards significantly through cocoa production should not be a long-term goal. (See Chapter 4)
4. Fisheries. The waters of Bougainville generate licensing fees from distant water fishing nations that could raise between K30 and K130 million for the ABG budget. However, a significant medium-term opportunity is in attracting the processing of tuna onshore, which would generate much needed employment in Bougainville, particularly for women. A separate, detailed study on the economic value of onshore processing of tuna in Bougainville will assist the ABG in the design of policies for attracting foreign direct investment.

Long-term opportunities

5. One of the long-term challenges for Bougainville is in creating the conditions for mining that are environmentally sustainable and socially harmonious. Bougainville has large, known deposits of minerals, some of which were mined in the lead-up to the crisis. While it may be preferable to leave the minerals underground (for future generations to exploit) as the preconditions for peaceful and sustainable mining are being put in place, the opportunity costs of the delay are the lost time, income and wellbeing of the current generation.

THE EXPERIENCE IN OTHER SMALL ISLAND STATES

Based on the experiences of other small island states like Bougainville, increasing tourism and remittances are the most likely basis on which to grow the economy and government revenues. However, success on these fronts depends heavily on effective policies and governance, together with a quick rebound from the unfolding COVID-19 pandemic. (See Chapter 4)

NEXT STEPS

Progressing the agenda of this report demands detailed analyses on the full costs of providing public services, the potential avenues for grants and concessional loans, and an assessment of projects that will give the highest return on public investments.

This report has highlighted the importance of measures such as creating an environment friendly to foreign and domestic investment, including:

- Sound land administration system with secure titles including secure and bankable leasing of customary land.
- law and order, including security of contracts.
- government revenue management regimes that ensure good governance.

ABOUT THE RESEARCH

This fact sheet summarises the research paper produced by the PNG National Research Institute to help promote discussion and understanding about issues relating to the post-referendum negotiations.

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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