

Moving to fiscal self-reliance in Bougainville

Satish Chand

University of New South Wales

Outline

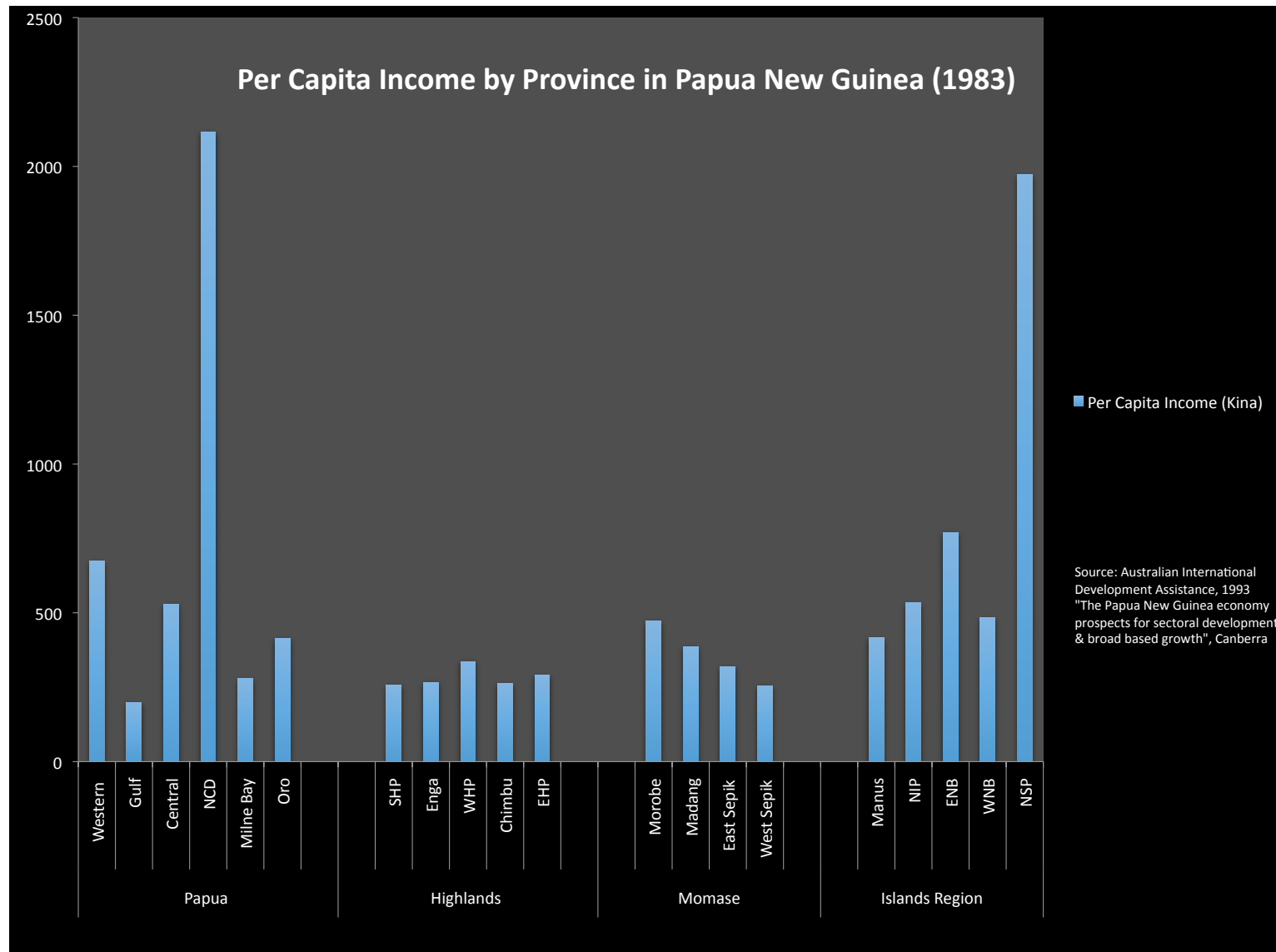
1. A parable to inform the tax and revenue summit
2. The meaning of fiscal self-reliance
3. State capacity, state strength, and the economy
4. Essential elements of a good tax system
5. Revenue and expenditure options
6. Conclusions

A story of developmental taxation



Fiscal self-reliance

- achieved in “the first year in which the revenues from company tax, customs duties and 70% of value added tax collected in Bougainville are equal to the value of the recurrent grant on a sustainable basis” (BPA; s137);
- “the Bougainville Government shall have sufficient revenue raising powers to enable it to reach fiscal self-reliance and the National Government shall support the Bougainville Government in reaching fiscal self-reliance” (PNG Constitution); and,
- ‘Restoration and Development Grants’ as a means to attaining fiscal self-reliance (Organic Law, s.49).



The conflict sapped state capacity and legitimacy

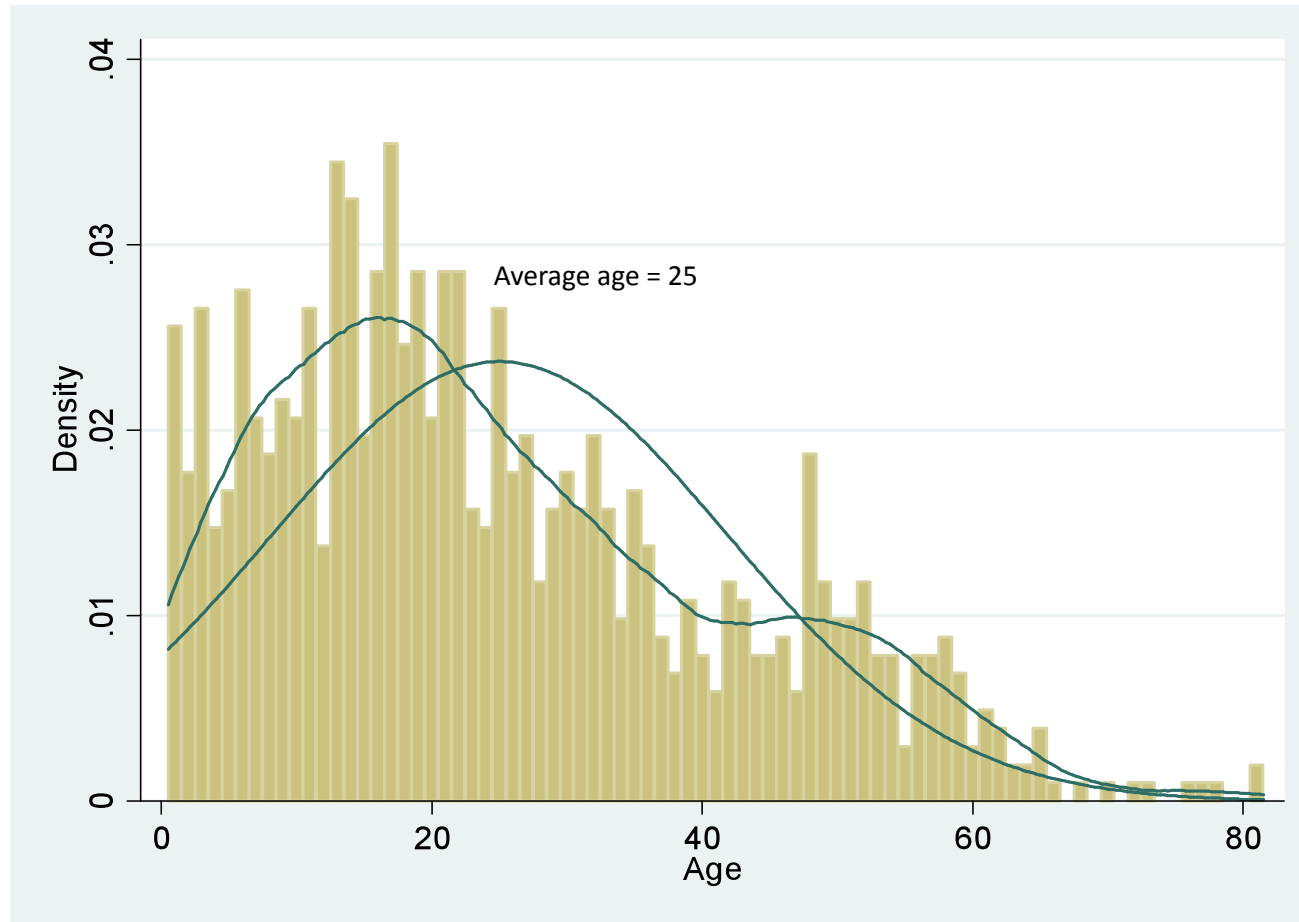


Panguna, in 1989, accounted for:

- 45 percent of PNG's export income;
- 17 percent of internally govt. generated revenues; and,
- 12 percent of GDP.

At the height of conflict, one third (approx. 70K) of population were in care centres.

Jobs for the Youth: Distribution by age



State capacity, state strength, and the economy

Objectives of a revenue and tax policy are to:

- i. improve service delivery;
- ii. raise economic activity; and,
- iii. strengthen ties across its peoples for nation-building.

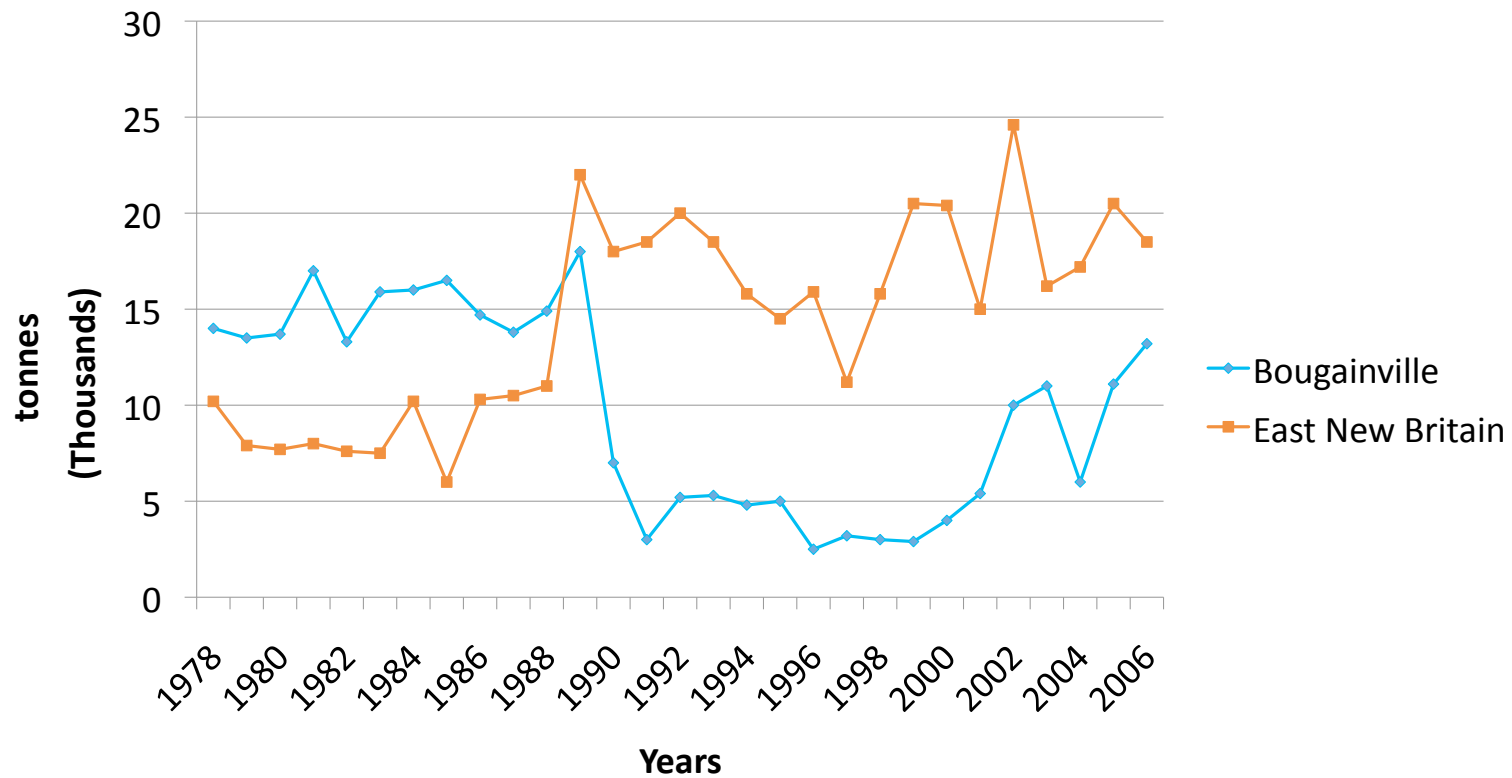
Essentials of a good tax system

1. Efficiency – minimal distortion & simple to administer
2. Equity – fair and progressive - ability to pay plus benefit principle
3. Universal and Compulsory
4. Stimulates savings and investment
5. Transparent thus promotes confidence in the government
6. Tax take as a share of GDP increases over time to fund basic services

Examples of Developmental Taxation

1. Export tax of 1% on Cocoa – 23,000 growers;
2. Property taxes in Buka, Arawa, Kieta, and Buin;
3. FDI to provide finance, technology, and market-access – e.g. tuna cannery in Buin/Kieta (1,000 employees in Noro, WP, SI), chocolates in Arawa, etc;
4. Investments into skilling the workforce – APTC; and,
5. Short-term (yearly) access to employment opportunities for locals under the PLF into Australia (and New Zealand).

Cocoa Production: Bougainville vs ENB



Revenue and expenditure options

- Recurrent budget for 2017 of K162m;
- K21 million (13%) raised locally (excludes company taxes);
- No data on GDP but balanced budget likely to be achieved in 14 years under the most optimistic assumptions;
- Mineral rents offer a short-cut but will not deliver fiscal self-reliance by 2020;
- Independence will cost anything between 2 to 3 times the current budget; and,
- Fiscal self reliance not a prerequisite for the referendum but political autonomy is arguable without fiscal autonomy.

TABLE 1	ARB	PNG	Fiji	Solomon Is	Vanuatu
<u>Basic facts (figures for 2016)</u>					
Land Area (sq. km)	8,990	452,860	18,270	27,990	12,190
Population (thousands)	≈300	8,084	899	599	270
Population ages 0-14 (% of total)	>34	37	29	39	37
Urban population (% of total)	..	13	54	23	26
GDP per capita, PPP (US\$)	..	2,761	8,800	2,129	3,047
<u>Social indicators (2015, latest available)</u>					
Life expectancy at birth, total (years)	..	63	70	68	72
Maternal mortality ratio (modelled estimate, per 100,000 live births)	..	215	30	114	78
Mortality rate, under-5 (per 1,000 live births)	..	45	19	24	23
Literacy rate, adult total (% of people ages 15 and above)	..	63	85
<u>Recurrent Government Expenditure (2016)</u>					
Total (% of GDP)		27	37	43	17
Education (% of total expenditure)	34	7	13	10	34
Health (% of total)	1	9	7	4	14
Police/Law and Order (% of total)	6	7	4	3	8
<u>Revenues and Taxes</u>					
Net ODA received (% of GNI; 2014)	..	3.5	2.2	18.1	12.3
Revenue (% of GDP; 2016)	..	23	32	43	18
Direct and Indirect taxes in total Revenue (%; 2016)	7	79	86	81	79
Direct and Indirect taxes in Recurrent Expenditure (%; 2016)	13	68	78	70	80

Strategy to reach for fiscal self-reliance

1. Use mineral rents to raise revenues in the short to medium term

Risks & mitigation strategies:

- (i) Sovereign risk given uncertainties from the impending referendum;
- (ii) ABG lacks information on value of rents;
- (iii) ABG has the well-known desire for fiscal self-reliance;
- (iv) Multiple negotiators for access to mineral resources leading to rent dissipation; and,
- (v) Government financing locked-in to (volatile) proceeds from mining.

2. Use developmental taxation to build tax base over the medium to long-term

- a) Fiscal compact with the people to raise tax as a share of GDP

Conclusions

1. Challenge for the ABG is to transition to fiscal self-reliance
2. Use mineral rents as a short-cut but must manage:
 - a) sovereign risk emanating from the referendum;
 - b) information asymmetries between the investor and the ABG; and,
 - c) risks of rent dissipation through redistribution to the many stakeholders.
3. Developmental taxation for sustainable fiscal self-reliance
4. Autonomy and independence have a price tag
5. Use budget for consensus building – bring the Government and the taxpayers closer as part of nation-building.