

# **AUTONOMOUS BOUGAINVILLE GOVERNMENT**

## **FISCAL POSITION & WAY FORWARD**

**BOUGAINVILLE TAX SUMMIT PRESENTATION – 27<sup>th</sup> to 29<sup>th</sup> September, 2017**

**BY**

**SECRETARY - DEPARTMENT OF FINANCE & TREASURY (DOFT)**

# STRUCTURE OF PRESENTATION

1. Background
2. Key Legislative and Guiding Principles
3. ABG Budget – Financing Autonomy Arrangements
4. ABG Budget - Revenue Sources
5. ABG Budget - Expenditure Programs
6. Achieving Fiscal Self- Reliance
7. Challenges
8. Way Forward

# 1. BACKGROUND INFORMATION

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AUTONOMOUS BOUGAINVILLE GOVERNMENT (ABG)  
FISCAL POSITION

# 1. BACKGROUND -BOUGAINVILLE'S AUTONOMY

- ▶ One of the three pillars of the Bougainville Peace Agreement is autonomy for Bougainville; the others being weapons disposal and referendum.
- ▶ In August 2001, the Bougainville Peace Agreement was signed between the Government of Papua New Guinea and the Bougainville Leaders. Its key intentions were to end the conflict, address root causes of the conflict and lay the foundations for Bougainville to run its own affairs.
- ▶ The autonomy arrangement in Bougainville is unique to Bougainville.

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# 1. LINKAGE BETWEEN AUTONOMY AND DEVELOPMENT

- ▶ Autonomy and development impacts through the economy and translates directly through delivery of services by the ABG to the region.
- ▶ Autonomy and development on Bougainville simply put has gone through phases, complicated but managed.

Phase 1: - Autonomy – involves the Transfer of powers & functions from GoPNG

Phase 2:- ABG enacting new laws, developing policies, formulating the Strategic Development Plan to articulate its visions and goals.

Phase 3:- ABG implementing new laws, policies & programs for development & for service delivery

Phase 4:- Development benefits to the region

- ▶ Most functions and powers are not yet drawn down or transferred to the ABG.
- ▶ Drawdown of powers and functions is required by law to include the cost of functions See Sec. 48 (1) (a)&(b) of Organic Law on Peace Building in Bougainville.

# 1. FUNCTIONS AND POWERS RELATED TO ABG FINANCIAL MANAGEMENT

## ► Financial Management functions and powers for the ABG under the Autonomy Arrangement include;

1. Powers to raise both foreign and domestic loan
2. Powers to approve budgets
3. Powers to approve expenditure
4. Powers to maintain transparent accounts
5. Authority to provide for audit of its finances, in addition to External Audits by the Office of PNG Auditor – General;
6. Powers to establish an ABG Public Accounts Committee.

## ► Powers and Functions Related to ABG Taxation

Powers to impose taxes, set rates, and to establish its own system of taxation administration.

## 2. LEGISLATIVE AND GUIDING PRINCIPLES

- ▶ provide the basis for the overall policy direction of the ABG including the arrangements for financing autonomy.
- ▶ 2001 - BOUGAINVILLE PEACE AGREEMENT
- ▶ 2002 – AMENDMENTS TO NATIONAL CONSTITUTION
- ▶ 2002 - ORGANIC LAW ON PEACE BUILDING IN BOUGAINVILLE
- ▶ 2004 - BOUGAINVILLE CONSTITUTION
- ▶ 2014 - BOUGAINVILLE PUBLIC FINANCE (MANAGEMENT AND ADMINISTRATION) ACT of 2014

# **3. ABG ANNUAL BUDGET**

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**FINANCING BOUGAINVILLE'S AUTONOMY  
ARRANGEMENTS**



### 3. THE ABG ANNUAL BUDGET

- ▶ **ABG Budget is at the centre of implementing all government policies and development plans of the Bougainville Government.**
- ▶ **The Autonomous Bougainville Government Budget is the money plan of a financial year showing projected revenue to be received and expended as well as sources of revenue**

## 4. ABG FUNDING SOURCES- GRANTS AND REVENUE

- ▶ The Annual ABG Budget is funded through various internal and external funding sources.
- ▶ Main sources of revenue for the ABG Annual Budget include;
  1. National Government Grants to Bougainville
  2. Aid Donor Funding
  3. Internal Revenue and Taxes
  4. National Government off Budget programs in Bougainville

## **4.1 ABG FUNDING SOURCE – THE NATIONAL GOVERNMENT GRANTS**

**National Government Grants is the major source of revenue for the Autonomous Bougainville Government**

- ▶ **National Government Grants constitutes more than 80% of the ABG budget in a financial year.**
- ▶ **The Organic Law on Peace Building in Bougainville specifies the grants that Bougainville is to receive from the National Government**

## 4.1 ABG FUNDING SOURCE – NATIONAL GOVERNMENT GRANTS TYPES

National Government Grants released to Bougainville as stipulated in Organic Law on Peace Building in Bougainville Section 47

### 1. Recurrent Grants;

- i. Recurrent Conditional Grant
- ii. Recurrent Unconditional Grants
- iii. Police Grant

### 2. Development Grants

- i. Restoration and Development Grant (RDG)
- ii. Special Intervention Fund (SIF) being a conditional grant for Infrastructure in rebuilding Bougainville.
- iii. DSIP & PSIP is administered independently of the ABG by the MP's.

## 4.1.1 NATIONAL GOVERNMENT GRANTS - RECURRENT

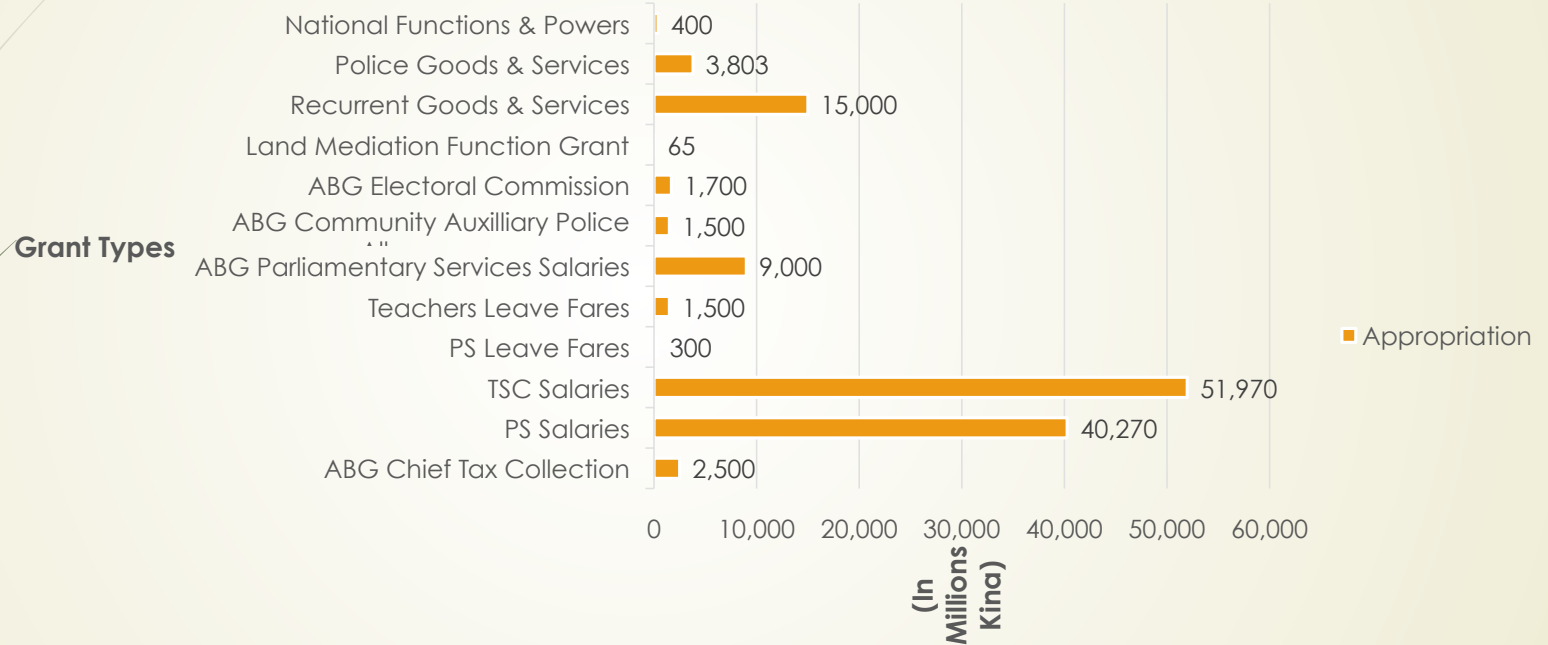
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### 1. Recurrent Unconditional Grants

- i. Office of Chief Bougainville Collector of Taxes
- ii. **Recurrent Conditional Grants**
- iii. Staffing Grant(Personnel Emoluments)
- iv. Teachers Salaries (TSC)
- v. Public Servants Leave Fares
- vi. Land Mediators Allowances
- vii. ABG Parliamentary Service Allowances (Inclusive Personnel Emol.)
- viii. ABG Community Auxiliary Police Allowances
- ix. Police Goods & Services Grant
- x. ABG Electoral Commission Allowances
- xi. Land Mediation Function Grant
- xii. Recurrent Goods & Services Grant
- xiii. National Powers and Function Grant

## 4.1.1 NATIONAL GOVERNMENT GRANTS - RECURRENT

### 2016 ABG BUDGET – RECURRENT GRANTS



### 4.1.1 NATIONAL GOVERNMENT GRANTS - RECURRENT

2014 – 2016 RECURRENT GRANTS (ACTUALS)				
DESCRIPTION	2014	2015	2016	TOTAL
<b>Recurrent Unconditional Grants</b>				-
ABG Tax Collection		1,539,000	1,561,600	3,100,600.00
<b>Recurrent Conditional Grants</b>				-
Public Servants Leave Fares	272,800	357,300	187,400	817,500.00
Teachers Leave Fares		1,413,400	1,275,800	2,689,200.00
Land Mediators Allowances	1,350,500	296,400	0	1,646,900.00
ABG Parliamentary Service Allowances	0	6,054,600	8,584,300	14,638,900.00
ABG Community Auxiliary Police Allowances	0	1,009,100	1,264,200	2,273,300.00
ABG Electoral Commission Allowances	0	1,143,600	1,432,800	2,576,400.00
Land Mediation Function Grant	0	40,000	40,600	80,600.00
Police Goods and Service Grant	2,803,400	2,340,900	3,349,800	8,494,100.00
Recurrent Goods & Services Grant	19,148,100	13,323,100	18,466,600	50,937,800.00
National Function & Powers Grant	299,000	492,500	455,000	1,246,500.00
<b>TOTAL</b>	<b>23,873,800.00</b>	<b>28,009,900.00</b>	<b>36,618,100.00</b>	
<b>Conditional Grants Managed by National Government/ Waigani Teachers &amp; Public Service</b>	<b>63,102,500.00</b>	<b>84,705,800.00</b>	<b>92,239,800.00</b>	<b>240,048,100.00</b>

Source: PGAS

## 4.1.2 ABG FUNDING SOURCE – NATIONAL GOVERNMENT GRANTS - DEVELOPMENT

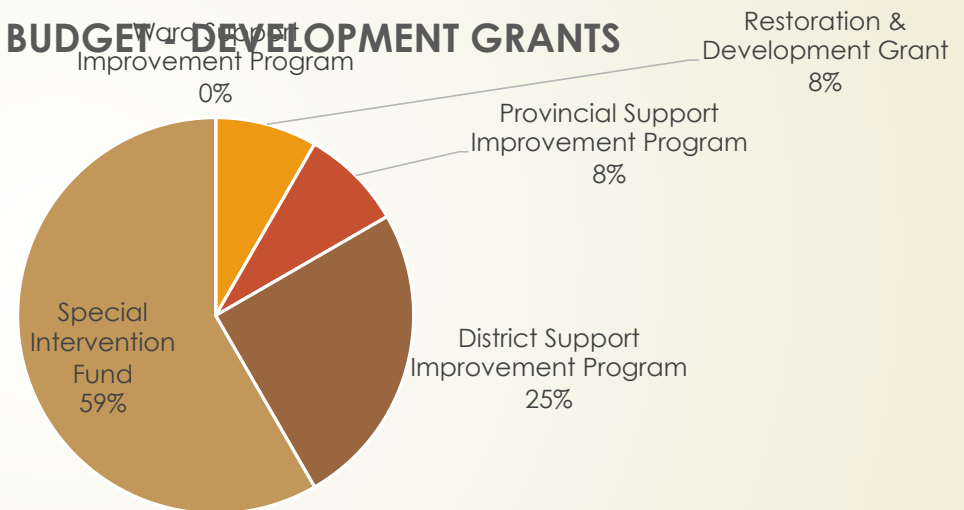
### 1. Development Grants

- i. Restoration and Development Grant
- ii. Special Intervention Fund
- iii. District Service Improvement Program (DSIP)
- iv. Provincial Services Improvement Program (PSIP)



## 4.1.2 NATIONAL GOVERNMENT GRANTS – DEVELOPMENT

### 2016 ABG BUDGET DEVELOPMENT GRANTS



- Restoration & Development Grant
- Provincial Support Improvement Program
- District Support Improvement Program
- Special Intervention Fund
- Ward Support Improvement Program

## 4.1.1 NATIONAL GOVERNMENT GRANTS - DEVELOPMENT

2014 -2016 DEVELOPMENT GRANTS (ACTUALS)				
DESCRIPTION	2014	2015	2016	TOTAL
Ward Support Improvement Program	0	0	0	0
Restoration & Development Program	15,000,000	20,000,000	8,000,000	<b>33,000,000</b>
Provincial Support Improvement Program	10,000,000	10,000,000	10,000,000	<b>30,000,000</b>
District Support Improvement Program	30,000,000	30,000,000	30,000,000	<b>90,000,000</b>
Special Intervention Funds	100,000,000	0	9,000,000	<b>109,000,000</b>
<b>Total</b>	<b>155,000,000</b>	<b>60,000,000</b>	<b>57,000,000</b>	
<b>Note RDG which is constitutionally guaranteed has been declining whilst DSIP &amp; PSIP has been consistent</b>				
<b>Source: PGAS</b>				

## 4.2 AID DONOR FUNDINGS

- ▶ **Development partner contribution is significant . This is off Budget funding.**
- ▶ **Aid Donor funding that we have been more familiar with include;**
  1. PNG Governance Facility (Australia and New Zealand)
  2. Community Policing (New Zealand)
  3. Peaceful & Inclusive Elections & Referendum (UN)
  4. JICA – Japanese Bridges
  5. ADB Funding for Health Centres in Central & South Bougainville
  6. There is more development assistance that is directly channelled to targeted programs in core sectors such as Health & Education details which will be covered in separate presentation following this presentation.

## 4.2 AID DONOR FUNDING

Over the three years from 2015 to current (2017 ) significant development funding assistance has been spent on Bougainville Programs by Development Partners including Australia, New Zealand, UN and USA.

Perhaps future development assistance could be aligned to ABG Priorities?

## 4.3 ABG INTERNAL REVENUE

Internal Revenue under current taxation arrangements :

- I. National Government Tax from company tax, customs duties, and 70% GST collected in Bougainville
- II. National Government Taxes returned to Bougainville include 100% of personal income tax and 30% GST.

## 4.3.1 ABG INTERNAL REVENUE *cont....*

Internal Revenue and Taxes collected through the current taxation arrangement

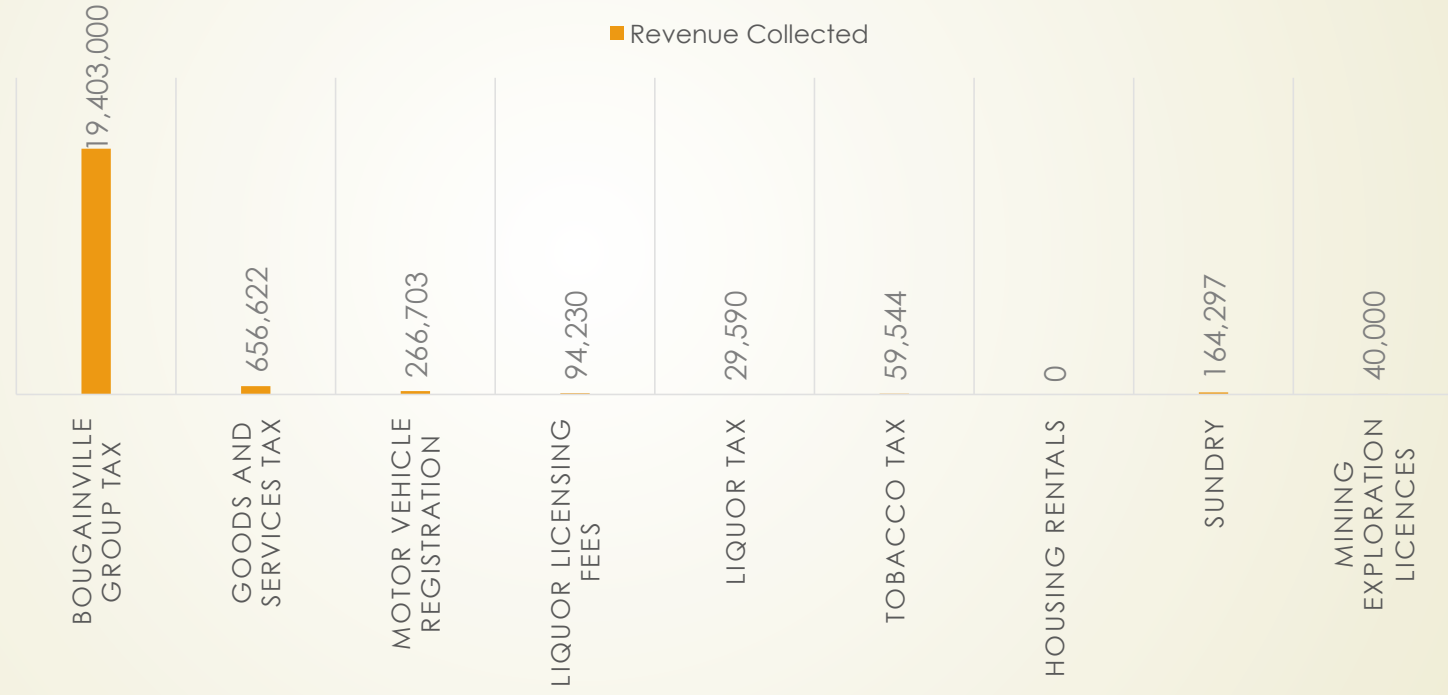
### 1. Collected by National Government – (remitted back to ABG)

- ▶ Bougainville Group Tax
- ▶ Goods & Services Tax
- ▶ Motor Vehicle Registration

### 2. Collected by ABG – (Directly collected by ABG)

- ▶ Sales Tax - Beer
- ▶ Sales Tax – Cigarettes
- ▶ Liquor Licensing Fees
- ▶ Housing Rentals
- ▶ Sundry
- ▶ ABG Mining Dept – Exploration Licenses

## 4.3.2 INTERNAL REVENUE COLLECTED IN FY 2016



## 4.1.1 ABG INTERNAL REVENUE COLLECTED

2014-2016 INTERNAL REVENUE COLLECTION				
DESCRIPTION	2014	2015	2016	TOTAL
Bougainville Group Tax	9,500,000	12,830,000	19,403,000	<b>41,733,000</b>
Goods & Services Tax	2,226,452	297,556	656,622	<b>3,180,630</b>
Motor Vehicle Registration	221,270	239,050	266,703	<b>727,023</b>
Liquor Licensing Fees	111,994	88,412	94,230	<b>294,636</b>
Liquor Tax	887,000	45,700	29,590	<b>962,290</b>
Tobacco Tax	7840	36,000	59,544	<b>103,384</b>
Housing Rentals	0	0	0	<b>0</b>
Sundry	1,028,855	564,333	164,297	<b>1,757,485</b>
Mining Exploration	0	0	40,000	<b>40,000</b>
<b>TOTAL</b>	<b>13,985,425</b>	<b>14,103,066</b>	<b>20,716,002</b>	
Source: PGAS				

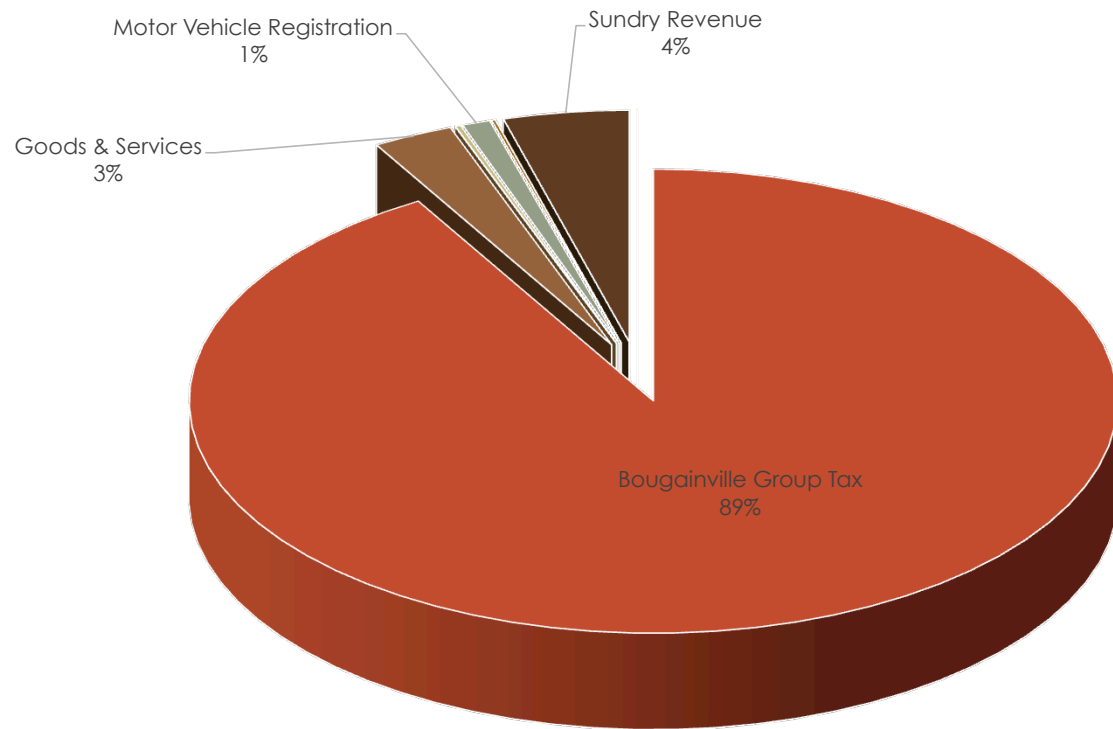


## 4.1.2 INTERNAL REVENUE COLLECTION AS AT THE END OFF AUGUST 2017

Description	Budget (Annual)	Budget (Pro-Rata)	YTD Actual	Variance	( % )
Bougainville Group Tax	20,000,000.00	13,333,333.36	12,150,000.00	- 1,183,333.36	89%
Goods & Services Tax	200,000.00	133,333.36	371,784.70	238,451.34	3%
Liquor Tax	100,000.00	66,666.64	- -	66,666.64	0%
Tobacco Tax	50,000.00	33,333.36	24,786.00	- 8,547.36	0%
Motor Vehicle Registration	100,000.00	66,666.64	129,445.03	62,778.39	1%
Liquor Licensing Fees	100,000.00	66,666.64	16,730.00	- 49,936.64	0%
Housing Rentals	50,000.00	33,333.36	- -	33,333.36	0%
Sundry	100,000.00	66,666.64	580,172.12	513,505.48	4%
Mining Exploration	200,000.00	133,333.36	45,000.00	- 88,333.36	0%
<b>Total</b>	<b>25,404,283.00</b>	<b>16,936,188.72</b>	<b>13,317,917.85</b>	<b>3,618,270.87</b>	<b>97%</b>

Source: PGAS

**Chart 1.1: Breakdown of Actual YTD Internal Revenue in August 2017**



## 4.4 NATIONAL GOVERNMENT DIRECTLY FUNDED PROGRAMS – OFF ABG BUDGET

- ▶ The range of functions funded under the ABG is broad as illustrated in the Recurrent Grants section above.
- ▶ There are some functions that the National Government fund directly through its National Government. The major ones include;
  1. Hospital Services, Currently paid for by Dept. of Health
  2. Church Health and Education Services currently funded by National Government Grants to Churches' Secretariats
  3. National Judicial Service – currently a single judge is almost full time in Bougainville
  4. Magisterial Services – Currently two magistrates
  5. Ombudsman
  6. Public Prosecutor
  7. Public Solicitor
  8. Police Service – Wages
  9. Teachers – TFF Program and Salaries for Teachers
  10. Correctional Services
  11. Operating Cost of all statutory authorities including Maritime Resource Authority, Forestry and Commodities Boards

## 4.5 REVENUE OVERVIEW – GRANTS & REVENUE COMPOSITION

Major Item	2014	2015	2016	Total
1. Total Recurrent	86,976,300	112,715,700	128,857,900	328,549,900
2. Development Grants	155,000,000	85,000,000	118,000,000	358,000,000
Total for all Grants	241,976,300	197,715,700	246,857,900	
3. Donor Funding				
4. Internal Revenue	13,985,425	14,103,066	20,716,002	
Grand TOTAL				

# ABG BUDGET - EXPENDITURE

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AUTONOMOUS BOUGAINVILLE GOVERNMENT (ABG)  
FISCAL POSITION

## 5. ABG BUDGET – EXPENDITURE

- ▶ Expenditure of the ABG Budget is guided by the Appropriation Bill and the Bougainville Public Finance Management and Administration Act.
- ▶ The two major expenditure components of the ABG Budget are;
  1. **Recurrent Budget** - Provides allocations/funds for operational costs of the ABG.
  2. **Capital Investment** - Provides allocation for restoration & development projects and High Impact Projects (e.g. road design and maintenance, construction of new staff houses)

## 5.1 ABG BUDGET – RECURRENT EXPENDITURE

The recurrent budget can be further categorised into two main expenditure functions;

1. **Personnel Emoluments** – Salaries and Allowances for Public Servants, Teachers and Health Workers
2. **Recurrent Goods & Services** – Cost of Function for Service Delivery e.g. Health, Education, Police

## 5.1.1 RECURRENT EXPENDITURE – PERSONNEL EMOLUMENTS (P.E)

- ▶ **Personnel Emoluments is the major expenditure component under the Recurrent Budget.**
- ▶ **Personnel Emoluments include;**
  1. Public Service Salaries and Allowances
  2. Teachers Service Salaries and Allowances
  3. Public Service Leave Fares
  4. Teachers Leave Fares



## 5.1.2 RECURRENT EXPENDITURE – GOODS & SERVICES (G.S)

- ▶ **Goods and Service is the last component of the recurrent expenditure. It covers the cost of service delivery in Bougainville**
- ▶ **Goods and Services include:**
  1. Recurrent Goods & Services Grant
  2. Police Goods & Service Grant
  3. Parliamentary Services
  4. ABG Chief Collector of Taxes
  5. Land Mediators Allowances
  6. ABG Community Auxiliary Police
  7. ABG Electoral Commission Allowances
  8. Land Function Grants
  9. National Functions and Powers Grant

## 5.2 CAPITAL INVESTMENTS

### Major Capital Investments

- ▶ Airport-Buka & Aropa
- ▶ Town Roads –Buka , Arawa & Buin
- ▶ Trunk Roads –Buka Ring Road Sealing, Arawa to Aropa Sealing
- ▶ Shipping –Chebu & Rapois
- ▶ Administrative Buildings – Administration Offices and Residential Houses
- ▶ Bridges
- ▶ Hospitals –
- ▶ Schools -

## **6. ACHIEVING FISCAL SELF RELIANCES**

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AUTONOMOUS BOUGAINVILLE GOVERNMENT (ABG)  
FISCAL POSITION

## 6.1 FISCAL SELF RELIANCE – GUIDING PRINCIPLE

- Bougainville Constitution:

“In the use of its finances and in the management and control of its finances, the Autonomous Bougainville Government shall aim to achieve fiscal self-reliance as soon as possible”

Art. 153(1)(a) of the Constitution of Bougainville

## 6.2.1 FISCAL SELF RELIANCE EQUATION

- How is Bougainville progressing towards 'fiscal self reliance' as per the definition provided?

BOUGAINVILLE FISCAL SELF RELIANCE EQUATION (2016 Case Study)		
Equation Elements	2016 (Kina)	Notes
▪ Company Tax – 100%	727,850	IRC Trust Account Statement
▪ VAT (GST) – 70%	1,532,118	IRC Trust Account Statement
▪ Customs Duties - 100%	79,452	Aug 2016 YTD data from Customs extrapolated to Dec 2016
Bougainville Revenue	2,379,009	
<b>Bougainville Recurrent Grants</b>	<b>41,291,300</b>	DOTF Briefing Note dated 31 March 17
<b>Fiscal Self Reliance achieved</b>	<b>5.66%</b>	Target is 100%

Source: Mark Olsen – Taxation Advisor

## 6.2 FISCAL SELF RELIANCE – THE EQUATION

Bougainville revenue, consists of grants from National Government under the terms of the BPA; internal revenue is raised under the Bougainville Laws. Internal revenue ultimately will fund the cost of ABG. This self-sustaining vision is termed in the BPA and Bougainville Constitution as 'achieving fiscal self-reliance'

Achieving Fiscal self-reliance is defined as the year in which Bougainville's revenue from the following sources;

- ▶ 100% per cent of company Tax
- ▶ 70% percent of Value Added Tax; and
- ▶ 100% percent of customs duties;
- ▶ Is equal to the value of the National recurrent grant to Bougainville on a sustainable basis.

## 6.2.1 FISCAL SELF RELIANCE – CURRENT TAXATION ARRANGEMENT

Existing Bougainville Revenue and Taxes in addition to Group Tax & 30% GST include;

- ▶ Liquor Licensing
- ▶ Tax on beer
- ▶ Tax on cigarettes
- ▶ Motor Vehicle Registration
- ▶ Driving Licenses Fees
- ▶ PMV Licenses Fees
- ▶ Heavy Vehicle Licensing Fees
- ▶ Supply and Tenders application fees

## 6.2.2 FISCAL SELF RELIANCE – CURRENT TAXATION ARRANGEMENT

**Additional Taxing Powers of the ABG.**

**Other areas ABG has the power to collect revenue and taxes and retain in Bougainville include:**

- ▶ Developed property tax
- ▶ Road user taxes
- ▶ Gambling taxes
- ▶ Stamp duties



## 6.2.3 FISCAL SELF RELIANCE EQUATION

- What if a more general interpretation of '*fiscal self reliance*' was adopted and included all revenue derived by ABG?

<b>INTERNAL REVENUE (2016 year)</b>	
BOUGAINVILLE GROUP TAX	19,403,000
GOODS AND SERVICES TAX – 100%	2,188,740
COMPANY TAX – 100%	727,850
CUSTOMS DUTIES – 100%	79,452
MOTOR VEHICLE REGISTRATIONS	266,703
LIQUOR LICENSING FEES	94,230
BEER SALES TAX	29,590
CIGARETTE SALES TAX	59,544
SUNDRY REVENUE	164,297
ABG MINING EXPLORATION LICENCE	40,000
MISCELLANEOUS	137,204
RECOVERIES FROM FORMER YEARS	<u>43,007</u>
<b>TOTAL INTERNAL REVENUE</b>	<b><u>23,233,617</u></b>
<b>TOTAL RECURRENT GRANTS</b>	<b>41,291,300</b>
<b>PERCENTAGE ACHIEVEMENT</b>	<b>56.27%</b>

## 6.3 LONGER TERM ECONOMIC PROSPECT FOR BOUGAINVILLE

- ▶ Increase investment in Infrastructure with High Impact to wider community, such as trunk roads, upgrading and sealing them, to lay the foundation and promote economic activities and to encourage growth of tourism industry.
- ▶ Investment in the cocoa sector supported by the Commodity Support Facility to expand production in the sector.
- ▶ Invest in cheap and sustainable energy – hydro-electricity to encourage development of down-stream processing of agricultural and fisheries products.
- ▶ Remove barriers to large-scale mining, which in the long term will yield investment
- ▶ Encourage and foster PPP in Bougainville

# 7. CHALLENGES FOR BOUGAINVILLE

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CHALLENGES FOR BOUGAINVILLE

## 7.1 CHALLENGES – GRANTS

- ▶ Disbursement of mandatory grants by National Government to ABG as stipulated in BPA and Organic Law on Peace Building in Bougainville has not been consistent and not been timely.
- ▶ The trend is the same in disbursement of development grants.
- ▶ Contentious issue on the difference between the amounts of SIF development funds for which Warrants are issued by the National Government and the actual funds remitted into the SIF Subsidiary Account in BSP Buka Branch 50% less.
- ▶ Law & Order – Rule of Law must be respected and allowed to prevail
- ▶ Insurance agenda
- ▶ Reliable 24 HR Power Supply
- ▶ Water & Sanitation for the Towns – PNG Water MOU's signed not working

## 7.2 CHALLENGES – INTERNAL REVENUE

- ▶ The local economy is too small for Bougainville to generate the tax revenue needed to finance itself
- ▶ Negative return on investment on Government Owned Enterprises
- ▶ Prospects from formal private sector remains low
- ▶ Too many barriers to attract international private investors
- ▶ Emphasis and focus to shift to direct investment in agriculture as potential revenue and foreign exchange earner
- ▶ Revive Plantation economy to support above point

## 8.0 WAY FORWARD

► **ABG Department of Finance and Treasury has embarked on several finance and budgetary reforms since 2016 to better financial management towards fiscal self reliance. The main reforms being implemented are;**

1. Strengthen relationships between ABG Tax Office & Internal Revenue Commission
2. Improve Revenue Collection
3. Improve Accounting for Bougainville Assets & Liabilities
4. Adopt new Financial Accounting & Management System
5. Management Monitoring Tool)
6. Expenditure control by Cash Management Committee
7. Direct Investment in the Bougainville Economy

**NIGAN TOANA**

**THANK YOU VERY MUCH!!**