

Step Two...
The Ripple Effect



Step Two...
The Ripple Effect

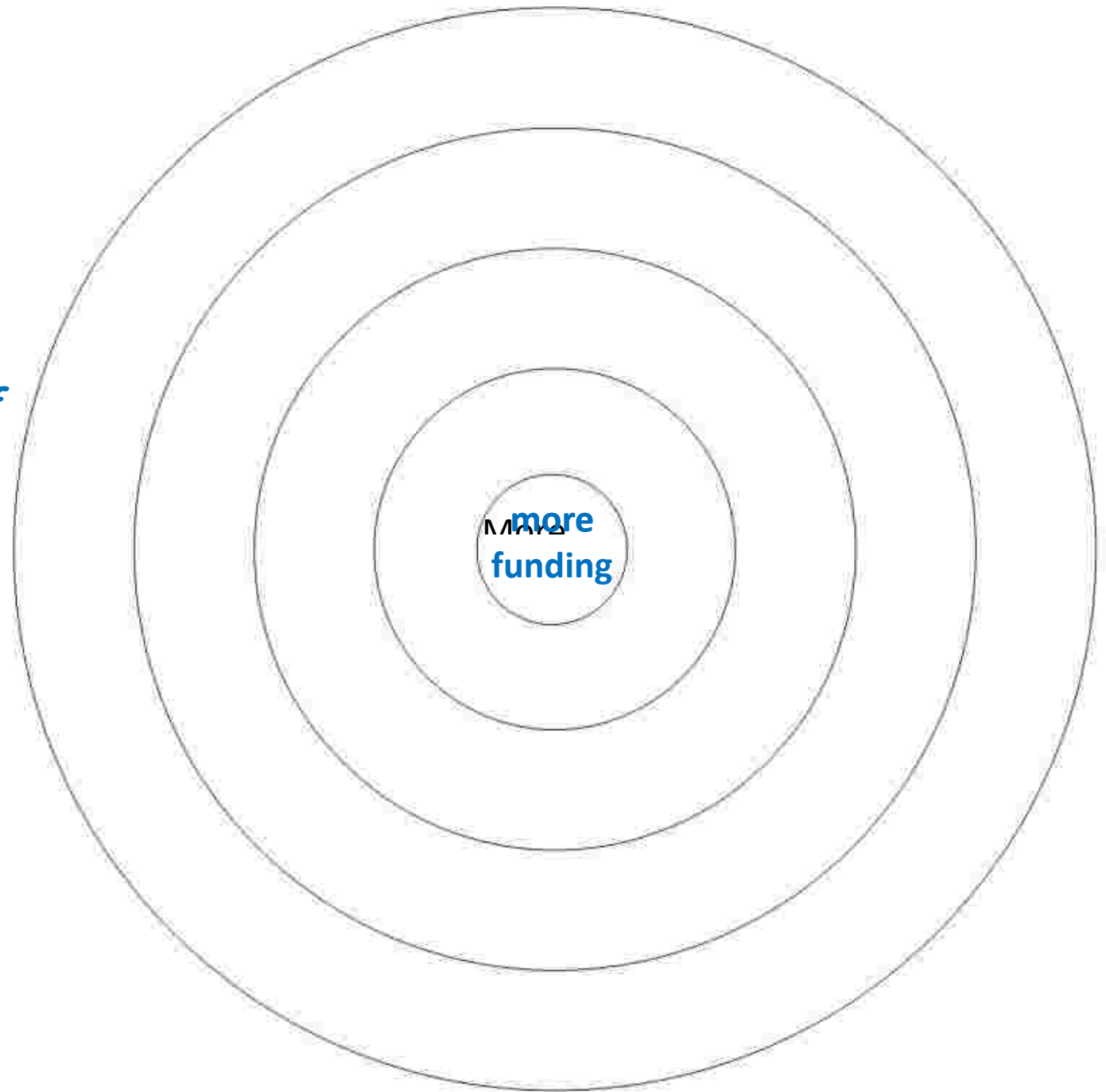
The Provincial Expenditure Review
2005-2010

Step Two...

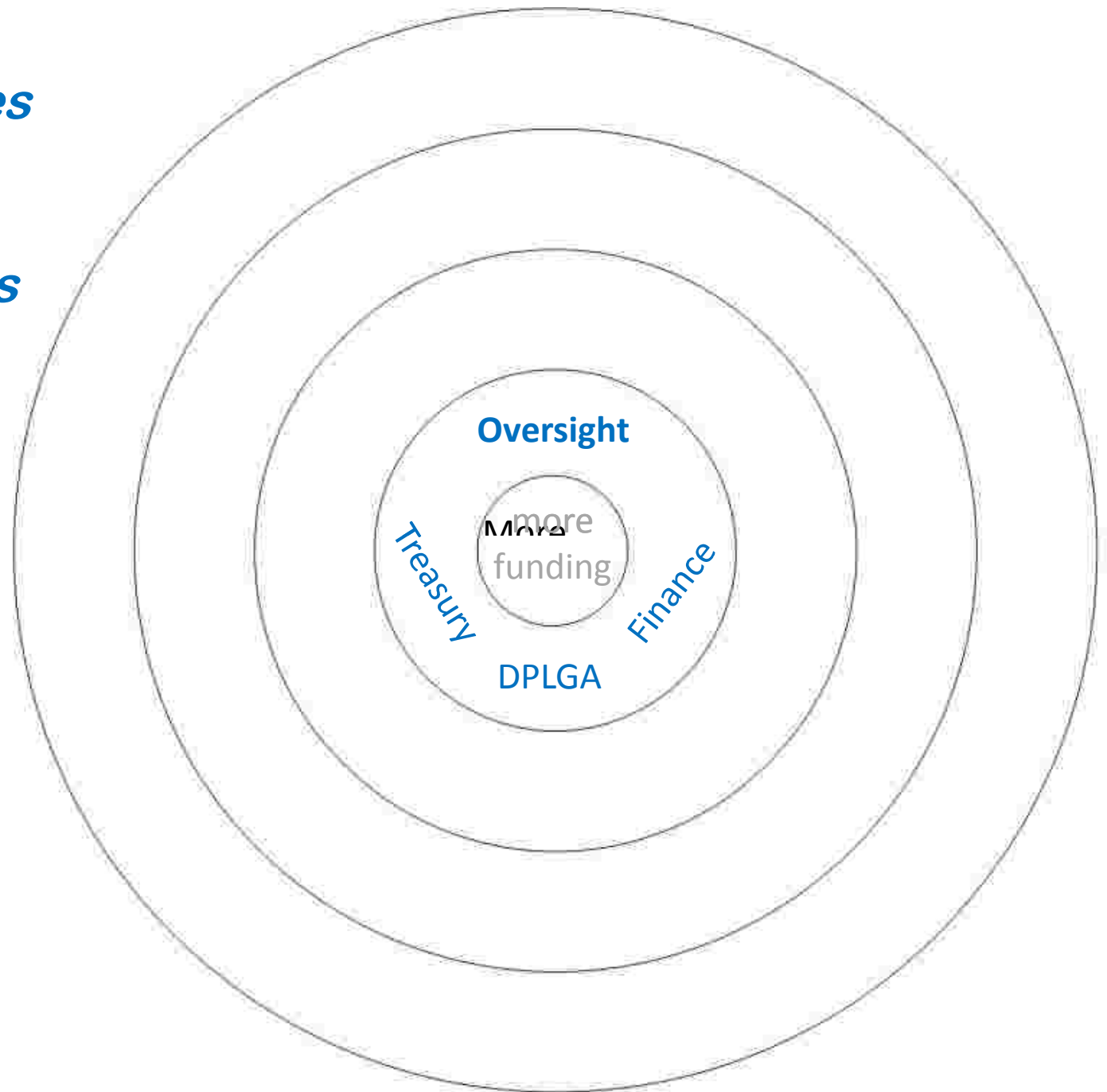
The Ripple Effect

The re-generation of basic services across Papua New Guinea will succeed because of the collaborative efforts of all involved in the service delivery supply chain. From key central agencies like Treasury and Finance, to national line agencies like Health, Education and Works, to provincial administrations, to district administrations, to facilities. We need to see the ripple effect extending out through the government system.

*Every year the
National
Government is
committing
more money to
support the
regeneration of
basic services*



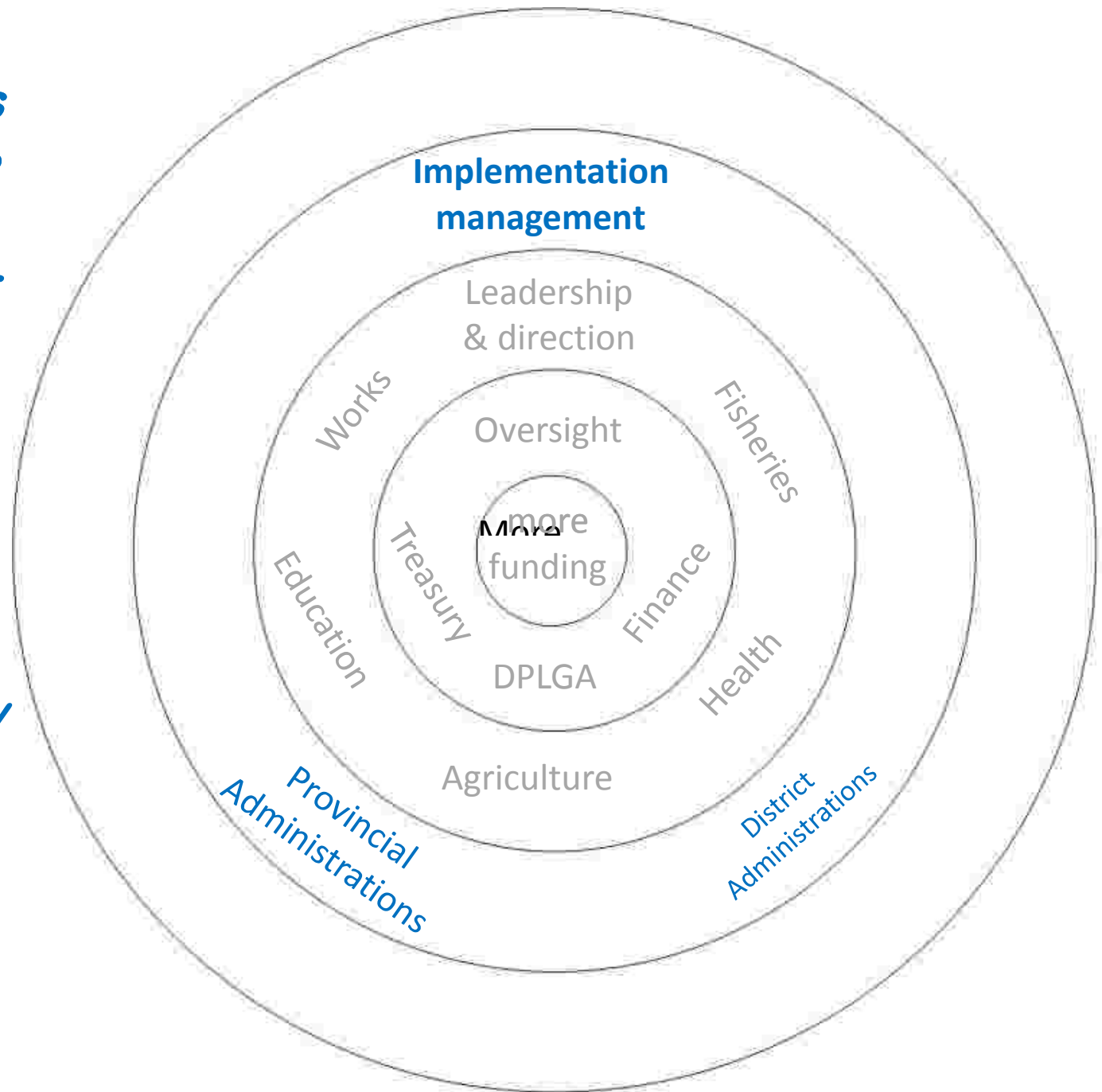
*The role of central agencies is **oversight** - and to ensure the **funding** gets to the right place on time*



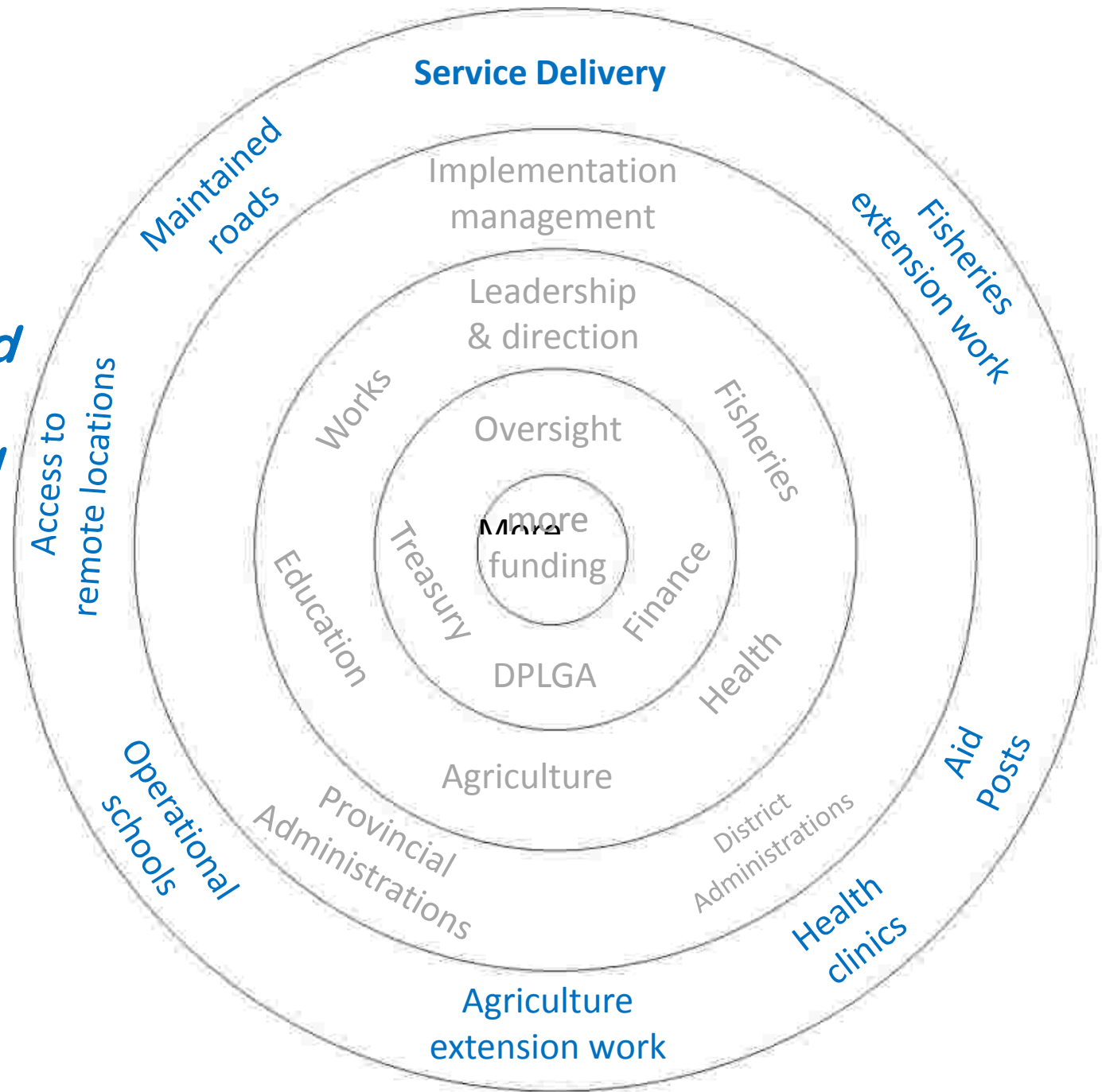
National line agencies play a critical role in providing leadership and direction to the sector at the national & sub-national levels



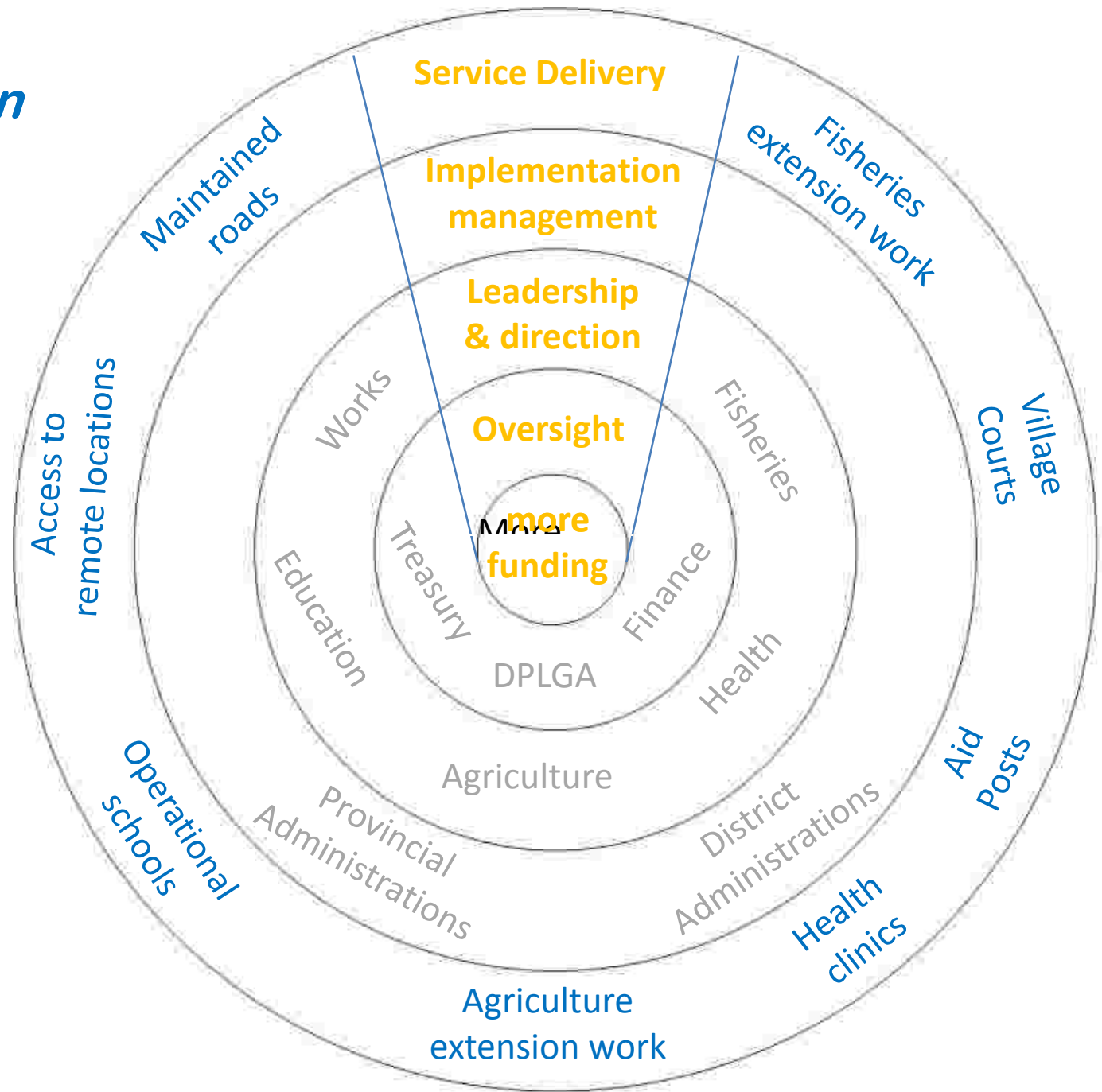
*Provincial Administrations are responsible for service delivery in their province. They provide **management & support** to those at the front-line of service delivery and liaise with the national level*



The last band represents front-line service activities; from maintained roads to functioning and equipped health clinics and schools...



Front-line services happen because of funding, oversight, leadership & direction and a managed implementation - this is the ripple effect



Before we continue a word of thanks to our partner agencies, who include:

- Department of Treasury
- Department of Finance
- National Department of Health
- National Department of Education
- and AusAID

A WORD OF GRATITUDE

Fiscal Monitoring in Year Two

PER 2010

PER 2010 – What's New?

Our monitoring efforts cannot be stagnant – we need to continue to adapt and find ways to meaningfully monitor performance as we strive for a better level of service delivery across PNG. In the 2010 PER we introduce:

1. The Top Five

Highlights the provinces that are consistently performing well over the past three years, 2008-2010.

2. Monitoring MPAs

We have a section that looks at how well provinces are supporting the minimum priority activities.

3. A standardised cash release schedule

We propose the introduction of a standardised cash release schedule that gives provinces certainty over their recurrent funding from national government.

Year Two – a recap

In 2009, year one of implementation, we saw green shoots of change, what can we see in Year Two?

1. *Did the increased funding reach the provinces that need it most?*

- **Yes it did, the fiscal capacity of the six lowest funded provinces went from an average of 30% in 2008 to 48% in 2010.**

2. *Did the increased function grants reach the sectors?*

- **Yes they did, the increased grants were targeted at the Government's priorities – basic education, rural health, transport infrastructure maintenance and primary production.**

Year Two – a recap

3. *Did provinces use the additional function grant funding they received under RIGFA in 2010? Or did they struggle to spend the additional money?*
 - Overall spending levels remained fairly high and this was despite the poor timing of cash release from central agencies. So we can be pleased that provinces sought to put the additional funding to good use.

4. *Were the grants spent on the purposes intended?*
 - Overall, the spending of the function grants in health, education and infrastructure maintenance generally appeared in keeping with intention of grants notwithstanding instances that were questionable or uncertain.

Year Two – a recap

5. Was there evidence of spending on MPAs?

- Seven provinces demonstrated a satisfactory overall level of commitment to the MPA regime whilst another nine had reasonable spending levels in approximately half of the MPAs. This early analysis indicates that the MPA initiative is bedding in and compliance is growing.

Minimum Priority Activities		Exp	Direct	Vote	No vote
Education	1. Provision of school materials	2	13	2	1
	2. Supervision by district/prov staff	14	0	1	3
	3. District education office op's	10	0	1	6
Health	1. Rural health facility op costs	8	1	8	1
	2. Integrated health patrols	5	4	5	4
	3. Medical supply distribution	9	0	2	7
Transport Infrastructure	1. Road & Bridge maintenance	12	0	6	0
	2. Airstrip maintenance	11	0	1	6
	3. Wharf & Jetty maintenance	5	0	2	6
PP	Agriculture Extension Services	6	0	6	6
VC	Operational materials	17	0	1	0
		52%	9%	18%	21%

What problems occurred in 2010?

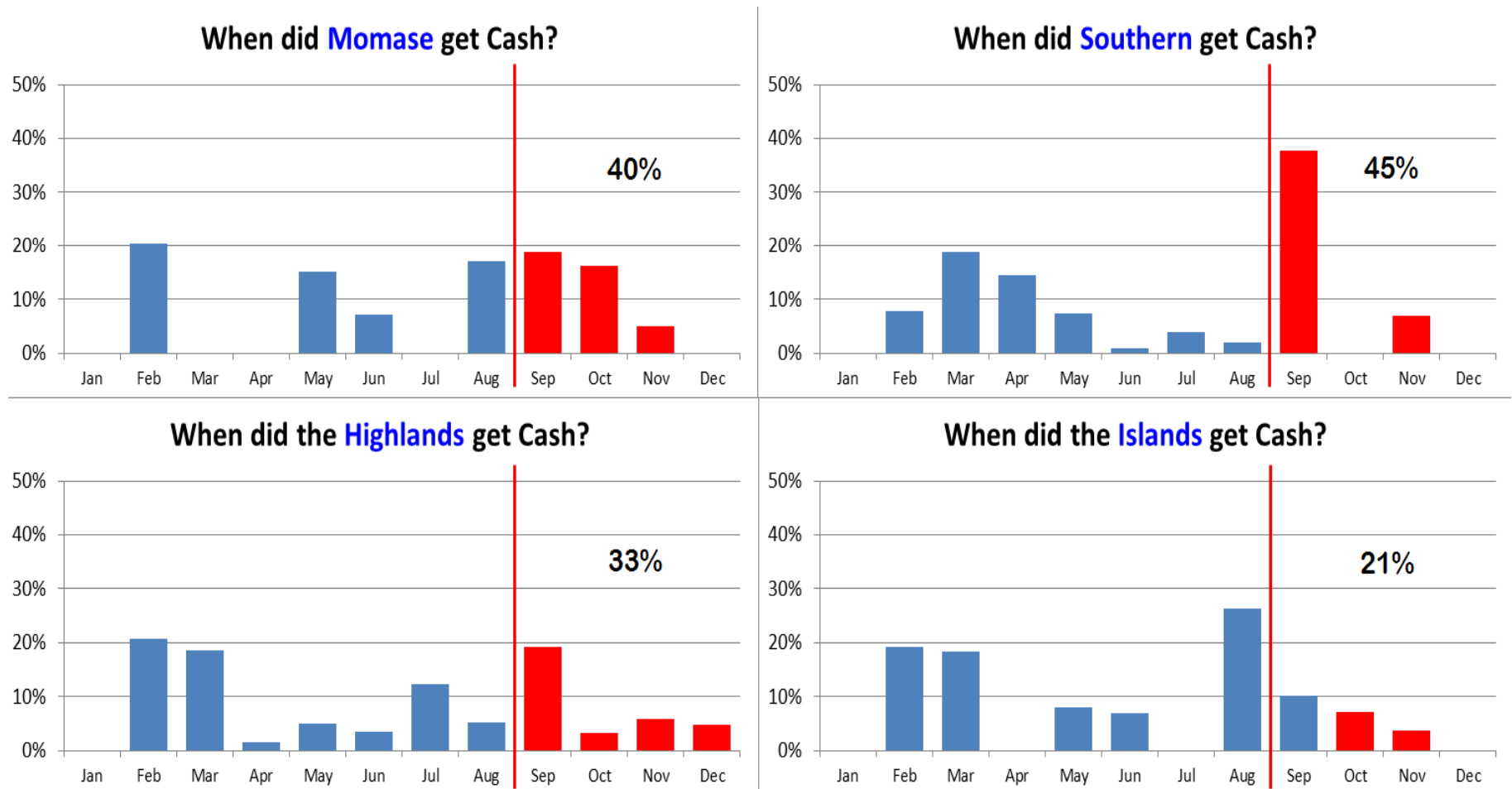
The major difficulty in 2010 was the slow and late release of funds from central agencies to provinces.

- **Provinces rely on the Departments of Treasury and Finance to efficiently distribute funds from Port Moresby to their provincial treasuries.**
- **Provincial financial systems take time to operate – so service sectors need predictable funding in their bank accounts early.**
- **Slow and late funding is a crucial block to allowing services to happen at the front-line.**

Late money = a blow to service delivery.

Late cash release by region

Large tranches of funding delivered after August is too late.



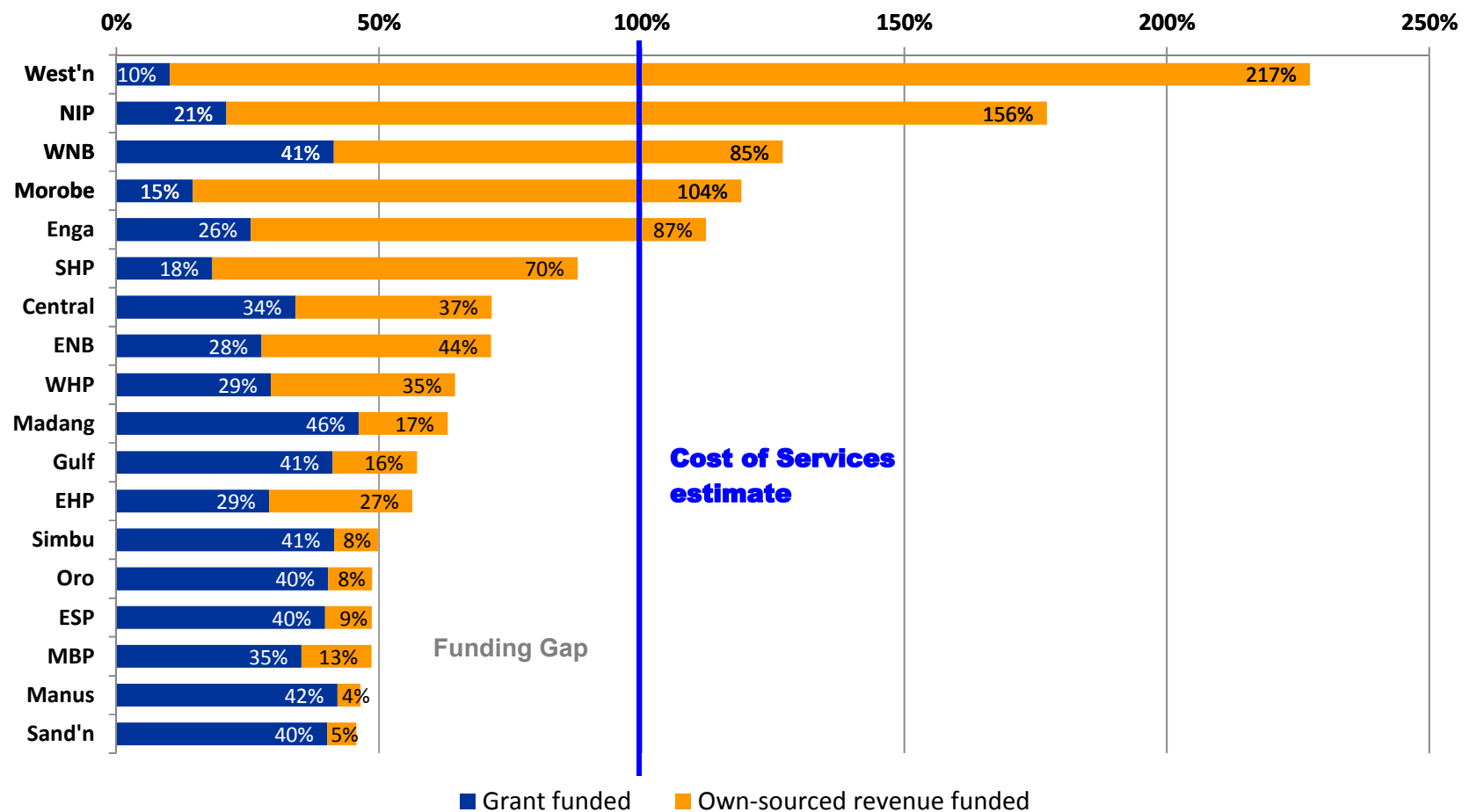
Late cash release by province

The table that follows records the percentage of national grant cash that each province received from September onward. Eight provinces were very delayed, seven were in a moderate band, and three were satisfactory.

Very delayed		Moderate		OK	
Sandaun	76%	Western	35%	Simbu	18%
Milne Bay	59%	Madang	29%	East New Britain	17%
WHP	52%	New Ireland	27%	West New Britain	8%
Enga	51%	Oro	27%		
Central	50%	East Sepik	27%		
Morobe	42%	SHP	25%		
Manus	41%	EHP	24%		
Gulf	40%				

Improving Fiscal Capacity

- In 2010 more money went to those provinces that need it most.
- In 2010 even the most needy of provinces had almost 50% of their funding requirements – a large improvement on recent years.

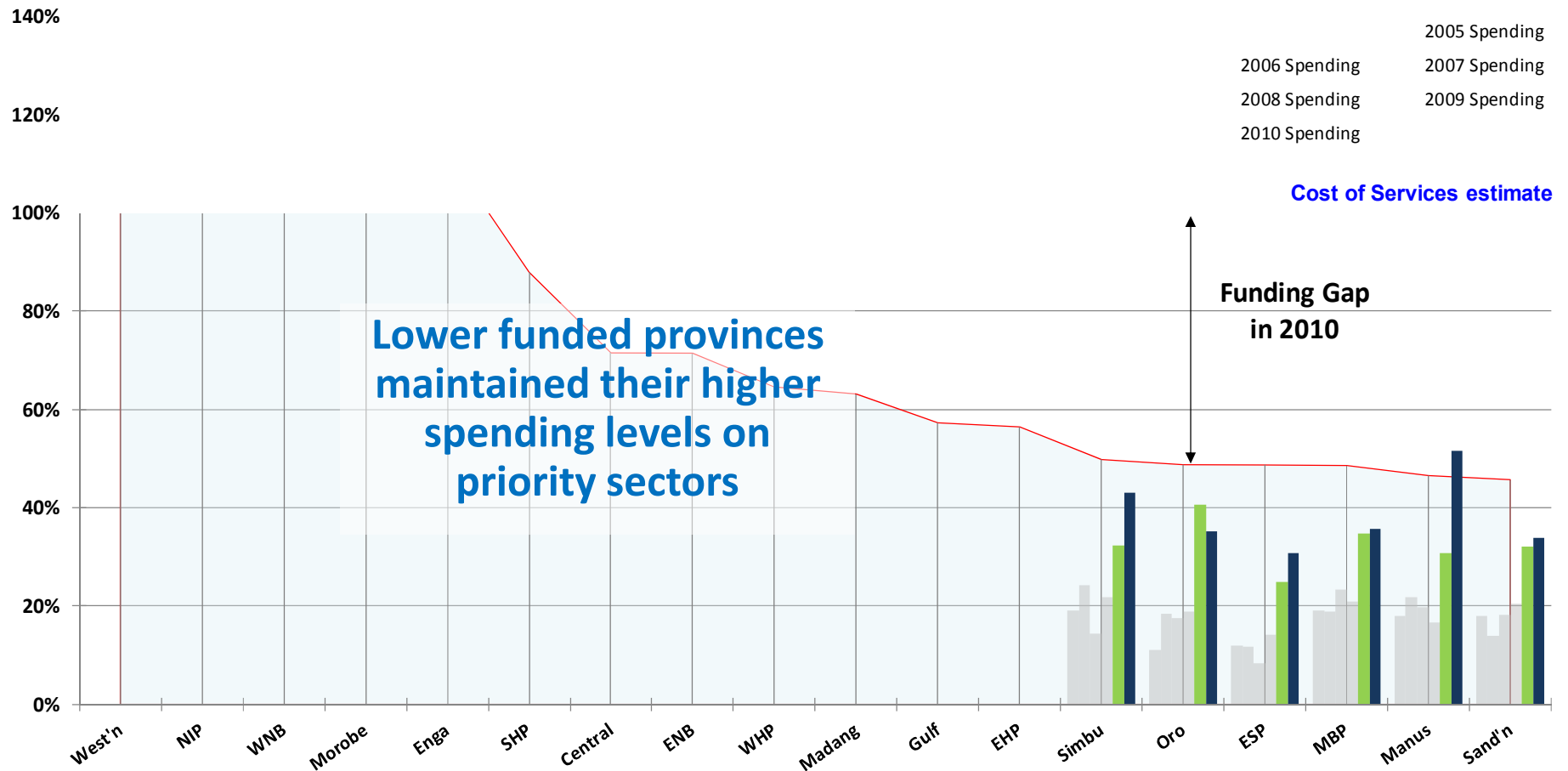


Spending versus Cost of Services estimate (adjusted for fiscal capacity)

PERFORMANCE

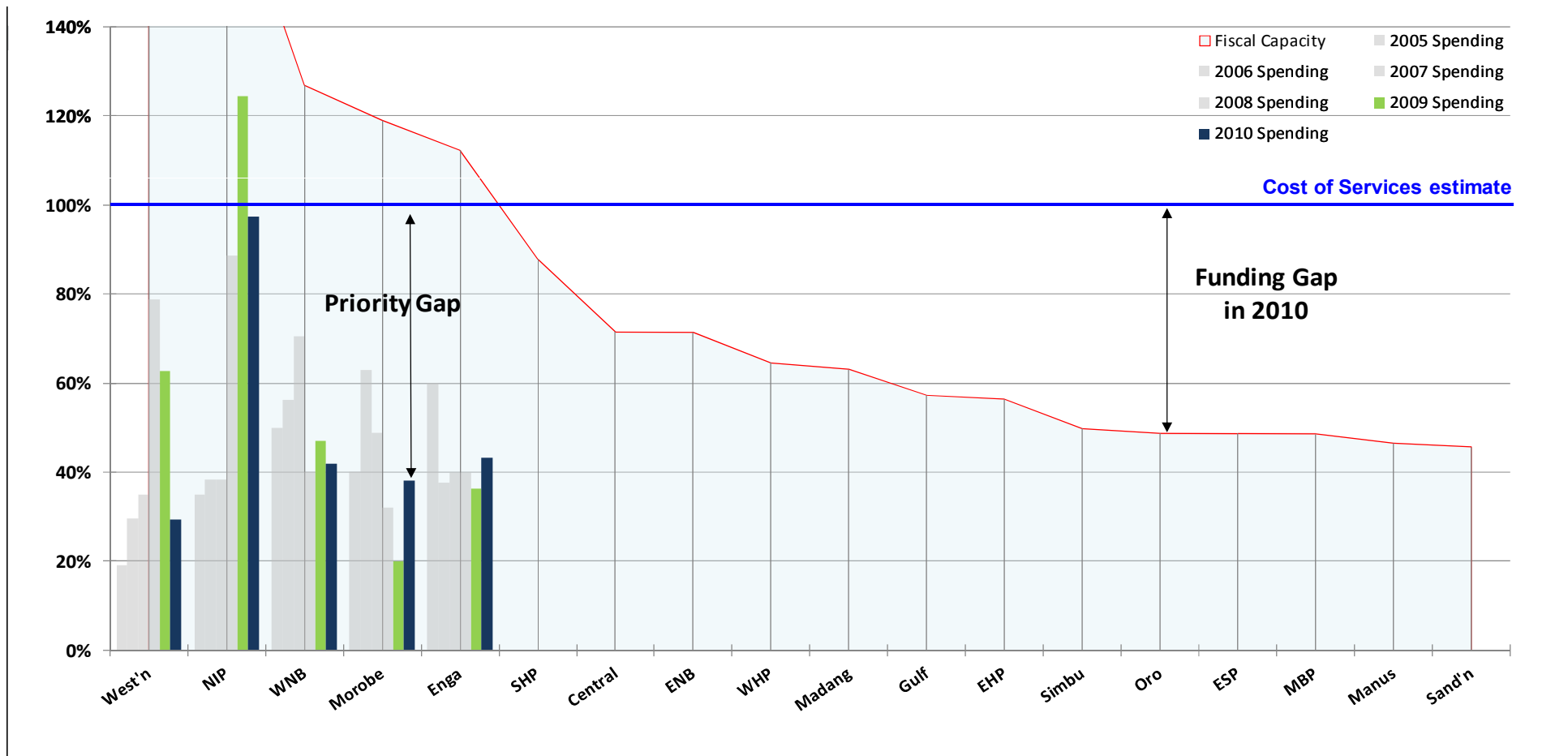
Lower funded provinces

- In 2010 lower funded provinces received even higher levels of



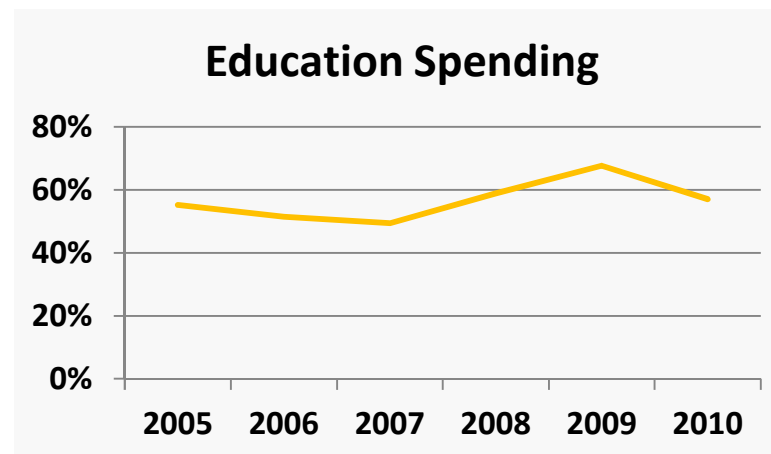
Higher funded provinces

- Higher funded provinces have the ability to spend much more on supporting service delivery activities.
- If they do not budget and spend more – services will not happen.



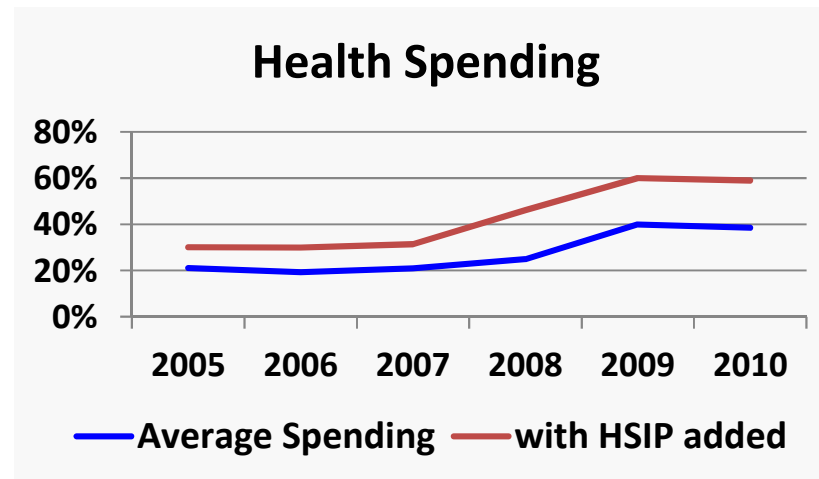
The Education Sector

- Recurrent spending in education has increased by K5 million with most provinces (12) spending more in 2010 and some spending significant amounts.
- RIGFA has seen education spending by the six lowest funded provinces increasing from 30% in 2008 (of what is needed) to 48% in 2010.
- The dip in the graph below indicates that whilst spending increased in kina in 2010 – the costs increased even more.



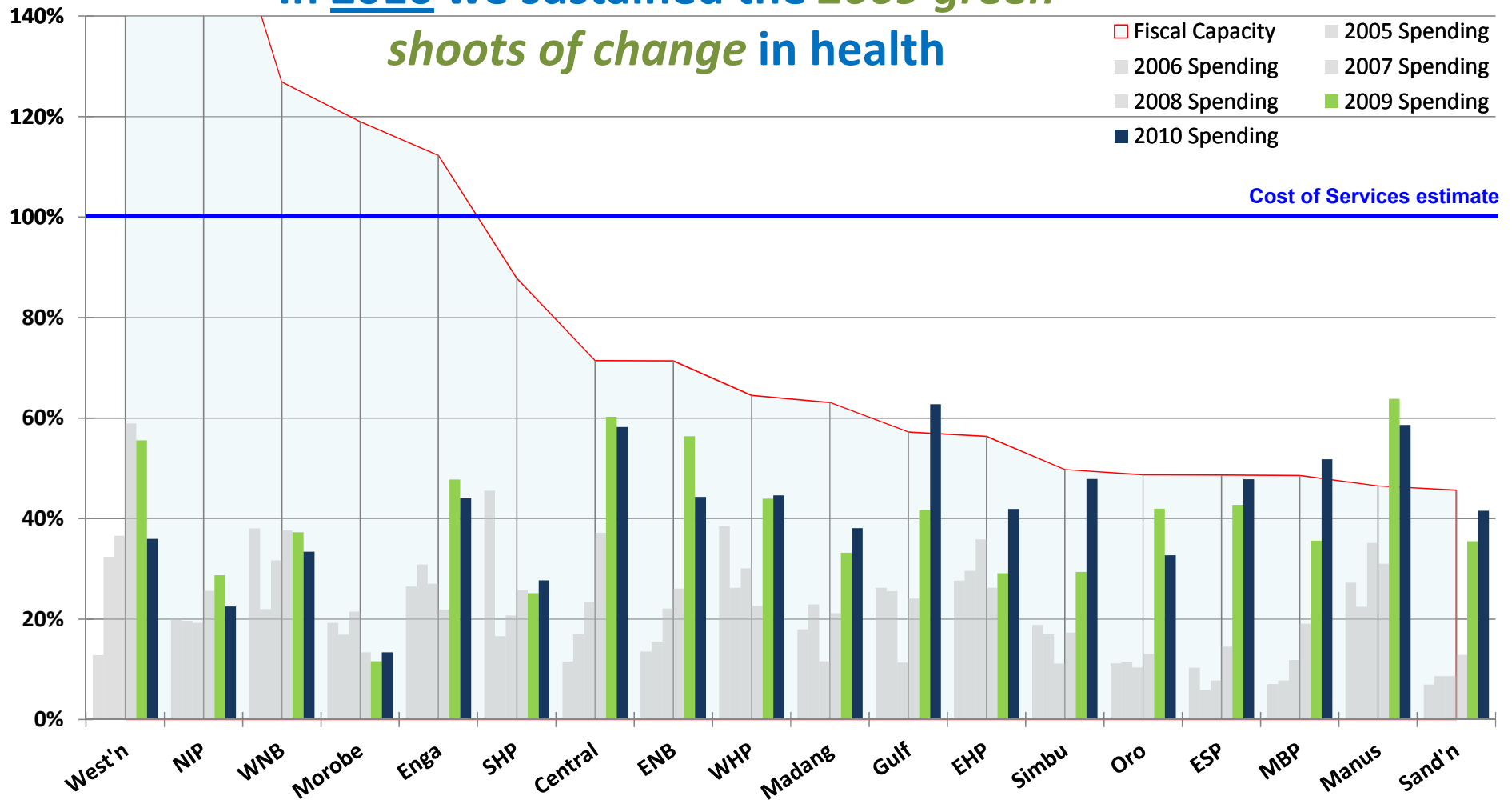
The Health Sector

- 2010 again saw a positive change in health spending with overall spending increasing by a further K9 million.
- Most lower and medium funded provinces showed significant increases in their spending on the sector for the second consecutive year.
- Spending from HSIP remained strong – and is (was?) a key source of funds for many provinces.



The Health Sector by Province

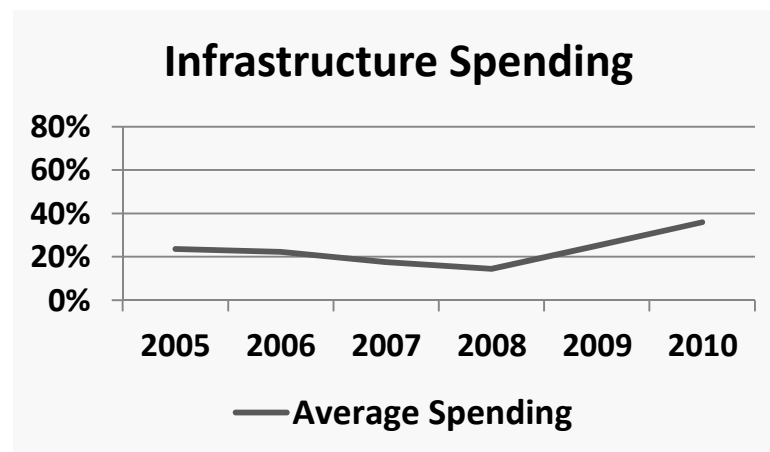
In 2010 we sustained the *2009 green shoots of change in health*



The Transport Infrastructure Sector

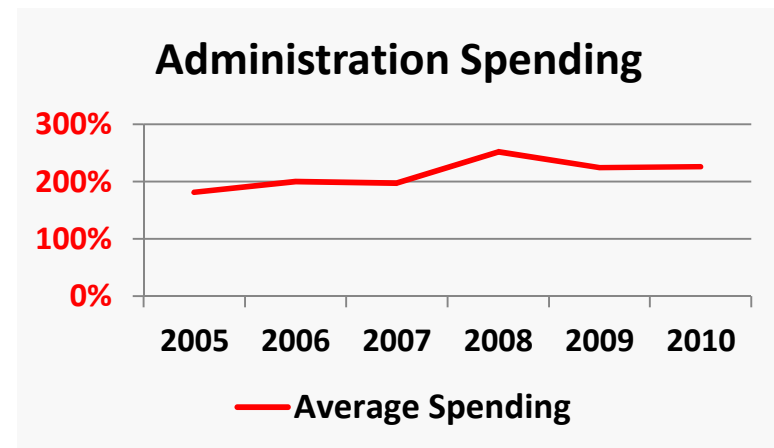
- We know maintaining infrastructural assets is expensive particularly after they have been left to degrade.
- Spending identified as routine maintenance increased by K24 million in 2010 – a 66% increase.
- For the first time in many years provinces are being funded with significant amounts of maintenance funding. This enables them to implement meaningful maintenance programs.

There is an opportunity and need for agencies such as Transport & Works to assist provinces in utilising these new recurrent funds.



The Administration Group

- Recurrent spending on administration increased in 2010 and remains high in many provinces (but not all!) relative to the estimated costs required and very high relative to what is spent on sectors delivering services.
- The tendency is to **fund administration first**.
- Higher funded provinces with high amounts of internal revenue need to create **fiscal space** to free up funds to better support service delivery.



Fiscal Indicators: Measuring how well we are managing our resources with the objective of improving front-line service delivery

THE SCORECARD

The Top Five

Ultimately, improving service delivery is a **long-run game**, it's not a sprint it's a challenge over the longer-distance. In PER 2010 we introduce **The Top Five**, a table that looks at which provincial administrations are sustaining a high level of financial discipline over the years 2008 to 2010.

Criteria: there are 25 measures which include

1. The amount spent on priority sectors
2. Equity (or fairness) of spending across priority sectors
3. The use of internal revenue to support priority sectors & activities
4. The utilisation of function grants
5. The amount unspent
6. Ensuring the spending is on the right things
7. Late spending

The Top Five

We commend the **Simbu, Sandaun, Central, Manus and Milne Bay** provincial administrations who have demonstrated a high level of commitment to making service delivery happen in their provinces.

Province	2008	2009	2010	Average
1 Simbu	114	107	124	115
2 Sandaun	120	115	100	112
3 Central	104	109	103	105
4 Manus	114	96	106	105
5 Milne Bay	110	103	102	105
East New Britain	82	98	117	99
Oro	83	113	96	97
New Ireland	101	95	83	93
East Sepik	86	101	91	93
Southern Highlands	76	88	92	85
Western Highlands	60	101	95	85
Western	98	93	62	84
Gulf	56	79	117	84
Morobe	82	68	97	82
Madang	72	81	89	81
Eastern Highlands	85	80	77	81
Enga	70	74	93	79
West New Britain	73	72	70	72

STRATEGIES FOR RE-GROWTH

WHERE TO FROM HERE?

Strategies for service re-growth

In 2012 we're seeing much higher levels of operational funding reaching provinces, money that is available to support the delivery of vital services. So what has to happen **now** to make this a reality?

- **Improved partnerships between national line agencies and provinces:**

National line agencies working **more closely** with provinces and provincially based sector staff will help ensure that the new increased funding is better targeted in their budgets and their expenditure.

Central agencies cannot undertake this role alone.

- **Transparency of MPA's:**

Progress is being made but needs to be built upon. The new **chart of accounts** needs to be implemented.

Strategies for service re-growth

- **A standard cash release schedule?**

The lateness in the release of cash to many provinces contributed to a higher rate of under-spending in national grants in 2010. We need to provide **greater certainty** to provinces that they will receive their operational grants in a timely fashion.

A standard schedule of warrant/cash release needs to be discussed and agreed between the relevant central agencies and provincial administrations.

- **Prioritisation of internal revenue:**

More internal revenue needs to go to funding goods and services in the priority sectors of education, health, transport infrastructure and primary production. **This applies particularly to higher-funded provinces.**

Strategies for service re-growth

- **Costing policy changes:**

Can we build upon current practises and cost the impact of proposed policy changes? We need to anticipate the cost that new policy may have and identify where the increased recurrent budgets are to come from.

- **Parallel systems:**

Donors can assist provinces and all those that play a role in the delivery of services by working through the provincial financial management systems and not creating alternate systems (such as trust accounts).

- **District Data:**

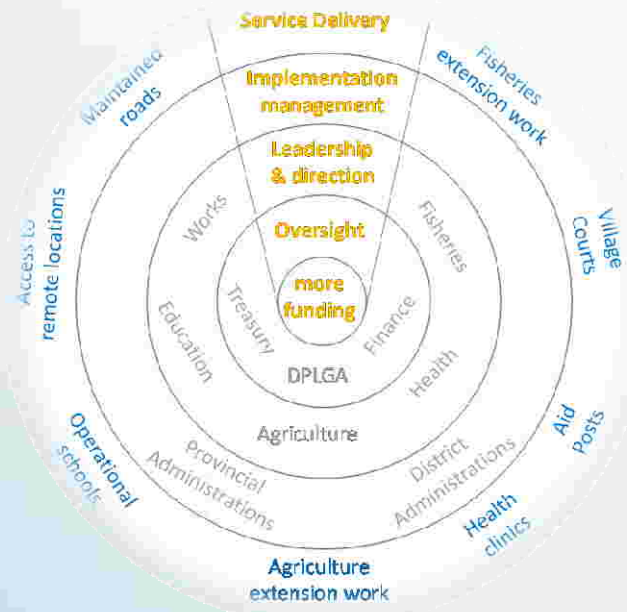
We need to design and implement a robust and pragmatic form of data transfer between districts, provinces and the national level that enables district expenditure to be reported more easily, more regularly and more reliably.

IN CLOSING

2012 will be a challenging year. The elections have the potential to distract our focus from our objective of seeing service-delivery improve year-by-year. We all need to retain our focus and maintain the momentum as we support the re-generation of core services.

Thank you

**The NEFC 2005-2010
Provincial Expenditure Review**



Step Two.... The Ripple Effect