Assessing the intergovernmental financing reforms

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Outline

- Fiscal decentralisation overview
- Earlier systems and reforms
- Problems encountered
- The 2009 reforms
- Potential impacts of the 2009 reforms
- Where next?
Decentralisation

- Systems of 1 or more levels of lower governments that tax and spend
- About political, financial and other relations between levels of government
- Economic analysis of decentralisation about reaping efficiencies
- Real world decentralisation: politics, politics, politics!
- No positive impact for economic growth poverty reduction
1977 to 1995 system

- Demands from Bougainville for more autonomy
- Deconcentrated centrally administered service delivery units of national agencies
- Bosses of bureaucrats and teachers in Waigani
- 19 Provinces had relatively low level of autonomy and responsibility
- Problems in funding system
1996 to 2008 system

1996 big bang instant reform:

- 300+ LLGs created
- Provinces and LLGs given much bigger role in core service delivery
- National govt pays bureaucrats but Provinces manage them
- Provinces ultimately accountable to Waigani and National Parliament
Problems well documented by NEFC and other work...

- Implementation problems
- Finances messy, some rich, most poor
- Size of key financial transfers set too high
- Deterioration in service delivery occurred
  - Weak conditions and enforcement about transfers
- Monitoring, evaluation, accountability weaknesses
- 2004 mini-reform
The 2009 reforms key features

- Service delivery transfers increased and protected

- Transfers to put regions in similar financial position to deliver services.
  - Stronger link between funding and function

- New service delivery grants
  - Stronger conditions, monitoring and enforcement arrangements

- GST sharing on pure derivation

- 5 year phase-in period with compensation for “losers”
Key challenges for new system

- How to get lower governments to spend on national priorities?

- In a unitary state....
  - ...National Government should tell lower governments what to do with transfers (and how)

- Early days of the system vital to set patterns of behaviour...
  - National Government needs to bark and bite!

- Changing the politics

- Donors – be careful to avoid distortions!
3 key things that also need to be fixed

- Capital and infrastructure transfers poorly targeted
- Staffing and teachers’ transfers should not be open-ended
- NCD – why so special? Bring them into the province system….give them less cash or more responsibilities.
Can the reform fail?

- Yes: if no improvement in public services in 10 years
- Yes: if lower governments do not spend more on core services
- Yes: if the quality and reach of services has not increased
- Yes: if the politics around accountabilities and scrutiny are not well-managed

Solution: more centralisation? More private provision of social services?
Discussion