Moving to fiscal self-reliance in Bougainville

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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).
Per Capita Income by Province in Papua New Guinea (1983)

Source: Australian International Development Assistance, 1993
"The Papua New Guinea economy prospects for sectoral development & broad based growth", Canberra
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

Average age = 25
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

[Diagram showing the comparison of cocoa production between Bougainville and ENB from 1978 to 2006. The x-axis represents the years (1978 to 2006), and the y-axis represents the tonnes (Thousands). Two lines are plotted: one for Bougainville and another for East New Britain, illustrating the production trends over the years.]
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>
<thead>
<tr>
<th>TABLE 1</th>
<th>ARB</th>
<th>PNG</th>
<th>Fiji</th>
<th>Solomon Is</th>
<th>Vanuatu</th>
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<tbody>
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<td>Basic facts (figures for 2016)</td>
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<tr>
<td>Land Area (sq. km)</td>
<td>8,990</td>
<td>452,860</td>
<td>18,270</td>
<td>27,990</td>
<td>12,190</td>
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<td>Population (thousands)</td>
<td>≈300</td>
<td>8,084</td>
<td>899</td>
<td>599</td>
<td>270</td>
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<td>Population ages 0-14 (% of total)</td>
<td>&gt;34</td>
<td>37</td>
<td>29</td>
<td>39</td>
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<td>Urban population (% of total)</td>
<td>..</td>
<td>13</td>
<td>54</td>
<td>23</td>
<td>26</td>
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<td>GDP per capita, PPP (US$)</td>
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<td>2,761</td>
<td>8,800</td>
<td>2,129</td>
<td>3,047</td>
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<td>Social indicators (2015, latest available)</td>
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<td>Life expectancy at birth, total (years)</td>
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<td>63</td>
<td>70</td>
<td>68</td>
<td>72</td>
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<td>Maternal mortality ratio (modelled estimate, per 100,000 live births)</td>
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<td>215</td>
<td>30</td>
<td>114</td>
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<td>Mortality rate, under-5 (per 1,000 live births)</td>
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<td>45</td>
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<td>23</td>
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<td>Literacy rate, adult total (% of people ages 15 and above)</td>
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<td>63</td>
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<td>Recurrent Government Expenditure (2016)</td>
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<td>Total (% of GDP)</td>
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<td>27</td>
<td>37</td>
<td>43</td>
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<td>Education (% of total expenditure)</td>
<td>34</td>
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<td>Health (% of total)</td>
<td>1</td>
<td>9</td>
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<td>14</td>
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<td>Police/Law and Order (% of total)</td>
<td>6</td>
<td>7</td>
<td>4</td>
<td>3</td>
<td>8</td>
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<td>Revenues and Taxes</td>
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<td>Net ODA received (% of GNI; 2014)</td>
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<td>3.5</td>
<td>2.2</td>
<td>18.1</td>
<td>12.3</td>
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<td>Revenue (% of GDP; 2016)</td>
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<td>23</td>
<td>32</td>
<td>43</td>
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<td>Direct and indirect taxes in total Revenue (%; 2016)</td>
<td>7</td>
<td>79</td>
<td>86</td>
<td>81</td>
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<td>Direct and indirect taxes in Recurrent Expenditure (%; 2016)</td>
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<td>68</td>
<td>78</td>
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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.