Revenue, tax and economic development in Bougainville: Achieving fiscal self reliance (FSR)

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Injections
- Investment
- Government spending
- Exports

Withdrawals
- Savings
- Imports
- Taxation

Every Kina taken out in tax cannot be invested by business

Every Kina taken out in tax needs to be spent effectively by Government to result in injection (additionality)
Sources of revenue can differ by jurisdiction— but not for achieving FSR

**SAUDI ARABIA SOURCES OF REVENUE 2016***

- Very low tax rates but high levels of compliance
- High levels of equity in profitable business (ARAMCO, SABIC, Ma’aden)
- Less diversified revenue base, high levels of vulnerability

**PNG SOURCES OF REVENUE 2016**

- Relatively high tax rates but low levels of compliance
- Equity in resource sector projects and SoE
- More diversified revenue base and lower vulnerability, but still vulnerable

* Kingdom of Saudi Arabia, 2017 Budget, Ministry of Finance
** GoPNG, 2017 National Budget, Volume 1, Economic and Development Policies
There are three sets of determinants of major tax sources in Bougainville

- **Levels of sales of formal businesses**
  - Costs of formal businesses
  - Corporation tax receipts

- **Number of formal jobs**
  + **Salary / income levels**
  = **Income tax receipts**

- **Value added in formal economy**
  = **GST receipts**

The valid policy debate we hear:

*Increasing compliance with tax administration*

The valid policy debate we hear less of:

*Job and income creation, firm profits, value added*
The Bougainvillean economy: Current state

- Small open economy which is export orientated
- Vulnerable to exogenous shocks
- Largely informal economy
- Previously productive assets remain unproductive
- Large numbers of economically inactive
- Low levels of private investment and innovation

For FSR to be achieved we must work hard to increase value added, company profits and job creation while also working on compliance issues.
The Bougainvillean economy: Short term prospects to 2020

- The volume of exports will grow and slowly diversify
- Prices of exported commodities will remain stable*
- Compliance will remain a challenge in the absence of reform
- Ongoing challenges in bringing unproductive assets into production will remain
- There will be a small increase in the number economically active
- Private investment and innovation will remain low due to a challenging investment climate

For FSR to be achieved we must work hard to increase value added, company profits and job creation while also working on compliance issues

The Bougainvillean economy: Long term prospects to 2030
Assuming the investment climate improves significantly.....

- Increased private investment and diversification of the economy
- Jobs created in manufacturing and tourism
- The economy is export driven with Bougainville’s products accessing increasingly higher value markets

Assuming the investment climate does not improve.....

- Large levels of informality and low levels of investment
- Economy remains vulnerable with low levels of productivity
- Low numbers of formal private sector jobs

For FSR to be achieved we must work hard to increase value added, company profits and job creation while also working on compliance issues
Looking at some examples of how to influence the determinants…

• The investment climate is risky and costly
• So many constraints, but…
  Property rights are insecure (plantations, BCL)

• Blackouts increase company costs and reduce profits
• Blackouts inhibit investment

• Tax administration and rates influence investment
• We need reform to improve our investment climate (compliance) and to achieve FSR

• Export orientated opportunity
• Increase the number of B’villeans that are economically active in export value chains

• How to increase value added??
• Inward investment is low but can access new markets and bring new technology

• Highly paid jobs will contribute to income tax revenue
• Investment & innovation in manufacturing/services/mining for higher paid jobs
The other sources of revenue to the ABG that do not contribute to FSR

<table>
<thead>
<tr>
<th>Fees</th>
<th>Licenses &amp; permits</th>
<th>Equity</th>
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<tbody>
<tr>
<td>• To assist with funding specific services: health, education, toll roads etc.</td>
<td>• License fees should usually be set to cover cost of administration and deliver regulatory outcomes</td>
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<td>• Rates of fees not determined to make a ‘profit’</td>
<td>• Can sometimes be used as a barrier to entry/reduce number of actors</td>
<td>• Can address public good problem</td>
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<td>• Can crowd out private sector activity</td>
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<td>• Can Government perform functions better than the private sector- are there alternatives?</td>
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<td>• Rate of return and pay back period</td>
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Creating a fiscal environment and investment climate that is suitable for our context and aspirations...