

CHAPTER 5

FINANCE AND PLANNING

The financial aspects of decentralisation are as important as the distribution of powers and functions. The arrangements made for raising, managing and spending money are central to the entire process. Unless appropriate financial arrangements can be made, there is little point in giving provincial governments law- or policy-making powers, significant functions or even control over staff – and little prospect that the decentralised system of government can begin to meet the expectations that led to the decision to decentralise.

Working Papers 5.1 to 5.4 provide detailed analyses of alternative sources of revenue which might be available to provincial governments and Area Councils. They allow for careful distinctions to be drawn between the power to determine whether certain taxes or charges should be imposed; deciding what the rates should be; collecting the money; and allocating expenditure. It is possible, for example, for Area Councils to have the power to decide whether to collect basic rate (a head tax); for the national government to set a maximum rate; for provincial government staff to collect the money; and for Area Councils to decide how it should be spent (perhaps calling on provincial governments or the national government for assistance when it comes to procuring supplies and obtaining the assistance of skilled staff). It is also possible for the various elements outlined to be combined in other ways.

On the one hand, there is no point in making the financial arrangements for provincial governments unnecessarily complex. But, on the other hand, there is value in making the distinctions suggested where they happen to be useful.

The working papers on possible sources of revenue were prepared with the assistance of briefing-papers and other advice provided by officers of the Ministries of Finance and Home Affairs. Useful suggestions as to possible revenue sources which had not been tried in Solomon Islands and on other aspects of local/provincial government finance were also gleaned from studies of other countries, including Papua New Guinea 1974c and Marshall 1969.

As has been previously suggested, decisions about the distribution of powers, functions and staff need to take account of likely sources of revenue for provincial governments. So do decisions about political structure. And decisions about likely revenue sources need to take account of the others, so that the recurrent costs of the decentralised system can be met, and development can still take place.

The likely recurrent costs of provincial governments include the costs of transferred functions, including staff and physical plant, as well as the salaries and/or allowances of Provincial Assembly and executive members, and holders of any other newly created offices, such as political secretaries. In Solomon Islands, the Ministries of Finance and Home Affairs provided detailed estimates of those costs. They also prepared detailed breakdowns of the sums which might be raised in individual provinces by way of customs and excise duties, taxes, licence fees and other charges (in some cases, the actual or potential return from contentious government charges was surprisingly low, their purpose being not so much to produce revenue as to enforce certain standards, for example, through motor vehicle driving licences, or to establish the principle that users of certain government services, such as hospitals, should contribute towards their costs).

In a relatively small economy as heavily dependent on foreign aid as the economy of Solomon Islands, the government's domestic and foreign policies are closely interrelated. Provincial governments rely on grants from the national government for most of their expenditures, and capital funds, in part-

icular, come mainly from foreign aid. The national government, in turn, relies on provincial governments to maintain a reputation with aid donors as a responsible recipient of their funds.

Like other national governments, the Solomon Islands government insists that foreign aid is handled through direct national-government-to-national-government relations. It tries to ensure that national sovereignty is not weakened and national priorities are not undermined by direct dealing between subnational bodies and foreign governments. For their part, the governments of most donor countries prefer to deal with the national government of Solomon Islands and to hold it responsible for the way in which aid funds are spent.

However, strict financial control and accountability to foreign aid donors by the national government do not sit easily with decentralisation. Provincial governments need to be able to exercise discretion in allocating and managing funds if the entire programme of decentralisation is not to founder – particularly in determining priorities for development, but also in moving funds between projects and programmes as circumstances change. But if funds are tightly ‘tied’ to projects which only the national government can propose and for which aid donors insist the national government must be formally responsible, then provincial governments cannot easily exercise the discretion that they need.

There is a number of at least partial solutions to the dilemma outlined, including a proposal by the Solomon Islands Ministry of Finance to try to persuade aid donors to put ‘untied’ money into certain development funds (Solomon Islands 1979b: 47), and a mechanism set up in Papua New Guinea which allows provincial governments to propose projects for inclusion in a national list of priority projects which are put up to aid donors or funded by the national government itself – the National Public Expenditure Plan (Papua New Guinea 1976). Ultimately, it may be possible to persuade aid donors to ‘untie’ increasing proportions of their aid because of the financial probity and political responsibility of the recipient government. But, whatever the eventual outcome, the link between decentralisation and aid policy seems clear. So, too, does the link between decentralisation and foreign investment, especially when national and provincial priorities for development come into conflict. The Special Committee on Provincial Government, therefore, met at length to exchange ideas before independence with officials who were about to assume responsibility for the conduct of the country’s foreign affairs.

In its *Report*, the Special Committee made some general recommendations about aid policy and administration (Solomon Islands 1979b: 51). It also said that the national government should –

- keep . . . [provincial governments] informed of aid donors’ policies;
- encourage aid donors to visit projects in rural areas and have discussions with provincial governments;
- consult . . . [provincial governments] fully . . . before proposing aid projects which might affect them ... ,

and specifically that the national government should –

- let provincial governments set the priorities for aid projects in their areas;
- inform them of any comments or appraisals;
- explain if they are altered or rejected; and

- not use money given for a project in a province for other purposes (*ibid.*: 51).

When it came to foreign investment, the Committee seemed to recognise that the national government should have the final power to determine policy, but recommended that it should consult provincial governments about national forestry, mining and fisheries projects, and that provincial governments should have the power to prevent such projects, re-settlement schemes or other natural resource projects in their areas. It also recommended that the agreement of traditional owners of land or fishing rights in areas affected by such projects should be secured before the projects are allowed to go ahead (*ibid.*: 36-37, 74).

In Papua New Guinea, most foreign aid takes the form of ‘untied’ general budgetary assistance. In Solomon Islands, most foreign aid is ‘tied’ to projects. As a result, the links between the government’s decentralisation programme and aid policy are much clearer in the latter country. So is the degree to which the effectiveness of the decentralisation programme might become hostage to foreign governments – at least until Solomon Islands becomes economically more self-reliant, or the country’s relations with aid donors are changed.

An important issue which tends to arise when consideration is being given to sources of revenue for provincial governments and to the distribution of revenue between them is the relative weight which should be given to –

- reducing inequalities between provinces;
- maintaining the existing level of services; and
- ‘rewarding’ those provinces which contribute most towards the national revenue.

The Special Committee on Provincial Government tried to take the three criteria listed – as well as others – into account in its discussion of financial arrangements for provincial governments.

Debate on the proposed formula for allocating grants of national government funds to provincial governments was particularly trenchant, with strong opposition being expressed, even by members from the most populous provinces, to the idea of allocating money according to size of population, and strong pleas from other members for compensation to be paid to provinces undergoing ‘over-development’. But, when it came time to finalise its recommendations, the Committee declined to assign relative weights to the various criteria it wanted to have included in the formula, and even to define how some of them – for example, ‘lack of development’, ‘disturbance and stress caused by development’ – might be made operational (*ibid.*: 49-50).

When considering the expenditure side of the financial arrangements, the most important factor is how much control the national government wishes to have over the way in which provincial governments spend their money. There are three basic alternatives. The most extreme form of financial decentralisation is to allocate funds to provincial governments on an unconditional basis, so that provincial governments have complete control over the way in which they spend their money, without having to refer anything to the national government. A less radical move is to allow provincial governments to prepare their own budgets but to require them to submit their budgets to the national government for approval. The third alternative, which cannot really be called decentralisation at all, is to retain all financial control in the hands of sectoral ministries at the national level. There are, of course, various compromises which might be made between these three basic alternatives: it is possible, for example, to decentralise control over capital expenditure but not over recurrent expenditure, or to decentralise

control over some parts of recurrent expenditure but not others.

Working Paper 5.5 deals with aspects of control over expenditure, including accounting, audit and budgetary control – matters which can have crucial consequences for the continued operation of particular provincial governments (or the need to suspend or dissolve them – see Working Paper 7.1), and for the national government’s ability to attract foreign aid, let alone to persuade aid donors to ‘untie’ it.

Under the *Plan of Operations*, provincial governments were given power to prepare their own budgets, though public servants continued to be paid from Honiara. Council/provincial government estimates had to be submitted to the Minister for Home Affairs for his approval. When the Special Committee discussed budgetary procedure, it recommended that provincial governments should be given ‘the final power’ to approve their own estimates of revenue and expenditure. Because of the issue’s critical importance to the entire structure of national-provincial government relations, it was discussed not only in the context of the present chapter but, later, in the context of Working Paper 7.1.

Control over financial expenditure is very closely related to planning, since in most countries a major tool of development planning is the budget. It is, therefore, important to ensure that the national government retains financial control over activities which it wishes to plan at the national level. Equally important is the need to ensure that, if significant financial powers are decentralised, provincial governments have the capacity to plan and budget effectively. Thus, even though the working papers in this chapter do not devote a great deal of attention directly to planning, the two subjects should be considered together.

‘Planning can mean many things’, as the Special Committee recognised,

from the scheduling of ships to writing up requests for foreign aid (Solomon Islands 1979b: 77).

It seems almost inevitable that national ministries/departments, statutory bodies and subnational levels of government should, to some extent, become involved in planning – with selecting objectives and identifying possible means to achieve them (Leys 1969: 260) – each on its own account and, where there is a central planning body, as in Solomon Islands, as part of the process of preparing a comprehensive economic, or even wider, national plan. In a Background Paper prepared for the Special Committee on Provincial Government (Number 33, which is not reprinted in this volume), the Central Planning Office in Solomon Islands described its functions as –

- (a) drafting of national development plans, under the direction of the Council of Ministers
- (b) monitoring and review of national development plans.
- (c) project planning, identification, preparation, appraisal and monitoring in collaboration with Ministries and Local Councils.
- (e) manpower planning at national level.
- (f) provision of background information, special studies and research related to these fields.

Planning tends to be particularly important in developing countries as a means of obtaining foreign aid. But aid donors are often critical of administrative and political decentralisation, especially the latter. They tend to see both types of decentralisation as being unduly expensive in scarce, skilled manpower, and the latter, in particular, as adding unnecessary complications to the preparation, monitoring and implementation of plans (they tend to welcome geographical decentralisation as 'rural development' – Asian Development Bank 1979: 138-140, 381, 383).

Participation in the preparation of a national plan by provincial governments can be critical to their ability to meet popular needs and demands. And the successful operation of the decentralised system can be crucial to the unity of the nation-state. The involvement of elected members of provincial assemblies in preparation of a national plan may help to legitimate the plan. It may help to appease critics of the *status quo* by showing them that desired changes have been scheduled. And it may have an important educative effect on both those critics as well as opponents of planning by demonstrating that large-scale projects or major policy-shifts can often come about only if resources are marshalled – by planning – over time. Thus, the relationship between planning and decentralisation can be both delicate and complicated, deserving of rather closer examination than it has generally received.

The complex involvement in planning of diverse types of government at all levels made it difficult for the Special Committee to fit 'planning' neatly into the A, B and C Lists discussed in Chapter 3. It finally included 'preparation of provincial plans' in Lists A and C (provincial final powers and functions, respectively) and 'planning' in List B (national final powers requiring consultation with provincial governments), and devoted part of a chapter dealing with substantive issues – land, shipping, planning and internal migration – to the relationship between the national and provincial governments in the preparation of national plans (Solomon Islands 1979b: Chapter 7). In that chapter, the Committee recognised the central role that the national government plays in the preparation of a national plan, but recommended that the procedures for consulting provincial governments should be changed, or at least formalised, by requiring the national government to consult provincial governments, and in particular to –

- ask provincial governments about their ideas for the general objectives . . . before they are drawn up;
- circulate a list of general objectives to provincial governments for comment, before they are finalised;
- ask provincial governments to propose projects for inclusion . . . before the list is drawn up; and
- circulate a list of projects to provincial governments for comments, before the list is finalised (*ibid.*: 78).

It remains to be seen whether the formal procedures for consultation recommended by the Special Committee will lead to changes from the kinds of priorities included in the *National Development Plan 1975-1979* (Solomon Islands 1975), or whether they will serve to legitimate existing policies.

Finally, it should be observed, that the problems of devising means for subnational governments to become involved in the preparation of national plans and of dealing with conflict between national and provincial plans are likely to be less acute in countries with a national ideology or greater internal unity than Papua New Guinea or Solomon Islands displayed shortly before, at, and for some time after, independence. The problem of obtaining adequate, skilled staff to prepare provincial plans or proposals for inclusion in national plans seems to be widespread among developing countries: it may

be met by asking donors to simplify, or at least standardise, the documentation they require; by re-organising work done by the national government and posting planners to individual provinces, or allowing them to be shared among groups of provinces (Solomon Islands 1979b: 67); and, ultimately, by training and recruiting more staff with appropriate skills.

WORKING PAPER 5.1

SOURCES OF REVENUE

1. There are several different sources from which provincial governments might obtain revenue. They are described below.

A. FOREIGN AID

2. Foreign aid is likely to be an important source of revenue for provincial governments, both for recurrent expenditure and capital projects.

3. However, there is no national government which does not seek to regulate relations between aid donors and subnational bodies – and many national governments are constitutionally required to do so. Such regulation makes co-ordinated planning possible; it may save money and allow larger proposals which help several provinces to be put forward; and it may help protect the integrity and sovereignty of the nation. Moreover most aid donors prefer to deal with a single national government rather than a number of subnational bodies.

4. It is, therefore, necessary to consider:

- (i) whether provincial governments should be able to arrange to have their proposals included in the list of projects/programmes put up to aid donors – and if so, how;
- (ii) whether the national government should have to consult with, or seek the consent of, provincial governments before putting certain kinds of projects/programmes up to aid donors – and if so, how;
- (iii) whether the national government should make recommendations concerning the kinds of activities for which aid should be sought (for example, activities which foster rural development, equalisation of development, distribution of money-earning opportunities, etc.) – and if so, what they should be; and
- (iv) whether the national government should make recommendations concerning the kinds of aid policies which would be most useful in making provincial governments effective (for example, an aid policy which tried to ‘untie’ aid as to procurement, to move away from project aid, etc.) – and if so, what they should be.

5. It is important to consider the implications which decisions made in relation to the first two points, in particular, have for economic planning.

B. GRANTS FROM THE NATIONAL GOVERNMENT

6. Grants may be either *tied* (to varying degrees) or *untied*.

7. Members might like to bear in mind that grants may be tied because –

- (i) they relate to functions which are national responsibilities for which there are national policies;

- (ii) they consist of money from aid which is tied; *or*
- (iii) they consist of money which has been lent on certain conditions.

8. As long as the national government has revenue sources of its own (whether foreign aid, loans, taxes, fees, licences or investments), it can give tied or untied grants to provinces on its own accord, and independently of whatever arrangements are made for the distribution of funds to which provincial governments are by law entitled.

C. CONTROL OF CERTAIN TAXES

9. Provincial governments may be entitled –

- (i) to a certain percentage of specified taxes;
- (ii) to set certain taxes (perhaps within national limits) which are collected by the national government;
- (iii) to set and collect their own taxes;
- (iv) to set and have Area Councils collect certain taxes.

D. GRANTS BY AREA COUNCILS

10. Area Councils may give grants to provincial governments, depending on the distribution of revenue-raising powers.

E. LOANS

11. Loans may be:

- (i) made directly from the national government; *or*
- (ii) made from others through the national government; *or*
- (iii) made (perhaps subject to certain conditions) from banks and other lending bodies; *or*
- (iv) raised (perhaps subject to certain conditions) by public subscription.

F. FEES AND LICENCES

12. Provincial governments may be allowed to:

- (i) collect fees for services provided;
- (ii) issue licences to conduct certain activities.

G. INVESTMENTS

13. Investments may be:

- (i) directly owned by provincial governments; *or*
- (ii) joint ventures involving foreign investors and/or local businessmen; *or*
- (iii) joint ventures involving some form of direct public ownership.

WORKING PAPER 5.2

DISTRIBUTION OF MAJOR REVENUE AND REVENUE SOURCES

1. In considering the following options, it should be noted that it is not necessary to choose only one. Various combinations of the options are possible. Some combinations may make the total system of distributing revenue to provincial governments more flexible, while others may make it more complicated to administer and to understand.

A NATIONAL GOVERNMENT REVENUES

2. National government revenues (foreign aid, taxes, fees, charges, loan funds, etc.) might be distributed to provincial governments in a number of different ways:

Option (i): As grants from the national budget made in accordance with the constitution (which provides that only Ministers can introduce bills which deal with money into Parliaments, and that the government can raise taxes and spend money only if the National Parliament approves (Solomon Islands 1978a: section 60))

Advantages

- political responsibility for allocations clear
- allocations must be approved by Parliament which contains representatives from all over the country
- national priorities are followed
- may ensure fair distribution within provinces if grants are tied

Disadvantages

- no guarantees for provincial governments (may make planning by them hard)
- weakens provincial autonomy and responsibility
- majority may ignore some provinces' needs/priorities
- may preserve/increase inequalities between provinces

N.B. Provision could be made for grants to be distributed only after –

- negotiations between the national and provincial governments;
- recommendations by a special body made up of national and provincial government nominees (politicians and others) and/or independent experts.

Option (ii): According to a formula (which might take into account such things as area, population, where money raised, maintenance of services, compensation for certain disadvantages, equalisation, national welfare, etc. – see para. 5 below)

Advantages

- provincial governments sure of allocations (so can plan)
- not subject to political bargaining

- original agreement cannot be broken (unless there is provision for review)

Disadvantages

- allocations not made by elected leaders
- not flexible
- may be distorted over time – for example, if minerals found in one area or forests destroyed in another

Option (iii): By allocation from a special fund (perhaps consisting of the proceeds of specified taxes) set aside for provincial governments

Advantages

- total allocation to provinces predictable
- clear division between national and provincial funds

Disadvantages

- no guarantees for individual provincial governments (so planning hard)
- not as much autonomy for individual provincial governments.

3. If grants are allocated from a special fund, this could be done in several ways:

Option (i): After negotiations between provincial (and the national?) governments

Advantages

- allows provincial governments to be involved in allocating money between provinces
- allows provincial governments to see each other's problems

Disadvantages

- majority may ignore some provinces/needs/priorities
- may lead to/increase tensions between provinces

Option (ii): By an independent body (which might be given terms of reference including some of the things outlined in para. 2, Option (ii) above)

Advantages

- may reduce political tensions
- likely to stick to terms of reference and so think of such things as equalising development instead of political bargaining

Disadvantages

- some taxes not efficiently collected at provincial level
- competition between provincial governments may advantage investors

Option (iii): According to a formula

Advantages and Disadvantages

- see para. 2, Option (ii) above.

B. PROVINCIAL TAXING POWERS

Provincial governments might be given control over certain tax revenues in the following ways:

Option (i): By being given a certain percentage (perhaps all) of certain taxes

Advantages

- division between national and provincial governments clear
- allocations fairly predictable (so can plan)
- provincial governments do not use resources on collection

Disadvantages

- may favour well-endowed provinces over poorer
- changes in export prices, successful discovery of new minerals or forest disaster may distort distribution between provinces
- provincial governments do not decide whether to set taxes or how much they should be (so cannot use them to encourage new investment/development), do not collect money directly

Option (ii): By having the power to set certain taxes (perhaps within national limits)

Advantages

- provincial governments receive money without using resources on collection
- provincial governments can decide whether to have certain taxes and if so whether to set them to encourage new investment/development

Disadvantages

- may lead to competition between provincial governments - to advantage of investors?
- provincial governments do not directly control money

Option (iii): By having the power to set certain taxes (perhaps within national limits) and to collect them

Advantages

- provincial governments control money
- provincial governments can predict incomes
- provincial governments can use taxes to encourage/discourage certain kinds of investment/development

Disadvantages

- some taxes not efficiently collected at provincial level
- competition between provincial governments may advantage investors.

5. If a formula is used for the distribution of funds or guidelines are set for a special body set up to distribute them, then one or more of the following might be taken into account –

- (a) population or population density;
- (b) area;
- (c) where money raised;
- (d) cost of maintaining existing services;
- (e) compensation for –
 - remoteness,
 - lack of development,
 - disturbance to area,
 - loss of land,
 - depletion of resources,
 - environmental damage;
- (f) equalisation of development;
- (g) national welfare.

6. If the Committee believes that there should be grants to provincial governments from a special fund consisting of the proceeds of specified taxes *and/or* that provincial governments should be given control over certain taxes, then it will be necessary to decide:

- (i) which taxes should go into the special pool;
- (ii) which taxes should be under provincial government control in respect of –
 - money raised; and/or
 - level of taxation set; and/or
 - collection;
- (iii) whether certain taxes might be set and/or collected by Area Councils and the money raised be given to provincial governments.

The next paper (Working Paper 5.3) lists some common forms of taxation and considers the advantages and disadvantages of giving provincial governments some control over each.

WORKING PAPER 5.3

ALTERNATIVE FORMS OF TAXATION

1. The major forms of taxation in use in Solomon Islands are as follows:

(i) IMPORT DUTIES

Advantages

- taxes consumers/users of imports
- can be restricted to luxury items
- may help local industry

Disadvantages

- collected at point of entry into country, not province – so hard to assign on provincial basis
- requires skilled, watchful staff
- inequitable if levied on widely used or necessary goods

(ii) EXPORT DUTIES

Advantages

- can be used to help regulate production
- taxes those who gain directly from exports/production
- easier to collect from rural producers than income tax (because harder to hide, no deductions)

Disadvantages

- collected at point of leaving country, not province – so hard to assign on provincial basis
- requires skilled, watchful staff
- inequitable with regard to large and small producers of exports
- may discourage production for export

(iii) INCOME, COMPANY, SPECIAL PROFIT, WITHHOLDING TAXES

Advantages

- tax profits, not effort
- high earners pay more

Disadvantages

- require skilled, watchful collectors
- hard to assign some incomes to particular provinces
- hard to levy on rural producers

- applies only to cash incomes, not other kinds of income (shell-money, fish or food exchange, etc.)

(iv) EXCISE DUTIES

Advantages

- tax production
- collected at factory-gate
- easier to collect than sales tax, but may have similar effect

Disadvantages

- require skilled, watchful collectors
- may be inequitable as tax each item of widely used/necessary goods equally
- may discourage production/consumption
- if levied by provinces would benefit provinces with factories more than others
- hard to divide among provinces on basis of consumption

(v) BASIC RATE (A HEAD TAX)

Advantages

- simple to calculate
- relatively simple to collect
- usually already decentralised

Disadvantages

- discriminates against poorer people
- unpopular with people
- easiest to collect at lowest level (for example, Area Councils)

(vi) LAND RATES

Advantages

- may encourage productive use
- may take more from owners of best sites
- could be applied to all registered land

Disadvantages

- requires skilled staff
- taxes ownership, not income
- hard to levy outside towns

(vii) ROYALTIES ON RESOURCE DEVELOPMENT

Advantages

- usually compensate owners
- tax production/use of hard/impossible to replace resources

Disadvantages

- benefits people/areas with resources
- requires skilled, watchful people to collect.

N.B. Special trust funds may be set up to provide for the future in provinces which earn income from non-renewable natural resources.

2. There are many other forms of taxation which could be introduced in Solomon Islands and given to provincial governments. These taxes may already be in use in other countries. They include:

(i) VALUE ADDED TAX (V.A.T.)

Advantages

- taxes each transaction (not just production/import/export/sales/income)

Disadvantages

- requires skilled, watchful staff to administer
- hard to administer in rural areas
- hard to assign revenue on provincial basis
- may inhibit commerce
- may be passed on to consumer

(ii) SALES TAX (may be levied on only some items)

Advantages

- taxes consumer
- easier to administer than V.A.T.

Disadvantages

- requires skilled, watchful staff
- often easier to collect as excise at factory-gates
- hard to collect in rural areas
- affects town dwellers more than villagers
- discriminates against poor in case of widely used/necessary goods

(iii) PRODUCE TAXES

Advantages

- affects those who earn money from production
- can be applied to rural products

Disadvantages

- requires skilled, watchful staff, especially in rural areas
- may inhibit production
- inequitable with regard to large and small producers

(iv) LAND TAXES – ON LAND IN USE

Advantages

- affect land users
- affect large landholders more than small

Disadvantages

- may inhibit production
- tax land use, not income/profit
- require skilled staff

(v) LAND TAXES – ON LAND NOT IN USE

Advantages

- may encourage productive land use
- may encourage redistribution to landless/hardworking

Disadvantages

- may be unfair on people with poor land
- may interfere with owners' rights
- require skilled staff
- fall most heavily on people with no/low incomes

(vi) PAYROLL TAX

Advantages

- easy to collect from employers
- same percentage on all pays

Disadvantages

- may lead to less employment
- discriminates against low wage earners

– affects only wage-earners, not other income-earners

(vii) OTHER TAXES, including –

- entertainment taxes
- petrol/other energy taxes
- house taxes
- tree (for example, productive palm or other) taxes
- animal taxes, etc.

WORKING PAPER 5.4

OTHER SOURCES OF REVENUE

1. This paper considers four other sources of revenue: loans, fees, licences and business activities.

A. LOANS

2. Should provincial governments be allowed to borrow money?

Advantages

- can set up projects too large for annual budget or with which national government will/can not help
- useful for projects which will earn money to help repayments

Disadvantages

- may become indebted and use public's money for repayments
- helps lenders from public revenues.

3. If provincial governments are allowed to borrow money, they could do so in a number of ways:

Option (i): Through or from the national government

Advantages

- terms may be better because of national guarantee
- check debt on major public loans

Disadvantages

- limits provincial autonomy
- richer provinces may be able to negotiate better deals

Option (ii): In conjunction with other provincial governments

Advantages

- terms may be better because provincial governments borrow together
- check debt on total provincial loans

Disadvantages

- national government guarantee may still be necessary
- national government approval necessary for international transfers
- national government may get better terms

Option (iii): On their own

Advantages

- ensures provincial autonomy
- each provincial government can try for best deal

Disadvantages

- may still need national guarantee
- failure by one provincial government to meet repayments may affect others
- provincial governments may lack expertise to get best deal

Option (iv): From a special loan fund into which provincial governments might (be compelled to?) place their surpluses and which might be subsidised by the national government

Advantages

- provincial governments' surpluses put to use
- provincial governments help each other
- terms might be better than from banks

Disadvantages

- fund might not be large enough
- careful provincial governments might end up having to help less careful
- might take business from banks.

4. If Option (ii), (iii) or (iv) in para. 3 is chosen, the Committee might like to consider whether there should be restrictions on –

- (i) the purposes for which loans can be raised (for example, revenue-producing activities); and/or
- (ii) the length of time over which loans can be repaid; and/or
- (iii) the terms (interest rates, etc.) on which loans can be made; and/or
- (iv) the bodies from which loans can be sought (the people, by subscription, banks within the country, a special loan fund, etc.)

5. The Committee might like to consider whether it wants to recommend what the restrictions should be *or* whether they should be set by the national government *or* whether they should be set after negotiation between the national and provincial governments (perhaps after a meeting of Premiers or other provincial government representatives).

B. FEES, CHARGES FOR SERVICES PROVIDED

1. Provincial governments might be given the power to –
 - set and receive, or

- receive (subject to national guidelines),

fees and charges for –

- hire of equipment;
- use of buildings;
- services such as electricity, water, garbage collection, septic disposal;
- medical/hospital services;
- educational services;
- courts;
- registration of births, deaths, marriages, other legal transactions;
- airfield/wharf maintenance;
- shipping/other transportation/vehicle hire;
- extension services

Advantages

- user pays
- services produce revenue to assist maintenance

Disadvantages

- might discourage use
- poor and needy might be denied services if fees/charges too high.

C. LICENCES

7. Provincial governments might be given the power –

- to receive revenue from certain licences;
- to set and receive certain licence fees;
- to set, receive and collect certain licence fees;
- to decide whether certain activities should be licensed at all;
- to determine the conditions and/or numbers of certain licences.

8. Some licences are issued to ensure that certain minimum standards of public safety (for example, drivers' licences), security (for example, gun licences) or health (for example, medical practitioners' licences) are kept, or to help keep economic order by regulating competition (for example, certain business licences). Other licences seem to be designed mainly to raise revenue (for example, store licences).

9. The Committee might like to examine whether provincial governments should be given control over some or all of the following licences, and if so what kind of control –

- arms;
- business;
- professional;
- motor vehicle driving/registration;

- store;
- mobile traders’;
- other.

10. The Committee might also like to consider –

- whether certain licence fees should be offset against income tax;
- whether there should be national controls to ensure that licence fees imposed by provincial governments do not prevent collection of national taxes.

D. BUSINESS ACTIVITIES

11. The Committee might like to consider whether provincial governments should have the power to become involved in business:

Advantages

- benefits go to provincial governments, not individuals
- better able to collect capital than individuals

Disadvantages

- might restrict business opportunities for others
- losses affect more people.

12. If they do have the power to engage in business, provincial governments could do so in a number of ways:

Option (i): Operate business directly

Advantages

- no new institutions
- little disruption to administration
- can move staff around
- nature of business clear

Disadvantages

- business and government might become confused
- business losses might affect whole provincial government
- duties/responsibilities of staff might be less clear
- business and government priorities might conflict

Option (ii): Set up and control their own companies

Advantages

- profits and losses might be clearer
- business and government activities less confused

- business losses do not affect government so directly

Disadvantages

- new institution
- perhaps more staff
- senior staff and directors/politicians might conflict

Option (iii): Put money into joint ventures with local businessmen or overseas firms

Advantages

- allows local equity when foreign capital/skills needed
- business criteria likely to come first
- provincial government can be more detached when taxing, etc.

Disadvantages

- not all benefits go to provincial governments
- business may come before welfare/service criteria
- less control by provincial government

Option (iv): Become involved in business through a statutory body which holds equity in businesses on behalf of the state (for example, the Government Shareholding Agency)

Advantages

- benefits from national government advice/help
- together, the provinces, can have larger say in nation-wide businesses
- can still benefit from business without business criteria coming first

Disadvantages

- provincial government less autonomous
- control shared with national/other provincial governments
- might be less business-like.

13. The Committee might also like to consider whether –

- there should be national government controls over provincial government business activities –
 - to protect against losses;
 - to prevent corruption;
 - to regulate competition/encourage co-operation between provincial governments' business activities;
 - to safeguard the total 'mix' of public/private enterprise in part or whole of the national economy
- provincial governments should be able/encouraged/required to make provision for individuals or groups to purchase shares in wholly-owned companies and/or joint ventures.

WORKING PAPER 5.5

ACCOUNTING, AUDIT AND BUDGETARY CONTROL

A. ACCOUNTING

1. Provincial government accounts could be kept in two ways:

Option (i): Provincial governments keep their own accounts

Advantages

- money accounted for on spot
- problems spotted more easily

Disadvantages

- manpower may be less skilled
- covering up errors/corruption easier

Option (ii): National government keeps all/part of provincial accounts

Advantages

- manpower likely to be more skilled
- economies of scale

Disadvantages

- less autonomy
- 'red tape', delay
- problems not spotted as easily.

2. Similar alternatives exist in relation to the accounts of Area Councils, which could be kept by the Councils themselves or by provincial governments. The advantages and disadvantages are the same as for the options in para. 1 above.

3. Members might like to also consider:

- whether accounting procedures should be simplified;
- whether to recommend that the same system of accounting be used at national and provincial levels, in order to make training/transfers of staff easier.

B. AUDIT

4. At present, provincial government accounts in Solomon Islands are subject to audit by the Auditor-General (Solomon Islands 1978a: section 108(3)). The Committee may like to –

- consider whether they should recommend that this be changed;

- wish to make recommendations concerning the availability of auditing staff and/or the nature of government audits in Solomon Islands.

C. BUDGETARY CONTROL

5. The Committee might also like to consider:

- (a) whether it should recommend procedures to be followed by provincial governments in approving their budgets;
- (b) what should happen if a provincial government's budget is not passed before the financial year begins or is not passed at all –
 - should the Premier/provincial executive lose office?
 - should there be provision for some expenditures to continue for at least a limited period (as in the national constitution - *ibid.*: 103-104)?
 - should the national government take over/dissolve the Provincial Assembly?