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**Speech**

**By Hon. Albert Punghau, ABG Minister for Finance**

**To the Opening Session,**

**PANGUNA NEGOTIATING FORUM MEETING**

**Buka, Autonomous Region of Bougainville, 5<sup>th</sup>-6<sup>th</sup> August 2014**

Good morning, olgeta memba blo Negotiation Forum. Mi hamamas tru lo lukim ol pes blo yupela lo dispela traipela important Forum blo yumi.

As Bougainville's Minister for Finance, I am responsible for our finances. I think, constantly, about the funds we need to meet our people's needs. I dream about having the huge levels of funds we need to meet those needs. For I'm aware of the great extent of those needs, of the complaints sometimes made about the ABG's failure to meet them. And I have to agree that we are not doing enough.

But as Minister for Finance, I also think, constantly, of the main reasons why we cannot meet all major needs. And that is lack of the necessary revenue.

Yes – we all want the highest possible autonomy as soon as possible. Yes – most of us want to achieve independence when the referendum is held.

But the reality is that without much more revenue, we can't reach highest autonomy or independence. We cannot meet the increasing needs of our people.

The ABG is not like a PNG provincial government. We deal with a completely different set of needs, because:

1. We are together building Bougainville up from the ashes of a terrible war, which destroyed and damaged lives, destroyed services and infrastructure, and severely damaged the capacity of our public service;
2. Through the war and the following peace process, we have achieved our unique autonomy status, giving us wide authority to deal with our unique problems and needs - but at the same time to make autonomy work requires far more capacity than any provincial government needs;
3. We have the right to make policies and laws on most things needed to meet our people's needs, but although we are making progress we have a long way to go;
4. We have the right to a referendum on independence, but in setting the date, and in getting International Community support, we need to show we adhere to good governance and are dealing with weapons, and to do that we have to greatly improve law and order.

These are just some of the challenges we face which put great pressure on the ABG to deliver services and improve our people's situation. To meet these challenges, we need significant and sustainable revenues.

When the Bougainville Peace Agreement was negotiated, the Bougainville negotiating team included several of us here today, including President Momis. I too was there. We all remember that we then recognised the importance of Bougainville achieving 'fiscal self-reliance'. We wrote that into the Agreement.

We did that because we recognised that Bougainville doesn't simply own independence. Instead, we must work hard to earn the right to independence. We have to develop and demonstrate the capacity to be independence. Fiscal self-reliance is the most important measure of our capacity.

We cannot simply sit back and say *ameai*, or *omeo*, or *omihe*, or *ama* – give me, give me, give me. In our Bougainville cultures it's seen as an insult to be asking to be given everything. You can seek help from others, but only if you help yourself.

Just so that we are all clear, what the Agreement says is that we will reach 'fiscal self-reliance' when the revenue collected by the National Government in Bougainville from company tax, customs duties and GST is sustainably greater than the amount of the main annual grant that the ABG receives from the National Government. That is the Recurrent Grant. It meets the costs of the main activities of, and services provided by, the ABG. In 2014, the amount of the Recurrent Grant under the PNG budget is almost K93 million.

The Peace Agreement says that when the ABG achieves ‘fiscal self-reliance’, then we must negotiate the share that the National Government will receive of revenue collected in Bougainville from company tax etc.

We always knew that the only way that the amounts collected in Bougainville from company tax, customs duties and GST would ever be higher than the Recurrent Grant would be if the Bougainville economy expanded dramatically.

We don’t have exact figures on the amount of company tax etc. currently being collected in Bougainville. But we do know it’s only a few million kina - almost certainly less than K10 million a year. Our progress to fiscal self-reliance is not too good when compared to a Recurrent Grant amount of K93 million.

In fact the picture is a bit more complex than that, because the ABG does actually receive directly some other sources of tax revenues collected in Bougainville.

First, there’s the ABG’s internal revenue – that’s the tax money we collect from liquor licensing, sales tax, motor vehicle licences and so on. Total tax collected in Bougainville is about K25 million in 2014 – about K10 million from company tax etc, K10 million from ABG internal revenue, and about K5 million in personal income tax.

But our budget expenditure this year is estimated at K312 million. And yet know that level of budget expenditure is far too low to meet the real needs of Bougainvilleans.

If there’s only K25 million in Bougainville derived tax revenues, where does the rest of the money come from? In 2014, a total of K268 million of our K312 million budget comes from National Government grants. We also get K12 million in donor funds.

It’s very clear, then, that we are still a very long way from achieving our much talked about, and very important, goal of fiscal self-reliance. Our combined tax contribution is about one 12<sup>th</sup> – less than 10 per cent – of what the ABG is spending in 2014.

But what will happen when we move to independence after the referendum (for I believe most Bougainvilleans will support independence in the referendum)? At that point, the National Government will have every right to stop giving any grants to Bougainville. If we were independent this year, we’d lose the K268 million in grants from the National Government.

We clearly face the very real need to be financially independent from the National Government by the time we reach independence.

How are we doing right now, as we approach the beginning of the five year window within which the referendum must be held? We have not yet made that rapid progress towards a much expanded Bougainville economy that we need to achieve fiscal self-reliance. Instead, we remain almost completely dependent on National Government grants.

So the big question I have for all of us here is: How can we move quickly to expand our economy?

Let's look at agriculture. Our main agricultural industry is cocoa. Since the conflict ended, much has been done to increase small-holder cocoa production. But annual sales are generally K200 million or less – and certainly less since cocoa pod borer has taken hold. A 10 per cent or 20 per cent cocoa export tax would give us a bit more internal revenue, but nowhere near enough to replace PNG grants. And such a tax would take much needed income away from our ordinary citizens. It would probably also cause a black market in cocoa exports. Would that be helpful?

It's clear that agriculture is important to our economy. But it's not going to be the key source of government revenue unless there is long-term and significant investment in the industry.

Another important economic activity is small-scale gold production. The ABG supports that industry. We are part of a partnership doing research on small scale gold in Bougainville. We estimate that there could be K75 or K80 million in gold income going to Bougainvilleans this year. But again, a 10 per cent or 20 per cent export tax would face similar problems as with a cocoa export tax.

If cocoa and small-scale gold are our major economic activities at present, what else is there that can bring us massive economic development and associated ABG revenues in the time frames we are looking at?

When the Peace Agreement was being negotiated, many of the Bougainville leaders thought large-scale mining might never happen again. Joseph Kabui, for example, used to say the future economy should be based on eco-tourism.

But from when the ABG was established in 2005 Kabui changed his mind. When he understood the heavy reliance of the ABG on the National Government and on donors, he decided large-scale mining was necessary. Most ABG political have reached the same conclusion.

It's not a matter of any of us having any special love for mining and its impacts. We Bougainvilleans know the problems that mining can cause.

But we also know that mining can be done differently from what happened under an unjust colonial agreement signed in 1967.

And that is what brings us all here today. It's the search for agreement amongst us, on behalf of all Bougainvilleans, of the conditions for allowing mining to happen that will ensure a fair return to landowners of the mine lease areas, as well as to all Bougainvilleans.

I am enthusiastic and happy to be here with you as we take this historic step together on the search for a new and fair mining agreement that contributes significantly to the ability of future Bougainville governments to meet the needs of all Bougainvilleans.

Thank you all for your attention.