COMMENTARY ON THE 2008 BUDGET

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Your excellencies, Chamber President, ladies and gentlemen, thank you once again for giving me the opportunity to address you on the 2008 Budget, together with Lutz Heim from Deloittes.

Much of the community in PNG changes channels or skips articles covering the Budget, viewing it as something "bilong ol bigman", irrelevant or simply incomprehensible. Even in Parliament there is little debate and the Government generally seeks to rush it through and move on.

This year the Budget has been given an attractive chocolate box cover, and its theme is "Empowering the People of Papua New Guinea". One shouldn't judge a book by its cover, and hopefully, if Government is committed to empowerment, they would want the public to open that cover, understand and debate its contents, and oversee its implementation.

The Government seems to use the term empowerment to entail promising enough goods and benefits, in the form of roads and services, to enable the community to enjoy better economic and social opportunities. But for these opportunities to be secured requires that the wider community (including NGOs, CSOs and private sector) are also empowered to embrace and oversee the budget process itself.

For years we've seen weightier and better presented budget documents. In contrast the public sees the machinery of government generally weaken and, despite, the rosier economic reports over recent years there seems to be no tangible improvement for the lives of most of the population, notably those away from the bright lights of the towns and boom industries. Many have heard about this boom and that the government is flush in funds, and can't understand why the benefits aren't filtering out.

Well, there has of course been a major empowering revolution happening of late; not provided by Government, but the private sector dramatically extending mobile coverage into rural areas and slashing prices. The Government's role here is not spending money, but ensuring a competitive and reliable business environment to attract domestic and international capital. Farmers and fishermen can now find markets even before coming to town or back to shore, and its revolutionising communication around the country, and in future revolutionising other activities like rural banking etc. This is what empowerment is all about, enhancing awareness, including over the contents of the budget, and letting the community track down wayward MPs, councillors or public servant and demand accountability.

PNG, like Ethiopia in Africa, has tried to protect its state-owned commercial monopolies, and it's not surprising they both have had amongst the worst growth rates (till recently) and lowest social indicators in their own regions. Increased mobile telephone services, according to the Budget, have contributed 0.7% percentage points to GDP growth in 2007. Imagine the economic stimulus and empowerment to the community (including business) if, or rather when, other state monopolies are opened up to fair competition, or at least public-private partnerships, enabling more reliable and affordable air services, power and extending internet access right out to currently deprived district schools and health centres. I say 'when', as with the mobile revolution the public have tasted what others around the world have long known, and it will be harder to deny access to reasonable utilities and services in future, to continue to protect moribund public enterprises; they will have to shape up or ship out.

Real empowerment requires demystifying the budget and other government processes, so that the wider public knows what's in there and particularly how it affects them at the local level, and for the community to help oversee it's proper implementation.

Greater public participation in the whole budget planning and oversight process is critical, as well as seriously addressing the constraints to effective implementation. What's the point in preparing a detailed spending Budget document, if we know there's little prospect of implementing much of it, or worse, that funds will be systematically or arbitrarily abused, whether by public servants, politicians or through bogus invoices or untendered contracts. Most of the problems have been highlighted, whether by the Public Accounts Committee, Auditor General, Ombudsman Commission, various commissions of Inquiry or reviews of the duplicative responsibilities or tiers of government. We know, for example, that the district planning and administrative capacity is inadequate and widely abused, so this requires concerted attention, and simply throwing more money, for example at Districts, isn't the solution, when they can't properly manage and account for what they have already.

Volume 1 of the Budget gives some emphasis to improving governance, including at the district level through the DSIP, as well as providing conditions for a more competitive and dynamic private sector. Many within government are highly aware of the needs, but there is no evidence that Government is yet ready to replace or make the highly abused current district planning and management system (with its JDP&BPCs) effective and accountable. With a major increase in funds at the district level and in multiple trust funds, there is no increase in funding, let alone commensurate increase, for the official independent watchdogs (including the Auditor General or Ombudsman Commission). A major public awareness and independent community oversight process will need to be launched, and taken out to the local level, like the "Citizen's Report Card" described recently by Pooja Parvati, from an Indian organisation, which concentrates on "opening up the budget process" to hold their elected and unelected officials accountable.

We base our economic analysis and forecasts on data which is widely deficient. In all areas of planning we use data on population, workforce, production, inflation using underlying statistics which are sometimes carefully collected by individual departments but are normally years out of date, inaccurate or mere guesstimates. Figures get widely banded about, but are based often merely on someone's hunch. We need to take the issue of accurate data, whether the composition, as well as monitoring of the consumer price index, population and social statistics or trade, income and economic statistics seriously, whether compiled by NSO, other agencies or the private sector. As elsewhere in the public sector, the issue entails a combination of suitable management and public accountability, as well as adequate resources.

So what's in the 2008 Budget? Once again this year we've had more than one budget. There have been eight budgets in the last 5 years, with the Supplementary Budgets, like the recent one in October, appropriating the un-forecast increased revenue resulting from unexpectedly high mineral prices and related tax receipts. Of the K3.8 billion appropriated in these successive Supplementary budgets, 23% has been spent, as of October, 35% put into Trust Accounts and 42%, or K1.6 billion, yet to be released. Rather than a further Supplementary Budget, the 2008 Budget has allocated an additional K1.7 billion from the additional mineral revenue for deemed once off priority projects and debt reduction, including K 1 billion for infrastructure through the Trust Fund mechanism. There is, therefore, a major accumulation and circulation of funds administered under different parallel mechanism, and to be spent over different time periods. This is certainly highly confusing and requires a major commitment to oversight. Contrary to earlier expectations, however, the K4 million per district in the October Supplementary does not have to be spent before Christmas, any more than the additional K 6 million per District under the DSIP in the 2008 Budget!

The 2008 Budget is again projected at K7.2 billion, as now estimated for 2007, including the Supplementary appropriations. It's a K9 billion Budget, as reported in the press, when you include the turnover of (largely) domestic borrowing and repayments, notably government securities (TBills and the like). The estimated Budget surplus of K321 million (or 1.7% of GDP) for 2007 enabled this amount to go to reducing overall debt. A K200 million, or 1% surplus is forecast for 2008.

As the Government's key single major annual policy and legislative instrument, the Budget serves multiple functions. It's the government's vehicle for planning and managing the public funds entrusted to it; as with any business, planning and managing its income and expenditure and the timing of its cash flow. It's also the vehicle through which government policies are reflected, through the level of funding for different public goods and services, or taxes or subsidies on different groups or activities. It's also one of the Government's principal mechanisms for determining wider economic activity, through fiscal management influencing the level of demand and consumer or investor behaviour through the level of taxation, including excise duties.

On the face of it the 2007 Budget, continues the sequence of responsible money plans which prevailed under the former Government, and should provide continued confidence to the private sector and the wider community. In Volume 1 the Treasury provides sound analysis of the policy options in the face of continued buoyant prices for PNG's major mineral export commodities but limited implementation capacity, and provides a sound rationale for the strategies selected.

Treasury recognises that PNG's current improved economic and business conditions are the result of strong commodity prices, combined with reforms launched largely early this decade (including those related to competition being pursued now by ICCC) and several years of relatively stable fiscal, monetary and political conditions. Treasury appreciates that the current strong demand and prices for many commodities (such as copper) are unlikely to be sustained, and that many of the current spate of major resource projects (including Ok Tedi and Kutubu oil) are in late maturity. The Budget uses price forecasts, which on today's prices will seem very conservative, (such as US$ 61.90/barrel for oil) but considering the considerable volatility experienced and the budgetary risks from over-estimating this is wise.

The Budget requires a fine balancing act. The need for restoration, overdue maintenance and upgrading of priority infrastructure and various failing services is recognised, particularly in the provinces which NEFC has highlighted as receiving totally inadequate funding for basic infrastructure and services. This requires major investment and increased recurrent provision for needed goods and services. Donors took over the provision of many basic services, including many school materials and medicines from the late 1990s. This should be core routine expenditure, but major investment is required to get back to where should have been, and then sustain it. There is a requirement, therefore, to invest the "windfall" revenue from the commodity boom wisely to achieve the greatest positive long term impact.

The Budget recognises the risks, notably inflation from overheating the economy, price falls and volatility and disasters, such as in Oro now, to which PNG is prone and likely to experience more often with climate change. With the major increase of kina circulating through the economy pursuing limited local supplies, and the growth in money supply of over 35% for each of the past two years, an inflationary impact is inevitable. It is apparent in the sky-rocketing urban real estate market, but also in the price of many basic staples. Although the year on year average records a mere 1.8% inflation rate, kicking in with a forecast 5.2% for 2008, this inadequately reflects the underlying trend in the 2007, when the kina also depreciated against most trading partners other than Australia. Lower mobile prices helped reduce inflation in 2007, but some (seasonal) lower fresh produce prices and lower-priced Asian goods helped restrain the official figure. The composition of the CPI needs analysis and possible update. In any case the release of a major portion of windfall revenues on local markets, on top of increased household incomes would contribute to pushing up inflation substantially, with all its economic and social repercussions.

The Budget also recognises the limited implementation capacity within the public sector. Capacity was stronger in the past, but the politicisation of the public sector, lack of management and accountability, corruption, years of inadequate funding for operations and only paying salaries, and the introduction but delayed application of a flawed system of decentralisation, have left the machinery incapable of implementing substantially increased tasks. This has been seen only too clearly by the incapacity of Waigani even to release approved funds over the past year for urgent pest and disease measures in cocoa and coffee, designed to safeguard the future of these important industries.

Finally, Treasury recognises the critical role of the private sector, not only in driving growth and the economy, but also competitively providing some of the goods and services hitherto the responsibility of the public sector, or at least demonstrating some more effective mechanisms for delivery or partnership.

The strategy adopted for addressing these conflicting demands is generally sound. This balancing act entails continuing the arrangement commenced in 2006 of placing 'windfall' funds in Trust Funds, to be drawn down over several years, as plans and implementation capacity develop, rather pushing them through Departments' annual expenditure. It seeks to encourage sustainability of the Budget (when windfall revenues have declined) by "investing" in reducing PNG's foreign and domestic debt levels. It seeks to minimise inflationary effects through extended Trust Funds, rather than immediate expenditure, and by removing funds from the economy particularly through foreign debt repayment and incidentally by the purchase of some goods and services from overseas. The Treasury argues a good case for a 60:40 split between priority investment and debt reduction of the windfall. They also remain committed to the priorities of the Medium Term Development Strategy and more closely aligning expenditure with that, whilst also sustaining sound fiscal restraints, notably under the a new phase of Medium Term Fiscal Strategy, which includes determining a sustainable level of mineral revenue (the 4% of GDP rule) which can be used for recurrent and development budgets, and a revised debt strategy, leading to the IMF's 25% GDP 'sustainable' target, as the 40% level in the last strategy has already been achieved. There are also some practical measures for improving implementation capacity and accountability with Trust Fund, including District funds, notably through building up capacity through the District Treasury Roll-out program and the use of agency audit committees.

But here the rhetoric and sound analysis from Treasury start to diverge from the reality in the final balances and choices made. Only 21% of the allocations from the K1.7 billion of "additional mineral revenue" for 2008 are provided for debt reduction (both for foreign and domestic debt and liability to superannuation funds). Many of the projects to which funds are allocated from this cannot be deemed priority or sustainable, some indulgencies for consultancies or unnecessary consumption, such as K20 million for Central City on top of K30 in the October Supplementary, K20 million for ICT policy, K40 million for a new Government aircraft, K15 million for a Madang marine park, or in some cases if priorities could be private sector funded. With K50 million towards the Konebada petroleum park and a further K100 million, bringing the total State contribution in gas development to K600 million, is this the best use of public funds? The Government has raised expenditure for office rentals for 2008 to week over K100 million, largely in Moresby, when there's nothing significantly wrong with the large Central Government Offices. Very nice for those who rent premises!

There is totally inadequate commitment to improving systems, capacity building and oversight in this Budget. The Public Accounts Committee and other watchdogs have highlighted the extensive and massive abuse of public funds from nearly all agencies. Existing recurrent and development funds could go much further, even before providing significant increases. Government should be rewarding those that do perform and produce tangible outcomes, consistent with agreed plans. Even with District Treasuries fundamental reform to District planning, implementation and oversight is required to make funds allocated to Districts usefully contribute to sustainable local development across the country, rather than the largesse of MPs and cronies. There is no point in pumping funds into programs or projects where governance is known to be lacking.

I’ll now quickly go through some of the details of the 2008 Budget.

Principal Economic Indicators

Slide 1(skip)

Other Economic indicators	**2002 actual**	**2003 actual**	**2004 actual**	**2005 actual**	**2006 actual**	**2007 Proj**	**2008 Proj**	
headline inflation (ave on ave %)	11.8	14.7	2.1	1.7	2.3	1.8	5.2	
Exchange rate								
Real Effective Exch rate (REER) Kina:AUD	70.8	79.3	95.6	97.2	97.8	100	104.2	
Interest Rate : Tbills %	13.3	18.3	9	4.5	5	5	6	
Foreign Exch Reserves (k mill)	1,376.5	1,742.7	2,072.3	2,367.9	4,344.7	5,438.2		(Proj 2007)
Broad money supply (M3) (K mill)	3569.2	3410.5	3914.8	5069.3	7040.2			
M3 % change	7.3	-4.4	14.8	29.5	38.9	35.1		(2007 to June)
Public Debt total (K mill)	8,365.3	7,924.0	7,590.7	7,259.8	6,732.1	6,472.5	6,270.1	(est 2007, proj 20
debt % of GDP	71.8	63.1	60	47.6	39.5	34.9	31.8	(est 2007, proj 200
domestic debt (k mill)	2,588.3	3,022.9	3,181.2	3,403.8	3,101.0	3,135.1	3,211.8	(est 2007, proj 200
foreign debt (k mill)	5,777.0	4,901.1	4,409.5	3,856.0	3,631.1	3,337.3	3,058.2	(est 2007, proj 200
For Debt as % of Total	69.1	61.9	58.1	53.1	53.9	51.6	48.8	(est 2007, proj 200
Debt servicing cost (K mill)	436.4	739.6	377.0	332.8	307.0	372.9	373.5	(est 2007, proj 200

Slide 3:

Real Growth in 2007 is estimated to have reached 6.2%, and forecast in the Budget as rising to 6.6% in 2008 (using fairly conservative mineral/oil prices). Growth has been positive since 2003 and exceeding or equal to estimated population growth since 2004. This looks good by PNG standards, but it’s only what much of the rest of the developing world has been achieving for several years, and needs to be sustained if PNG is to start catching up and extend development opportunities right out into rural areas. However, you’ll see the forecasts show the growth tailing off badly over the next few years, back to population growth rates (i.e. achieving no real per capital growth). So the priority is to diversify the economy to be able achieve genuine sustainable growth.

Slide 4 (difficult to make out)

An increase in the growth rate has embraced all sectors over the past year, especially construction, whilst the high oil prices have temporarily checked the decline caused by the exhaustion of the current oil fields and prior to any LNG development.

Slide 5 & 6:

Shows the overall Gross Domestic Product (GDP) at current rates, and the contribution of some of the different sectors, still dominated by agriculture/forestry/fisheries. The graph also shows the real GDP in relation to 2002. Slide 6 shows the percentage contribution of each sector, according to NSO data and Treasury's forecast for 2008.

Slide 7

Commodity Prices: this graph shows the strong upward movement in the export prices since 1999 for the our major mineral and hydrocarbon exports, which has driven the recent export-led boom and growth in revenue, plus the rise in <u>reported</u> export prices for logs since. Driven by major the increased raw material demand from East and South Asia, plus supply fears from Iraq and "peak oil", such prices are volatile, and the Budget forecasts steady oil and gold prices (albeit at well below their current levels), but a substantial decline for copper. Demand for manufactured products substantially comes from the US and Europe, so any significant or extended US recession (over sub-prime lending) will have repercussions on entire markets, including for raw materials in China and India.

Slide 8:

Agricultural Prices have largely been much steadier compared with minerals, although even here there have been recent winners, with rubber prices, long at rock bottom driven up by 4 ½ times from 1999, pushed by increased vehicle ownership in China/India. Coffee has also been stronger over the past three years. Greater volatility has occurred in alternative crops such as spices.

Slide 9 & 10:

Export Values have been dominated by copper's leap, with the one mine (Ok Tedi) providing an estimated 35% (or over K 5 billion) of total exports earning for 2007. This shows how precarious our current boom is, dependent upon this one mine and the Fly river. Gold was 28% of export value, crude oil 21%, and the whole of agriculture (excluding forestry and fisheries) a barely 10%, forestry exports recorded at 5% and marine products less than 1% (though this excludes the income from licensed vessels, which largely never export their PNG caught tuna from PNG ports).

Slide 11

Export Quantities: This slide shows the quantities exported and the major challenge posed. It shows steady increases in copper and log exports. These are both essentially finite resources, at least unless harvested sustainably. Gold production has remained steady, whilst oil has been declining. Of the agricultural products only oil palm, run on a relatively orderly nuclear estate basis, has shown a steady production increase. The Government has announced major increased production targets. These targets and the country’s needed economic diversification will be totally unachievable unless key constraints are addressed, including law and order, infrastructure and communications, and macro economic factors, including restraint on exchange rates appreciation.

Slide 12 & 13:

Employment Trends: these graphs show the major employment growth in both the mineral and non-mineral sectors of the formal sector. All sector in the BPNG survey have shown marked growth over the past tow years, including the combined agriculture/forestry and fisheries sector. It should be noted, however, that most agricultural production, including exports (apart from oil palm, tea and rubber), is produced by the informal sector where export figures do not show any marked increases.

Slide 14 & 15:

Key Economic Indicators:

Inflation: low and steady since 2004, but rising worrying in 2007 (though barely showing in this average headline calculation) and the 2008 forecast.

Exchange Rate: the kina has appreciated to the US dollar, but deprecated 13% against the Aust $ and most other major trading partners and on a trade weighted index.

Interest Rates: interest rates have also remained low and steady since 2004, and despite the forecast increase in 2007 this has barely occurred owing to the substantial funds available and limited State borrowing requirements.

Debt to GDP: public debt has fallen from about 70% of GDP in 2003, with 70% comprising foreign debt, and forecast to be 34.9% at the end of 2007. This is a marked achievement and the composition has also improved. This reduction largely, however, reflects the growth in the economy. It remains a hefty K6.5 billion (only about K1.9 billion down from 2002), but now in roughly equal portions between foreign and domestic debt. This remains unsustainable and risky, and still requires an annual outlay of K370 million in interest payments, expected to rise again over the next few years as rates rise again. Reducing this annual debt more vigorously than the Government currently plans is crucial to sustainability of the Budget, including reducing foreign exchange risk. That would entail negotiation with international lenders to avoid costly penalty clauses from premature repayment.

Foreign Exchange Reserves: this have risen from K1.4 billion in 2002, or 5 months of total import coverage to over K5.5 billion in 2007 or 8.5 months total cover. This is a satisfactory situation, except that PNG’s commodity prices and trade can be so volatile.

Money Supply (M3): this shows the substantial and inflationary growth in the “broad” money supply.

Slide 16:

Revenue and Grants: this shows the more than doubling of revenue and grants in current terms from 2002 to 2007 to K7.2 billion in 2007, with tax revenue rising about 2.5 times. With realistic commodity forecasts for 2008, and having secured major oil tax revenue in 2007, tax revenue is expected to decline slightly to K5.5 billion, with donor grants rising from K1 to K1.1 billion, notably from AusAID and EU.

Lower income tax collections are forecast, notably from the oil industry and personal incomes, made up from increased excise and GST from growing consumption. Whether this is realistic may be questionable.

Slide 17, 18 & 19:
Recurrent Expenditure: these three slides show the steady increase in funding of National Departments from K1.2 billion in 2003 to a planned K2.3 billion in 2008. In contrast Provincial Departments, which are responsible for major service functions, including teachers' salaries, and important health and education functional grants and provincial infrastructure, received a relatively modest increase from K656 million to a planned K724 million in 2008; less than twice the cost of debt servicing. No wonder core services and rural infrastructure is so deficient. This reflects highlights the finding of NEFC on the severely inadequate funding for basic services, especially in some provinces, in relation to the real costs of delivery.

Slides 18 & 19 show how relatively well endowed the National Departments are for goods and services, in relation to the Provincial Departments, where almost all funds are absorbed in personnel emoluments. This helps to highlight why the provinces are prone to abuse the needed functional grants for other purposes, to make up for overall shortfalls.

Much of the shortfall at the Provincial and District level is now intended to be provided through the K10 million allocation provided through Trust Funds under DSIP, including K6 million for 6 main purposes per district. For this to be effective, however, will require a rigorous commitment to capacity building, awareness building and oversight, including by the local community and private sector. Despite the District Treasury Roll-out program, this commitment to proper and coordinated planning and good governance is not yet apparent. Despite arguing the need for reform and prudent budgetary management, once again the Government has sidestepped major public sector reform, including the recommendations of the 'Right-Sizing Committee", designed to streamline Departments and Agencies. Whilst some revisions might be valid, being currently flush with funds the Government has sidestepped the awkward issue of reform. With a growing population there is a need to steadily increase largely recurrent expenditure on various services, such as education. The cost of general administration, both at the provincial and particularly National level needs to be trimmed, with duplication removed and some functions farmed out, to help ensure a more needs focused and affordable public sector.

Slide 20:
Recurrent and Development: this shows the relative size of the recurrent and development budgets, divided into the portion funded by the Government (including from concessional loans from the ADB and World Bank) and from donor grants. This slide also shows the windfall funding for 'Additional Investment and Priority Expenditure', which has been provided from recent Supplementary Budgets and the 2008 Budget through Trust Funds. Although such new AI and 'APE' is expected to diminish in 2009 and then cease, these Trust Funds are intended to be drawn upon over several years. Under the GPAL Structural adjustment programme early this decade, the Government was committed to removing the vast majority of the tens of thousands of known and

unknown trust funds. Now we have a spate of new ones. Commitments have been made to ensuring adequate mechanisms for their management. There are reports of abuse of some funds already prior to the 2007. It would be easy for wholesale abuse of these funds unless their use is closely and independently monitored for their full life.

The Treasury has determined that an additional K300 from mineral revenue is sustainable and added to the recurrent and development budgets. This includes

- K105 million for the big spending depts (such as education)
- K28 million for the National Agricultural Development Plan, to add to the K72 million already supposedly in Trust Funds. The non-release of any of these or other targeted funds for priority functions (including cocoa pod borer management) during 2008 is highly regrettable, though shows the incapacity in relevant central and implementation agencies
- K100 million - Education subsidy (towards school fees)
- K10 million - Start expanding educational services
- K10 million -Start improving hospitals

Additional investment and APE projects (to be managed through Trust Funds) are:

- K534 mill for **District Service Improvement Program (DSIP)** – comprising K6 mill per district, on top of the K4 mill in Oct Supplementary Budget
- K100 mill for **LNG** (on top of K500 mill already)
- K50 mill for **Konebada Petroleum Park**
- K195.9 mill for **National Infrastructure Development** – this would be used up immediately on a portion of Oro's road and bridge restoration alone.
- K50 mill **National Road maintenance**
- K40 mill for replacing, or upgrading, the **Government's aircraft**, Kumul – it would be the most appropriate gesture to use these funds for Oro disaster relief, or for hospital restoration (such as the dilapidated Angau hospital) or even for restoring the other Defence Casa, helicopters or barges so that Defence can provide more effective emergency capacity, and better support other community functions, including local engineering and fisheries protection.
- K 30 mill - **Rural Electrification,** a valuable function, complementing ADB and World Bank projects, and perhaps efforts by PNGSEL
- K30 mill- **Tertiary institutions** – which have been hopelessly inadequately funded to provide quality services
- K28 mill- **Land reform** – this is a priority for the private sector and community, starting with improved management of alienated land (including proper, transparent and accessible records)
- K27 mill - **Public housing** – certainly needed for individuals and households if more land is not made available for safe and affordable private developments
- K 25 mill **Maritime Boundaries** – overdue determination to cover PNG's EEZ and marine resource area.
- K 25 mill – **Lae roads** (a further K25 mill was provided for this in the October Suppl Budget, when K145 million was also provided for the Lae port. This complements ADB funding for this overdue major upgrade of the country's major

port, which is currently a major bottleneck for exports and imports, including domestic trans-shipments. There is also incidentally K37 million in the October Supplementary for Wewak port.)

- K20 mill- **ICT policy** – seems excessive just to prepare policy
- K 20 mill - **Central City** (on top of the K30 mill in the October Supplementary) **–** more roundabouts and consultants? We hear now that Central Province also wants to commit major funds to this initiative. Is this simply price, what value will it provide to the people of the province, let alone the country?
- K 20 mill- **Technical Schools maintenance** (this will utterly inadequate considering the rundown state of these critical institutions)
- K 76 mill **– others**

Treasury claims that:

- 55.5 % of total expenditure is being spent on MTDS priorities, and
- 82.7 of the development budget.

This may be true if one takes a flexible view of consistency! It's certainly true that with the years of inadequate funding for infrastructure and key service institutions, there's a big backlog, and everything seems urgent and priority, but many initiatives in the Budget and associated Supplementary clearly are markedly more indulgent, and should be dropped.

Slides 21 & 22:

Government Financing: this shows the overall level of revenue and expenditure from 2002 to the Treasury's projected level for 2008 and 2009, and the surplus and total deficit, including in slide 21 in relation to GDP. The recent surpluses have contributed to debt reduction.

Slide 23

Open Budget Initiative: This photograph taken last month at Parliament shows a presentation on opening up the budget process; empowering the community (including private sector) to take ownership and oversight of the budget process. This is part of a worldwide initiative, in which the INA has been participating, and has been a central feature of the CIMC consultative process for the past coupe of years, bringing together those in government, private sector and civil society. This photo shows Pooja Parvati from India giving a presentation on the process used there, including the use of the Citizen's Report Card.

All in all, I would say this is a reasonably responsible budget, but could be more so if some of the strategies recommended by Treasury (such as the 60:40 rule) were followed more carefully.

It entails a major management and tracking headache, with the multiple funding mechanism and timeframes, when capacity is very weak and the track record very poor in much of government.

Generally, the Budget is pro-business, if the principals (such as on free and fair competition) are actually followed.

There's been some debate whether the Budget is pro or anti agriculture. It is generally pro-agriculture if major programmes to resolve the sector's key constraints are implemented effectively, notably restoration of main and rural infrastructure, solid progress on law and order, steady macro-economic conditions (including non appreciating kina), and that funds for NADP are released promptly, especially for urgent issues, like attacking the respective pod borers.

But we make these commitments to diversification and addressing the backlog, but do we really put out money where our mouth is? We talk about diversification of the economy and rural opportunities and then pump K600 million into the proposed LNG operation, when it seems that's an area with no shortage of private capital from around the world (and our own superannuation funds etc.) .

These years when PNG is relatively flush, requires a very firm hand, to ensure that opportunities don't continue to be wasted, that we invest for the future (including substantially reducing that debt level and addressing waste and bad management in Government). Now's the time to push ahead with reform, not shy away.

Thank you.