**Prospects and Risks for PNG in a time of Global Economic Crisis and with major Prospective Resource Projects**

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A year is certainly a long time in politics, but it is also for markets and economies! This time last year the writing was on the wall, but few foresaw the extent of the collapse of global financial markets, which occurred last September, starting in the US, and triggering sharp declines in commodity prices in the last quarter of 2008 and the wider Global Economic Crisis.

During late 2007 and the first half of 2008 the world experienced a meteoric rise in commodity prices across the board, including minerals and agricultural products. This was fuelled by the rapid global growth in demand, especially from China supplying unrealistically inflated markets in the US, but combined also with a shortfall in global staple food supplies and perhaps also by some speculative activity in the oil market.

With an economy driven substantially by primary production, comprising both minerals and hydro-carbons, but also a range of agricultural products, from coffee to oil palm, as well as marine products and timber, PNG was clearly well placed to benefit from the boom in prices. Although consumers were badly affected by the higher food prices, particularly with the global shortage of staples, and many industries also suffered from the high fuel prices, nevertheless, despite the growing inflationary pressures which erupted in 2008, overall PNG (and its bigger neighbour Australia) were net beneficiaries from the high commodity prices. On balance, our neighbours in SE Asia and across the Pacific were gaining at best limited benefits, but in many cases, were net losers from the higher costs.

After years of relative economic stagnation, or boom and bust during the 1990s, 2008 saw the sixth year of positive growth in PNG, estimated at 6.6% (or 7.5% non-mining), achieved largely on the back of the initially burgeoning commodity prices and some increased production. The growth was also partially based upon some of the structural reforms achieved under the Morauta Government at the beginning of the decade, and some recent measures towards opening up markets, most notably with the introduction of competition in mobile telephony from mid-2007. More positive and stable macro-economic conditions and greater policy certainty also enhanced business prospects, whilst increased financial sector liquidity, including from government deposits with the commercial banking sector, have helped generate increased domestically driven investment, admittedly largely in urban real estate, driving growth in employment in all industries, notably in our towns, as well as those directly related to primary production.

The boom years, combined with some fiscal restraint, also strengthened the fiscal position, with lower debt, increased allocations for certain priority programmes and setting aside funds for other priorities (and other less priority activities) in Trust Funds. PNG has generally had a bad track record with trust funds, including long term stabilisation funds, such as the Mineral Resources Stabilisation Fund, which used to be drawn upon too readily to cover over-expenditure or for pet projects, somewhat defeating the purpose of the fund's existence. Nevertheless, aware that the good times of boom would invariably be followed by some counter-swing, though the extent of the drop wasn't predicted, the extraordinary or "windfall" revenue (above the normal trend) was wisely creamed off and set aside from the normal budget in the successive Supplementary Budgets between 2005 and 2008. These funds, which were deposited in Trust Funds held by the banks, were allocated to programmes and projects which were deemed outside the normal annual Budget, and could be expended over a longer term. Most notable amongst these is the District Support Improvement Program, which was allocated K10 million for each of the 89 Districts in 2008 and an additional K4 million for 2009 and beyond. It was recognised that capacity at the District level was inadequate and that implementation would be extended over perhaps a three year period. All in all 6.4 billion kina was appropriated in these successive Supplementary Budgets, with about 1.7 billion kina spent through the Budget and 4.4 billion kina appropriated into Trust Accounts, of which there remains a balance of 2.4 billion kina as of 31st May, according to the Dept of Finance.

The global financial crisis, which triggered the wider economic crisis has not hit PNG as badly as many economies. Initially there was a misguided perception amongst some political leaders that it would barely affect PNG at all, with a second Supplementary Budget approved for 2008, somewhat against Departmental advice, shortly before the 2009 was passed. This unrealistic optimism resulted in a K478.5 million Budget deficit finally being posted for the 2008, or 2.2% of GDP. The 2009 Budget, whilst recognising that lower commodity prices would hit revenue, notably from lower corporate taxes Ok Tedi (with copper and oil prices amongst the hardest hit), nevertheless still forecast a 6.2% GDP growth rate for the year, largely driven, rather ambitiously, by the non-mining sector, despite the clear fall also in some agricultural commodity prices. The heavier fall in overall commodity prices than forecast by Treasury and reduction in trade in late 2008/early 2009 required growth forecasts for 2009 to be downgraded. The World Bank initially forecast 3.9%, but now, following some recovery in prices and other factors, the Treasury has estimated a more positive 4.8% growth rate, still driven by the non-mining sector at 5.3%. Whilst remaining a substantial decline on both the 2008 growth rate and initial forecast for 2009, it remains a reasonable rate by PNG's historic standards and in relation to many of our neighbours during this period with the most severe and entrenched economic global recession since the Great Depression of the 1920s.

Why has the crisis hit PNG less severely than most developed countries and many of our neighbours? I say some of our neighbours, as some other Pacific countries have seen their economy riding out the economic storm relatively well, notably Vanuatu, which has freed up its economy to greater competition notably for airlines and tourism, and seen greater tourism numbers, luring back cost-conscious Australian tourists away from travelling further afield.

PNG has been fortunate in being partly immunised from the direct effects of the global financial and economic crisis, as: -

- some of its export earnings and revenue are gained from commodities which were less affected (gold, cocoa, coffee and to a lesser extent some other agricultural crops);

- commercial bank reserves were strong (partly with Public trust fund deposits from the Supplementary Budgets) and it remained relatively immune from the wider financial markets and hadn't developed complex secondary markets;
- several new mining projects (gold and nickel) were already being developed and were unlikely to halt (despite low nickel prices), whilst other largely urban projects were also ongoing partly driven by forecasted resource projects;
- PNG is well placed to meet an expected continued global and especially East Asian energy market growth (so long as deadlines can be met), so the PNG LNG project and possibly other LNG operations' prospects have continued to grow and shore up business confidence for other investments;
- As stated, the previous years had enabled significant "windfall revenue" to be built up capable of sustaining public expenditure during the downturn; though this needs to be utilised on genuine priority; and
- Perhaps negatively, much of PNG's domestic economy was relatively immune from global markets as it was never integrated anyway, remaining largely self-sufficient in subsistence production. However, the opening up of mobile telephony to competition has helped open up further business opportunities in the informal, as well as formal sector. If you like, the economy had been severely underperforming, significantly restrained by a range of impediments to business and investment. These impediments largely remain, but a few have started to be addressed, unleashing some potential activity.

1. Sustained Strong Commodity Prices

Firstly, in Papua New Guinea's case, some of the commodities which PNG produces have retained relatively strong global prices throughout, whilst others have shown significant recovery over recent months. In many ways the 2007-2008 leap in prices should be seen as the aberration, partly fuelled by the ballooning expenditure in the US and elsewhere, driven by unrealistic and unsustainable credit levels. The fall in some commodity prices in late 2008 brought prices back towards their former trend, although fortunately for PNG some, like gold, have remained strong and others have recovered further over recent months.

Gold, now PNG's major export by value, is considered a secure investment when currencies and other markets are volatile, so it has largely retained its already strong market price (*see chart* ). The other major export commodities, notably copper and oil, whilst still substantially below their peaks, have seen significant recovery over recent months, from their lows of early 2009 and are back to their longer term trend (*chart*).

Whilst the global staple food crisis has subsided for the moment (despite increasingly drought conditions in much of East Africa) some of the agricultural prices have remained reasonably firm throughout, in some cases recovering to the peak levels of 2008; after all, you still need your cup of coffee and some chocolate to cheer you up during a recession! (*charts*). PNG's agricultural crops worst affected, price-wise, have been those, like palm oil and coconut oil, which are now partly direct substitutes for mineral oil, but the longer term prospects for vegetable oil demand remain strong. Like crude oil, oil palm has made up some lost ground (*chart*). Rubber, whilst now a relatively minor crop for PNG overall, is locally very important (as in Western Provicne); demand for rubber is subject to multiple factors, requiring robust market demand, notably for tyres, but it is readily substituted by synthetic rubber when oil prices reach low levels.

Most agricultural crop prices at least remained above their levels of 2005 and 6, after the boom collapsed. There are critical levels below which farmers consider it no longer worthwhile committing their time and effort to producing crops, except to pay for basics, or causing farmers to withhold their produce until prices recover. Cocoa production continued its strong trend with continued good prices, enabling economic opportunities to be sustained, at least into those rural areas which are accessible; that is, at least until cocoa pod borer started really devastating production this year in the main growing province of East New Britain. This devastating crop pest will potentially hit and undermine production in the other main provinces, notably Bougainville, unless tough quarantine and improved management measures (and crop diversification measures) are applied instantly. This is a serious issue which must be addressed now! Other crops harder hit by the price declines, notably copra, have seen a major reduction in both output and value since late 2008. Coffee is expected to maintain its value and contribution to the rural economy in 2009, whilst oil palm production will continue its upward trend, but with a substantially lower value this year. It does, however, highlight the need for adequate investment in diversifying the economy, particularly the agricultural sector, and pursuing quality and value-adding , including pursuing specialty markets, where practical, and entering the fair trade market to cut intermediary margins and help ensure adequate and sustainable returns to producers.

Overall there was a 27.4% decline in the export earnings in the first quarter of 2009, owing to lower export prices and volumes. This has led to a current account deficit of K197 million in the first quarter, after several years with large trade and current account surpluses. It would have been more severe, except for an associated 13% drop in imports. This scenario is both less than might have been expected, and, whilst the deficit is liable to continue through 2009 and perhaps 2010, the recovering prices should reduce the deficit level, so long as domestic consumer demand doesn't grow unduly or fiscal restraint relaxed, resulting in significant increased imports.

In late 2008/early 2009 the country's strong foreign exchange reserves were also being drained rapidly, notably following the kina's perceived short-lived appreciation against most foreign currencies. This situation has subsequently stabilised with the weakening of the kina, which has also helped sustain the incentive to export and for import replacement. There has been substantial capital inflow, mostly for new mining ventures, including those here in Morobe Province. .

## 2. Financial Markets

Secondly, PNG's banks and other financial markets have remained well capitalised and robust, with little direct exposure to the global financial markets, or sophisticated secondary markets which have proven so lacking transparency or adequate internal or external oversight. So, PNG's domestic banks have not been embroiled with the sub-prime or other aspects of the international money market, which sucked in financiers from Europe to Japan. PNG's banks have been highly liquid for many years, having been risk averse, long earning easy and secure income from Treasury Bill, and only recently extending themselves into substantial lending, once the rates on government securities came well down, and then notably into the real estate market, but with very limited exposure to longer term, riskier development financing, including agriculture. The PNG financial institutions have also benefited from the major accumulation of funds from the Superannuation funds and particularly, in recent years from the State from windfall revenue deposited in Trust Funds.

In recent months, with capital tightening somewhat, some financial institutions are becoming more cautious over their level of exposure to real estate, in case of a correction in prices in what might prove an unduly buoyant urban property market. They may be reverting somewhat to acquiring T Bills. The other risk is if the State draws down these Trust funds unduly rapidly (particularly if this entails relatively unproductive expenditure). This would impact not only financial markets, but also impose inflationary pressure and prospectively undermine capacity to sustain longer term priority expenditure, particularly in the case of the global recession proving more intransigent and bringing its impact to bear more directly upon PNG markets into 2010.

In late 2008 and early 2009 global trade dropped dramatically. To provide an indication of the scale of this decline, there has been a 28% fall in exports from 44 of the major exporting nations combined over the period November 2008 to February 2009, whilst imports into the US for April were 34% lower than last year and exports down 27%. As indicated by the prices mentioned earlier, some products have been more resilient than others, with essentials, like food and clothing, and even some luxuries holding up better than costly capital items. Clearly there was some initial shedding of stocks and belt tightening. There was some concern, at least initially, over risks to global, including PNG's trade, through reluctance of banks (and some buyers) to provide or honour letters of credit during volatile commodity markets, on the basis that the produce may only be worth a fraction of the contract value once released on the final retail markets. Fears have, however, largely subsided as commodity prices have stabilised and largely started to appreciate, and as demand has started to recover over recent months, with stocks no doubt running low and consumer confidence showing signs of recovery.

## 3. Economic Reforms

Thirdly, whilst PNG has not launched robust structural market or administrative reforms to the extent of some of its Pacific neighbours, like Samoa or even Vanuatu, the reforms made at the beginning of the decade under the Morauta Government placed it in better stead, whilst the relative fiscal prudence and monetary, political and policy stability since 2002, combined with improved commodity prices, encouraged investment in mineral exploration and development and broader-based economic growth.

Reforms of importance at the start of this decade which set the stage included: -

- granting the Central Bank greater autonomy to manage monetary policy and oversee the financial sector, focusing upon constraining the then highly inflationary rate and contributing to lower interest and more stable exchange rates, when combined with later fiscal restraint.

- Addressing the problems of the superannuation funds, including granting them independence from government or vested manipulation and requiring more prudent portfolios, whilst placing their supervision under the Central Bank. The superannuation funds have been substantial contributors to the current level of domestic savings, investment and economic activity.
- The process of privatisation and greater economic liberalisation, which, although the former was short-lived, entailing the sale of PNGBC and equity in various oil palm companies, nevertheless the mechanisms, such as the establishment of ICCC, paved the way for subsequent increased private sector investment, competition (as with IT) and the latest buzz-word, namely Public-Private Partnerships.

Regrettably, apart from often ignored improvements in the procedures for senior managerial and Board appointments, other overdue reforms to the public sector machinery, notably any right-sizing exercise have been largely sidelined this decade, resulting in continued burgeoning public service expenditure, notably distorted to some institutions and Waigani, but with inadequate focusing upon priorities. Nevertheless, the period since 2002 has seen a number of critical fiscal measures, notably, the Medium Term Fiscal and Debt Strategies and 2006 *Fiscal Responsibility Act*, which together with the somewhat unspecific Medium Term Development Strategy, have provided needed fiscal restraint, accountability and expenditure focus, at a time of increasing revenue. This allowed both the restructure and reduction of Public Debt to 29% of GDP by the end of 2008 and increased expenditure on priorities in the Development Budget, hitherto exclusively funded by the donors (it's now nearer 50:50).

Whilst the Government has been reluctant to embrace whole-hearted economic reforms to free up markets or replace State-owned monopolies, the opening up of the mobile phone market to competition has provided both extended and more affordable services, boosted GDP, contributing to information access and broader economic opportunities, including in rural areas. It has also highlighted the benefits of competition and private investment in services, and contributed to pressuring the Government to further open up wider ICT and potentially other utilities and services to competition, or at least partnership arrangements.

Apart from law and order and corruption problems, the next major constraints to business and investment are poor infrastructure and key services, combined with excessive red tape, including maladministration of both alienated and some customary land. Some constructive, though faltering steps have been taken to address these latter issues, notably through the National Working Group on addressing Impediments to Business and Investment, and with recent amendment to land legislation and earlier modifications to conditions for mining investment, including exploration (although there have subsequently been too many exclusive arrangements, sometimes made outside the framework of respective legislation). The new Acting Chief Secretary, Manasupe Zurenuoc, incidentally made a commitment, last week, to restoring the National Working Group, which is an important mechanism. The National Strategic Plan, currently being devised under the auspices of the National Planning Committee, is also, incidentally, both highlighting a longer term vision, but also providing some practical strategies to enable PNG's economy to be more sustainably driven by a dynamic private sector (which very much includes smallholder producers and traders in the informal economy). We need to ensure one strategy, resulting from good consultation, and avoid multiple parallel, duplicative or even contradictory strategies. It's hard enough implementing effective one strategy, without having conflicting ones!

4. <u>New Resource Projects and Vibrant Domestic Economic Activity</u>

As stated, partly as a result of improved commodity prices and investment conditions for extractive industries, there was increased exploration during this decade which has come to fruition in a number of new mineral projects coming on stream or recently commencing production, ranging from the small to large gold and nickel operations, through to potentially the massive investments in gas development and LNG processing. These projects have both directly enhanced economic activity and generated wider business confidence and investment, in an office and housing construction boom and other ancillary industries. This activity was already underway before the GEC and proceeded largely undisturbed, even though a few companies dependent upon international capital, such as Nautilus sub-marine gold mining, have put project development temporarily on hold. Whilst the PNG LNG project is subject to approval in late 2009, whether to proceed, the Exxon-led joint venture has already expended and is continuing to spend major sums on project preparation, and with apparently firm markets (in East and South Asia) and positive indications on financing from different sources, the critical factor for financing and development may be the capacity to stick to deadlines and secure the market slot ahead of competing projects, such as on Australia's NW shelf.

5. <u>Fiscal Restraint and Increased Funding on Priorities</u>

The increased revenue and firm fiscal restraint, applied at least in the earlier years of the Somare-Temu government, allowed increased allocations to the MTDS (and MDG) priorities, including infrastructure restoration and development and some essential services. This overdue restoration and development of decaying core infrastructure, from Lae port to highways and access roads, school classrooms and police housing, are essential for sustainable economic development, including in the rural sector, where the majority of the population still resides and from where most people gain their livelihood, either directly or indirectly, by transporting, processing and marketing rural produce, either through formal or informal sectors channels. The backlog of infrastructure restoration and maintenance, let alone development to keep apace with population and economic growth is massive, however, with ports through to rural roads overburdened or widely impassable after years of neglect.

The Government is largely allocating money where the priorities are, in principle, such as with the 2008 reform to provincial and local level financing and increased District funding, but the mechanisms it chooses are sometimes non-functional or barely functional, such as under the District Service Improvement Program, with the lack of planning and administrative capacity at the District level and a mechanism which remains too prone to abuse in many Constituencies. Likewise the police support program, following the police review of 2004, lacks credible funding, implementation or monitoring.

In any case, as stated, PNG has set aside large sums during the boom years which are now available from Trust Funds to utilise this year and in 2010, when revenue from corporate tax and upon trading are well down. Unlike other countries, from the US to China and Australia, which have required economic stimulus packages to kick-start or sustain their economies during this downturn, PNG is still enjoying a high level of economic activity and in some cases components of the economy remain subject, and will be increasingly subject to lack of capacity and continued inflationary pressures. The major new resource projects, in effect, provide PNG's economic stimulus package, together with the continued release of funds for projects from the Trust Funds. There is no need for any additional stimulus package, which would entail jeopardising fiscal prudence and undo some of the achievements of recent years. It's already forecast that 2009 will experience a further deficit and that debt levels will rise again to about 33% of GDP.

What is critical is that the Government ensures that these Trust Funds are released steadily, upon genuine priorities and that, with assistance from its development partners, real efforts are made to improve the machinery of government and implementation, including use of Public Private Partnerships. At a time of increasing fiscal pressure the Government should be ready to transfer allocations from less productive expenditure to core needs, even proceeding, for example, to resell its luxury aircraft! At a time of growing skills shortages, for example, greater funding for the country's long forgotten technical colleges would not go amiss, whilst restoring long discontinued government air and shipping charters to rural areas would improve rural administration and services, provide needed access for the sick to referral hospitals and generally provide greater public welfare than all this excessive international travel by the national and provincial elite. Support for District planning and administration are needed, but with close supervision and public transparency of the DSIP required to ensure its effectiveness. These are the core funds available to Districts, and cannot afford to be wasted on a set of low priority or unsustainable projects, let alone more seriously misapplied. It should also be recognised that the rapid release of these funds may encourage inflationary pressures but also that they provide useful liquidity for the banking sector, which may stimulate more productive economic activity in the process.

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So, can PNG capitalise on its current relative advantaged position during this current global downturn? PNG is in the paradoxical position of being a middle income developing country, which has ridden out the GEC better than many developed and developing countries and neighbours, yet which suffers from various seemingly intractable problems. It has high levels of poverty, not perhaps by African standards of gross deprivation and starvation, but in terms of utterly unsatisfactory social indicators, including very high maternal and child mortality rates, low levels of literacy, very poor school intake levels (at around 53%) and retention levels. Potable water supplies are widely inaccessible and medical facilities are largely atrocious and access to them deteriorating. The Planning Minister, Hon Paul Tiensten appeared to present an unduly rosy picture in an address in Brisbane last week, where he seemed to suggest that whilst others are suffering from the GEC we have the LNG which will readily fix our problems. He did highlight some problems which PNG faces, but overall he provided an impression that simply by concentrating upon getting this major project up and running the other concerns will fall into place, rather than recognising the severity of many of these problems and the need to address them now, and that the LNG project will pose its own set of problems unless these are seriously addressed from the start.

PNG’s problems are not unique, but entail the effective use of public funds and the need to free up opportunities for private capital to develop the economy, right out into rural areas. Public administration was more effective in the past but allowed to break down. Funds have been drained from the provinces and core infrastructure maintenance and diverted to an inefficient and often duplicative Waigani administration, with extensive abuse of funds, as highlighted by the Finance Inquiry and successive PAC reports. Funds are allocated to priorities like education at a level consistent with better performing economies, yet access to education and quality of services is poor, as funds inadequately reach their targets. The public sector which was long drained of operating funds, now has some funding but it remains poorly managed and therefore fails to perform, also undermining the capacity of the private sector to play its part in developing the economy. There is a lot of complaint of donors, some justified, but over many years they have been stretched into providing not only most of the development funding but also supporting extensive essential services, which should be core government responsibilities.

So the current situation is: -

The economy is restrained but continuing to grow steadily, if at a slower pace than in the boom years, with employment continuing to increase (in the small formal economy) in most sectors. Inflationary pressures were increasing in 2007 and reaching dangerous levels in 2008. These should have been restrained by the rising kina to most international currencies, but wasn’t adequately, suggesting some unfair gains by traders not fully passing on the reductions to consumers. The kina’s strength has subsequently slipped back. Efforts by the Central Bank to restrain inflationary pressures are jeopardised if there is undue govt expenditure up-front, particularly released directly into local markets and by continuing shortages of skills and other capacity in various industries, including construction. This will increase severely as further new resource projects, particularly the prospective LNG development progress, potentially undermining the capacity of the less well resourced industries to attract or retain a range of needed technical and professional skills.

The Fiscal situation is more problematic…with revenue from corporate taxes particularly having dropped back, debt rising to about 33% of GDP, and an increased deficit envisaged; however signs of improved commodity prices and increased trade should be reflected in recovery of revenue.

There is also concern over loosening fiscal restraint, particularly if expectations of continued and improved economic conditions prevail, or in the face of political threats (such as the recent dishing out of an additional K2 million per Member under the DSIP in the face of a prospective Vote of No Confidence).

As stated, the major issues are that we need to both improve the effectiveness of Public Expenditure and ensure adequate funding to cover priority needs into the future at a time of continued economic uncertainty. For major resource projects to proceed on schedule effective planning and applications of proper procedures are required, to avoid bottlenecks but also minimise negative the Dutch disease impacts on other sectors and the overall economy.

PNG may be riding out the Global economic storm better than many others, but it now needs to benefit  more effectively from its rich resources and the long term demand from a resource hungry global market. It needs to negotiate more effectively and ensure more consistent project agreements and wide public awareness and consent, and not be unduly pressured or induced into projects, or at a pace which may not be in PNG's best interests. For example, in the current global economic recess, resource stressed countries and companies, alarmed by increasing resource shortages of late, have been stocking up; by tying up new resources including of land in various developing countries, including apparently PNG; resources which may have other local needs or other priorities, or may be being undervalued. In some cases overseas, there have been few apparent local benefits from these projects, designed simply to meet overseas demand, including for food or bio-fuel, (such as Madagascar, where the virtually the entire arable land was allocated to a Korean corporation). Transparency and proper application of PNG's laws in resource negotiations are critical to ensuring longer term benefits and contribution to PNG's economy.

PNG needs to ensure that those resource riches are not a curse, as they appear to have been in so many other countries, and to some extent within PNG's mineral resource richest provinces. The country is blessed with natural wealth, and yet, despite substantial expenditure (on paper at least) on various priorities, such as education, the country's social indicators remain the worst in  the Pacific, very poor by global developing country standards, and  well below the level expected of a middle income developing country. None of the Millennium Development Goals, to which the country has committed itself, look like being achieved by 2015, and little progress has even been made towards these objectives, and we're trying to keep pace with a fast growing population of around 3% per annum.

In addition, to achieve sustainable economic growth we must iron out the severe bottlenecks in needed skills and ensure that the right skills are provided from our schools and colleges. These bottlenecks are the result of years of inadequate demographic and related data collection and analysis, and human resource planning, combined with severe lack of investment in skills development, particularly in technical and practical vocational development.

The Government needs to ensure, particularly during this interim period, when the GEC remains in place, that expenditure is tightly restrained and focused upon priorities; its too easy to loosen the controls and proceed with unproductive consumption items, like the purchase of this Falcon executive jet for Government use, or investment in industrial estates or other Government-picked projects, when the private sector would plan and manage such ventures more effectively to meet their needs. Despite more promising forecasts, including improved commodity and share prices, many of the fundamentals, notably in financial markets (including high levels of public debt) in the US and other developed countries, remain  burdensome, so the crisis may drag on longer than current more optimistic forecasts indicate,  with periodic hiccups, or adjustments, if over-optimism is shown.

Finally we cannot afford to forget our agricultural sector which continues to be the country's backbone for the majority of the population. It has long been used and abused, and despite positive rhetoric and latterly strong commitments under the Green Revolution Policy and the National Agricultural Development Policy, these measures have largely been marginal, ineffective or abused, and lack the needed effective participation of the farmers themselves. Identifying and responding to the sector's real needs is essential and clawing back years of politicisation and abuse of sectoral institutions.

Farmers need access to markets and an adequate return for their effort. It must be recognised that whilst some agricultural export crop prices may still be better than early this decade, they remain well below levels enjoyed by PNG farmers in the late 1970s and early 1980s. If we are to retain the interest of the majority of the country's population in agriculture, which is necessary, at least until the economy really does diversify, every effort is required to minimise impediments and increase producer returns; even freight subsidies for more remote areas can be justified economically in certain circumstances.

Addressing the sector's needs requires strong coordination between macro-economic policy, including monetary policy, and micro-economic management and partnership between government, at all levels and the private sector. Major resource projects, such as the LNG project, whilst employing relatively few staff, except during the construction phase, have the capacity to provide medium term funds for needed infrastructure development and core services including human resource development. On the other hand, experience in many particularly developing countries (from Nigeria to Nauru), has shown (as it has in some of PNG's own resource rich provinces) that such major projects can seriously generate a new dependency, and undermine much of the rest of the economy, where the majority are currently employed. This ironic Dutch disease or resource curse, as it is widely termed, can readily cause the currency to appreciate to the point where other exports and import replacement are uncompetitive, as well as fuelling corruption and growing income disparities. Some economic adjustment is inevitable with major enclave projects, but the lessons from overseas must be learnt, and models of better economic planning and governance followed, as demonstrated in different ways from Norway to Botswana, wherein an adequate portion of income, including government revenue, is sanitised and invested particularly overseas for steady income and future needs, as has also been done by China over recent years.

PNG has positive and negative lessons from overseas and at home to learn from and adapt, including models of better governance and service provision and accountability, in some provinces, including Milne Bay, and Districts, such as perhaps Bulolo, for example. The role of good accountants, both in the private and public sectors is critical, to ensure that public and private investment and expenditure is effective, provide solid independent audits and comprehensive reports, to enable oversight bodies and the wider public to understand markets and the use of public funds, and help avoid the catastrophe of financial crises (seen overseas), and loss of investors or depositors funds (as with superannuation funds early this decade in PNG) or misuse of public funds, as highlighted in the Southern Highlands or the current Finance Inquiry, or potentially with DSIP, NADP and other Public Trust Accounts.