

SMALLER ECONOMIES

CAMBODIA

Reflecting its exposure to the global economic turmoil, Cambodia's economy is expected to contract by 1 percent in 2009 after slowing to 5.5 percent in 2008 following a period of sustained high growth. Net exports will slow with overall global trade volumes, as well as through market share losses in Cambodia's main export market (the US garment market). This would however be offset by lower prices of petroleum products, leading the trade balance to improve in 2009 from its deficit of 20 percent of GDP in 2008. Household consumption will slow as a result of lower real incomes and reduced wage employment. Private investment, which was very dependent on foreign direct investment (FDI), is slowing as well, with inflows of FDI down from 10 percent in 2007 to 7 percent in 2008 and a projected 3 percent in 2009. Business registration has already fallen 4 percent in 2008 after a good start early in the year. Tight credit conditions will add further strain to private investment. Only public consumption and investment, and segments of the informal economy, are expected to offset somewhat the impact of the global environment.

Agriculture has continued to sustain growth and should provide a well-needed safety net. Among the four key sectoral sources of growth, agriculture is the only sector sustaining growth, with further progress in rice yields in 2008. It largely provides food security and a degree of safety net to the country. However, the sector remains vulnerable to climatic uncertainties and lower prices of various commodities (e.g. cassava and rubber) constrain further growth. Growth in garment exports has shifted from double digit expansions in earlier years to a 6 percent decline in February 2009. The number of tourists arriving in Cambodia in the first two months of 2009 was 2 percent below that of 2008 (which was 18 percent above the first two months of 2007), with occupancy rates in major hotels well below 40 percent. Construction and real estate have also weakened considerably. For instance, imports of construction materials during the last quarter of 2008 fell 7 percent from a year earlier.

The current account deficit reached a peak in 2008. Driven by strong consumption and high prices of petroleum products, the current account deficit nearly doubled to 15 percent of GDP. Projections call for the deficit to decline to 8 percent in 2009, thanks to lower prices of imported oil and reduced import volumes. Official development assistance would remain high throughout 2009, as pledged at the December 2008 Cambodia Development Cooperation Forum. With lower levels of FDI, gross foreign reserves, which reached \$2.2 billion at the end of 2008 (3.4 months of import cover), would decrease slightly though still covering 3 months of imports by the end of 2009. The central bank continues to keep the exchange rate stabled against the dollar, resulting in significant real appreciation that has not been helpful against other garment exporters.

Cambodia was hit by high consumer price inflation in 2008. Twelve-month inflation reached 26 percent in May 2008 pushed by higher prices for food and oil, before slowing to 13.5 percent in December. Consumer price inflation is projected to ease further to below 5 percent on average in 2009.

Monetary conditions were adjusted in recent months to reflect the economic environment. After doubling reserve requirements in July 2008 in response to very rapid growth in credit to the private sector, the central bank has eased monetary policy early 2009. Despite this adjustment, credit to the private sector has stopped growing since October 2008. Broad money rose 63 percent year-on-year in December 2007 at its peak, but increases have shifted to a 4 percent decline in February 2009.

The banking sector has so far been resilient, but will face the stress of a sharp slowdown in growth. Performance indicators are strong, with a very profitable banking sector and low non-performing loans ratios (around 3-4 percent at end of 2008). However,

the banking sector has developed very rapidly, from a very low base in 2005, and liquidities have become more constrained toward the second half of 2008 (the loan-deposit ratio has increased from 63 percent at the end of 2007 to 94 percent at the end of 2008). In parallel, the capacity of the NBC for supervision is further stretched by the number of licensed banks increasing from 24 at the end of 2007 to 30 in December 2008.

The fiscal stance is being loosened in 2009 after tightening last year. Revenues rose to 12.1 percent of GDP in 2008, but are projected to slow to 11.1 percent in 2009, reflecting the sharp slowdown in economic growth. Already in January, revenues were 7 percent lower than a year earlier. Expenditures amounted to 14.2 percent of GDP in 2008 and are projected to rise to almost 16 percent in 2009. Hence, in response to the fluctuations in the economic situation, the fiscal deficit is set to rise to 4.8 percent in 2009 from 2.2 percent in 2008. As in the past, the deficit would be fully financed by external assistance.

Since the downturn is largely driven by the external environment, the recovery is highly conditional on a pickup in growth abroad. Forecasts for 2010 are therefore highly uncertain, but could be in the 0–4 percent range if external demand is supportive. A lengthy contraction will deepen concerns about the social and poverty impact. At the very least, 2009 – which comes on the heels of higher food prices in 2008 – will undo some of the progress Cambodia made towards its Millennium Development Goals, including in reducing poverty.

The government continues to make progress on structural reforms, although at slower pace in some areas. Progress strengthening the business environment continues, with the computerization of customs and the implementation of a risk management approach. Reforms in the financial sector were advanced with the introduction of new fit and proper tests as well as new governance requirements (including for loan provisioning). Progress in public finance management reform has slowed somewhat.

FIJI

Real GDP growth in 2008 is estimated at around 1 percent, a modest recovery from the contraction of 6.6 percent in 2007 in the aftermath of the December 2006 coup. Economic recovery in 2008 was aided by a rebound in tourist arrivals, higher gold production from the re-opening of the gold mine, and strong mineral water exports. However, performance in the sugar sector remained subdued, partly due to wet weather conditions and the poor quality of cane sugar.

The Fiji authorities project economic growth of around 2 percent in 2009, supported by the Interim Administration's fiscal expansion, but these projections will be challenging to achieve. The global economic slowdown is dampening Fiji's economic recovery through its impact on demand for Fiji's exports (sugar, fish), foreign investment into Fiji, tourism (20 percent of GDP) and remittance receipts (which declined from 6.5 percent of GDP in 2006 to 3 percent of GDP in 2008). In January 2009, the biggest flood in Fiji in forty years devastated the west coast of Fiji's main island—the flood disrupted power supply, damaged crop fields and infrastructure, and depressed tourist activity, adding further strain to Fiji's fragile economy. Preliminary estimates suggest that the direct costs of the floods on the economy are around \$180 million (5¼ percent of GDP). Output in 2009 may thus be substantially lower than projected, reflecting the combined impact of the floods and global economic downturn.

In 2008, the Interim Administration (IA) managed to reduce the fiscal deficit slightly to 1.5 percent of GDP compared with a 2 percent target. This achievement was attributable to increased VAT receipts and lower than budgeted recurrent expenditure. An expansionary 2009 budget was announced, targeting a fiscal deficit of 3 percent of GDP to stimulate the economy. The new budget increases capital expenditures and projects stronger revenue receipts reflecting higher direct taxes, increased customs

duties (27 percent import duty raised to 32 percent), and improved revenue compliance and collection. Post-floods, however, tax receipts are likely to be lower than assumed in the budget as growth slows, particularly in tourism. The IA also plans to reorient some of its capital spending to flood relief and reconstruction efforts. The overall fiscal deficit for this year may therefore be higher than projected in the 2009 budget.

Reflecting the sharp decline in global food and fuel prices, 12-month inflation fell from a 20-year peak of 9.8 percent in September 2008 to 6.6 percent by December and 1.9 percent in February 2009. The decline in inflation this year reflected a drop in transport and electricity prices that more than offset increasing food prices due to domestic supply shortage caused by the floods.

Fiji's current account deficit is estimated to have widened from 17 percent of GDP in 2007 to 26 percent in 2008, but is expected to narrow back to 17 percent in 2009. These large movements reflect Fiji's vulnerability to global commodity price shocks, particularly in oil prices. In part due to deteriorating external conditions, Fiji's foreign exchange reserves (excluding foreign assets of non-bank financial institutions) declined by \$180 million during 2008 to \$370 million by December, or two months import cover. Reserves fell by an additional \$50 million further in the first quarter of 2009.

The international community is providing relief assistance for flood relief efforts, although Fiji relations with key external partners remain strained and restoration of full bilateral relations apparently remains dependent on Fiji's return to democracy. The interim Prime Minister has officially called off the planned March 2009 elections and confirmed that elections will not be held until Fiji adopts his regime's proposed "People's Charter" which includes changes in the Constitution, such as an end to communal voting which is considered ethnically biased. Leaders of the Pacific Forum (an organization that includes Pacific island countries, Australia, and New Zealand) have urged the interim PM to announce a new elections timetable by May 1 2009 and hold elections by the end of 2009 or risk suspension of Fiji's membership in the Pacific Forum.

LAO PDR

Real GDP growth is projected to slow to 5 percent in 2009 from 7 percent in 2008 because of the impact of the global financial and economic crisis. Growth will continue to be driven by the ongoing mining and hydropower projects as well as agro-processing industries and construction activities. The resource sector (mining and hydropower) will contribute about 1.1 percent and non-resource sectors the rest to this growth rate. Medium-term growth prospects are sensitive to changes in global commodity prices (mainly metals and agriculture), recovery of tourism, implementation of large hydropower projects in the pipeline and improvements in demand from the neighboring countries (especially Thailand, China and Vietnam) and the EU.

Inflation is low. Twelve-month inflation fell to 1.6 percent year-on-year in February after peaking at 10.3 percent in May 2008, due to the sharp decline in prices across the board. The overall inflation is projected at 3 percent in 2009 compared to 7.6 percent in 2008. The nominal exchange rate has been strong and fairly stable against the U.S. dollar and the Thai baht during the last six months. However, it started to depreciate slightly against the dollar this year.

Falling revenues and rising expenditures are expected to lead to an increase in the fiscal deficit to 5.4 percent in 2009 from 1.8 percent in 2008. Revenue collection is projected to decline to 13.2 percent of GDP in FY09 and to 10.1 percent in 2010 after outperforming the target for three years. Wage increases and investment spending approved in 2008 are projected to lead to increased spending in 2009. The Government's recurrent spending for key priority sectors, especially education and health, increased in 2008 but might be at risk in 2009 and 2010 due to the budget constraints. The NPV of external public and publicly

guaranteed debt has remained high relative to GDP, but has declined from 46 percent in 2007 to about 38 percent by the end of 2008. It is projected to fall further to 35 percent by the end of 2009.

After growing 21 percent in dollar terms in 2008, exports are expected to drop by about 12 percent in 2009. Imports are projected to drop faster than exports. Consequently, the trade balance should narrow and along with it the current account deficit, decreasing to 6.1 percent in 2009 from about 10.8 percent in 2008. Foreign exchange reserves have risen and are robust at \$636 million at the end of 2008, or equivalent to about 6 months of non-resource imports.

In February 2009, the government announced a list of measures to help cope with the economic crisis. The key measures are aimed at: (1) dealing with the revenue shortfalls in FY09 (strengthen revenue management and prioritize the public spending and focuses on the projects/programs that have impacts on growth and domestic demand); and (2) support growth, especially to promote agricultural production, tourism and local investment, increase the domestic lending, review and streamline approved FDI projects and improve the quality of the public sector services and coordination, and finally (3) to mitigate social impacts of the crisis, especially for the poor and the unemployed. While many of the announced measures are laudable, more prioritization of proposed actions - in line with implementation capacity – may help focus efforts where they are most needed.

MONGOLIA

The global downturn has hit Mongolia hard, predominantly due to the slump in metal prices. Prices for copper, the key export, fell 58 percent from a year earlier in February, returning prices to levels last seen in 2004. During the “boom” years, the budget became more dependent on mining revenues (which at their peak directly accounted for 39 percent of revenues), while the non-mining fiscal balance deteriorated strongly and the government did not save enough to cushion adverse shocks. Meanwhile, most of the additional revenues were used to make previously targeted social transfers universal, and to increase wages and salaries. The “bust” has put a serious strain on the country’s finances, forcing the government to drastically cut spending. The 2008 budget outturn amounted to a deficit of 5 percent of GDP, and in the absence of significant adjustments the fiscal gap will widen in 2009 and beyond. At the same time, driven by large social transfers and consumption, domestic demand outstripped GDP in the last three years, while exports as a share of GDP have been flat, resulting in a worsening current account deficit even before commodity prices started to fall.

Given weakness abroad, Mongolia’s exports will drop significantly. Growth is expected to slow down considerably to 2.7 percent in 2009 from 8.9 percent in 2008, with downward risks if FDI inflows slow down as expected. The mining sector will stagnate in real terms, continuing its downward trend from 2004. Poverty reduction will suffer a setback as a result of this slowdown and due to the eroding effect of inflation on social transfers and private remittances. The 2008 current account recorded a 12.9 percent of GDP deficit (this is a revision of the initial estimate of 9.6 percent of GDP, which is used in our projections) compared to a 4.4 percent of GDP surplus in 2007, due to falling commodity prices and strong domestic demand in the second half of 2008.

Having peaked at 34 percent year-on-year in August 2008, 12-month inflation fell to 17 percent in February. Twelve-month inflation is projected to slow to 9 percent by December 2009, due to the domestic slowdown and lower food and fuel prices. However, there are upside risks if the tugrug depreciation creates inflationary pressure on imported items down the road.

Whereas other major commodity exporters let their currencies depreciate as terms of trade deteriorated, the central bank tried to hold on to the currency peg to the US dollar, leading to loss of almost \$500 million of international reserves between July 2008

and January 2009. The central bank ultimately let the currency weaken, resulting in a depreciation of 37 percent against the dollar since the end of October. The continuous pressure on the exchange rate and negative real interest rates on deposits due to high inflation, led to a shift of tugrug deposits into foreign exchange accounts. This compounded the stress already in the banking sector after a period of rapid credit expansion. The latest data shows that the loans-to-deposits ratio is still above 100 percent and loans with principal in arrears have increased further, pointing to more nonperforming loans in the future.

With both the fiscal accounts and the balance of payments under severe stress, the government has reached an agreement with the IMF on an 18-month \$224 million standby arrangement. The arrangement will help the authorities deal with the extraordinary external shock stemming from the collapse of copper prices. The government subsequently organized an external partners conference co-chaired by the World Bank to request support to plug the fiscal financing gap, projected to be \$204 million over two years: \$140 million for 2009 and \$64 million for 2010. The Asian Development Bank, the World Bank and Japan pledged a total of \$160 million and other donors are looking for ways to support.

The standby supports the government in restoring health to government finances, allowing the exchange rate to adjust flexibly while safeguarding international reserves, bolstering confidence in the banking system, and protecting the poor during this period of adjustment. At the same time, the World Bank is preparing a Development Policy Credit (DPC) of \$40 million, with the possibility for another DPC of \$20 million. The DPCs dovetail with the IMF program areas and also includes reforms in the mining sector.

Debt sustainability analysis demonstrates that Mongolia is at low risk of external debt distress. Although the debt ratios will rise significantly over the next two years as the government receives loans from the IMF, IDA and ADB, the debt outlook is expected to stabilize and improve over the medium-term as the Oyu Tolgoi mine comes on stream. Key medium-term risks involve large debt service payments in 2012-15 associated with the repayments to the IMF under the standby.

Buoyed by the standby, the authorities have taken significant steps to stabilize the economy. Parliament recently approved an amended budget that projects a 5.4 percent of GDP fiscal deficit in 2009, less than the 6 percent deficit targeted under the standby. Although the originally approved budget for 2009 projected a 6 percent deficit, worsening revenue shortfalls meant that without policy action the budget deficit would have likely hit 12 percent of GDP. This is a clear signal that the government is willing to restore fiscal responsibility. The process of fiscal adjustment will continue in 2010 and beyond, requiring a further reduction of the fiscal deficit to 4 percent of GDP in 2010.

The central bank, meanwhile, has raised its policy rate to 14 percent from 9.75 percent. Although real interest rates are still negative, the margin has declined signaling its intention to make the currency more attractive to savers. The bank has also increased the required capital adequacy ratio to 12 percent from 10 percent, signaling its determination to strengthening the banks.

PAPUA NEW GUINEA

Prior to the global economic slowdown PNG was enjoying some of the strongest economic performance since independence. In 2007 economic growth was 6.5 percent rising to about 7 percent in 2008, the highest in over a decade. Both mineral and non-mineral GDP have been expanding. Through mid-2008, world prices for copper, gold, petroleum and tropical agricultural products, which account for over 95 percent of PNG's merchandise exports, rose substantially, triggering an increase in output

and affecting positively the rest of the economy. Macroeconomic management had been prudent: the government was pursuing a restrained fiscal policy, saving a portion of windfall revenues in trust accounts or paying down debt. By August 2008, foreign exchange reserves reached an all time peak of \$2.7 billion (5 month of imports of goods and services and more than 12 months non-mineral project imports), up by \$0.6 billion from the start of the year. The economy was in fact starting to show signs of overheating, with capacity bottlenecks reached in some of the sectors and inflation accelerating to 13.5 percent year-on-year in the third quarter.

The global downturn and sharp declines in prices of PNG's key exports since mid 2008 have clouded PNG's economic outlook but several factors have softened the impact. The economy is beginning to slow, with the growth in 2009 projected to ease to 4 percent as businesses take a more cautious view on new investment and construction, and cash crop incomes in rural areas and exploration activity decline along with commodity prices. The factors that should cushion the impact of the financial and economic crisis include the lack of toxic assets held by the banking system and its reliance mostly on domestic deposits to finance lending. Pension funds did have investments overseas, but still managed to produce positive returns in 2008. Moreover, the consumer and business confidence in PNG has not been as badly hit as in many other countries as the prospect of the \$17 billion Liquefied Natural Gas Project receiving a go ahead in late 2009 has supported domestic asset prices, particularly of real estate.

Windfall revenues prudently saved during the commodity boom years can provide support to the budget in the medium term but the government needs to guard against fiscal loosening. During the years of high commodity prices, the government prudently adopted a restrained fiscal policy, curtailing expenditure growth and saving part of budget surpluses in trust accounts (for investment projects to be implemented in the medium term) as well as through public debt prepayment. The key measure of a fiscal stance in a resource-rich economy, the non-mineral deficit, was relatively steady at around 5 percent of GDP. By end-2008 the balances in trust accounts reached around 14 percent of GDP and a substantial portion of non-concessional external public debt was prepaid. The sharp decline in commodity prices since mid-2008 has had a heavy impact at PNG's fiscal position, effectively wiping out windfall revenues. Thanks to prudent fiscal restraint during the boom years, however, government spending did not need to be immediately cut and windfall saving in trust accounts can allow for a smooth adjustment of government fiscal stance to the lower level of mineral revenue. The 2009 budget, however, envisions fiscal loosening, with an increase in the non-mineral fiscal balance of at least 3 percent of GDP (equivalent to a nominal increase in government spending of 15-20 percent), financed by net drawdowns of trust accounts. Drawing down on local currency trust accounts poses the risk of increasing pressure on foreign exchange reserves.

The monetary policy response to the global economic downturn has been mixed. Even before the financial crisis intensified, the monetary authorities had been focusing on combating inflation and during the second half of 2008 tightened the monetary policy by raising interest rates (by 2 percent) and stepping up sales of central bank notes and foreign exchange. The exchange rate had also been maintained largely steady relative to the U.S. dollar to limit the pass-through to inflation. However, the PNG kina appreciated sharply in real effective terms in the second half of 2008, reflecting the strengthening of the dollar against other major global currencies, especially against the Australian dollar. Buoyant domestic demand, helped in part by real appreciation, contributed to foreign exchange reserves declining by one-fourth, or \$0.7 billion from their peak in August 2008. With prospects for further pressure on reserves from the projected shift of the current account surplus of 3 percent of GDP in 2008 into a deficit of 6-7 percent of GDP in 2009, the central bank allowed the exchange rate to weaken in November to arrest the decline in reserves. The kina fell by 13 percent against the U.S. dollar from November to March.

Increased domestic and external economic pressures in recent months underscore the need for careful macroeconomic management and continued structural reforms. Recent mutually offsetting macroeconomic policies – fiscal loosening while monetary policy is

being tightened – indicate the need for better macroeconomic policy coordination. The government also needs to continue with the restrained fiscal policy of recent years and allow an adjustment in the exchange rate in order to limit a decline in reserves and maintain external sustainability. Management of the windfall revenues saved during the commodity boom also needs to be improved. Among the key structural challenges that remain, the key ones include ensuring the integrity of the public financial management, adequate expenditure mix for sectoral service provision, strict control over the size and performance of the civil service, and transparency and accountability in budget management. To stimulate private sector investment, particularly outside the mining sector, the critical priorities are maintaining law and order, establishing a level playing field and improving the business climate, especially through opening more markets to competition, commercializing parastatals, reducing the regulatory and licensing burden, clarifying property rights (especially for land). Developing infrastructure – electricity, telecommunications, road and other transport – through private sector involvement and greater efficiency of public investment is also a crucial precondition for accelerated private sector-led growth.

TIMOR-LESTE

The government of Timor-Leste has made major efforts to promote political and social stability after the events of 2006, and the failed assassination attempts on the country's two top leaders in February 2008. Government spending in 2008 rose to \$550 million² from about \$180 million in 2006/07.³ A big part of the spending in 2008 was on public transfers, which has helped address issues around the internally displaced population (IDP), closure of large IDP camps in Dili, payment of pensions to veterans, and one-off cash payments to petitioners.

Recent figures show strong performance of the non-oil economy in 2008, with non-oil real GDP estimated to have increased by about 12 percent. This pickup was driven by the jump in government expenditures – financed, in turn, by oil revenues – to 86 percent of total non-oil GDP from one-half in 2006/2007. Twelve-month inflation rose rapidly, reaching 9.1 percent in September 2008, mainly due to higher food prices, but fell in to 6.1 percent in December 2008.

The Economic Stabilization Fund (\$240 million) set up by the government in the rectified 2008 budget to deal with commodity price shocks was used for subsidizing rice purchases. The government purchased milled rice from Thailand and Vietnam totaling around 100,000 metric tons. About \$50 million was spent on rice imports in 2008. Recent estimates show that 65,000 metric tons have been delivered, with the rest still awaiting delivery at Dili port, with the delays due to capacity constraints and limited storage facilities.

Macroeconomic performance in Timor-Leste has been bolstered by petroleum revenue, but the fall in oil prices will narrow fiscal and external surpluses during 2009. Although oil prices have been declining since July 2008, transfers to Timor-Leste's Petroleum Fund (PF) in the last quarter of 2008 (\$585 million) only fell slightly compared to the previous quarter (\$619 million). This is due to a lag between the price impact and the timing of transfers to the PF. Timor-Leste maintained a strong external balance in 2008, but the non-oil merchandise trade deficit has grown rapidly over the past months. It is estimated to have increased to over 50 percent of non-oil GDP by the end of 2008 mainly due to rising government imports.

Petroleum revenues are projected to fall sharply to 202 percent of non-oil GDP in 2009 from 484 percent. The latter is based on

² This is indicative as final budget execution numbers are not yet published.

³ After the elections in 2007, the government changed the Fiscal Year from July-June to January-December. After this four Budgets had to be prepared in relatively quick succession: (i) Transitional Budget (July-Dec 2007); (ii) 2008 Budget (January-December); (iii) 2008 Mid-Year Review Budget (July-December); (iv) 2009 Budget (January-December).

2009 budget estimates, which assume a low case production scenario and a fixed nominal oil price for the period 2009-2013 of \$60 per barrel. The Estimated Sustainable Income (ESI) from the PF under these assumptions is \$408 million. But a fall in the price of oil to \$50 per barrel could bring ESI down to around US\$360 million. Vulnerability to the financial crisis from external economic links is otherwise at the moment relatively low. But impacts through oil prices and Petroleum Fund investments will require close monitoring.

The 2009 budget highlights three government priorities: rural development, employment and infrastructure. The objective is to transition from a period of stabilization to one of sustainable growth in the non-oil economy. Planned expenditure in 2009 (\$681 million) is lower than in the 2008 budget (which increased to \$788 million at Mid-Year Review from \$348 million at the start of the Fiscal Year), but approximately 25 percent higher than estimated spending in 2008 (around \$550 million). The lower budgeted expenditure is largely due to the end of the Economic Stabilization Fund. The 2009 budget also sees a relative shift towards infrastructure spending, which includes a major three-year power sector project.

There has been progress on reforms of the civil service and audit, and efforts on anti-corruption. The government continues its efforts to improve governance, including through the establishment of a Civil Service Commission, and strengthened administrative practices underpinned by external audit. From January 2009, the government is implementing a new public service career regime with a revised salary and grading structure.

Looking ahead, the government may want to focus on ensuring fiscal discipline, alignment of actual with budgeted outcomes and strengthening quality of spending. Discipline will be essential to ensure fiscal sustainability in light of volatile oil prices. Planned government spending in 2008 was above the estimated sustainable income from Timor-Leste's PF. But actual withdrawals from PF were equal to ESI due to lower than expected spending and drawdown of other cash balances. Budgeted spending in 2009 is around \$270 million above the ESI. Withdrawal above ESI will impact negatively on the real value of petroleum wealth. Prioritizing across and within sectors will be important to help sustain economic growth. Rapidly rising expenditure in a low capacity environment will also require continued efforts on strengthening public finance management to ensure that funds are used effectively and efficiently.