Morauta's masterclass in economic reform

By Matthew Morris

From boom to bust

Following independence, the PNG economy fared relatively well. From 1980 to 1994 it grew at an average of 4% a year. It was a bumpy ride though, with peaks and troughs in growth, notably the closure of the Panguna mine in 1989 and the start of the Kutubu oil project in 1992.

By the mid-1990s, it was clear that there were deep structural problems with the PNG economy: weak law and order; poorly maintained and inadequate infrastructure; an uncompetitive exchange rate; underinvestment in basic services such as health and education; and behind all of this chronic and widespread corruption and mismanagement.

In the second half of the 1990s, the PNG economy was hit by successive shocks against a background of political instability and turmoil: the Sandline affair and a major drought in 1997; falling commodity prices; and a deepening crisis of waste, mismanagement and corruption.

By 1999, the economy was spiralling out of control: government revenues had collapsed; reforms had stalled; an international bond issue had to be aborted; and international finance had dried up. Interest rates skyrocketed—peaking at 28% during 1999—as the government sucked as much credit as it could from the financial system, including through illegal borrowing from the central bank and pressure on commercial banks to keep lending to government.

The kina went into free fall. Looking back now, it is hard to imagine, but the kina lost roughly a third of its value during 1998 and the first half of 1999. Foreign exchange reserves evaporated, falling by half during 1998 (to US$187 million) and by half again during the first half of 1999 (to US$89 million, just one week of import cover). As the kina collapsed, CPI inflation surged out of control, reaching 21.8% in 1998 and 20.0% in 1999.

Teetering on the brink of an abyss in 1999, PNG reached an historic juncture: a choice between continued corruption, mismanagement and waste (and ultimately ruin), or an opportunity for reform and repair.

Cometh the hour, cometh the man

On 14 July 1999, Parliament chose the latter and voted overwhelmingly to elect Sir Mekere Morauta as the 7th Prime Minister.

In perhaps one of PNG's most powerful speeches, Morauta set out the purpose of his prime-ministership:

We have made a date with destiny. We have chosen order over chaos. We have chosen hope over despair. We have chosen pride in our young country over mindless pursuit of narrow *interests. We have chosen to give our children the chance of a decent life in their own country, in the place of fearful descent into poverty, poor health, and disorder.*

He also detailed five objectives for his prime ministership. The first was to restore integrity to PNG's institutions of state: respecting the law, depoliticising the public service and seeking professional advice on public policy.

The second objective was to restore macroeconomic stability: through effective monetary and fiscal policies, supported by a productive partnership with the IMF, World Bank and the Australian Government.

Morauta's third objective was budget repair: restructuring expenditure to improve service delivery standards and to maintain and invest in infrastructure; and redrawing the boundaries between the public and private sector, encouraging the latter to play a greater role in service delivery.

His fourth objective was removing obstacles to investment and economic growth: ensuring the competitive provision of security, utilities, finance and foreign exchange, and transport; reviewing the tax system to remove barriers to growth; and prioritising major resource projects (notably gas).

Morauta's fifth and final objective was to continue the Bougainville peace process following the conflict fought from 1988 to 1998 that left 15,000 to 20,000 Bougainvilleans dead.

Reforms 1999-2002

In July 1999, Morauta embarked on delivering the most ambitious and intense reform program ever attempted in PNG. During the next three years he would face formidable obstacles: the economy was in ruins, the rot in financial institutions would turn out to run deep, and vested interests lined up to block change. In the short space of just three years though, he achieved extraordinary results.

Less than a month after taking office, the Morauta Government passed a Supplementary Budget to rein in expenditure, increase revenue and contain the deficit. In two years, inflation was reduced from 21.8% to 7.9%; interest rates were reduced from 28% to 10.9%; and foreign reserves rose from US$89 million to US$371 million.

From 1999 to 2002, the Morauta Government passed around 150 pieces of legislation, including:

- Amendments to the Organic Law on National and Local-level Government Elections to introduce limited preferential voting (LPV) as a means to ensure that those elected represented a greater share of the electorate, and to provide a greater chance for election of women. (LPV replaced an unrepresentative first-past-the-post system that had led to many MPs, especially in the Highlands, being elected with less than 10% of the vote);
- An Organic Law on the Integrity of Political Parties and Candidates to support political stability by strengthening and regulating the political party system.
- An Organic Law on Peace-Building in Bougainville to underpin the Bougainville Peace Agreement signed by the Morauta Government and Bougainville leaders in

August 2001. The law established the Autonomous Bougainville Government and provided for a Bougainville Referendum.

- A new Central Bank Act to improve the framework for monetary policy, strengthen the powers of the Bank of PNG and make it more independent. And a new Banking and Financing Institutions Act to strengthen bank supervision.
- New superannuation legislation to bail out the National Provident Fund (NPF, now NASFUND), remove political interference in investments, and strengthen regulation by the central bank. (Morauta also established successful inquiries that laid bare the mismanagement and corruption that had robbed NPF and Defence Force Retirement Benefit Fund contributors of their savings.)
- Comprehensive amendments to taxation legislation (following a tax review in 2000), including to streamline and simplify taxes, to strengthen the independence of the Internal Revenue Commission and to encourage investment in the mining and petroleum sectors.
- A raft of legislation to strengthen the oversight of public enterprises, notably through a new and modern economic regulator (the Independent Consumer and Competition Commission or ICCC) and an Independent Public Business Corporation to insulate public enterprises from political interference and ensure efficient and commercial operations. This was complemented by regulatory contracts between the ICCC and major public enterprises (including power, ports, telecommunications, and water) setting out rules for price control, investment requirements and service delivery standards for consumers. Other related reforms included a peoples' unit trust to vest a share of ownership with local governments to allow them to benefit directly from dividends, and a framework to subsidise community services from the budget rather than public enterprise cash flow.

Beyond this breathtaking legislative agenda, there were other major reforms:

- The PNG Banking Corporation was saved from insolvency and put into central bank administration, paving the way for a merger with the Bank of South Pacific. By 1999, PNGBC had reached the point of collapse. With a 60% market share, this threatened not only the savings of hundreds of thousands of people, but to sink the financial sector. The merger in 2002 saved the bank and created a major success story: a PNG bank that has grown from strength to strength, expanding services (in PNG and later the Pacific), while delivering huge increases in share value as well as large tax revenues and dividends for the state.
- Orogen Minerals, a majority state-owned mining and petroleum company, was merged with the private-sector Oil Search in 2002 to create a strong, PNG-focused resource company that championed the PNG LNG project. The merged business went on to deliver big dividends and huge growth in share value for the state, from $250 million at the time of the merger to $1.7 billion when sold to the International Petroleum Investment Company (IPIC) in 2009. The sale proceeds financed the state's equity in PNG LNG.
- An orderly exit of BHP from the Ok Tedi mine was negotiated in 2001. BHP wanted to exit the mine on environmental grounds. It gifted its 51% share of the mine for the benefit for the people of PNG, through PNGSDP, which was created (in 2002) to invest some of its profits for the benefit of the community and to put aside the rest for future generations. The Ok Tedi mine went on to invest heavily in higher environmental standards, and to underpin economic growth for the PNG economy for the next decade. It generated a staggering K17 billion in tax revenues and dividends

for PNG between 2003 and 2012, and PNGSDP now has US$1.49 billion set aside in a long-term fund.

Even this lengthy list barely touches on the achievements of the Morauta Government. Many of the other reforms included changes to the way government worked, behind the scenes, and are illustrative of how Morauta was able to achieve so much in a short space of time.

How did he do it?

So what was the secret? How, as explained in the first part of this blog, did Sir Mekere Morauta bring the PNG and its economy back from the brink of the abyss in 1999, and implement vital reforms?

First, Morauta himself was an exceptional and politically-astute economist. Three decades of experience—as one of PNG's first economists, as PNG's first Finance Secretary, as the first PNGean managing director of PNGBC, as governor of the central bank, as a private businessmen, as an opposition MP, and as a Minister—meant he was uniquely placed to understand the economic problems facing PNG, diagnose their underlying causes, and decide how to fix them.

Second, Morauta didn't waste time; his acceptance speech was itself the outline of the plan to save the economy. And within a month he had already passed a Supplementary Budget, and established a team of capable and credible senior officials (notably Chief Secretary Robert Igara, Finance and Treasury Secretary Koiari Tarata, and central bank governor Wilson Kamit). The reform program that he developed was prioritised and had purpose. Time and effort were not wasted on boasting and backslapping, but used productively and efficiently to progress reforms.

Third, Morauta had the gravitas and international standing necessary to mobilise international support. Through his personal standing, he was able to access the best economic advice, including from international experts such as Ross Garnaut, Rod Sims, Andrew Elek, Keith Palmer and Paul Baxter. He was able not only to repair broken relationships with international partners, but also to mobilise financial and further technical support: bridging loans from the Australian Government, an IMF standby arrangement, a World Bank governance promotion loan, and support from the Asian Development Bank, Japan, and New Zealand.

Fourth, Morauta understood the political challenges facing his ambitious agenda—the need for strong 'political will'. He shrewdly chose to hold onto the Finance and Treasury portfolios in order to drive both the economic and broader reform agenda. As Prime Minister, Morauta had considerable power and was able to maintain consensus from the government caucus and support for the legislative agenda.

Nevertheless, Morauta was mindful of broader resistance to reforms, from vested interests, especially those who had benefited from 'systemic and systematic corruption', as he once put it. His approach was to seek to persuade the public of the case for reform and build confidence in the actions of his government.

He engaged closely with the Consultative Implementation and Monitoring Council—then a newly established group of government, NGOs, research and private sector stakeholders—

ensuring that senior officials attended meetings, briefed stakeholders on reforms and responded to feedback on implementation.

Media releases went out after every cabinet meeting explaining what decisions had been reached, why, and how they would be implemented. Not only did this rebut much of misinformation that was being spread, it also strengthened transparency and accountability.

Fifth, Morauta knew strong systems would be critical to the success of the reform program. In the 1990s, public policy and decision-making processes had become chaotic, allowing narrow interest groups to exercise undue influence and to disrupt reforms. An early priority for Morauta was therefore to establish orderly process.

Proper procedures were introduced for the preparation of Cabinet papers (and were vigorously enforced by NEC secretary Winnie Kiap).

A Central Agencies Coordinating Committee was established, chaired by the Chief Secretary, supported by its secretariat head Felicia Dobunaba, and including the secretaries of Finance and Treasury, Planning, Justice and Public Service. It vetted all policy proposals (to assess finance, staffing and planning implications, as well as legal correctness). The committee worked closely with Treasury officials to systematically work through a matrix of reforms, troubleshoot and overcome obstacles, and ensure orderly implementation of cabinet decisions.

For Morauta, these 'basic' systems of governance were not a nice add-on, but rather an indispensable vehicle for the efficient and effective development and implementation of public policy—they were critical to delivering his ambitious program of political and economic reforms. And he was prepared to champion and defend them (and indeed enshrine them in law).

By using his three years as Prime Minister productively and adeptly, Morauta halted the downward spiral of the economy and laid the foundations for further political stability and economic growth.

Assessing the legacy

In the years that followed, financial and political stability would become the norm. Sir Michael Somare would serve a full term as prime minister (2002 to 2007, a first for PNG), peace would endure in Bougainville, investor confidence would return, and the PNG economy would grow at an average of 5.6% between 2002 and 2015—the strongest sustained growth in the history of the nation.

Morauta would continue to hold governments' feet to the fire on governance and economic management. As Minister for Public Enterprises in 2011-12 he would have a brief opportunity to tighten the oversight of public enterprises and to get a sovereign wealth fund legislated.

But his legacy is much more than a list of reforms—it speaks to the character of the man. In the words of Ross Garnaut, Sir Mekere was 'a man of strong will who never gave up on anything worth doing … what he built was worth building though it might fall down, because it proved that it can be built.'

Sir Mekere was a man of purpose, principles and determination. In 2006, he offered some reflections in a speech on good government and good governance:

Economic and political reforms are essential if we want to break the poverty trap and provide people the opportunity for healthy, productive lives.

Undertaking reform is not always a popular job. At times it can be a very lonely one. It requires strong, committed, determined leaders who are prepared to shoulder the weight of short-term unpopularity and criticism and put the nation's long-term future in the front of their thinking and actions …

If asked what guides me personally when making decisions, I suppose there are three simple tests I always, consciously or unconsciously, set myself:

1. *Does the decision benefit the majority?*
2. *If the decision is challenged, am I confident of convincing the public that it was the best decision and in the national interest?*
3. *Is my conscience clear?*

Sir Mekere's legacy is not just about what he achieved, but also how and why he did it. He chose not to pursue the easy path of populism, because that led to economic ruin. Instead, he chose the much harder path of purposeful and principled reform: a step-by-step journey to realise the full potential of the immense wealth and talents in PNG. That journey remains incomplete.

As the PNG economy again languishes—growing at an annual average of just 1.8% between 2015 and 2020—economic and political reforms are urgently needed again. Hopefully, they will be guided by lessons from Sir Mekere's life and legacy.

As PNG's leaders make choices that will decide the future of PNG, there remains much that can be learnt from Sir Mekere Morauta.

Matthew Morris was an economic adviser to Sir Mekere Morauta from 1999 to 2002, and continued to work for him in later years. He is a development economist with 20 years' experience. He is currently an independent consultant.