

Greg Taylor on super reform in PNG

Author : Greg Taylor and Stephen Howes

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Greg Taylor AO has held a variety of senior positions in both Australia and PNG. He has at various times served as Executive Director of the IMF for both Australia and PNG, Secretary of various Australian Government Departments, Chairman of the PNG Superannuation Task Force and a Director of PNG's largest superannuation fund.

Stephen: *Greg, you're an Australian who's been involved in Papua New Guinea for a long time. How did you get involved in PNG?*

Greg: I think it was 1997 when I became the Executive Director at the International Monetary Fund for Australia and a number of other countries, especially in the Pacific, of which the most notable was PNG. So my job was to represent any interests PNG had in the IMF, which is basically the custodian of the international monetary system.

I got to the IMF just in time for the Asian Crisis. A couple of the countries I represented – Philippines and Korea – suffered severely from that crisis. Papua New Guinea did not, but it was suffering its own problems. It had had a long period of poor economic growth and it was in fact tending to point downwards pretty strongly. This was the period of the Skate Government. And there was an interest in borrowing money from the IMF.

Frankly, this was never going to happen because the Skate Government was dysfunctional. But that required me to go out there and talk to senior officials, and there were a number of delegations that came from Papua New Guinea. All of that was pretty interesting, but it didn't lead anywhere. But then, when the Morauta Government came into office, which I suppose was about 1999, that was a government that was actively interested in – and indeed had a good understanding of – what the IMF and the World Bank were about and what the possibilities were, and what needed to be done. And they had a very clear idea about what needed to be reformed within PNG. So we were really able then to get down to business.

The country was desperately short of cash, especially the government, so it had a strong incentive. The IMF lends against a 'conditionality program of reforms', which has to be negotiated between the IMF and the country concerned. So my role was to assist both sides to actually get down to business.

Ultimately my responsibility, of course, was to PNG. But I had to explain to PNG people that this had to be approved back in Washington by the Executive Board: that would be my job and I could tell them what would fly and what wouldn't. That's an arduous but important process. And if you've got a government that really

wants to do something, it's quite a good process ultimately.

So that was my introduction to the country. That's quite a while ago of course.

Stephen: *When did you leave the IMF?*

Greg: I left the IMF around the end of 2000, early 2001, and Robert Igara, who was in charge of the Prime Minister's Department suggested that I might like to carry on as a part-time advisor to the Secretary of the Treasury. So I did that for a year or two.

I had a fairly broad brief. It involved assisting with ongoing discussions with the World Bank and IMF. But about the end of the first 12 months, probably a bit earlier than that, Robert called me in and said "listen, we've got to get this superannuation reform sorted out because if we don't, we won't get the last tranche of the money from the IMF and we've got to have it."

So I became full-time on reform of superannuation. And I've got to say I'd never realized how interesting, but also how important, superannuation is in the PNG context. PNG has no unemployment benefits, and no old age pension. People who have left a village and lost their entitlements, they depend on their super – that's all they've got. So it's far more important than in Australia.

I had to go to all the main centers, Lae and two or three other places, and also a couple of mining camps. It was really fascinating because it had become known at the time that a large proportion of the then funds in superannuation had been lost. It was really a hot button thing.

Stephen: *So when you say "lost", you mean it had been raided?*

Greg: Well, predominantly lost through incompetence, but increasingly towards the end through malfeasance as well. The difficulty was that you had people who really didn't understand business at all sitting on the boards. And senior people – some of them didn't really know either. So they were susceptible to all sorts of stuff that didn't work.

But there was definitely beginning to be quite serious malfeasance. Most of that centered on the private sector fund, but it was also starting to happen in the public sector fund. So when you walk into a group of people and say "we are going to reform superannuation, we will fix it all up", you are playing to a pretty negative audience.

Stephen: *Did you stay involved in that beyond that year as an advisor?*

Greg: Yes. I won't go into any of the details, but it's really very complicated because you need to keep funds in superannuation preserved. But it's the only way nearly everybody up there can get a deposit on a house. And so you have to have closely managed access for that purpose, but no other. And then you have to arrange for repayments of the mortgage to come back in to super. That was what we were trying to do. The original approach was to cut that out altogether, and that would have just destroyed the housing market.

And then at the other end, I became aware that some people when they left employment, when they stepped outside the building, the wontoks were waiting for the pot of gold that superannuation represented, and they were ready to help the person spend it. So we introduced the Retirement Savings Account which enabled this hypothetical person to walk out and say "well yes indeed, I have retired but I'm afraid it's tied up in my Retirement Savings Account. I can only get a small amount at any one time."

And that came from direct representations from people saying "we've got to have a system that works for us." And personally, I think that superannuation system in PNG makes a hell of a lot more sense than it does down here in Australia. There is no tax advantage. It's compulsory. If it's compulsory, why have a tax advantage as well? It opens up liquidity problems. It costs the government money. There is no need for it. So frankly, I think it's something Australia might learn from.

Stephen: *Interesting. But how did you deal with the political problems, and the incompetent management?*

Greg: Well, the two things were addressed together. All influence of government, both at the bureaucratic and the political level, was removed. Investment decisions were not sent to the Treasury for approval. And the politicians did not appoint Boards. An independent regulator was set up, which was the Central Bank.

The Central Bank had been made independent itself. So the Central Bank had to become a regulator as well as a monetary manager. And the act, the Superannuation Act, required a fit and proper person approval for everybody on the Board, and the more senior appointments within the Fund, and it required a license for investment managers that also got through the fit and proper person process. So as far as humanly possible, we got competent people and honest people. Those systems haven't worked perfectly, but this system in that last decade has worked extremely well in my view. And enormously better than what went before.

And confidence in superannuation has been restored. It's possible there is even more confidence in it there than here. Now anything could go wrong at any time, but so far the returns have been very positive for members and they've been able to access their records and see how their balance has risen over time.

Stephen: *You've been part of PNG's super industry since by being on the Board of PNG's main superfund, Numbawan Super. What has that been like?*

Greg: It was natural for me to be involved in the Investment Committee. We were vastly overweight in cash and short term government bonds which earned practically nothing. But the investment opportunities within the country were very limited. We had hoped that there would be an ongoing privatization program, because that's a natural fit long term. Not brilliant but stable returns are what super funds need. But apart from the privatization of the commercial bank, privatization really never went anywhere. Since we were very limited in worthwhile investments inside the country, we had to look outside, and there's no bar on the legislation to investing off-shore. People find that surprising, but it's very sensible because the more concentrated your investments are, the more you are centering risk in just one spot. So we've always had some investments outside the country.

But the interesting thing is that over the ten years or so that I was involved, we did much better on our investments inside the country for basically two reasons. One was that the currency appreciated, which it had never really done except in the very early period of independence. But also, the strength of the PNG economy has meant that any reasonably well-run business has done well. So fortunately, we had preemptive rights on PNG's biscuit operation which we exercised. When Campbell's sold out back in the United States, we bought them and we've done extremely well out of it. Where any opportunity presented like that, we've grasped and it's done well.

On a smaller scale, we had a small group of pensioners who were entitled to an ongoing pension, and it was meant to be index linked. It never had been. And I thought, "you know, for ten years in a high inflating country, something that was worthwhile had become no more than pocket money." Establishing who was entitled to what was incredibly complicated but we eventually got there. The Board had this subject on its agenda quarter after quarter after quarter. Eventually, we managed to get it all sorted out, and some people got two or three times as much as they thought they were getting. More in fact, I think.

So that was a very worthwhile exercise, and we got a few letters saying, in surprise, goodness me, what a nice group of people you are. That gave a certain amount of personal satisfaction. But there was a huge amount to do.

We also had something which was quite unusual – that's what we called the "Membership Committee".

The previous membership of the Board had been half nominated by employers or half by the unions. None of them had much commercial knowledge. And these were the people that were making the decisions. They were all cleared away.

But not unnaturally, the unions said “hang on, the members are being excluded from what is going on.” So we set up what we called the “Membership Committee” and every union was entitled to go on this committee, and it dealt with the things that union representatives did know about, and in fact knew more about than anybody else: the circumstances of individuals and what was important to individuals. And anything in the area of member services, we always referred to the Membership Committee first and they would decide.

That worked brilliantly and we had people who were very disaffected becoming tremendously supportive.

This is the first of a two-part interview. In the second part, out shortly, Greg Taylor talks more broadly about economic challenges and opportunities facing PNG. The [Greg Taylor scholarship](#) has recently been established with funding from an anonymous donor to provide opportunities for emerging PNG and Pacific scholars to undertake research at the Development Policy Centre in relation to the economic development of PNG and the Pacific.