

Papua New Guinea fast money schemes: a financial house of cards collapses

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Last month, the National Court of Papua New Guinea ordered the liquidation of Windfall, one of six so-called “fast money” schemes that operated across PNG for much of last year.

The fast money schemes were a classic form of pyramid investment. Their names—Money Rain, Windfall and Bonanza—read like those of gambling machines and they attracted deposits by offering phenomenal interest rates. One of the largest, U-Vistract, offered a 100 percent return per month and up to 1,000 percent in a year. Like all pyramid schemes, the founders and early investors obtain large returns but, when the stream of new investors dries up, the operation inevitably collapses and the smaller ones lose their money.

The scheme operators openly exploited the desperation of workers, unemployed and villagers, targeting rural communities in particular. Many small investors paid amounts ranging from 200 kina (\$US80) to 2,000 kina (\$US800). On Bougainville, which has been ravaged by a decade of war, about 60,000 people—nearly every adult on the island—invested in U-Vistract alone.

The schemes offered the promise of quick wealth, an escape from the poverty and falling living standards that the majority of the population face. The social divide between rich and poor has deepened in recent years as successive government have implemented the dictates of the International Monetary Fund and the country's economic position has continued to slide.

The majority of the wealth is monopolised by major international corporations and a small layer of local businessmen. More than one million out of the population of 4.5 million live below the official poverty line. In rural areas the figure is 75 percent. Over 70 percent of adults are illiterate and 23 percent of people

die before the age of 40. The majority of the population still rely on subsistence farming. Tens of thousands have gathered into shantytowns around major centres like Port Moresby, without regular employment or basic services.

The fast money schemes were not only permitted to operate by both the national government and provincial authorities, but were actively promoted. Iairo Lasaro, Treasurer under the previous Skate government, granted a three-year exemption from bank licensing requirements to four of the schemes in July 1999. This endorsement proved to be a major factor in inducing people to invest.

The current Mekere government, installed only weeks later, upheld the exemption until September 10 when the Bank of PNG (BPNG) finally issued a three-month deadline for the schemes to pay out their investors and cease operations. The BPNG claimed to be unaware of the existence of the schemes until that time, when the first media exposures were being made. But Westpac Bank manager Simon Millet contradicted the claim, saying the commercial banks had learned of the schemes operating in Vanuatu and warned the central bank months before they entered PNG.

Political leaders on Bougainville openly encouraged people to invest. Bougainville People's Congress president Joseph Kabui hailed the schemes as providing “a window of hope and opportunity.” Bougainville Revolutionary Army (BRA) faction leader Francis Ona also praised the schemes, declaring they were “owned and operated by Bougainvilleans”.

Even after the issuing of the deadline, the closure of the schemes was deferred several times. A BRA contingent visited the Australian High Commission in Port Moresby, claiming the closure of U-Vistract had ramifications for the Bougainville peace process, and

should therefore be halted. The scheme was only forced into liquidation in March, after repeatedly failing to make any return of investors' funds.

When official approval is given to such inherently flawed schemes it is a measure of just how advanced the rot in the country's financial system has become. Clearly sections of big business were desperate to raise capital and leapt on the opportunity to make some fast money even though everyone in financial circles knew that the schemes were certain to collapse with potentially disastrous consequences for the PNG economy.

The schemes emerged in the aftermath of the Asian economic crisis of 1997-1998. Foreign investment in PNG fell by two thirds and the currency slumped by 45 percent, giving rise to interest rates of over 20 percent and high inflation. The Australian financial press described PNG as "the business environment from hell." The two major international credit agencies—Moody's and Standard & Poor's—placed PNG in the bottom quartile of rated nations, making finance very expensive.

Under such conditions, layers of the PNG elite had no qualms about shoring up their own personal wealth at the expense of the population. The Chief Ombudsman Simon Pentanu admitted that he was paid out 222,000 kina (\$US88,000) from an original investment of 122,300 kina. In January, the *National* newspaper claimed that the speaker of the PNG parliament had invested 300,000 kina. The *Australian Financial Review* stated that parliamentarians had invested funds provided to them to provide services for their constituents into the schemes.

Considerable amounts of money have been lost, primarily by people who can least afford it. An investigative report published in the *Australian Financial Review* on March 15 conservatively estimated that about 500 million kina (\$US200 million) had been lost in the pyramid schemes. This represents a staggering 6 to 7 percent of the country's annual Gross Domestic Product (GDP). It equals PNG's entire conventional annual household savings and is greater than the amount spent on education. The true amount is probably much higher. In April, the *Melbourne Age* claimed that investors in U-Vistract alone had lost 581 million kina.

The failure of the schemes to pay back investors has

evoked considerable anger. Last December thousands of people converged on Buka in the Bougainville group of islands to seek refunds and payments from U-Vistract and Moneylink. People had travelled from as far as Buin, Siwai and Nissan Island demanding payment. The week before police had to be called in when people tried to attack employees of U-Vistract. Jeremy Sanau, operator of the Money Rain scheme, has alleged that infuriated depositors threatened his life. One of his agents was allegedly abducted and then bashed and abused by investors.

There is little hope that investors will recoup their losses. According to a report in the *National* on June 22, Chris Burt, the court-appointed liquidator of U-Vistract, has "relinquished his position... since the company did not have any assets or funds available". He has now been appointed liquidator of Windfall. Court actions are still underway against two other schemes, Gold Money and Money Rain.

There is also no hope that the PNG government will provide compensation. During its March negotiations with the International Monetary Fund, it assured the agency that the government "will not accept any financial responsibility for losses incurred under these schemes".



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