PNG superannuation fund collapse robs workers of retirement benefits

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More than 55,000 contributors to the Papua New Guinea National Provident Fund superannuation scheme were informed via the media earlier this year that a financial collapse had halved the value of their retirement entitlements. Fund managers announced that they were planning to “write down by 50 percent” all contributions paid into the fund prior to December 31, 1999.

National Provident Fund (NPF) general manager Rod Mitchell revealed losses worth almost 120 million Kina. He said the members' account in the assets pool was valued at K240 million but this would be written down to K126 million.

Mitchell also raised doubts about the safety of the remaining contributions, saying there was no guarantee that all the money would be recovered. More than 60 percent of funds were tied up in investment loans that could not be accessed until after 2008, he stated.

PNG World Bank coordinator Dan Weise indicated that the situation was even bleaker. “Substantially the losses are much more than 50 percent,” he said. “It is more like three-quarters of the savings when you translate that to real terms.”

The NPF contributors are mainly workers employed in communications, the maritime industry, engineering and airlines. The trade unions involved in the fund include the Communication Workers, the Amalgamated General Workers, the Commercial Workers, and the Maritime Workers & Seamen.

These workers are “generally lowly paid, and for many this is their only form of savings,” admitted Air Niugini managing director Andrew Ogil. He said his company was also affected because it had contributed more than K204,000 on behalf of its 1,400 employees.

Compulsory superannuation was introduced in 1982, with employers required to contribute seven percent and employees five percent of wages. Because PNG has no social welfare facilities, aged pensions or unemployment benefits, the collapse will have a devastating financial impact on workers and their families.

A government inquiry into the NPF's financial dealings heard last week that the fund borrowed K36 million from the government-owned PNG Banking Corp to build a financially disastrous office block headquarters, even though the fund's trustees did not have the legal power to borrow, provide security or pledge assets.

It is believed that other breaches of the NPF Act occurred, including the borrowing of monies to invest in local and overseas projects and the purchasing of shares not covered by the Act. No more than 35 percent of the fund's investments were meant to be high-risk yet it is estimated that between 1995 and 1999 more than 60 percent of the funds were invested in such projects.

While workers have lost much of their life savings, the major banks have protected themselves, despite the illegality of their loans to the NPF. The inquiry was told last month that during 1998 and 1999, the ANZ bank, which the NPF owed more than K145 million, insisted that the fund managers begin selling off investments in order to repay the ANZ debt.

Moreover, even though the NPF has frozen workers' funds, it is still threatening heavy financial penalties of 25 percent interest, if contributions are late or withheld.

The PNG Trade Union Congress (TUC) initially threatened widespread industrial action to bring transport, power supplies, planes, hospitals, schools and the business sector to a halt. No mass meetings or industrial action have been called, however.

One reason may be that two TUC executives held positions on the NPF's board of management—TUC general secretary John Paska and Clement Kanau. Paska has not revealed his knowledge of the dealings or the role he played on the board.

The TUC has maintained a low profile throughout the inquiry hearings, to such an extent that one of the NPF's legal representatives commented: “The TUC's silence is deafening in itself. They have had every opportunity to make themselves available ... to come to the rescue and support of the employees and up to now they have not”.

Concerns about the viability of the NPF were raised late last year, but were dismissed out of hand. The NPF launched an advertising campaign painting a glowing picture of the fund's financial status. Meanwhile, divisions were developing within the board of management—two trustees wrote to the government raising a number of concerns about the fund's dealings and calling for an investigation.

A number of contributing factors have been raised at the government's Commission of Inquiry to explain the NPF disaster, ranging from mismanagement to bad investments, corruption and government pressure to finance infrastructure projects.

The inquiry is examining the acquisition of a number of properties and investments in government projects, including the Maluk Bay Resort and the Poreprrena Freeway, involving companies such as Steamships Limited, Crocodile Catering Limited and Collins and Leahy.

Following the announcement of the inquiry both the chairman and managing director of NPF resigned. Henry Fabia, who was appointed in 1998 as the managing director to establish a debt reduction program, also sat on the boards of a number of companies, such as Steamships Trading Company, Crocodile Catering Limited and Collins and Leahy. Fabia was awarded an MBE (Member of the British Empire) in 1984 “for his outstanding services to banking and the community”.

Attempts are being made to portray the financial fiasco as the sole responsibility of the past boards of management or individual board members but the events suggest wider and deeper problems in the PNG economy.

Concerns have also been raised about the operations of two other major superannuation funds, the Public Officers Superannuation Fund and the Defence Force Retirement Benefit Fund. The World Bank's Dan Weise has referred to serious corporate governance concerns and some highly questionable transactions. Both funds claim there are no problems but Wiese said: “Audit reports on their operations indicate otherwise.”

On September 1, the PNG central bank removed the board of the PNG Banking Corp, the country's largest bank, which is implicated in the NPF affair. The Bank of PNG governor Wilson Kamit said he had acted primarily because of “prudential deficiencies” yet declined to elaborate.

Kamit used new powers of intervention under recent legislation introduced by the government of Prime Minister Sir Mekere Morauta. Morauta, himself a managing director of the PNG Banking Corp during the 1980s, assured depositors that their money was safe. “The central bank's actions are aimed at putting the bank on sounder financial footings,” he said.

Given that similar statements were made last year about the NPF, however, these remarks are unlikely to inspire confidence. Morauta's main concern is to prepare the PNG Banking Corp for privatisation. The major Australian banks operating in PNG, the ANZ and Westpac, welcomed the central bank's intervention.

The NPF fiasco is the second financial catastrophe to hit workers this year. Earlier, the collapse of pyramid schemes robbed ordinary people of an estimated K500 million, the equivalent of PNG's entire annual household savings. Both crashes arose out of desperate business efforts to raise funds in the wake of the Asian financial meltdown of 1997-98. Over the last two years foreign investment in PNG has fallen by two thirds and the currency has slumped by 45 percent, fuelling high inflation and interest rates of over 20 percent.