

Sponsor's address

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Ladies and Gentlemen,

It is my great pleasure indeed to be addressing the Kumul Scholars International 2002 Convention being held here in Canberra. I consider that to be doing so as the representative of the ANZ Banking Group—Papua New Guinea's partner in progress for just under a hundred years now—is, for me, a singular honour and a matter of great privilege.

For over a million tourists each year, the countries of the Pacific represent idyllic holiday destinations. But for the ANZ Group, the region represents much more—it is an important part of our vision and strategy to accelerate the development of our core markets.

ANZ has maintained a significant and strategic presence in the region for well over a century now, with the first branch opening in Fiji way back in 1880. Since then, ANZ has grown to become one of the most successful commercial banks in the region, with representation in just under a dozen countries.

Today, ANZ is focused on operating as the region's premier financial services partner, delivering solutions via a consummate network of dedicated associates. Increasing electronic distribution channels, new insurance, investment and asset finance products, and increasing local credit card issuance are some of the key areas of activity contributing towards the achievement of this goal.

Since establishing a presence in Port Moresby in 1910, ANZ has grown to become one of Papua New Guinea's strongest and most dependable financial institutions.

We are represented in the country via eight full-service branches—driven by a team of multilingual and well-trained officers to assist local, as well as international customers, with a wide range of personal banking, commercial financial services and investment solutions.

Speaking of investments, and referring to the theme of this year's Convention, I may also add that ANZ has been closely following Papua New Guinea's Structural Adjustment Program as well—especially so over the last couple of years and specifically in relation to the financial services industry.

For us, like so many other knowledge-based businesses around the world, investment in People Capital is vital for achieving success and creating a viable and self-sustainable future for our business and the markets we operate in. The main challenge we face, in this regard, is identifying talent, nurturing it and then retaining it.

In this, we are guided by the maxim that 'if you are planning for one year, plant rice; if you are planning for ten years, plant trees; but, if you are planning for a hundred years, plant people'.

Let me quote a few select passages from a recent article, which appeared in the *Harvard Business Review*, written by Peter Drucker who currently teaches Social Science and Management at the Claremont Graduate University in California.

In the article, he states that '[y]ou can hire freelancers and shed your HR responsibilities; but in the knowledge economy, you'll run into trouble if you outsource people development'.

He goes on to say, and I think this is equally true for countries at the macro level, 'It's one thing for a company to take advantage of long-term freelance talent or to outsource the more tedious aspects of its human resources management. It's quite another to forget, in the process, that developing talent is business's most important task—the *sine qua non* of competition in a knowledge economy. If by offloading employee relations, organisations (or countries, for that matter) also lose their capacity to develop people, they will have made a devil's bargain indeed'.

Increasingly, the success—indeed, the survival—of every business will depend on the performance of its knowledge workforce. And since it is impossible, according to the laws of statistics, for an organisation to hire more than a handful of 'better people', the only way that it can excel in a knowledge-based economy and society is by getting more out of the same kind of people—that is, by managing its knowledge workers for greater productivity. The challenge, to repeat an old saying, is to make ordinary people do extraordinary things.

It would be difficult to overstate the importance of focusing on knowledge workers' productivity. The critical feature of a knowledge workforce is that its workers are not labour, they are capital. And what is decisive in the performance of capital is not what capital costs. It is not how much capital is being invested—or else the Soviet Union would have easily been the world's foremost economy. What's critical is the productivity of capital.

Knowledge-based businesses need to be similarly focused on the productivity of their capital—that is, the productivity of the knowledge worker.

The emergence of knowledge work and the knowledge worker—let alone their emergence as the chief source of capital in our knowledge-based society and economy—is thus as profound a change as the switch to a machine-driven economy was all those years ago, perhaps an even greater one.

This shift will require more than just a few new programs and a few new practices. It will require new measurements, new values, new goals and new policies. It will predictably take a good many years before we have worked these out. However, there are enough successful knowledge-based organisations around to tell us what the basic assumption has to be for managing employees in today's companies: employees may be our greatest liability, but people are our greatest opportunity.

So, how has ANZ in Papua New Guinea fared on this front? I'd say, not half bad!

For instance, a couple of KSI alumni who readily jump to mind, and whom we are particularly proud of, are Daniel Faunt, Michelle Ramos and Nathan Wingti. Daniel is currently working with us as a Lending Manager in Port Moresby; Michelle drives our people development and training; whilst Nathan is a Money Market Dealer within our Treasury Department in Papua New Guinea. Daniel and Nathan look after the bank's financial assets, even as Michelle helps optimise the return on the organisation's people capital.

ANZ in Papua New Guinea encourages initiative and actively seeks associates not only with the ability to question existing systems and procedures but who also possess the ingenuity to improve upon them. A couple of ways we do this is via our 'graduate recruitment program' for the Pacific as well as our 'talent program'.

Individual performance measures are agreed with each officer at the commencement of each year, where mutual agreement is reached on performance targets. Performance, then, is rated purely on results. Those people whose performance is exceptional are nominated for the Bank's 'talent program'.

Criteria for the talent program include 12 months employment with the Bank and a satisfactory performance rating in a 'key role'. A key role is

defined as one that requires sound skills and is pivotal to the operation of the officer's department or branch.

Our talent program in Papua New Guinea currently has 14 officers enrolled in it. These associates are at various stages of development—from graded staff to the management level. However, each individual occupies a key position within the Bank, and needs to continue performing above par in order to remain on the program.

Staff who perform are rewarded with fast-tracked career development and training opportunities as well as recognition—for instance via salary increase, promotion, international assignments, continuing education opportunities—or a different, more suitable combination of the above.

The first seed I'd like to plant today is to challenge you to take this example of one organisation in your country and see how you're able to apply its lessons to the macro environment in Papua New Guinea. The idea encompassed in the words 'People Capital' is simple—the question is, can you translate it into an action agenda for Papua New Guinea, thus making a concrete contribution to the nation's development, and over what time?

Speaking of time, the other area I'd like to touch upon briefly is directly linked to the theme of this year's KSI Convention—the Structural Adjustment Program. Our involvement with and exposure to the SAP started over two years ago when we began exploring various avenues with the then National Provident Fund and the recently established National Superannuation Fund of Papua New Guinea (or NASFUND).

The focal point of our discussions was always based upon our ability, in Papua New Guinea and offshore, to assist NASFUND in the prudent management of its assets. This involved interaction not only with the management and trustees of NASFUND itself, but also representatives of the World Bank, BPNG and other key parties.

I am happy to advise that, after an extensive tender process, ANZ Bank PNG was awarded the investment management mandate by NASFUND last year, which culminated in our signing an Investment Management Agreement with the Fund last week in Port Moresby. The execution of the said Investment Management Agreement was the culmination of a number of developments that have recently taken place in Papua New Guinea as a direct result of the Structural Adjustment Program.

In the case of NASFUND, the benefits that will accrue to the members and trustees of the Fund as a consequence may be summed up as

- division of duties between trustees of the fund, NASFUND management, the fund administrator, investment manager and custodian
- elimination of opportunities creating conflict of interest and/or temptation for misuse of members' funds for, say, deficit financing
- prudent management of the fund's assets, both onshore in Papua New Guinea and eventually offshore as well
- optimal asset allocation and diversification achieved via the pooling of funds.

Beyond NASFUND, the engagement has potential benefits for Papua New Guinea at a macro level as well. For instance, emulating the example of NASFUND, already there are other funds in Papua New Guinea that have approached ANZ PNG to assist in moving in a similar direction. We have also been closely involved, with various bodies at the national level, in activities such as the drafting of the superannuation legislation.

Outside Papua New Guinea, we have been liberally citing the good work done in Papua New Guinea in this area. On my last visit to the Cook Islands, for instance, they were so impressed by what was happening in Papua New Guinea that they've decided to start a national provident fund scheme along the lines of NASFUND as well.

There is, of course, another angle to this topic. As someone who has been closely involved with Papua New Guinea for some time now, and with the luxury to boot of often observing events from a distance, I can clearly see that there is an urgent need for the country to attract and retain foreign direct investment—which is crucial for achieving that commercially viable and self-sustainable future that I spoke of earlier.

As Australian investors, we believe that Papua New Guinea represents an area of the world that has great potential, offering vast opportunities for making a contribution in terms of development and growth, and for creating prosperity for numerous stakeholders along the way.

It is an area with enormous resources, both natural as well as human, taking its measured steps on the path of economic advancement. As such, it offers organisations like the ANZ Bank, and indeed Australian and international investors at large, a chance to get involved in sustainable development—making a difference in people's lives at a scale far greater, although considerably more challenging, than within our home markets.

This premise is important, for it should demonstrate that there is a natural propensity for investors in mature markets to seek opportunities

offshore. This predisposition of investors is essentially driven out of a desire for portfolio diversification—and Papua New Guinea, given the right conditions, can clearly capitalise on this. Thus, in a way, you're already approaching the world from a position of advantage!

But, despite these and no doubt other favourable attributes, the difficulty, of course, is that you are not alone in approaching the investment community. For international investors, each developing market becomes a potentially attractive destination for investible funds.

As well, the region is now confronting an era of increasing globalisation, including a more liberal trade and investment environment, and the reality of decreasing foreign aid.

A successful response to these new opportunities and challenges could see countries in the region free up their own trade and investment regimes, improve government administration and social infrastructure, thus enabling their citizens to benefit from regional growth.

I draw your attention to the Survey of Australian Business Attitudes recently conducted by the South Pacific Trade Commission. The purpose of that survey was to assess the attitudes of Australian businesses towards the investment climate in one of your neighbouring Pacific countries, and to use the findings of the survey to propose to that country's Foreign Investment Board a strategy to promote it as an investment location targeting Australian investors.

Results and findings of that survey can, by and large, also serve as a reflection on Papua New Guinea, giving us the opportunity to learn and benefit from the survey's key points.

Whilst key findings of the survey may be successful only in reiterating major factors impeding foreign direct investment inflows into the region, it is nevertheless advantageous to continue to raise these issues in order to highlight how and why they are critical, and emphasise that they must be effectively dealt with if Papua New Guinea is to optimise its position as an investment destination.

The overall attitude of businesspeople to countries in the region may be expressed as 'cautiously positive'.

Investors, however, are primarily concerned with and driven by the following criteria whilst making investment decisions

- a return on investment over and above what could normally be achieved on comparable investments in the home market
- a premium for additional risks undertaken by investing offshore

- portfolio optimisation by balancing the mix of asset allocation—not only in terms of investments undertaken but also in terms of investment destination and location.

Everything else being equal, the yield on any given investment is normally a function of prevalent market conditions—where the price of any given commodity is normally determined at the point where supply–demand equilibrium is achieved in the marketplace—and the investor's ability to minimise costs.

If it is therefore assumed that the income stream for a given investment is determined by market conditions prevalent at the time, it becomes critical from the investor's point of view to be able to predict and control the costs of doing business. Naturally, as the risk of doing business goes up, generally so does the cost.

Consequently, for investors to be attracted and retained, either the revenue stream has to be exceptionally attractive and predictable, or the cost and risk of doing business has to be acceptable as well as manageable.

Let's take a quick look at some of the key risks of doing business in the region from the Australian investors' viewpoint. Hopefully, once we're aware of the risks, we can do something to mitigate them.

Stability, invariably, is the first and foremost issue. This encompasses political stability as well as security of investment regimes. It is a concern that when administrations change, and especially if they change often, policy will shift too frequently, putting off foreign and domestic investors alike. Erratic, frequent and retrospective policy shifts are the main concern here, as opposed to the quantum of regulation.

Security concerns also incorporate facets that go beyond the security of investment. Personal security is naturally a major concern, especially in light of certain recent events in the region. Business ethics, varying degrees and severity of corruption, and relative lack of transparency and good governance *vis-à-vis* alternative offshore investment destinations (such as those in Asia), not only create issues of security but also increase the cost of doing business in the region, directly and indirectly.

Viability of investment and fluidity of capital are further concerns. That investments need to be viable over time and that capital is a fluid commodity is a truism. What I am alluding to here is the need for investors to be confident that, in addition to projects being economically viable, investment and capital guarantee regulations are in place—that capital and profits can indeed be repatriated, should the need arise to do so; that

the taxation regime will not be discriminatory and will not eat into shareholders' capital or retained earnings; and that the lack of personalised facilitation for investors will not result in getting stuck with unreliable and ineffectual local partners.

Sustainability within the given business environment is also important. What makes sustainability of investment risky and doubtful are unpredictable and high input costs, such as those for raw materials, freight, and utilities; lack of skilled labour and non-availability of suitably qualified managers; inappropriate and low quality infrastructure; a complicated land tenure system; currency volatility and risk of exchange controls that adversely affect the business.

Finally, there are also some structural issues that demand attention

- small domestic markets, lack of diversity in the economy, distance from major world markets. The small size of domestic markets can, to some extent, be countered through trade liberalisation and the promotion of intra-regional trade in goods and services
- Lower level of GDP growth compared to Asia. Economies primarily dependent upon agriculture, tourism and/or textiles, as an example, should diversify in line with their areas of comparative advantage—bearing in mind that not necessarily all countries' comparative advantage lies in the production of a similar basket of goods and services
- perceived lack of liaison between government departments, and a general lack of awareness of the investment climate, coupled with negative publicity.

Your government can play a leading role in alleviating the perception of lack of liaison between different departments—a one-stop shop for investors is often a channel used quite effectively by some countries to attract and retain foreign direct investment.

Lastly, a bit of slick marketing never really hurt anyone and can in fact create positive publicity and awareness of the investment climate in your country.

Hence, a challenge for Kumul Society International (KSI) alumni would be to work towards establishing the right conditions for investors to commit to Papua New Guinea.

What I've said here is intended as a proposition for attracting and retaining foreign direct investment in Papua New Guinea. Choosing not

to take any of this on board is certainly an option—but an option that probably won't produce results worth writing home about!

On the other hand, opting to take some of this on board could, at the very minimum, be a step in the right direction...toward sustainable economic development.

It is not rocket science, and is not meant to be. None of this ought to be impossible to grasp either. But it will boil down to correctly perceiving the trivet of acceptability, accessibility and affordability and, having perceived so, the yield, as always, will lie in execution.

This would have to ensure that

- Papua New Guinea is *acceptable* as a potential investment destination.
- by facilitating the way in for prospective investors, Papua New Guinea is accessible for investors.
- by helping mitigate risk through reform, you're making investing in Papua New Guinea an affordable, realistic and viable option.

One must also be ever cognisant of the positive developments that are without doubt often taking place in Papua New Guinea. So, the second seed I'd like to plant today is to challenge you to think about reform with respect to the realities on the ground in the country. I'm alluding here, of course, to timeframes and the speed of reform.

In our zeal to improve the world, we must not forget that success generally emanates from incremental development in a country's national, social, cultural, political and economic frameworks.

To try and turbo-charge development, via hastily put together, albeit well-intentioned, structural adjustment programs or other instruments, can often carry the risk of blowing up in the reformers' face.

It is much better to take the system with you and bring about change in incremental steps than to bulldoze ahead without regard for the local environment or sensitivities.

Somebody once asked the Dalai Lama, who was visiting England at the time 'would you advise Western beginners on the Buddhist path to proceed slowly and cover less ground, or to try to learn as much as possible and proceed faster?'

The reply came back: 'It depends on the individual case. I think, in some cases, extensive study is more suitable or useful. But it is important to keep one thing in mind—you should realise that spiritual development

takes time; it doesn't just happen overnight. Perhaps, some lama may say that "if you follow my teachings, you will gain some spiritual experience within one week or two." I think that is nonsense!

All I have to add to that is to ask you to be patiently balanced in your outlook, and beware of 'gurus' promising quick fixes.

For, if that's the Dalai Lama's view on Buddhism, far be it then for the rest of us not to plan for a hundred years...instead of simply planting rice!

I thank you for your time and attention; and wish each and every one of you, and Papua New Guinea, all the very best for the years to come.