



A Sovereign Wealth Fund for all PNG



Information on Sovereign Wealth Fund of Papua New Guinea

Introduction

This Public Information Paper was produced to educate the general public on the establishment of the Sovereign Wealth Fund (SWF) of Papua New Guinea. This need arose because based on various presentations on the SWF, it became apparent the general public has limited knowledge and understanding of it.

The Paper is intended to be simple as much as possible for the purpose of educating the general public. Detailed information, including technical information on the SWF, can be obtained from the respective website of the Department of Treasury or the Bank of Papua New Guinea.

Purpose

Active stakeholder participation is needed to enhance the visibility, governance and transparency and accountability of the SWF. Educating the public on the Fund will not only improve their understanding of this important government initiative but would assist them become active stakeholders in the management of Fund, when the Fund is fully established.

This Public Information Paper provides information useful for educating the public on the SWF, which is new to Papua New Guinea. It starts with a private or public Kina savings account, as an example, because many people are already familiar with bank accounts. The Paper draws on the familiar features and uses of a Kina savings account to help educate the general public on what the SWF is, as it has many features of a Kina savings account. The main difference is the currency of the account; the SWF is denominated in foreign currency whereas a private or public savings account is held in Kina.

The Paper uses the private or public savings account to describe the SWF of Papua New Guinea, its purpose, how it will operate and the reasons for investing moneys in the Fund. It also provides other general information on the government institutions, committees, donors, work plans and processes being followed at present to fully establish the SWF.

1. A Kina Savings Account and Sovereign Wealth Fund

a. Personal Kina Savings Account

If you have a personal Kina account with a bank, you can make deposits into the account from sales (say, copra), fortnightly salary, bonus, and gifts from friends. You then make withdrawals from that account to pay for food, drinks, school fees, PMV fare, and so forth. If your total withdrawal is less than total deposits, then you have a positive savings in your account. If your expenses are more than deposits, you end up spending all the deposits in the account.

b. Public Kina Savings Account

The government also operates a Kina account (Waigani Public Account) with the Bank of Papua New Guinea (Central Bank). Company income tax revenues, duties, personal income tax, goods and services tax (GST), and other tax revenues are deposited into the account. It makes withdrawals from the account to pay public servants, buy medicines and supplies for hospitals and clinics, build infrastructure (roads, airports, wharves, and bridges) and undertake many other public expenses. If withdrawals for public expenses are less than deposits, then the government has positive savings in its account. If, however, expenses are more than the deposits, the government ends up spending all the deposits in the account.

c. Sovereign Wealth Fund

The SWF is simply another government savings account established outside Papua New Guinea (PNG) in foreign currency. The government will deposit incomes from mineral taxes and dividends from profits into that account in foreign currency. The reasons for

depositing public moneys into the account are to reduce exchange rate losses (from converting foreign currency into Kina and back into foreign currency) and reconcile and account for all taxes and dividends.

When Kina deposits in the account with the Central Bank are more than withdrawals for Kina expenses, the government does not make any withdrawals from the SWF. In this case, foreign currency deposits into the SWF will increase. These accumulated funds in the SWF will then be invested outside PNG to earn additional income for PNG.

If the withdrawals for Kina expenses are more than the deposits in the Kina account with the Central Bank, the government will withdraw funds from SWF to cover the shortfall. In other words, withdrawals from SWF would help the government fund additional public expenditures.

The SWF operates in the same or similar way as a private or a public savings account. The only difference is that SWF account is located in another country and held in a foreign currency, whereas a personal or a public savings account is located in PNG in Kina.

2. Purpose of Sovereign Wealth Fund

The SWF serves three purposes: (a) it helps the government to smooth out large or wide variations in revenue inflows to the national government budget that are associated with PNG's exports (b) provide funding to support the social and economic development objectives of the government, including long-term social and economic development programmes; and (b) it helps the government save and invest surplus public moneys outside PNG for later use when it is needed.

3. Sovereign Wealth Fund Design

a. Ownership, Administration and Spending

The offshore foreign currency account will be owned by the government of PNG. The management of the account and overseas investments will be from PNG. All withdrawals from the account will be spent on the provision of infrastructure development and maintenance and delivery of socioeconomic services vital for the economic and social advancement of PNG.

b. National Budget

The government will establish in law the rules for both deposits into the account and withdrawals from the foreign currency account. Withdrawals from SWF must be accounted for in the National Budget and approved by Parliament for spending by the government. Rules do not allow the government to spend SWF withdrawals outside of the national budget.

c. Investments Outside Papua New Guinea

Any surplus funds in the foreign currency account must be invested outside PNG. The government will issue a set of guidelines (Investment Mandate) that will govern all investments abroad.

The government will not control or interfere with the management of investments abroad. The extent of its involvement is limited to issuance of an Investment Mandate.

4. Management of Sovereign Wealth Fund Investments Abroad

a. Government

The government, through the Minister for the Department of Treasury (DoT), will issue an Investment Mandate setting out the general investment parameters for SWF Board to comply with. The Board will use the Investment Mandate to

guide it to develop its investment policies (strategies) for the asset portfolio (collection of assets) to invest in. The Investment Mandate and investment policies and instructions will be implemented through the Administrative Secretariat of the Board.

b. SWF Board

The SWF will be managed by an independent SWF Board for-and-on behalf of the government. An independent board will be appointed through a bipartisan appointment process. The Board will comprise members with relevance expertise in financial and economic matters and governance and be persons of integrity, sound mind and good reputation. The Board's key function is to oversee the investment and management of the SWF assets, on the Government's behalf and with consideration to the Investment Mandate.

c. Role of Department of Treasury and the Minister

The Department of Treasury will ensure that the investment and SWF asset management and withdrawals from SWF for spending in PNG comply with the rules approved by the government. It will also ensure that SWF withdrawals follow the normal national budget process and approved by the government for spending.

Once the Sovereign Wealth Fund is established the Treasurer will be the Minister responsible for the policy matters for the Fund. The Treasurer has legislated responsibility for issuing the Investment Mandate, in consultation with the SWF Board, as well as reviewing and considering Fund reports from the Board. The Treasurer is also the Minister responsible for establishing the SWF.

d. Secretariat to the SWF Board

The Secretariat will oversee the daily operations of the SWF for the Board. Its three main roles are to:

- provide information on investment markets to the SWF Board;
- give effect to the Board's investment policies (strategies) and guidelines and instructions; and
- provide information to the Board on the appointment of external fund managers and custodian.

e. Fund Managers

The SWF Board will appoint reputable Fund Managers through an open, competitive and transparent process to make investments abroad on its behalf. The Fund Managers will be appointed to invest funds as instructed by the SWF Board.

f. Custodian

The SWF Board will need to appoint a reputable Custodian for the safe keeping of the SWF assets.

5. Reasons for Investing Outside Papua New Guinea

a. Inflation and Value of the Kina

When large sums of money from the PNG LNG project flow into the domestic banking system, it would likely stimulate demand for bank loans which would be spent on purchasing goods and services in PNG and from abroad. The increase in demand would drive up the prices of goods and services and reduce the value of the Kina. It could create livelihood hardships for families and affect investments and operations of businesses and the government. Investing outside of PNG therefore reduces the amount of money in the country which will assist reduce inflation.

b. Exchange Rate

When large sums of money in foreign currency flow into the economy, it would make the Kina increase in value, or appreciate, against other currencies. The increase in the value of the Kina would make our exports more expensive for purchasing countries, which could lead to a fall in the demand for our exports abroad. This could lower household incomes for those who depend of cash crop production to sustain their livelihood and to pay for services such as school fees for children, medical services and transportation.

c. Domestic Investment Opportunities

PNG economy does not offer a variety of investment opportunities than those which are normally available in developed countries; Unites States, for example. By investing in financial markets overseas, the surplus funds which are not immediately required by the government for spending in PNG are able to earn interest. This will over time provide the Government with more funds with which to provide public goods and services

d. Better Public Funds Management

The creation of a SWF will provide an opportunity for PNG to better manage public funds than it has done in the past. The SWF will improve transparency and accountability around the use by the Government of mining and petroleum revenues and dividends. The use of an independent SWF Board will ensure that the assets in the SWF are invested overseas without bias for the benefit of the Fund.

e. Transparency and Accountability of Public Funds

Transparency in reporting and accounting of public funds had been a particularly sensitive issue in PNG. Loss of public funds and the lack of responsibility to account for those funds had left a great deal of public distrust for public finance management.

As a start, to address this problem, the SWF is subject to its own rules based on international best practice on transparency and accountability.

6. Government Agencies

a. Key Government Agencies

The key government agencies that are involved in the work on establishing the SWF are the Department of Treasury, the Bank of Papua New Guinea, the Ministry of Public Enterprise and State Investments, the Department of National Planning and Monitoring, the Department of Prime Minister and National Executive Council and the Department of Justice and Attorney General. The heads of these agencies meet at regular meetings to discuss and make decisions on the SWF work and policy and other issues arising.

b. Co-Opt Members

The co-opt government members involved in the work on establishing the SWF are the Internal Revenue Commission, the National Roads Authority, the Department of Transport, the Office of Higher Education and the Department of Works. Co-opt members attend meetings with the key government agencies on as-and-when required, to discuss issues relevant to their area of responsibilities.

7. International Donors

a. Technical Assistance

Technical assistance for work on SWF is being provided by various international donors. The donors provide advice on policy and governance development, administrative processes and public awareness programs on SWF.

b. Capacity Building

Local capacity building is an important element of work process underway to establish and operate the SWF. In the period prior to the establishment of SWF, donor technical assistance is part of local capacity building. In the period after the SWF establishment, donor assistance will also be sought for both short-term (secondment and on-the-job training) and long-term training (post-graduate education) to build local capacity on SWF investments and assets management.

8. Decision-Making Process

a. Inter-departmental Sovereign Wealth Fund Working Group (Technical Committee) and Composition

This is the main technical group that convenes at regular meetings to discuss policy, legislative and administrative matters affecting work on SWF. Its membership is comprised of the Department of Treasury, the Bank of Papua New Guinea, the Ministry of Public Enterprise and State Investments, the Department of National Planning and Monitoring, the Department of Prime Minister and National Executive Council and the Department of Justice and Attorney General.

b. Modelling Team and Composition

This is a sub-group of the Technical Committee which is responsible for all the economic modelling work and discusses its finding at Technical Committee meetings. The group comprises members from the Department of Treasury, the Bank of PNG and the Department of National Planning and Monitoring.

c. Implementation Secretariat and Composition

This is a sub-group of the Technical Committee. Its role is to develop policy, legislative and administrative papers for review and discussions at the Technical Committee meetings. It has officers from the Department of Treasury, the Bank of Papua New Guinea, the Department of National Planning and Monitoring and the Department of Justice and Attorney General.

d. Secretaries Committee and Composition

This is a decision-making committee. It comprises the department secretaries and heads of Department of Treasury, Bank of Papua New Guinea, Department of National Planning and Monitoring, Department of Justice and Attorney General, Department of Prime Minister and National Executive Council and Ministry of Public Enterprise and State Investments. It convenes at regular meetings to review and make decisions on matters of policy, legal and administration submitted by the Technical Committee. This committee also updates the Minister for Department of Treasury (Treasurer), Ministerial Sectoral Economic Committee and the National Executive Council on SWF work progress.

e. Minister

The Minister for Treasury (DoT), as per the ministerial determination, is responsible for making policy submissions and obtaining NEC decisions on them for implementation by the Secretaries Committee and Technical Committee.

f. Ministerial Sectoral Economic Committee

This is a sub-committee of Ministerial Economic Committee which is chaired by the Treasurer. It convenes to review and approves policy submissions relating to SWF, before they submitted by the Treasurer to National Executive Council.

g. National Executive Council

The National Executive Council is chaired by the Prime Minister as chairman. It convenes to review and makes decisions on policy submissions made by the Treasurer. Its decisions are returned to the Treasurer for implementation through the Secretaries Committee.

9. SWF Work Progress Updates

a. National Executive Council

The National Executive Council (NEC) is provided with updates on the progress on SWF work on a quarterly basis.

b. Public Information Disclosure

In addition to the National Executive Council update, the general public will be informed on the progress on SWF work by way of a written update from time to time. It will be released when work progress has reached sufficient stage for release to the general public. Some of the disclosure is being done at various seminars or forums.

10. Sovereign Wealth Fund Work

a. Phase 1

In March 2010, the National Executive Council established a joint Department of Treasury and Bank of Papua New Guinea Working Group (Joint Working Group) to:

- assess the appropriateness of the current framework;
- seek feedback from international donor institutions and other appropriate Governments;
- canvass possible options for Government consideration, including the possible creation of an offshore fund to manage windfall revenues arising from the PNG LNG project; and
- report back to the National Executive Council by 30 June 2010.

The Joint Working Group completed its report (the Report) in June 2010. The Report recommended the creation of an offshore fund. It also recommended the establishment of a Secretaries Committee to oversee the development and establishment of an offshore fund. The National Executive Council approved the Report and its recommendations in November 2010, and commenced the process of setting up an offshore fund. Subsequent work led to a change in the name from Offshore Fund to Sovereign Wealth Fund.

b. Phase 2

Work re-started in February 2011 to commence legislative drafting for the establishment of the Sovereign Wealth Fund of PNG. Legislative work was completed in October of the same year and a bill on SWF Organic Law and a Constitutional Amendment were submitted to NEC and Parliament for their approval. Parliament gave its final approval on the SWF Organic Law and Constitutional Amendment in February 2012.

c. Phase 3

The final phase in establishing the SWF began in March 2012 to develop the enabling Acts of Parliament and Regulations for the SWF Organic Law and to setup the Administrative structures to fully establish and manage the SWF. In addition, policy work is progressing on:

- SWF Board Selection Process;
- Stabilisation Fund;
- Development Fund;
- Higher Education Endowment Fund (Account);
- policy responsibilities of the Department of Treasury;
- the SWF Board Secretariat; and
- Infrastructure Authority.

11. Engagement with the General Public and International Stakeholders

a. Public Consultations and Awareness

The SWF work involves engagement with the general public and international donors. This engagement is done through public consultations and public awareness forums. For public consultations, the Government will seek valuable comments and suggestions from the public on key government policies relating to the SWF. Comments and suggestions are incorporated and contribute to the Government's final policy decision. Part of this process also involves consulting other countries that either have established or are establishing their SWFs.

Public awareness forums are organized to inform the general public on the progress of SWF work and decisions made. The objective of public awareness is to educate the public on SWF and to promote its transparency.

The discussions below provide information on public consultations and awareness forums that were held or are being planned for Phase 1, Phase 2 and Phase 3 of SWF work.

b. Phase 1

In 2010 public consultations were held in Port Moresby. The audience comprised the general public, key government agencies and institutions, international donors and the private sector. Their feedbacks were incorporated into the final Report of Joint Working Group.

A presentation was made in London to an international audience in May 2010. It received positive and helpful comments which were incorporated into the final Report.

c. Phase 2

In 2011 the members of the Technical Committee, through a video conference, consulted the Mongolians on the progress on establishment of sovereign wealth funds in that country. The members also went to Chile in July 2011 and consulted various government institutions, government owned enterprises and the Central Bank of Chile (CBC) on how Chile has established and manages its sovereign wealth funds. Consultations with the Mongolians and Chile provided valuable inputs to the work on Constitutional Amendment and the bill on the SWF Organic Law. There were no public consultations held in PNG during phase 2 of the work on SWF.

A number of public awareness forums were held in Kokopo, Alotau, Lae and Mt. Hagen in the fourth quarter of 2011 to inform the general public on the Bill to establish the SWF.

d. Phase 3

There are plans to conduct public consultations on various components of SWF work set out under Phase 3 of 10 above. The general public will be informed on the venues and when the consultations will be held, when specific components of SWF work reach public consultation stage.

The Implementation Secretariat is preparing a timetable on public awareness on the SWF work set out under phase 3 of 10 above. The general public will be advised on the mode and dates and venues on the various types of public awareness to disseminate information on SWF to the public.

12. Communication

For more information, please visit:
Department of Treasury
http://www.treasury.gov.pg/html/public_debt/swf.htm, or

Bank of Papua New Guinea
<http://www.bankpng.gov.pg/joint-sovereign-wealth-fund.html>

Contact SWF Implementation Secretariat on phone 343 7152 / 343 7155 / 323 5600 or email swfforum@treasury.gov.pg on PNG SWF matters.