

The proposed establishment of the Sovereign Wealth Fund (SWF) of Papua New Guinea: A Case Analysis on the Threats and Opportunities to the Institutional and Governance Framework.

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Outline of Presentation

1. General Overview of SWF
2. Objectives of SWF.
3. Addressing of Key Questions.
4. Threats and Opportunities of Past Funds.
5. Perceived Threats and Opportunities of the current SWF.
6. Some Key Issues
7. Policy Issues/Recommendations
8. Conclusions.

General Overview of SWF.

❑ What is a Sovereign Wealth Fund?

State-owned investment fund or entity

Its purpose is basically to prudently manage surplus funds or revenues not immediately required

❑ Sources of SWFs establishments?

a) Commodity-based SWF

b) Non-commodity-based SWF

The Asset Map of the Sovereign Wealth Funds.



Overview of proposed SWF of PNG.

- ❑ What is a proposed Sovereign Wealth Fund of PNG?
 - ✓ Will be a PNG government owned investment fund or entity
 - ✓ Its purpose is to prudently manage surplus funds or revenues build infrastructures, stabilise the economy and save for future generations of PNGeans.
- ❑ Ensure revenue from non-renewable resources are well managed, equitably distributed and used sustainably to improve socio-economic indicators of PNG.



The Objectives of Sovereign Wealth Fund of PNG

- ✓ Protect and stabilise the budget and economy from excessive volatility in revenues and exports
- ✓ Diversify from non-renewable commodity exports
- ✓ Earn greater returns than on foreign exchange reserves
- ✓ Assist monetary authorities dissipate excess banking system liquidity.
- ✓ Increase savings for future generations
- ✓ For social and economic development
- ✓ Sustain long-term capital growth for target countries

This study will address following questions;

1. Why setting up the Institutional Framework?
2. What is governance and why is Governance crucial to the proposed SWF?



Opportunities of Past Funds.

- ✓ aimed to smoothen flow of resources revenues.
- ✓ To control excessive expenditures.
- ✓ Support concerned commodities during price fluctuations and assist concerned farmers.

The Threats of Past Funds.

- ❖ Too much of Political Interferences.
- ❖ Used as collateral to finance Government borrowing.
- ❖ Lack of consistency and focus
- ❖ Shifting of focus to mining and petroleum earnings.
- ❖ Inefficient Management Arrangements
- ❖ Lack of Flexibility
- ❖ Poor Transparency, Accountability and Governance Arrangements.

Perceived Opportunities of proposed SWF of PNG.

- ✓ To ensure the SWF is sustainably governed.
- ✓ Potential to diversify the economic-base of PNG to other sectors of economy.
- ✓ To normalise the National Budget from Commodity price fluctuations.
- ✓ To share the benefits of LNG revenue across generations.
- ✓ Improve infrastructure and social indicators of PNG.

Perceived Threats of the proposed SWF of PNG.

- ❖ Delay in the passing of the Organic Law on SWF.
- ❖ Continuous political interference once the SWF is established.
- ❖ Lack of proper external stakeholders debate on the SWF and its structure.
- ❖ Potential interferences to the Savings/Futures Fund.
- ❖ Potential lack of flexibility in the drawdown of Stabilization Fund.
- ❖ Using the drawdowns of SWF outside of National Budget.
- ❖ Not using those derived revenues to broaden the economic-base of our country.
- ❖ Potential lack of Governance and Accountability.

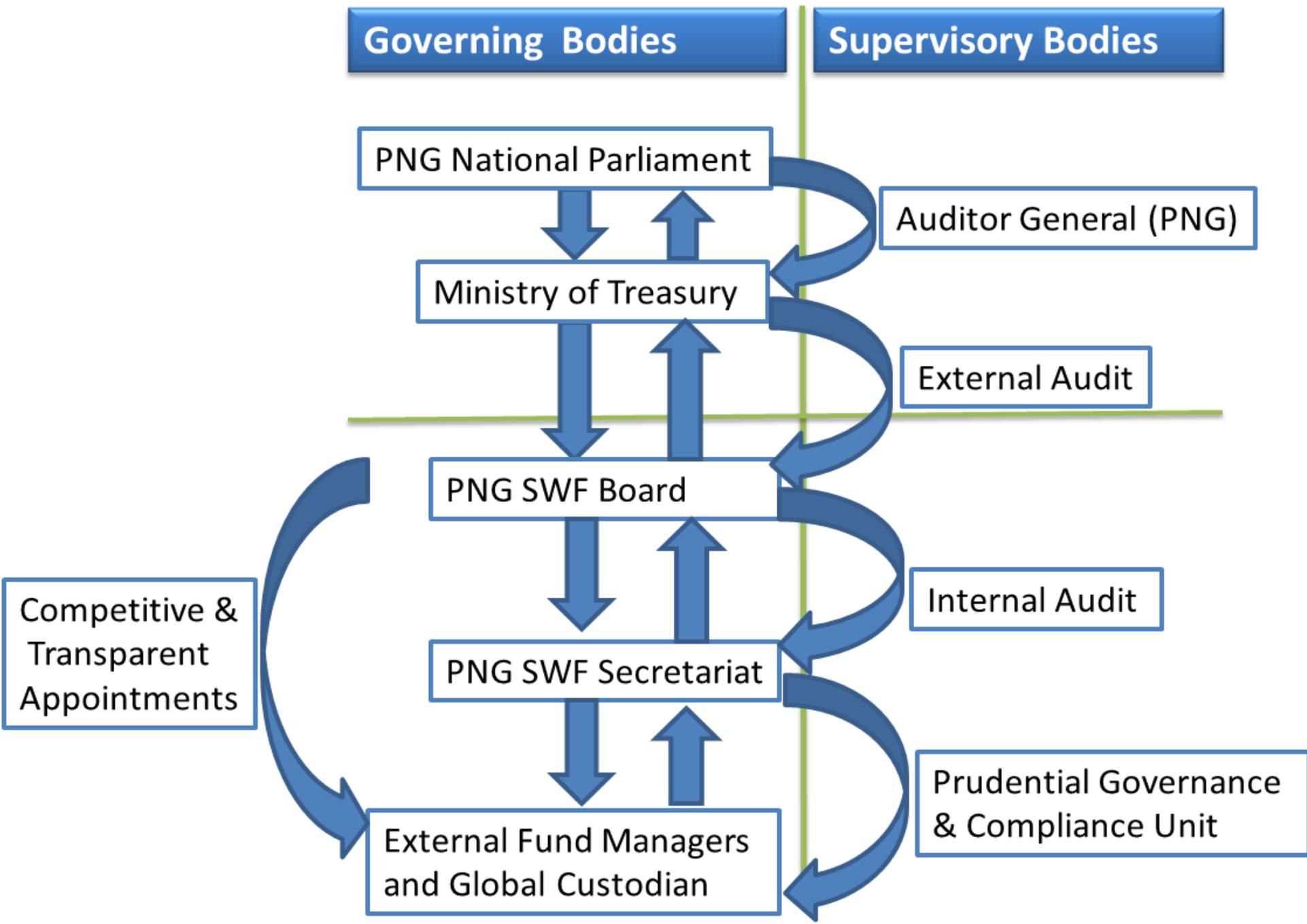
Some Key Issues

- ❑ No clarity in the proportional distribution of the LNG revenues (tax, profits, dividends, royalties)
- ❑ The structure of SWF have been altered a number of time.
- ❑ The emergence of Kumul Structure
- ❑ The distinctive clarity of the Sub-funds managements.
- ❑ Role of the Stabilization Fund to counter uncertainty.
- ❑ Good Governance, Transparency and Accountability remains a ***critical*** issues.
- ❑ Encouraging broad based economic growth.
- ❑ Minimal Direct and Indirect Government interference to the SWF.
- ❑ Incorporating Public Finance Management Act 1995.
- ❑ External Stakeholder engagement.

Policy Issues/Recommendations

- ✓ That the government and its SWF establishing stakeholders to clearly spell out the proportional distribution of the LNG revenues.
- ✓ Stakeholder Engagement on the Kumul Structure issue.
- ✓ That the Future Fund be legislated under Organic Law and its investments prudently managed.
- ✓ That the Stabilization Fund be flexible to counter Commodity Price instability.
- ✓ That the Government and its agencies responsibly implement PFM Act 1995.
- ✓ That there have to be distinctive clarity to sub-funds management.
- ✓ That the Government through the budgetary processes encourage broad-based economic growth.
- ✓ To engage external stakeholders views and principles to improve the image of SWF.
- ✓ That the principles of prudent governance be upheld without due compromise to SWF management.(refer to framework)

The Institutional and Governance Framework of SWF of PNG



- ✓ With Kumul Structure, it is paramount to strengthen the Governance, Accountability, and Transparency Mechanisms.



- ✓ That the SWF must be conscious of improving its image by incorporating and engaging external stakeholders: Framework of Sustainable Development, EITI, UNPRI etc...



- ✓ That the governance framework of proposed SWF must be inclusive and concise.



Conclusion

- ❑ The proposed SWF is a significant milestone for PNG. If established and well managed, it could transform PNG in a massive and significant way.
- ❑ **The challenge now:**
 - ✓ Ensure proper management, governance and institutional framework is in place.
 - ✓ Ensure keeping at bay external influences where necessary.
 - ✓ Having an institutional framework that will clearly demarcate differing sets of roles and responsibilities.

Thankyou.

Any Questions and comments?