Impact of the LNG Project and Managing the Wealth from the Project, notably through a Sovereign Fund

Presentation by Paul Barker to the Sovereign Wealth Fund Workshop (different components presented in the respective meetings)

hosted by the Treasury and Bank of PNG

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Minister, Governor, Departmental Heads, Ladies and gentlemen,

Firstly, I'd like to thank the organisers for inviting me to address the two consultations on the implications and preparation for major resource revenue. I'd like particularly to commend the Treasury and Central Bank for initiating the exercise, as awareness of the implications of LNG development and gaining a real sense of public ownership of the revenue stream and of any potential sovereign wealth fund will be critical to ensuring that the proceeds from major resource exploitation are well managed for the long term interests of Papua New Guineans.

I have been asked to speak on the Impact of the LNG Project and managing wealth from the Project. At the outset I must emphasise that LNG development provides an immense long term opportunity for PNG if managed and integrated into the economy effectively, so as to stimulate a growing and diversified economy; it is not in itself, however, some nirvana or solution for PNG's economic welfare, as some politicians have suggested. Indeed it has the potential to pose serious economic and social hazards, undermining other parts of the economy, if preparation and proceeds are ill-planned and managed by government and/or the developers. In any case it will inevitably generate substantial challenges and some dislocation, even if managed soundly.

We must learn from PNG's past experience and avoid the mistakes made. PNG is often described in paradoxical terms; resource wealthy but poor, unable to convert the proceeds from utilising its considerable natural resources effectively into investment human resource development and the country's sustainable future, with economic diversification undermined and proceeds from resource extraction providing narrow exclusive benefits and sometimes squandered unproductively.

The PNG LNG project (and I'll leave out further LNG developments for the time being) comes in two phases, with quite distinct impacts: -

Firstly, the construction phase from now until 2014, when major international and local contracts are awarded, and up to 15,000 are employed, largely from overseas, but with several thousand skilled staff (such as welders) hired locally, invariably drawn largely from existing industries. During this stage the project is largely exempt from duties and other tax.

The second phase will be once the LNG production proceeds from late 2014, when the workforce shrinks to about 500 largely local professional staff, and revenue starts to flow to the National Government, a few provincial and other sub-national authorities, and various landowner companies. This revenue will commence modestly, including landowner royalties, but ratchet up as the project pays off debt, becoming substantial from late this decade.

We're especially talking about this second phase today, when considering managing resource wealth, which (apart from the returns to the investors) largely accrues directly to national and sub-national governments; so, if PNG as a whole is to benefit from the LNG project, it is critical that respective authorities plan for it and are able to perform a lot more effectively than currently, cooperating with the private sector and wider society.

During the construction phase, when PNG may experience some fiscal squeeze, the country will already start experiencing major impacts, both positive and negative, notably with other industries and Departments losing key technical and professional employees to the LNG developers and contractors. Their critical constraint is time rather cost, so they are already demonstrating readiness to pay premiums on prevailing salaries or contracts, and we are also experiencing dramatically rising rental and retail prices, driven partly by LNG-related demand and much opportunism.

The country should have been more prepared for this construction phase, able to benefit more from the employment and contracting needs, and counter the negative effects, if we had not let our technical and vocational colleges run down, and opened up our peri-urban land and housing markets for investment in low to middle priced accommodation, notably through better administration of State land and freeing opportunities for customary owners to secure title and make land available legitimately for housing. During this construction phase many Government and State-owned institutions play key roles not only in providing for its needs but also meeting requirements of other industries, such as agriculture and manufacturing, which are being undermined in various ways by LNG development, despite being the industries critical for longer term, broad based employment and income earning opportunities. Key Departments directly related to LNG's operations, include Labour, Immigration, Customs, Police, the rundown Petroleum Department, but also ports, educational institutions and so on need revitalisation (meaning effective management and capacity rather than just extra money), and yet some of them are also losing staff to the project, including, for example, many lecturers at the technical colleges.

But I won't dwell on the construction phase, but move on the issue of managing the revenue flows from LNG to the State (and to other beneficiaries), starting in the middle of this decade, but also possible further revenue booms or spikes from other extractive industries.

But let me state from the outset, PNG has long experienced a dual economy. In the early days the duality was less marked, notably between the agricultural estate sector and the rest of the subsistence-based economy, and then, with the development of an enclave mining sector, which pulled ahead of agriculture in terms of export earnings in 1984. Mining, oil and now LNG have all entailed enclaves, providing the State with the bulk of its revenue, but generating limited employment directly, whilst impacting other sectors, often in a negative way through shoring up an often uncompetitive exchange rate for other exporters of import substitution industries, despite various direct benefits, such as roads from the tax credit scheme, excellent apprenticeship training at BCL, etc.; i.e. the Dutch disease

LNG production is like a mining venture, but providing even less sustained employment but a smaller potential local environmental impact; it does, however, hold a greater threat of Dutch disease and related implications, both during the construction but particularly during the production phase, through its sheer scale, and impact on revenue, the trade balance and so on, whether one takes the GDP figures suggested in the Abel–Tasman report, or significantly more modest figures from Treasury or other sources, notably using GNI figures (deducting outflows for debt servicing, payments for imported inputs and salaries, and dividends remittance overseas shareholders etc)

First, I'd commend the Treasury for including an excellent summary of the background, functions, options and requirements for sovereign wealth funds in Volume 1 of the 2010 Budget and the Treasury/Central Bank team for providing a rigorous discussion paper for these workshops. Indeed, I'd commend anyone in the community to get hold and read this annual Budget document, whether students, public servants, private sector employees or retirees. The volume is inadequately read, but provides a wealth of information on the economy, the Budget and issues affecting PNG, including issues, problems and challenges. I fear too few read it, including amongst political and public service leaders, and express surprise, for example, when they find that funds are unavailable for priorities and have been diverted to other purposes. Many of these issues have been already highlighted in Volume 1, though ignored.

Challenges

Put simply, PNG is a natural resource rich nation, but much of the population remains relatively poor or disadvantaged, with the lowest social indicators in the region, including little more than 50% school entry, the highest child and maternal mortality rates, and so on. In recent years we've had a strong growth rate, driven substantially by strong commodity prices, combined with initial fiscal restraint, and some reforms, enabling mobile phone competition and greater autonomy and improved governance of superannuation and the Central Bank. Continued firm prices of key commodities, ongoing investment, relative financial sector isolation and lack of lending exposure, plus substantial windfall savings, enabled PNG to remain relatively immune from the GFC and GEC.

Nevertheless, whilst the resource led growth certainly provided increased and broader-based employment and opportunities, the deterioration of much of the country's transport infrastructure over many years, particularly the failure to provide access to markets and essential services, and deficient investment in human resource capital and inadequate provision of essential service and replacement of basic service providers, such as nurses and other health workers, has severely undermined sustainable development, which is dependent upon wide human capital formation and economic endeavour.

We've seen successive past booms and busts, and we survived the latest global crises relatively well, particularly in relation to the minerals and oil boom of the 1990s, but we've failed to capitalise adequately on our natural resource wealth and its utilisation, as highlighted from the past, but also from resource riches provinces, such as Western and SHP, with little to show for billions of kina of provincial revenue, (except from certain modest expenditure, such as the rubber support in Western), as against certain other much poorer but better managed provinces, and with the recent apparent squandering of much of the 2006-2008 windfall revenue, which was largely expended in 2009 (notably through Trust Funds), but providing relatively little productive output. The off-budget trust funds were designed to carry the country through potentially tighter times, substantially to be expended on priorities at the district level, including essential infrastructure restoration, whilst recognising the limited planning and implementation capacity in the districts requiring extended duration for implementation. Little is widely known of how these funds have been spent, but reports indicate so far little to show for it, yet apparently much of these funds remains in the banking system in-country, although no longer in government or public accounts. So, PNG has been able to enjoy relatively strong revenue of recent years, but with little show for it for most of the population; even during boom years employment growth remained inadequate and unduly narrow-based, and despite the economic recovery since mid-2008 employment growth has continued to decline steadily.

The biggest challenge is establishing the best conditions for sustainable economic and social development, prioritising and utilising public funds in infrastructure and key services to best effect, to stimulate private and particularly broad-based investment including smallholder agriculture, increased output, productivity and incomes. However, we know that much public expenditure has been wasted in low priorities, notably (as NEFC highlights) in administrative overheads, white elephants, poor quality services, with inadequate focusing of resource, including human resources though overdue right-sizing, improved leadership and accountability of the public sector.

In the future, the LNG project or projects (if we really can absorb more than one, plus further prospective mines) provide the potential for significantly increased government revenue. As stated, there will be a significant gap before that revenue starts to materialise, from the middle of this decade. In the meantime we need to restore and build up our decaying infrastructure and services, in the face of continued rapidly growing population and increased expectations and commitments (e.g. under LNG benefit sharing agreements), but without the buffer provided by the so-called windfall revenue, which has been blown. If PNG's export commodity prices remain firm (for minerals and at least some major agricultural commodities, the economy should continue to grow steadily and revenue remain strong, and, if expenditure is better managed and waste (including corruption) restrained, (and donor funds utilised and coordinated effectively), and inflationary pressures kept well within single digits (including through greater supply land for housing) then we should pull though the intermediate period intact; but remember that a disproportionate portion of revenue remains dependent upon two aging mines (OK Tedi and Porgera – although Lihir will now finally also be paying tax), and various prevailing uncertainties, notably from the market, to an overdue drought, which would disrupt production and revenue and raise expenditure requirements). We need a broader based economy and revenue sources, during this interim period and into the future, and good years of mineral-based revenue should not deflect the government from the overdue reforms needed, and into sustaining unproductive expenditure, waste and corruption.

In the longer term, assuming LNG proceeds according schedule, State revenue will become more assured, but the project will only provide 500 long term professional jobs, with limited direct multiplier effects, except through the operations of Government (including sub-national Governments, plus certain landowner companies), in wisely investing the proceeds infrastructure and services and not squandering them. The critical issue is that the government, private sector and country as a whole sees this as a challenge and an opportunity, not some assured source of widespread wealth to be awaited passively, or the benefits will pass the country and its population by, with a small groups within the country and many outside being the beneficiaries.

As many are now aware, major increases in income streams, notably from resource developments, notably oil and gas, (but even substantial ill-utilised aid flows), can trigger a variety of negative effects, termed the Dutch disease or resource curse, which can substantially detract from the expected benefits. Most notable are the appreciative impact on the exchange rate and inflationary pressures emanating from some enclaves, as well as fuelling corruption, conflict and malfeasance if inadequate attention on governance and oversight is applied firmly at the outset. Almost all resource booms have triggered some Dutch disease effects, with countries such as tiny Equatorial Guinea locked into a feudal State with extreme poverty alongside the opulent wealth of the leaders, with their major European real estate, whilst populous Nigeria, nearby, demonstrated how major oil development jeopardised a hitherto dynamic and diverse economy and society with a competent professional workforce, undermining employment and fuelling corruption and civil conflict.

Objectives

So, the objectives are to maximise the benefits from LNG development, whilst minimising or neutralising the negative aspects. Sovereign wealth funds have burgeoned worldwide over recent years, including as a means to mitigate the Dutch disease impacts associated with resource development. PNG will need a sovereign wealth fund or funds to help manage future LNG revenue and would probably be better off now if it had introduced such a mechanism from the mid-2000s to handle the so-called "windfall revenue", using the hastily installed onshore trust accounts. However, a mechanism is only as effective as its design, management and accountability permit; no single mechanism can deliver all objectives and must operate in the context of other sound policies and practice, and the sanitisation, future investment or welfare functions of a sovereign wealth fund must be balanced appropriately with adequate well managed investment and delivery of core services for the present. Selling the idea of a SWF to a population which has little or no infrastructure or basic services or economic opportunities would be both hard and wrong, so it must be combined with much more effective targeting of public funds and accountable implementation, and this is no simply a prerequisite of grand national development plans, but shifting the country to one of budget awareness, transparency and accountability, right down to the local level.

The critical issue is achieving the right balance and securing public awareness and ownership of the whole process, both the nature and purpose of the SWF and the overall development plans and Budget. As stated, Treasury and the Bank of PNG should be commended for instigating this consultation process, but it needs to go out far wider, in language which can be broadly understood. By contrast, the government certainly cannot be commended for the almost total absence of consultation on the Long Term Development Strategy, or DSP, even with government agencies, the private sector, let alone the wider public. This undermines the potential support or ownership, necessary for effective implementation, let alone effective review of the strategy's contents, needed to ensure accuracy, suitability and acceptability. This lingering inclination by some government agencies to secrecy and suspicion of open dialogue undermines public sector planning, performance and accountability.

There are various functions for Sovereign Wealth Funds, and different countries have utilised them for different purposes. There's sanitisation from currency appreciation and removal of excessive liquidity, stabilisation of budget revenue and expenditure from volatile markets, savings and earnings for future generations, a funding mechanism for investment or social development schemes, long term capital growth or better foreign exchange management. Some like Alaska's Permanent Fund were established because the State feared following countries which had exhausted their resource capital, utilising the proceeds for recurrent expenditure, with nothing left for the future. They can be established under legislation, the Constitution, as State corporation, Trust Funds, Pension Funds or other mechanisms.

Although they go back to the 1950s (including a future fund for Kiribati to support them beyond exhaustion of their phosphate), there has been a major growth of such funds during this decade. Many of the largest sovereign funds, which have accumulated and invested hundreds of millions of dollars in equity, property and other longer term or diverse overseas investment, are held by oil wealthy middle Eastern countries[1]. Various developed countries, such as Norway, which has the second largest SWF, and States of the US and Canada, notably Alaska and Alberta have major funds, which rate very highly under the 'Principles of the Linaburg-Maduell governance and Transparency Index for SWFs'[2]. Several developing country funds rate poorly in terms of governance, and frankly there's little point in a SWF if it secures a

[1] See list of major SWFs at the end

[2]

Principles of the Linaburg-Maduell Transparency Index
Fund provides history including reason for creation, origins of wealth, and government ownership structure
Fund provides up-to-date independently audited annual reports
Fund provides ownership percentage of company holdings, and geographic locations of holdings
Fund provides total portfolio market value, returns, and management compensation
Fund provides guidelines in reference to ethical standards, investment policies, and enforcer of guidelines
Fund provides clear strategies and objectives
If applicable, the fund clearly identifies subsidiaries and contact information
If applicable, the fund identifies external managers
Fund manages its own web site
Fund provides main office location address and contact information such as telephone and fax

Developed by Carl Linaburg and Michael Maduell governance rating much below 5 or 6. Nigeria's oil-based SWF is a case in point, and the country is scrapping it and promising that the successor will better adhere to the necessary principles of the Index, or the other codes (An International Working Group of Sovereign Wealth Funds (IWG) recently agreed to 24 principles and practices and are planning to create a permanent SWF body. These voluntary principles have been termed the 'Generally Accepted Principles and Practices (GAPP) for SWFs' – or simply the Santiago Principles[3]).

Norway's Government Pension Fund has become the role model for many funds worldwide, including that in Timor Leste, with a strong adherence to current investment for future return once their oil reserves are progressively drawn down. Norway's fund has high standards of governance and ethical requirements for its investments, and, along with other major sovereign funds, has become a major equity holder in the world's major companies and markets. This major State ownership of major foreign assets has caused some concern by some governments worldwide, as well as by some free market economists and politicians, but the growing financial leverage of certain States and pension funds is inevitable as prices appreciate for certain commodities in a resource hungry world and some working populations continue to grow. These major funds must also experience the invariable drop in asset value and returns when markets adjust, as they did heavily in 2008.

Naturally, the needs of developing countries, such as PNG and Timor Leste are somewhat contrasted to those of Norway, Alaska and Alberta, or even Botswana, whose Pula fund, managed by their Central Bank, is more of a foreign exchange stabilisation fund, but which, like much of that country's development success, is based largely upon Botswana's strong commitment to good governance and constraint of corruption.

PNG, like Timor Leste, needs major investment in its infrastructure and especially its human capital, in extending and upgrading basic education and restoring and improving technical and tertiary education, to enable the population to empower themselves, both in securing employment, developing micro-enterprises or other income earning opportunities , and to improve health and welfare, including providing more effective citizens, in understanding and overseeing government in the performance of its functions.

So effective investment now is of primary importance, to give broader–based opportunities to the growing population, to counter the exorbitant costs of poor access and infrastructure and years of inadequate maintenance, whilst at the same time sanitising a portion of the revenue offshore in bonds and other relatively safe 'blue chip' international investment to mitigate some of the Dutch disease effects, such as currency appreciation etc, which would jeopardise other existing industries, including agriculture, manufacturing and prospective industries, such as tourism. So, for PNG the shorter term stabilisation and sanitisation of funds in offshore investment, is of greater importance than achieving longer term investment returns, with infrastructure and HR investment more critical for development, so long as it is effectively targeted and implemented, and not drained in ghost projects and infrastructure and services, as has been the case widely in Western and SH provinces. PNG has enough natural

[3] See Santiago Pinciples at the end

resources to generate revenue in the future, and should avoid too many major resource extraction projects now, which cannot be absorbed readily, but should phase them and enable the PNG economy to use them, rather than bowled over by them, and benefit from them directly, whilst investing and providing suitable conditions, including a competitive exchange rate, to safeguard and develop other sustainable industries, capable of generating broader-based employment and opportunities.

So the objective is to determine the right level of LNG (and other resource) proceeds to allocate to a fund to achieve sanitisation, stabilisation and some investment role, but without drawing excessive funds away from productive domestic investment in infrastructure, education, health and law and order and effective oversight, to make a difference on the ground, and ensure it is used effectively.

PNG has a mixed track record with stabilisation and investment funds.

We are all aware of the well publicised mismanagement and fraudulent use of public funds as highlighted by successive inquiries and the Auditor-General and Public Accounts Committee, and of the superannuation funds during the 1990s, the former Investment Corporation, many former savings and loans societies etc, but the picture is by no means all negative.

Back in the 1970s/80s, agricultural stabilisation funds, established fundamentally to reduce income fluctuations to farmers, were designed initially also partly for macro-economic stabilisation, but as agriculture's role in the overall economy diminished (as opposed to its continuing fundamental role for the majority of the population), the latter function was essentially discontinued. Despite one major glitch in coffee, which wasn't incidentally abuse by the administrators but rather by one opportunist trader, these funds were well managed (and even internationally commended by the World Bank in their WDR), whether or not the stabilisation function really enhanced industry and farmers' income and production growth, (as opposed to letting them have the full benefit when prices were high but suffer when low).

The Mineral Resources Stabilisation Fund, was intended to provide fiscal stability and initially it did, but its management and function was undermined increasingly in the early 1990s, being tapped into to fund any major expenditure, regardless of prevailing revenue levels, so when the revenue was eventually really tight, the MRSF's reserves were already exhausted.

PNG established thousands of Trust Funds, many of whose trustees are dead or forgotten; hence the decision at the start of the last decade to close most such funds. Many trust funds have been raided and used for private purpose, as has been highlighted of late, despite legislated greater fiscal responsibility. This and wastage of vast sums at the sub-national level in resource rich provinces, doesn't instil confidence in government capacity or commitment to managing large windfall funds effectively.

The superannuation funds were likewise severely manipulated through the 1990s by government, including individual senior politicians, to fund major projects, including pet schemes, like the notorious Cairns Conservatory and the more useful Poroporena Freeway, regardless of the contributors' approval or returns and benefits. At least those projects provided something concrete of wood, whereas others, like Kevin Conrad's multi-million public service housing scheme provided nothing.

Since then we've had valuable reforms early this decade to the governance and oversight of the superannuation funds (with Central Bank supervision), which has resulted in these funds' considerably enhanced performance and accountability to contributors. The granting of independence to the Central Bank, to manage monetary policy and control inflation played a valuable role in ensuring greater confidence in the financial sector and its supervision,

We also have solid experience with investment and future's funds, in the form of PNGSDP and some other mining related futures funds. PNGSDP has been subject to a variety of criticism, over being cumbersome and having high administrative overheads. Nevertheless, it has apparently been accountable and undertaken sound offshore investment, enabling expenditure to be smoothed out and partly safeguarded for the future, whilst investing in a variety of infrastructure, services and supporting some commercial and agricultural activity.

But how can one replicate a PNGSDP-type stabilisation and/or futures SWF fund mechanism at the national level, without it being subject to manipulation as desired by the government of the day, or Ministerial power players, if it's public money. PNGSDP has some safeguards built into its original constitution (and partnership), which cannot be circumvented voluntarily, but this would be hard to replicate where there's no second party to act as a final restraint on government; one can write in the strongest safeguards and checks and balances, with independent boards and trustees, but at the end of the day the ruling government can change those safeguards, if they have the numbers, as has happened to many other institutions to remove board or management members who stick to their guns in applying rules counter to certain powerful vested interests. Establishing the fund and its operating rules under the Constitution would probably provide the best safeguard, although achieving that level of support in the first instance might provide hard. Requirements for financial and operating transparency would be necessary, preferably also under broader Freedom of Information and reinforced, or expanded, fiscal responsibility legislation.

The specific legislation, clear rules and effective oversight should be guided by the 24 Principles and Practices (GAPP) for SWFs, which were agreed on by the International Working Group of Sovereign Wealth Funds (IWG) to serve as a voluntary framework for governance and accountability arrangements, as well as for the investment practices of SWFs. Utilising some of the institutions with a solid track record, notably the Central Bank and perhaps experience from Superannuation Funds would be valuable, but we have a tendency to hammer performing independent institutions, like ICCC, when they perform and follow their mandate, standing firm in the face of undue Ministerial and other pressures. The SWF or funds would require an independent board of reputable and well qualified Trustees, as with the Superannuation funds, representing diverse interests and different regional interests, plus some from government, with Independent fund management and effective oversight, including from the Bank of PNG, the Auditor General and reporting to Parliament. At least quarterly public reports should be provided, and prompt six-monthly auditing.

Clear determination of the purpose of the fund is required, and the mechanism and trigger for transfer of a determined portion of LNG and other extractive resource revenue into the fund or funds. Clear evidence from around the world shows that trying to make a single fund manage multiple functions is untenable, and that separate funds are required for specific purposes, notably stabilisation and sanitisation, in-country investment and longer term returns, as from a futures or pension fund, even though all subject to shared core management, governance and accountability arrangements and obligations.

To be effective in PNG such a Sovereign Fund or funds would require wide public awareness of its purpose and design, and sense of ownership of the process. Such awareness and ownership, combined with operational transparency and independent oversight, are critical and the best safeguard for the Fund, and its immunity from expedient direction or interference for purposes other than those set out in the fund or trust instruments.

In summary, here are some brief conclusions:

- PNG needs to sanitise a portion of LNG revenue through a SWF to safeguard other sectors of the economy from undue currency appreciation and other aspects of so-called Dutch disease, as these other sector are critical for providing continued and increased employment and broader-based long term development across the nation,
- The purposes of that fund should be clearly specified and the fund be clearly independent of Government in its operation, but transparent and with effective supervision;
- The 24 'Santiago Principles' of good practice for SWGs should be adhered to closed,
- Multiple funds are preferable if clearly distinct functions are prescribed, notably stabilisation, investment and a pension-style arrangement, although all should be subject to same fiducial and overall governance criteria
- The major issue is determining the most suitable balance between sanitising funds in the SWF, to safeguard the prospect for other industries, whilst also ensuring adequate investment into core infrastructure and services, also required for private sector investment (including by smallholders and other micro-enterprises), notably for access to markets and to provide households economic, education and health opportunities for the here and now,
- A SWF cannot operate effectively in isolation; it is merely one tool, which complements other instruments administered by government and the Central Bank, working in cooperation with the private sector; so effective coordination between the different institutions is critical on monetary and fiscal management, including the range of public institutions responsible for ensuring a fair and competitive business environment prevails,
- Establishing the fund and its rules under the Constitution, including firm financial accountability, would provide the strongest legal safeguard from expedient manipulation, its purpose is the strongest safeguard against abuse; an effective fund requires commitment, self discipline and adequate oversight and control to avoid the pitfalls of the country's pervious funds and trust funds; rules with respect to risk management are required, as with superannuation funds, tailored to the purpose of the fund or funds, notably

minimising market volatility with respect to revenue volatility & inflation, with sanitisation and stabilisation functions, or minimising inflationary effects for longer term investment or futures funds,

- The public needs to be fully aware of the fund, or funds, and their purpose and encouraged to feel a strong sense of ownership of the fund and its principles, including the need for its offshore investment to be able to perform its currency (and inflation) sanitisation function,
- Sanitising offshore and stabilising are probably more important functions for the fund for PNG than long term offshore investment for future return; if the sanitisation is effective, and government also restores, upgrades and maintains core infrastructure and services and improves the investment conditions (in terms of removing or reforming other investment barriers, such as poor performing monopoly utilities, land management, corruption and undue red tape etc) there should be sound investment opportunities and returns, based upon exports and the domestic market. Unlike Nauru/Kiribati with single resources etc, PNG has extensive renewable and non-renewable resources and less need for future returns from LNG after project closure; although clearly local opportunities may be dominated by a single resource and a provincial or local futures fund may be applicable to sustain long term benefits,
- The major investment from LNG should therefore be onshore, as far as it can be effectively absorbed, through adequate funding provided for priority recurrent and long term infrastructure and priority services/training & capacity building directly through the normal Budget and other PPP-type processes, rather than establishing parallel systems, but dependent upon a major emphasis on addressing institutional and governance problems, corruption, and ensuring adequate funding for operations, rather than raising administrative overhead (and low priority projects etc); undertaking effective right-sizing of the public sector, largely removing SOE monopolies, but also providing incentives to professional public servants to be retained, as engineers, doctors, teachers, lawyers/police, etc on the basis of facilities and working conditions rather than unduly focusing on remuneration etc,
- Until Government planning and implementation capacity is developed, funds can be retained in the SWF or in debt reduction (rather than squandered);
- in principle, government should not borrow, pledge or mortgage future LNG proceeds in advance, but live within its current means (including drawing down on any remaining 'windfall' funds) with a balanced budget, as required under the *Fiscal Responsibility Act,* and use any financial squeeze prior to, or following LNG production, as the basis for appropriate public sector and expenditure refocusing and reforms, ensuring that public funds, including at the district level are utilised more effectively and accountably,
- it should be recognised that most countries with SWFs have nil or low levels of debt; it is perhaps illogical retaining significant debts levels, with associated servicing costs and foreign exchange risks, whilst investing in a SWF with perhaps markedly lower returns than the costs being incurred, so firstly increased revenue should be used to progressively reduce debt, where practical,
- the investment proceeds from the SWF should be managed accountably through the normal annual Budget process, rather than establishing some parallel investment process. We already have excessive quasi-fiscal public funds swilling around rather unaccountably, under IPBC's control and license

fees paid to the Fisheries Authority, for example, which should be brought under more effective oversight and fiscal management,

- If an Alaskan model household pension payment system is introduced with a portion of the fund's proceeds, it should be focussed upon HRD capacity, i.e. education/training, productivity enhancing and empowerment, rather than undermining incentives by making annual stipends,.
- It must be recognised that by investing in markets, there are normal market risks with falls in valuation and returns possible, as experienced by the major funds during the global economic crisis, land slightly weakens the stabilisation function, –if as occurred in recent years, all SWF's lost value along with the global markets etc.
- A final wider point I'd reiterate; PNG should utilise it natural resources, both sustainable and extractive industries, so that they can be managed and utilised to the country's best advantage, including providing local employment; all extractive industries impose potential economic, social and environmental costs, as well as providing potential national and local benefits if properly managed and overseen. There is no point approving multiple projects when the absorptive and oversight capacity is inadequate, including lack of available local skilled workforce, inadequate capacity to assess or manage environmental implications, and when there's already more than enough revenue to be effectively absorbed, requiring its sanitisation already in a SWF to avoid undermining other productive industries. Retaining minerals or gas in the ground is a form of bank or investment which may be safer and provide better long term returns, and less risk than depositing part of the revenue proceeds in international equity or even deposits or bonds. We should ready to phase extractive resource development to avoid rushing when the local absorptive capacity is inadequate or unavailable, with the prospect of undermining wider economic prospects with Dutch disease impacts, especially when the technology and oversight capacity (e.g. for deep sea drilling) may not yet in place.

Thank you

Here's as a recent 2010 list from the Sovereign Wealth Fund Research Institute of the major SWGs and their capitalisation in billion US dollars, by order of size, to provide an indication of the scale and range of these funds: -

Fund Rankings

Sovereign Wealth Fund Rankings

Largest Sovereign Wealth Funds by Assets Under Management

Country	Fund Name	Assets $Billion	Inception	Origin	*Linaburg-Maduell Transparency Index*
UAE – Abu Dhabi	Abu Dhabi Investment Authority	$627	1976	Oil	3
Norway	Government Pension Fund – Global	$471.2	1990	Oil	10
Saudi Arabia	SAMA Foreign Holdings	$415	n/a	Oil	2
China	SAFE Investment Company	$347.1**	1997	Non-Commodity	2
China	China Investment Corporation	$332.4	2007	Non-Commodity	6
Singapore	Government of Singapore Investment Corporation	$247.5	1981	Non-Commodity	6
China – Hong Kong	Hong Kong Monetary Authority Investment Portfolio	$227.6	1993	Non-Commodity	8
Kuwait	Kuwait Investment Authority	$202.8	1953	Oil	6
China	National Social Security Fund	$146.5	2000	Non-commodity	5
Russia	National Welfare Fund	$142.5*	2008	Oil	5

Singapore	Temasek Holdings	$133	1974	Non-Commodity	10
Libya	Libyan Investment Authority	$70	2006	Oil	2
Qatar	Qatar Investment Authority	$65	2005	Oil	5
Australia	Australian Future Fund	$59.1	2004	Non-Commodity	9
Algeria	Revenue Regulation Fund	$56.7	2000	Oil	1
Kazakhstan	Kazakhstan National Fund	$38	2000	Oil	6
US – Alaska	Alaska Permanent Fund	$35.5	1976	Oil	10
Ireland	National Pensions Reserve Fund	$33	2001	Non-Commodity	10
South Korea	Korea Investment Corporation	$30.3	2005	Non-Commodity	9
Brunei	Brunei Investment Agency	$30	1983	Oil	1
France	Strategic Investment Fund	$28	2008	Non-Commodity	new
Malaysia	Khazanah Nasional	$25	1993	Non-Commodity	4
Iran	Oil Stabilisation Fund	$23	1999	Oil	1
Chile	Social and Economic Stabilization Fund	$21.8	1985	Copper	10
UAE – Dubai	Investment Corporation of Dubai	$19.6	2006	Oil	4
Azerbaijan	State Oil Fund	$18.1	1999	Oil	10
UAE – Abu Dhabi	International Petroleum Investment Company	$14	1984	Oil	n/a
Canada	Alberta's Heritage Fund	$13.8	1976	Oil	9

UAE – Abu Dhabi	Mubadala Development Company	$13.3	2002	Oil	10
US – New Mexico	New Mexico State Investment Council	$12.9	1958	Non-Commodity	9
New Zealand	New Zealand Superannuation Fund	$12.1	2003	Non-Commodity	10
Bahrain	Mumtalakat Holding Company	$9.1	2006	Oil	8
Brazil	Sovereign Fund of Brazil	$8.6	2009	Non-commodity	new
Oman	State General Reserve Fund	$8.2	1980	Oil & Gas	1
Botswana	Pula Fund	$6.9	1994	Diamonds & Minerals	1
Saudi Arabia	Public Investment Fund	$5.3	2008	Oil	3
China	China-Africa Development Fund	$5.0	2007	Non-Commodity	4
East Timor	Timor-Leste Petroleum Fund	$6.3	2005	Oil & Gas	6
US – Wyoming	Permanent Wyoming Mineral Trust Fund	$3.6	1974	Minerals	9
Trinidad & Tobago	Heritage and Stabilization Fund	$2.9	2000	Oil	5
UAE – Ras Al Khaimah	RAK Investment Authority	$1.2	2005	Oil	3
Venezuela	FEM	$0.8	1998	Oil	1
Vietnam	State Capital Investment Corporation	$0.5	2006	Non-Commodity	4
Nigeria	Excess Crude Account	$0.5	2004	Oil	1
Kiribati	Revenue Equalization Reserve Fund	$0.4	1956	Phosphates	1
Indonesia	Government	$0.3	2006	Non-	X

	Investment Unit			commodity	
Mauritania	National Fund for Hydrocarbon Reserves	$0.3	2006	Oil & Gas	1
UAE – Federal	Emirates Investment Authority	X	2007	Oil	2
Oman	Oman Investment Fund	X	2006	Oil	n/a
UAE – Abu Dhabi	Abu Dhabi Investment Council	X	2007	Oil	X
	Total Oil & Gas Related	$2290.1			
	Total Other	$1681.6			
	TOTAL	**$3971.7**			

Generally Accepted Principles and Practices (GAPP)—Santiago Principles

In furtherance of the "Objective and Purpose," the IWG members either have implemented or intend to implement the following principles and practices, on a voluntary basis, *each of which is subject to* home country laws, regulations, requirements and obligations. This paragraph is an integral part of the GAPP.

GAPP 1. Principle

The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).

GAPP 1.1. Subprinciple. The legal framework for the SWF should ensure legal soundness of the SWF and its transactions.

GAPP 1.2. Subprinciple. The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.

GAPP 2. Principle

The policy purpose of the SWF should be clearly defined and publicly disclosed.

GAPP 3. Principle

Where the SWF's activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.

GAPP 4. Principle

There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the SWF's general approach to funding, withdrawal, and spending operations.

GAPP 4.1. Subprinciple. The source of SWF funding should be publicly disclosed.

GAPP 4.2. Subprinciple. The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.

GAPP 5. Principle

The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.

GAPP 6. Principle

The governance framework for the SWF should be sound and establish a clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF to pursue its objectives.

GAPP 7. Principle

The owner should set the objectives of the SWF, appoint the members of its governing body(ies) in accordance with clearly defined procedures, and exercise oversight over the SWF's operations.

GAPP 8. Principle

The governing body(ies) should act in the best interests of the SWF, and have a clear mandate and adequate authority and competency to carry out its functions.

GAPP 9. Principle

The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.

GAPP 10. Principle

The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.

GAPP 11. Principle

An annual report and accompanying financial statements on the SWF's operations and performance should be prepared in a timely fashion and in accordance with recognized international or national accounting standards in a consistent manner.

GAPP 12. Principle

The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.

GAPP 13. Principle

Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management, and staff.

GAPP 14. Principle

Dealing with third parties for the purpose of the SWF's operational management should be based on economic and financial grounds, and follow clear rules and procedures.

GAPP 15. Principle

SWF operations and activities in host countries should be conducted in compliance with all applicable regulatory and disclosure requirements of the countries in which they operate.

GAPP 16. Principle

The governance framework and objectives, as well as the manner in which the SWF's management is operationally independent from the owner, should be publicly disclosed.

GAPP 17. Principle

Relevant financial information regarding the SWF should be publicly disclosed to demonstrate its economic and financial orientation, so as to contribute to stability in international financial markets and enhance trust in recipient countries.

GAPP 18. Principle

The SWF's investment policy should be clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the owner or the governing body(ies), and be based on sound portfolio management principles.

GAPP 18.1. Subprinciple. The investment policy should guide the SWF's financial risk exposures and the possible use of leverage.

GAPP 18.2. Subprinciple. The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored.

GAPP 18.3. Subprinciple. A description of the
investment policy of the SWF should be publicly disclosed.

GAPP 19. Principle

The SWF's investment decisions should aim to maximize risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds.

GAPP 19.1. Subprinciple. If investment decisions are subject to *other than* economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed.

GAPP 19.2. Subprinciple. The management of
an SWF's assets should be consistent with what is generally accepted as sound asset management principles.

GAPP 20. Principle

The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.

GAPP 21. Principle

SWFs view shareholder ownership rights as a fundamental element of their equity investments' value. If an SWF chooses to exercise its ownership rights, it should do so in a manner that is consistent with its investment policy and protects the financial value of its investments. The SWF should publicly disclose its general approach to voting securities of listed entities, including the key factors guiding its exercise of ownership rights.

GAPP 22. Principle

The SWF should have a framework that identifies, assesses, and manages the risks of its operations.

GAPP 22.1. Subprinciple. The risk management
framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.

GAPP 22.2. Subprinciple. The general approach to the SWF's risk management framework should be publicly disclosed.

GAPP 23. Principle

The assets and investment performance (absolute and relative to benchmarks, if any) of the SWF should be measured and reported to the owner according to clearly defined principles or standards.

GAPP 24. Principle

A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.

Source: IWG International Working Group of Sovereign Wealth Funds