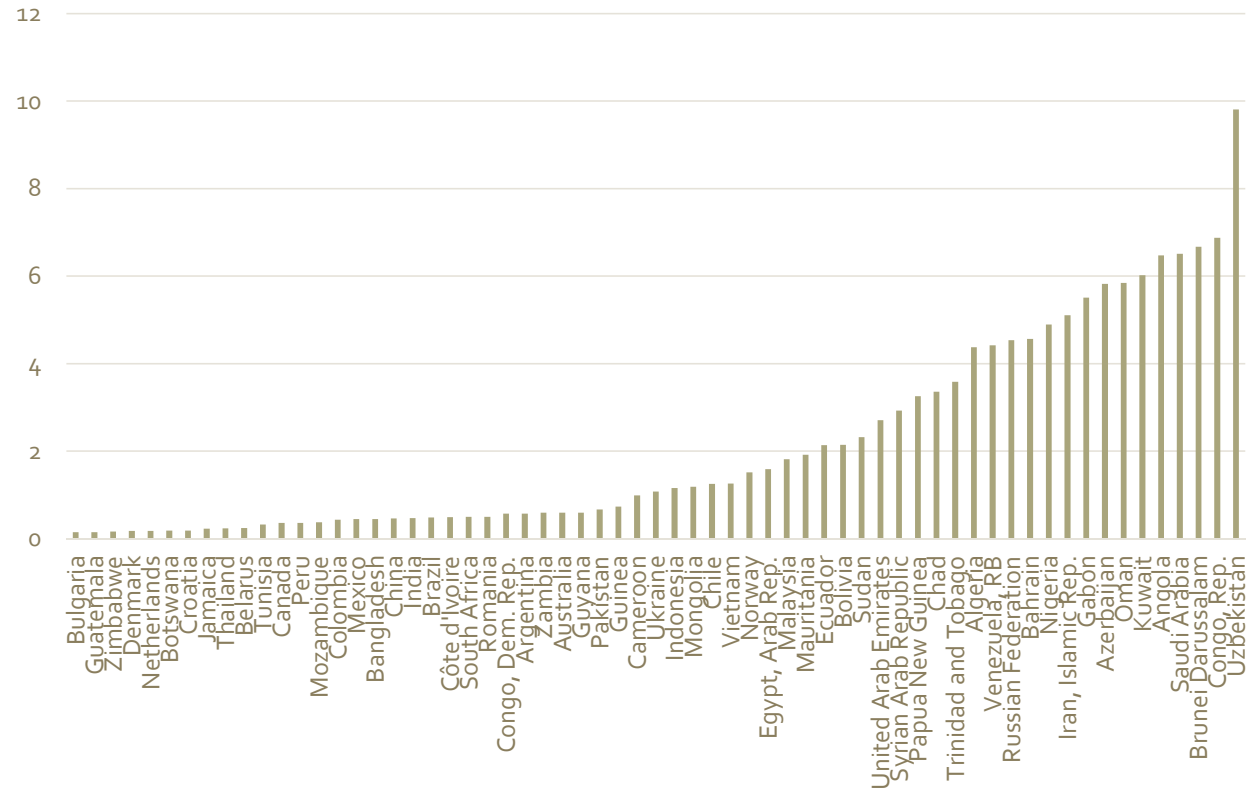


**Deep Sea Minerals -
Financial Aspects
13-16 May
Rarotonga, Cook Islands**

Sovereign Wealth Funds – The Cook Islands

Total Natural Resource (Subsoil) Per Capita 2005

Subsoil Assets as % of GDP (USD 2005)



The Blessing of Mineral Resources

Ownership of natural resources which are (or will be) in demand should be seen as a blessing, careful management should enable countries development to evolve.

- Invest more and more in manufactured capital, infrastructure and “intangible capital” like human skills and education, strong institutions, innovation and new technologies.

The Curse of Mineral Resources

Natural resource wealth can cause discord and conflict among domestic stakeholders, such as politicians, developers, local tribes, and citizens/taxpayers.

- They are naturally motivated to seek unfair resource rents, quickly depleting natural resources and wasting resource revenue.

The curse occurs when weak governance and corresponding poor economic policies lead to the misallocation and mismanagement of resources.

Why the Need for Sovereign Wealth Funds

Stabilisation

- Need to provide for constant spending
- Revenues can be uncertain and vary from year to year

Savings

- Need to save for future generations
- What life is there for the current base of minerals

The Importance of Fiscal Policy

Ultimately sound fiscal policy brings in returns to the economy. A Sovereign Wealth Fund can support sound fiscal management if it has

- wide political and popular support
- clear rules and
- stores genuine savings

What are the main points to consider in regard to a SWF

How does money enter

How are funds invested

How do Funds exit

Policies for the Cook Islands

Fund receives all SBM revenues

- Licence Fees, taxes and royalties

Objective should be to maintain the real value of the harvested minerals to protect future generations

- Withdrawals will fund fiscal gap
- Spending less non-petroleum revenues

Best Practice
Principles
How to
Manage Assets

Safe Investments

Assets held Offshore

Coordinate with other Assets

Unencumbered

- Fund assets not used to borrow against

Best Practice
Principles
Avoid
Investment
Problems

Investments that promise high returns have high risks

Uncoordinated assets invites waste

Investments in own country have more risks and can hurt economy

Many other countries borrow

- Debts then offsets Fund assets

Best Practice
Principles
How to
Integrate with
Budget

Same processes as Budget
Savings in Government Account
Consolidated Reporting
Treasury execution

Best Practice
Principles
Why Integrate
with Budget?

Prevent duplication

Coordinated policies produce better outcomes

Build capacity of existing institutions

Constitution gives fiscal policy powers to Parliament

Best Practice
Principles
Transparency/
Accountability

Mechanisms to prevent misuse

Public disclosure of finances

Explain policies

External audit

Policies for the Future Core Principles

Integrated with Budget

Prudent management and invest offshore

Transparent operations and stringent accountability
rules to prevent misuse

Sovereignty of Parliament maintained

Gaining Wide and Popular Support

Both sides of the political spectrum have outlined their desire for proper management of Seabed Mining Revenues

Consultations with the public identifying the importance of having the fund and the options of how it would work.

What will go in the Fund

All revenues from fees, taxation, royalties and other revenue collected by the Government from deep sea mining are to be deposited in the fund.

The Government may deposit other funds in the National Savings Fund.

Investment Options

Recommending that the Fund's principal should be

- invested in international financial assets - to avoid distorting the local economy.
- in a diversified portfolio of financial instruments that protects the fund principal over the long term with minimal risk.

Weighing of Options

Options	Protects from interference	Provides certainty in annual payment	Increasing Annual Payment before maturity	Fund Grows after maturity	Increasing payment after maturity
1. Fixed Annual Return –	a	a		a	
2. One half return on investment	a		a	a	a
3. Increasing Amount to Budget		a	a	a	(a)
4. All interest earnings transferred	a		a		
5. Mixed Approach -	a	(a)	a		