



## MINISTRY OF FINANCE AND ECONOMIC MANAGEMENT GOVERNMENT OF THE COOK ISLANDS

### Consultation Report

**Date: 10 September 2024**

**RE: Sovereign Wealth Fund**

The Ministry of Finance and Economic Management has conducted public consultation on the proposed Sovereign Wealth Fund through July and August 2024.

Consultations were held as follows, with good attendance and engagement:

Location	Date	Attendees
Takitumu	17 July 2024	31
Te Au o Tonga	18 July 2024	14
Puaikura	23 July 2024	13
North Pa Enea (Virtual)	07 August 2024	35
Atiu	13 August 2024	40
Mauke	13 August 2024	32
Mitiaro	14 August 2024	31
Mangaia	21 August 2024	50
Aitutaki	23 August 2024	26
Facebook live (virtual)	30 August 2024	15

This document sets out the main areas of comment from the consultation as well as the Ministry's response to the comments made.

### Board Composition

Comment	Response
There should be two representatives separate from the pillars of Cook Islands society	The current proposal will see an independent chair and three independent directors.
Consider issue of identity and equitable representation not related to population	The current Board proposal has a diverse range of representatives.
Will the Board be separate from CINSF	There will be two separate Boards, recognising the separate roles and objectives of the SWF and CINSF, as well as CINSF being responsible for individuals' retirement savings, and the SWF being the guardian of the nations wealth.



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Preference is to have politicians not involved with the fund	The SWF is designed to be independent of government, this includes the Board and any management personal
Preference is for best practice on Board composition and behaviour	The Board is a significant part of the SWF and best practices will be followed in the appointment and operation of the Board, which will be placed in legislation.
Cook Islands people should be represented, traditional leaders and those with the right skills, as well as gender balance	The Board is designed to have a mix of representation, including traditional leaders, and will aim to have broad representation across ages and gender.
Consider that the Board members should have a duty of care	Board members will be required to have a fiduciary responsibility to the fund, which is similar to a duty of care
Board members should be active, not retired and include representatives of the business community	The Board will aim for a range of ages and backgrounds, with relevant experience being a requirement for some appointed members
Can we ensure the Government is kept separate from the management of the fund	The SWF is designed to be independent of government, this includes the Board and any management personal
What accountability measures will the Board have to ensure good performance	Code of ethics, fit and proper person test, conflict of interest, detailed annual report and alignment with Santiago Principles
Process for appointing the Board should be transparent and open	The Board appointment process will be clearly set out in legislation.
Consider a separate appointment panel	A separate appointment panel was considered however, specific attributes of Board members will be set out in legislation.
Need to have Cook Island representation	Representatives from the Cook Islands will be mandated to be on the Board
We need to be careful on fees to the Board and that information to be public	The fees to run the SWF are critical and value for money is a central consideration. High fees have the potential to reduce the long term value of the SWF. Any fees paid will be publically disclosed through the annual report.

**Structure of the Sovereign Wealth Fund**

Comment	Response
There needs to be guidelines in the legislation to prevent a	The SWF will be legislated which will require compliance with the law. With all law there remains the chance that a future government will change the law.



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change in government seeing misuse of the funds	
The Santiago principles are important to design of SWFs, can we consider these for the Cook Islands	The Santiago principles have informed the setup of the SWF.
It is important to benchmark performance against the best funds in the world	Benchmarking performance will be a function for the SWF Board. They will work with advisors to develop a set of indicators to compare the Investment Managers performance against best practice.
What other funds will be part of the SWF	There are three funds in the SWF. One will be the existing disaster relief fund, the second is the existing stabilisation fund, and the third will be the long term intergenerational savings fund.
BCI should be the custodial bank	The custodial bank will be decided by a public tender. The bank will need to meet set criteria on size and experience in managing funds. BCI will be eligible to apply.
Should the auditor be the government auditor	International best practice is for auditors to be independent. We will be seeking an appropriately experienced qualified international auditor.
Could we consider a fourth account for the traditional leaders	It is not proposed that traditional leaders be included in the distribution of funds. Traditional leaders will be part of the Board structure and will be responsible for the governance of the SWF.

[Contributions into the Sovereign Wealth Fund](#)

Comment	Response
Consider using funds initially before putting into SWF	There will be additional funds coming into the Cook Islands economy if Seabed Minerals Harvesting (SBH) starts, such as VAT or income tax. These funds will be available for general expenditure.
When will distributions be expected	The intergenerational fund will be set-up so returns start no later than 20 years, but may be earlier if the fund value reaches a threshold of 50% of current Cook Islands real GDP



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Are you taking away from money needed now?	There will not be money taken away from current budgets. The existing disaster relief fund is funded for \$50,000 per year, and this just transfer to the SWF. Any funds will be in the future and are not pre-allocated to the budget process.
Need to invest for the long term	Investing for the long-term is the goal of the intergenerational fund. Some funds will be set aside to manage against disaster relief and economic downturns
Need to spend the money now to address cost of living	As the funds to go into the SWF are not expected for some years, they will not be available to address current cost of living pressures
Should we use government surpluses to pay off debt	The SWF will not affect Government decisions to pay down existing debt with surpluses.
Who makes the decision to either spend the money now or lock it away	The decision to either spend or invest funds will ultimately down to Cabinet following their assessment of public consultation
How do we know SBH is a one-off	Indications from the SBMA is that harvesting may last for approximately 30 years. Once that income is received there will be no replacement.
Can we also put fisheries revenue into SWF	The focus on income into the SWF is those income streams that are considered one-off. The principle for fishing revenue is that the catches are sustainable, so these revenues are also sustainable and not one-off in nature
What are the alternatives to SBH to fund the SWF	There are a range of alternative income sources considered. These may be environmental/fishing fines, money from significant one-off budget surpluses or other one-off sources of revenue.
Are cash flows into the SWF expected to be regular over time?	It is difficult to be certain about the inflows, as the one-off nature of many of the income streams as well as any SBH income is dependent on international prices of minerals
Definition of the inflows and outflows to the fund will be important	The SWF will have clear rules about what incomes will be placed in the SWF, as well as where any returns would be spent.
Does this mean SBH is happening	This does not mean that SBH is happening, that is a decision for other parts of Government, however it is sensible to prepare in advance in case SBH revenue does come in the future.



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Can individuals participate in the SWF	The SWF is designed for managing the wealth of Cook Islanders. Individuals can invest in other types of investment, such as the CINSF.
Can each island invest into the fund itself	The SWF is designed to be a national fund solely.
Is the fund allowed to lend money?	The SWF is designed to not lend money, as that would place excessive risk onto the fund.

Investments that the SWF will make

Comment	Response
Who will be the investment manager	The investment manager will be appointed following a professional procurement round.
Preference to invest in safe assets	The SWF will ensure that investments are exchange tradeable assets. These assets will be listed on major international exchanges and will have ready buyers and sellers. A diversification of investments will ensure lower risk than investments in single entities
Will the SWF invest in cryptocurrency and/or Bitcoin	The SWF will not invest in Bitcoin or cryptocurrency, they are not considered safe or liquid.
We need to ensure investments are easily accessible for use in disasters	Yes, the consideration of speed to access money in the event of a natural disaster is important, and will be part of the decisions for the disaster relief fund and the economic stability fund
ESG factors are uncertain, CINSF have spent 10 years looking into it.	The SWF, in advice from investment managers will decide on the appropriate way to manage ESG concerns.
Will the investment manager invest the money for all three funds	Yes, the investment manager will cover all three funds.
Will the investment risk be determined by the Board?	Yes, the Board, in association with the Investment Manager will determine what the risk/return threshold will be.
Are the investment strategies going to be different for the three funds	Yes, the investment strategy will vary for each fund. It is likely that the intergenerational fund will focus on higher growth options, and the disaster fund is on lower risk assets



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How do we know what ESG factors will be considered?	Investment managers are able to use specific ESG factors in deciding on investments. Once the SWF is operational, nature of investment strategy will be communicated in annual reports.
Note the importance of no domestic investment, but do not want a blanket ban	The SWF will not invest domestically as it is a way of diversifying the economy, and any SWF investments domestically could increase domestic inflation and remove opportunities for the private sector.
Government should not get involved in the private sector	The SWF will not invest domestically as it is a way of diversifying the economy, and any SWF investments domestically could increase domestic inflation and remove opportunities for the private sector.
Consider domestic investments on their own merit rather than a blanket ban	The SWF will not invest domestically as it is a way of diversifying the economy, and any SWF investments domestically could increase domestic inflation and remove opportunities for the private sector.
CINSF has a mandate of up to 20% investment domestically, but has found it hard to do so	The SWF recognises the CINSF mandate, and considers that a further Government fund searching for the same investments would not be practical in a small economy.

Where will returns from the SWF be spent?

Comment	Response
Will the elderly benefit	When the returns come in elderly will benefit from investments in infrastrucutre and health care.
Would like to see investment in health care and educational facilities	The SWF returns suggest health and education will be designated areas that returns will be spent
Would like to see returns spent on culture	Spending for cultural will be included under the educational category.
Would like to see some returns spent on agriculture as well as tangible investments in the country	Tangible investments in the country will come through explicit infrastructure investments. The role of Government in agriculture should be enabling rather than in direct competition, so there is the potential to create infrastructure investments that assist agriculture providers.
Who is a Cook Islander? Will it be Cook Islanders here or overseas?	There is work being undertaken in other sections of the Government that will work on the definition of who a Cook Islander is. Domestic Cook Islanders will be the



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	primary beneficiaries as investment in health, education and infrastructure will be made in country.
Who will be responsible for spending the returns - for example if going to Education, then is it the Ministry of Education?	The returns will be provided to Government to allocate, and then if for example it is to go to a specific project in Education, then it would be the responsibility of Education to deliver it.
Should consider environmental remediation	Environmental remediation is an important consideration, and would be considered as a separate category.
Can we consider spending some of the returns on helping other countries	This is not currently a priority for the Cook Islands
Spend some of the returns on mitigation against climate change	Environmental remediation is an important consideration, and would be considered as part of the broader infrastructure category.
Investment into the Northern group through transportation	This may be possible, however in the near term work is being done to provide assistance through domestic shipping, as well as other infrastructure investments such as the sealing of the Manihiki airport.
Will there be strict rules for withdrawal from the fund?	Rules for fund withdrawal will be legislated and require strict adherence from the SWF
Will there be limits on what share of the funds will go to sectors of the economy, worry that infrastructure will dominate over health and education	Pressure for spending on infrastructure usually come from development banks. Development banks can help with infrastructure leaving room for SWF to fund social programs.
Can we spend some money on social welfare	It may be possible to spend money on social welfare, this may come from other areas of income from companies involved in SBH that is separate from the SWF returns.
Prefer the returns to be spent on Cook Islanders living here	The returns will be provided to Government to allocate, and then if for example it is to go to a specific project in Education, then it would be the responsibility of Education to deliver it.
What happens if there is a cyclone next year?	There is already disaster relief funds available, including disaster insurance, the existing disaster relief fund as well as an emergency loan facility if needed.



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Will the SWF be a long-term fund

Comment	Response
Preference is for fund to last a lifetime	The Intergenerational fund will be designed to be sustainable in the long-run, only taking out returns that allow for the continued growth of the real value of the fund
What is the sustainable level of returns that are planned?	The sustainable level of returns will be calculated as the long-run expected return from international investments less an allowance for inflation and a small safety margin. In practical terms, the sustainable level might be in the area of 3% of the funds value.
Want a fund that is sustainable in the long-term	The Intergenerational fund will be designed to be sustainable in the long-run, only taking out returns that allow for the continued growth of the real value of the fund
Do we just spend the interest of the fund?	Yes, the SWF will only spend the returns of the fund, less an inflation factor and a small safety factor

What is the process for establishing the SWF

Comment	Response
What is the timeline for setting up the fund	It is anticipated that the final policy will be sent to cabinet for approval in September. Then it is likely that legislation will be drafted in approximately 12 months before being sent to Parliament for debate and passage into law
Will the final policy be shared before going to cabinet	The final policy must be approved by cabinet first. Following cabinet approval, the final policy will be published.
We need to set up this fund as soon as possible	The SWF will be set-up quickly, with legislation expected to be passed next year