



## PACIFIC ISLANDS FORUM SECRETARIAT

PIFS(20)FEMM.Info.10

### FORUM ECONOMIC OFFICIALS MEETING

4 – 5 August 2020

### FORUM ECONOMIC MINISTERS MEETING

11 – 12 August 2020

Virtual

## INFORMATION PAPER NO.10: CO-INVESTMENT - INFRASTRUCTURE INVESTMENT FRAMEWORK PIIF'S ROLE IN COVID-19 RESPONSE IN THE PACIFIC

### Purpose and Summary of Issues

#### Purpose

To present to the Forum Economic Officials Meeting (FEOM) and Forum Economic Ministers Meeting (FEMM) a brief on the economic support delivered by the PIIF, including options to provide funding support towards Forum Island Countries (FIC) governments COVID-19 economic stimulus packages and ongoing infrastructure co-investments. The paper seeks Ministers endorsement of next steps to implement a COVID-19 tailored package of assistance.

#### Summary of Issues

- i. FICs are experiencing the catastrophic economic impact of the Global Health Crisis – as a result of the COVID-19 pandemic - due to the shutdown of borders (especially international travel) and the resulting slowdown of economic activities as countries undertake drastic containment measures.
- ii. FICs are using all their fiscal capacity and monetary and financial/banking policies to implement economic stimulus in response to the COVID-19 economic impact.
- iii. PIIF Members (comprising Provident Funds, Superannuation Funds, Trust Funds, and Sovereign Funds of the Pacific region) are providing immediate financial support to members and/or businesses as part of the governments' economic response.
- iv. PIIF Members present a viable COVID-19 solution to FICs, as a potential provider of cash for equity, to support FICs economic stimulus response without increasing Government debt levels.
- v. The PIIF seeks the support of the 2020 FEMM to accelerate the co-investment work programme and solutions to investment barriers to provide funding support to governments through cash for equity in National Infrastructure Assets.

## A. Problem/Opportunity Identification

Forum Island Countries are facing economic downturn due to the COVID-19 pandemic, and economic recovery will almost certainly present significant challenges in the immediate to medium-term. To date, the Pacific Islands Investment Forum (PIIF) has supported Forum Islands Country (FIC) governments for short-term fiscal stimulus, primarily through cash transfers to contributors of superfunds/pension funds in the region, in support of FIC governments economic stimulus packages. The PIIF member funds stand ready to provide further support to FIC governments in their long-term economic recovery and growth efforts, such as through cash for equity exchanges in key national assets identified by Forum Island Country (FIC) governments.

## B. Background

2. The 2018 FEMM acknowledged the interest expressed by the PIIF for co-investment in the region and recognised that the support of Forum Economic Ministers was essential to advance and explore potential opportunities for collaboration and co-investment. Ministers supported the establishment of a Working Group (consisting of representatives from the PIIF, PIFS and relevant technical agencies) to develop a Pacific Infrastructure Investment Framework and to report back to the 2020 FEMM. Ministers also encouraged PIFS to monitor and leverage-off the leading-edge work of the G20 and other similar global fora, to help inform further consideration of infrastructure issues of interest and relevance for the FEMM.

3. However, 2020 has been dominated by the unprecedented impacts of the COVID-19 pandemic, which has swept across the world and left severe economic consequences in its wake. Across the Pacific the PIIF Members have provided support to their Governments in a number of unique ways, depending on each Member's legislation and policies. The following is brief descriptions articulate the various types of support provided by some PIIF Members:

<p><b>Cook Islands</b></p> <ul style="list-style-type: none"> <li>• Contribution Rates Reduced by NZD\$7million</li> <li>• Consideration of cash for equity in Government SOEs NZD\$20million - \$30million</li> </ul>	<p><b>Fiji</b></p> <ul style="list-style-type: none"> <li>• Stage 1 FJD\$52,000,000 in unemployment withdrawals</li> <li>• Stage 2 FJD\$ to be announced</li> </ul>
<p><b>Papua New Guinea</b></p> <ul style="list-style-type: none"> <li>• Withdrawals for the unemployed estimated at K260 million</li> <li>• Government Bond purchase K350 million</li> </ul>	<p><b>Samoa</b></p> <ul style="list-style-type: none"> <li>• Withdrawals of 20% of a member/contributor's balance</li> <li>• Pensions increased by SAT\$300 per month</li> <li>• SNPF Loan Repayments refunded and deferred repayments</li> <li>• Dividend payout SAT\$35 million</li> </ul>
<p><b>Solomon Islands</b></p> <ul style="list-style-type: none"> <li>• 25,000 members payments SBD\$150million</li> <li>• Pensioners 20% withdrawal of savings</li> </ul>	<p><b>Tuvalu</b></p> <ul style="list-style-type: none"> <li>• AUD\$500 per month unemployment payments</li> </ul>

	<ul style="list-style-type: none"> <li>• AUD\$250 per month reduced hours payments</li> <li>• TNPF Loan Repayment freezes</li> </ul>
--	--

### C. Analysis of Policy Options

4. To further support FIC governments for both short-term fiscal stimulus, and long-term economic recovery and growth, the following options are suggested.

#### *Option to Support FIC Governments' Short-Term Economic Stimulus & Recovery - Governments to identify National Assets for PIIF members to exchange cash for equity*

5. Governments to identify key national assets for PIIF members to exchange cash for equity. Key targeted national assets include Telecommunications, Power Generation and Supply, Airports, Seaports, Banking and Finance Institutions and Fishing. The proposal would be to identify those with a commercial return, discuss terms for the sale of or co-investment and discuss ongoing capital investment to develop and improve the asset.

6. Governments would then benefit with the proceeds from the sale or co-investment to apply to their economic stimulus.

7. Examples of recent Cash for Equity Exchange in National Assets, and key investments by PIIF members in FICs include the following:

**i. Amalgamated Telecom Holdings (ATH) – FNPF holdings 72.2%**

Initial investment made in 1998 for 51%. ATH now holds the key telecommunication assets in Fiji of Telecom Fiji, Vodafone Fiji Limited and Fintel. ATH has also expanded into the Pacific with investments in Kiribati, Cook Islands, Samoa, Vanuatu and recently into PNG. Some PIIF members have also invested into ATH.

**ii. Fiji Ports Corporation Limited – FNPF holdings 39%**

This investment was made in 2015 under Government's privatisation program. FNPF acquired 39% of FPCL together with Aitken Spence (20%) as the strategic investor.

**iii. Electricity Fiji Limited – FNPF holdings 20%**

This investment was made in 2019 as part of Government's share divestment program. The Fiji Government is currently in the process of divesting up to 44% to a strategic investor.

**iv. Health Care Fiji Limited – FNPF holdings 80%**

Investment was made through PPP scheme, through a long term (23 years) concessionaire agreement to take over, build and manage the Lautoka and Ba hospitals. Aspen (Australia) is the strategic investor. This project has been delayed and is under review as a result of the COVID19 pandemic.

**v. Taumeasina Island Resort – Samoa National Provident Fund (SNPF)**

Convertible note of \$20m

**vi. Sheraton Mulifanua Resort – SNPF**

\$68 million investment in resort and land ownership

**vii. Samoa Submarine Cable Company – SNPF**

\$27 million investment

**viii. Investment Properties – SNPF**

\$97 million

**ix. Cook Islands Govt SOE – CINSF**

\$20-\$30m acquisitions

***Options to Support FIC Governments’ Long-Term Economic Recovery & Growth - Governments Accelerate the development of the PIIF Co-Investment platform***

8. Individual PIIF members present an immediate opportunity for their Governments to engage with them. Where the needs of a Government exceed the ability of its Superannuation Fund, there will be the opportunity to supplement the difference from the pool of funds across the PIIF. The PIIF Co-investment platform is the key to collating the funds for investment.

***World Bank IFC engagement with Forum Island Governments around the potential for tax and other regulatory exemption(s) for PIIF member funds, and/or an investment platform comprising PIIF member funds***

9. As presented at the 2019 FEMM regional investment barriers remain, and whilst there is a long-term objective to resolve these the immediate solution is to implement exemptions on a case-by-case investment basis.

**Completed FEMM Actions on Co-Investment across the Pacific**

10. To mobilise the collective capital and funds of the PIIF Members in order to support the efforts of FIC governments in their quest for long-term sustained economic growth and development, several actions have been carried out since 2018, and are in-line with the relevant decisions of the 2018 and 2019 FEMMs.

***(a) Establishment of a PIIF Secretariat function, including the responsibility for progressing research and liaison with government (and donors/agencies)***

11. The PIIF Board has established the PIIF Secretariat, which seeks to improve the communications, planning, and co-ordination of all PIIF activities to deliver on PIIF’s objectives, and in particular the PIIF Co-investment platform.

***(b) Engagement with donors/agencies to progress and realise the co-investment Special Purpose Vehicle (SPV) concept.***

12. The PIIF Board's engagement with the IFC and World Bank has progressed, with contracts now signed to deliver the PIIF Co-investment platform. The terms of reference focus on the following four (4) investment platform options:

Option 1: Information/Collaboration platforms

Option 2: Co-investment platforms

Option 3: An established joint-owned fund manager

Option 4: A specific investment instrument

13. These are fully described and an example for each of the four options in **Attachment 1**.

*(c) Engagement with Forum Island Governments around the potential for tax and other regulatory exemption(s) for PIIF member funds, and/or a SPV comprising PIIF member funds.*

14. Included within the contracts negotiated between the PIIF Board and the IFC and World Bank is the need for engagement with FIC governments on tax and regulatory exemptions.

15. During the course of the work on tax and regulatory exemptions, if a Forum Island country would like to press forward on any infrastructure development, the PIIF would engage with them to assess the co-investment and would negotiate suitable terms for the investment to proceed.

*(d) Liaising more closely with government (and donors/agencies) to identify infrastructure projects that are yet to be announced and/or had finance/funding confirmed, in order to explore co-investment opportunities for PIIF members (or a SPV), and alternative engagement models such as a Public Investment model - to help create a clear and viable role for PIIF member funds in infrastructure investment.*

16. The PIIF members continue to engage with their own Governments to identify infrastructure investments for co-investment.

17. The PIIF has also opened up dialogue with a number of multilateral agencies to identify investable infrastructure opportunities for co-investment.

18. The PIIF has identified a number of risks and opportunities, albeit not an exhaustive list, for Ministers to note:

a. **Resourcing** – the work undertaken since the 2019 FEMM has relied on the financial support from the New Zealand Ministry of Foreign Affairs and Trade, with significant in-kind support provided from the NZ Superannuation Fund. The pace of workstreams being addressed by the PIIF and its Secretariat will initially be influenced by the level of dedicated resources provided by Governments and the PIIF Members.

b. **Support** – the PIIF members funds are seeking Forum Economic Ministerial and Officials support to progress the recommendations in this paper. In particular around establishing a clear and viable role for the PIIF members funds in infrastructure investment and identifying a forward-looking integrated infrastructure pipeline. It is important that PIIF members funds support is multi-partisan - across different parties and nation states.

- c. **Change** – the aspirations for PIIF members funds to invest in infrastructure will likely necessitate some changes either with constitutional/policy arrangements for PIIF members and/or legislative/regulatory changes. Careful engagement over time will likely enable better, freer flow of member funds capital across the Blue Pacific region. Short-term solutions such as exemptions, will be sought within existing frameworks where possible.

19. The PIIF members would like to acknowledge MFAT (NZ) and the World Bank/IFC for their ongoing support of the PIIF workstreams that have been outlined above.

Pacific Islands Investment Forum (PIIF)  
29 June 2020

\*\*\*\*\*

**About the Pacific Islands Investment Forum (PIIF)**

The Pacific Islands Investment Forum (**PIIF**) was constituted in May 2018, in the Cook Islands.

*The Vision is:* Promoting economic prosperity in the Pacific through financial stability.

*The Mission is:* The PIIF will promote the use of international investment best practice to best support the free flow of capital in pursuit of long-term Pacific economic and environmental prosperity.

The membership comprises eighteen (18) members funds, alongside two intending members, managing over USD \$50 billion. The PIIF Board is made up of the PIIF Board Chair and CEOs of the Cook Islands National Superannuation Fund, Fiji National Provident Fund, Kiribati Provident Fund, NASFund in Papua New Guinea, Samoa National Provident Fund, Tuvalu National Provident Fund, and the Vanuatu National Provident Fund. A representative from the NZ Superannuation Fund also attends Board meetings, in-light-of the Working Group on Infrastructure that was established as a result of 2018 FEMM.

# PACIFIC ISLAND INVESTMENT FORUM

# CO-INVESTMENT CAPABILITY PROJECT



**Aaron Levine**  
8 July 2020



# Progress from 2019 FEMM

---

# Early engagement central to project support

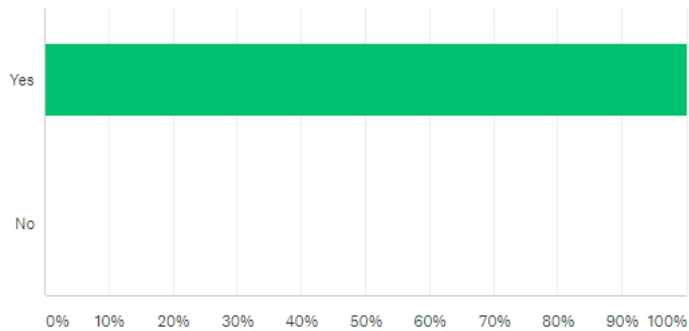
- CEO Forum in September 2019 showed strong support from members.
- Agreement between PIIF and IFC to develop a cross-border co-investment platform was finalised June 2020.
- Broad range early consultations has built momentum:
  - November governors meeting briefing – Led by advocacy from New Zealand Reserve Bank, Pacific central bank governors with endorsement granted to pursue concept
  - Australian Government infrastructure fund (AIFFP) engaged to explore opportunities to join PIIF with co-investment via debt capital contributions
  - Dialogue initiated with IFC to develop partnerships with interest flagged on opportunities aligned with criteria

# PIIF Member Survey - Strong support for cross-border investment

All PIIF members see a benefit in co-investment. Most permitted to conduct cross-border direct investment

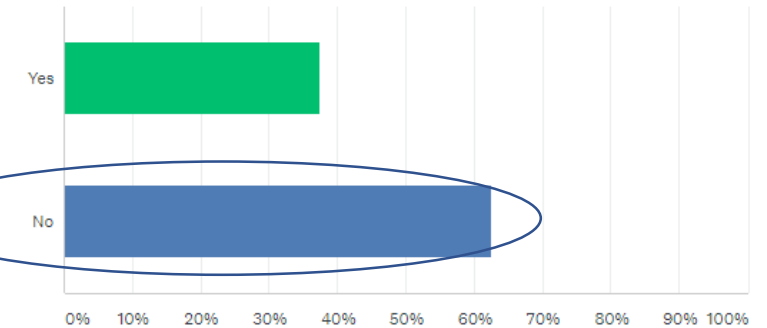
Can you identify immediate and/or future benefits this type of function may offer your fund?

Answered: 16 Skipped: 0



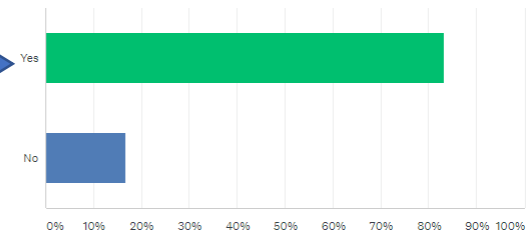
Does your current legislation restrict foreign investment?

Answered: 16 Skipped: 0



If no, then does your investment policy permit direct investing?

Answered: 12 Skipped: 4

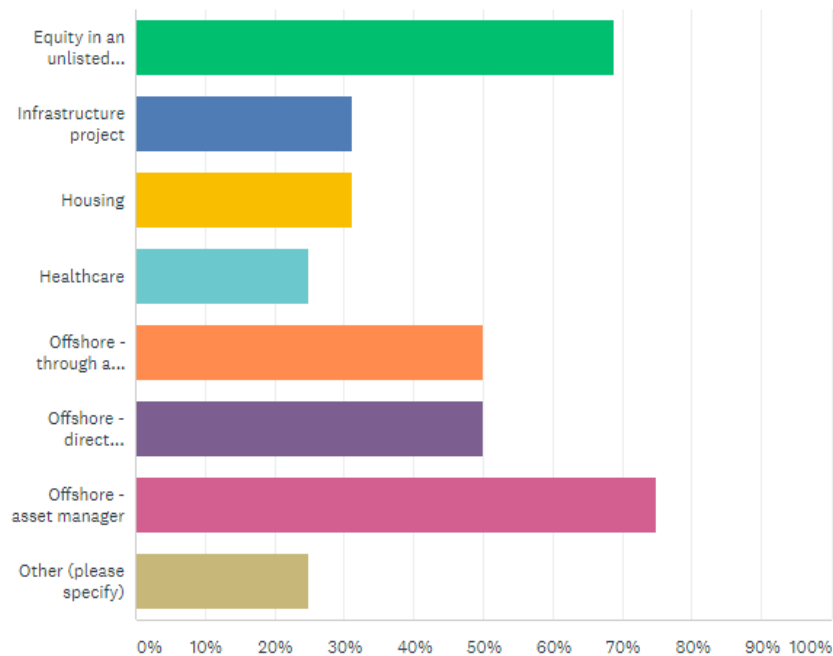


# PIIF Members

Many funds have invested in diverse sectors but smaller funds mostly entirely use offshore managers

Have you invested in any of the following?

Answered: 16 Skipped: 0



## Issues

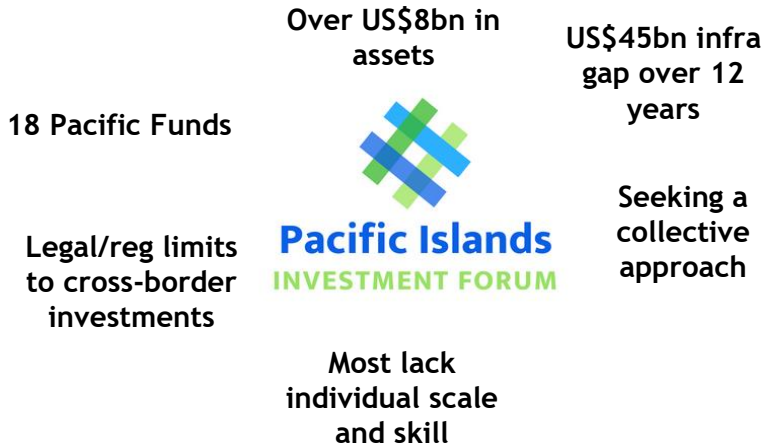
1. Strong governance
2. Tax efficiency
3. Legal structure
4. Operating model
5. Efficiency in foreign investment restrictions
6. Currency of the platform
7. Domicile of the platform

# Planning for coming year

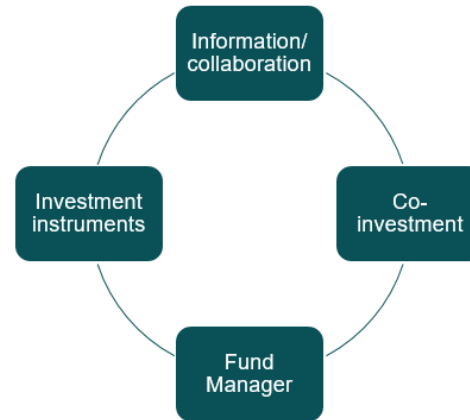
---

# Cross-border co-investment for pacific pension funds

## 1. What is the gap and opportunity?



## 2. Find the right model



## 3. Address the gaps and blockages

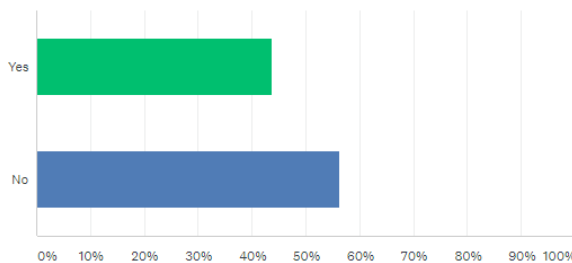
### Issues prioritized by PIIF members Sept 2019

1. Strong governance
2. Tax efficiency
3. Legal structure
4. Operating model
5. Efficiency in foreign investment restrictions
6. Currency of the platform
7. Domicile of the platform

## 4. Narrow the knowledge gap

Is there internal capability within the fund to assess a direct investment?

Answered: 16 Skipped: 0



## 5. Co-invest with IFC/others

- Contributes to IFC's closer alignment with pension funds
- Opportunities with Australian government's new \$2bn infra facility, NZ Super and other donors.

### Draw on expertise across the WBG:

- Technical analytics led by EFI Advisory (IFC) with Long Term Finance Pensions and Infra Debt experts (FCI WB) act as honest broker between funds, donors, government and central banks.
- IFC Portfolio and AMC for exit strategies on existing investments
- Infra, PPP, MAS, FIG IS, Pacific CMUs collaborating on live co-investment opportunities
- MTI GP for DPO triggers for regulatory changes

# COVID-19 Impact Survey

- In light of immediate shocks to Pacific economies from Covid-19, and central role PIIF members play, IFC has supported preparation of Impact Survey for Members
- The survey will cover various areas including:
  - Role of funds as a source of emergency social support
  - Impact on business continuity
  - Impact on portfolio strategy
  - Impact on liquidity
- Results to be disseminated by PIIF to assist in sharing knowledge in the region and guide future policy actions.

# Pacific Co-investment Platform

- Engagement between World Bank Group team (WBG) formalised in June 2020
- Four pillars have been identified to advance the project:

Pillars	Objectives & Outcomes
I. Review of global investment platforms	<ul style="list-style-type: none"> <li>• Identify existing platforms employed globally for application to PIIF</li> <li>• Submit review findings for consideration by PIIF</li> </ul>
II. Review regulatory and legislative constraints across PIIF member countries	<ul style="list-style-type: none"> <li>• Diagnose individual country platform / investment constraints requiring resolution to facilitate efficient cross-border investing including tax efficiency, investment restrictions, currency</li> <li>• Submit review findings for consideration by PIIF and governments</li> </ul>
III. Review PIIF member funds investment policy and governance	<ul style="list-style-type: none"> <li>• Evaluate member fund's policies to identify constraints on cross-border investments</li> <li>• Submit findings to individual funds to consider any remedial actions</li> </ul>
iv. Review existing cross-border investments by PIIF members	<ul style="list-style-type: none"> <li>• Analyze previous / current Pacific domiciled cross-border transactions</li> <li>• Submit review findings to PIIF to identify existing structures employed</li> </ul>

A technical resourcing needs assessment for these pillars is listed in Annex 1

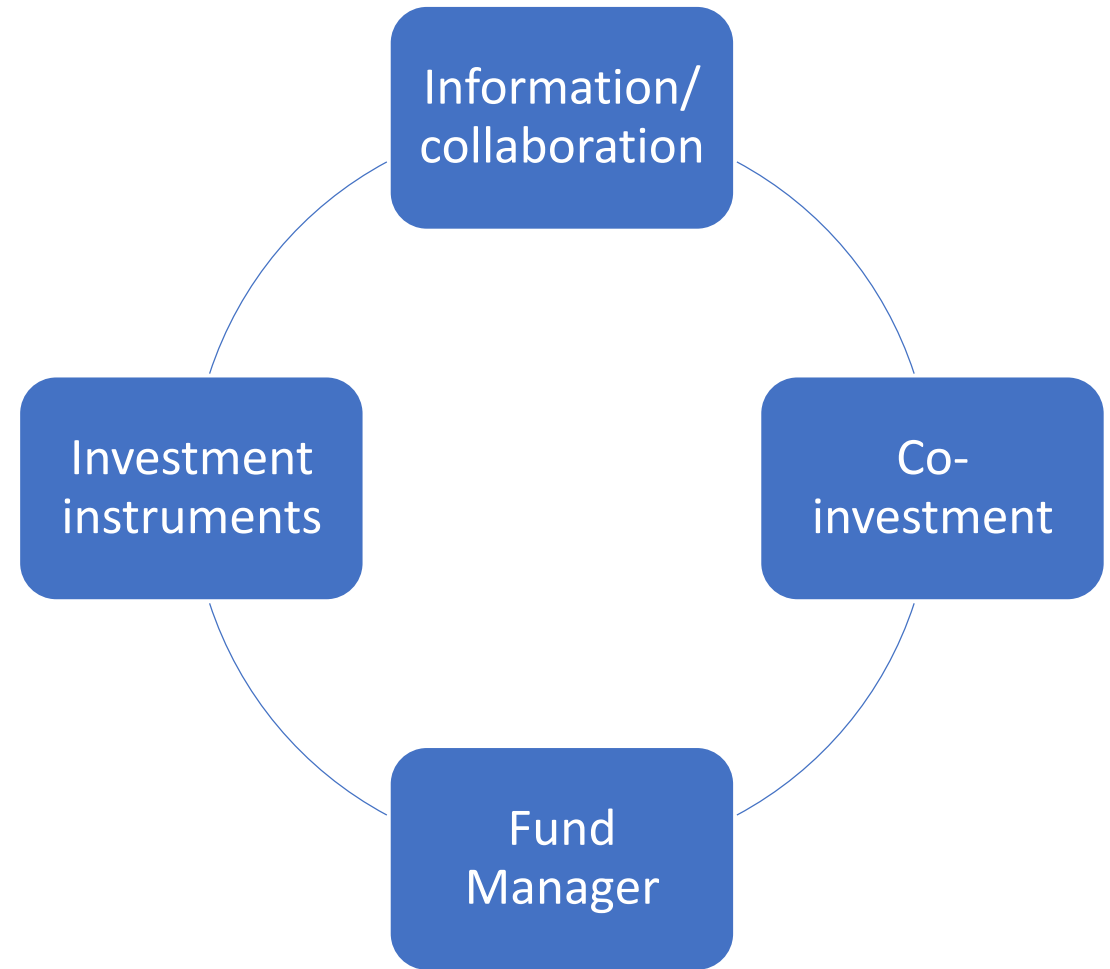


# Project Status

- In consultation with PIIF, WBG established terms of reference for all project pillars.
- Pillars require specialised capability. Market sounding for experts to support Pillars 1 and 2 undertaken, with IFC procurement to commence June 2020.
- Work under Pillars 3 and 4 to commence June 2020.
- Engagement with Pacific governments will occur as workstreams progress
- Workstream reports aim to be submitted to PIIF by 31 December 2020. PIIF will then be suitably inform on the optimal pathway to implement a regional co-investment platform.

## International Experience – Different Models for Cooperation

- Information / Collaboration platform
- Co-investment platforms
- Establish joint-owned fund manager
- Investment instrument
  - Unit trust
  - Partnership structure (GP/LP)
  - Insurance company model



Annex 1

Pacific Platform technical resourcing architecture

**Pillar 1**  
Identify global platform options – what works?

Collab. platform

Co-investment platform

PIIF as fund manager

Limited Partnership

Unit Trust / SPV

How?

**TOR 1:** Pacific Investment Platform  
Global knowledge piece

Where?

Global view

**Pillar 2**  
Assess platform and jurisdiction

Is macro adequate to host?

Legal/reg bottlenecks

Legal structures available

Taxation

**TOR 2(a):** Law firm with domestic coverage  
**TOR 2(b):** Tax, foreign reserves  
**Internal:** WB Resource analytics on macro impact

Pacific including AU, NZ. Have first 'gate' to exclude some jurisdictions

**Pillar 3**  
Restrictions at PIIF member level

Constitutions

Investment policies

Governing PF legislation

**Internal TOR 3:** Project Team Led

All PIIF members

**Pillar 4**  
Pacific fund transaction knowledge

Past cross border deals

How were risks assessed

Approvals needed?

**Internal/External TOR 4:** Project Team Led, on past deals and structures

All PIIF members