

ABG  
Economic Development of Bougainville

Update on Funding Considerations

August 2017

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IES Innovative Economic Solutions

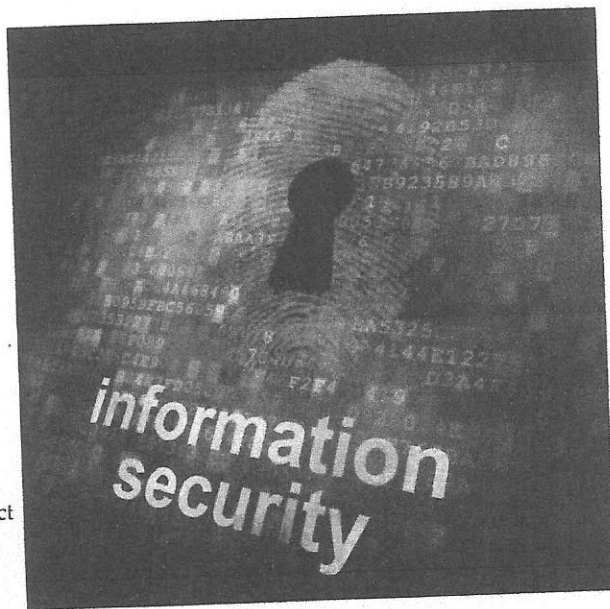
## Mandate

- IES was pleased to receive the letters of mandate from ABC on 15 and 17 July 2017 to assist in developing the economy of Bougainville in order to secure AROB's future
- The letters clearly demonstrated our mutual trust and respect
- We are aligned in securing a future where the economy delivers benefits to the people and the investor
- IES has been busy developing the plans in more detail
- More importantly, IES has been active so as to avoid the "NATO" syndrome
- The following presentation covers the progress and steps forward

## Security

The contents of this document are extremely sensitive and should be well guarded

Premature release of information could seriously damage the chances of success and adversely affect the achievement of the benefits for Bougainville



## Progress Report

### Foreword

- The comments on the following slides are based on our findings and reviews of the 2001 Peace Agreement and the 2004 Constitution
- In addition to the initial brief for funding, IES has also examined opportunities for the development of natural resources (minerals, metals, oil and gas); fishing and agriculture; tourism, commercial banking and infrastructure
- We also propose that consideration be given to the creation of a special economic trade zone to accelerate investment
- Just as importantly, we have also examined options for reducing fuel and electricity costs
- Our primary task however, was to find the means to raise funding. We have identified 4 key channels which we shall expand on to achieve the funding
- We have progressed discussion with potential investors and supporters, with mixed results but overall positive provided the correct environment is created

## Background

- Fiscal self-reliance for the Autonomous Bougainville Government strongly promoted in 2001 Peace Agreement & 2004 Constitution
  - At present, total reliance on 'recurrent grants' from National Government (PNG). No directly generated revenue of substance for ABC
  - Reported, as yet not confirmed, shortfall of approximately Kina 800 Million (US\$250m) of 'recurrent grants' from PNG to date
  - Impending referendum on independence (in 2019) places pressure on ABC to develop plans and results to secure financial security
- As an autonomous regional government, ABC is empowered, among other things, to:
  - Issue licences for mineral exploration, mining and production
  - Develop policy to agree on fishing quotas, issue licences and manage fisheries
  - Establish non-banking financial services
  - Take over certain central bank functions AFTER fiscal self-reliance is attained
  - Raise loans in consultation with PNG - Central Bank approval required for foreign loans
  - Raise foreign development aid but not at the expense of PNG's allocation

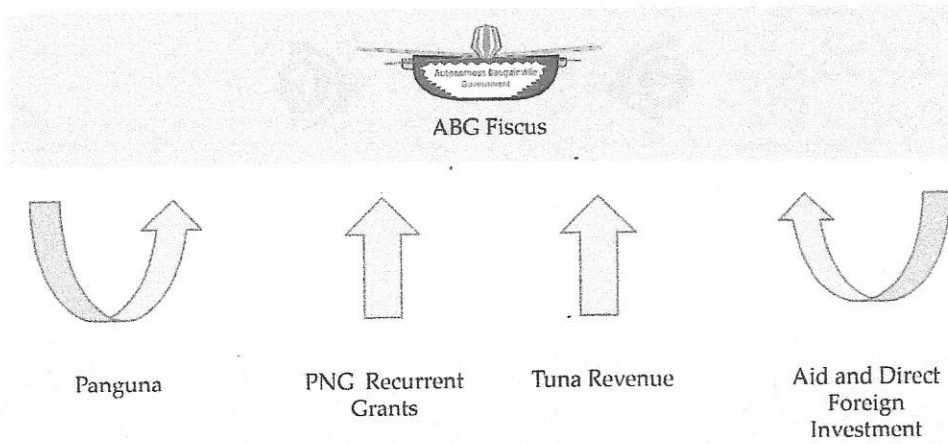
## Options

- The ABC requires
  - 'interim' funding (covering PNG arrears) to manage its constituencies and cover costs for and post the outcome of the independence referendum in 2019
  - assistance in attracting direct foreign investment and secure a sustainable and reliable revenue streams from economic activities
  - availability of quality insurance coverage, so as to enable direct foreign investors meeting standard investment and loan covenants
- Horizons and methodologies
  - Timelines: the immediate term leading to the referendum and the long term for a sustainable economy
  - Approach: immediate focus on 4 channels:
 

1. Monetise PNG debt	4. Tuna fishery revenues
2. Leverage the Panguna asset	3. Lobby and attract Foreign direct investment & foreign development aid
- Possible Limitations
  - Raising debt restricted to commercial market and its conditions as Bougainville is not yet a sovereign nation
  - Revenue from new mining licences will take time to be of significance to income stream
  - Oil & Gas framework is long term
  - PNG acknowledging debt and impact on obtaining aid
- All streams to be progressed concurrently. Timing of delivery not certain given number of variables that are not controllable



## 4 Focus Channels



Not to the exclusion of developing Oil & Gas, Agriculture and Tourism

Structuring for the Future



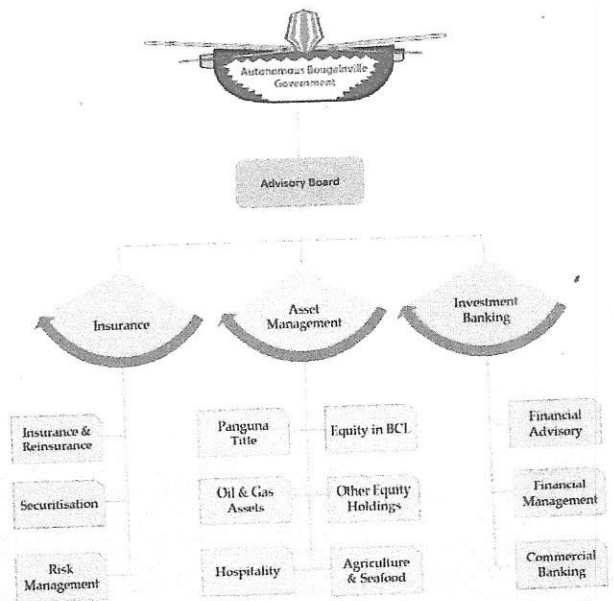


# State Owned Enterprises

- Objective is to establish Sovereign Wealth Fund for ABG to house assets
- Interim ABC creates commercial identities to house assets and access capital markets
- Structure to raise funds & investment requires:
  - Asset management:
    - Holding title to state assets and a commercial platform
  - Insurance:
    - Central pool provides security and spread of risk
  - Investment Banking:
    - Financial services, funds management – pensions & health and commercial banking

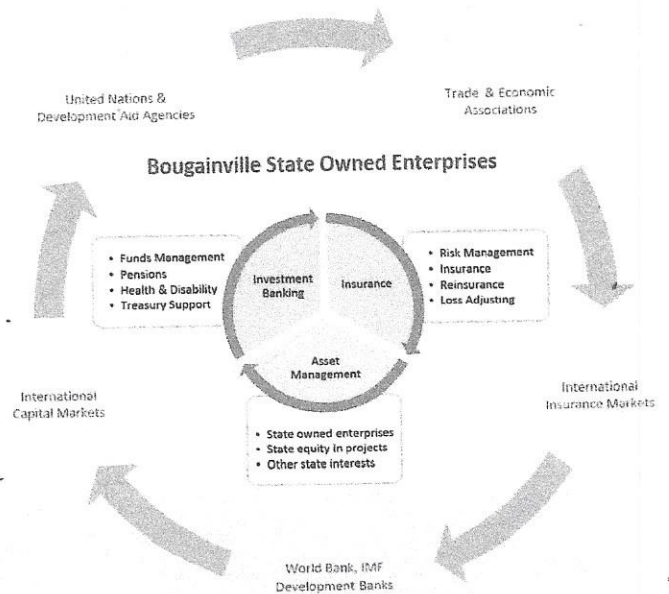
While each SOE is separate, coordination is essential

- Avoid conflicts of interest and ensures good governance
- Investors seek familiarity and certainty of process.



## Engaging with the World

- Through 'commercial' SOEs ABC can readily engage directly with international agencies
- Insurance and debt conversion
  - Munich Re, Swiss Re, Allianz Group, Insurance Australia Group, QBE Insurance and Lloyd's of London
- Panguna
  - Blackrock, IFM, Bell Potter, Bannellong
- Tuna
  - Smorgon Group (Fish processing plant)
- Development Aid
  - Australia, Japan, New Zealand, Germany, China, European Union and the United Nations



Panguna



## Strategic Objectives for Panguna

- Satisfy landowner aspirations for participation
- Leverage Panguna for securing finance / income for ABC
- Structure project for financing and develop to production on fast track for economic renewal
- Address BCL legacy issues including environmental impact
- Access BCL assets to develop other facets of Bougainville economy

## BCL Legacy

### Bougainville Copper (BCL)

- Licence has lapsed
- Ownership: ABG & PNG National Government 36.4% each; balance held by ASX investors. Unlikely that ABG can take control immediately and certainly not without PNG providing ABG their shareholding
- Has cash or equivalent assets of ~\$40 million
- BCL, the corporate entity most likely to be liable for environmental damage claims, unless direct recourse to Rio Tinto can be established
- Poor relationship with ABG and local community
- Not a stretch to state it has lost social licence to operate

### Landowners

- Not unified through legal corporate entity holding all mineral rights through which to negotiate with future operator
- Factions with differing views tainted by the past and influenced/manipulated by parties seeking the mining licence

## Action Plan BCL

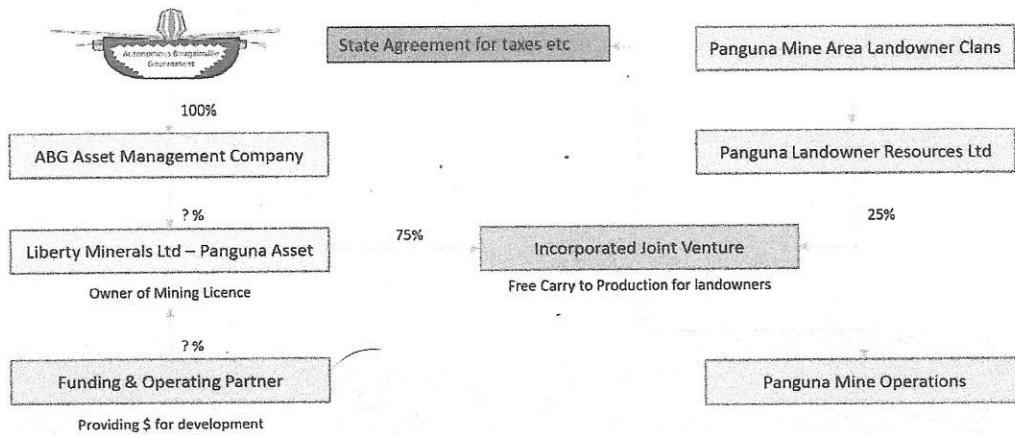
- Appropriate representation on BCL Board of Directors
  - ABG appointees should be 50% of members or at least equal to PNG representation
- Appoint advisors in 'behind the scenes' role to guide & support ABG directors on BCL Board
  - Task advisors (shadow directors) to determine appropriate pathway to Panguna development:
  - Allow access to historical records, management contract(s), environmental data, insurance programmes, internal records etc - IMPERATIVE
  - Conduct strategic review to re-purpose BCL without Panguna to determine either:
    - A viable operating model that benefits ABG and other shareholders, or
    - Dissolution and distribution of remaining funds to shareholders
  - Subject to findings of strategic review consider indemnifying BCL against environmental issues



## Panguna Specific Action Plan

- A. Create corporate entity (Liberty Minerals per next slide) offshore with ABC as 100% shareholder
- B. Delineate Panguna Mining area from other prospective areas and tailings to:
  - 1. Assist in Landowner alignment and approvals
  - 2. Clarifies areas of focus within the greater area
  - 3. Segregate potential contentious areas from a Landowner, Investor and NGO perspective
- C. Issue Panguna Mining Licence to the Liberty Minerals (see A) and for structuring (next slide)
- D. Possible to issue Mining Licence (Panguna) and exploration licences for the each area – (see B)
- E. Autonomous Bougainville Government
  - 1. Can formally assume ultimate ownership of Panguna Licence (and others see B) as first step to re-starting operations
  - 2. Thereafter, with landowners' consent, can sell all or part / JV / with developer / operator
- F. Future Operator(s)
  - 1. Engage with local community, explain objectives including separation of mine from riverine tailings
  - 2. Assist mine area landowners to incorporate, possibly similar to Toremana, holding interests

# Sample Structure for Panguna Mine



Version 1.2

17

# Tuna

Version 1.2

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## Action Plan

- Need to have the appointment made per the Peace Agreement para 85. This is key for:
  - Participation; and
  - Access to data which is not available.
- Using data provided, and with data from representation going forward, need to get revenue due from fishing per para 86 of the Peace Agreement
- Para 135 does not provide for Bougainville to contribute to PNG through fisheries
- Lobby and raise the issue of reporting to demonstrate what monies may be due under Para 86.

Investor interest is strong

PNG Recurrent Grants



## PNG Recurrent Grant Arrears

- Reported Kina 800 Million arrears in recurrent grant payments from National Government
- National government either settles debt in cash or issues sovereign guarantee for equivalent amount
- Guarantee could be used
  - as collateral to underwrite loan arranged by Bougainville SOE
  - or monetised for cash
- Either methodology will require viable projects for funding that will service debt and pass due diligence
  - Used as collateral, guarantee will enhance credit worthiness for strict due diligence process. Debt service is entirely ABG responsibility
  - Monetising/discounting can be more complicated
    - Guarantee has to be returned unencumbered and uncashed at end of its term, usually 12 months
    - Re-financing necessary, but initial cash from monetising process will have improved the projects for more attractive loan terms
- ABG may consider an appropriate joint venture partner as standing of SOEs may not be strong enough
  - Shared resources (credit ratings and bank relationships), liabilities (debt service) and rewards (use of proceeds and exchange of equity) will increase capacity and will fast-track development



## Funding Alternatives

- Leverage PNG National Government Debt
  - Immediate cash settlement of recurrent grant arrears or a loan
    - Perversely, a loan rather than cash settlement could have lesser impact on PNG balance sheet
  - Issue of a PNG sovereign guarantee to use as collateral or to monetise as alternative
    - Moody's PNG credit rating is B2 stable just short of 'investment grade'
  - Seeking a commercial loan will require a 'commercial' ABG State Owned Enterprise (SOE) to negotiate and secure
- Collateralise Panguna Asset
  - Obstacles
    - Immediate access to asset may be hampered as legal and political uncertainties prevail with Bougainville Copper (BCL)
    - Licence lapsed
    - Landowners not united and rights not determined
  - Solution: Transfer 'title' (ownership) to a SOE. See section on structuring
    - Validity of operating licence a secondary issue
    - SOE will be able to leverage Panguna asset



## Development Aid: Social Infrastructure & Governance

### • Medical

- Hospitals, first aid posts, ambulances, scholarships and training

### • Education

- Aid for church schools and high schools; establishment of technical schools and university specialising in tropical medicine and tropical agriculture; books for libraries and internet access
- General administration training

### • Legal

- Wardens, Magistrates, Judges. Scholarships to Australia and New Zealand law schools. Police, customs and law and order administration and training
- Two Pacific Class patrol boats

### • Infrastructure:

- New airport, all weather national highway, communications, deep water port. Land-title system
- Surveyors, cartographers etc

### • Mining Education

- School of mines affiliate with Curtin University in Australia

### • Sport

- National sporting competition – Rugby League.
- Sports grounds

### • Hospitality

- New 4 star hotel

### • International Flights

- Qantas direct flights from Australia

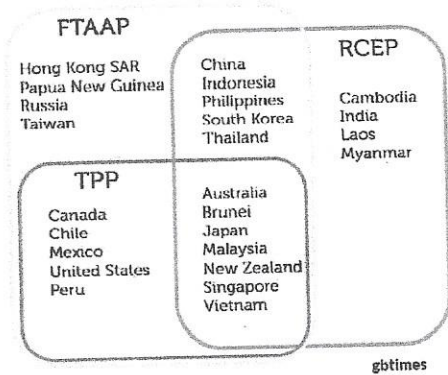


## Special Economic Zone

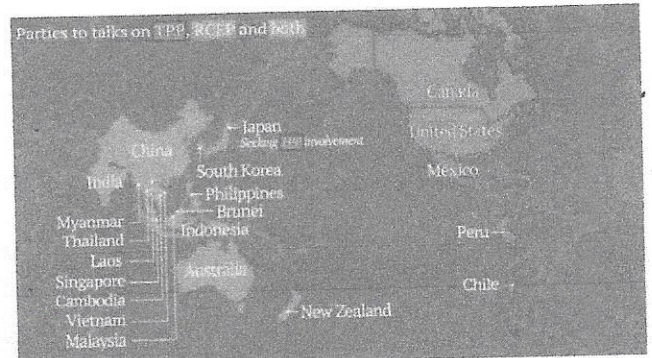
- The creation of a free trade or special economic zone (SEZ) would fast track foreign direct investment
- Advantages
  - Simpler establishment process for businesses and their administration
  - Legal and fiscal regulations separate from the rest of the country and in line with international norms
  - Tax and business incentives such as waiver of customs duties and clearances, bonded facilities
  - One-stop, single transaction movement of goods in and out of the country
  - Ideal environment to establish processing and manufacturing facilities for export trade
  - Efficient banking and trade links
  - Jobs creation and access to international standard training
- Easier commercial, rather than political links to other countries in the region through SEZ network
  - Membership of regional & Multi-lateral associations will greatly enhance Bougainville's profile in the international community

## Regional and Multi-lateral Associations

### Trade agreements in Asia-Pacific



FTAAP = Free Trade Area of the Asia-Pacific  
 TPP = Trans-Pacific Partnership  
 RCEP = Regional Comprehensive Economic Partnership



Erratum: USA no longer a member of the TPP





## Specific next steps

- "Project Office" methodology to be created to itemise action, responsibility, timeline and resource required
- Specific mandate letters for IES to be drafted for each opportunity to be introduced by IES

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