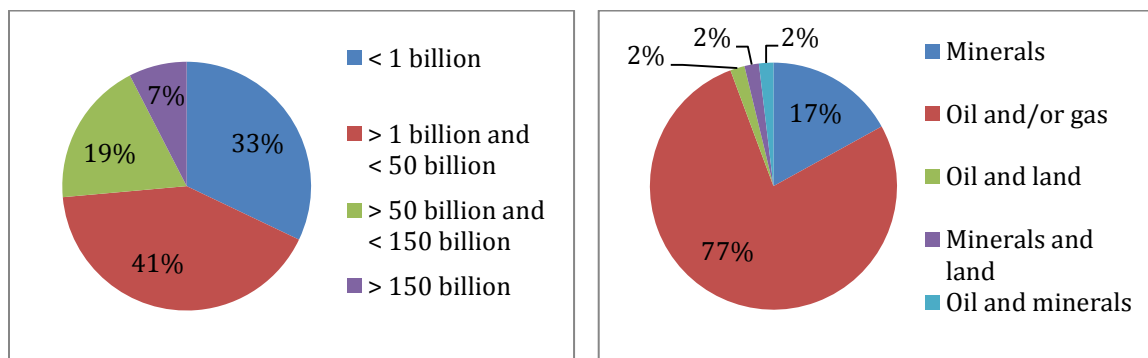


The \$3.5 Trillion Question: How to make natural resource funds work for citizens

What is this study about?

We surveyed 22 out of 54 natural resource funds—government-owned sovereign wealth funds that are financed largely by oil, gas and mineral revenues—in 18 national and subnational jurisdictions. We examined their management, investments, transparency, and accountability to the public, as well as the fiscal rules that govern them.

Breakdown of all 54 natural resource funds by size (USD) and principal source of financing



Source: RWI and VCC

Why does natural resource fund governance matter?

Natural resource funds hold \$3.5 trillion in assets (as of the end of 2013). This money, which belongs to the public and comes from extraction of non-renewable resources, should serve the public interest. Among other benefits, governments can use funds to manage revenue volatility and cover budget deficits when resource revenues decline, save them for future generations, earmark them for development projects, or use them to help mitigate Dutch disease by investing abroad. Citizens in Chile, Norway, many Persian Gulf countries and several U.S. states have experienced these benefits. But in other settings where the funds have been poorly managed, they have undermined public financial management and been used as sources of corruption and patronage. Furthermore, half of all funds are too opaque to study, raising questions about how they are being used or misused. Improved standards of governance are essential for the new funds planned in at least 14 countries, and many existing ones as well.¹

¹ New funds are planned at the national level in Afghanistan, Israel, Kenya, Lebanon, Liberia, Mozambique, Myanmar, Niger, Peru, Sierra Leone, South Sudan, Uganda, Tanzania and Zambia and at the subnational level in many other countries.

What are some of our findings?

There is a trend toward establishing strict rules for managing deposits, withdrawals and investment risk through legislation or regulation. Funds are also becoming more transparent. However opposition to governance rules is still common. For example, Abu Dhabi (UAE), Azerbaijan, Iran, Kuwait, and Russia resist imposing withdrawal rules, and Botswana, Equatorial Guinea, Iran, Kuwait, Mexico, Russia and Qatar have very opaque funds despite signing on to the Santiago Principles, a set of voluntary good governance guidelines for sovereign wealth funds.

What should be done?

We recommend a six-step process for establishing or reforming a natural resource fund:

1. Set clear fund objectives, such as saving for future generations, stabilizing the budget, or earmarking for development projects.
2. Establish fiscal rules for deposits and withdrawals that align with the objectives.
3. Establish investment rules that are aligned with the objectives, such as a maximum percentage of assets that can be invested in equities.
4. Clarify a division of responsibilities between the ultimate authority over the fund, the fund manager, the day-to-day operational entity and the different departments within the operational entity. Set and enforce ethical and conflict of interest standards for fund staff.
5. Require regular and extensive disclosures and audits.
6. Establish strong, independent oversight bodies to monitor fund behavior and enforce the rules.

Governments establishing or reforming their natural resource funds should also obtain broad political consensus on operational rules. Even the best rules will not be enforced unless key stakeholders and the broader citizenry have bought in to the need for saving some natural resource revenues—as opposed to spending them all through the budget immediately—or there is constant pressure on the government to follow the rules.

Where can I find all the fund case studies and policy briefs?

Beginning April 8, our research on fund governance, including case studies, will reside at www.revenuewatch.org/nrf. The documents have been designed to provide government officials, policymakers, researchers and citizens with information to better understand natural resource fund governance, and in particular to equip policymakers with the necessary background to set up funds or reform existing ones.

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