



The \$3.5 Trillion Question: How to Make Natural Resource Funds Work for Citizens



What is a natural resource fund (NRF)?

Government-owned


Macroeconomic objective(s)

At least a portion invested in foreign assets

Source of financing: oil, gas or mineral revenues

NOT a bank, national oil company or central bank reserves

Looking at governance: 2 types of NRFs



Some have helped countries escape the “resource curse.”

- Chile
- Norway
- Some Persian Gulf states
- Several U.S. states

Others have been mismanaged, not met objectives or become slush funds.

Some in :

- Central Asia (e.g., Russia)
- Latin America (e.g., Venezuela)
- MENA (e.g., Libya)
- SE Asia (e.g., Brunei)
- Africa (e.g., Equatorial Guinea)

What has made the difference are the rules, institutions and broad-based consensus.

Why this study?

Governance matters.

There is no international consensus on “good governance” or even “NRF”.

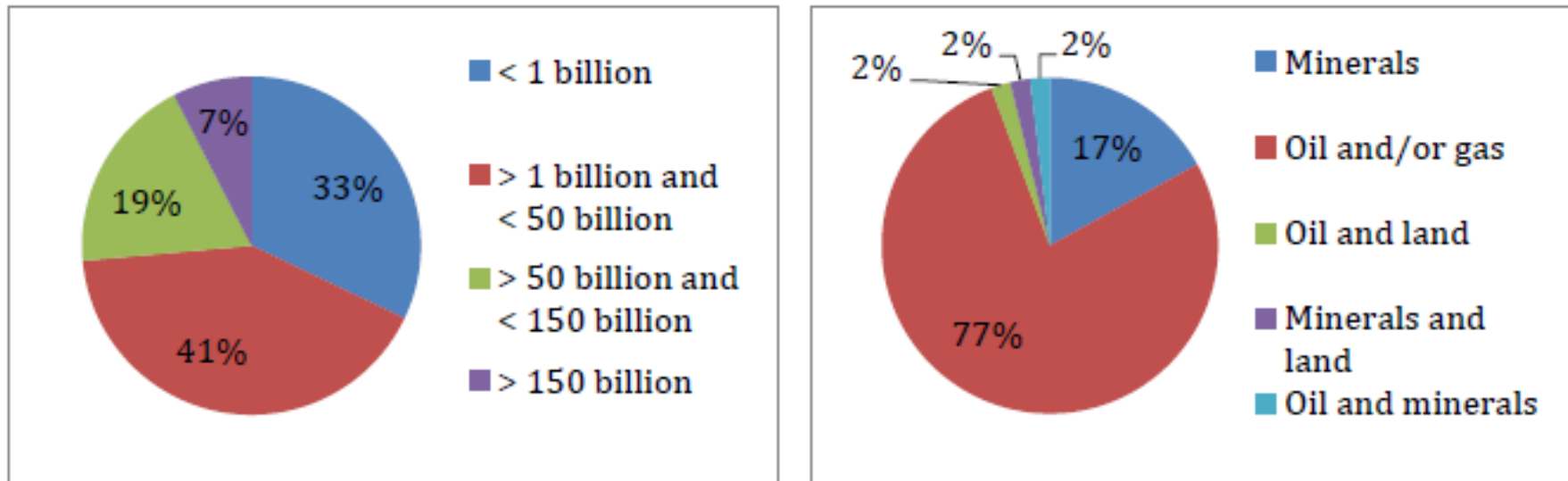
Policymakers need tools and resources to establish or reform funds.

Is there a governance blueprint that can be followed to make NRFs work for citizens?

What did we do?

- Identified 54 NRFs (\$3.5 trillion in assets as of end-2013)

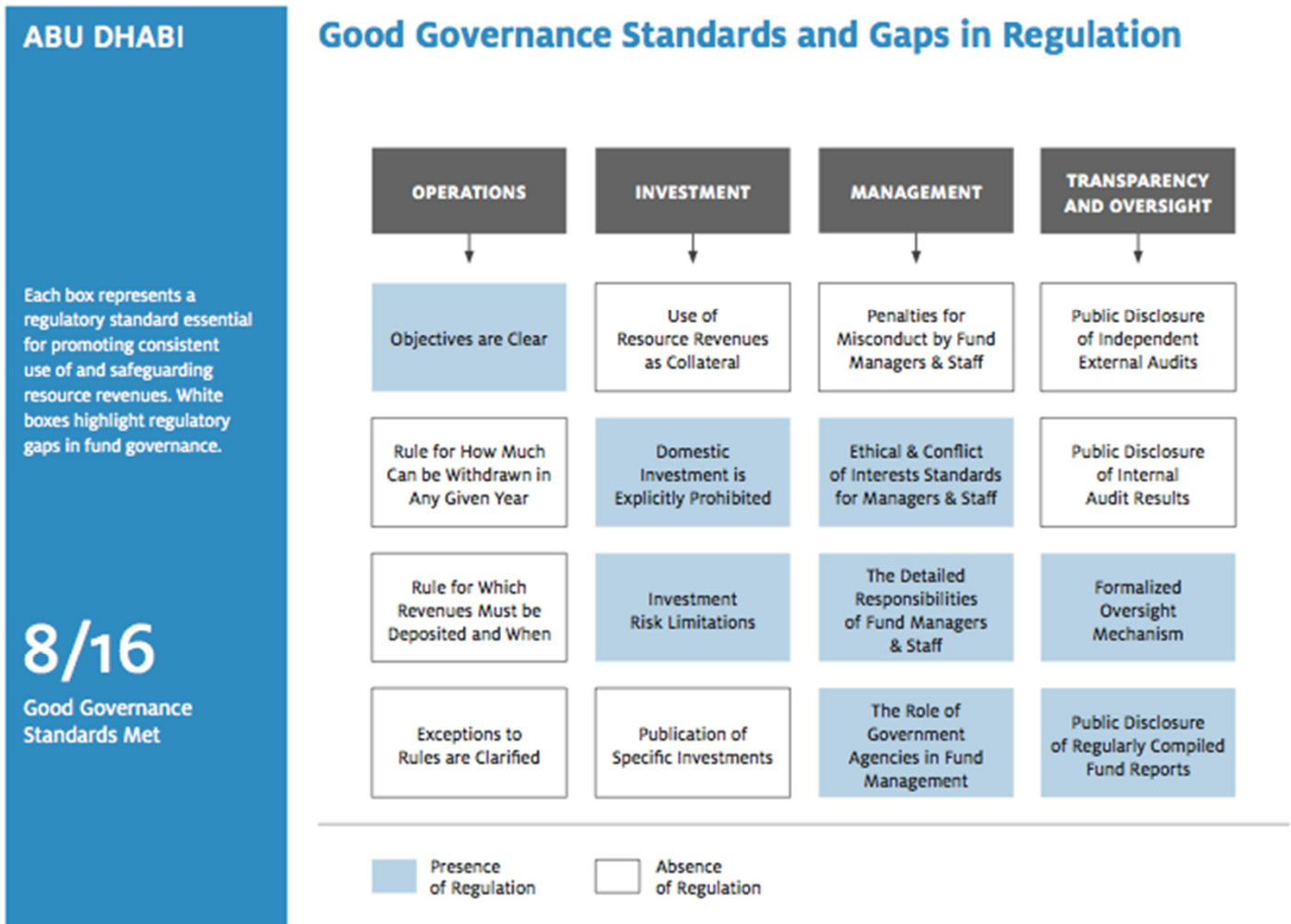
Breakdown of all 54 natural resource funds by size (USD) and principal source of financing



- Surveyed 22 NRFs in 18 national and subnational jurisdictions, based on institutional structure, investments, transparency, accountability and fiscal rules

What are our findings?

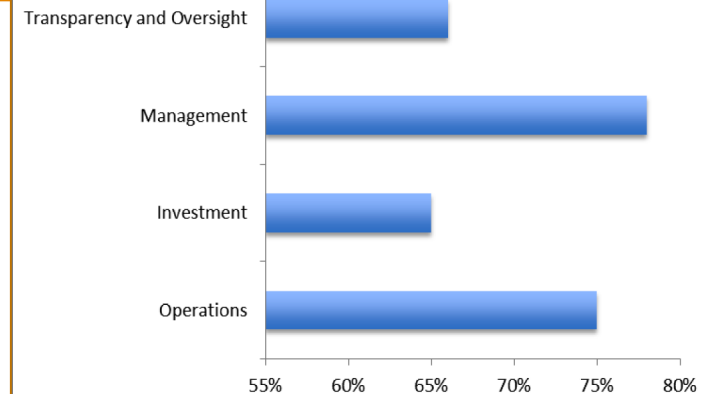
Each NRF profile includes a rating of good governance standards.



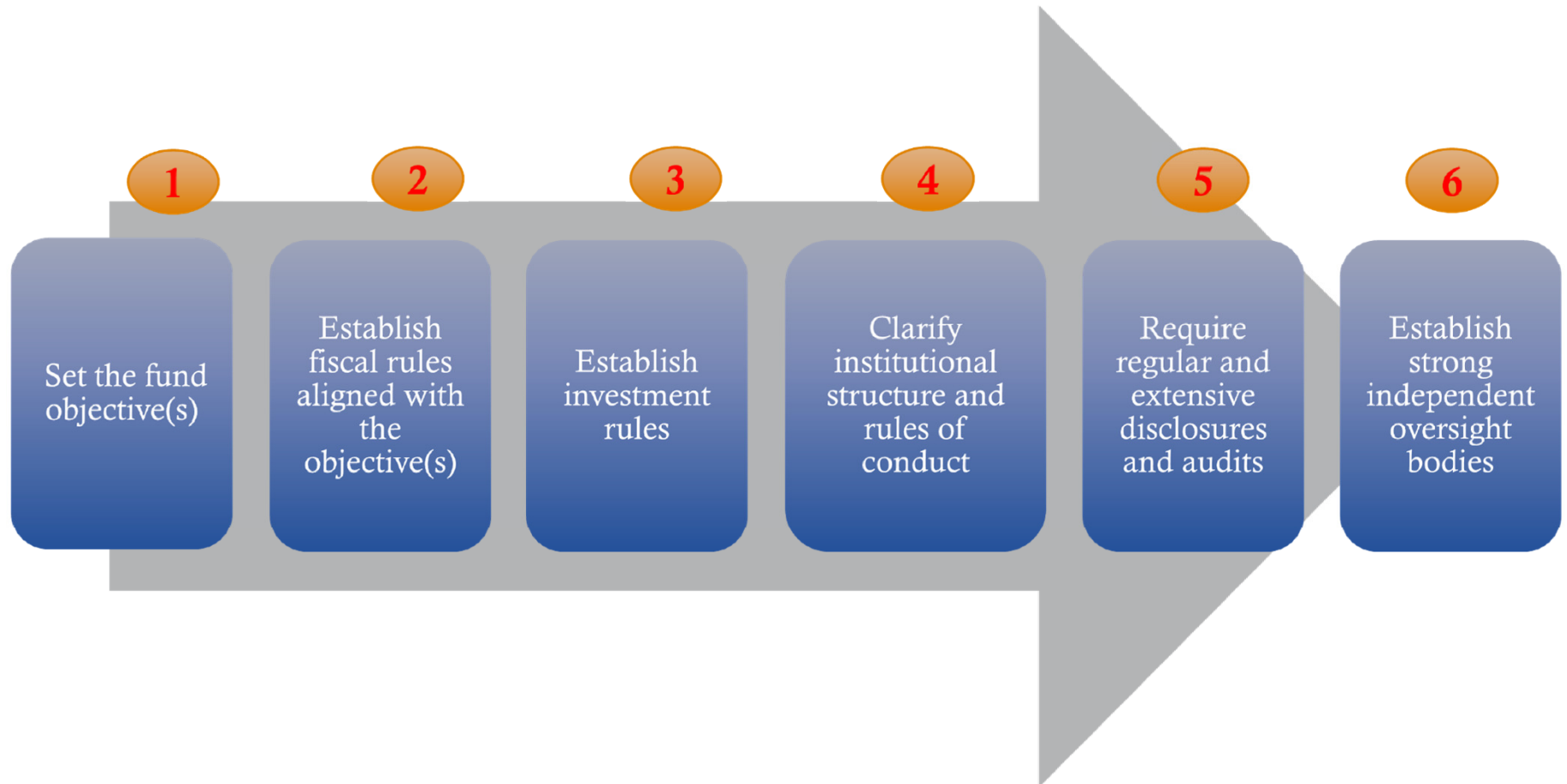
What are our findings?

- 🔥 \$3.5 trillion in AUM
- 🔥 Massive proliferation of funds – the new “must-have” for new producers
- 🔥 NRFs adopting more rules, but major problems with compliance
- 🔥 Some rules more common than others; more focus on management structure than investment risk limitations, transparency or oversight
- 🔥 Funds becoming more transparent; yet only about half of the funds studied release audits or publish specific investments (most do not)

← Afghanistan, Israel, Kenya, Lebanon, Liberia, Mozambique, Myanmar, Niger, Peru, Uganda, Sierra Leone, South Sudan, Tanzania, Zambia...



How to improve governance: a 6-step process



Step 1: Set clear fund objectives

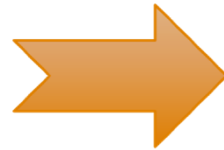
Saving for future generations

Stabilization

Sterilizing capital inflows

Earmarking for specific expenditures

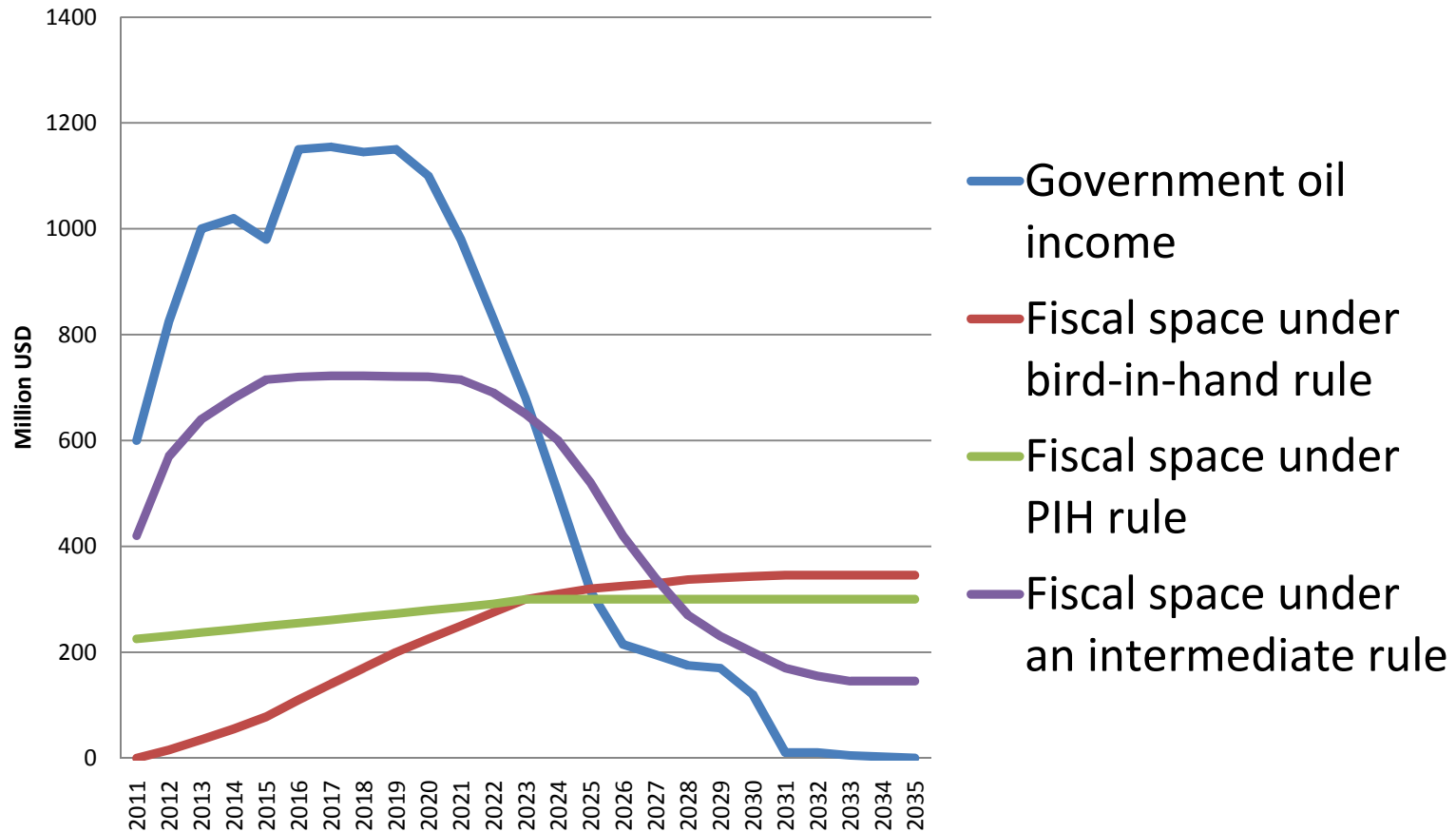
Ring-fencing resource revenues



What matters: clarity, consistent operational rules, adapted to the needs of the economy

Step 2: Establish fiscal rules

Fiscal space



Step 2: Establish fiscal rules

Azerbaijan

Lack of a withdrawal rule

- Discretionary withdrawals
- Government spends lavishly when oil prices are high
- Leading to cuts when oil prices have declined

Alberta

Lack of a deposit rule

- Between 1987 and 2013 only two deposits made of less than \$4 billion combined.
- Change in 2013

Chile

Even when fiscal rules are established by law, room for manipulation remains (e.g., Ghana, Trinidad and Tobago, Timor-Leste)

Chile has independent committees to make forecasts and fiscal assessments

Step 3: Establish investment rules

- 🔥 **Need for explicit rules that limit risk**
 - 🔥 Allocation between cash, fixed income investments, equities and alternative assets
 - 🔥 Prohibition of certain high-risk financial instruments or volatile currencies
 - 🔥 Limit use of resource revenues as collateral?
- 🔥 **Domestic investment directly by the fund or through the budget?**
 - 🔥 No domestic investment: ADIA, Botswana, Chile, Kazakhstan, Norway
 - 🔥 Bypass the budget: Angola, Azerbaijan, Iran, Russia

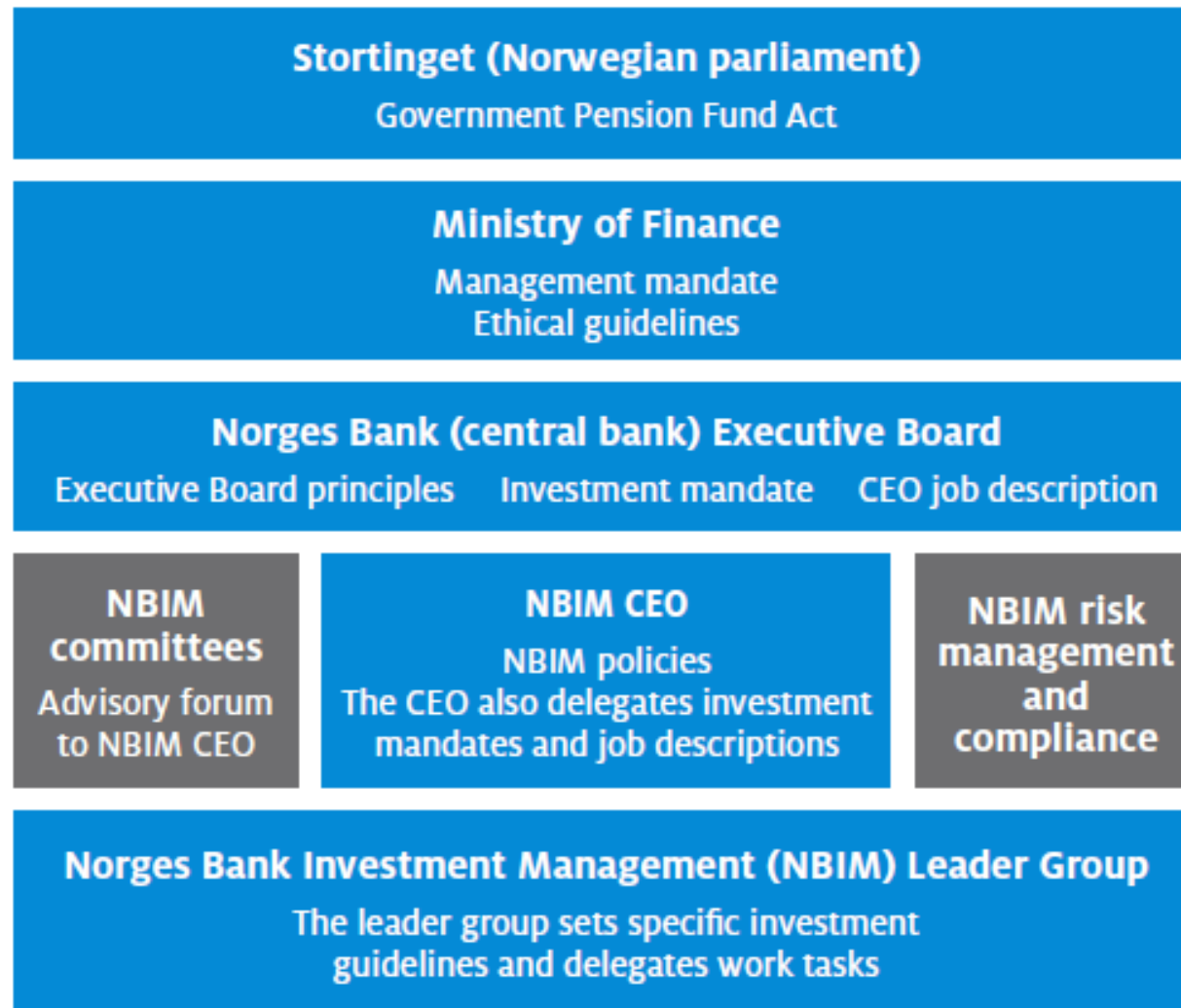
Step 3: Establish investment rules

🔥 Cautionary tales

- 🔥 Angola – from 2000-04, borrowed \$9 billion backed by oil during IMF debt restructuring negotiations
- 🔥 Kuwait – lost \$5 billion in the 1990s on speculative investments
- 🔥 Libya – lost nearly all of \$1.2 billion investment in derivatives during the 2007-08 financial crisis

Step 4: Clarify good institutional structure

Norwegian
illustration



Step 5: Require extensive disclosure and audit

- 🔥 Easy access to comprehensible legislation or quarterly reports that include:
 - 🔥 governance rules
 - 🔥 size of funds
 - 🔥 returns on investments
 - 🔥 specific assets
 - 🔥 investment strategy
 - 🔥 names of fund managers
- 🔥 Public disclosure of internal and external audits

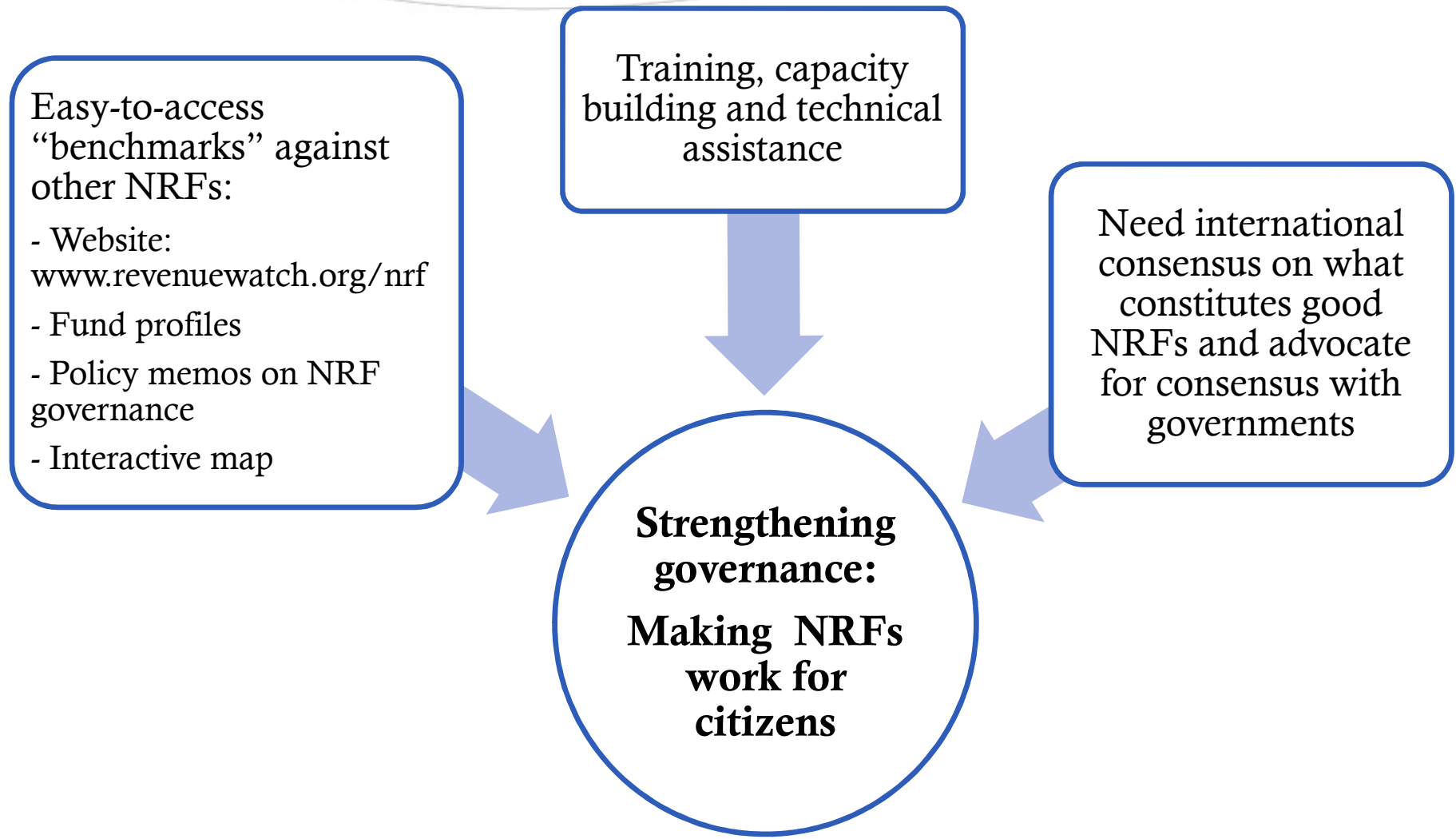
Step 6: Establish strong independent oversight

- 🔥 Independent oversight promotes compliance with the rules.
- 🔥 Managers of NRFs should be accountable to:
 - 🔥 the legislature
 - 🔥 comptroller, auditor-general or other independent formal supervisory body
 - 🔥 the judiciary
 - 🔥 civil society and the press
 - 🔥 even the IMF or other policy institutes

**Example:
Ghana's Public Interest
and Accountability
Committee (PIAC)**

**Working with small budget
and no enforcement powers**

Uses and future issues





Thank you.

The full RWI-VCC report, briefs and NRF
profiles are available at
www.revenuewatch.org/nrf

