Key messages
- Transparency is a prerequisite for government accountability. It can also help make government more efficient, help prevent fiscal crises, and improve policy coherence. Finally, it can improve the private investment climate and help build trust between a government and the public.
- Natural resource fund transparency can be defined as clear roles and responsibilities for managers and policymakers, publicly available information, open decision-making processes, reporting and assurances of accurate information.
- Most of the 24 government signatories of the Santiago Principles, a set of voluntary good governance and transparency standards for sovereign wealth funds, have improved their funds’ transparency over the past several years.
- Among the funds reviewed, the Alaskan (USA), Chilean, Ghanaian, Norwegian, Texan (USA) and Timor-Leste funds are characterized by a high degree of transparency. Most funds in the Middle East and North Africa are not, which has sometimes resulted in serious mismanagement of public resources.
- This paper provides a checklist of key transparency provisions for natural resource funds.

What is natural resource fund transparency?
Transparency, broadly defined, is “the degree to which information is available to outsiders that enables them to have informed voice in decisions and/or to assess the decisions made by insiders.”1 In terms of natural resource fund governance, transparency involves:2

a) Clear roles and responsibilities: The roles and responsibilities of the national government, central bank, fund managers and oversight bodies (e.g., independent regulator; parliament; auditor; civil society), as well as the relationships among these institutions, should be clearly defined.

b) Publicly available information: Legal freedom of information and easy access to information on managerial activities, financial flows in and out of funds, specific assets and returns on investments are key elements of natural resource fund transparency. The government should make receipts, audits and reports on all financial flows publicly available in an easy-to-digest format.

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2 This list draws on the International Monetary Fund’s (IMF) Guide on Resource Revenue Transparency, which can be found at http://www.imf.org/external/np/fad/trans/guide.htm.
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c) **Open decision-making processes and reporting:** As the International Monetary Fund (IMF) states, "The government needs to give assurances to the general public that resource revenues are being used effectively to meet social and economic policy goals ... Savings or stabilization funds, while sometimes seen as necessary, should be an integral part of the overall fiscal policy framework. Their asset holdings should be fully disclosed and asset management policies open."³

d) **Assurances of integrity:** Data should meet accepted criteria of quality—for example, via independent external high quality audits—and there should be oversight mechanisms in place that ensure accountability to the public.

Why is natural resource fund transparency important?

Transparency of natural resource funds promotes:⁴

a) **Sustainability:** Fund transparency aligns public expectations with government objectives—ensuring, for example, that withdrawals should be based on a consistently applied rule or public funds should not be used in the private interest. As such, transparency can encourage long-run policy consistency and help manage public expectations over time. Based on an examination of natural resource funds by the Revenue Watch Institute and the Vale Columbia Center, there is a clear correlation between the degree of fund transparency and compliance with a fiscal anchor over the medium to long term.

b) **More efficient public financial management:** An improvement in the quality of data a government gathers and maintains can make the jobs of ministries, parliaments and regulatory agencies easier. Oversight bodies can also scrutinize fund performance and distribution of funds and benchmark against other countries or past performance to suggest governance improvements. For example, disclosure of returns by specific investment can help oversight bodies identify poor investment strategies in order to correct them.

c) **Fiscal crisis prevention:** Policymakers can respond to changing economic conditions or mismanagement of funds earlier and easier if they have free access to credible information about fund behavior.

d) **Investor confidence and easier access to capital:** Investors are more likely to invest in a jurisdiction where policymaking is predictable and they have access to information on the risks involved in investing.

e) **Trust:** Citizens can only feel confident about a government’s spending and investment decisions if they are informed. Trust, in turn, can reduce the incidence of social and political conflict.

f) **Accountability:** A well-informed public or oversight bodies with the capacity to act can engage in a constructive discussion around policy formulation and fund performance. Through public scrutiny, officials can be deterred from acting unethically and held accountable for abuses of power for private gain. Governments can also be held accountable for their commitments, such as using natural resource funds for budget stabilization or savings purposes.


In addition, the 24 nation-state members of the International Forum on Sovereign Wealth Funds (IFSWF) have agreed to a voluntary set of principles and practices for sovereign wealth funds known as the Santiago Principles. These principles, adopted in 2008, emerged from two fears: First, countries receiving Sovereign Wealth Fund (SWF) investments worried that large government investors might use their financial power to pursue political or strategic objectives rather than purely financial returns. Second, since SWFs are large—by one definition, global SWF assets in 2009 totaled $5.9 trillion of which $3.7 trillion was invested abroad—and growing in size, failure of one of the largest SWFs could trigger a global financial crisis.

The 24 voluntary principles are broken down into three sets of standards: legal framework, objectives and coordination with macroeconomic policies; institutional and governance structure; and investment and risk management framework. They are meant to encourage SWFs to behave openly and predictably and to seek financial returns rather than support a foreign policy agenda. Openness, predictability and market orientation, in turn, are expected to ease recipient country fears of predatory investments and promote sound internal fund management.

Being a member of the IFSWF and agreeing to the Santiago Principles provides an incentive to publish key information, make clear the roles and responsibilities of key bodies and make decisions openly. Though the principles are voluntary, peer pressure and a desire to be perceived in a good light by the international community and by recipients of SWF investments can encourage compliance. In fact, there is evidence that belonging to the IFSWF may have a positive effect on fund transparency and governance. A comparison of Truman SWF Scoreboard scores shows that members of IFSWF in 2012 improved their fund scores by 17 percent on average between 2007 and 2012, whereas those who were not members improved by only 5 percent on average. On the other hand, countries who are members of the IFSWF but who do not comply with the majority of the principles, such as Qatar and the United Arab Emirates, may undermine their own international credibility.

**Country experiences with natural resource fund transparency**

In an ideal setting, natural resource funds serve one or many of the following macroeconomic or governance objectives: smoothing budget expenditures, saving for future generations, sterilizing capital inflows, safeguarding resource revenues or earmarking resource revenues for specific domestic investments. Perhaps the most effective means of achieving these objectives is to codify fiscal and governance rules, develop internal mechanisms and capacity to follow these rules and manage funds, and empower oversight bodies to ensure compliance with the rules.

Transparency can support each of these steps. Norway, for example, has not legislated fiscal rules; rather, the major political parties have agreed to a fiscal rule by consensus. This political commitment to its fiscal rule works because the country has a stable and democratic political system with a high degree of government and parliamentary transparency. The public, media, civil society and other oversight bodies, such as the Supervisory Council, rely on information provided by the government to determine if the government is abiding by its own rules. To guarantee this safeguard, principles of public access to information and reporting are enshrined in the management mandate of the Government Pension Fund Global.

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5 As of April 2013, the members of IFSWF are Australia, Azerbaijan, Bahrain, Botswana, Canada, Chile, China, Equatorial Guinea, Iran, Ireland, Korea, Kuwait, Libya, Malaysia, Mexico, New Zealand, Norway, Qatar, Russia, Singapore, Timor-Leste, Trinidad and Tobago, the United Arab Emirates and the United States.

6 The Truman SWF Scoreboard is an independent assessment of the accountability and transparency of sovereign wealth funds. The most recent version can be found at http://www.piie.com/publications/pb/pb13-19.pdf.
While transparency can support good governance and macroeconomic management, opacity can create an enabling environment for mismanagement and arbitrary withdrawals of public funds for political or private purposes.
In recognition of the benefits of transparency, jurisdictions such as Alaska (USA), Chile, Ghana, Norway, Texas (USA) and Timor-Leste have legislated or regulated a high degree of natural resource fund transparency (see Box 1 for some of Alaska's transparency and reporting rules). They all report regularly to the public on:

- the size of their funds
- fund managers
- significant fund activities and transactions
- deposit and withdrawal amounts
- returns on investments
- types of assets permitted for investments, and
- types of assets they invest in (e.g., fixed income; equities)

All but Ghana also disclose the location of investments, the currency composition of investments and the names of specific investments.

**Box 1: Alaska's Transparency and Reporting Rules (sample)**

**Public Access to Information:**
“Information in the possession of the corporation is a public record, except that information that discloses the particulars of the business or affairs of a private enterprise or investor is confidential and is not a public record.” (Alaska Law. Sec. 37.13.200)

**Reports and Publications:**
The board is to produce an annual report of the fund by September 30 of each year that includes (Alaska Law. Sec. 37.13.170):

- Financial statements audited by independent outside auditors
- Statement of the amount of money received by the fund from each investment during the period covered by the report
- Comparison of the fund performance with the intended goals
- Examination of the effect of the investment criteria on the fund portfolio
- Recommendations on changes to policy

While transparency can support good governance and macroeconomic management, opacity can create an enabling environment for mismanagement and arbitrary withdrawals of public funds for political or private purposes. The Libyan Investment Authority (LIA) is an illuminating case. During the Gadhafi era, the fund invested billions of dollars in risky assets managed by political friends or allies, racking up billions in losses. For example, it lost $1.18 billion out of a $1.2 billion Goldman Sachs–managed derivatives investment in 2010. In another egregious example, the LIA paid $27 million in fees on a $300 million investment with Permal, a fund manager, only to lose $120 million on the deal.7

The Kuwait Investment Authority (KIA), Sudan’s Oil Revenue Stabilization Account, Qatar Investment Authority (QIA), and Abu Dhabi Investment Authority each keep information on fund inflows and outflows opaque. The KIA, for instance, only presents asset allocation and rates of return to the Kuwaiti Council of Ministers and the National Assembly without making the reports public. It is therefore impossible for the Kuwaiti public to know whether the nation’s resources are being well managed.

Similarly, the KIA claims to have developed robust internal ethical standards, procedures and codes conduct. However, the KIA's adherence to these standards is unknown due to its lack of transparency. In fact, the disclosure of information regarding the KIA's work is prohibited. Article 8 of Law 47 (1982) states that, “The members of the Board of Directors, the employees of the Authority (KIA) or any of those participating in any form in its activities, may not disclose data or information about their work or the position of the invested assets.” Clause 9 lays out penalties for any individual who discloses unauthorized information.

The lack of available information presents a major obstacle to assessing whether the investment authority complies with the fund's rules and objectives. We do know, however, that the government has trouble controlling inflation when oil revenues increase and Kuwaiti fiscal policy is extremely pro-cyclical (characterized by government exacerbating boom-bust cycles). And in 2007 a parliamentary committee charged that a relative of KIA Director Bader Al-Saad received financing from funds held by the KIA. Although these allegations have not been proved, the lack of transparency prevents further investigation.

That said, there are certain cases in which, despite a lack of transparency, fiscal policy objectives have been met. For example, the Saudi Arabian Monetary Agency ranks 18th and the QIA ranks 21st out of 23 natural resource funds scored by RWI's Resource Governance Index in 2013. The QIA ranks dead last out of 53 sovereign wealth funds on Edwin Truman's SWF Scoreboard accountability and transparency indicators. Neither the Saudi Arabian nor the Qatari governments publicly disclose any management rules (e.g., deposit rules or withdrawal rules) or audited financial statements. In both, the Supreme Council/Councils of Ministers makes decisions regarding fund management secretly. Yet Qatar and Saudi Arabia have smoothed budget expenditure reasonably well and have saved hundreds of billions of dollars of petroleum revenues for future generations. It is impossible to know whether public funds are being mismanaged within these institutions.

Making a natural resource fund more transparent

Drawing on the Santiago Principles, the Truman SWF Scoreboard indicators and the RWI Revenue Management Assessment Toolkit (unpublished), the following is a checklist of key transparency provisions for natural resource funds:

**Governance**

- Natural resource fund objectives are clear and denoted in legislation, regulation or government policies
- Natural resource fund relationship to the budget is clear and denoted in legislation, regulation or government policies
- Deposit rules are clearly denoted in legislation, regulation or a government policy document, including the types of payments to be deposited and the source of payments (e.g., kinds of companies)
- Withdrawal rules are clearly denoted in legislation, regulation or a government policy document, including timing, approval process, conditions for withdrawal and revenue forecasting assumptions
- Natural resource fund managers are subject to a code of conduct and ethical standards
- The roles and relationships between the executive, legislature, fund operator and fund manager are clear

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Investments

- The natural resource fund reports at least annually on:
  - The size of the fund
  - Returns on investments
  - Geographic location of investments
  - Categories of investments (e.g., fixed income; equities)
  - Specific investments
  - Currency composition of investments
- Investment strategy is clearly stated, including risk profile or qualifying instruments
- Guidelines for corporate responsibility and ethical investments are public
- Fund managers’ names are published

Oversight (see paper on Independent Oversight for more on oversight and accountability)

- The roles and powers of oversight bodies are clear
- An oversight body such as the legislature approves all withdrawals
- Quarterly reports are published
- An external and independent auditor publishes or certifies an annual report and financial statement
- Audits are published promptly
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Related readings


Truman, Edwin. Sovereign Wealth Funds: Threat or Salvation? (Washington, D.C.: Peterson Institute, 2010). Note: The Truman Sovereign Wealth Fund Scoreboard can be found in this publication.