

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



Oil, gas and mining for development



VALE COLUMBIA CENTER
ON SUSTAINABLE INTERNATIONAL INVESTMENT
A JOINT CENTER OF COLUMBIA LAW SCHOOL AND
THE EARTH INSTITUTE AT COLUMBIA UNIVERSITY

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 :

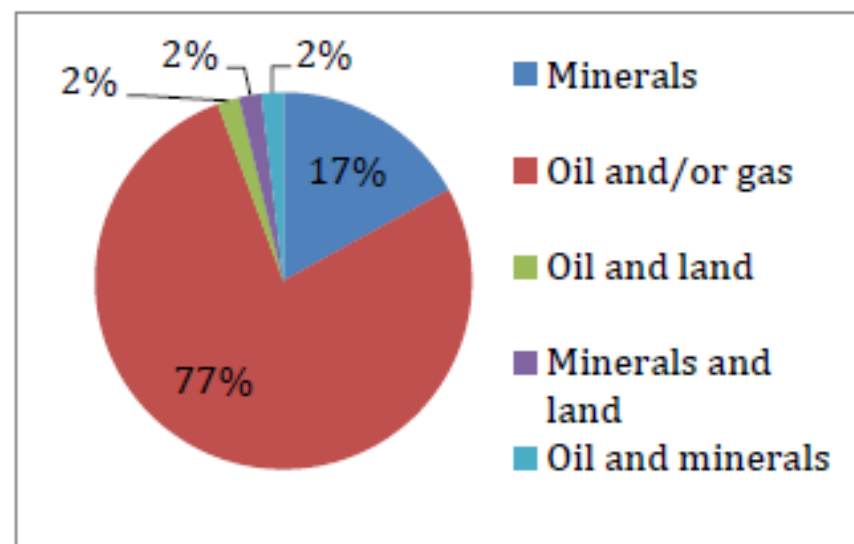
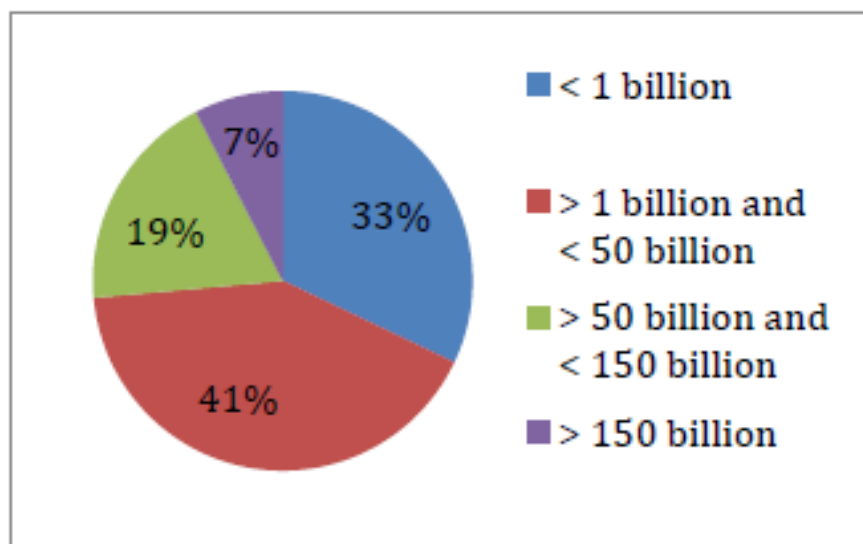
- Central Asia (e.g., Russia)
- Latin America (e.g., Venezuela)
- MENA (e.g., Libya)
- SE Asia (e.g., Brunei)
- Africa (e.g., Equatorial Guinea)

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

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.

ABU DHABI


Each box represents a regulatory standard essential for promoting consistent use of and safeguarding resource revenues. White boxes highlight regulatory gaps in fund governance.


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Good Governance Standards Met

Good Governance Standards and Gaps in Regulation

OPERATIONS	INVESTMENT	MANAGEMENT	TRANSPARENCY AND OVERSIGHT
Objectives are Clear	Use of Resource Revenues as Collateral	Penalties for Misconduct by Fund Managers & Staff	Public Disclosure of Independent External Audits
Rule for How Much Can be Withdrawn in Any Given Year	Domestic Investment is Explicitly Prohibited	Ethical & Conflict of Interests Standards for Managers & Staff	Public Disclosure of Internal Audit Results
Rule for Which Revenues Must be Deposited and When	Investment Risk Limitations	The Detailed Responsibilities of Fund Managers & Staff	Formalized Oversight Mechanism
Exceptions to Rules are Clarified	Publication of Specific Investments	The Role of Government Agencies in Fund Management	Public Disclosure of Regularly Compiled Fund Reports

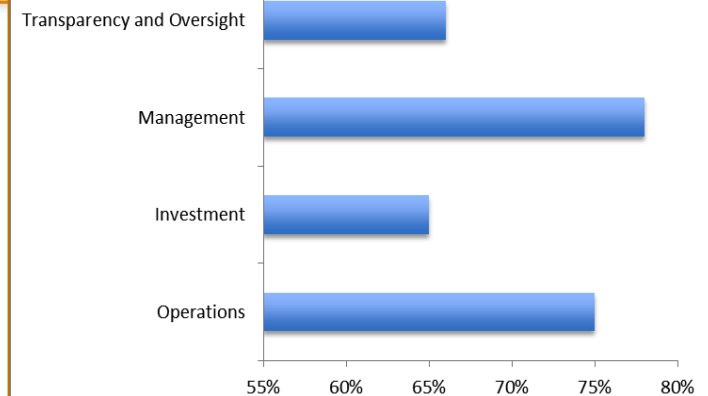
 Presence of Regulation

 Absence of Regulation

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...



Step 1: Set clear fund objectives

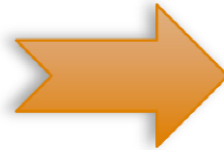
Saving for future generations

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

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) .

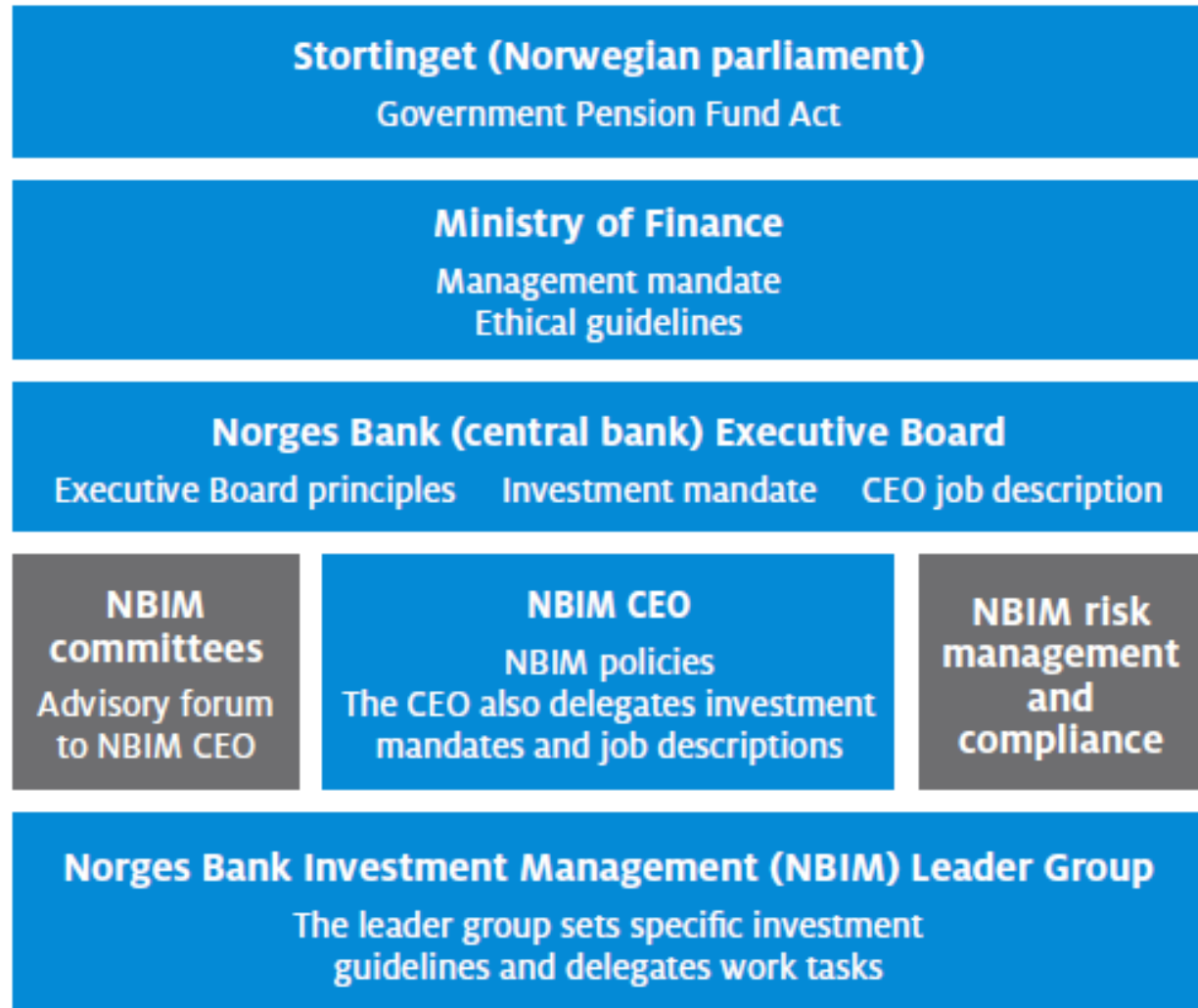
Chile has independent committees to make forecasts and fiscal assessments.

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 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

Easy-to-access benchmarks against other NRFs:

- Website: www.revenuewatch.org/nrf
- Fund profiles
- Policy memos on NRF governance
- Interactive map

Training, capacity building and technical assistance

Need international consensus on what constitutes good NRFs and advocate for consensus with governments

**Strengthening governance:
Making NRFs work for citizens**

Thank you.

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



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