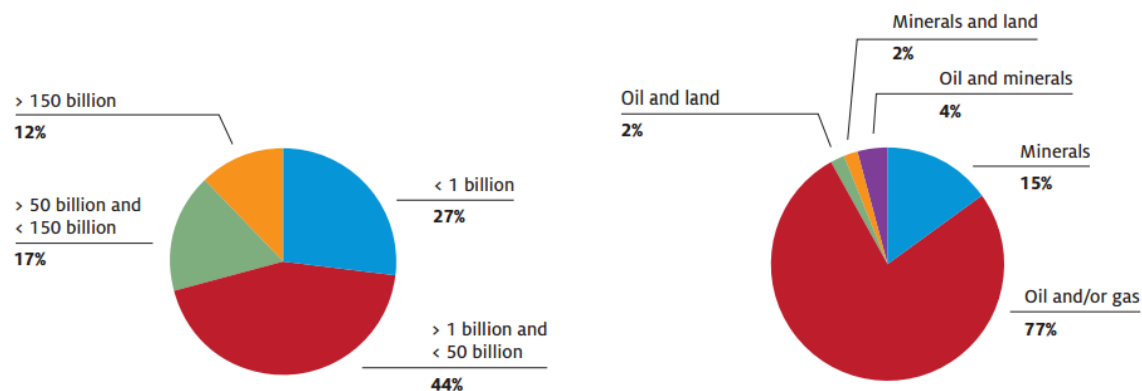


## The \$4 Trillion Question: How to make natural resource funds work for citizens

### What is this study about?

We surveyed 22 out of 58 identified 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 58 natural resource funds by size (USD) and principal source of financing*



Source: CCSI and NRGi

### Why does natural resource fund governance matter?

Natural resource funds hold approximately \$4 trillion in assets as of July 2014. 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 resource revenues for future generations, earmark funds for development projects, or help mitigate the Dutch disease by placing resource revenues in foreign assets. Citizens in Chile, Norway, many Persian Gulf countries and several U.S. states have benefited from the establishment of funds. But in settings where these 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.<sup>1</sup>

<sup>1</sup> New funds are planned at the national level in Afghanistan, Bolivia, Israel, Kenya, Lebanon, Liberia, Mozambique, Myanmar, Niger, Peru, Uganda, Sierra Leone, South Sudan, 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 resource revenues for development projects.
2. Establish fiscal rules for deposits and withdrawals that align with the objectives and are integrated with the budget process.
3. Establish investment rules that are aligned with the objectives, such as a maximum percentage of assets that can be invested in risky 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 independent 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?

Our research on fund governance, including case studies, will reside at [www.resourcegovernance.org/nrf](http://www.resourcegovernance.org/nrf) and <http://ccsi.columbia.edu/work/projects/natural-resource-funds/>. 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.

### For more information contact:

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