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PhD Dissertation Synopsis
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Sovereign Wealth Funds: an opportunity for sustainable development if properly managed?

**Sovereign Wealth Funds and sustainability, in a time of
volatility, risk and uncertainty.**

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“SWFs are here to stay and we should figure out the best way to make use of them as they can be a force for common good” (Joseph Stigliz)¹

“All social primary goods-liberty and opportunity, income and wealth, and the bases of self-respect-are to be distributed equally unless an unequal distribution of any or all of these goods is to the advantage of the least favored” (John Rawls)²

¹ Stigliz J. E.'s contribution to the conference: “Sovereign Wealth Funds and Other Long Term Investors: A New Form of Capitalism?” Paris, 2011.

² J. Rawls, “A theory of Justice”, revised version, Harvard University Press, 1999.

SYNOPSIS

Are Sovereign Wealth Funds (SWFs) an opportunity or a threat? They could become a significant opportunity both for sponsor and recipient countries if properly managed. Yet, they can represent a threat if badly misused or mismanaged. The vast literature on Sovereign Wealth Funds supports the basic fact that they are prominent financial and political actors of the international scenario. However, they have been rarely considered as possible tools for supporting sustainable investments, sustainable development, and inclusive growth, most notably with specific reference to emerging countries. This dissertation aims to demonstrate that SWFs can become an opportunity for the promotion of sustainable development and sustainable investments, if properly managed. Sovereign Wealth Funds can be an effective tool. They can play an important role in the field of sustainable investments if they are governed by an appropriate political agenda that makes ethical values and the promotion of good practices their prime consideration. SWFs have been mainly considered as financial vehicle owned and managed by governments but in fact they can be much more than this. They can be a vehicle for exporting best practices, ethical guidelines, better corporate governance, more transparent and more socially responsible environmental policies. In order to achieve this goal, SWFs should be accountable to the citizens of the sponsor country. Furthermore, in a volatile world, SWFs could also represent a mechanism for country self-insurance. SWFs can have a significant perspective on social responsibility and, as a consequence, can become a force for common good, welfare, and justice. SWFs should not be considered only as financial and political tools but also as vehicles for supporting sustainability. To reach this conclusion, it is necessary to begin by demonstrating that, due to their dual role, institutional in structure and private in behavior, SWFs are important actors in the new global economic scenario. They can easily influence in a good or a bad way, not only domestic development but also international markets. The first part of the study illustrates what Sovereign Wealth Funds are and provides some evidence, already inbred in their nature and structure, as to why they are important actors of the new global economic scenario. Chapter n.1 explains what SWFs are and Chapter n.2 illustrates why they are so important, moving from the analysis of their endowment to a detailed overview of their geographical distribution and of their target countries and sectors. Sovereign Wealth Funds are important financial and political actors, as evidenced by the events during the 2008 financial crisis, when they provided significant support to the international banks. As illustrated in Paragraph 2.3, the study also aims to show how Sovereign Wealth Funds have an ethical dimension in their role that consists of their capacity to satisfy shareholders' and stakeholders' rights as presented in Paragraphs 1.2 and 1.3. The first part, then, situates SWFs in a global context. The second part of the dissertation focuses on those aspects that need to be assessed and implemented in order to ensure that SWFs turn from a threat into an opportunity. In this regard, the analysis of their transparency is critical. Until recently, this analysis has been considered as the only indicator of the nature of SWFs and one of the most important criteria in order to assess if they could be an opportunity or not, with specific reference to the assessment of their autonomy from the political power of the sponsor countries. On the contrary, it is argued that the analysis of transparency does not provide a comprehensive indication of the behavioral aspects of the SWFs and it is not sufficient anymore to assess SWFs' nature. SWFs have rapidly evolved as their mandates and objectives. Chapter n.3 reconsiders the commonly used tools for the analysis of transparency suggesting a new way of collecting and comparing the data provided by the three transparency indices in order to have a more punctual and efficient assessment of SWFs' transparency and of their capacity of becoming a possible opportunity. If the measurement of transparency is an important element to reconsider and is beneficial to assess the financial and political structural features of SWFs, having a complete understanding of a Sovereign Wealth Fund requires the evaluation of additional behavioral aspects. These include the capacity to satisfy shareholders' and stakeholders' rights and expectations and the adoption of ethical guidelines and codes as presented in Paragraphs 2.1 and 2.2. Moving from transparency to sustainability is the new trend of SWF analysis and the main topic of this study which aims to demonstrate that SWFs, if correctly set up and managed, can also assist governments and international institutions in achieving broad social goals, particularly in emerging countries. This dissertation illustrates several of the best practices for ethical guidelines and codes adopted by SWFs and to offer a collection of examples of sustainable investments promoted by Sovereign Wealth Funds. In comparing the various examples, this study shows that

Sovereign Wealth Funds' good governance is not only promoted and measured by the independence of Sovereign Wealth Fund's governance from their respective governments. Instead, good governance tends to be achieved when SWFs are managed according to a political agenda that includes the promotion of domestic sustainable development and the spread of best practices and ethical guidelines for both the investments and the long term investors.

In the end, Sovereign Wealth Funds are political entities that should abide by best investments and governance practices to be successful. This dissertation also aims to become a useful tool for long-term investors and Sovereign Wealth Funds, which aim considering adopting ethical guidelines. It is possible to improve the guidelines already in place through the sharing of knowledge and a careful review of the results so far achieved. In this regard, this study offers examples of sustainable investments and ethical guidelines. And it highlights the importance of careful review and evaluation of current practices, especially as they respond to the needs, rights, and expectations of shareholders and stakeholders.

Furthermore, the study also contemplates some aspects of the ontological debate on how Sovereign Wealth Funds should redistribute revenues to their shareholders. In doing so, the study presents an analysis and comparison of two different models in the literature: the direct redistribution of revenues to citizens and the non-direct distribution model. Research demonstrates that the majority of Sovereign Wealth Funds⁴ do not provide a direct redistribution of resources to their citizens. These models are based on a fundamental question regarding the role of Sovereign Wealth Funds: who should be entitled to manage the State's revenues? They ultimately belong to the citizens of the sponsor countries. Whether direct redistribution or non-direct, how could they perform this role in the most profitable and transparent way in order to benefit current and future generations, promoting ethical values and best practices at the international level? There are indeed several reasons for justifying a deeper analysis of this recent phenomenon, which should be expected to grow in importance in the period ahead. Until now, a number of studies on Sovereign Wealth Funds have been conducted by professionals and academics presenting Sovereign Wealth Funds as an important economic and political tool enabling countries to affirm their political and financial power. However, there is still limited understanding of their capacity to become an effective tool for the promotion of sustainable development as well as advocates of best practices and ethical principles. This is evident not only among long term investors but also among the various companies in which they invest in around the world.

Through their international investments, Sovereign Wealth Funds have a global impact affecting national values and commitments.⁵ A prominent example of this is the case of the Norwegian Government Pension Fund Global, the Sovereign Wealth Fund of Norway, that by following a political agenda that holds high esteem ethical criteria in the allocation of portfolio, is able to influence the conduct of the companies it invests or would like to invest in, by evaluating the level of engagement of these companies in the protection of human rights, the environment, and social principles as part of they section criteria. There are recent examples of divestments from companies which are not respecting the environment or that are not pursuing common goals for the alleviation of poverty in regard to local communities, as per their social mandate, but only seeking for personal gain. They ignore the social mandate of the needs of local communities and violate their standards for protecting the environment. This thesis will demonstrate the impact SWFs can have on promoting the common good. In this sense, the application of ethical criteria to investment management transgresses conventional boundaries between professional management of the Sovereign Wealth Funds based on technical and financial skills and the sponsor country's political interest, in deliberately integrating global, social, and environmental standards into the investment process. This concept prompts us to challenge the commonly accepted perception that most Sovereign Wealth Funds should be independent from the country's political power. Furthermore, as suggested by Antony Bugg-Levine⁶ Sovereign Wealth Funds can even play a catalytic role, fostering the adoption of ethical guidelines and enlarging the number of

⁴ The direct redistribution of revenues' model, instead, is the one adopted by the Alaskan Permanent Fund, which contemplates an annual direct redistribution of revenues to Alaskan citizens. Last year the fund distributed to its citizens a check for \$878.00, the amount varies every year, but more often it is between \$1,000 and \$2,000.

⁵ Clark L., Dixon D., Monk A.: "Sovereign Wealth Funds legitimacy, governance and global power", Princeton University Press, 2013.

⁶ <https://skollworldforum.org/contributor/antony-bugg-levine/>

investors, most specifically long term investors. If correctly set up and managed, Sovereign Wealth Funds can also assist governments and international institutions in achieving broad social goals, particularly in the developing world. This dissertation aims to illustrate several of the best practices of ethical guidelines and codes adopted by SWFs and, as well, to offer a collection of examples of sustainable investments promoted by Sovereign Wealth Funds.

More into details, the dissertation comprises seven Chapters, beginning with an introductory section that sets the scene for the research and the analytical approach taken. The first part of the study is dedicated to the introduction of Sovereign Wealth Funds' definitions and structures, with specific reference to their objectives and their legal, financial, and governance frameworks. Once the Sovereign Wealth Funds' structure has been defined, the analysis focuses on their rules, governing behaviour, and transparency, with specific reference to the need of moving from the assessment of Sovereign Wealth Funds' transparency to the evaluation of Sovereign Wealth Funds' sustainability intended as their capacity to achieve their goals as per their mandate and to accomplish the satisfaction of shareholders and stakeholders' expectations and rights. Transparency, indeed, could be considered as a useful tool for evaluating Sovereign Wealth Funds' structure and governance, and could be easily measured through three transparency indices and the 24 Santiago Principles, as presented in Chapter n.3. However the dissertation looks beyond these indices and claim that the assessment of further behavioural aspects is absolutely necessary, on the basis of the implicit assumption that an evaluation of the structure and the governance should not be considered a sufficient indicator of the performances of Sovereign Wealth Funds and of their capacity to support domestic sustainable development within the sponsor countries. In this regard, the study suggests additional elements to be evaluated in order to assess Sovereign Wealth Funds' sustainability such as their capacity to meet social goals as well as shareholders' expectations, requests, and rights. A definition of Sovereign Wealth Funds shareholders and stakeholders is presented as for the two models of ethical guidelines adopted by the Norwegian and the New Zealand Sovereign Wealth Funds that are considered as the best practices in Sovereign Wealth Funds good governance. One way, through which Sovereign Wealth Funds can directly promote sustainability, is through sustainable investments such as those in the fields of education, social development, renewable energies, and others. Chapter n.6 offers a collection of sustainable investments promoted by various Sovereign Wealth Funds from those of the Gulf such as those of Abu Dhabi, Bahrain, and Kuwait to those of the United States such as the Alaska, the New Mexico, and the Texas ones, to those of Angola, Azerbaijan, Iran, and New Zealand. These sustainable investments create a brighter future for the shareholders and stakeholders. The main achievement of the research is that it shows SWFs as potential partner for sustainable development and inclusive growth in a time of volatility, risk, and uncertainty. In conclusion, a series of recommendations on how Sovereign Wealth Funds can promote sustainable development and endorse or improve their ethical code of conduct in order to become a force for common good and perfectly satisfy their shareholders and stakeholders rights and expectations, especially in emerging countries, are presented and represent the major takeover of this study.