



Libera Università Internazionale degli Studi Sociali
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PhD Dissertation
Doctoral Program in Political Theory
XXV Cycle

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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Academic Year 2013-2014

“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 Stiglitz)

“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)

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ACKNOWLEDGEMENTS

I had the pleasure and the blessing to write this dissertation between Rome, Dubai and Washington DC where I spent nine months as a Fulbright Visiting Researcher Student at Georgetown University, School of Foreign Services, under the guidance of Professor Raj Desai to whom go all my thanks and recognition.

At the same time and with the same affection and gratitude, I would like to make a modest attempt to express all my sincerest thanks to Professor Sebastiano Maffettone who highly inspired and supported me during my studies, Dr. Domenico Melidoro, Professor Leonardo Morlino, Professor Sergio Fabbri, Dott.ssa Alice Valentino and Dott. Otalli. Thank you to all of you for your generous and effective support.

Despite the fact that I know that my words very hardly could do justice to the great support, guidance and motivating insights I received during my PhD studies, I would like also to thank Paolo, Christina, Martin, Federico, Leo, Dr. Ashur and Dott.ssa Elena Lanfranchi; without them I would have rarely achieved all the expected goals.

I would like to conclude with the dedication of my thesis to Prof. Adhip Chaudhuri and Serena Percuoco who left us too early and with whom I shared precious time and thoughts.

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. For sustainable development is here intended, as for the definition given by the report produced by the International Union for the Conservation of Nature (1980) and founded again in the Brundtland Report (WCED 1987) a “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”¹, while for sustainable investments, all those investment that take the influence of ESG (environmental, social and governance) criteria into account in their financial analyses. 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

¹ Alan Holland: “A Companion to Environmental Philosophy”, edited by Dale Jamieson, Blackwell, 2001.

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 Funds² 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.³ 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

² 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.

³ Clark L., Dixon D., Monk A.: "Sovereign Wealth Funds legitimacy, governance and global power", Princeton University Press, 2013.

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-Levine⁴ Sovereign Wealth Funds can even play a catalytic role, fostering the adoption of ethical guidelines and enlarging the number of 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. 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.

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

INTRODUCTION

This 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. 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.

1 WHAT ARE SWFs?

Sovereign Wealth Funds (SWFs) are not an opportunity neither a threat, but they could become a significant opportunity if correctly managed. This Chapter aims to illustrate what Sovereign Wealth Funds are in order to better understand how and why they can eventually become an opportunity. The first paragraph offers a collection of definitions with the purpose of providing a clear description of what Sovereign Wealth Funds are generally considered. Among the most famous and mentioned definitions of Sovereign Wealth Funds, presented in Paragraph 1.1, is also included the newly released one, coined in 2013 by Clark, Dixon and Monk, that for the first time considers aspects of Sovereign Wealth Funds, never considered before, such as shareholders and liabilities. As the study aims to prove how Sovereign Wealth Funds are not only financial and political actors but how they also have an ethical dimension that considers their capacity to satisfy shareholders' and stakeholders' rights, this definition appears to be of great value for the sake of the reasoning. Beside their important financial role in support of the domestic and international economy, SWFs, indeed, can also perform a role in the field of sustainable development.

1.1 Definition of SWFs

In order to have a better understanding of what SWFs are and how they could become an opportunity if correctly managed, it is, indeed, necessary to start from their definition. Describing SWFs is a hard task due to their different nature and peculiarities. In fact, even if SWFs are limited in the number, according to different sources, there are between 33⁵ and 74⁶; they represent a very heterogeneous group which makes it very difficult to capture all their differences, nuances, and peculiarities into a single definition without being too generic. Some experts have suggested renaming Sovereign Wealth Funds as 'democratically owned wealth funds' but also this denomination won't be able to satisfy the entire sphere of SWFs and the discussion is still in progress. In recent years there have been numerous attempts to define them. This is the reason why there are various definitions of SWF as hereafter illustrated:

- "Typically, sovereign wealth funds are a by-product of national budget surpluses, accumulated over the years due to favorable macroeconomic, trade and fiscal positions, coupled with long-term budget planning and spending restraint." (**Andrew Rozanov - Permal Investment Management Services Limited, 2005**)
- "Sovereign Wealth Funds are government investment vehicles funded by foreign exchange assets, which manage those assets separately from official reserves". (**United States Department of Treasury, 2007**).
- "Sovereign Wealth Funds are special purpose investment funds or arrangements that are owned by the general government. Created by the general government for macroeconomic purposes, Sovereign Wealth Funds hold, manage, or administer assets to achieve financial objectives, and employ a set of investment strategies that include investing in foreign financial assets. [...] Sovereign Wealth Funds are commonly established out of balance of payments surpluses, official foreign currency operations, the proceeds of privatizations, fiscal surpluses, and/or receipts resulting from commodity exports." (**The Santiago Principles, 2008**)
- "Sovereign Wealth Funds are government-owned investment funds, set up for a variety of macroeconomic purposes". (**International Monetary Fund, 2008**)

⁵ http://www.bernardobortolotti.com/wp-content/uploads/2013/07/SIL_Report_2013.pdf

⁶ <http://www.swfinstitute.org/fund-rankings/>

- “Sovereign Wealth Funds are pools of assets owned and managed directly or indirectly by governments to achieve national objectives”. **(Organization for Economic Cooperation and Development, Blundell - Wignell et al., 2008)**
- “Sovereign Wealth Funds are pools of money that governments invest for profit”. **(Council on Foreign Relations: Teslik, 2008)**
- “Sovereign Wealth Fund is an investment vehicle that is: owned directly by a sovereign government; managed independently of other state financial and political institutions; does not have predominant explicit current pension obligations; invests in a diverse set of financial asset classes in pursuit of commercial returns; has made a significant proportion of its publicly reported investments internationally.” **(Bernardo Bortolotti, 2012)**

Among the various definitions of Sovereign Wealth Funds the most complete and exhaustive and the only one that, actually, takes into consideration aspects such as shareholders and liabilities is the recently coined definition by Clark, Dixon and Monk⁷, hereafter illustrated.

“Sovereign Wealth Funds are government-owned and controlled (directly and indirectly) investment funds that have no outside beneficiaries or liabilities (beyond the government or the citizenry in abstract) and invest their assets, either in the short or long term, according to the interests and objectives of the sovereign sponsor.” **(Clark, Dixon and Monk, 2013)**

Despite their complexity and diversity, we can consider SWFs using the definition of Clark, Dixon and Monk. This definition, indeed, helps us to consider aspects that previously haven’t been considered such as the existence of shareholders and the related necessity to satisfy their expectations and rights, which is one of the main points of this study. Defining who Sovereign Wealth Funds’ shareholders are, is important not only for the sake of a pure understanding of SWFs but because this is the central point of the whole study. SWFs, in fact, are settled for obvious macro-economic reasons but, as well, in order to fully accomplish their shareholders’ expectations and rights. Normally, SWFs’ shareholders are the government and the citizens of the sponsor countries to whom belong the revenues generated from natural resources as well as those produced by a favourable economic national account as in the case of many of the Asian SWFs. In order to evaluate the performance of a SWF and its level of transparency and sustainability, it is always necessary to consider the Fund’s mandate, and its shareholders, and the level of accomplishment of their expectations and rights.

1.2 SWFs’ Shareholders

Very rarely in approaching Sovereign Wealth Funds the existing literature and analyses has focused on features such as shareholders, stakeholders, and redistribution of income. And this is one of the major insights of this study. Generally, it is commonly agreed, that SWF shareholders are the governments and the entire citizenship of the sponsor country and that all the citizens have equal rights to access this wealth. Obviously, this doesn’t always happen, but most of the SWFs are claiming to manage an important part of the national wealth on behalf of the entire citizenship and for their benefit, even though it is very difficult to measure and to demonstrate the level of accomplishment of this goal and whether a distribution of revenues is really equal and equally distributed. As a matter of fact and as already presented in Paragraph 1.1 there is no unique definition of SWFs and none of the existing ones includes a definition of shareholders and stakeholders with the exception of the one coined by Clark, Dixon and Monk, newly released in 2013, that for the first time considers the beneficiaries as well as the liabilities of the SWF, as reported above.

⁷ Clark L., Dixon D., Monk A.: “Sovereign Wealth Funds legitimacy, governance and global power”, Princeton University Press, 2013.

However, it is generally agreed and discussed that SWFs' shareholders could and should be the citizens of the sponsor countries as in the case of Australia, Alaska, and others, as well as future generations, governments, and others. When SWFs are not properly managed the shareholders become the ruling party that manages the Sovereign Wealth Funds according to its personal benefits and interests, without considering the wealth of the citizens or of the Country. At the domestic level, it is possible to assess Sovereign Wealth Funds' beneficial effects on their shareholders through the comparison of how much of their financial revenues actively contribute to the domestic sustainable development and to the improvement of their citizens' quality of life. This process could be highly influenced by the existing level of democracy and the type of government of the Sovereign Wealth Fund's sponsor country as well as by the ethical conduct and the income redistribution, as it has been evident during the recent "Arab Spring". At the present time there are no scientific or academic studies assessing the capacity of the internationally recognized Sovereign Wealth Funds that according to different sources could be in the number of 33⁸ or 74⁹, to support the sustainable development of their sponsor countries nor proving their beneficial effects at international level within global markets that, as illustrated in details in the next paragraph, could be considered as the Sovereign Wealth Funds stakeholders.

1.3 SWFs' Stakeholders

Once assessed who the shareholders of a Sovereign Wealth Fund are, it is possible and necessary to define who the Sovereign Wealth Funds' stakeholders are. This could be done taking into consideration the 2002 Post, Preston and Sachs definition of stakeholders that in relation to a corporation considers stakeholders as "the individuals and constituencies that contribute, either voluntarily or involuntarily, to its wealth-creating capacity and activities, and that are therefore its potential beneficiaries and/or risk bearers." According to this definition, it is possible to consider Sovereign Wealth Funds' stakeholders as the global markets, the recipient countries, the companies in which SWFs invest in, and the other SWFs and international financial institutions they co-invest with. If, considering Edward Freeman's definition of stakeholder as expressed in "A Stakeholders approach", which also includes among the stakeholders the corporations' competitors; Sovereign Wealth Funds' stakeholders should comprise also the other Sovereign Wealth Funds and, eventually, other investments funds that share similar commercial interests and behaviours. In terms of satisfaction of stakeholders' interest as for Robert Allen Phillips's prescription to maximize stakeholders' wealth in discordance with the utilitarian conception that considers individuals working toward their own self-interest able to actually benefit society as a whole, it has been proven that SWFs' can perform their role considering both shareholders and stakeholders' interest, as they cannot. Indeed, various authors claim that the Sovereign Wealth Funds' investments in international companies do not have beneficial effects on the long-term and they are proven to register negative effects both with regard to the companies they invest in and the global markets. According to Fotak, Bortolotti and Megginson, in fact, the beneficial effect of the Sovereign Wealth Funds' investments in listed companies usually disappears after three years. Furthermore, the long term passive strategy that characterizes Sovereign Wealth Funds' portfolio allocation could result detrimental on smaller co-investors with short-term horizon as well as on the overall growth of the companies they invest in. According to other sources, however, the presence of Sovereign Wealth Funds' investments is beneficial for the companies they invest in and, furthermore, is also advantageous at the domestic and at the international level. These two positions validate once more that Sovereign Wealth Funds could be either an opportunity or a threat based on the way they are managed. Their beneficial effects, indeed, on the stabilization of the international financial and capital markets through liquidity injections and countercyclical investments has been even more evident since the 2008 global financial crisis when SWFs saw their reputation noticeably enhanced thanks to the injections of more than \$60 billion in support of the financial system and the major international banks including Bear Stearns, Citigroup, Merrill Lynch, Morgan Stanley, Standard Chartered Bank,

⁸ http://www.bernardobortolotti.com/wp-content/uploads/2013/07/SIL_Report_2013.pdf

⁹ <http://www.swfinstitute.org/fund-rankings/>

and UBS¹⁰. Until the 2008 financial crisis the discussion over Sovereign Wealth Funds tried to assess whether they were more an opportunity or a threat. For example this happened in 2005 when Dubai Port, a financial vehicle of one of the Dubai Sovereign Wealth Funds, Dubai World, has gained control of almost all the port related activities in the US, causing the prompt reaction of the US Government. As a consequence, France and Germany took immediate action and they implemented Sovereign Wealth Funds specific regulations. However, after the crisis, Sovereign Wealth Funds, indeed, started to be perceived no longer as a threat but as a good opportunity to be managed with accuracy and competence. Nowadays the debate focuses on whether Sovereign Wealth Funds could be a real opportunity for domestic development and consequently for their shareholders including the companies they invest in or not. Their reputation and accountability, in fact, are still high in spite of the recent default of the Dubai Sovereign Wealth Fund, Dubai World, which took place in November 2009, and the result of the latest academic research assessing that their beneficial effects on the companies, participated and controlled, are decreasing after three years. Concretely, it is possible to say that a SWF could behave in favour of stakeholders when it is committed to operate transparently, responsibly, and in full compliance with the laws and regulations of the countries it invests in. In this respect, it is supposed to be committed to the highest level of transparency across all areas of its business and to be fully accountable for all of its actions, always acting in the best interest of its shareholders and stakeholders. SWFs, indeed, can perform roles and achieve objectives other than the mainly financial ones acting as promoters of inclusive growth and sustainable development. This is the reason why it is necessary to move from considering what SWFs actually are to what they could also be as presented in the next paragraph.

1.4 What could SWFs also be?

SWFs continue to be misunderstood in terms of their role and benefits. This study aims designed to explore their potential in this regard. They could play a strong role in the future; they can protect the common good in their own countries and in the world at large. Sovereign Wealth Funds, indeed, can represent, a land of last resort in case of financial crisis as in the case of some Asian SWFs, or a political tool enabling the ruling party or elite to maintain the power as in the case of some African and Middle Eastern SWFs and as well they can protect the domestic economy from possible threats as in the case of some European Countries. More into details, SWFs can be the direct result of financial crisis as in the case of those SWFs created as a direct consequence of the 1997 Asian financial crisis, as a possible self-insurance tool and land of last resort for emergencies countries preferable to IMF conditionality and the perceived associated loss of sovereignty. According to Clark, Dixon and Monk, for some State, especially in the Gulf's Area, SWF is an institution used to provide long-term assurance that domestic sovereignty can be maintained and, even, enhanced. The legitimacy of these SWFs is a function of their utility to the ruling elite through their contribution to stability and support to the power of the regime. Examples of this are the Kuwait Investment Authority (KIA) and the Brunei Investment Authority (BIA). It is difficult, in fact, to see KIA as anything but a tool of the running elite, the Al Sabah family. Furthermore, both KIA and BIA are regulated by law in behaving in the most secretive ways as any kind of disclosure to the public is highly forbidden. This is also the case of China, where SWFs have been used as political tools for the support of the Government's "Go Global" Political Agenda and to secure assets, and most specifically natural resources, in the national interest. China Investment Corporation, in fact, has been used as a tool for guarantee access to raw materials worldwide and not only as a portfolio investor acting in order to support the domestic economy's diversification. Furthermore, in developed countries, SWFs can also represent a tool for the protection of the domestic interests of the Sponsor countries as in the case of Italy and France. These two countries, in fact, conceived and created a SWF with the purpose of protecting and supporting the domestic economy and most specifically the competitiveness of the strategic local firms, in order to assure the continued dominance of local assets within broader global networks of production, R&D and distribution. These are the reasons for the creation of the French Fonds Stratégique d'Investissement (FSI) endowed with a capital of \$25.5 billion and the similar Italian SWF, the

¹⁰ See paragraph 2.4.

Fondo Strategico di Investimento (FSI) that has \$6 billion of endowment. Both of them only invest in firms that are viable, of high strategic importance for the national economy and that show potential to support the competitiveness of the economy. Furthermore, in the case of emerging countries, SWFs can become sponsor of sustainable development, addressing the need to achieve a series of secondary goals such as the increase of Human Development Index national ranking, the improvement of transparency through the implementation of best practices and good governance and the reduction of corruption and poverty through an appropriate redistribution of incomes. In addition, they can also perform a beneficial role in support to the increase of employment in qualitative and quantitative terms and become a favorable element for the rise of the national credit rating through the support to the stabilization and diversification of the economy. They can also play an important role in the import of know-how and the transfer of knowledge. SWFs, indeed, as presented in this paragraph can and should be much more than pure financial vehicles; they can also become important actor in the promotion of sustainable development, inclusive growth, and sustainable investments.

1.5 SWFs' Main Objectives

Once defined what Sovereign Wealth Funds are and what they could also be, it is fundamental to understand which are their so called main objectives and their secondary purposes. In fact, up to today SWFs have been generally considered only as possible financial actors while this study aims to prove that if well managed and governed they can pursue objectives other than the financial ones. As hereafter presented, SWFs have multiple and specific objectives and their structure varies in order to better perform their mandate and to better achieve their goals. Among Sovereign Wealth Funds' main objectives, as hereafter illustrated in detail, are the generation of income in order to fulfill different duties such as, according to each different Sovereign Wealth Fund, the transfer of wealth to future generations (i.e. Australian Future Generations Fund), the stabilization of the domestic and international markets (i.e. Oil Revenues Stabilization Fund of Mexico), the promotion of the domestic development (i.e. Chile Social and Economic Stabilization Fund) and others. The multiplicity of their objectives is one of the reasons why it is very difficult to find a unique definition of SWFs and why it is necessary, in order to understand their different structures and evaluate their single performances, to consider their various and different objectives. As a matter of fact, it is possible to classify different Sovereign Wealth Funds according to their objectives into the following categories: the economy's stabilization from the volatility of the prices of natural resources they depend on and the simultaneous protection from commodity shocks, the function of reserve funds for the time of economic and financial crisis, the diversification and internationalization of the domestic economy, the support of the national development, the transfer of wealth across generations, and many others. Each of these categories deserves careful consideration:

- **Stabilization Funds**

The primary objective of Stabilization Funds is to insulate the budget and the economy from commodity price swings and governments' dependence on royalty revenues. Volatility, in fact, negatively impacts economic growth, inflation, investment, and government spending. Among the Stabilization Funds are the Russia Reserve Fund, the Social and Economic Stabilization Fund of Chile, and others. It happens very often that Stabilization SWFs become more aggressive investment and diversification funds. They primarily invest in a highly liquid portfolio of assets and sometimes in instruments that are negatively correlated with the source of risk being addressed with the fund.

- **Saving Funds**

The main objective of Saving Funds is the transfer of assets among generations in order to transform non-renewable resources into wealth for future generations. Among the saving funds is the Future Generations Fund of Kuwait, the State Oil fund of Azerbaijan, and the Abu Dhabi Investments Authority.

- Pension Reserve Funds

Pension Reserve Funds refer to those Sovereign Wealth Funds which are directly established and founded by the government (completely separated from the social security system). They are set up by governments in order to meet future deficits of the social security system. Some are not allowed to make any payouts for decades. Examples include the Australian Future Fund¹¹, the New Zealand Superannuation Fund¹², and the Irish National Pension Reserve Fund¹³.

- Development Funds

The main objective of the Development Funds¹⁴ is the support of the domestic socio-economic development and the promotion of industrial policies that might raise a country's potential output. They have a strong focus on investing in the internal market prioritizing infrastructure projects (including energy, water, and transport), financial assets, industry, and agriculture. Among them are the Mubadala Development Company of Abu Dhabi, the Emirates Investment Authority (EIA) of the United Arab Emirates, the National Development Fund of Iran (NDFI), and many others. Sometimes it is difficult to make a clear distinction between those Sovereign Wealth Funds with the main objective of development, and other institutions with the same mandate such as Ministers, National Development Banks, Investment Authorities, State-owned enterprises and others. A good element to be considered in order to clearly differentiate Sovereign Wealth Funds supporting development from other institutions with similar mandate is the fact that SWFs can never prioritize the social incomes versus the financial returns, while the other institutions, as assessed by A. Monk in his research,¹⁵ can do so. SWFs, in fact, usually do not duplicate the mandate of other national financial institutions already present in the Country as they, beside their mandate, always prioritize financial revenues, and where their investments could not be justified on commercial grounds, either do they not invest, or do they endorse a process for benchmarking financial returns and for trading off financial and non-financial goals. According to the former Minister of Economy of Chile Andres Velasco, in charge of the SWFs of Chile, SWFs should not have a multiple of different mandates but, on the contrary, they should stay simple and focus only on their fiscal mandate without becoming possible substitutes of other Ministries or dedicated Entities. Furthermore, they should not be in charge of social infrastructures or developing programs in order to avoid occurring the risk of poor performance¹⁶.

- Diversification Funds

The main objective of the Diversification Funds is the diversification and internationalization of the domestic economy in order to convert non-renewable wealth into a more diversified portfolio of assets and mitigate the risks and the effects of Dutch Disease¹⁷ that is one of the major negative effects of the dependency of the economy on natural resources and of the volatility of their price.

¹¹ The Future Fund's object is to strengthen the Australian Government's long term financial position by making provisions for unfunded Commonwealth superannuation liabilities.

¹² The New Zealand Superannuation Fund invests money, on behalf of the Government, to help pay for the increased cost of superannuation entitlements in the future.

¹³ The goal of the National Pensions Reserve Fund (NPRF) is to meet the costs of social welfare and public service pensions from 2025 onwards, when these costs are projected to increase dramatically due to the aging of the population.

¹⁴ <http://www.imf.org/external/np/pp/eng/2008/022908.pdf>

¹⁵ Monk A: "The rise of Sovereign Development Funds.", Institutional Investors, 2013.

¹⁶ Velasco A.'s contribution to the conference: "Sovereign Wealth Funds and Other Long Term Investors: A New Form of Capitalism?", Paris, 2011

¹⁷ Dutch disease is primarily associated with a natural resource discovery, but it can result from any large increase in foreign currency, including foreign direct investment, foreign aid or a substantial increase in natural resource prices. (investopedia)

- **Reserve Investment Corporations**

The main objective of the Reserve Investment Corporations is the reduction of the costs of holding reserves and to earn a higher return investing them.¹⁸ Among them, there are the Singapore's Government Investment Corporation, China Investment Corporation, and the Korea Investment Corporation.

- **Multiple and Specific Goals Funds**

Some SWFs have specific, multiple goals that overlap or change over time. One of these is the National Development Fund of Iran (NDFI) that has the mandate to reduce its dependence on natural resources. To do so it aims at enhancing the private sector and limiting the government in carrying out non-sovereign activities¹⁹. Another example of SWF that holds two objectives is the Australia Future Fund that serves as both a savings and a pension fund. In addition to these many and multiple objectives, SWFs have the task of protecting the economies of countries rich in natural resources and enhancing transparency in their management. Revenues from natural resources, in fact, can dwarf international aid. In 2011, oil revenues for Nigeria, alone, were 60% higher than total international aid to all of Sub-Saharan Africa. The future of these countries depends on how well they manage their oil, gas, and minerals and very often the problems of mismanagement and corruption must be addressed. Some countries negotiate poor terms with extractive companies, forsaking potential long-term benefits while others do not collect resource revenues effectively. And even when resource revenues do end up in government coffers, they aren't always spent in ways that benefit the public. Too often, governments keep citizens and civil society leaders uninformed. This of communication deprives the public of a voice or even representation in basic decisions on natural resources. Many researchers, in fact, in various fields, have associated the abundance and dependence on natural resources, with specific reference to emerging, low-income countries, with poor institutional quality and governance. There has also been registered an increase in macroeconomic instability, export concentration, poverty, corruption, authoritarianism, and conflict²⁰. Despite the fact that SWFs can have different single or multiple objectives, all of them have a common goal that is to increase the wealth of their sponsor countries. Even if Sovereign Wealth Funds demonstrate a capacity to take advantage of the availability of natural resources and their related revenues, questions remain. Do SWFs meet the needs of all of the citizens? This is a fundamental ontological ethical question that should be addressed. One way to consider this question is to examine their objectives. An overview of the various objectives of the different Sovereign Wealth Funds is illustrated in the following table.

¹⁸ <https://www.imf.org/external/pubs/ft/wp/2013/wp13231.pdf>

¹⁹ <http://en.ndf.ir/about-us/president-massage.asp>

²⁰ http://www.cgdev.org/sites/default/files/1424714_file_Oil2Cash_primer_FINAL.pdf

Table 1: SWFs Objectives

Fund Name	Country	Fiscal Stabilization	Savings	Pension Review	Reserve Investment
Fund Soberanu de Angola*	Angola	✓	✓		
Australian Future Fund	Australia			✓	
State Oil Fund	Azerbaijan	✓	✓		
Future Generations Reserve Fund	Bahrain	✓	✓		
Pula Fund	Botswana		✓		
Brunei Investment Authority	Brunei		✓		
Alberta's Heritage Fund	Canada		✓		
Economic and Social Stabilization Fund	Chile	✓			
Pension Reserve Fund	Chile			✓	
China Investment Corporation	China				✓
Fund for Future Generation of Equatorial Guinea	Equatorial Guinea		✓		
Oil Stabilization Fund	Iran	✓			
National Development Fund*	Iran		✓		
Oil Stabilization Fund	Ireland			✓	
Kazakhstan National Fund*	Kazakhstan	✓	✓		
Korea Investment Corporation	Korea				✓
Kuwait Investment Authority	Kuwait	✓	✓		
Libyan Investment Authority	Libya		✓		
Khazanah Nasional Berhad	Malaysia		✓		
Mexico Oil Stabilization Fund	Mexico	✓			
Fiscal Stability Fund*	Mongolia*	✓	✓		
New Zealand Superannuation Fund	New Zealand			✓	
Nigeria Sovereign Investment Authority*	Nigeria	✓	✓		
Government Pension Fund-Global	Norway	✓	✓	✓	
Papua New Guinea SWF*	Papua New Guinea	✓			
Qatar Investment Authority	Qatar		✓		
National Welfare Fund	Russia			✓	
Oil Stabilization Fund	Russia	✓			
Government of Singapore Investment Corporation	Singapore		✓		✓
Temasek	Singapore		✓		
Timor-Leste Petroleum Fund	Timor Leste	✓	✓		
Heritage and Stabilization Fund	Trinidad and Tobago	✓	✓		
Abu Dhabi Investment Corporation	UAE		✓		
Abu Dhabi Investment Authority	UEA		✓		
Alaska Permanent Fund	USA		✓		
Stabilization Fund	Venezuela	✓	✓		

Source: Al-Hassan A., Papaioannou M., Skancke M., Sung C.: "SWF: Aspects of Governance Structures and Investment Management", IMF WORKING PAPER, November 2013.

1.6 SWFs' Political Objectives and Secondary Purpose

Once having considered the main objectives of the Sovereign Wealth Funds, it is interesting to contemplate also their potential political objectives and secondary purposes. Due to their many forms and dual nature, institutional in structure and private in behavior, Sovereign Wealth Funds can also have multiple and different secondary purposes as well as specific mandates and political goals.

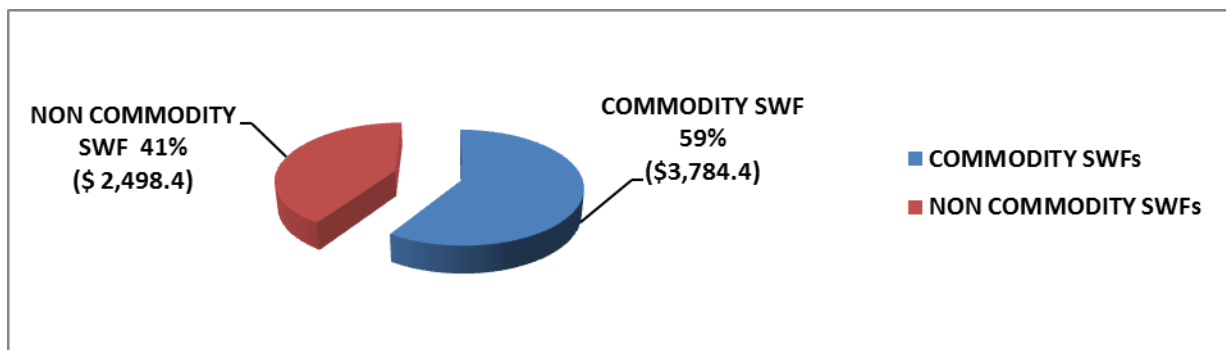
If on one side they can be misused by the ruling parties or used as a political tool by the sponsor countries, their institutional ownership, on the other side, allows them to have a deeper sense of social responsibility to be expressed in different behaviors in support of sustainable development. They, indeed, could protect the common good in their own countries and in the world at large, playing an important role for a sustainable future. It is commonly agreed, that if properly managed and well governed, these long term investors can acquire a significant social responsible perspective and perform additional actions in order to be an active part of the development of a country and to perfectly accomplish the satisfaction of shareholders and stakeholders. This is the way how beside primary objectives also virtuous secondary purposes are addressed.

In pursuing the wealth of future generations, one of the main objectives common to all the SWFs, Sovereign Wealth Funds can also achieve secondary objectives such as the support to the fight against climate change; the transfer of technology, the creation of jobs, the diversification of the economy, and the reduction of poverty. SWFs can play an important role in encouraging firms they invest in to act more in accord with ESG criteria seeking social besides private returns and investing according to a longer time horizon rather than engaging in short-term strategies. Furthermore, they can be a vehicle for exporting best practices, ethical guidelines, better corporate governance, greater transparency, and more socially responsible environmental policies. In a volatile and uncertain world SWFs could also represent a mechanism for a country's self-reliance. In conclusion, SWFs are not only financial vehicles but they can be much more. Besides the accomplishment of their main objectives they can also address secondary purposes and, eventually, also be used or misused by sponsor countries in order to achieve their political goals. This is the reason why, a proper management and governance of SWFs can turn them into viable opportunities.

2 What are SWFs?

In order to better understand Sovereign Wealth Funds' current and potential role, it is advisable to have a further and deeper insight on their structure and on their specific characteristics and peculiarities as presented in detail hereafter. Sovereign Wealth Funds have been created less than sixty years ago and they made their first steps in the international environment with caution by adapting their internal structures and organizations to the evolution of international markets. Even if Sovereign Wealth Funds have existed since the 1950s, their total size worldwide has dramatically increased over the past 10-15 years. The Kuwait Investment Authority (KIA), was the first SWF to be created in 1953 and two of the largest funds were founded over 30 years ago: the Abu Dhabi Investment Authority (ADIA) in 1976 and Singapore's Government Investment Corporation (GIC) in 1981. SWFs are national financial vehicles, independently managed from other national monetary reserves. The majority are owned by emerging countries. They have been created in order to manage the excess of reserves in foreign exchange, originated both from the revenues of the commercial balance as in the case of the Non-Commodity Sovereign Wealth Funds, most of which belong to Asian countries, and from the revenues originated by natural resources as in the case of the Commodity Sovereign Wealth Funds, most of which belong to Gulf's countries. According to the SWF Institute²¹, nowadays, Commodity Sovereign Wealth Funds represent 59% of the overall number of SWFs and account \$3.784.4 billion, while Non-Commodity SWFs represent 41% and account \$2,498.4 billion, as presented in the graph hereafter.

Graph 1: Commodity and Non-Commodity SWFs



Source: Elaboration SWFs Institute data by the Author. (January 2014)

Among the Commodity Sovereign Wealth Funds, the most important ones according to their assets under management are: the Government Pension Fund - Global of Norway, the Sama Foreign Holdings of Saudi Arabia, the Abu Dhabi Investment Authority of Abu Dhabi, the Kuwait Investment Authority of Kuwait. Among the Non-Commodity ones, instead, there are the China Investment Corporation (China), the Safe Investment Company (China), the Hong Kong Monetary Authority Investment Portfolio (China-Hong Kong), the Government of Singapore Investment Corporation (Singapore) and others. Even if SWFs are not a new phenomenon, they have gained in prominence and visibility only recently.

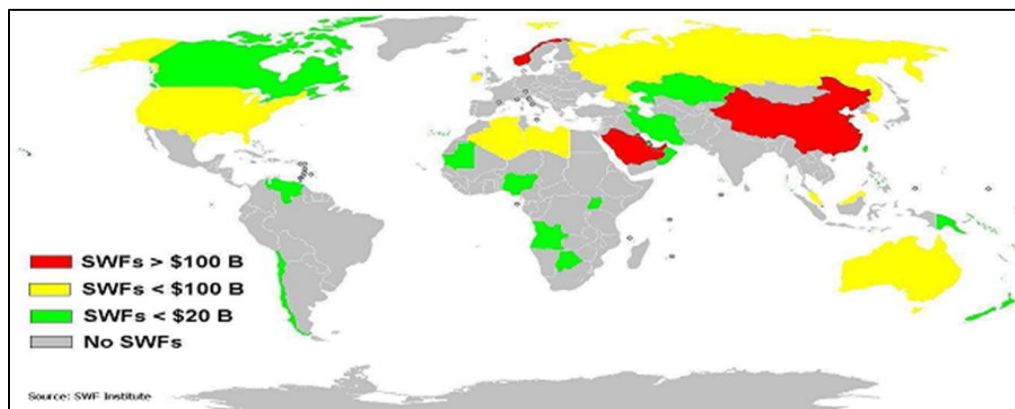
2.1 Where are SWFs?

SWFs' are mainly concentrated in Asia, Middle East, and Europe and are often sponsored by emerging countries that are in the position to seek a greater role in decision-making on an international level. This corresponds with their increasing economic power. Nowadays, emerging countries are playing an increasingly large role in the global economy and according to the Organization for Economic Co-operation and Development (OECD) they

²¹ <http://www.swfinstitute.org/>

will represent 60% of global GDP by 2030. This growth could represent both a challenge and an opportunity for the OECD countries.

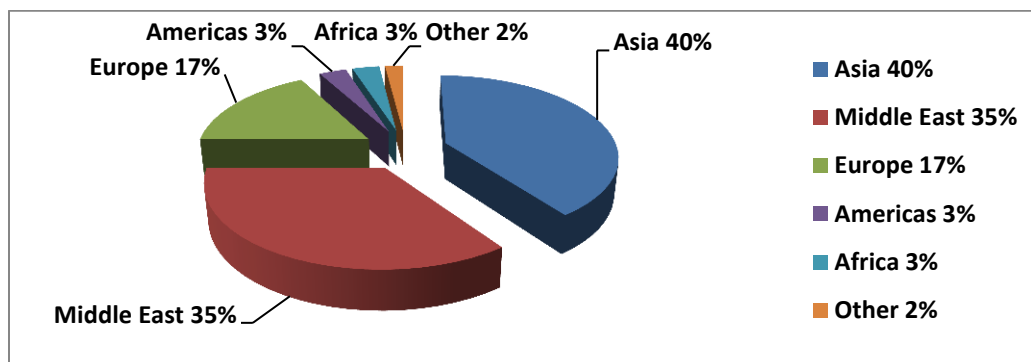
Map 1: SWFs' World Distribution



Source: SWF Institute 2010

To better highlight Sovereign Wealth Funds geopolitical role and their capacity to support national and regional socio-economic development, it is important to consider their geographical distribution. The Sovereign Wealth Funds' landscape is dominated, considering the total value of the assets under management, by two Regions: Asia and the Middle East.

Graph 2: SWFs by Region



Source: Roberts N., "The Financial Flows of Sovereign Wealth Funds in South-South Cooperation: The Way Forward?", 2011

Asia registers the highest concentration of Sovereign Wealth Funds' assets representing roughly 40% of the total assets of SWFs, with \$2.474 billion. The major Asian players are SWFs from China and Singapore, namely China Investment Corporation (\$575.2 billion), SAFE Investment Company (\$567.9 billion), Hong Kong Monetary Authority Investment Portfolio (\$326.7 billion), and Government of Singapore Investment Corporation – GIC (\$285 billion). The Middle East Region with \$2.297 billion of Sovereign Wealth Funds' assets is the second largest region. The main players are the Abu Dhabi Investment Authority (\$773 billion) followed by the Saudi SAMA Foreign Holdings (\$675.9 billion) and the Kuwait Investment Authority – KIA (\$410 billion). The third largest region is Europe that accounts for 17% of total SWFs' assets thanks to the presence of the Norwegian Government Pension Fund – Global that is estimated to be, by far, the largest global Sovereign Wealth Fund, with assets of \$818 billion, followed by the Abu Dhabi Investment Authority with \$773 billion of assets under management and the Saudi SAMA Foreign Holdings with \$675.9 billion of assets under management. The

scenario is completed by the African Sovereign Wealth Funds, which represents the 3% of the total and account for \$156 billion, and the American Sovereign Wealth Funds, which represent as well 3% of total Sovereign Wealth Funds' assets. This distribution can clearly indicate which countries will be the major actors of the future, mainly emerging countries, and also how the wealth will be governed by Countries with very different level of democracy requiring a major focus and attention on the structure and governance of the SWFs in order to avoid political manipulation and misuse of the SWFs. In order to gain a complete overview of where SWFs are, hereafter is attached a ranking list created by the SWFs Institute, one of the most prominent sources in the field of SWFs, that presents a complete list of SWFs, of their origin and of their assets under management.

Table 2: SWFs Institute Ranking List

SOVEREIGN WEALTH FUNDS RANKED BY SIZE					
Country	SWF	\$Bn	Year	Origin	Linaburg Maduell Index
Norway	Government Pension Fund - Global	818	1990	Oil	10
Saudi Arabia	SAMA Foreign Holdings	675.9	n/a	Oil	4
UAE-Abu Dhabi	Abu Dhabi Investment Authority	627	1976	Oil	5
China	China Investment Corporation	575.2	2007	Non Commodity	7
China	SAFE Investment Company	567.9	1997	Non Commodity	4
Kuwait	Kuwait Investment Authority	386	1953	oil	6
China	Hong Kong Monetary Authority Investment Portfolio	326.7	1993	Non Commodity	8
Singapore	Government of Singapore Investment Corporation	285	1981	Non Commodity	6
Singapore	Temasek Holdings	173.3	1974	Non Commodity	10
Qatar	Qatar Investment Authority	170	2005	Oil	5
China	National Social Security Fund	160.6	2000	Non Commodity	5
Australia	Australian Future Fund	88.7	2006	Non Commodity	10
Russia	National Welfare Fund	88	2008	Oil	5
Russia	Reserve Fund	86.4	2008	Oil	5
Kazakhstan	Samruk-Kazyna JSC	77.5	2008	Non Commodity	n/a
Algeria	Revenue Regulation Fund	77.2	2000	Oil	1

UAE-Dubai	Investment Corporation of Dubai	70	2006	Oil	4
Kazakhstan	Kazakhstan National Fund	68.9	2006	Oil	8
UAE-Abu Dhabi	International Petroleum Investment Company	65.3	1984	Oil	9
Libya	Libyan Investment Authority	65	2006	Oil	1
South Korea	Korea Investment Corporation	56.6	2005	Non Commodity	9
UAE-Abu Dhabi	Mubadala Development Company	55.5	2002	Oil	10
Iran	National Development Fund of Iran	54	2011	Oil & Gas	5
US-Alaska	Alaska Permanent Fund	46.8	1976	Oil	10
Brunei	Brunei Investment Agency	40	1983	Oil	1
Malaysia	Khazanah National	39.1	1993	Non Commodity	5
Azerbaijan	State Oil Fund	34.1	1999	Oil	10
France	Strategic Investment Fund	25.5	2008	Non Commodity	9
US-Texas	Texas Permanent School Fund	25.5	1854	Oil & Other	9
Kazakhstan	National	20	2012	Oil	n/a
Ireland	National Pensions Reserve Fund	19.4	2001	Non Commodity	10
New Zealand	New Zealand Superannuation Fund	19.3	2003	Non Commodity	10
Iraq	Development Fund for Iraq	18	2003	Oil	n/a
US-New Mexico	New Mexico state Investment Council	17.3	1958	Oil & Gas	9
Canada	Alberta's Heritage Fund	16.4	1976	Oil	9
US-Texas	Permanent University Fund	15.3	1876	Oil & Gas	n/a
Chile	Social and Economic Stabilization Fund	15.2	2007	Copper	10
East Timor	Timor-Lester Petroleum Fund	14.6	2005	Oil & Gas	8
Russia	Russian Direct Investment Fund	13	2011	Non Commodity	n/a
UAE-Federal	Emirates Investment Authority	10	2007	Oil	3
Oman	State General Reserve Fund	8,2	1980	Oil & Gas	4

Bahrain	Mumtalakat Holding Company	7.1	2006	Non Commodity	9
Peru	Fiscal Stabilization Fund	7.1	1999	Non Commodity	n/a
Chile	Pension Reserve Fund	7.0	2006	Copper	10
Botswana	Pula Fund	6,9	1996	Diamonds & Minerals	6
Mexico	Oil Revenues Stabilization Fund of Mexico	6.0	2000	Oil	4
Oman	Oman Investment Fund	6.0	2006	Oil	4
Italy	Italian Strategic Fund	6	2011	Non Commodity	n/a
US-Wyoming	Permanent Wyoming Mineral Trust Fund	5.6	1974	Minerals	9
Brazil	Sovereign Fund of Brazil	5.3	2008	Non Commodity	9
Saudi Arabia	Public Investment Fund	5.3	2008	Oil	4
China	China-Africa Development Fund	5,0	2007	Non Commodity	4
Angola	Fundo Soberano de Angola	5.0	2012	Oil	n/a
Trinidad & Tobago	Heritage and Stabilization Fund	5.0	2000	Oil	8
US-Alabama	Alabama Trust Fund	2.5	1985	Oil & Gas	9
US-North Dakota	North Dakota Legacy Fund	1.4	2011	Oil & Gas	n/a
Panama	Fondo de Ahorro de Panamá	1.2	2012	Non Commodity	n/a
UAE- Ras Al Khaimah	RAK Investment Authority	1,2	2005	Oil	3
US-Louisiana	Louisiana Education Quality Trust Fund	1.1	1986	Oil & Gas	n/a
Nigeria	Nigerian Sovereign Investment Authority	1.0	2011	Oil	4
Palestine	Palestine Investment Fund	0.8	2003	Non Commodity	n/a
Venezuela	FEM	0,8	1998	Oil	1
Kiribati	National Fund for Hydrocarbon Reserves	0,6	1956	Phosphates	1

Vietnam	State Capital Investment Corporation	0,5	2006	Non Commodity	4
Gabon	Gabon Sovereign Wealth Fund	0.4	1998	Oil	n/a
Indonesia	Government Investment Unit	0.3	2006	Non Commodity	n/a
Mauritania	National Fund for Hydrocarbon Reserves	0.3	2006	Oil & Gas	1
Australia	Western Australian Future Fund	0.3	2012	Minerals	n/a
Mongolia	Fiscal Stability Fund	0.3	2011	Minerals	n/a
Equatorial Guinea	Fund for Future Generations	0.08	2002	Oil	n/a
Ghana	Ghana Petroleum Funds	0.07	2011	Oil	n/a
UAE-Abu Dhabi	Abu Dhabi Investment Council	n/a	2007	Oil	n/a
Papua New Guinea	Papua New Guinea Sovereign Wealth Fund	n/a	2011	Gas	n/a
Turkmenistan	Turkmenistan Stabilization Fund	n/a	2008	Oil	n/a
	Total Commodity	\$3.60 9.6			
	Total Non-Commodity	\$2.49 7.0			
	TOTAL	\$6.10 6.6			

Source: SWFs Institute (2014)²²

2.2 Where do SWFs invest?

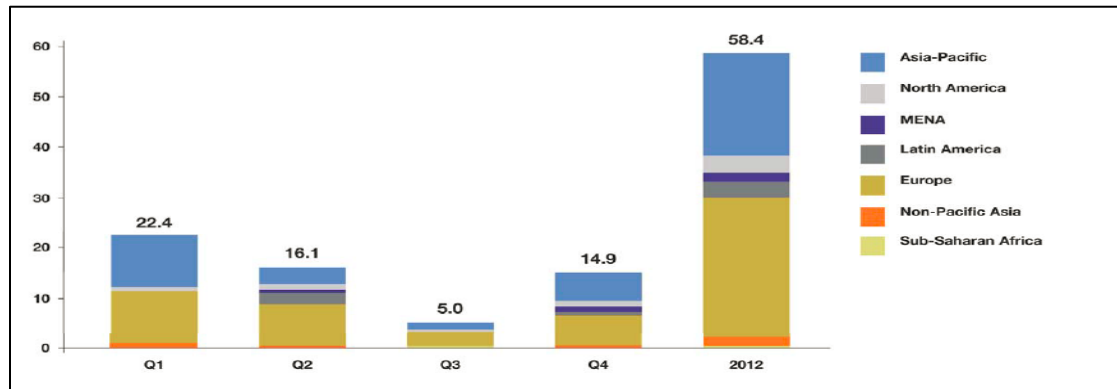
Since their foundation, SWFs have mainly invested in the financial sector, but after the losses registered during the 2008 financial crisis, they started diversifying sectors of investment in order to reduce risks and to increase the internationalization of their portfolio. New sectors of investment became automotive, infrastructures, energy, real estate, and luxury. The diversification of the portfolio, coupled with the increase of the number of the investments domestically directed, fostered national development among sponsor countries through the implementation of infrastructural projects as in the case of the Gulf and of the African Countries. As emphasized by Gelb, Tordo and Halland²³, there is a new trend of SWFs sponsored by Resource-Rich Emerging Countries, which have the mandate of investing domestically in order to support national development. According to E. Truman the 16% of

²² Updated on the 18th of January 2014

²³ A. Gelb, S. Tordo e H. Halland:" Sovereign Wealth Funds and Domestic Investment in Resource-Rich Countries: Love Me, or Love Me Not?", Economic Premises, The World Bank, 2014.

the overall value of the investments promoted by the 60 SWFs considered in his study²⁴ is directed domestically; according to A. Monk, in 2013, there were already 20 SWFs with this mandate²⁵. Recent studies prove that in terms of geography of investments the most targeted recipient regions are: Europe, Asia and North America as illustrated in the graph hereafter.

Graph 3: SWFs Target Regions of Investment 2012



Source: Sovereign Investment Lab, Università Bocconi, 2012

In 2012, in fact, Europe resulted as the most targeted Region for SWFs investment. Within the region, UK totalized \$70.6 billion, a number that represents the 13% of the overall value of SWFs investment estimated to be of \$513.7 billion. Switzerland follows with \$22.3 billion that represents the 4.3% of the total, while France with \$20.7 billion, and represents the 4.0%. Asia was the second best place where to invest for SWFs with China holding the first position among all the countries accounting SWFs investments for a value of \$97.9 billion that represents the 19.1% of the overall SWFs investments while Singapore registered \$14.8 billion that represents the 2.9%. United States with \$85.0 billion of investment accounts for the 16.5% and Canada with \$12.2 billion for the 2.4%. A complete list of the countries where SWFs invested in 2012 is presented hereafter.

²⁴ Truman E., "Sovereign Wealth Funds: is Asia different?" Working Paper 11-12, Peterson Institute, Washington DC, 2011.

²⁵ Monk A.: "The rise of Sovereign Development Funds." Institutional Investors, 2013

Table 3: SWFs Target Countries in 2013

Target Country	Ranking	Total Value (US\$BN)	%
China	1	97.9	19.1%
US	2	85.0	16.5%
UK	3	70.6	13.7%
UAE	4	31.6	6.2%
Switzerland	5	22.3	4.3%
France	6	20.7	4.0%
Qatar	7	16.6	3.2%
Germany	8	14.9	2.9%
Ireland	9	14.8	2.9%
Singapore	10	14.8	2.9%
Spain	11	12.5	2.4%
Canada	12	12.2	2.4%
India	13	10.6	2.1%
Australia	14	9.4	1.8%
Brazil	15	7.7	1.5%
Malaysia	16	7.6	1.5%
Japan	17	7.0	1.4%
Indonesia	18	6.4	1.2%
Sweden	19	6.2	1.2%
Italy	20	5.6	1.1%
Kuwait	21	4.3	0.8%
Korea	22	3.4	0.7%
Total		513.7	

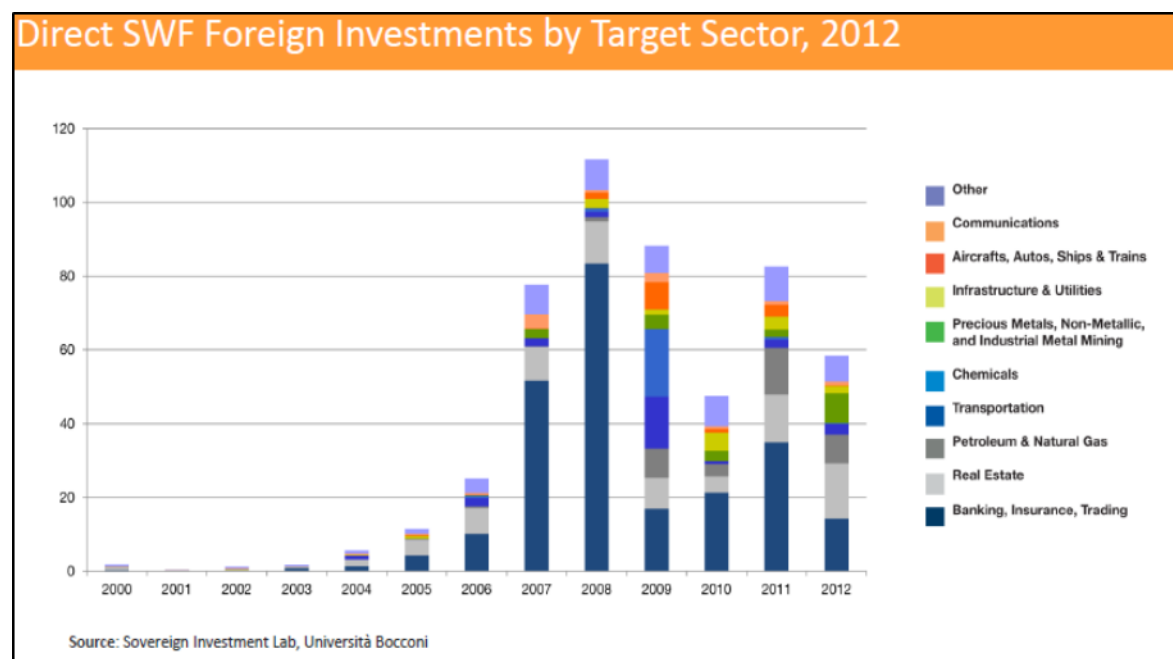
Source: Sovereign Investment Lab, Università Bocconi, 2012

In terms of sectors of investment the year 2012 registered for the first time a significant increase in the investments in real estate and concurrently a noteworthy decrease in the investments directed toward the financial sector as well as those in the field of transports. This data could be easily coupled with the increase of investments in Europe, that resulted the first area of interest for SWFs, as the effects of the credit crunch have dramatically affected the European Countries' Economies, with specific reference to Portugal, Italy, Greece, Spain, and Ireland resulting in a decrease of prices in many sectors such as Real Estate, Industrial, and Manufacturing. Real Estate has resulted as the first sector of investment for SWFs in 2012, followed by Finance and Precious Metal and Industrial Mining. In terms of trophy assets, Luxury and Fashion became important targets, especially for the SWFs of the Gulf. It is noteworthy to mention that this year, for the first time, Qatar Investment Authority signed an agreement with France's government for an investment to support the improvement of poor neighbourhoods of Paris where the majority of the population is Muslim²⁶. The idea is the building up of a fund between €200 to €300 million to invest in small and medium size companies in France. The fund's investors would include the government of Qatar, France, and possibly private investors. Italy and Greece, both severely affected by the crisis, also warmly welcomed Qatari investors in an attempt to save their weak economies. Both governments have made an agreement with Qatar to invest \$1 billion in the near future. The joint venture between Italy's Strategic Investment Fund and state-owned Qatar Holding, will invest in sectors including food, fashion and luxury goods, furniture and design, tourism and leisure. Qatar Holding has already bought a 40 percent stake in Milan's newly built Porta Nuova business district earlier this year, in order to expand its Italian

²⁶ <http://www.swfinstitute.org/swf-article/qatar's-strategic-development-investing-in-france/>

real estate holding valued at approximately \$2.6 billion. In Greece, instead, Qatar's focus will be on banking, power, mining, and real estate sectors²⁷.

Graph 4: SWFs Target Sectors of Investment 2012



Source: Sovereign Investment Lab, Università Bocconi

As previously illustrated, SWFs mainly belong to emerging countries and they primarily invest in developed countries as hereafter presented. According to the data it is possible to consider Sovereign Wealth Funds as important actors of the global economic imbalances and as well of the movement of capital from emerging countries to developed ones with specific reference to the Countries that present a slow recovery from the financial crisis and a high necessity of liquidity in order to stimulate economic growth and avoid stagnation that is often the result of austerity measures. Looking at the sectors where Sovereign Wealth Funds invest in, the geographical distribution of their investments and of their sponsor countries, makes even more evident that such an impressive financial power, so poorly regulated, should follow ethical criteria and guidelines in order to avoid the recurrence of a sort of inverse colonialism as in the case of Angola and Portugal were nowadays the roles seem to have been inverted.

2.3 SWFs and the International Financial Markets: Their Role in the Financial Crisis

As in the previous paragraph, SWFs are important and could be significant force in promoting sustainable investments due to the fact that they are already prominent actors in the international scenario, not only because they act in behalf of their sponsor countries but also because they are the 4th financial power in the world and through their political and financial soul can influence and benefit international markets as they already did during the 2008 financial crisis. The role they performed during the crisis clearly stated their importance at the international level and signaled the turning point of their reputation. If before the crisis they were considered a

²⁷ <http://www.bqdoqa.com/2013/11/qatar-investing-heavily-in-europe>

threat, during and after the crisis they turned into an interesting opportunity with specific reference to the developed countries in the need of growth and liquidity. Developed countries, indeed, turned their protectionist regulations into more efficient policies for the attraction of foreign direct investments with specific reference to those of Sovereign Wealth Funds and most generically Long Terms Investors. These kinds of investors, in fact, present many advantages as they usually do not endorse speculative strategy such as those adopted by private equity or hedge funds, and do have a long term horizon, low risk and constant return policies of investment. In 2008, during the financial crisis that has affected the international financial and economic systems, Sovereign Wealth Funds provided the banking system with significant support through the stabilization of the markets and huge injections of liquidity to a total value that has been estimated to be around of \$81.6 billion²⁸. Even if this value could only be assumed due to the low level of disclosure that characterizes Sovereign Wealth Funds, it doesn't diminish the great role that they played during the crisis and that dramatically changed their reputation and enabled them to gain the favor of the public and the trust of the recipient countries. In fact, even if it is very difficult to define with precision the exact value of the recapitalization of the American banks promoted by SWFs, it has been generally reported that among the major international banks benefiting from the liquidity injection and recapitalization, were Barclays, Credit Suisse, Deutsche Bank, Citigroup, Merrill Lynch, Standard Chartered, and UBS. As presented in the below table various SWFs invested in different banks starting from July 2007.

Table 4: Chronology of SWFs Investments in the International Banking System

DATE	BANK	BILLION \$	SWFS	SHARE
January 2008	Citigroup	6.8	GIC Singapore	3.7%
		7.7	KIA Kuwait	4.1%
	Merrill Lynch	6.6	Korean Investment Corp. KIA Kuwait	10-11%
December 2007	Merrill Lynch	4.4	Temasek Hold. Singapore	9.4%
	UBS	9.2	GIC Singapore	9.9%
	Morgan Stanley	5.6	CIC China	9.9%
	Standard Chartered	0.4	Temasek Hold. Singapore	5.0%
November 2007	Citigroup	7.5	ADIA – Abu Dhabi	4.9%
July 2007	Barclays	2	QIA Qatar Investment A.	5.8%
			Temasek Hold. Singapore	2.1%

Source: Corradini e Fortis, 2008, Fondazione Edison, elaboration by the Author.

During the crisis, the most active SWFs in investing in the financial sector appeared to be those from the Gulf and from Asia that still nowadays hold important stakes in the most prominent international banks. Among them are the Qatar Investment Authority (QIA), the second largest shareholder of Credit Suisse with a stake of 6.2% and 5% of Banco Santander Brazil, Aabar Luxembourg S.A.R.L., a fund controlled by Aabar Investments of Abu Dhabi, which holds 6, 5% of Unicredit and the Kuwait Investment Authority that holds shares of Citigroup and Merrill Lynch. Furthermore the most prestigious banks in the USA and UK have as their main shareholders SWFs of China, Singapore, Kuwait, and Abu Dhabi. The majority of investments were done through convertible bonds and were promoted by the Sovereign Wealth Fund of Kuwait (Kuwait Investment Authority), Singapore (Temasek Holdings and Singapore Government Investment Corporation), United Arab Emirates (Abu Dhabi Investment Authority, International Petroleum Investment Corporation), Qatar (Qatar Investment Authority), Korea (Korea

²⁸ Comparison of different sources by the Author (2011).

Investment Corporation), China (China Investment Corporation) and have been mainly directed to the United States, United Kingdom, Switzerland, and other countries deeply affected by the financial crisis. One of the consequences of the crisis was also the high number of shares' sales as, for example, the exit of the Kuwait Investment Authority from Citigroup due both to the losses registered and the favourable conditions of the market for selling them. Some of the more important investments promoted in the period of 2007-2008 are listed hereafter in greater detail. Among the Asian SWFs, the China Investment Authority invested in American banking institutions such as Bank of America (\$1.39 billion), Barclays (\$3 billion), Bear Stearns (\$1 billion), Blackrock (\$1.03 billion), Citigroup (\$0.8 billion), Blackstone (\$3 billion), and Morgan Stanley (\$5.6 billion) while Temasek Holding invested \$0.4 million in Standard and Chartered and \$2 billion in Barclays and the Singapore Government Investment Authority invested \$9.2 billion in UBS, \$6.8 billion in Citigroup and \$4.4 billion in Merrill Lynch. Among the SWFs from the Gulf, the Kuwait Investment Authority invested \$4.750 billion in Bank of America, \$750 million in Blackrock and \$12.4 billion Merrill Lynch. In December 2009 it sold its Citigroup shares for \$4.9 billion with a profit of \$1.1 billion, while Qatar Investment Authority invested \$500 million in Credit Suisse and in 2008 became the major shareholder of Barclays and Abu Dhabi Investment Authority invested \$7.5 billion in Citigroup with favorable conditions, an annual return of 11% in annual convertible bonds at 4.9% of equity.

Table 5: SWFs Investment in the International Banking System

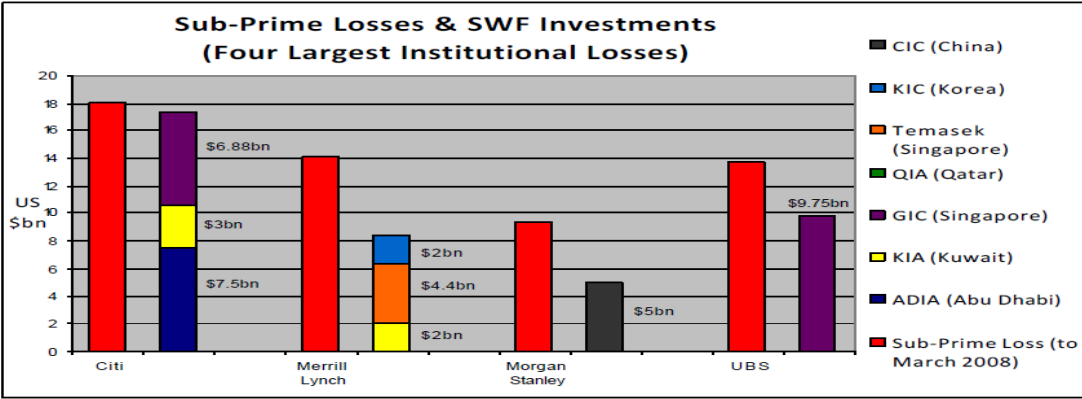
SWF	VALUE (\$Bn)	BANKS	SHARE/S
ADIA - UAE	7.5	City Group	4.9%
CIC - CINA	1.394	Bank of America	-
	3	Barclays	3.1%
	1	Bearn Stearns	6.0%
	1.031	Black Rock	-
	3	Blackstone	-
	0.804	Citigroup	-
	5.6	Morgan Stanley	9.9%
	6.9	Citigroup	3.7%
	5	Merrill Lynch	9.9%
	9.75	UBS	9.9%
IPIC - ADIA	5.7	Barclays	-
KIA - KUWAIT	4.75	Bank of America	-
	-	Black Rock	-
	4.1	Citigroup (DISMESSED)	7.7%

	12.4	Merrill Lynch*	6.4%
QIA - QATAR	2	Barclays	5.8%
	0.5	Credit Swiss	1- 2%
TEMASEK - SINGAPORE	-	Barclays	2.10%
	4.4	Merrill Lynch	9.4%
	0.4	Standard and Chartered	5.0%

Source: Corradini e Fortis, 2008, Fondazione Edison, elaboration data by the Author (January 2014)

However, during the crisis Sovereign Wealth Funds also registered significant losses estimated to be around \$881 million, as the difference between a surplus of \$4.597 billion and a loss of \$5.478 billion, as best estimation of different prominent sources.

Graph 5: Sub-Prime Losses and SWF Investments

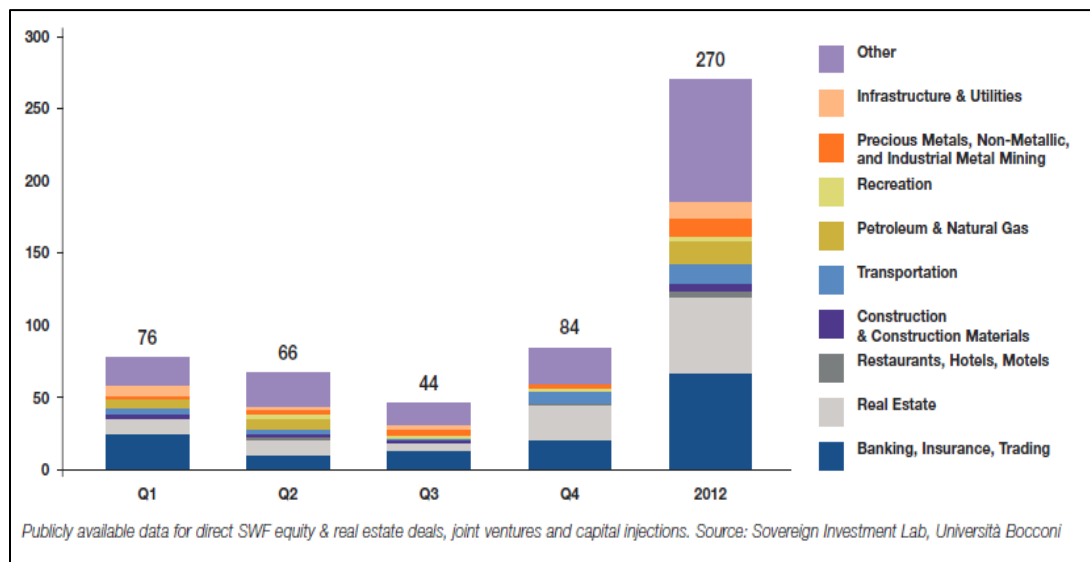


Source: Kumaria S., "Who's Afraid of Sovereign Wealth Funds?", 2008

The losses registered in 2008 had multiple consequences for Sovereign Wealth Funds in terms of endowment, strategies and sectors of investment and they radically changed their approach versus risk management and investment policy. They, indeed, have undertaken more conservative strategies towards investing and have started diversifying their portfolio of investments. They have also started expanding their investments in geographical terms with a major focus on emerging countries and domestic markets, in order to support national development programs through investments and know-how acquisitions. A major awareness of the necessity of revising their portfolio allocation coupled with the necessity of improving their internal structure in terms of risk management, resulted in the hiring of external consultants and in the setting up of internal departments dedicated to risk management. If without any doubts they became more cautious in their investments, they also faced the necessity of a better structure in term of risk management that represents one of the most important criteria to be assessed moving from the evaluation of transparency to those of sustainability. The endorsement of a sound risk management policy and the monitoring of the allocation of the portfolio in order to constantly satisfy the levels of risk considered bearable by the management, indeed, could represent a significant element of good governance of SWFs. In order to be sustainable, indeed, SWFs should be accountable with specific reference to the management of the assets that ultimately and generally belong to the citizens. More into details, they also started privileging investments in emerging countries and domestic markets, in order to foster national development programs

through investments and acquisitions focused on the transfer of know-how. In term of strategies, the losses registered in 2008 have led to a more conservative policy and departing from the first semester of 2009 they have shown increasingly interest and focus on the management of subsidiaries or controlled companies, becoming more active actors. If the financial sector has always been the first target of SWFs investments, after the 2008 credit crunch, a dramatic switch into other sectors of investment has been registered with the increase of investments in sectors such as energy, infrastructure, and engineering and a significant decrease in the amount of investments and capital invested in the financial sector. As presented in the following table, the 2012 has registered a decrease both in terms of number and of capital, if compared to the past.

Graph 6: SWFs Sectors of Investment 2012



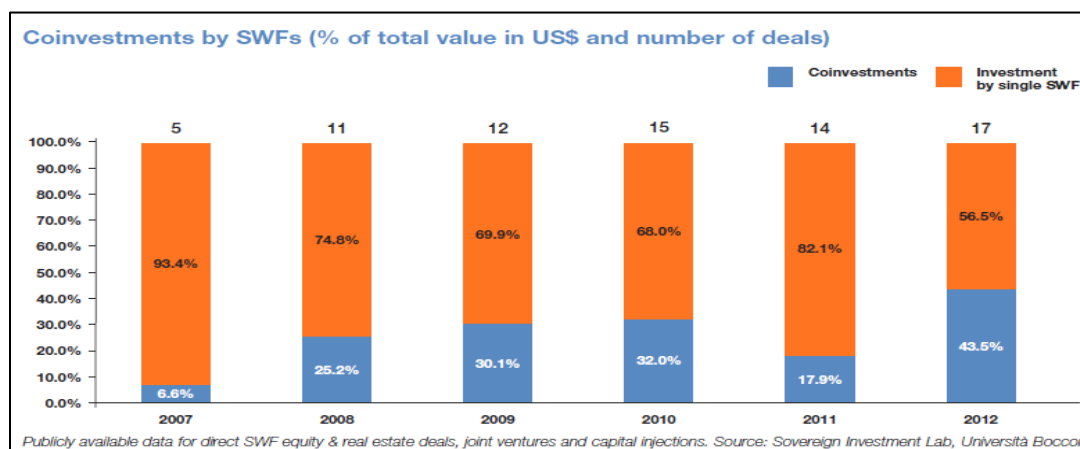
Source: *Fondazione Enrico Mattei e Monitor Group*

Another important effect of the crisis has been the creation of innovative special purpose vehicles such as the Sovereign Wealth Funds Consortia which will be considered in Chapter n.4. They also created Sovereign Wealth Funds consortia and consortia between Sovereign Wealth Funds and International Financial Institutions in order to reduce the risk of investment and to further internationalize their portfolio of investments. This is another important element considered in the assessment of sustainability that is missing in the assessment of transparency. Investing with International Financial Institutions and other SWFs not only reduces the risk of the investment but also increases the efficiency of the investments. Consortia are created in order to reduce the number of direct investments and, as well, to decrease the risk of the investments. Major focus on emerging countries and domestic markets, in order to foster the national development programs through investments and acquisitions focused on the transfer of know-how. In term of strategies the losses registered in 2008 have led to a more conservative policy and departing from the first semester of 2009 they have shown increasingly interest and focus on the management of subsidiaries or controlled companies. Another important effect of the crisis has been the creation of innovative special purpose vehicles such as the Sovereign Wealth Funds Consortia. They are created in order to reduce the number of direct investments and, as well, to decreasing the related risks. Amongst the many new upcoming SWFs consortia, it is noteworthy to mention the Al-Libya Al Qataria (ALAQ) one, composed by Qatari Diar, Qatar Investment Authority financial vehicle, and Oya²⁹, a Joint Venture controlled by the Libyan Investment Authority for the Social and Economic Development. As presented in the following graph, the total value of

²⁹ Oya is a company fully owned by the Libyan Government and has the mandate to work for the development of the country. (www.oya-esfd.ly).

investment done through consortia has registered its maximum (43.5% of the total value of the investment considered) in 2012 and this percentage is expected to grow further in the nearest future.

Graph 7: Co-investments by SWFs



Source: *Fondazione Enrico Mattei and Monitor Group*

2.4 Why are Sovereign Wealth Funds important?

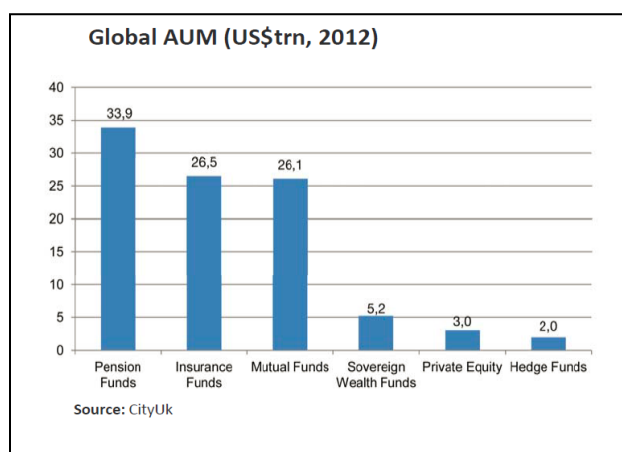
Without a doubt, Sovereign Wealth Funds are important actors in the global economy. In a period of volatile financial markets and speculative excess, it has become evident that States have re-emerged as important arbiters of the prospects and redirection of capitalist economies. Today new interdependences are shaped in a world that is in a continuous evolution³⁰, uncertain, and always different. In the aftermath of the financial crisis, new actors and new scenarios have taken place in a multipolar world where the distribution of the economic, political, and cultural powers seem to be, every day, more fragmented and the old equilibrium more precarious. Among the new protagonists of this new global economic scenario, are the Sovereign Wealth Funds. SWFs represent the next stage of capitalist development and their rising symbolizes the increased importance of finance over the real economy. Nowadays, SWFs are not only the most influential actors of the international scenario and one of the most noteworthy actors of the global scene but they are, without any doubts, financial institutions able to support sustainable development and influence international markets. They demonstrate that the power of financial markets now extends to state agencies, from representative democracies to authoritarian regimes. As noted by Helleiner (2009), Sovereign Wealth Funds offer States an opportunity to reassert national sovereignty and authority over financial globalization in ways that preserve local differentiation, autonomy, and indeed, sovereignty. Sovereign Wealth Funds have also emerged as potential solutions to actively manage resources accumulated from commodity sales or strong exports. Through their liquidity injection into the international financial markets and their capacity of investing counter-cyclical, especially in period of crisis, they can stabilize the markets; enhance transparency and public scrutiny, limit discretionary control, and support public promotion of long-term savings of resource revenues. Sovereign Wealth Funds can also directly allocate part of their portfolio to social investments and perform an important role in the support of the domestic development of the sponsor countries. Furthermore with their investments, Sovereign Wealth Funds, contribute to the domestic and to the global financial stabilization³¹. Their political role as well as their economic endowment, prompt us to

³⁰ Cooper R.: "The Breaking of Nation: Order and Chaos in the Twenty-First Century" London, Atlantic Book, 2003.

³¹ Chen, C., Xie, P., "Sovereign Wealth Funds, Macroeconomic Policy Alignment and Financial Stability", Social Science Research Network, Working Paper Series, 16 June 2009.

consider these long-term investors as important protagonists of the present and of the future. High oil prices, financial globalization, large global imbalances, indeed, have all resulted in the rapid accumulation of foreign assets (particularly by oil exporting countries and several Asian countries). As a result, the number and size of Sovereign Wealth Funds have risen rapidly and their presence within the international capital markets has become more prominent. Sovereign Wealth Funds, in fact, have gained in a very short period an important role in the economic field due to their \$6 trillion of capital expected to reach, according to the most prominent sources, the amount of \$12 trillion by 2020, shared amongst a limited number of actors. According to different academic sources the number of Sovereign Wealth Funds varies from 33³² to 74³³. They hold investments in listed and not listed companies at the global level and they are the fourth economic power in the world, after pension funds, insurance funds, and mutual funds³⁴.

Graph 8: Global Asset Under Management 2012



Source: CityUk, Report on SWFs (2012)

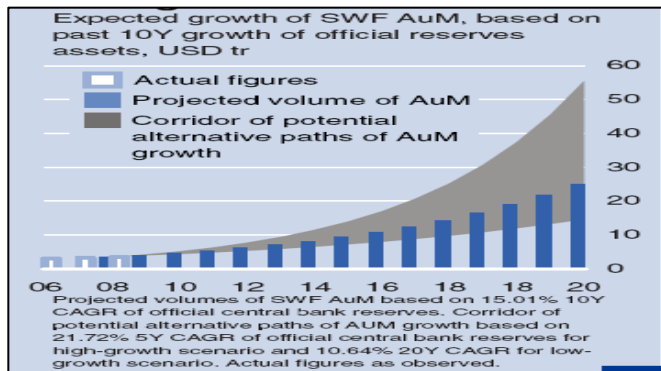
Their importance at the international level has grown very rapidly and also their political role has developed in the global arena thanks to their capacity to stabilize the markets through injections of liquidity and by changing the map of global asset management. To better understand the importance of Sovereign Wealth Funds, we should consider their economic dimension and their expectations of growth in the near future. This can be demonstrated by the increasing importance and dimension of the Sovereign Wealth Funds' endowment, which is estimated to grow, according to the latest records, at 18% per year. Current projections show that some Sovereign Wealth Funds will continue to accumulate foreign assets as a result of large and persistent current account surpluses. These projections indicate that foreign assets under the management of Sovereign Wealth Funds could reach \$19 trillion by 2020 as illustrated in the graph below.

³² SWF Institute (2014).

³³ http://www.bernardobortolotti.com/wp-content/uploads/2013/07/SIL_Report_2013.pdf

³⁴ <http://www.thecityuk.com>

Graph 9: Expected Growth of SWFs Asset Under Management



Source: Kern, Deutsche Bank Research, 2008

Other commentators also project rapid growth over the next five to ten years. For example, Standard Chartered projects that Sovereign Wealth Funds' assets will reach \$13.4 trillion over the next decade. On the basis of these estimates, Sovereign Wealth Funds will be able to contribute with part of their revenues to the national and international socioeconomic development at the present time as in the future. This is even more valid for the Sovereign Wealth Funds of the GCC as their role in development will remain significant despite any intermittent financial setbacks. As a consequence of their financial power, their behavior can influence international financial markets as well as the transfer of assets from emerging to developed countries. For these and for many other reasons it is possible to say that SWFs are without any doubt important financial and political actors of the international scenario. Furthermore, they can also play an important role in the field of sustainable development and sustainable investments.

3 Transparency

Up to today, transparency constitutes one of the most important elements to be evaluated in order to understand if a Sovereign Wealth Fund could be an opportunity or a threat. The measurement of transparency, indeed, offers a clear definition of the structural aspects of the Sovereign Wealth Funds, while the assessment of sustainability points out additional behavioural elements as presented in Chapter n.4. Furthermore transparency is a fundamental part of sustainability, through which it is also possible to measure the ability of a Sovereign Wealth Fund to satisfy shareholders and stakeholders' rights and expectations. This Chapter, indeed, aims to present in details the tools used for the measurement of transparency and their functioning. It also highlights the necessity to conduct a comparative analysis of the different results of the three indices in order to have a more complete and satisfactory evaluation of transparency. If taken individually, each one of the indices is not able to provide a complete set of information; while through the comparison of their various results, it is possible to achieve a more satisfactory and effective evaluation of transparency and, consequentially, of their sustainability.

3.1 The Evolution of SWFs from a Threat into an Opportunity

Transparency can turn Sovereign Wealth Funds into an opportunity. Through the assessment of transparency, indeed, Sovereign Wealth Funds can prove to be an opportunity more than a threat. This is what happened during the 2008 financial crisis when Sovereign Wealth Funds played a significant role in providing support to major international banks; at this time their reputation at the global level underwent a dramatic change. The strategic role that SWFs played in responding to the 2008 international financial crisis, indeed, was a critical element for shifting public opinion to consider them more an opportunity, to be properly managed, than a threat to be scared of. The processes of measuring transparency, which started in 2007, fostered a better comprehension of Sovereign Wealth Funds' goals and behaviors. In order to properly understand why SWFs' transparency became important in order to turn SWFs from a threat into a possible opportunity, it's essential to examine their evolution. At their inception, indeed, in the fifties, when the first Sovereign Wealth Fund (SWF), the Kuwait Investment Authority, appeared on the scene, Sovereign Wealth Funds were not a malicious attempt by countries to become dominant global investors, but rather prudent endeavors to manage economies and reduce domestic instability. However, despite their intentions and due to a generalized lack of information on the topic, on their structure and behavior, they were seen as a possible threat. Another element that, in the past, favored the opinion that Sovereign Wealth Funds were a threat more than an opportunity was the complete absence of a proper regulatory framework governing the investments of these newly created financial vehicles. Many recipient countries, indeed, didn't have, and some of them are still lacking nowadays, an effective legal apparatus enabling them to appropriately deal with these types of long-term investors. That is why Sovereign Wealth Funds without being properly regulated appeared as a potential threat more than an opportunity and many recipient countries faced the necessity to urgently create and approve a specific regulatory framework for governing their investments. To turn them into an opportunity, new regulations have been put in place. This was done by the United States that, in 2007, issued the Foreign Investment and National Security Act (Finsa) in order to enlarge the competences of the Committee on Foreign Investment in the United States (CFIUS) for the protection of the national port activity almost entirely acquired by Dubai Port, a subsidiary of Dubai World. If in 2007 the United States, were the first country to develop a specific regulation on SWFs Investments, with the issue of the Finsa Act and the enlargement of the CFIUS's mandate, Germany and France followed the American example, respectively, in April 2009 with an amendment to the Außen-Wirtschaftsgesetz (1961) and in 2005 with the identification of eleven sensitive sectors of national interest requiring the approval of the Government prior to receiving foreign investments. In this case, regulation supported transparency in turning Sovereign Wealth Funds into an opportunity. In fact, SWFs are neither an opportunity nor a threat. They can become an opportunity when sufficiently transparent in their origin, structure, management, and objectives and when appropriate regulations, within recipient countries, are settled in

order to protect sensitive sectors of investment and prevent aggressive behavior. So if before the 2008 financial crisis, SWFs were more obscure to the public opinion and eventually even regarded as potential threats, nowadays, they are seen more as an opportunity. There is, indeed, a major awareness of what Sovereign Wealth Funds are and how they behave. In conclusion it is possible to say that if in the past, SWFs have been seen, for many reasons, as a threat, nowadays their progressive disclosure and increased popularity at the international level, in combination with the effects of the 2007-2008 global financial crisis, have turned them into a possible opportunity, when properly managed, most specifically for those recipient countries in critical need of liquidity, development, and economic growth. A higher level of transparency, indeed, can generate many benefits such as, among others, the capacity of creating public awareness of the benefits promoted by SWFs' investments both at the domestic and at the international level, avoiding the rise of protectionist sanctions, and enabling the creation of a much friendlier environment for their investments within recipient countries. As a consequence, Sovereign Wealth Funds have to daily deal with the so-called transparency trade-off that consists in balancing the benefits of being open and transparent in order to gain the trust of the markets and the favor of the public opinion, without losing competitive power. The need of transparency, moreover, is not only related to Sovereign Wealth Funds themselves but also to the world that surrounds them and the activities related to their management. It happened, indeed, that many important American Banks, Hedge Funds and private equity funds have been accused of paying bribes to assure themselves of Sovereign Wealth Fund investment. An additional reason for transparency is to make them more accessible and understandable to the public opinion by explaining potential benefits and disadvantages related to their investments. This can also help prevent that their twofold soul, institutional in the ownership and private in the behavior, leads them to be in the risky position of being considered more as political financial tool, in the hands of unscrupulous Governments, than as profit-driven entities. These are some of the reasons why transparency is one of the most important and widely debated aspects related to Sovereign Wealth Funds and the topic has been largely addressed by academics, professionals, political figures, and the representatives of the major international financial and regulatory forums, think tanks, governments and, among others, also the Security and Exchange Commission (SEC). Nowadays, in fact, the debate on SWFs has moved on the assessment of their transparency and as well of their capacity to become an opportunity for economic growth with specific reference to developed countries that are facing a difficult period of economic stagnation and lack of liquidity. This leads to the assumption that both sponsor and host countries share the same need of SWFs' transparency in order to assess and to prove whether SWFs are a threat or an opportunity. This is the reason why, since 2007, many tools for the measurement of SWFs' transparency have been created, namely the Linaburg-Maduell Index, the Truman-Dawson Scoreboard and the Kaufmann, Kraay and Mastruzzi Index and the 24 Santiago Principles presented in details in the following paragraphs.

3.2 How to measure transparency?

The increasing necessity of measuring transparency in order to assess if SWFs could represent an opportunity or, instead, a threat, lead to the creation of different tools of measurement. Among these there are two indices specifically created in 2007/2008 for the evaluation of Sovereign Wealth Funds' Transparency such as the Linaburg-Maduell Index and the Truman-Dawson scoreboard. Furthermore a third index, the Kaufmann, Kraay and Mastruzzi has been conceived for the measurement of the countries' governance and then adopted for measuring SWFs' transparency. This has been possible due to the assumption of a correlation between SWFs' Transparency and sponsor countries' governance. This assumption, as presented more in greater detail in Paragraph 3.6, is valid in the majority of the cases. There are, however, some exceptions. This is the case for Chile, Kuwait, Azerbaijan and others that present a discrepancy between the level of transparency of the Sovereign Wealth Funds and those of the governance of the sponsor countries. In terms of validity, the accountability of the different indices is related to the number and the quality of the criteria utilized in the process of evaluation, as hereafter presented. This is the reason why in order to have an in depth analysis of the SWFs, it is recommendable to compare the results of different indices. In 2008, in addition to the three indices just mentioned, a set of 24 principles and practices, the so called 24 Santiago Principles or General Accepted

Principles and Practices, have been conceived. This could be considered as the natural evolution of the three indices on the basis of the necessity to deepen the analysis through the addition of new criteria and the evaluation of new aspects that haven't been previously considered. This process leads the way to move from the simple evaluation of SWFs' transparency to the assessment of sustainability, evaluating important behavioral aspects such as, among others, the satisfaction of shareholders and stakeholders. However, in order to gain a better understanding on how to measure sustainability, it is necessary to understand how to measure Transparency as it is a fundamental part of it. This is why, hereafter, are presented in details the various tools for the measurement of transparency from the three indices, namely the Linaburg-Maduell Index, the Truman-Dawson Scoreboard and Kaufmann, Kraay, Mastruzzi, to the 24 Santiago Principles.

3.3 The Linaburg - Maduell Transparency Index

The Linaburg-Maduell Index is one of the three indices utilized for measuring SWFs' transparency. This index was created in 2008 by Carl Linaburg and Michael Maduell, the founders of the Sovereign Wealth Fund Institute, one of the most prominent institutions specialized in SWFs.

Table 6: The Linaburg - Maduell Index

Index	Inception	SWFs Rated	Scale	First SWF	Last SWF
Linaburg-Maduell	2008	51	1-10	Chile SESF	Algeria

Source: Elaboration by the Author (January 2014)

This Index rates transparency on the basis of the analysis of the satisfaction of ten fundamental criteria, hereafter presented.

Table 7: The 10 Linaburg - Maduell Transparency Index Criteria

The 10 Linaburg-Maduell Transparency Index Criteria
1. Fund provides history including reason for creation, origins of wealth, and government ownership structure;
2. Fund provides up-to-date independently audited annual reports;
3. Fund provides ownership percentage of company holdings and geographic locations of holdings;
4. Fund provides total portfolio market value, returns, and management compensation;
5. Fund provides guidelines with reference to ethical standards, investment policies, and enforcer of guidelines;
6. Fund provides clear strategies and objectives;
7. If applicable, the fund clearly identifies subsidiaries and contact information;
8. If applicable, the fund identifies external managers;
9. Fund manages its own website;
10. Fund provides main office location address and contact information such as telephone and fax.

Source: SWFs Institute

The scoring of each point of the index results in one point and the ranking goes from 0 to 10. A rating of 8 is the minimum in order to claim adequate transparency of the fund. The index rates 51 SWFs.

Out of the 51 SWFs rated by the index only 10 account a total score of 10/10 points, namely the Chile Social and Economic Stabilization Fund, the Chile Pension Reserve Fund, Mubadala Development Company, Singapore Temasek Holding, the Ireland National Pensions Reserve Fund, the Azerbaijan State Oil Fund, the Australia Future Fund, the Alaska Permanent Fund, the Norwegian Government Pension Fund – Global, the New Zealand Super Annuation Fund and the Canada Alberta’s heritage Fund as presented in the table and in the 2013 ranking list hereafter presented.

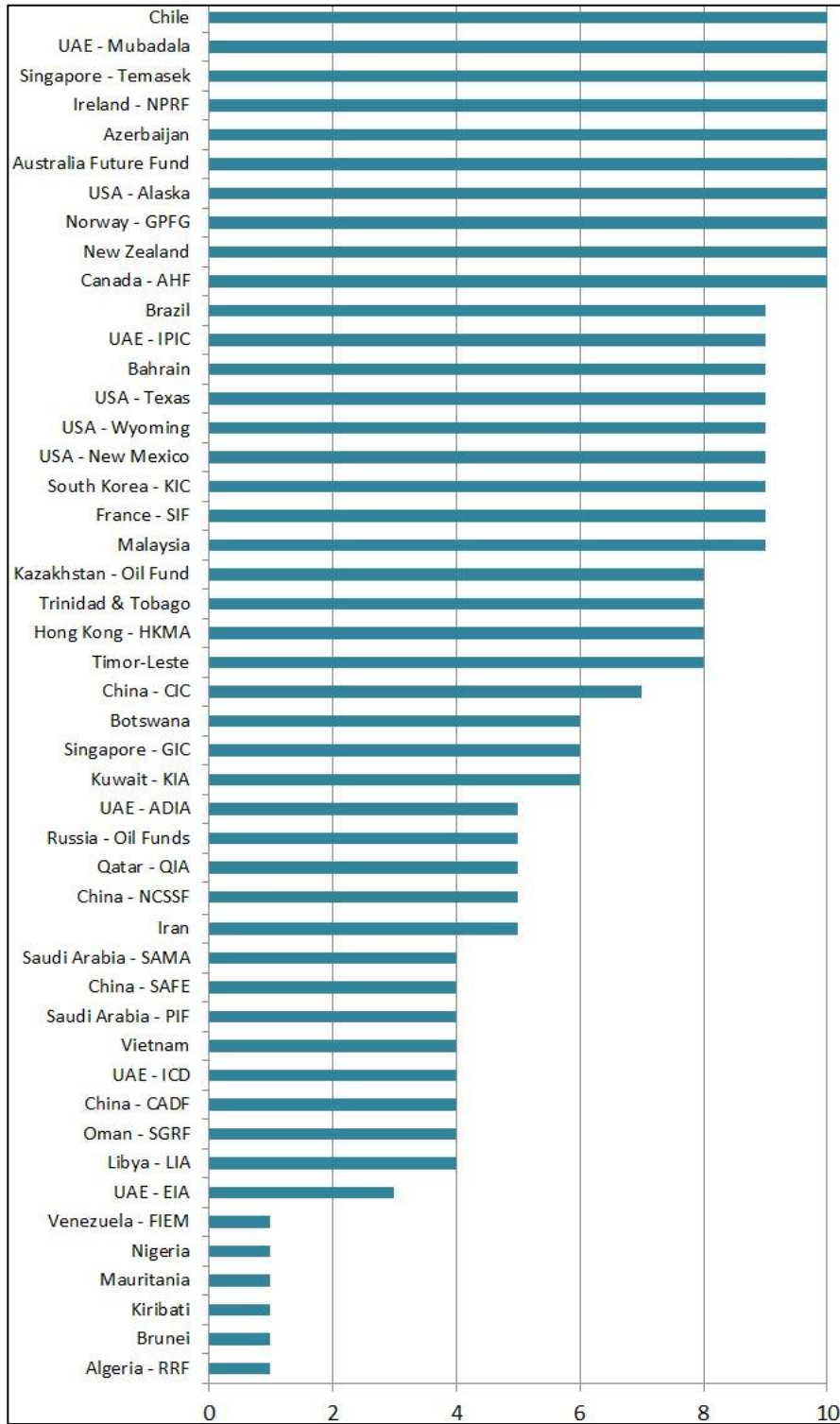
Table 8: The Linaburg - Maduell Best 10 SWFs.

Rank	Sovereign Wealth Funds
1	Social and Economic Stabilization Fund - SESF - Chile
2	Mubadala Development Company – Abu Dhabi - UAE
3	Temasek Holdings - Singapore
4	National Pension Fund Ireland - NPRF - Ireland
5	State Oil Fund of the Republic of Azerbaijan – SOFAZ - Azerbaijan
6	Australia Government Future Fund - Australia
7	Alaska Permanent Fund Corporation – APFC - US - Alaska
8	Government Pension Fund Global – GPF - Norway
9	Alberta’s Heritage Fund – AHF - Canada
10	Sovereign Fund of Brazil – FSB - Brazil

Source: Elaboration by the Author (January 2014)

It is interesting to note how the first ten SWFs of the ranking are coming from different parts of the world such as Chile, Australia, United Arab Emirates, Europe and Singapore and how their endowment varies from the \$15.2 billion of the Chile Social and Economic Stabilization Fund to the \$818 billion of the biggest SWF in the world, the Norwegian Government Pension Fund – Global. This is a reminder not to jump to conclusions linking geography to transparency. It is also worthy to highlight that out of the ten SWFs that rank first in the index, two, such as the Norwegian Government Pension Fund – Global and the New Zealand Superannuation Fund, with 10 points, have endorsed ethical specific guidelines and a policy of divestment from those companies that don’t perform according to the expected and agreed ESG criteria. This introduces us to the correlation between the transparency of an SWF and the level of democracy and governance of the sponsor country, hereafter illustrated in details. The last positions in the ranking belong to five SWFs that have totalized only one point, namely the Algeria Revenue Regulation Fund, the Brunei Investment Agency, the Kiribati Revenue Equalization Reserve Fund and the Mauritania National Fund for Hydrocarbon Reserves that represent as well an example of countries with a low level of governance. This index offers without any doubt a good overview of the transparency of SWFs, however, presents also some limits in the validity of its assessment related to the quality and quantity of the criteria utilized for the analysis. Furthermore, the ten criteria are focusing more on quantitative data than on qualitative information. They, in fact, mainly evaluate the presence or absence of some elements, such as if the funds disclose its government ownership structure or have an annual audit but does not give any evaluation of the data provided. This is the reason why it is necessary in order to have a better understanding of the transparency of a SWF to combine the results of multiple indices and to consider additional aspects not measured by this Index.

Table 9: Linaburg - Maduell Trasparency Index 2nd Q 2013



Source: SWFs Institute

3.4 The Truman – Dawson Scoreboard

The Truman-Dawson Scoreboard is the second of the three indices used in order to measure SWFs transparency. This scoreboard is very important as it could be considered the first attempt, in the framework of transparency’s measurement, to add in the analysis a supplementary element related to SWFs’ behavior as hereafter illustrated. The index has been created in 2007 and evaluates 49 SWFs.

Table 10: The Truman – Dawson Scoreboard

Index	Inception	SWFs Rated	Scale	First SWF	Last SWF
Truman-Dawson Scoreboard	2007	49	1-100	Norwegian Government Pension Fund Global - GPFG	Equatorial Guinea Fund for Future Generations

Source: Elaboration by the Author (January 2014)

The evaluation indicators or criteria utilized by the scoreboard for the assessment of transparency are 33, divided into four categories. These 33 individual elements are equally weighted and translated into a 100-point scale. The score goes from 0 to 1 including 0.25, 0.50 and 0.75 for some question identified as (p) while it goes only from 0 to 1 when the answer of the question could only be yes/ no. Here after are presented the 33 Truman Dawson Scoreboard Criteria divided in their four area of evaluation.

Table 11: The Truman – Dawson Scoreboard Criteria

- Structure
<ol style="list-style-type: none"> 1) Is the SWF’s objective clearly stated? (p) 2) Is there a clear legal framework for the SWF? 3) Is the procedure for changing the structure of the SWF clear? (p) 4) Is the overall investment strategy clearly stated? (p)
Fiscal Treatment
<ol style="list-style-type: none"> 5) Is the source of the SWF’s funding clearly specified? (p) 6) Is the nature of the subsequent use of the principal and earnings of the fund clearly specified? (p) 7) Are the SWF’s operations appropriately integrated with fiscal and monetary policies? (p) 8) Is the SWF separate from the country’s international reserves?
- Governance
<ol style="list-style-type: none"> 9) Is the role of the government in setting the investment strategy of the SWF clearly established? (p) 10) Is the role of the governing body of the SWF clearly established? (p)* 11) Is the role of the managers in executing the investment strategy clearly established? (p)

- 12) Are decisions on specific investments made by the managers? (p)
- 13) Does the SWF have internal ethical standards for its management and staff? (p)*
- 14) Does the SWF have in place, and make publicly available, guidelines for corporate responsibility that it follows? (p)
- 15) Does the SWF have ethical investment guidelines that it follows? (p)

- Transparency and Accountability

Investment Strategy Implementation

- 16) Do regular reports on investments by the SWF include information on the categories of investments? (p)
- 17) Does the strategy use benchmarks? (p)
- 18) Does the strategy use credit ratings? (p)
- 19) Are the holders of investment mandates identified? (p)

Investment Activities

- 20) Do regular reports on the investments by the SWF include the size of the fund? (p)
- 21) Do regular reports on the investments by the SWF include information on its returns? (p)
- 22) Do regular reports on the investments by the SWF include information on the geographic location of investments? (p)
- 23) Do regular reports on the investments by the SWF include information on the specific investments? (p)
- 24) Do regular reports on the investments by the SWF include information on the currency composition of investments? (p)

Reports

- 25) Does the SWF provide at least an annual report on its activities and results? (p)
- 26) Does the SWF provide quarterly reports? (p)

Audits

- 27) Is the SWF subject to a regular annual audit? (p)
- 28) Does the SWF publish promptly the audits of its operations and accounts? (p)
- 29) Are the audits independent? (p)

- Behavior

- 30) Does the SWF have an operational risk management policy? This is element was incorporated into the 2008 scoreboard from the Santiago Principles.
- 31) Does the SWF have a policy on the use of leverage? (p)

32) Does the SWF have a policy on the use of derivatives? (p)

33) Does the SWF have a guideline on the nature and speed of adjustment in its portfolio?

(*) These elements have been taken from the 24 Santiago Principles and incorporated into the 2008 edition of the scoreboard from the Santiago Principles.

Source: Bagnall A. E., Truman E. M., "Progress on Sovereign Wealth Fund Transparency and Accountability: An Updated SWF Scoreboard", August 2013-revised December 2013

In terms of results, the latest release of the scoreboard has been issued in December 2013 as a revised version of the July 2013 one; it assesses 49 SWFs and 9 Pension Funds, hereafter are presented the results. The best score (98/100) and ranking position is the one of the Norwegian Government Pension Fund-Global, followed by the New Zealand Superannuation with 94/100. The worst score is for the Fund for Future Generations of Equatorial Guinea (2/100) and for the Libyan Investment Authority (6/100). Out of the 49 SWFs rated by the scoreboard, 12 are scoring above 80 points, 24 between 80 and 30 and 13 below 30. In the table below are presented the results of the Truman Scoreboard 2012. The same consideration done for the Linaburg-Maduell Index can be repeated for the Truman Dawson scoreboard as the first positions of the ranking belong to Funds of different geographical origins and different endowments, proving that geography and endowment are not affecting SWFs transparency, while the governance of the sponsor country very often does.

Graph 10: Truman - Dawson SWFs Scoreboard 2012

2012 TRUMAN SWFs SCOREBOARD		
Country	Fund	Score
Norway	Government Pension Fund-Global	98
New Zealand	Superannuation Fund (PR)	94
Chile	Economic and Social Stabilization Fund	91
United States	Alaska Permanent Fund	90
Ireland	National Pensions Reserve Fund (PR)	89
Australia	Future Fund (PR)	89
United States	Wyoming Permanent Mineral Trust Fund	89
Azerbaijan	State Oil Fund	88
Canada	Alberta Heritage Savings Trust Fund	86
Chile	Pension Reserve Fund (PR)	85
Timor-Leste	Petroleum Fund	85
Trinidad and Tobago	Heritage and Stabilization Fund	83
United States	New Mexico Severance Tax Permanent Fund	79
Singapore	Temasek Holdings	76
Kuwait	Kuwait Investment Authority	73
Kazakhstan	National Fund	71
Hong Kong	Exchange Fund	70
Korea	Korea Investment Corporation	69
United States	Alabama Trust Fund	67
Singapore	Government of Singapore Investment Corporation	66
United Arab Emirates	Mubadala Development Company	65
China	China Investment Corporation	64
Malaysia	Khazanah National	59
United Arab Emirates	Abu Dhabi Investment Authority	58

Botswana	Pula Fund	56
United Arab Emirates	Dubai International Capital	55
Russia	National Welfare Fund and Reserve Fund	53
São Tomé & Príncipe	National Oil Account	48
Ghana	Petroleum Funds	47
United Arab Emirates	International Petroleum Investment Company	46
Mexico	Oil Income Stabilization Fund	44
Iran	National Development Fund	41
Bahrain	Mumtalakat Holding Company	39
Vietnam	State Capital Investment Corporation	38
Kiribati	Revenue Equalization Reserve Fund	35
Brazil	Sovereign Fund of Brazil	30
Algeria	Revenue Regulation Fund	29
Venezuela	National Development Fund	29
Oman	State General Reserve Fund	27
Venezuela	Macroeconomic Stabilization Fund	27
Brunei	Darussalam Brunei Investment Agency	21
United Arab Emirates	Investment Corporation of Dubai	21
Nigeria	Sovereign Investment Authority	18
Sudan/South Sudan	Oil Revenue Stabilization Account	18
Qatar	Qatar Investment Authority	17
United Arab Emirates	Istithmar World	17
Angola	Fundo Soberano de Angola	15
Libya	Libyan Investment Authority	6
Equatorial Guinea	Fund for Future Generations	2
(PR): Pension Reserve Fund		
SWF average (49)		
IFSWF members (26)		
Non-IFSWF members (23)		

Source: Bagnall A. E., Truman E. M., "Progress on Sovereign Wealth Fund Transparency and Accountability: An Updated SWF Scoreboard", August 2013-revised December, 2013.

It is evident that the Truman-Dawson Scoreboard presents not only a higher number of criteria than the Linaburg-Maduell Index, but also a more detailed level of analysis that covers a higher number of aspects and provides important data on the structure, governance, and behavior of the SWFs. In this case the term behavior refers more to the management of the portfolio allocation or Strategic Assets Allocation while in the assessment of sustainability with behavior is intended the ability of SWFs to address their goals as per their mandate as well as the expectations of shareholders and stakeholders, as illustrated in details in Chapter n.4. The scoreboard, indeed, considers many behavioral aspects of a Sovereign Wealth Fund but it is still missing to address the problem of legitimacy, redistribution of revenues, independency of the board, capacity to address the given objectives, presence of co-investments with other SWFs or international financial institutions, analysis of the quality of the ethical principal endorsed, and the promotion of sustainable investments.

3.5 The Kaufmann, Kraay and Mastruzzi Index

Kaufmann, Kraay and Mastruzzi Index is one of the three indices for the measurement of transparency. This index was originally conceived, in 2007, for the measurement of countries' governance and has been used for the

evaluation of more than 212 countries around the world. However, it has also become a useful tool for the measurement of transparency of Sovereign Wealth Funds and it has been used for the measurement of 58 Sovereign Wealth Funds. Its origin explains the many differences with the previously considered two indices.

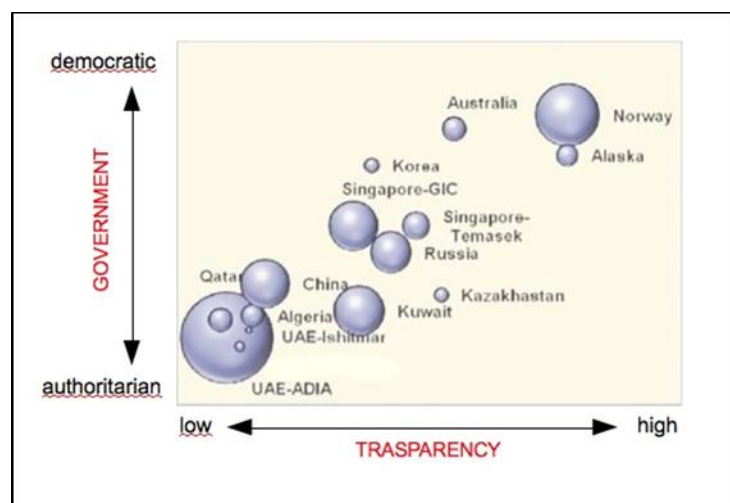
Table 12: The Kaufmann, Kaay, Mastruzzi Index

Index	Inception	SWFs Rated	Scale	First Country	Last Country
Kaufmann, Kaay, Mastruzzi	2007	58	1-100	Norway	Myanmar

Source: Elaboration by the Author (January 2014)

The fact that the Kaufmann, Kraay and Mastruzzi Index is used for measuring SWFs’ transparency is due to the assumption that there is a direct correlation between the level of democracy of a country and the level of transparency of its Sovereign Wealth Fund (s), as presented more into details in graph below. To high level of democracy in sponsor countries, yet, very often correspond high levels of transparency in the sponsored related Sovereign Wealth Fund. This relation is clearly demonstrated in the case of Norway and the Norway Government Pension Fund Global, Australia and the Australia Future Fund and Alaska and the Alaska Permanent Fund. Furthermore this correlation is assessed also on the other way, considering countries with low level of democracy and Sovereign Wealth Funds with low level of transparency. This is the case of some Gulf’s Countries such as Abu Dhabi and the Abu Dhabi Investment Authority, Qatar with the Qatar Investment Authority and also Algeria with the Algeria Revenues Regulation Fund.

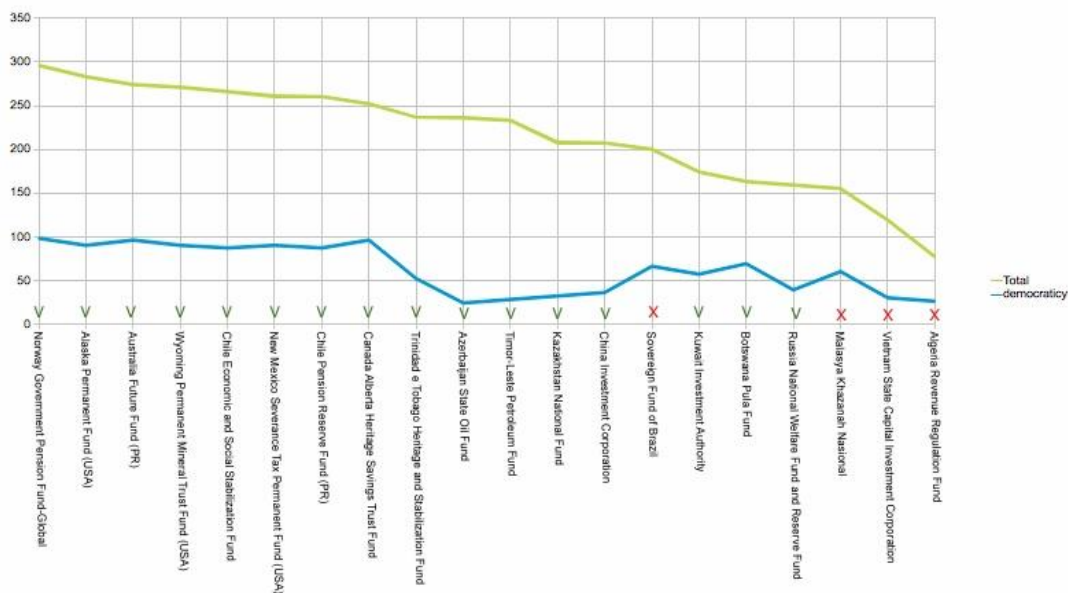
Graph 11: SWFs Transparency vs Democracy



Source: Center for Geoeconomic Studies, 2008

The correlation between the level of democracy of a country and its SWFs’ transparency is clearly presented in the graph above that considers the aggregate result of the three indexes of transparency indicated through a green line and the level of democracy measured utilizing the Kaufmann, Kraay and Mastruzzi criteria used in order to assess countries’ level of democracy. It is also interesting to notice that the most transparent SWFs, according to the below graph are those who have endorsed the Santiago Principles and have created for their selves spontaneously an internal ethical code.

Graph 12: Comparison of The Three Indices Results and Democracy



Note: The funds who have adopted the 24 Santiago Principles are indicated by a V
 Source: Elaboration data by the Author. (January 2014)

The Kaufmann, Kraay and Mastruzzi rates 58 Countries and is divided into four components: “Institutional and Legal Setting” (20%), “Reporting Practices” (40%), “Safeguards and Quality Controls” (20%) and “Enabling Environment” (20%). The four components are divided in six sub-indices, each of which establishes a rating of one of the key features of governance such as: (i) “Voice and Accountability”, (ii) “Political Stability and Absence of Violence”, (iii) “Government Effectiveness”, (iv) “Regulatory Quality”, (v) Rule of Law, and (vi) Control of Corruption. This Index assigns a numerical score to each country and divides them into four performance ranges: satisfactory (71–100), partial (51–70), weak (41–50) and failing (0–40). The index has been created in 2007 with the first aim to evaluate Countries’ governance intended as “the traditions and institutions by which the authority in a country is exercised”. This includes (a) the process by which governments are selected, monitored and replaced; (b) the capacity of the government to effectively formulate and implement sound policies; and (c) the respect of citizens and the state for the institutions that govern economic and social interactions among them.” Each of the above mentioned areas is divided into two sub-dimensions for a total of six dimensions of Governance.

Table 13: The Kaufmann, Kraay and Mastruzzi Four Dimensions of Governance

The four dimensions of governance	
(a) The process by which governments are selected, monitored, and replaced:	
1.	Voice and Accountability (VA) – capturing perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.
2.	Political Stability and Absence of Violence/Terrorism (PV) – capturing perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism.

(b) The capacity of the government to effectively formulate and implement sound policies:

3. Government Effectiveness (GE) – capturing perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.

4. Regulatory Quality (RQ) – capturing perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.

(c) The respect of citizens and the state for the institutions that govern economic and social interactions among them:

5. Rule of Law (RL) – capturing perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.

6. Control of Corruption (CC) – capturing perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.

Source: The 2013, Resource Governance Index³⁵

The Index, as hereafter illustrated, assigns a numerical score to each country and divides them into four performance ranges: satisfactory (71–100, marked in green), partial (51–70, yellow), weak (41–50, orange) and failing (0–40, red). Out of the 58 countries evaluated by the Index, as for the ranking list presented hereafter, the most virtuous ones, with a score that goes from 100 to 71, considered the threshold for a satisfactory result, there are Norway, United States (Gulf of Mexico), Australia, Brazil, Mexico, Canada (Alberta), Chile, Colombia, Trinidad and Tobago and Peru. These 58 countries produce the 85% percent of the world's petroleum, 90% of diamonds and 80% of copper. Profits from their extractive sector totaled more than \$2.6 trillion in 2010. The KKM index is based on the premise that good governance of natural resources is necessary for the successful development of countries with abundant oil, gas and minerals. It provides a diagnostic tool to help identify good practices as well as governance shortcomings. Out of the 58 countries in the graph above, 41 are classified as resource-rich by the International Monetary Fund. Only five out of these 41 countries have satisfactory standards of resource governance. As a consequence, it is assessed that transparency is missing in the countries where it is needed the most. In term of methodology, the Kaufmann, Kraay and Mastruzzi Index relies on perceptions-based governance data sources that include surveys of firms and households, as well as the subjective assessments of a variety of commercial business information providers, non-governmental organizations, and a number of multilateral organizations and other public-sector bodies. The Kaufmann, Kraay and Mastruzzi Index is a very efficient and useful tool but it presents the limitation of having been conceived in order to measure countries' transparency and good governance more than SWFs' transparency. This is the reason why it doesn't offer a detailed analysis of all the structural elements of the Fund and of its governance and of the presence of some discrepancy between the results of this Index and those of the previous two. Hereafter is presented the Kaufmann, Kraay and Mastruzzi Index ranking list.

³⁵ http://www.revenuewatch.org/sites/default/files/rgi_2013_Eng.pdf

Graph 13: Kaufmann, Kraay and Mastruzzi Index Ranking



Source: The 2013, Resource Governance Index³⁶

3.6 Comparison of the three transparency indices results

The comparison of the three indices offers a greater understanding of the transparency of SWFs and despite the fact that they are different in nature, they present similar trends³⁷. In their overall evaluation are assessed elements such as the origin of SWFs, the level of democracy of the Government of the sponsor countries, the strategies and the drivers of investments adopted, the unambiguousness of their operations and the level of risk assumed. The

³⁶ http://www.revenuewatch.org/sites/default/files/rgi_2013_Eng.pdf

³⁷ The Linaburg-Maduell results have been multiplied for 100 in order to have a better graphic representation of the results.

graph above shows into details the comparison of the results of the three indices and of their similar trend as well as some discrepancies in their results.

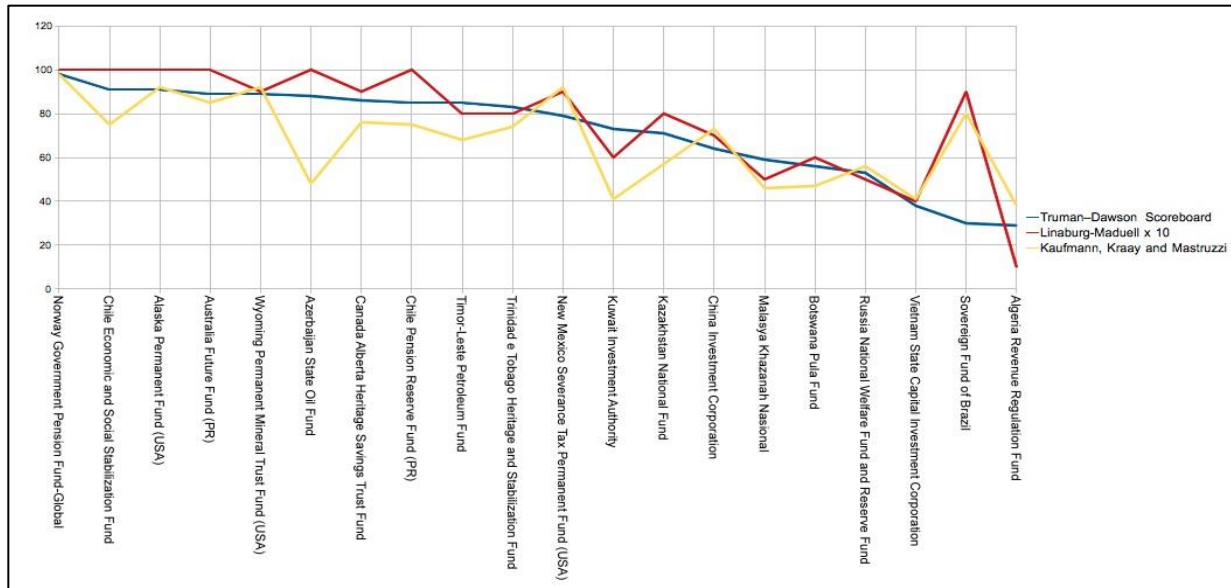
Table 14: Summary of the Three SWFs Transparency Indices

Index	Inception	SWFs Rated	Scale	First SWF/ Country	Last SWF/ Country
Linaburg -Maduell	2008	51	1-10	Chile	Algeria
Truman-Dawson Scoreboard	2007	49	1-100	Norway	Equatorial Guinea
Kaufmann, Kaay, Mastruzzi	2007	58	1-100	Norway	Myanmar
Rank	Linaburg-Maduell Index		Truman scoreboard		Kaufmann, Kraay and Mastruzzi Index
1	Norway - GPFG		Norway - GPFG		Norway - GPFG
2	UAE – Mubadala (1)		New Zeland - SF		USA – Gulf of Mexico
3	USA - Alaska		Chile - SESF		UK
4	Ireland – NPRF (1)		USA - Alaska		Australia
5	Azerbaijan(1)		Ireland - NPRF		Brazil
6	Australia Future Fund (1)		Australia Future Fund		Mexico
7	SESF - Chile		USA - Wyoming		Canada – Alberta
8	Singapore – Temasek (1)		Azerbaijan		Chile
9	Canada – AHF (1)		Canada - AHF		Colombia
10	Brazil (2)		Chile - PRF		Trinidad and Tobago

Source: Elaboration data by the Author. (January 2014)

It is interesting to note, indeed, that among the first 10 SWFs according to the indices the majority belong to countries that are registered as democratic and with a high level of governance as in the case of Norway, United States, Australia and Canada. Looking at the results, all the three indices agree that the best example of transparency, both in terms of behaviour and self-regulation, is Norway Government Pension Funds – Global, the first SWF in the world in terms of asset under management, with an endowment of \$818 billion. With the Norway Government Pension Funds – Global, other funds that are presenting an overall appreciable score in terms of transparency and good governance are the Alaska Permanent Fund and the Australian Future Fund, as in the two tables.

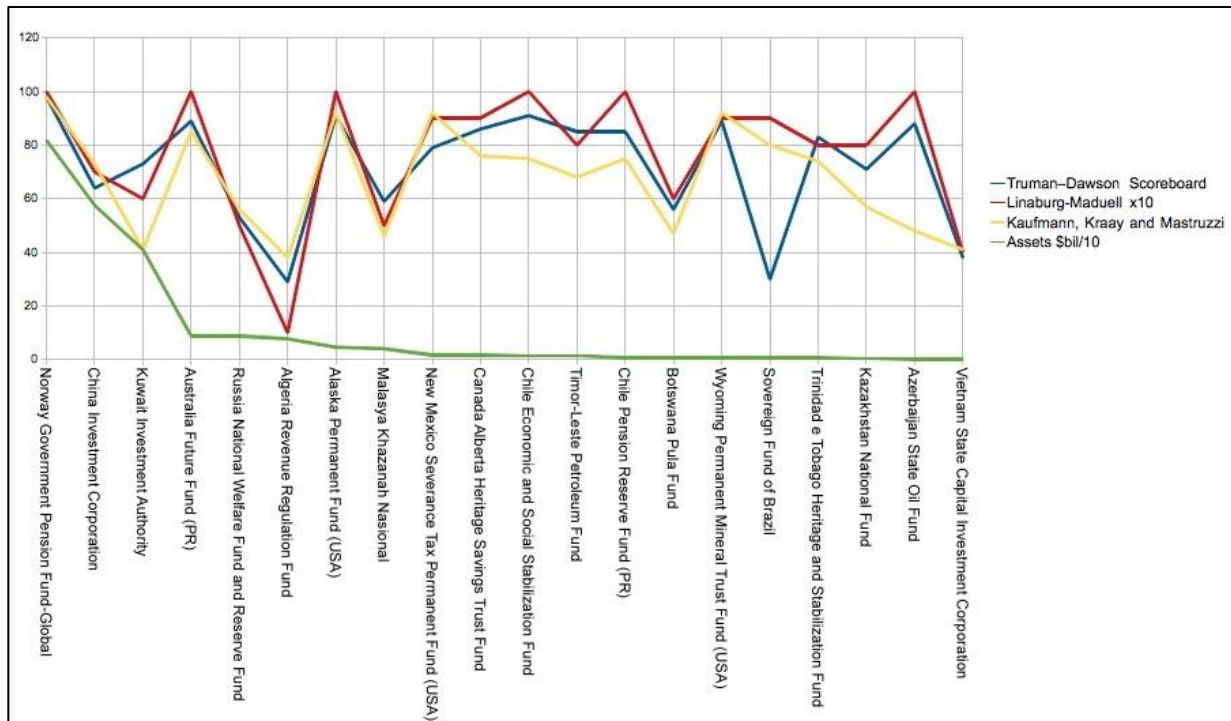
Graph 14: Comparison of the Three Indices Results 2012



Source: Elaboration by Elena Lanfranchi, Università degli Studi di Bergamo

The three indices also agree on the fact that there is no direct correlation, according to the SWFs considered, between transparency and endowment as presented in the graph below.

Graph 15: Index of the Correlation Between Transparency and Asset Under Management



Source: Elaboration data by the Author. (January 2014)

If the three indices generally present similar trends, they also present some discrepancies in terms of results. Hereafter are reported some examples of discrepancies registered in the comparison of the results of the different indices as in the case of Chile. The Chile Economic and Social Stabilization Fund, indeed, registers a very high score in the Linaburg Maduell Index (10/10) as well as in the Truman scoreboard (91/100), while according to the Kaufmann, Kraay and Mastruzzi Index, achieves a result just slightly satisfactory, scoring a rate of 75/100³⁸. The reason of this discrepancy should be researched in the low accomplishment of the Safeguards and Quality Criteria, rating only 65/100, that represents the presence and quality of checks and oversight mechanisms that encourage integrity and guard against conflicts of interest. Another case is the Azerbaijan's one that despite the fact that totalizes the maximum score (10/10) in the Linaburg-Maduell Index and also a very high score in the Truman-Dawson Scoreboard (88/98) the rating according to the Kaufmann, Kraay and Mastruzzi Index is very low (48/100), due to a very weak accomplishment of the voice Enabling Environment (only 24/100) that measures the level of accountability, government effectiveness, rule of law, corruption and democracy. Another example of discrepancy among the overall results of the three indices is the one of Brazil that registers a very satisfactory result both in the Kaufmann, Kraay and Mastruzzi Index with a score of 80/100 and in the Linaburg-Maduell where registers a score of 9/10 while in the Truman-Dawson Scoreboard the score is incredibly low with a result of 30/100 due to a lack of reporting on its financial system. This result reinforces the need of comparing multiple data and of using multiple instruments of measurement in order to gain an in depth understanding of SWFs' transparency. In conclusion, we can say that the degree of transparency displayed by a SWF at home and abroad has implications for the scope and nature of its activities. Furthermore, Transparency is, without any doubts, an important discriminant for the evaluation of the different funds and a significant element of Sustainability. If the evaluation of SWFs' Transparency, though, mainly focuses on the Funds' structure and ability to communicate results, in the assessment of sustainability are also considered certain behavioral aspects and management results that are not usually captured during a transparency evaluation process. This is one of the reasons why it is difficult to measure sustainability, even though the implementation of the 24 Santiago Principles could be considered a further step after the Truman-Dawson Scoreboard to move from.

3.7 The 24 Santiago Principles

The need for better tools to measure transparency led to the creation in 2008 of the 24 Santiago Principles. Much progresses, indeed, has been made in the increase of SWFs' transparency, thanks to the creation and the adoption by SWFs of the 24 Santiago Principles, also known as Generally Accepted Principles and Practices (GAPP). The GAPP are a set of principles that properly reflects SWFs investment practices and objectives, drafted in Santiago (Chile) in 2008 by the IMF and a group of 23 SWF sponsor countries³⁹, the members of the International Working Group of Sovereign Wealth Funds (IWG), to be endorsed on a voluntary basis. Currently the countries who have already adopted the GAPP are 24⁴⁰, namely 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 & Tobago, The United Arab Emirates and the United States, that, all together, constitute the International Forum of Sovereign Wealth Funds (IFSWF). The IFSWF is a voluntary group that meet, exchange views on issues of common interest and facilitate an understanding of the Santiago Principles and of SWF activities. The creation of this group and of the Principles is an important evidence of this necessity to further develop SWFs' transparency. These twenty-four principles cover three broad areas such as the legal

³⁸ 71/100 represents the threshold of satisfaction.

³⁹ The IWG member countries are Australia, Azerbaijan, Bahrain, Botswana, Canada, Chile, China, Equatorial Guinea, Islamic Republic of Iran, Ireland, Korea, Kuwait, Libya, Mexico, New Zealand, Norway, Qatar, Russia, Singapore, Timor-Leste, Trinidad and Tobago, the United Arab Emirates, and the United States. Permanent observers of the IWG are Oman, Saudi Arabia, Vietnam, the OECD, and the World Bank.

⁴⁰ <http://www.ifswf.org/>

framework, objectives and macroeconomic linkages; the institutional framework and the governance structure; the investment policies and risk management framework. To a considerable extent, these principles help to define an operating framework that reflects appropriate governance and accountability, as well as the conduct of investment practices on prudent and sound grounds. Voluntarily endorsed, they have an impact on the behavior of its signatories and the overall perception that the global audience has of SWFs at large. The 24 Santiago Principles represent SWFs' awareness of their need to present themselves to the public opinion as profit-driven financial institutions pursuing goals that are far from being political or strategic and to increase the awareness of the benefits generated by SWFs both in favor of sponsor and recipient countries in order to create a friendly environment for their investments, avoiding the rise of protectionist sanctions. It is evident how the 24 Santiago Principles provide a concept of transparency in a broad sense compared to the indices previously illustrated. The need for a continuous development and increase of transparency is highlighted also by a survey on the adoption of the 24 Santiago Principles conducted by the IMF and the IFSWFs this year, that clearly states that the number of SWFs that have fully implemented the all 24 GAPP has increased since 2011 indicating that the trend of adoption of the Principles is estimated to increase in the nearly future. The 24 Santiago Principles represent, without any doubt, a further step to the assessment of sustainability more than transparency. Many behavioral aspects are taken into consideration even if some are still missing. Among these, GAPP n.10 and n.17 address the topic of Accountability while GAPP n.15 addresses the topic of Stakeholders as for the definition the study presented in Paragraph 1.3, GAPP n.21 addresses the topic of Shareholders. Among the limitations of the 24 Santiago Principles, is the fact that compliance is voluntary. Furthermore, they still do not evaluate the legitimacy and the redistribution of revenues or the promotion of sustainable investments, the endorsement of ethical principles or the presence of co-investment with other Sovereign Wealth Funds or other international financial institutions.

Table 15: The 24 Santiago Principles or Generally Accepted Principles and Practices – (GAPP)

<p>GAPP 1. Principle The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s). GAPP 1.1 Sub-principle: The legal framework for the SWF should ensure the legal soundness of the SWF and its transactions. GAPP 1.2 Sub-principle: The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and the other state bodies, should be publicly disclosed.</p> <p>GAPP 2. Principle The policy purpose of the SWF should be clearly defined and publicly disclosed.</p> <p>GAPP 3. Principle Where the SWF's activities have significant direct domestic macroeconomic implications; those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.</p> <p>GAPP 4. Principle There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the SWF's general approach to funding, withdrawal, and spending operations. GAPP 4.1 Sub principle the source of SWF funding should be publicly disclosed. GAPP 4.2 Sub principle the general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.</p> <p>GAPP 5. Principle The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as</p>

otherwise required, for inclusion where appropriate in macroeconomic data sets.

GAPP 6. Principle

The governance framework for the SWF should be sound and establish a clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF to pursue its objectives.

GAPP 7. Principle

The owner should set the objectives of the SWF, appoint the members of its governing body(ies) in accordance with clearly defined procedures, and exercise oversight over the SWF's operations.

GAPP 8. Principle

The governing body (ies) should act in the best interests of the SWF, and have a clear mandate and adequate authority and competency to carry out its functions.

GAPP 9. Principle

The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.

GAPP 10. Principle

The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.

GAPP 11. Principle

An annual report and accompanying financial statements on the SWF's operations and performance should be prepared in a timely fashion and in accordance with recognized international or national accounting standards in a consistent manner.

GAPP 12. Principle

The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.

GAPP 13. Principle

Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body (ies), management, and staff.

GAPP 14. Principle

Dealing with third parties for the purpose of the SWF's operational management should be based on economic and financial grounds, and follow clear rules and procedures.

GAPP 15. Principle

SWF operations and activities in host countries should be conducted in compliance with all applicable regulatory and disclosure requirements of the countries in which they operate.

GAPP 16. Principle

The governance framework and objectives, as well as the manner in which the SWF's management is operationally independent from the owner, should be publicly disclosed.

GAPP 17. Principle

Relevant financial information regarding the SWF should be publicly disclosed to demonstrate its economic and financial orientation, so as to contribute to stability in international financial markets and enhance trust in recipient countries.

GAPP 18. Principle

The SWF's investment policy should be clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the owner or the governing body(ies), and be based on sound portfolio management principles.

GAPP 18.1 Sub-principle: The investment policy should guide the SWF's financial risk exposures and the possible use of leverage.

GAPP 18.2 Sub-principle: The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored.

GAPP 18.3 Sub-principle: A description of the investment policy of the SWF should be publicly disclosed.

GAPP 19. Principle

The SWF's investment decisions should aim to maximize risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds.

GAPP 19.1 Sub-principle: If investment decisions are subject to other than economic and financial considerations; these should be clearly set out in the investment policy and be publicly disclosed.

GAPP 19.2 Sub-principle: The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.

GAPP 20. Principle

The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.

GAPP 21. Principle

SWFs view shareholder ownership rights as a fundamental element of their equity investments' value. If an SWF chooses to exercise its ownership rights, it should do so in a manner that is consistent with its investment policy and protects the financial value of its investments. The SWF should publicly disclose its general approach to voting securities of listed entities, including the key factors guiding its exercise of ownership rights.

GAPP 22. Principle

The SWF should have a framework that identifies, assesses, and manages the risks of its operations.

GAPP 22.1 Sub-principle: The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.

GAPP 22.2 Sub-principle: The general approach to the SWF's risk management framework should be publicly disclosed.

GAPP 23. Principle

The assets and investment performance (absolute and relative to benchmarks, if any) of the SWF should be measured and reported to the owner according to clearly defined principles or standards.

GAPP 24. Principle

A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.

Source: <http://www.iwg-swf.org/pubs/gapplist.htm>

3.8 Case Study: The National Development Fund of Iran

The evidence of an awareness and willingness among SWFs for the necessity of increasing transparency, with specific reference to those Sovereign Wealth Funds who aim to legitimate their position at the international level, has already been registered with an increased number of SWFs who have adopted the 24 Santiago Principles and have endorsed best practices with specific reference to annual audit and reports. Among the SWFs that have successfully increased their transparency in 2012, there is the National Development Fund of Iran (NDFI). The fund, in fact, in Q4 2012 registered very good results in the accomplishment of the Linaburg-Maduell Index's criteria, moving up twelve positions and reaching the 32nd position out of 47 in the Index's ranking and as well registering an improvement in the Truman-Dawson Scoreboard, moving from the 37th position to the 32nd.

Table 16: NDFI's Accomplishment of the Three SWFs Transparency Indices

	Linaburg-Maduell Index	Truman - Dawson Scoreboard	Kaufmann, Kraay and Mastruzzi
2013	Ranking: 32/47 (score: 5)	Ranking: 32/49 (score: 41)	
2012	Ranking: 44/47 (score: 1)	Ranking: 37/49 (score: 29)	Ranking: 53/58 (score: 28)

Source: Elaboration data by the Author. (January 2014)

NDFI's new approach versus transparency and the related achievements has been also directly highlighted by the NDFI foreign Investment deputy, Dr. Mohammad Mazraati, who stated: "Following some changes in the management and structure of NDFI, a new approach was taken to appropriately introduce NDFI's goals, structure, and performance and target markets to the international community. During the last few months, NDFI scored 5 out of 10 points in the "Linaburg-Maduell transparency Index Ratings", and now it stands among the 6th group of countries"⁴¹.

Table 17: NDFI's Progresses in the Linaburg-Maduell Index

1	Fund provides history including reason for creation, origins of wealth, and government ownership structure;	X
2	Fund provides up-to-date independently audited annual reports;	
3	Fund provides ownership percentage of company holdings and geographic locations of holdings;	
4	Fund provides total portfolio market value, returns, and management compensation;	
5	Fund provides guidelines with reference to ethical standards, investment policies, and enforcer of guidelines	X
6	Fund provides clear strategies and objectives;	X
7	If applicable, the fund clearly identifies subsidiaries and contact information;	
8	If applicable, the fund identifies external managers;	
9	Fund manages its own website	X
10	Fund provides main office location address and contact information such as telephone and fax	X

Source: Best estimation according to the Author (2014)

This important new trend towards a higher level of transparency, considered as fundamental instrument for long-term achievements and success within the international Arena, has been made even much more evident, thanks to the improvement in the accomplishment also of the Truman-Dawson Scoreboard as hereafter briefly presented.

⁴¹ NDFI 1st International Conference, Kish Island, 2013.

Table 18: NDFI's progresses in the Truman Scoreboard

Truman- Dawson Scoreboard Improved Criteria⁴²		from	to	
n°3	Is the procedure for changing the structure of the SWF clear?	0,5	1	
n°4	Is the overall investment strategy clearly stated?	0	0,5	
n°12	Are decisions on specific investments made by the managers?	0	0,5	
n°16	Do regular reports on investments by the SWF include information on the categories of investments?	0	1	
n°22	Do regular reports on the investments by the SWF include information on the geographic location of investments?	0	1	
n°26	Does the SWF provide quarterly reports?	0	0,5	
Country	Fund	2012 score	Change in percentage points	
Iran	National Development Fund	41	2009–12	2007–09
			12	7
				19

Source: Bagnall A. E., Truman E. M., "Progress on Sovereign Wealth Fund Transparency and Accountability: An Updated SWF Scoreboard", August 2013-revised December 2013

The willingness of the Fund that has already endorsed the 24 Santiago Principles and has an active role within the International Forum of SWFs is clearly highlighted by the words of the foreign investment deputy, Dr. Mazraati who stated: "the main objectives of the NDFI are in line with the macro and national policies of the government at large and this is evidence of the tendency to expand international operations and upon resolution or relaxation of sanction disputes, the Fund will eagerly attempt to take its role as a major international player first in the region and consequently globally⁴³". The promotion of better policies related to the management of natural resources revenues coupled with the endorsement of best practices is, without any doubts, one of the additional most important goal of the Fund.

THE NATIONAL DEVELOPMENT FUND OF IRAN

The National Development Fund of Iran is a commodity Stabilization and Saving Sovereign Wealth Fund. Among its main priorities there are the necessity of turning some of the country's petrodollars into durable wealth for future generations and to support the national economic development including stabilization and enhancement of the private sector⁴⁴. Among its goals there is the promotion of a regional sustainable and balanced development through the distribution of NDFI resources and the achievement of the goals of the 2025 "Vision Plan and the country's Comprehensive Plan for Scientific Development". A plan created in order to pursue an agenda of economic growth and technological advancement in order to increase the system's legitimacy among the Iranian society through improved economic conditions and higher efficiency. Additional goals are the consolidation of Iran's regional and international position by projecting a greater significance both as an engine of regional economic stability, and the assurance of a special attention to investment opportunities in deprived areas while incorporating short-term and long-time planning.

The scope of presenting this case study is to highlight the importance given to transparency and as well the necessity to utilize all the three indices in order to have a complete overview of the SWF. In fact if much progress

⁴² 1 point is equivalent to 3, 05 (100/33).

⁴³ <http://en.ndfi.ir/news/news/tabid/243/articleType/ArticleView/articleId/479/Meeting-with-IMF-delegates.aspx>

⁴⁴ <http://www.ndfi.ir/>

has, in fact, already been done in regard of the improvement of Transparency, and advancements have been registered in the Linaburg-Maduell Index and the Truman-Dawson Scoreboard, there is still some room for improvement to satisfy the Kaufmann, Kraay and Mastruzzi Index. As in the table below, indeed, the improvement in the accomplishment of the Truman Scoreboard has been registered thanks to the progress in satisfying the criteria n. 3, n.4, n.12, n.16, n.22 and n.26 of the Scoreboard. These six criteria are mainly related to the report and disclosure activities and there is a consistency in enhancing the overall level of transparency in accordance to international standards also due to the possibility of a release of the sanctions expected to happen soon. According to Dr. Mohammad Mazraati:“Having implemented the procedures for making the data and information transparent and disclosing reliable figures and statistics of investments made in various sectors, NDFI has adopted viable strategies to properly introduce and disseminate information on the projects as well as the resources allocated to them. NDFI has also made good interactions with international institutions and entities in the course of last few months. All these measures contributed to improve the status of NDFI and based on the plans made and interactions with financial institutions, appropriate ground has been set to further improve and enhance the transparency rating of NDFI in the next reports of SWFI (Sovereign Wealth Fund Institute)⁴⁵”. However, the same improvement registered in the previous two indices hasn’t been recorded for the Kaufmann, Kraay and Mastruzzi Index according to which Iran rated a non-satisfactory score on all four components, leading to a composite score of 28 and a ranking 53rd out of 58 countries. As explained more into details hereafter, the categories that the Fund failed to properly accomplish are “Enabling Environment” (23), “Safeguards and Quality Controls” (26). “Reporting Practices” (33) and “Institutional and Legal Setting” (26).

Table 19: NDFI’s Accomplishment of the the Kaufmann, Kraay and Mastruzzi Index

Rank 2013	Country	Resource Measured	Composite Score	Institutional Legal Setting	Reporting Practices	Safeguards Quality Controls	Enabling Environment
53/58	Iran	Hydrocarbons	28	26	33	26	23

Source: *Revenuewatch*⁴⁶

Environment (Rank: 42nd/58, Score: 23/100 where a result above 70/100 is considered satisfactory)

This voice measures government accountability and democracy.

Safeguards & Quality Controls (Rank: 52nd/58, Score: 26/100)

This voice refers to audit and reporting.

Institutional & Legal Setting (Rank: 54th/58, Score: 26/100)

This voice refers to the legal framework with specific reference to the petroleum sector.

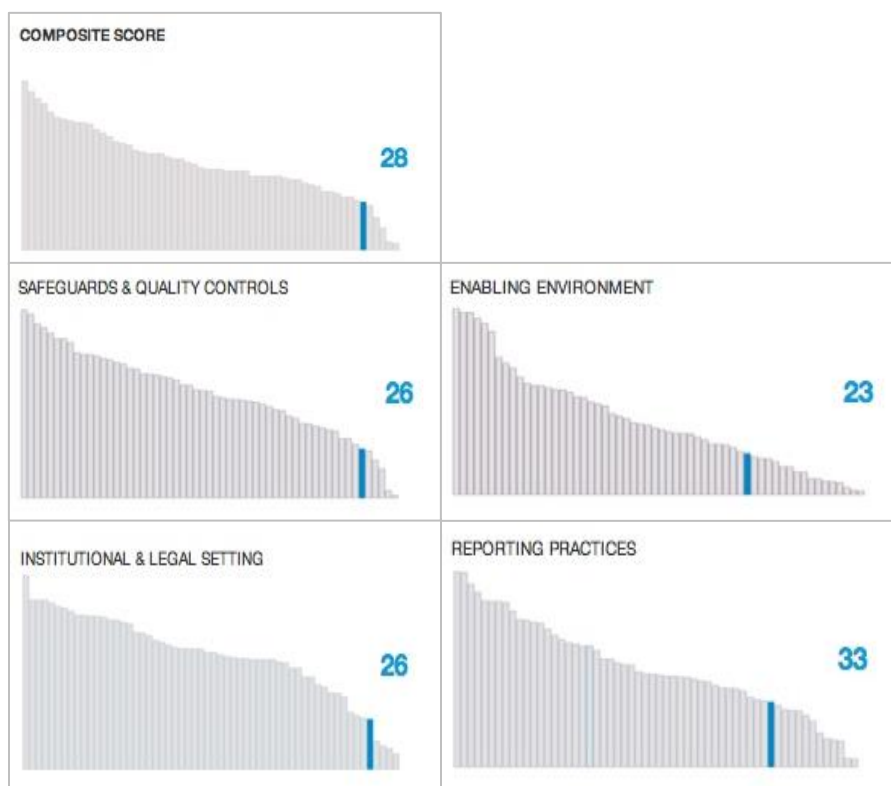
Reporting Practices (Rank: 56th/58, Score: 33/100)

This voice refers to reporting practices.

⁴⁵ <http://en.ndfi.ir/news/news/tabid/243/articleType/ArticleView/articleId/281/NDFI-Transparency-Rating-improved-by-29-steps.aspx>

⁴⁶ http://www.revenuewatch.org/sites/default/files/rgi_2013_Eng.pdf

Graph 16: NDFI's Kaufmann, Kraay and Mastruzzi Index



Source: *Revenuewatch*⁴⁷

This comparison clearly shows how important it is to benchmark together different results of different indices, as it has been done in the case study of Iran, in order to have a clear perception and a valuable assessment of the transparency of a SWF. This happens, with specific reference to the case of Iran because two of the Indexes focus mainly on the structure of the Fund while the Kaufmann, Kraay and Mastruzzi, focuses more on the governance of the country. Both aspects are important and one inevitably influences the other even if there are also cases in which the transparency of the Sovereign Wealth Fund and the governance of the sponsor country are not directly correlated.

3.9 From Transparency to Sustainability

Due to their rapid evolution, Sovereign Wealth Funds' new mandate is sustainability. Sovereign Wealth Funds are not considered anymore a threat but a possible opportunity to be properly managed. Transparency has already become an important element of the assessment of their overall performances and for their legitimation at the international level, but it is still not satisfactory. Nowadays, in fact, Sovereign Wealth Funds are called to perform multiple and additional roles and are often requested to match financial revenues with social returns and to extend their sphere of influence also in the field of sustainable development and inclusive growth. In this regard, it is not sufficient anymore to consider SWFs only in terms of financial and economic capacity, level of transparency or democracy of the sponsor country but it is necessary to ponder them in term of sustainability that represents their capacity to meet their objective(s) as per their mandate as well as the expectations and the rights of their shareholders and stakeholders. Furthermore, sustainability includes also some behavioral aspects of SWFs that are

⁴⁷ <http://www.revenuewatch.org/countries/middle-east-and-north-africa/iran/overview>

not considered in the assessment of transparency such as the promotion of sustainable investments and the adoption of ethical codes and guidelines. Looking down the road on the future of SWF's in the global economy, we will see the importance of the principle of sustainability. With specific reference to SWFs sponsored by emerging countries, one of the fundamental aspects to be assessed in terms of sustainability is the SWFs' capacity to fulfill their mandate in terms of support for domestic development. While the problem of measuring transparency has already been addressed through the creation of the 24 Santiago Principles and, most specifically, of three different indices presented in the previous paragraphs, the problem of defining and measuring sustainability hasn't been addressed at the international level and no tools have been created yet for its measurement. This study, indeed, aims to become a precursor of future studies and initiatives such as the development of a Sustainability Index for Sovereign Wealth Funds. The following paragraph, in fact, is dedicated to the identification and analysis of those behavioral aspects that should be assessed beside those evaluated by the three Transparency Indices and the 24 Santiago Principles in order to rate SWFs' transparency. Nowadays, indeed, in order to consider a Sovereign Wealth Fund as an opportunity, it is necessary to move from the measurement of its transparency to that of its sustainability through the analysis of additional elements. Despite the fact, indeed, that transparency is a critical part of sustainability and is based on the evaluation of the all aspects related to the Fund's structure and operations, it doesn't include a complete list of behavioral aspects such as, among others, the endorsement of ethical guidelines, policies and procedures for the risk management, that are fundamental in order to have an overall and complete understanding of a SWF. Following the natural evolution of SWFs and of their assets under management, that nowadays accounts more than \$6 trillion according to the Sovereign Wealth Fund Institute's estimation, it is evident how critical and urgent is the necessity to evaluate also additional behavioral and ethical aspects not previously considered in the assessment of transparency, in order to gain a more comprehensive understanding of the various funds and of their behaviors. In this sense, beside transparency, other elements such as the level of fulfillment of the scope of the Sovereign Wealth Fund and of the distribution of the generated revenues to shareholders and, indirectly, to stakeholders are becoming fundamental. As a consequence it is possible to define sustainability as the capacity of a sound and transparent Sovereign Wealth Fund to accomplish its mandate and to satisfy its shareholders and stakeholders' expectations and rights that are different according to the different objectives that each Sovereign Wealth Fund has expressed in its mandate. Transparency and independency, indeed, are not anymore satisfactory elements to provide an overall adequate overview of the Fund but many other elements such as behavior, adoption of ethical principles, quality of the management, level of satisfaction of the shareholders and stakeholders should be taken into consideration. Nowadays, indeed, there is an increased focus on responsible investments and best practices regarding governance and sustainable investments. Goals such as reduction of poverty, management of climate change, and promotion of schooling, among others, are assuming an increasing importance within Sovereign Wealth Funds' strategies and objectives. The increase of awareness among Sovereign Wealth Funds of the importance of aspects other than those related to financial returns such as transparency and sustainability coupled with the capacity of fostering the adoption of best practices in the field of governance and the promotion of social investments, perfectly matches with the general trend of long term investors to increase sustainable investments in the allocation of their portfolio of investments. Among the many advantages offered by sustainable investments, indeed, there is also the fact that investing in activities that foster inclusive growth, social development and respect for the environment, and excluding activities perceived as socially harmful, can turn to be even more rewarding in consideration of possible policy changes and the implementation of future regulations. As in the case of Sovereign Wealth Funds, in fact, many other long term investors such as banks, mutual funds, pension's funds and others, also wish and start to incorporate these principles into their strategies. These kinds of financial vehicles, indeed, with their long-term orientation, their low redemption risk and their no explicit liabilities are the perfect investors to take advantage of investment opportunities that are not always accessible to other investors such as sustainable investments. The reason of this, it is not only the dimension of their asset under management that allows them to seek for lower returns and longer horizons of investment, but the capacity, and sometimes the necessity, of combining financial goals with social achievements. These are only some of the reasons why, it is now evident, that Sovereign Wealth Fund need to be properly managed in order to become an opportunity both for the sponsor and the recipient

countries and the measure of it is their sustainability that includes transparency and other behavioral aspects presented in the next Chapter.

4 How to assess SWFs Sustainability?

A fundamental difficulty faced by previous studies in their attempt to assess performance of SWFs and their validity as tool for fostering sustainable development is that they cannot identify the objectives set by the sponsor countries for their SWFs or clearly compare the performances of the Funds against the mandates they received from the sponsors. As a direct consequence, many studies have been encouraged to find and to foster those criteria able to strengthen SWFs' good governance and to make SWFs a better tool for the promotion of domestic development and the international economic and financial stability. Nowadays, in order to gain a satisfactory understanding of SWFs is not sufficient anymore to assess exclusively their transparency but the analysis should move from transparency to sustainability. If transparency, indeed, is itself a fundamental constituent of sustainability, however it doesn't include important additional behavioural aspects considered, instead, in the sustainability assessment such as the endorsement of ethical guidelines and code, the kind of companies Sovereign Wealth Funds invest in or divest from, and others elements hereafter presented. This Chapter focuses on those aspects to be measured in order to assess SWFs' sustainability not only in terms of transparency but also in terms of capacity of accomplishment of the mandate and level of the endorsement of ethical guidelines and code. Transparency is indeed an important and indispensable constituent of sustainability, but it is also important to consider other significant elements in order to assess the overall level of sustainability of a SWF through a qualitative analysis. Among the various elements to be assessed in order to evaluate the overall value of sustainability of a SWF and consequently the level of trust accorded or accordable by recipient countries and the public opinion, there are the following ones: **(i) governance**, **(ii) allocation of portfolio**, **(iii) endorsement of ethical principles** including restrictions on the type of companies where to invest (target companies), **(iv) investments** made with the specific purpose of **fostering social development more than financial return**, **(v) involvement in global initiatives fostering SWFs' good governance**, risk management and transparency such as the 24 Santiago Principles and the International Forum of Sovereign Wealth Funds. Here after are analyzed more into details some of those criteria to be considered for a more complete overview of Sovereign Wealth Funds and for the assessment of their level of sustainability. Among these criteria there are:

(i) Governance

The Governance of the SWFs could be assessed through the evaluation of different elements such as the following ones.

- **Government ownership structure:** The governance's structure must ensure a clear division of roles and responsibilities between the various governing bodies and should be commensurate with the risks and the complexities of the investment strategy. The clarity of the mandate and the formal division of authority and responsibility are essential in driving performance over the long term.
- **Independency of the board:** The board should be independent from political decision makers;
- **Accountability:** Accountability, regards the degree to which the SWF and its governing bodies are responsible for their decision, according to Tsani, Ahmadov and Aslanli⁴⁸. The Fund should be accountable both internally, when it refers to the responsibility of the SWF versus the citizens (shareholders) and externally when it refers to the external beneficiaries of the investments such as the recipient countries (stakeholders). The Fund should clearly identify its objectives and the shareholders and stakeholders' rights and expectations, in order to measure their accomplishment.
- **Legitimacy:** Legitimacy should be based on the transparent and fair disbursement of profits to citizens and the proper management of the assets in their behalf.

⁴⁸ S. Tsani, I. Ahmadov, K. Aslanli: "Governance, transparency and accountability in Sovereign Wealth Funds: Remarks on the assessment, rankings and benchmarks to date", Public Finance Monitoring Center, March 2010.

- **Clear policy purpose:** The policies and the rules for SWF's funding, withdrawal, and spending operations should be clear and consistent with the purpose(s) of the fund.
- **Sound legal framework:** The legal framework of the SWF must clearly establish the form and the regulation of the SWF in order to protect the fund from possible abuse and misuse by the political ruling party or the personal use of the assets by representative of the Government.
- **Annual Audit, Reporting:** Each governing body should establish a supervisory body and should provide annual audit and constant reports. The presence of this element constitutes the pillar of the Accountability and Legitimacy of the Fund both at the domestic and international level.
- **Objectives:** The investment objectives need to be consistent with the government's broad macro fiscal purposes such as fiscal policy, monetary policy and exchange rate. SWFs mandate should address (i) the business cycle risk of the sponsor country through the integration of the SWF asset-liability management and their sponsor government's macroeconomic policies, (ii) the external risk with respect to export revenues and commodity prices, (iii) the global risk of emerging economies, global imbalances, currency and sovereign debt crises. Among the various objectives that differentiate the many Sovereign Wealth Funds there is a common one that is the satisfaction of the Fund's shareholders and stakeholders and the support of the national wealth and economy that should be always satisfied.
- **Use of the best-practice portfolio management:** Any action of the Fund should be performed in compliance with the necessity of never prejudicing the sponsor country's reputation.
- **Professional Ethic:** A strong professional ethic should be considered as a fundamental element of the governance's structure and should strengthen an independent board structure and a disclosure policy.
- Others.

(ii) **Allocation of Portfolio**

- **The level of tolerance of risk** in the strategic allocation of the portfolio should be defined by the owner and managed and monitored by an independent risk management department within the SWF. This department should have a direct reporting line to the governing body of the SWF in order to calibrate or recalibrate the level of risk according to necessity. As for Shari Spiegel⁴⁹, SWFs manager should be given broad discretion in the fund's investments and they should be compensated based on the long-term performance of the fund⁵⁰.
- **Tolerance of risk in the strategic allocation in terms of assets, time horizon, currency and geographical area of investments:** The SWF's investment policy needs to set an explicit risk tolerance level when designing the investment strategy in order to ensure consistent risk-bearing capacity over time and promote greater accountability for the chosen investment strategy, avoiding protracted debates on the fund's risk bearing capacity each time a change in strategy is being contemplated⁵¹ and a pro cyclical tendency in the fund's asset allocation. In this sense the chosen risk tolerance should also be properly explained to and clearly understood by shareholders and, eventually, also by stakeholders. Risk tolerance

⁴⁹ Shari Spiegel is the Chief of the Policy Analysis & Development Branch, Financing for Development Office, of the United Nations Department of Economic and Social Affairs.

⁵⁰ Spiegel S.'s contribution to the conference: "Sovereign Wealth Funds and Other Long Term Investors: A New Form of Capitalism?", Paris, 2011

⁵¹ Al-Hassan A., Papaioannou M., Skancke M. Sung Chin C.: "Sovereign Wealth Funds: Aspect s of Governance Structures and Investment Management". IMF Working Paper WP/13/231 2013.

should be translated into quantifiable risk measures⁵² that consider, among others, shortfall, return in excess of domestic inflation rate or short term negative return. A specific possible risk for resources-rich, emerging countries, that often present weak institutions coupled with high level of corruption, is the possibility that domestic investment, with specific reference to those in the field of infrastructure, could be used to bypass parliamentary scrutiny of spending, resulting in inefficient and fragmented public investment programs. Adding SWFs to the list of entities authorized to invest domestically could compound the risks of wasteful expenditure, budget fragmentation, political capture, and lack of coordination with fiscal policy, especially in low-capacity and low-governance environments. For these reasons it is preferable not to have a fixed allocation of the portfolio for domestic investment but a variable one to be finalized according to market's conditions.

- **The Strategic Assets Allocation (SAA):** The Strategic Assets Allocation of the Fund should be consistent with the SWF's objectives and the owner's risk tolerance. The allowed degree of diversion from the SAA should be established. A rebalancing policy should be stated as well. The SAA should combine assets and liabilities, making explicit any implicit liabilities that follow from its objectives, as despite the fact that SWFs generally have a much lower redemption risk than any other funds, they still have implicit liabilities. In this regards, the investment policy for the fund needs to take into account the country ability to bear risk as well as the objective(s) of the Fund. Funds with strong intergenerational savings orientation tend to have a higher tolerance for risk. In the allocation of portfolio (i) risk should be diversified in order to limit concentration of exposures and reduce overreliance on individual systems; (ii) the use of derivatives should be limited and highly monitored and reported. The SWF should be managed to provide liquidity when the country needs it in a way countercyclical to the macroeconomic risks confronting it. An oil producing country should preferably invest in assets whose returns are negatively correlated with the price of oil. A long term investment perspective and countercyclical spending are questionable for a stabilization fund as assessed by Eric Parrado⁵³, as these funds have a much simpler mandate: to accumulate reserves and hold them in cash or short-term liquid assets in good times and draw down the reserves in bad times. In fact, it is not the nationality of capital that is important; it is the view of investor.
- **Currency Risk:** The portfolio of investments should comprise a basket of currencies that best approximates the procurements that fund assets are expected to finance in the future. Diversification of currencies can reduce the risk of depending on a single currency.
- **Co-Investment with other SWFs and International Financial Institutions.** Co-investing with other SWFs or International Financial Institutions such as Africa Development Bank, European Development and Reconstruction Banks, International Financial Corporation and others, can be beneficial in order to reduce the risk of the investments with specific reference to those Countries which present a high level of political and economic risk. According to Bachher and Monk⁵⁴ co-investment presents a number of benefits such as higher returns, reduction in cost and risk, increase and diversification of the deal flow. In addition, in terms of governance, co-investing allows investors to bypass traditional intermediaries and to maintain some additional control over investments. Co-investing not only can reduce risks and maximize profits but can also lead to a major cooperation between long-term investors able to lobby and influences the regulatory framework in order to enhance the creation of a more friendly environment for long-term investors.

⁵² i.e. "the prospective losses from the fund shall not exceed x per cent over a period y years".

⁵³ Parrado E.'s contribution to the conference: "Sovereign Wealth Funds and Other Long Term Investors: A New Form of Capitalism?", Paris, 2011

⁵⁴ Bachher, Jagdeep Singh and Monk, A. H. B., Platforms and Vehicles for Institutional Co-Investing (November 12, 2012). Available at SSRN: <http://ssrn.com/abstract=2174696> or <http://dx.doi.org/10.2139/ssrn.2174696>

- **Driving Criteria:** Investment should be generally driven by a long term horizon and should be not driven by aggressive political goals or any other criteria not directly related to the accomplishment of the Fund's objectives as for the given mandate.
- (iii) **Endorsement of ethical principles including restrictions on the type of companies where to invest (target companies):** Some SWFs have implemented specific ethical guidelines stating which companies they can invest in and which they cannot. Some funds, in fact, exclude companies that don't meet specific ethical guidelines, other even divest when severe breaches of their responsible investment standards occur. Monitoring the quality of governance of the companies the SWF invest in, is without any doubts a costly process but is also a form of public good provided to all other shareholders.
- (iv) **Redistribution of Revenues:** Every Fund should adopt the model of redistribution of revenues that better suit its characteristics and needs in order to benefit all the shareholders in an equal way. The various models of redistribution of revenues are presented in Chapter n.5. Looking at the future it could be important to ponder how SWFs could create new opportunities for growth and stability, promoting the common good.
- (v) **Sustainable Investments:** Nowadays Sovereign Wealth Funds are called to perform different roles and beside their financial activity they perform also a role in promoting sustainable development and sustainable investments in different fields as extensively illustrated in Chapter n.6.

4.1 Ethical Principles and Guidelines

As just illustrated in the previous paragraph, the endorsement of ethical guidelines and code is one of the fundamental new aspects and elements to be evaluated in the assessment of SWFs' performances. Nowadays, if many SWFs have endorsed or are on their way to endorse the 24 Santiago Principles, however only few have created and endorsed their own ethical guidelines, as in the cases hereafter presented of the Norway Government Pension Fund-Global and the New Zealand Superannuation Fund. Also few ones have endorsed the United Nations Six Principles for Sustainable Investment, presented in Paragraph 4.2., namely three, the Norway Government Pension Fund-Global, the New Zealand Superannuation Fund and the France Strategic investment Fund (FSI). In the case of Norway's Government Pension Global, in 2004, the Fund establishes an independent Council of Ethics and ethical guidelines⁵⁵ that regulate the investment or possible divestment from companies already present in the sovereign fund's extensive portfolio or that could become part of it in the nearest future. Some of these measures are targeted towards broad, markets, and some towards single companies. These ethical guidelines comprise also criteria of exclusion from investment of those companies involved in the violations of the children's and of the human rights or that are acting without respecting the climate change and the water management good policies or more generally who caused or are causing a severe environmental damage. There is also a preclusion in investing in those companies who manufacture or simply sale weapons or produce tobacco. Recently the Fund has divested from twenty-three palm oil producers companies in Indonesia, Malaysia and Singapore, who were linked to tropical deforestation⁵⁶ and, as well as from oil companies with operations in Equatorial Guinea, who failed in alleviating the abject poverty and are accused of using the massive oil revenues garnered only to serve the "wealthy elite", without helping those in the lower income brackets⁵⁷. Among the companies excluded from the SWF's investment universe by the ethics council there are Lockheed Martin Corporation, Northrop Grumman Corporation, Wal-Mart Stores and Boeing Co., Rio Tinto Plc and Potash Corporation of Saskatchewan. If product-based exclusions are easier to be assessed, the conduct-based ones, on

⁵⁵ http://www.regjeringen.no/en/sub/Styrer-rad-utvalg/ethics_council/Ethical-Guidelines.html?id=425277

⁵⁶ <http://news.mongabay.com/2013/0311-norway-divestment.html#MmsvTGGxJPTjRFwQ.99>

⁵⁷ <http://www.swfinstitute.org/swf-article/chair-mestad-cautions-on-insincere-esg-compliance-56631/>

the contrary, are much more difficult and could represent a matter of discriminatory assessment. Furthermore, it is even more difficult to assess the case in which a company is not directly involved in the unethical conduct but contribute to it. Exclusion could be considered an important tool for SWF as it could enable them to influence companies and public opinion and to promote best practices at the global level moving from a national political agenda. Due to fact, indeed that a company's exclusion or a SWF's divestment is publicly disclose, this could prompt of the excluded company to change its behavior in order to attract investors and to gain the favor of the public opinion. In case of doubts regarding the present and future conduct of a certain company, the Council of Ethics may place the company under a period of formal observation. Active ownership is another essential tool that a SWF can use in order to promote a better behavior of its portfolio's companies in the fields of corporate governance, respect for human rights and for the environment. A further important element that the Norway's Government Pension Global takes into serious consideration, as recently reported by Mr. Ola Mestad, the Chair of the Council on Ethics, is the level of efficacy in the accomplishment of the ethical guidelines by the companies the Fund invests in,. It happens very often, indeed, that these companies are not "effectively" following the ethical code or guidelines⁵⁸expressed in their Statutes. This is an interesting point that could be considered as a best practice to be endorsed by other SWFs. Furthermore, the adoption of these ethical guidelines enable the Norway Government Pension Fund Global who is required to invest its assets outside Norway, to give to its ethical investment policies, global effects to national values and commitments. The costs associated with the Norwegian governance model are more legitimated by the achievement of political goals and associated to political legitimacy than financial returns. Among the other SWFs that have implemented ethical criteria in the selection of the companies where to invest, there is also the New Zealand Superannuation Fund. In a way similar to the Norwegian SWF, the New Zealand Superannuation Fund⁵⁹ has endorsed ethical criteria of exclusion of companies that are directly involved in the manufacture of cluster munitions and anti-personnel mines, as well as in the manufacture or testing of nuclear explosive devices. They are also excluding from their portfolio of investment companies that practice the processing of whale meat. If nowadays only two Sovereign Wealth Funds have created and endorsed, on a voluntary basis, ethical guidelines and code, there are good reasons embedded in the dual fold soul of Sovereign Wealth Funds, private and institutional at the same time, that Sovereign Wealth Funds will be increansily looking at matching financial revenues with social goals and moved by a stronger need to be accountable also in terms of sustainability to their shareholders. The Fund began investing in 2003, and today accounts \$19.3 billion. In terms of sustainable investment criteria, the Fund believes that:

- In the allocation of the portfolio it is indispensable to have concerns for environmental, social, and governance (ESG) issues;
- Improving ESG performance leads companies to improve their long-term financial performance;
- The Responsible investment (RI) work is integrated into all the New Zealand Superannuation Fund's investment activities;
- Understanding environmental, social and governance issues are an important part of risk assessment and due diligence on prospective individual investments⁶⁰.

The New Zealand Superannuation Fund's responsible investment work program is closely aligned with the United Nations' Principles for Responsible Investment (UNPRI)⁶¹. Furthermore, in order to satisfy the above mentioned criteria the Fund endorses the following practices:

⁵⁸ <http://www.swfinstitute.org/swf-article/chair-mestad-cautions-on-insincere-esg-compliance-56631/>

⁵⁹ The New Zealand Superannuation Fund's purpose is to partially pre-fund the future cost of the New Zealand Superannuation pension, which is expected to increase as a result of New Zealand's ageing population. The Fund currently provides universal superannuation for people over 65 years of age.

⁶⁰ http://www.nzsuperfund.co.nz/files/Annual%20Reports/NZ_Super_Fund_-2011_12_Annual_Report_-website.pdf

- Effective engagement with the external investment managers and manager selection advisers of the companies it invests in;
- Being an active owner of the securities it invests in by exercising voting rights;
- Research of investments which provide positive social returns in addition to the required financial return;
- Engagement in a robust analytical and decision making process in responding to investee companies breaching the Fund’s RI standards;
- Benchmark of the performance against the desired RI standards.

Furthermore, the Fund also participates and promotes the following sustainable investments or sustainable practices:

- The development of a low-carbon business park in Scotland⁶² where the Fund is an investor, through the Mountgrange Real Estate Opportunity Fund;
- Kaingaroa Timberlands Forestry Estate, one of the oldest and largest softwood plantations in the world, managed in an environmentally sustainable manner by Rotorua-based Timberlands Ltd.⁶³
- “The Fund and Infratil have made a formal commitment to ensuring Z Energy has good environmental, social and governance practices. We require ongoing monitoring of responsible investment criteria by our manager Morrison & Co, and are given direct access to health, safety, security and environmental reports by the company”.

The adoption of criteria for the allocation of part of the SWFs’ social investment portfolio is an important part in the overall evaluation of SWF sustainability that is a process that still requires improvement and progresses.

4.2 The United Nations Six Principles for Responsible Investment (PRI)

Till today the 24 Santiago Principles have been considered as the best attempt to try to regulate SWFs at the international level through a process led by the International Monetary Funds. However, another important initiative, beside the 24 Santiago Principles and the ethical guidelines and codes adopted singularly by few Sovereign Wealth Funds, has been created and it is the United Nations Six Principles for Responsible Investment (PRI). These principles aim to incentive sustainable investments and the adoption of ethical codes. These Principles have been drafted in 2005 by the initiative of the United Nations Secretary-General and launched in April 2006 at the New York Stock Exchange. Currently, they have been endorsed by investors who manage, worldwide, the 17% of the global market capitalization for about \$34 trillion of assets under management and presented, in details, hereafter. These principles can be subscribed by Sovereign Wealth Funds, helping them to modify their structure and their portfolio allocation in order to gain more results in terms of ESG. Up to now, only three Sovereign Wealth Funds have endorsed these principles, namely the Norway Government Pension Fund-Global, the New Zealand Superannuation Fund and the France Strategic investment Fund (FSI), as presented in table hereafter.

⁶¹ The UNPRI is the internationally-accepted benchmark for how institutional investors should manage environmental, social and governance issues.

⁶² RIAA is the peak industry body for professionals working in responsible investment in Australia and New Zealand.

⁶³ <http://www.fsc.org>

Table 20: List of the SWFs Who Have Adopted the United Nations Principles Six Principles

Country	Sovereign Wealth Fund	Asset	Inception	Linaburg Maduell	Truman Scoreboard	KKM
France	France Strategic investment Fund (FSI)	25.5	2003	9	na	na
New Zealand	Superannuation Fund	19.3	2003	10	94	na
Norway	Government Pension Fund-Global Norway	818.0	1990	10	98	98

Source: Elaboration by the Author (January 2014)

The United Nations Six Principles for Responsible Investment, indeed, is a perfect framework for long-term and diversified investors such as SWFs wishing to address ESG issues. Rather than restricting investors, the Principles provide them with a toolbox to address the issues across asset classes. Joining the United Nations Six Principles for Responsible Investment would allow SWFs to participate in and learn from a global network of investors who collaborate in better understanding and addressing ESG risks and opportunities. It would also allow them to publicly demonstrate their commitment to these issues⁶⁴. These principles have been developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. Signing these Principles, investors commit themselves to adopt and implement the principles, to evaluate their effectiveness and to improve their content over time. Endorsing these Principles, investors aim to improve their ability to meet commitments to beneficiaries as well as better align investment activities with the broader interests of society. These interests include environmental, social, and corporate governance (ESG) issues that can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time).

SWFs, with their long-term orientation, their low redemption risk and their no explicit liabilities are the perfect investors to take advantage of investment opportunities that are not open to other investors such as sustainable investments and to adopt related criteria and principles. The reason for this, it is not only the dimension of their asset under management that allows them to seek lower returns and longer horizons of investment, but the capacity and need of combining financial goals with social achievements.

Nowadays only three Sovereign Wealth Funds have adopted the Principles, namely the Norway Government Pension Fund – Global, the New Zealand Superannuation Fund and the France Strategic Investment Fund (FSI) but the hope is that in the future many other Sovereign Wealth Funds will follow. Both the Norwegian and the New Zealand SWFs have also endorsed the 24 Santiago Principles and have developed their own internal ethical guidelines in order to regulate their investments fostering best practice in accordance with an increasing trend of adoption of ethical measure for a better management and governance of SWFs.

Table 21: The Six Nations Principles for Responsible Investment

<p>Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.</p> <p>Possible actions:</p> <ul style="list-style-type: none"> - Address ESG issues in investment policy statements - Support development of ESG-related tools, metrics, and analyses - Assess the capabilities of internal investment managers to incorporate ESG issues

⁶⁴ <http://www.swfinstitute.org/tag/unpri/>

- Assess the capabilities of external investment managers to incorporate ESG issues
- Ask investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis
- Encourage academic and other research on this theme
- Advocate ESG training for investment professionals

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

Possible actions:

- Develop and disclose an active ownership policy consistent with the Principles
- Exercise voting rights or monitor compliance with voting policy (if outsourced)
- Develop an engagement capability (either directly or through outsourcing)
- Participate in the development of policy, regulation, and standard setting (such as promoting and protecting shareholder rights)
- File shareholder resolutions consistent with long-term ESG considerations
- Engage with companies on ESG issues
- Participate in collaborative engagement initiatives
- Ask investment managers to undertake and report on ESG-related engagement

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Possible actions:

- Ask for standardized reporting on ESG issues (using tools such as the Global Reporting Initiative)
- Ask for ESG issues to be integrated within annual financial reports
- Ask for information from companies regarding adoption of/adherence to relevant norms, standards, codes of conduct or international initiatives (such as the UN Global Compact)
- Support shareholder initiatives and resolutions promoting ESG disclosure

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

Possible actions:

- Include Principles-related requirements in requests for proposals (RFPs)
- Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly (for example, ensure investment management processes reflect long-term time horizons when appropriate)
- Communicate ESG expectations to investment service providers
- relationships with service providers that fail to meet ESG expectations
- the development of tools for benchmarking ESG integration
- Support regulatory or policy developments that enable implementation of the Principles

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

Possible actions:

- Support/participate in networks and information platforms to share tools, pool resources, and make use of investor reporting as a source of learning
- Collectively address relevant emerging issues
- Develop or support appropriate collaborative initiatives

Principle 6: We will each report on our activities and progress towards implementing the Principles.

Possible actions:

- Disclose how ESG issues are integrated within investment practice

- Disclose active ownership activities (voting, engagement, and/or policy dialogue)
- Disclose what is required from service providers in relation to the Principles
- Communicate with beneficiaries about ESG issues and the Principles
- Report on progress and/or achievements relating to the Principles using a 'Comply or Explain' approach
- Seek to determine the impact of the Principles
- Make use of reporting to raise awareness among a broader group of stakeholders

Source: <http://www.iwg-swf.org/pubs/gapplist.htm>

5 Redistribution of Revenues

Redistribution of revenues is one of the criteria to be assessed in order to evaluate SWFs' sustainability as illustrated in the previous Chapter. There are, in fact, multiple models of redistribution of income and any of them presents different pros and cons. If it is not possible to say which is the best model among the direct redistribution one adopted by the Alaskan Permanent Fund and the non direct redistribution one adopted by the majority of SWFs, it is possible to suggest, according to the different conditions of the different countries not only one or the other but also a mix of the two models, with specific reference to the Africa Countries where the level of poverty is very high. In order to have a better understanding of the two model and of a possible joint use of both the study offers in the next two paragraphs a detailed description of the models and of their pros and cons.

5.1 Redistribution of Revenues and the Alaskan Permanent Fund Model

The question has often been raised is: are SWFs necessary? And if so, how can they best serve their citizens? If it is easy to find evidence of the necessity of having a SWF in order to support the domestic economy and of its beneficial effects in terms of stabilization, diversification and transfer of wealth to future generations, it is much more difficult to assess and to prove the SWF's capacity to meet its shareholder and stakeholders rights and expectations. SWFs are, indeed, considered as the optimal solution for preserving and diversifying national economies, especially in the case of Sponsor countries depending on natural resources and their volatile revenues. Furthermore, they are also considered a perfect tool for transforming nonrenewable revenues into stable and permanent income⁶⁵ assuring the intergeneration transfer of wealth. It is much more difficult, instead, to assess the validity and the fairness of their system of redistribution of revenues and to evaluate the best form and structure that should be adopted by a SWF in order to perfectly match its objectives.

A SWF that is well-managed and fully transparent about its money management as it serves the public good is clearly the best practice ever. But how often do they achieve this ideal? There are many times, in fact, in which SWFs are able to satisfy only a small part of the population and that are used more as a political tool than a development instrument fostering domestic sustainable investments. This is the case of some SWFs that have been used for supporting the political party in power of a country or on a personal account. This is even more evident if we think that some of the Countries touched by the Arab Spring were and are still holding SWFs that evidently were not supporting an equal redistribution of incomes among the citizens, generating discontent among the population. In the analysis of SWFs' redistribution of revenues models, we find that SWFs normally do not distribute directly their revenues to the citizens but they set goals able to benefit in an equal way the entire population and they use the resource in order to perfectly achieve the set goals as per their mandate. This behavior is shared among all the SWFs around the world, exception made for the Alaska Permanent Fund (APF) that directly redistributes profits to national citizens paying cash. The Alaskan Permanent Fund, indeed, has been paying annual dividends to Alaskans since 1982, with no conditions except citizenship, residency, and the willingness to fill out a form. Last year every citizen of Alaska received a check for \$878.00. The amount varies every year, but more often it is between \$1,000 and \$2,000. According to Dr. Widerquist, associate professor at Georgetown University, a similarly designed distribution system could and should be applied also to Qatar, by Qatar Investment Authority (QIA). This system would produce dividends of about \$7,500 to \$15,000 per citizen per year, a figure expected to increase thanks to the intensification of gas exports. This model presents both benefits and cons, especially when applied to big and populous countries; that is why there is an ongoing discussion regarding the effectiveness of the direct redistribution of revenues applied by the Alaskan Permanent Fund and its validity compared to the model of redistribution utilized by the other SWFs.

⁶⁵ <http://www.regjeringen.no/nb/dokumentarkiv/stoltenberg-ii/fin/taler-og-artikler/2013/opening-speech-at-the-responsible-invest.html?id=731193>

5.2 Pros and Cons related to the Alaskan Permanent Fund redistribution model

The main expected pros of the adoption of the Alaskan Permanent Fund model are the high level of transparency in the use of SWF resources and the capacity of accomplishment of the specific needs of each individual citizen⁶⁶. Furthermore, among the political benefits⁶⁷ provided by the direct redistribution model, is the fact that it reinforces the social contract between the state and its citizens⁶⁸. Even as that social contract includes the usual expectations of taxation and the provision of public services, the Government remains accountable and responsive to their needs. Being directly involved in the cash transfers from the natural resource revenues, prompts citizens to better monitor the management and the distribution of revenues with the effects of an increase in transparency and a decrease in corruption. A direct redistribution of incomes could also prompt to a quicker alleviation of the highest level of poverty of households and, as well, can lead to a better redistribution of revenues as it effects directly the entire population including marginal groups or those who are living in underserved area. This “oil for cash” model has been already endorsed by many international financial institutions and aid entity as it has been proved to be very effective in those countries where the gap of poverty among different classes of citizens is wide. (I.e. Sub-Saharan Africa Region. However, according to different sources⁶⁹, the implementation of such a redistribution scheme could also face many cons, such as the anti-consumption, the diluted returns, the savings and the technical concerns objection plus a possible wrong timing due to the recent global financial crisis and some institutional skepticism. In addition, one of the major risks of the adoption of this model is the increase in the domestic inflation that, on the contrary, should be reduced by the creation of a SWF. Furthermore, a direct distribution of revenues can also disincentive people from work, enabling less productive members of households to remain home in a sort of morale hazard attitude.

Table 22: Pros and Cons of the Alaskan Permanent Fund Direct Redistribution Model

ALASKAN PERMANENT FUND DIRECT REDISTRIBUTION MODEL	
PROS	CONS
High Level of Transparency in the use of the SWF’s resources that enhance accountability and leads to a decrease in corruption.	Anti-consumption objection: direct redistribution of revenues can lead to a more consumerist approach rather than a conservative one.
Accomplishment of the specific needs of each individual citizen.	Diluted returns objection: direct redistribution of revenues could reduce long term revenues.
Political benefits in terms of validity of the social contract based on taxes and Government’s accountability.	Savings objection: direct redistribution of revenues can reduce the overall amount of savings.
Better ability of targeting the lowest income citizens and targeting directly the entire population, even the marginalized one.	Technical concerns objection: direct redistribution of revenues could face many difficulties in vast and highly populated countries.

⁶⁶ <http://qatar.sfs.georgetown.edu/368162.html>

⁶⁷ http://www.cgdev.org/sites/default/files/1424714_file_Oil2Cash_primer_FINAL.pdf

⁶⁸ Brautigam D., Fjeldstad O., Moore M., “Taxation and State Building in Developing Countries”, Cambridge, 2008
<http://www.cmi.no/publications/file/2598-taxation-and-state-building-in-developing.pdf>

⁶⁹ www.usbig.net/papers/Cummine--revised--28March2011.doc

	<p>Wrong timing due to the recent global financial crisis: direct redistribution of revenues should happen only under certain economic circumstances and the recent time of recovery from the financial crisis would rather prompt to a more conservative approach.</p>
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Source: Elaboration by the Author. (January 2014)

More into details:

(i) **Anti-consumption objection:** the overall purpose of the Fund is generally intended to preserve wealth for the future, for time of crisis and, as well, for the intergeneration transfer. This model could prompt citizens to endorse a more consumerist approach rather than a conservative long term vision one. **Objection to the Objection:** Even if this could happen, however, there is no evidence that a direct redistribution of revenues will prompt citizens to spend more than to invest. This kind of model simply transfers the decision of investment versus consumption to individuals. Both positions can be validated or not according to the different conditions the fund operates in. In case of countries with a very high level of poverty more the a consumption approach, the direct redistribution could lead to the alleviation of poverty but as well to a reduction of productivity of those who are not in such extreme conditions.

(ii) **Diluted returns objection:** the overall purpose of the Fund is to reinvest the revenues with a long term horizon in order to assure, on the long term, the maximization of the incomes. Sharing the revenues in a sort of form of dividends could reduce the opportunity of long term, low risk revenues. **Objection to the Objection:** there is no evidence that SWFs could always be able to guarantee a better management of revenues than single citizens. With specific reference to possible losses, a SWF’s wrong investment could have worse consequences than for a single citizen. In order to validate one position or the other, many elements should be taken into consideration, from the capacity of the SWFs to manage resources to the single necessity of each private citizen to directly invest and others.

(iii) **Savings objection;** as for the anti-consumption objection, the saving objection prompt more for fostering a saving behavior attitude of the Funds more than a redistributive one. **Objection to the Objection:** There are evidences that the direct redistribution of revenues doesn’t prevent the SWFs to save revenues. The Alaska Permanent Fund, indeed, since its inception (1976) has saved \$18.3billion that represents the 49.3% of the AUM despite the fact that has distributed \$18.8 billion that represents the 50.7% of the total of the AUM. Furthermore, the direct redistribution of revenues hasn’t prevented the Alaskan Permanent Fund to Grow from the \$73,400 in 1977 to the \$37.1 billion in 2010. Also in this case, in order to support one position or the other it is absolutely necessary to consider the specific conditions in which the Fund operates.

(iv) **Technical concerns objection:** this kind of model is applicable only in small State with a minor population as in the case of Alaska that has a population of less than 1 million (732.000 inhabitants) and the direct redistribution model can easily take place. But if we take into consideration very populous and vast countries such as China and Russia this kind of model can easily face technical problem in its application in terms of delay and complexity of the process. Furthermore this kind of model requires a high level of coordination between the Fund policy and strategy and the overall macro-economic plan of the Country that not always is easy to be achieved. There is also a concern that this kind of model could negatively affect the capacity of the SWFs to prevent the Dutch disease and the currency inflation. **Objection to the objection:** the direct distribution of dividends is not supposed to happen always but only in certain circumstances. It should be regulated in order to be beneficial and should not occur in time of deficit. It is interesting also to consider the opportunity to use both model (the direct and not direct redistribution of revenues ones) in those countries with an high level poverty in order to alleviate poverty

without risking to implicate all the others cons above mentioned. This solution, even if hasn't still been adopted, could be proved to be beneficial and effective under certain and predetermined circumstances.

(v) **Wrong timing due to the recent global financial crisis:** As it has been tackled in the previous Chapters, some of the SWFs have been conceived as a land of last resort in case of unexpected financial crises and as a possible valid alternative to IMF and international financial institutions and donors funding in time of needs. This is why this kind of approach more consumerist and less conservative can easily meet objections due to the current global financial situation and recent economic history. **Objection to the objection:** see the previous one, related to the regulation of the distribution according to the different circumstances.

(vi) **Institutional skepticism** regarding desirability of dividends. A general anti-dividend posture has been collected among SWF and Government Representatives. **Objection to the Objection:** the dividend skepticism among SWFs and the many related concerns reflect subjective preferences on fiscal policy rather than knock down arguments against dividends. Since dividend programs can be made compatible with primary goals of SWFs, Sovereign Wealth offers a viable funding source for basic income⁷⁰.

The optimal SWF revenue redistribution model has been very often discussed at both philosophical and technical level in order to define the most just and effective one, but the question still remains unresolved as it is very difficult to take a position in regard of which could be considered the best model of redistribution of revenues both in financial and ethical terms as there are many pros and cons for both models. However, it would be very interesting to evaluate the opportunity of a mixed use of both with specific reference with emerging countries which present a very high level of poverty and that aim to reduce the level of poverty in the Country as normally per their mandate. In this case, in fact, it would be highly beneficial assess the validity of a model that consider the direct redistribution of revenues only of a part of the yearly revenues of the SWFs targeting the poorest part of the population. This model could result beneficial in tackling the problem of reduction of poverty that many of the newly oil rich countries are facing and as well to avoid many of the cons presented by the direct redistribution of incomes. Up to today no fund has adopted or considered this kind of model.

5.3 SWFs Redistribution of Revenues and Social Justice

In the analysis of the redistribution of revenues it is interesting to consider Charles Beitz's⁷¹ approach to the variable of the distribution of the revenues related to natural resources among countries and the distribution of natural talents as per John Rawls. According to J. Rawls, natural endowments are "neither just nor unjust; nor is it unjust that men are born into society at any particular position. These are simply natural facts. What is just or unjust is the way that institutions deal with these facts". In this regard, Sovereign Wealth Funds, indeed, can be part of those institutions that need to deal with resources endowments that, like talents, are arbitrary in the sense that they are not deserved.⁷² In the case of natural resources, the parties to the international original position would know that resources are unevenly distributed with respect to population, that adequate access to resources is a prerequisite for successful operation of (domestic) cooperative schemes, and that resource supplies are scarce. They would view the natural distribution of resources as arbitrary in the sense that no one has a natural *prima facie* claim to the resources that happen to be under his feet. The appropriation of scarce resources by some requires a justification against the competing claims of others and the needs of future generations. Not knowing the resource endowments of their own societies, the parties would agree on a resource redistribution principle which would give each national society a fair chance to develop just political institutions and an economy capable of satisfy- satisfying members' basic needs. Capital surpluses are no longer confined to reinvestment in the societies where they are produced, but instead are reinvested wherever conditions promise the highest yield without

⁷⁰ A. Cummine, presentation at NA BIG Conference, 2011.

⁷¹ C. R. Beitz: "Political Theory and International Relations", Princeton University Press, 1999.

⁷² J. Rawls, "A theory of Justice", revised version, Harvard University Press, 1999.

unacceptable risks. It is well known, for example, that large American corporations have systematically transferred significant portions of their capitalization to European, Latin American, and East Asian societies where labor costs are lower, markets are better, and profits are higher. In this sense SWFs represent those institutions through which Governments can and should carefully manage the national natural resources surplus wealth. Sovereign Wealth Funds, indeed, belong to the citizens of the Sponsor countries and, in this sense; it is implicit that they need to satisfy the expectations of their shareholders in terms of generation of revenues, equal distribution of the wealth originated by the Fund, promotion of the development of the Country according to the different individual goals of each single SWF. For sustainable development is here intended, as for the definition given by the report produced by the International Union for the Conservation of Nature (1980) and founded again in the Brundtland Report (WCED 1987) a “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”.⁷³ A key to evaluating the performance and value of SWFs will be to see if they fulfill the burdens of sustainability. There are issues that get in the way of the easy success of meeting the needs of each generation. Furthermore something of interest is the relation between sustainability and the pursuit of intergenerational justice; two aspects that could be conflicting as the opportunity costs measures to save the environment that benefit future generations might happen to fall upon today’s poor.⁷⁴ And this is also evident in the field of SWFs where preserving wealth for future generations is a clear objective of some SWFs as hereafter presented, while the problem of intergenerational equal redistribution of revenues is still a problem to be addressed.

⁷³ Alan Holland: “A Companion to Environmental Philosophy”, edited by Dale Jamieson, Blackwell, 2001.

⁷⁴ Alan Holland: “A Companion to Environmental Philosophy”, edited by Dale Jamieson, Blackwell, 2001.

6 Sustainable investments

One of the criteria to be assessed in order to define a SWF sustainable is without any doubts how much it promotes Sustainable Investments. If SWFs, indeed, can bring important benefits to global capital markets in terms of allocation of financial resources and increase of market liquidity, and they can contribute to market stabilization, through their long term horizon of investment and the possibility of investing counter-cyclically, they can also directly dedicating part of their portfolio to socio-economic sustainable investment. Furthermore they are the only ones with their long-term orientation and their low redemption risk, able to take advantage of sustainable investment opportunities that are not open to other investors such as sustainable investments. These kinds of investments present an important reward under the social perspective, as they exclude activity perceived as socially harmful and they can even play a catalytic role as for Antony Bugg-Levine consideration⁷⁵. However, on the long term they could also be financially remunerative as they can result less costly respect changes in future regulations and policy. As presented more into details in this Chapter, Sustainable Investments can be done in multiple ways as sectors such as infrastructures, healthcare, education, social development, renewable energy and others. There is also an interest for SWF's to incorporate sustainable investment into their international investment strategies in order to reduce some of the concerns they encountered in target markets about their investment intentions, when they have sought to expand international investments. Sustainable Investments, indeed, can reduce concerns and facilitate ease of investment while allowing for effective projection of soft power on the international stage. Sustainable Investments can be done in multiple sectors such as infrastructures, healthcare, education, social development, renewable energy and others, as hereafter presented. Even if investments in infrastructure projects are not uncommon in SWFs portfolios with long-term investment horizons, they usually focus on nondomestic, high-return existing and low-risk, new, bankable, infrastructure projects in Europe and Asia and not in the domestic ones or those not mainly driven by commercial motivations. However, in light of the pressing needs for infrastructure, several resource-rich developing countries have established, or are in the process of establishing SWFs, with an expanded role as a national investor. Among those there are Angola, Mongolia, Nigeria, and Papua New Guinea. Experts⁷⁶ suggest that 20 SWFs are already mandated to invest domestically and more are in the making, as, for example, Colombia, Morocco, Mozambique, Sierra Leone, Tanzania, Uganda, and Zambia. Many of the most recently created and planned SWFs with a domestic investment mandate are in resource-rich countries. More into details, here after, are presented a series of examples of Sustainable Investments promoted by SWFs in different geographical areas and sectors.

6.1 Azerbaijan State Oil Fund - Sofaz

The State Oil Fund Sofaz is a special purpose state organization in which Azerbaijan's revenues from implementation of oil and gas agreements are accumulated, managed and preserved for future generations. In the case of the Azerbaijani SWF, 50% of the revenues of the Fund are invested as direct expenses in infrastructural projects such as the Baku Pipeline, social projects such as the construction of refugee camps to host more than one million of national refugees from Armenia and other neighboring countries, and in educational programs.

⁷⁵ Bugg-Levine A.'s contribution to the conference: "Sovereign Wealth Funds and Other Long Term Investors: A New Form of Capitalism?", Paris, 2011

⁷⁶ Clark L., Dixon D., Monk A., "Sovereign Wealth Funds legitimacy, governance and global power", Princeton University Press, 2013.

Table 23: Sustainable Investment Promoted by the Azerbaijan State Oil Fund

FIELD	PROJECT	VALUE
Refugee Camps	Building of housing and improvement of socio-economic conditions of refugees and internally displaced persons who were forced to flee their native lands as a result of the Armenian-Azerbaijan conflict.	\$ 1689.05M
Water Supply	Oguz-Qabala-Baku water supply system is project designed to transport underground water sources located in the Oguz-Gabala region to Baku city by gravity feed, providing people and ensuring Baku with a reliable and sustainable water supply system. The Project has already been completed.	\$1001.13M
Irrigation System	Reconstruction of the Samur-Absheron irrigation system. The project is designed to create safe water source with uninterrupted water supply for the cities of Baku and Sumgayit; moreover, it's designed to generate 25 MVT of electricity by gravitational fall.	\$1244.99M
Railway	Financing of the Baku-Tbilisi-Kars railway. Implementation of the international project for the Baku-Tbilisi-Kars railway line and construction of a railway line tunnel in the Bosphorus, along with providing connection of Trans-Europe and Trans-Asia railway networks in order to carry freight and passengers directly through the territories of Azerbaijan, Georgia and Turkey. This project will increase the transit potential of regional countries, accelerate the processes of integration in Europe, develop cooperation within the framework of the European Neighborhood policy, intensify state independence and also expand the foreign economic relations of the country.	\$442.2M
Education	The state program on the education of Azerbaijani youth abroad in the years 2007-2015 is an educational program providing scholarship grants to Azerbaijani students enrolled in prestigious foreign university.	\$78.46M

Source: Azerbaijan State Oil Fund

6.2 Fundo Soberano de Angola – FSDEA

The Fundo Soberano de Angola is a sovereign wealth fund wholly owned by the Republic of Angola. The Fund currently manages a substantial investment portfolio of \$5 billion. In the allocation of its portfolio the FSDEA, as it has been recently disclosed⁷⁷, will destine 7.5% of the overall assets under management to social projects enabling the promotion of educational programs for the development of Angolan people. Among the projects that will receive FSDEA's funding for the empowerment of school children in economically vulnerable areas of Angola, in accordance with the SWF Social Charter there is the Don Bosco Schools multi-year project "Kamba Dyami" that is a part of the One Laptop per Child international program and that encourages computer-based learning in traditional classrooms at an early age. The project was launched in 2011 in the outskirts of Angola's capital city but there is the intention to extend this initiative to additional schools in suburban and rural areas of Angola to enable the next generation to fully embrace the country's future opportunities. From 2013 to 2015, 1,200 additional laptops will be made available, which will allow 2,400 more children to benefit from computer-based learning. Father Santiago Christophersen SDB, the Director of the Dom Bosco School in Luanda, commented: "Empowering our children with knowledge is fundamental and the Kamba Dyami Project has shown

⁷⁷http://www.fundosoberano.ao/index.php?option=com_phocadownload&view=category&layout=ca_sfoa:news&id=1&Itemid=602&lang=en.

the progress children make through computer-based learning. We have seen a tremendous impact on the learning process through the use of the computers and the children are very enthusiastic to work with this interactive education tool. We are therefore very pleased that the FSDEA also recognizes the importance of not only the project but its future expansion. We look forward to working closely with the Fund's leadership to expand the education system in Angola⁷⁸. Other SWFs that finance projects in the field of education are the Texas Permanent School Fund, the New Mexico land grant fund, and the Alberta Heritage Fund.

6.3 Texas Permanent School Fund

The Texas Permanent School Fund is a \$22 billion endowment designated for the benefit of public schools in Texas. The Texas Legislature appropriated \$2 million for the endowment in 1854, and the fund has since grown through funds generated from land investments across the State, including monies from mineral resources sales and rentals⁷⁹. The State of Texas has also created the Permanent University Fund (PUF) that is a Sovereign Wealth Fund created to fund public higher education within the State.

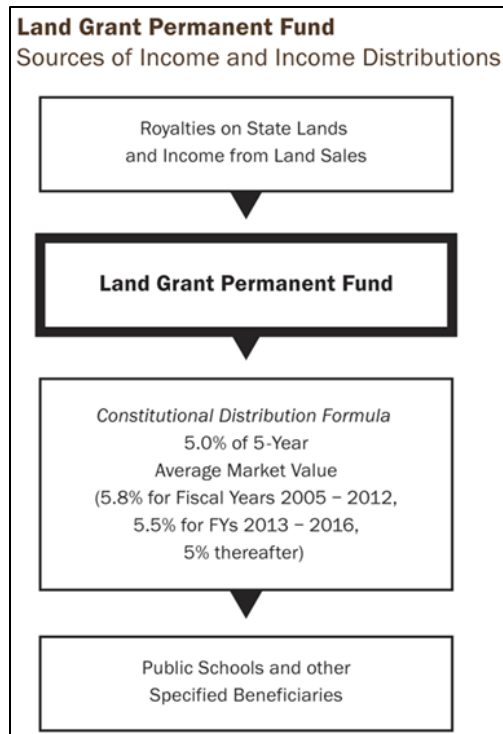
6.4 The New Mexico land grant fund

The New Mexico land grant fund is one of the three funds that constitute the New Mexico State Investment Office Trust, established in 1958 and that currently hold an endowment of \$12.9 billion. The purpose of the New Mexico State Investment Office Trust is to contribute recurring revenues for the operating budget of the state and to provide resources to various fund beneficiaries. The other two funds constituting the New Mexico State Investment Office Trust are the Severance Tax Permanent Fund and the Tobacco Settlement Permanent Fund. The Land Grant Permanent Fund (LGPF) was established by the federal government before New Mexico became a State, to help pay for public education. More than 13 million acres of land and mineral resources and 8.8 million acres of surface land were transferred to the people of New Mexico to be held in trust for beneficiaries, who were determined by Congress. These beneficiaries – public schools, universities, hospitals, and correctional institutions – are the actual owners of the trust fund, the largest ownership interest in the fund (currently about 83%). The New Mexico state constitution governs what percentage of the total fund is distributed each year. Annually, the Land Grant Permanent Fund distributes more than half a billion dollars to the benefit of the LGPF beneficiaries, with the lion's share going to New Mexico public schools and public education. The State Investment Council manages day to day operations of the Land Grant Permanent Fund, including investments and distributions. The following chart shows the basic flow of funds in and out of the LGPF:

⁷⁸<http://cfi.co/africa/2013/07/angolas-sovereign-wealth-fund-announces-investment-policy/>

⁷⁹<http://stateimpact.npr.org/texas/tag/texas-permanent-school-fund/>

Graph 17: Land Grant Permanent Fund Flow Chart



Source: *Land Grant Permanent Fund*

6.5 The Alberta Heritage Fund

The Alberta Heritage Savings Trust Fund was created in 1976 by the Alberta Heritage Savings Trust Fund Act. Initially, the fund received 30% of Alberta’s non-renewable resource royalties coming from its vast oil wealth. This fund was created with several goals in mind such as: investing for the transfer of wealth to future generations, to strengthening the economy, to improve the quality of life of citizens and to represent a Rainy Day Fund⁸⁰. Since 1976, the Fund has contributed \$34 billion to fund Albertan priorities like health care and education⁸¹.

6.6 The National Development Fund of Iran - NDFI

The National Development Fund of Iran (NDFI) was established based on Article 84 of the Fifth Economic, Social and Cultural Development Plan of the Islamic Republic of Iran. The NDFI aims at turning some of the country’s petrodollars into durable wealth, productivity, economic incentive and capital and at preserving the share of oil and gas resources and products for future generations.

NDFI sustainable goals include, among others:

- To spotlight outcomes of spatial plans in the country for a regional sustainable and balanced development while distributing the resources of the NDFI;

⁸⁰<http://www.swfinstitute.org/swfs/alberta-heritage-fund/>

⁸¹ <http://www.finance.alberta.ca/business/ahstf/history.html>

- To make plans for reaching the goals of the 2025 Vision plan and the country's Comprehensive Plan for Scientific Development;
- To pay special attention to investment opportunities in deprived areas while incorporating short-term and long-time planning.

6.7 Kuwait Investment Authority - KIA

The Kuwait Investment Authority (KIA) is the oldest sovereign wealth fund in the world. KIA has its roots in the Kuwait Investment Board, which was established in 1953, eight years before Kuwait's independence. It has an asset under management of \$386 billion. The Kuwait investment Authority is actively involved in developing projects that contribute to support the economic infrastructure in third world countries of special interest to KIA. These projects are usually undertaken in coordination with the development plans proposed by the World Bank and the United Nations.⁸²In terms of sustainable investments criteria, KIA is committed to foster investments

- Promoting the excellence of the private sector in Kuwait while ensuring that it does not compete with or act as substitute for it in any field;
- Contributing to the formation of human capital in Kuwait by attracting talented and ambitious young Kuwaitis and training and preparing them to become the best investment professionals in the market⁸³.
- Reinforcing sound corporate governance, transparency in all operations, and fair business dealings in Kuwait by holding our business associates and portfolio companies to the highest ethical standards.

6.8 Mumtalakat

Mumtalakat was established in 2006 by Royal Decree as an independent holding company for the government. Mumtalakat's mandate is to create a thriving economy diversified from oil and gas, focused on securing sustainable returns and generating wealth for future generations. Its investment strategy is to create a diversified and balanced portfolio. Mumtalakat holds stakes in over 35 commercial enterprises, representing a portfolio value of approximately U.S.\$6.8 billion (June 2013) and spanning a variety of sectors, including aluminum production, financial services, telecommunications, real estate, tourism, transportation, and food production. The action of the Fund is fully integrated in the macroeconomic program of the Country synthesized in the Economic Vision 2030's Program which main objective is to shift Bahrain's economy from an oil-driven economy to a global, competitive economy lead by the private sector across a variety of sectors and industries according to the three interrelated guiding principles of sustainability, competitiveness and fairness. Mumtalakat's role in helping Bahrain fulfill its objectives as defined by the 2030 Economic Vision is integrated across each of these three principles and it consist in enhancing value of the existing portfolio and in developing new investment initiatives by establishing locally, promising joint-ventures to create value over the short to medium term. This primarily includes investing in domestic business opportunities with regional or global commercial strategies. Exceptionally, international investment opportunities shall be considered.

6.9 Mubadala (Masdar)

Mubadala is advancing the development, commercialization and deployment of renewable energy solutions and clean technologies, establishing Abu Dhabi as a global center of excellence in the renewable energy and clean technology sector. With this purpose, Mubadala has committed \$15 billion to the Masdar Project, an initiative to

⁸² http://www.kia.gov.kw/En/About_KIA/Other_Contributions/Pages/default.aspx

⁸³ http://www.kia.gov.kw/En/About_KIA/Objective_Strategy/Pages/default.aspx

establish Abu Dhabi as a world leader in renewable energy and sustainable urban design and has taken the 0.7% stake of General Electric (GE) due to interest in GE's Ecomagination program⁸⁴. Masdar also plays an important role in extending Abu Dhabi's energy leadership beyond hydrocarbons, thereby supporting economic diversification and human capital development. The company serves as a link between today's fossil-fuel economy and the energy economy of the future. Masdar is organized around three main business units, including an independent, research-driven graduate university, such as:

- **Masdar Capital**⁸⁵: through its two clean tech funds of \$540M under management, Masdar Capital seeks to build a portfolio of the world's most promising renewable energy and clean technology companies.
- **Masdar City**⁸⁶: is an emerging global clean-technology cluster that places its resident companies in the heart of the global renewable energy industry.
- **Masdar Clean Energy**⁸⁷: A fund that invest in order to diversify Abu Dhabi's energy mix and expand the Emirate's range of commercial energy expertise to include clean energy.
- **Masdar Institute**⁸⁸: the Masdar Institute of Science and Technology is an independent, research-driven graduate school developed with the ongoing support and cooperation of the Massachusetts Institute of Technology (MIT).

Among the renewable assets owned by Masdar there are E.ON-Masdar Integrated Carbon, Emirates Steel Industry Carbon Capture and Utilization Project, London Array⁸⁹, Masdar PV⁹⁰, Shams 1⁹¹. Shams solar power station is a concentrating solar power station near Madinat Zayed, in Abu Dhabi. The solar power station is located approximately 120 kilometers southwest of Abu Dhabi and 6 kilometers from Madinat Zayed. It became operational on 17 March 2013. The first part, Shams1, uses parabolic trough technology and has a capacity of 100megawatts (MW), which makes it among the largest parabolic trough power stations in the world. Shams 1 have been commissioned in early 2013 and will be followed by Shams 2 and Shams 3 stations. In terms of sector-oriented investments, Mubadala lists \$1.69 billion in AUM in renewable energy, \$180 million in health care, and at least \$710million in other clean technology via its stake in Azaliyah, a water services company that provides water purification and distribution, water treatment and reuse services. Nearly 49% of this company is owned by Mubadala. Another example of clean technology investments by Mubadala is a 30 % stake in Tanqia, the first privately held wastewater collection and treatment system in the UAE and Middle East. A summary of all the investments done by Mubadala in the Sustainability Oriented Sectors is presented hereafter.

Table 24: Current MENA SWFs Sustainable Investments

Conservative Estimate of Current MENA SWF Sustainable Investments Based on Sustainability-Oriented Sectors			
Country	SWF	Sustainability-Oriented Sectors	Value (\$ Bn)

⁸⁴ <http://www.ecomagination.com/homepage>

⁸⁵ <http://www.mubadala.com/en/who-we-are/organization-structure/masdar/masdar-capital>

⁸⁶ <http://www.mubadala.com/en/who-we-are/business-unit/masdar/masdar-city>

⁸⁷ <http://www.mubadala.com/en/who-we-are/business-unit/masdar/masdar-clean-energy>

⁸⁸ <http://www.mubadala.com/en/who-we-are/business-unit/masdar/masdar-institute>

⁸⁹ The London Array is an off-shore wind farm in the Thames Estuary in the United Kingdom. With a nameplate capacity of 1,000 megawatts (MW), it is the world's largest offshore wind farm.

⁹⁰ <http://www.masdarpv.com/>

⁹¹ <http://www.shampower.ae/en/>

		Focus	
UAE	Mubadala	Renewable energy sector	1.69
		Other clean technology	0.71
		Healthcare	0.18
Total Conservative SI Estimate			2.58

**Azaliyah a wastewater management company 49% owned by Mubadala*

Source: Mubadala Annual Report 2008⁹²

6.10 The Norway Government Pension Fund – Global

The Government Pension Fund – Global (Norwegian: Statens pensjonsfond – Utland, SPU) is a fund into which the surplus wealth produced by Norwegian petroleum income is deposited. The fund changed name in January 2006 from its previous name, The Petroleum Fund of Norway, and is commonly referred as the Oil Fund (Norwegian: Oljefondet). With an asset of \$785.2 it is the largest Sovereign Wealth Fund in the world. It derives its financial backing from oil profits and not pension contributions. Among the social objectives that the Norwegian SWF has achieved there is the increase of women employment as to 2012 data. The newly elected Norwegian government is planning on establishing a mandate for its pension fund to be invested in infrastructures for the production and distribution of renewable energy⁹³ as also it has been recommended by a broad alliance of companies⁹⁴ and organizations in the fields of finance, religion, energy, environment and development. According to these companies, in fact, direct investments in renewable energy would be profitable both in financial and sustainability terms. Moreover, the size of the fund, the long-term investment horizon and the absence of on-going liquidity needs, makes it possible for the GPFG to aim at investing directly in renewable energy projects. A similar request has already been settled by the Norwegian Bank Investment Management in 2006 and 2010.

⁹² http://www.ifc.org/wps/wcm/connect/52d36d80405cc4fb93d09382455ae521/p_SlinMENAReport.pdf?MOD=AJPERES

⁹³ <http://www.rtcc.org/2013/10/11/norwegian-pension-fund-could-be-invested-in-renewable-energy/#sthash.MCFrixDQ.dpuf>

⁹⁴ KLP, Storebrand Asset Management, UMOE, the energy company Scatec, the Catholic Diocese of Oslo and a number of organizations in the field of environment and development: WWF, The Norwegian Climate Foundation, The Development Fund, Future in our hands, Zero, Greenpeace, Friends of the Earth Norway and Young Friends of the Earth Norway

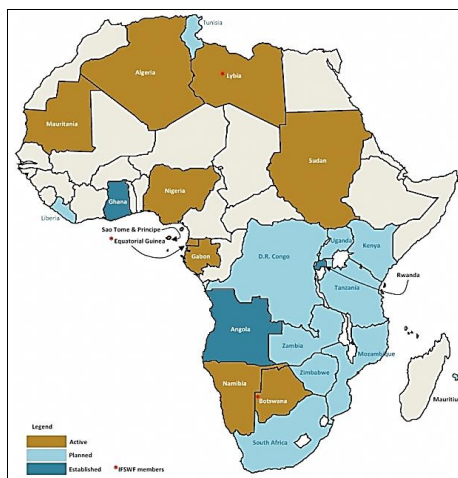
7 CASE HISTORY: THE FUNDO SOBERANO DE ANGOLA - FSDEA

Many of the new upcoming Sovereign Wealth Funds are sponsored by emerging countries, as in the case of Angola, Brazil, Mongolia and others, and are called to perform an important role in the promotion of sponsor countries development. In this case, development concerns, as a matter of fact, the increase of Sovereign Wealth Funds' assets and the improvement of the financial and economic growth of the sponsor countries, but it also takes into account, according to a more comprehensive definition, the overall wealth of the citizens and the standard of life of the entire population that is, or should be, the real ultimate beneficiary of the Fund's activities. In this sense, development should include both social and economic goals, measurable through the reduction of poverty levels, the increase of the standard of life of the citizens and the construction of the necessary infrastructures for a sound and prompt development of the country. In a period of volatility, risk and uncertainty where developed economies are still suffering and recovering from the 2008 global financial crisis, Sovereign Wealth Funds, have an extended capacity of liquidity's injection in the international markets, counter-cyclical investments as well as appropriation of technologies and specific know-how from all over the world.

7.1 Upcoming SWFs in Africa

The lack of a generally agreed definition of SWFs and of their status, among academics analysts and professionals, leads to different interpretations on the overall number of SWFs, with specific reference to those of the African Continent. Some sources, as expressed more in details in the following paragraph, take into consideration only those SWFs that are already active, while others consider also the planned ones and the established but still not active ones. As a result, the number of SWFs could be different, according to different sources, as presented hereafter. However, combining data from different sources, it is possible to say that Africa counts 11 already active SWFs⁹⁵, 3 established but still not yet completely active SWFs⁹⁶ and 10 only planned SWFs⁹⁷.

Map 2: SWFs in Africa (2013)



Source: Elaboration by the Author (January 2014)⁹⁸.

⁹⁵ Mauritania, Algeria, Libya, Sudan, Nigeria, Gabon, Namibia, Botswana, Equatorial Guinea (2), Sao Tome and Principe.

⁹⁶ Angola, Ghana, Rwanda.

⁹⁷ South Africa, Zimbabwe, Zambia, Mozambique, Tanzania, Kenya, Uganda, D.R. Congo, Liberia, Tunisia.

⁹⁸ With specific reference to Ashby Monk's blog.

According to the SWF Institute⁹⁹, as for the following table, the total number of African SWFs is 10 and includes those of Algeria, Angola, Botswana, Equatorial Guinea, Gabon, Ghana¹⁰⁰, Libya, Mauritania, Mauritius¹⁰¹ and Nigeria for a total amount of around \$ 139 billion.

Table 25: SWF Institute List of African SWFs 2013

AFRICAN SOVEREIGN WEALTH FUNDS		
Fund	Country	USD
Libyan Investment Authority	Libya	65 billion
Revenue Generation Fund	Algeria	56.7 billion
Pula Fund	Botswana	7 billion
Fundo Soberano de Angola	Angola	5 billion
Nigerian Sovereign Investment Authority	Nigeria	1 billion
Gabon Sovereign Wealth Fund	Gabon	400 million
National Fund for Hydrocarbon Reserves	Mauritania	300 million
Fund For Future Generations	Equatorial Guinea	80 million
Ghana Petroleum Funds	Ghana	69 million
Mauritius Sovereign Wealth Fund*	Mauritius	3 billion

*Source: Sovereign Wealth Fund Institute, *proposed.*

Source: SWF Institute

According to Thouraya Triki and Issa Faye¹⁰², the total number of African SWFs is of 15 for a total amount of around \$143 billion and includes Algeria, Angola, Botswana, Chad, Congo, Equatorial Guinea (Future Generations Fund), Equatorial Guinea (Stabilization Fund), Gabon, Ghana, Libya, Mauritania, Namibia, Nigeria, Sao Tome' and Principe, South Sudan, as for the following table.

Table 26: Thouraya Triki ad Issa Faye's List of African SWFs 2011

Fund	Country	Inception	Source	Fund type	(US\$bn)	Year
Fonds de régulation des recettes	Algeria	2000	Oil	Stabilization	59.34	2009
Fonds de stabilisation des recettes budgétaires	Chad	2006	Oil	Stabilization	0.003	2010
Reserve fund for oil	Angola	2004	Oil	Stabilization	0.2	2008
Pula fund	Botswana	1994	Diamonds	Development	6.9	2010
Fonds de stabilisation des recettes budgétaires	Congo	n/a	Oil	Stabilization	1.64	2010
Fonds de stabilisation des recettes budgétaires	Equatorial Guinea	n/a	Oil	Stabilization fund	1.39	2010

⁹⁹ <http://www.swfinstitute.org/fund-rankings/>.

¹⁰⁰ SWF still under development.

¹⁰¹ SWF still under development.

¹⁰² Thouraya Triki and Issa Faye: "Africa's Quest for Development: Can Sovereign Wealth Funds help?" AfDB Working Paper Series n. 142, 2011, Tunis.

Fonds de réserves pour générations futures	Equatorial Guinea	Unknown	Oil	Development fund	0.080	2010
Fonds souverain de la République gabonaise	Gabon	1998	Oil	Development fund	0.380	2010
Minerals development fund	Ghana	1994	Gold and other minerals	Development fund		
Libyan investment authority	Libya	2006	Oil	Development fund	70	2010
Fonds national des revenus des hydrocarbures	Mauritania	2006	Oil	Stabilization fund	0.03425	2009
Minerals development fund	Namibia	1995	Minerals	Development fund	NA	
Excess crude fund (account)	Nigeria	2004	Oil and gas	Stabilization fund	3	2010
National oil account	São Tomé and Príncipe	2004	Oil	Development fund	0.010	2009
Oil revenue stabilization fund	South Sudan	2002	Oil	Stabilization fund	0.15	2009

Source: Triki T. and Faye I: "Africa's Quest for Development: Can Sovereign Wealth Funds help?", 2011

According to the AfDB Chief Economist and Vice President, Professor Mthuli Ncube, there are 14 SWFs in Africa representing 3%¹⁰³ of global SWFs. Other sources include in the list of the African SWFs also the upcoming ones from Kenya¹⁰⁴, Liberia, Mozambique, South Africa, Tanzania, Uganda and Zambia whose creation is encouraged by the latest oil discoveries. Among all the African SWFs, the oldest one is the Pula Fund of Botswana, created in 1994 while the largest one is the Algeria's Revenue Regulation Fund with \$77.2 billion of assets under management, followed by the Libyan Investment Authority with \$65 billion of assets under management. Nowadays only three of the African SWFs, the Botswana Pula Fund, the Fund for Future Generation of Equatorial Guinea and the Libyan Investment Authority, are members of the IFSWF¹⁰⁵ and have officially voluntarily ratified the Santiago Principles¹⁰⁶. Among the upcoming African SWFs, one of the most committed to the sustainable development of the sponsor country and the wealth of its citizens is the Fundo Soberano de Angola (FSDEA).

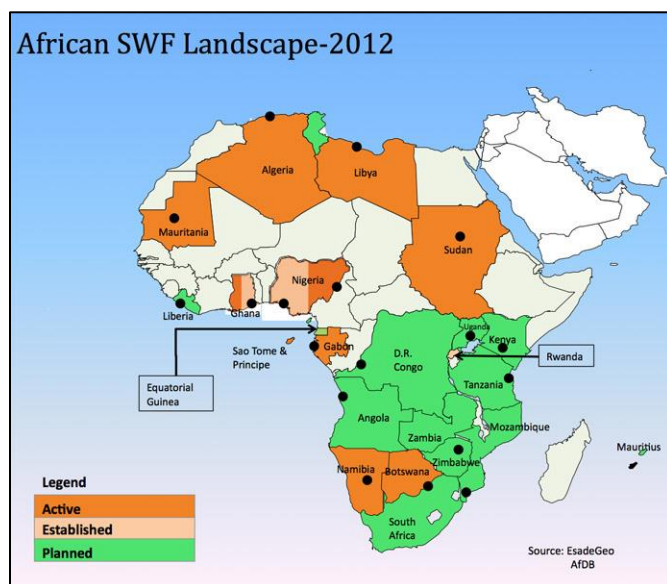
¹⁰³ <http://www.afdb.org/fr/blogs/afdb-championing-inclusive-growth-across-africa/post/the-boom-in-african-sovereign-wealth-funds-10198/>

¹⁰⁴ <http://www.institutionalinvestor.com/blogarticle/3036532/Blog/Welcomes-Kenya-To-The-SWF-Club.html>

¹⁰⁵ <http://www.ifswf.org/>

¹⁰⁶ <http://www.iwg-swf.org/pubs/eng/santiagoprinciples.pdf>

Map 3: African SWFs Landscape 2012



Source: EsadeoGeo AFDB

Since the global economic slowdown experienced in 2008/2009, Angola has been gradually recovering and, nowadays, the Country presents solid economic growth prospects due to higher oil prices and increased spending. According to the AfDB African Economic Outlook 2012¹⁰⁷, Angola's GDP recorded 8.2% in 2012 and 7.1% in 2013. The country is rated BB- by Fitch (May 2011), Ba3 by Moody's (June 2011) and BB- by Standard and Poor's (July 2011). Oil is the backbone of the Angola's economy. After twenty-seven years of a civil war that ravaged the country, Angola has emerged as the second largest oil producer in Africa¹⁰⁸ with over 1.9 million barrels per day (bpd)¹⁰⁹. In 2011, crude oil, refined oil products and gas exports accounted for more than 95% of the total exports and 47% of the GDP was related to the oil sector. Second to oil, diamonds are the main exports driver. According to the OPEC estimates, the Angola's proven oil reserves reached 10.5 billion barrels (0.9% of the OPEC share¹¹⁰). Angola's dependency on oil is evident. Oil revenues account for around 75% of budgetary revenue and oil is the main driver of reserves accumulation. This dependency is the reason why after the acute oil price drop in 2008-2009, Angola faced macroeconomic instability and public authorities sought support from the IMF, signing, in November 2009, the IMF Stand-By Arrangement program, which comprises in particular fiscal and monetary, tightening. Among the IMF recommendations there was also the establishment of a brand new SWF¹¹¹ as part of the Country's commitment in building up a medium-term macroeconomic framework to guard in particular against volatility in the oil price and to create a more resilient and diversified economy. The diversification of the national economy, in fact, represents one of the main goals of this new economic deal, able to, on the long term, (i) avoid the effects of the Dutch disease, (ii) foster the overall social and economic improvement of the Country (iii) assure the equal distributions of wealth across generations. Furthermore, many characteristics of the Angola's Economy such as being a fast-growing country, with important oil reserves, make the establishment of a SWF recommendable. Moreover, despite recovering progressively, the country still

¹⁰⁷ <http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/PDF/Angola%20Full%20PDF%20Country%20Note.pdf>

¹⁰⁸ According to the IMF Country Report No. 12/194, Nigeria produced 2.4 million bpd in 2011.

¹⁰⁹ Most of the oil related revenues are coming from Cabinda's Province.

¹¹⁰ More than 80% of the world's proven oil reserves are located in OPEC Member Countries, with the bulk of OPEC oil reserves in the Middle East, amounting to 66% of the OPEC total. However, the biggest proven reserves are those of Venezuela: 24.8% of the OPEC total.

¹¹¹ <http://www.imf.org/external/np/loi/2010/ago/082710.pdf>

presents some delay in reducing poverty in particular in rural areas, in promoting job-intensive activities and in fostering inclusive growth. Income inequality remains high, unemployment rate is estimated at around 26% (the oil sector is capital-intensive and does not dramatically foster employment, counting less than 1% of the total labor force¹¹²) and the country is currently ranked 148 out of 187 countries in the UNDP¹¹³ Human Development Index (HDI)¹¹⁴ ranking and is categorized as a “low human development” country. The Fundo Soberano de Angola could be beneficial for all the above mentioned areas.

7.2 The Fundo Soberano de Angola: a Sovereign Wealth Fund set up to foster Angola’s economic and social development.

The Fundo Soberano de Angola has been announced in 2008, legally notified in 2011 and officially launched on the 17th of October 2012. FSDEA counts \$5 billion of assets under management and a specific mandate to support the social and economic development of the country through (i) the stabilization of the economy (ii) the creation of employment and (iii) the transfer of wealth across generations. The FSDEA is funded by oil revenues and it is expected to account a yearly growth of \$3.5billion in order to achieve, by 2020, assets for around \$30 billion, becoming, eventually, one of the largest 30 SWFs in the world.

Table 27: List of the 10 biggest SWFs that belong to the IFSWF 2014

Country	Fund	AUM (\$US bn)	Inception	Source
Norway	Government Pension Fund (GPF)	818	1990	Oil
UAE	Abu Dhabi Investment Authority (ADIA)	773	1976	Oil
Saudi Arabia	SAMA Foreign Holdings	675.9	n/a	Oil
China	China Investment Corporation (CIC)	575.2	2007	FX Reserves
China	SAFE Investment Company	567.9	1997	Non-Commodity
Kuwait	Kuwait Investment Authority (KIA)	410	1953	Oil
China – Hong Kong	Hong Kong Monetary Authority Investment Portfolio	326.7	1993	Non-Commodity
Singapore	Government of Singapore of Investment Corporation (GIC)	285	1981	Fiscal Surpluses, FX Reserves
Singapore	Temasek Holdings	173.3	1974	Fiscal Surpluses
Qatar	Qatar Investment Authority (QIA)	170	2005	Oil

¹¹² <http://www.africaneconomicoutlook.org/en/countries/southern-africa/angola/>

¹¹³ United Nations Development Program.

¹¹⁴ The HDI is a way of measuring development by combining indicators of life expectancy, educational attainment and income. A ranking is published every year by the UNPD.

At the domestic level the FSDEA acts accordingly to the national macroeconomic plan, developed and approved by the Government. It is still not clear which will be the Fund relationship with Sonangol, the National Oil Company. According to some sources¹¹⁵, indeed, there is a possibility that FSDEA will take the role of investor previously performed by the National Oil Company Sonangol that used to buy stakes in companies and that might transfer its stakes to the Fund. The fund is supposed to be independent from the Government and managed by an independent Board of Directors. The structure of the Fund comprises: a Board of Director, an Advisory Council, a Fiscal Council and the Executives, as described, more into details, hereafter.

Table 28: FSDEA Structure

Role	Board of Directors	Advisory Council	Executive	Fiscal Council
	It defines the Fund's investment strategy and oversees the Fund's activities and assets.	It reviews investment proposals and the strategy recommendations made by the Board of Directors and offers recommendations to the President of the Republic of Angola who ultimately approves the Fund's investment policies.	Executive roles include: - Fiscal Council - Risk Management Committee - Chief Risk Officer - Chief Compliance Officer - External Asset Managers	It ensures compliance with the laws and regulations applicable to the Fund. The Fund will be subject to regular annual audits conducted by independent auditors.
Composed by	- Chairman: Jose' Filomeno de Sousa dos Santos - Member of the Board of director: Hugo Migule Evora Goncalves ¹¹⁶ - Artur Carlos Andrade Fortunato	- Armando Manuel, Minister of Finance - Abraão Pio dos Santos Gourgel, Minister of Economy - Job Graça, Minister of Planning and Territorial Development - José de Lima Massano, Governor of the National Bank of Angola		

Source: Fundosoberano.ao

Even though the Fund's strategy hasn't been still officially disclosed, the FSDEA is expected to focus in investing in the domestic market and in fields such as: real estate, infrastructures, hospitality (mainly luxury hotel), agriculture, water, power generation, transport, etc. The Fund aims to gradually diversify its investment portfolio

¹¹⁵ http://taighde.com/w/Fundo_Soberano_Angolano

¹¹⁶ Former manager at Standard Bank of Angola and head of Pension and Development Fund of Angola.

across a number of industries and asset classes. It would probably include global private and public stocks, bonds, foreign currencies, financial derivatives, commodities, treasury bills, and real estate and infrastructure funds, being an active partner in these ventures. The main driver of investment is pure economic return with a mostly conservative investment strategy that aims at a low risk and long-term investment able to provide the Fund with stable returns both in economic and social terms.

“We are committed to promoting social and economic development investing in projects that create opportunities that will positively impact the lives of all Angolans today and to generate wealth for future generations”, says José Filomeno de Sousa dos Santos, Chairman of the FSDEA¹¹⁷.

In terms of geographical allocation of the investments, priority is supposed, according to different sources, to be given to emerging countries with specific reference to Sub-Saharan Africa and Asia but also Europe could represent a possible target. The Government Pension Fund of Norway - Global represents a significant example for the Angolan fund, as for the Ghana SWF, with a specific reference to ethical guidelines and social accountability¹¹⁸. This has led some sources to think that the FSDEA will replicate the investment strategy of the GPF by purchasing small stakes of common stock in international companies. As expected from a newly launched SWF and as some sources report, the FSDEA will use external management in its portfolio allocation¹¹⁹. With the establishment of a dedicated Social Charter, the FSDEA will consider investments not only on the basis of their profitability, but also on the basis of their capacity to address national social challenges such as access to clean water and healthcare services, and to support government social programs and general economic growth. The FSDEA will also look to promote the generation of income through small and medium sized enterprises (SMEs), by sponsoring programs aimed at the most economically deprived segments of the society in Angola. The FSDEA will be guided by a set of values that act as its guiding principles in everything it does. Concretely, the Fund is committed to operating transparently, responsibly and in full compliance with the laws and regulations of the countries it invests in. In this respect, it is supposed to be committed to the highest level of transparency across all areas of its business. It is fully accountable for all of its actions and always acts in the best interest of the people of Angola and all other stakeholders¹²⁰. It has also declared the willingness to be governed by the Santiago Principles. The FSDEA’s commitment to transparency has been confirmed by the recent disclosure of the key future milestones to be met by 2013 and 2014¹²¹.

Table 29: 2013-2014 FSDEA Key Milestones

	2013	2014
First quarter	Publication of the FSDEA Social Charter (the Charter will address a number of key social challenges faced by Angolans). Publication of the Government approved FSDEA Investment Policy	The FSDEA annual report. First Linaburg-Maduell Transparency Index FSDEA rating.
Second quarter	The appointment of internationally recognized	

¹¹⁷ <http://www.angola-today.com/tag/investment/>

¹¹⁸ <http://www.norad.no/en/countries/africa/angola>

¹¹⁹ Quantum Global Investment Management, a Swiss based firm, will manage FSDEA's daily operations.

<http://www.businessweek.com/news/2012-12-21/angola-wealth-fund-to-announce-policies-appoint-auditors>

¹²⁰ <http://www.fundosoberano.ao>

¹²¹ <http://www.swfinstitute.org/swf-article/transparency-still-remains-elusive-for-most-sovereign-wealth-funds/>

	independent auditors.	
Third quarter	The FSDEA mid-year update to include executive commentary on investment activities.	The FSDEA mid-year update to include executive commentary on investment activities.
Fourth quarter	-	-

Source: *Fundosoberano.ao*

In addition to this, the Fund has also declared that will provide regular updates to international markets on investments and governance. The Fund will also develop initiatives in education and healthcare such as the strategic partnerships with the national tropical disease institutes, able to increase the access to life saving surgical procedures or the establishments of a first aid help post throughout the rural and suburban areas, in partnership with the International Committee of The Red Cross. The FSDEA could also represent an important tool for the attraction of other long term investors and of SWFs' investments. One of the goals of the FSDEA, indeed, is the promotion of Angola as a destination of foreign direct investment¹²², as it has been in the case of the Russian Direct Investment Fund and of the Italian Fondo Strategico di Investimento. The Italian Fund, in fact, has just recently signed a \$2billion agreement with Qatar Holding¹²³, one of the main arms of the Qatari SWF, Qatar Investment Authority, with the scope of investing in the Italian excellences of Made in Italy.

7.3 What is the role of the Fundo Soberano de Angola in the development of Angola?

The FSDEA could represent an important tool for the economic and social development of Angola, with specific reference to its capacity to:

1) Foster the stabilization of national economy against volatility, reducing fiscal pressure and representing a lender of last resort in time of financial turmoil.

SWFs, in fact, can foster the stabilization of the economy keeping assets offshore and insulating resources dependent economies against commodity price swings. They can also function as lender of last resort in time of financial turmoil reducing the fiscal pressure and the necessity to rely on external help.

2) Support the diversification and internationalization of national economy, and to increase the capacity of attracting Foreign Direct Investment (FDI).

FDI are a significant driver for growth in developing countries. In this respect, attracting more FDI is a way to foster the development of domestic economy. According to the UNCTAD¹²⁴ World Investment Report 2012¹²⁵, during 2011, major investments continued to flow into Angola, but divestment and repatriated profits by transnational corporations rendered net inflows negative. The Angolan SWF could help in attracting more FDI by improving the accountability of the Country and, eventually, becoming a good interlocutor with other SWFs and long term investors. According to the UNCTAD, SWFs show substantial potential for investment in development. Their total FDI in 2011 amounts around US\$125 billion, with about 25% invested in developing countries. "SWFs can work in partnership with host-country governments, development finance institutions or other private sector investors to invest in infrastructure, agriculture and industrial development, including the build-up of green growth

¹²² <http://www.fundosoberano.ao/images/articles/Angola-fund-sees-bright-future.pdf>

¹²³ <http://www.fondostrategico.it/en/news/fsi-and-qatar-holding-sign-jv-to-invest-up-to-2-billion-in-made-in-italy.html>

¹²⁴ United Nations Conference on Trade and Development.

¹²⁵ <http://www.unctad-docs.org/files/UNCTAD-WIR2012-Full-en.pdf>

industries". The diversification of the economy, furthermore, results beneficial for the reduction of unemployment that nowadays registers a percentage of the 26% with a specific reference to youth unemployment as the 47.7% of the population is 14 years younger.

3) **Improve the credit rating of Angola.**

The implementation of a SWF could be a critical element to take into account when it comes to evaluate the credit profile of a country. However, in order to provoke a positive credit action, the SWF should be able to perform effectively and it has to be included into a set of economic reforms. On this regards, The Nigerian Sovereign Investment Authority (NSIA), the newly launched SWF of Nigeria, could represent a good example. Officially created in 2012, it represented one of the factors leading both Standard & Poor's and Moody's to raise Nigeria creditworthiness in addition to the improved financial stability and the optimism, over reforms, to the banking and electricity sectors. Fitch Ratings identified the establishment of the NSIA as a "key reform" underlining, as well, that it is "an area where progress has been slower than hoped". In this sense, the establishment of a well-managed SWF could provide Angola with a greater accountability, a higher level of transparency in the wealth management and a stronger attractiveness for foreign investors. Most specifically, the FSDEA could help the Country to reach investment-grade category as it is currently rated 3 notches below¹²⁶.

4) **Support poverty reduction¹²⁷ and Human Development Index (HDI) increase¹²⁸.**

The poverty reduction and the creation of sustainable and inclusive growth are common goals for most of the emerging countries' SWFs. The concept of "inclusive growth" is synonym of a sustained and long-term growth that benefits the whole society, including the poorest. According to AFDB definition¹²⁹, inclusive growth is the economic growth that results in a wider access to sustainable socio-economic opportunities for a broader number of people, countries or regions, while protecting the vulnerable, all being done in an environment of fairness, equal justice, and political plurality. In that perspective, a SWF can be considered as a good way to generate this kind of growth. A domestic-focused SWF can also have a positive impact on increase of the human development index (HDI) as the SWF's investments are partly directed to sectors that lead to the improvement of the index such as, among others, infrastructures, water access, health and primary education. In the specific case of Angola, the HDI country's value for 2011 was 0,486¹³⁰ (148 out of 187 countries) and it was constantly ranking in the bottom group ("Low Human Development"). This value is higher than the Sub-Saharan Africa HDI value (0,463) but quite far from other Southern African countries such as Namibia (0,625) or Botswana (0,633). On the contrary, it is not so far from Bhutan (which HDI value is 0,522) that is the last "Medium Human Development" country (ranked 141 out of 187). Being part of this intermediary group could be an aim shared by the Angolan SWF and monitoring this index could be a way to assess SWF's social impact.

5) **Support national development through the improvement of national infrastructures.**

As in all the emerging countries the need for infrastructures is very high and strictly related to the overall economic development of the country. In the specific case of Angola, the improvement of the infrastructures is one of the main goals to be achieved in order to foster both economic and social

¹²⁶ Angola is currently rated BB- by Fitch (May 2011), Ba3 by Moody's (June 2011) and BB- by Standard and Poor's (July 2011).

¹²⁷ Today, in Angola, the level of incidence of poverty is of 36%.

¹²⁸ The Human Development Index (HDI) is a composite statistic of life expectancy, education, and income indices to rank countries into four tiers of human development. It was created by economist Mahbub ul Haq, followed by economist Amartya Sen in 1990 and published by the United Nations Development Programme.

¹²⁹ <http://www.afdb.org/fileadmin/uploads/afdb/Documents/Policy-Documents/FINAL%20Briefing%20Note%206%20Inclusive%20Growth.pdf>.

¹³⁰ Between 2000 and 2011, it increased from 0.384 to 0.486, an increase of 27.0% or average annual increase of about 2.2%.

growth. A significant example of upcoming project in infrastructure that is supposed to be highly beneficial for the country is Sonaref, a Sonangol project. Despite being the second oil producer in Africa, Angola has only one small refinery in Luanda that does not have enough capacity to meet the demand of the rapid economic growth. For this reason, Angola annually imports 250 million dollars of oil derivative products. To cover this gap Sonangol undertook the project of building a new modern refinery, Sonaref, with the goal of making a full integration of the production and refining of crude oil activities.

6) Foster Transparency and fight against corruption.

The implementation of a SWF itself does not guarantee the increase of transparency in the management of public assets in behalf of the sponsor country's stakeholders. There are examples, in fact, of SWFs that have been created with the purpose of fostering transparency in public wealth management, providing the sponsor country with financial accountability but that, unfortunately, failed in their intent. So, in order to foster transparency and, consequently to fight corruption, a SWF should present a clear and well defined mandate and good governance able to assure transparency and accountability through update reports and regular annual audits conducted by independent auditors. Transparency is identified as a key element of success in the whole literature.

7) Transfer wealth to future generation.

One of the common goals of SWFs is the distribution of wealth among its existent shareholders and across those of the future. In this sense the capacity of transforming the wealth generated by natural resources in an important resource for the future generations is one of the main task of those SWFs whose asset are directly generated by the natural resources revenues. Some SWFs present a structure articulated in two Funds, one of those is specifically dedicated to the transfer of wealth across generations, as in the case of Kuwait Future Generations Fund.

Nowadays SWFs are dramatically growing in popularity and they are increasingly considered as a potential tool for fostering African development. They could represent “a new hope for the resource-rich countries of Africa resolving the paradox of plenty”¹³¹ as very often the emergence of oil exports brings many benefits such as sustained capital inflows that could lead to current account surpluses and a build-up in foreign exchange reserves but, as well, poses significant challenges such as an increased need for sterilization and, eventually, the necessity to manage Dutch disease. The current international academic debate focuses on the question if SWFs, and more specifically the African ones, could be successful in making natural wealth beneficial for the economy of the natural resources-rich countries, supporting the social and economic development of the sponsor country and of the entire Region, promoting intra-African investments, enhancing productivity, fostering inclusive growth and reducing the infrastructures' gap. It is difficult to find a unique answer due to the heterogeneity of national economic situations and the different nature of SWFs and of the tools used in order to measure their effectiveness. However, it is generally recognized that the main condition for a SWF to be successful is a clear mandate able to guarantee good governance and SWF's accountability and transparency. Where for Governance it is intended the rules in place defining the role of the Government, of the governing bodies and of the managers and their independency, with specific reference to the inflow and outflow of money. Transparency is related to the detailed communication of the Fund role and objectives and, as well, the timely provision of information on the Fund's activities and operations. Accountability, regards the degree to which the SWF and its governing bodies are responsible for their decision as in Tsani, Ahmadov and Aslanli work¹³². This assumption is specifically valid for

¹³¹ Adam D. Dixon, Ashby H.B. Monk: “What role for SWF in Africa's Development?”, Oil to cash initiative background paper, October 2011, Center for Global Development.

¹³² S. Tsani, I. Ahmadov, K. Aslanli: “Governance, transparency and accountability in Sovereign Wealth Funds: Remarks on the assessment, rankings and benchmarks to date”, Public Finance Monitoring Center, March 2010.

the Fundo Soberano de Angola, and for the upcoming African Sovereign Wealth Funds, whose effectiveness will be related to these three essential elements and to the capacity of monitoring and communicating the social and economic goals achieved in order to become a model for many other SWFs. One of the major challenge, in fact, for the FSDEA and other African SWFs, is, without any doubt, the capacity to adapt rules of corporate governance able to ensure real independence from short-term political interests. In this sense, the structure of a SWF is just as important as its investment decisions, if not even more, in terms of SWF's effectiveness and accountability. A good governance and a punctual information of the goals, of the results, and of the overall benefits for the Country, promoted by the Fundo Soberano de Angola, would help in gaining the support and the trust of the public opinion, in avoiding critics and failures and the possibility that a direct distribution of the SWF's wealth to the population could be wished as a better option for Angola¹³³.

¹³³ http://www.cgdev.org/section/initiatives/_active/revenues_distribution.

Conclusion

Sovereign Wealth Funds, indeed, are neither an opportunity nor a threat. They can be either an opportunity or a threat according to the way they are managed. In this regard, this study aims to prove that SWFs, if correctly structured and managed, can become a perfect tool for fostering the sustainable development of sponsor countries, with specific reference to emerging countries. This is the reason why this dissertation highlights the need to evaluate not only SWFs' transparency but also their sustainability, in order to assess if they could represent an opportunity, both at the domestic and at the international level. In fact, even if transparency gives us important hints on the overall structure and general behavior of a fund, it doesn't tell us about its political agenda, its independence from the possible interference of the government in its management and its possible secondary objectives. Furthermore and even more important, it does not tell us enough with regards to the adoption of ethical guidelines and codes, enabling the SWF to achieve goals, other than the technical and economic and financial ones, such as the social and sustainable development related ones. Thanks to their two fold nature, institutional in the structure and private in the behavior, in fact, Sovereign Wealth Funds can achieve at the same time financial revenues and social goals enabling sponsor countries to export best practices around the world through investments in companies that adopt behavior compatible with the protection of human rights and the environment, and divest from those who behave with no respect for these criteria. As presented in Chapter n.6, many SWFs have already started including in their portfolio sustainable investments in various fields such as education, infrastructures, and renewable energies. It is becoming increasingly important, indeed, to match financial returns, usually pursued by the private sector with public goals, generally granted by institutions. More than an option, indeed, in times of crisis, of economic and financial difficulties and of credit imbalances, it has become a need. Institutions, indeed, are not anymore able to support the costs of the public good while the private sector can't move forward without considering the social aspects as a fully integrating part of their business due to the high level of interdependency of the new multipolar world. As a consequence the number of Private and Public Partnerships have dramatically increased as well as the awareness of the necessity of a more efficient way to manage public wealth and a more cautious way of managing private interests, considering the social wealth and the importance of shareholders and stakeholders. In this regard, SWFs should accomplish at the same time public goals and financial returns and they should equally benefit their shareholders through the most efficient model of redistribution of revenues, according to the different conditions and period. In this regard, one of the most important outcomes of this study is the need to explore the opportunity of using a mix of the two models of redistribution of revenues, the direct and indirect ones, with specific reference to emerging countries which face a high level of poverty. In the case of emerging countries where a natural resourced based economy doesn't have a deep beneficial impact on employment and is not favoring the reduction of the huge gap between the majority of the population who lives in condition of high level of poverty and a minority who holds the majority of the revenues, the partial direct redistribution of revenues, can support the poorest part of the population. Even if this combined model hasn't been tested yet by SWFs, it could offer an important addition in value in the performance of the SWF's mandate with specific reference to the reduction of the level of poverty of the sponsor country. In conclusion, the study presents alternative ways to consider Sovereign Wealth Funds, not only from the financial side but also considering the great potentiality they have to operate in terms of ethical guidelines and sharing of best practices. This is why it highlights the need to move from the assessment of transparency to those of sustainability. If SWFs' financial role has been largely addressed by the current literature, their capacity to perform a role in the field of sustainable investments has been less explored. The study also suggests the creation of a Sustainability Index able to measure SWFs' sustainability, an important element in order to define a SWF as a potential opportunity. SWFs' divestments from companies can also take place in those cases where companies fail to be consistent with the ESG Criteria they have adopted as per their mandate. This process provides legitimacy to the SWF that accomplishes the political national agenda of the sponsor country that doesn't consider the SWF as a pure economic and financial tool but also as a possible tool for the promotion of the national value and beliefs. At the same time the Sovereign Wealth Fund should have complete independency from any action coming from the

Government that owns the Fund on behalf of the citizens to achieve its goals or to be used or misused. There are many examples of SWFs managed as private assets by representatives seeking personal interests. In this sense, there are specific conditions to insure that the SWF will be free from political power's abuses and mismanagement. This would be fundamental for the Fund to be able to pursue its given objective(s) and to satisfy shareholders and stakeholders' rights and expectations. On the other hand, a SWF that is sponsored by an enlightened government, regardless of its political structure could be used as a perfect tool for the promotion of sustainable investments and the development and sharing of best practices.

Sovereign Wealth Funds, indeed, and with them many other long term investors such as banks, mutual funds, pension funds and others, should raise their awareness of their great potential for supporting sustainable development and investments. Sustainable development will be the criteria by which to judge SWFs in the future, empowering shareholders and stakeholders to ask the tough questions. The main achievement of this research is to present SWFs as partner of sustainable development and inclusive growth. They have all the characteristics to perfectly perform this role and many SWFs have already endorsed ethical principles and promoted sustainable development. As SWFs are here, to stay, it is our task to make them to be a force for common good and eventually to become actors for an equal redistribution of revenues and even, of opportunities.

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