UNIVERSITY OF AGDER

Avoiding the Curse by Transparency and Ethics?

A comparative study of the transparency and ethical principles of the sovereign wealth funds of Norway and Kazakhstan

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This master's thesis is carried out as a part of the education at the University of Agder and is therefore approved as a part of this education. However, this does not imply that the University answers for the methods that are used or the conclusions that are drawn.

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Abbreviations

EITI – Extractive Industries Transparency Initiative

IFSWF – International Forum of Sovereign Wealth Funds

IMF – International Monetary fund

NFRK – National Fund of the Republic of Kazakhstan

NGPFG – Norwegian Government Pension Fund Global

SWF – Sovereign wealth fund

Figure List

Preface

This Master thesis is written as the final part of the Master's programme in Business Administration at University of Agder, and counts for 30 ECTS points.

As a citizen of a wealthy country like Norway, one often tends to take for granted that oil wealth only brings good things with it. However, that is not the case, and it takes complex management of the oil wealth to obtain optimal results. Oil funds work as vehicles for managing wealth, but are crucially dependent on many variables to succeed – and I wanted to look at two of them: transparency and ethics.

Kazakhstan was inspired by the Norwegian model when establishing their oil fund, and it is therefore interesting to compare the two countries. The countries are different in so many ways, but still struggle with the same issue – how to make oil benefit both current and future generations? During the work on my thesis, I had the opportunity to go to Kazakhstan for data collection. At times it was challenging, but altogether it will stand out as one of the best experiences from my time as a student at UiA.

There are several people I would like to show my gratitude to. Nygmet Ibadildin and Nargis Kassenova at KIMEP University, for meeting me and helping me with practical issues in Kazakhstan. Zhanibek Khassan for answering so many of my questions both before, while in, and after I visited Almaty. Dina Azhgaliyeva for truly helping me with establishing contact with the Ministry of Finance in Astana, and who showed me how warm, welcoming and helpful the Kazakhstani people are. I would also like to thank all my respondents, for taking their time to express their opinions, and help me collect relevant documents. Great thanks to my fiancée, Anton, for bearing with me in moments of frustration, and making dinner whenever I asked – I hope you can hold out for three more years.

At last, I want to give my sincere thanks to my supervisor, Stein Kristiansen, who has provided valuable insight and curiosity, given me a new way of thinking, and been truly patient in his guidance. Thanks to him, writing this thesis has been a rewarding, yet challenging experience, inspiring me to continue on research within the subject of oil and economics.

Anne-Britt Halonen,
Kristiansand, May 2014

Executive Summary

The purpose of this thesis is to explore how transparency and ethics in sovereign wealth funds may contribute in avoiding the resource curse, and compare how the sovereign wealth funds of Norway (the Norwegian Government Pension Fund Global – NGPFG) and Kazakhstan (the National Fund of the Republic of Kazakhstan – NFRK, and Samruk-Kazyna) implement transparency and ethics in their practical operations.

Researchers such as Kolstad and Wiig (2009) and Williams (2011) have connected the resource curse to transparency. Resource funds, or sovereign wealth funds, work as tools in combating certain aspects of the curse, and in this thesis transparency is therefore directly linked up to sovereign wealth funds. Based on different transparency models (International Forum of Sovereign Wealth Funds, 2008; SWF Institute, 2013; Truman, 2010), an analytical framework is developed to assess the level of sovereign wealth fund transparency.

Further, researchers like Hawley and Williams (2000), Kiernan (2009) and Richardson (2011) argue that ethical principles in the investment practices of sovereign wealth funds may improve their performance and sustainability, making them better able to meet the needs of future generations. I therefore suggest and try to explore how ethical principles in sovereign wealth funds work as relevant tools in combating the curse by affecting elements of fund performance.

Interviews have been conducted in Kazakhstan, and public documents have been investigated to collect data on the transparency and ethical conduct of the Norwegian and Kazakhstani funds. The NGPFG clearly stands out as more transparent than the Kazakhstani funds, as it publishes comprehensive, understandable and easily available information. Hence, it is in a better position to keep leaders honest, avoid rent-seeking and corruption and encourage public debate, amongst others, thus likely enhancing profitability and stability. Further, the NGPFG is the only fund among the three that systematically implements ethical principles, based on the belief that it enhances long-term return and sustainability. Samruk-Kazyna does to some extent consider ethical issues via its involvement in CSR. The NGPFG, and to some degree Samruk-Kazyna, are therefore likely better at facilitating growth and sustainability also for future generations. According to the ideas presented in this thesis, and due to its level of transparency and ethical principles, the NGPFG is thus better able at contributing to resource curse avoidance on a longer time perspective than the two Kazakhstani funds. Hence, the Kazakhstani funds should implement measures for improving their ability to defeat the curse.

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Chapter 1: Introduction

1.1 Background

Being a country rich in natural resources in not necessarily an outstanding advantage for economic development. Throughout time, countries and researchers have experienced that the benefits of resource abundance can be undermined by the disadvantages. Many authors and researchers have contributed on the topic of 'the resource curse,' and empirically it has been shown that countries rich in natural resources have a tendency to perform worse than resource-poor countries regarding economic growth and general welfare. Several questions have been raised about what causes it and how to defeat it.

Due to an SIU Eurasia project in cooperation between University of Agder in Norway and KIMEP University in Kazakhstan, led by my supervisor Stein Kristiansen, it appeared interesting to do a comparative study of elements relating to the resource curse in these two countries. Norway and Kazakhstan are both oil-rich countries, facing the risk of experiencing the resource curse.

Sovereign wealth funds (SWFs) are one of the remedies to face and minimize the problems of the resource curse. Both Norway and Kazakhstan apply this remedy; Norway with its Norwegian Government Pension Fund Global (NGPFG), and Kazakhstan with its National Fund of the Republic of Kazakhstan (NFRK) and its welfare fund Samruk-Kazyna. As Kazakhstan was inspired by the Norwegian model when establishing one of its funds, it is reasonable to perform a comparison of the management of the Norwegian and Kazakhstani funds.

This thesis has a descriptive and an explorative approach, as it seeks to study two certain aspects of sovereign wealth funds, transparency and ethics, and how they relate to the resource curse. Lack of transparency has been suggested to be an element of the resource curse, and transparency is also considered fundamental for making funds work optimally. Sovereign wealth funds' ethical conduct has not previously been directly related to the resource curse, but this thesis suggests the existence of such a relationship, via the effect that ethical business conduct has on sovereign wealth fund performance.

Fighting the resource curse is in essence all about ensuring long-term economic growth. The main argument presented in this thesis is that sovereign wealth funds' transparency and ethical conduct will contribute to sustainability and long-term returns, thus facilitating long-term economic growth and the welfare of future generations. Economic growth and long-term returns are dependent on a liveable world where there is a sound and sustainable basis for investment and development, – and ethical principles strive to maintain this basis.

1.2 Research Questions

Therefore, this thesis will compare how Norway and Kazakhstan fulfil transparency in the administration of their funds, and how they implement ethical principles. The following research questions are raised:

1) What is the level of transparency in the management of the sovereign wealth funds?
2) How is transparency achieved in the funds?
3) How is the awareness of benefits of transparency and ethics?
4) What ethical principles are the funds obliged to follow, and what instruments are they using for their ethical conduct?

The main question raised is how transparency and ethical principles in sovereign wealth funds may contribute to resource curse avoidance. By asking the four specific research questions, I seek to suggest how capable the three funds are in facing the resource curse with the help from transparency and ethics. This thesis explores the idea of a connection between ethics, transparency and the resource curse and does not provide any empirical basis for conclusions.

1.3 Structure

Chapter 2 provides the reader with reasoning why ethics and transparency are relevant issues of study. The chapter gives a theoretical introduction to the resource curse and its causes, how it relates to sovereign wealth funds and how transparency and ethical investment of sovereign wealth funds may work as tools for defeating the curse.

Chapter 3 briefly describes the economic and political background of Norway and Kazakhstan and how their sovereign wealth funds were established and work. This is useful to understand why the funds are different, and to have a basic reference when comparing the funds in the empirical part.

Chapter 4 provides more specific theory on sovereign wealth funds, transparency and ethical investment. Previous literature is presented and, based on this, a framework for assessing transparency and ethical conduct is developed. At last in this chapter, theory is connected to the resource curse issue, establishing the basis for my empirical analyses.

Chapter 5 describes and explains the methodology used in the thesis, while chapter 6 presents the relevant empirical findings. In chapter 7, these findings are discussed and compared in accordance with theory and the research questions.

A conclusion is made in chapter 8, which provides policy recommendations for each of the funds and suggests topics for further research.

Chapter 2: Theoretical Introduction

2.1 The Resource Curse

A country rich in natural resources has the opportunity to achieve resource rents, an increase in employment and investment, and an acceleration of economic growth. However, not only benefits follow from resource abundance. One of the most commonly known consequences of natural resource wealth is the Dutch disease, a term in common use since 1977. Ross (2012) summarizes it as "the process that causes a boom in a country's natural resource sector to produce a decline in its manufacturing and agricultural sectors" (ch. 2). Increased revenues from natural resource exports in a country cause an increase in the real exchange rate. In turn, this hurts the export of manufactured goods, as they become more expensive for other countries, and the resource exporting country loses competitiveness. As a result, the economic growth of the country slows down (Gylfason, 2001; Sachs & Warner, 2001).

The Dutch disease is only one of the consequences that may follow from natural resource abundance, and is now one of the elements of a broader and newer term, the resource curse. The literature to date offers a broad discussion on the causes of and solutions to the resource curse, which by Sachs and Warner (2001) is explained as "the observation that countries rich in natural resources tend to perform badly" (p. 827). By regression analyses, they found that resource abundance correlates with slow growth, and that "none of the countries with extremely abundant resources in 1970 grew rapidly for the next 20 years" (Sachs & Warner, 2001, p. 829). The result was still standing when controlled for other variables, and thus "empirical studies have shown that this curse is a reasonably solid fact" (p. 837).

However, not all researchers agree with these results. Ross (2012), focusing on oil as the natural resource, points out that there are countries, like Norway, who have extracted oil without experiencing negative effects. The problems of being resource abundant mainly apply to low- and middle-income countries. Ross calls this the irony of wealth: "Those countries with the most urgent needs are also the least likely to benefit from their own geologic endowment" (ch. 1). Most previous studies of the curse, including the ones by Sachs and Warner, focus on the period between 1970 and 1990. When looking over a longer period, there is little evidence that extracting oil in general leads to slower economic growth. Ross actually found that oil-producing states grew faster than other countries both from 1960 to 1973 and from 1990 to 2006. However, some oil rich states are not as well off as they should have been, given their petroleum wealth, and this fact is by Ross referred to as a milder form of the resource curse.

“For oil exporters, the resource curse cannot be attributed to oil itself, which is merely a black viscous material, but rather to the types of arrangements that have developed around its exploitation” (Karl, 2007, p. 256). One of the risks that emerge with natural resource wealth, is a higher level of corruption. Torvik (2011) points to the institutional issues. Resource abundance makes it more profitable to be a rent-seeker, instead of engaging in productive activities that benefit the economy as a whole. This lowers the income from productive activities, so that even more choose rent-seeking, and a negative multiplier process arises.

Mehlum, Moene and Torvik (2006) made a study on the relevance of institutional quality, and showed that “quality of institutions determines whether countries avoid the resource curse or not” (p. 16). *Producer friendly* institutions, which attract entrepreneurs into production, promote growth as they encourage countries to benefit from the resources, while *grabber friendly* institutions induce lower growth. They find that “the resource curse is weaker the higher the institutional quality” (p. 13).

Another issue of the resource curse is overspending. Politicians that have access to resource wealth, may face the possibility to gain support through increasing public spending, creating a tendency of spending too much too quickly, thus decreasing the value of a country’s resource wealth (Humphreys & Sandbu, 2007). Ross (2012) points to the fact that governments that receive more oil revenues, have a tendency to collect less revenues from taxes. It is easier and politically more popular to collect revenues from the oil sector rather than from the population. Also, when revenues are high, international lenders may be willing to lend more, leading the resource rich country to overspend (Humphreys & Sandbu, 2007).

Moreover, resource revenues, and oil revenues in particular, are highly volatile and instable. This is due to a volatile extraction rate, fluctuating resource prices, and variability in timing of payments, such as taxes, from companies to the state. Because of the financial instability, it is difficult for governments to manage their responsibilities and make long-term plans. As a result, expenditure may increase when revenues are high, and cut when revenues are low, resulting in poor, unsustainable economic growth. This contributes to explaining why some states tend to overspend their resource wealth, as financial planning gets more complex when faced with instable revenues (Humphreys, Sachs & Stiglitz, 2007b; Ross, 2012).

Auty (2007) claims that resource rich developing countries have a tendency to make unsustainable investments and distribute resource rents in ways that undermine long-term economic growth and sound environmental policies. Auty further argues that “sustainability requires that the capacity to sustain the income stream from the mineral asset needs to be passed on to future generations" (2007, p. 6). Drysdale (2007) explains that some paths of resource revenue management contribute to sustainable development, while others lead to elements of the resource curse, and that institutional quality affect which path is followed. Therefore, sustainable development is the opposite state of being resource cursed, and by achieving sustainability, the resource curse is avoided.

Sustainable development is by World Commission on Environment and Development (1987) defined as "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (p. 37). They distinguish between two concepts: The concept of needs, in particular the needs of the poor, and the concept of the environment's ability to meet present and future needs. Further in this thesis, sustainability will be related to economic, environmental and social sustainability, with a focus on the two last to facilitate economic sustainability.

2.2 How to Defeat the Curse?

2.2.1 Resource Funds

Arezki, Gylfason and Sy (2011) suggest that good institutions and governance helps converting natural resources in a way that boosts growth. To avoid Dutch disease and overspending problems, resource income can be used for investments rather than consumption. Such investment can be in human capital, physical capital or financial assets. When investing in financial assets, a resource fund is an option. Such a fund can work as a stabilisation fund, to avoid some of the issues that come from instable oil revenues and expenditure (Humphreys et al., 2007b), or as a tool for saving parts of the resource wealth for future generations (Tsani, 2013), thus contributing to sustainable development. A resource fund will work as an institution in the economy, and with the appropriate management and policies, the general institutional quality may be raised.

2.2.2 Transparency

According to Kolstad and Wiig (2009), transparency is essential to reduce corruption and improve the institutional quality. Related to the resource curse, transparency may have an impact on its basic mechanisms, especially on rent-seeking. They claim that transparency reforms should "focus on the areas most important to alleviating the resource curse" (p. 521), and "focus on increasing access to information in areas that matter for reducing rent-seeking and patronage" (p. 527). Williams (2011) addresses the issue of transparency as well, claiming that lack of transparency makes it difficult for participants in the economy to make informed and efficient decisions. He concludes that resource-rich countries are less transparent, which appears to be a direct consequence of resource revenues.

One of the channels transparency may work through, is a resource fund. A resource fund itself may promote transparency, enabling a better overview of resource revenues and the flow of these revenues into the economy (Tsani, 2013). Tsalik (2003) points out that “transparency keeps leaders honest” (p. 49), an informed public restrains leaders from using the assets of the fund in ways that do not comply with the formal objectives of the fund. Revenue Watch Institute (2011) argues that the problem of rent-seeking and corruption can be worsened by the lack of transparency and accountability in resource funds, and that transparency is a key requirement for having success with such funds. As Bauer (2014) explains: “Separating resource revenues can help reduce the risk of corruption and mismanagement only where there are strict and comprehensive disclosure requirements for fund operations (…)” (p. 15).

Moreover, a transparent resource fund promotes public understanding of the purpose of the fund, making the fund work as a commitment device (Revenue Watch Institute, 2011). With the public’s interest, useful debates on the use of resource revenues may arise (Tsani, 2013), which according to the International Monetary Fund (IMF) facilitates economic analyses of the fund from outside analysts (IMF, 2007), making it more likely to achieve an optimal management of the fund.

However, a resource fund could reduce transparency as well, if the government finances deposits into the fund by borrowing, making the public believe the country is wealthier than it truly is. For a fund to provide better transparency of resource revenue management, the fund itself must be transparent (Davis, Ossowski & Fedelino, 2003).

2.2.3 Ethical Principles

When discussing resource funds, ethical investment is a relevant element to consider, that may make resource funds work better in defeating the curse. Crane and Matten (2007) define business ethics as “the study of business situations, activities, and decisions where issues of right and wrong are addressed” (p. 5). Ethical investment is also known as socially responsible investment (SRI) or sustainable investment, and Kiernan (2009) defines sustainable investment as “a style of investing that explicitly and systematically examines performance and positioning of companies on environmental and social issues as part of the basic investment evaluation discipline” (p. 64).

One may claim that there is a link between sustainable economic development, social development and environmental protection, and that long-term investors benefit from companies that respect ethical norms. Taking ethical issues into consideration, such as environmental, social and governance issues, protects the long-term value of investments, and is an approach of achieving the goals of sustainable development (Halvorssen, 2011). Richardson (2011) explains that sovereign resource funds in particular may benefit from investing in sustainable development. As these revenue funds grow large, and are backed by government, they are more risk-tolerant and are capable to follow sustainable investment strategies that are avoided by private investors. Funds with a longer financial time horizon are better able to benefit financially from a sustainable world.

The main benefits of engaging in sustainable investment is, according to Kiernan (2009), that investors achieve a clearer picture of the risks and opportunities of companies. Traditional financial analysis does not provide sufficient information on the true risk picture of companies, and their potential value. For investors engaging in sustainable investment, it is easier to identify the better-managed companies that are likely to perform better, making it more likely to achieve a better long-term financial performance.

According to Hawley and Williams (2000) and Kiernan (2009), institutional investors that hold diversified securities on a long term, such as resource funds, have become large and broadly invested in the global economy. These investors must care about the global economy as a whole, as they in essence own a piece of it. If there is a recession in the global economy, they bear the losses. Often funds are so large that it is difficult to pursue an active investment strategy without affecting the prices of securities, preventing them from moving in and out of the market and selling securities when shortfalls occur. Individual companies may benefit financially from placing negative externalities, such as water pollution, on the economy, but the economy as a whole bears the cost. Therefore the large institutional investors, such as resource funds, bear the cost, as they are affected by the performance of the global economy (Hawley & Williams, 2000). Sethi (2005) concludes that large institutional investors therefore must consider environmental and social concerns, because there is no better alternative – they must strive for improving their returns in line with the world economy.

Sustainability further focuses on future generations, and enables intergenerational equity. Economic sustainability includes focus on impacts on the economic framework in which an organisation is embedded (Crane & Matten, 2007). Resource funds involved in ethical investment are therefore better able to contribute to the welfare of future generations. Kiernan (2009) stresses the issue of a future, liveable world, relating to both current social and environmental conditions. He argues that unless negative social and environmental conditions are reversed, “there will be relatively little point in investing; we will simply not have the sort of world in which anyone would want to work, raise children, or spend their retirement" (p. 97). Sethi (2005) supports the same view, arguing that one must strive for social change to make the world safe for capitalism.

However, when studying the financial performance of ethical investment, many conflicting results appear. Wen (2009) has reviewed some of the literature on SRI, and finds that evidence of a positive correlation between SRI and return were unstable when controlled for other criteria. Wen concludes that there is no clear correlation between financial performance and companies' involvement in CSR. In terms of financial performance when considering environmental issues, Derwall, Guenster, Bauer and Koedijk (2005) found that a portfolio highly ranked in terms of eco-efficiency gave higher average returns than a lower ranked portfolio in the period 1995 to 2003. Drut (2010) shows that the socially responsible rating, including both environmental and social considerations, of sovereign bond portfolios may be improved without harming the risk/return relationship. However, based on literature to date, it is difficult to make final conclusions on the financial performance of SRI, as there are conflicting results. This is especially true for longer-term investors, such as sovereign wealth funds, as most research does not study the performance on a long term.

2.3 Summary

Whether the resource curse truly exists empirically or not, this chapter has so far suggested that there is an essential relationship between natural resource abundance and economic growth. A country rich in natural resources, who wishes to achieve sustainable economic growth, should therefore take the elements of the curse into consideration when deciding the optimal policy for exploiting its resources.

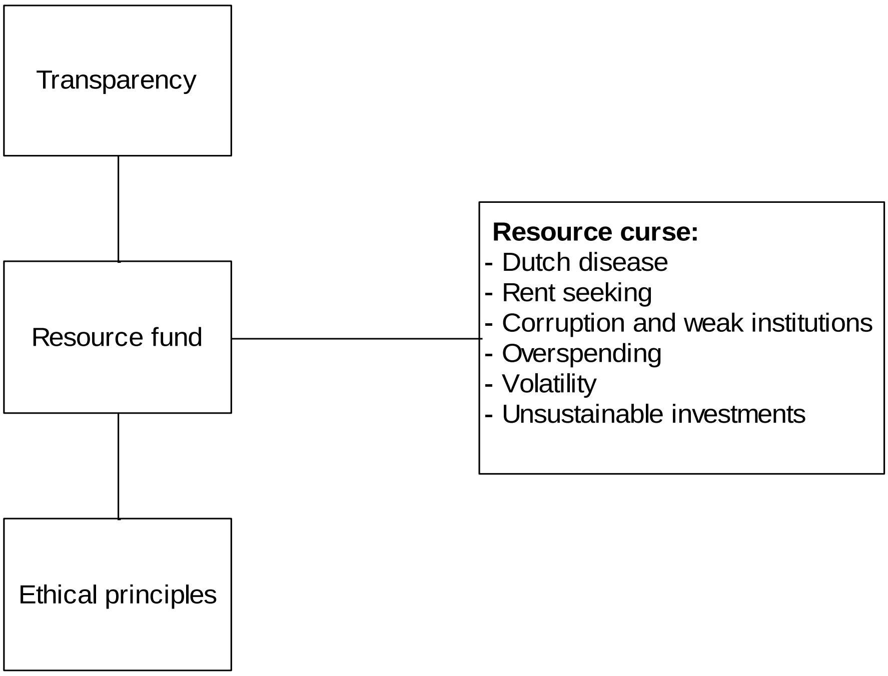
To sum up, some of the main issues of the resource curse are as following:

- Dutch disease: Overvalued currency and lost national competitiveness
- Rent-seeking
- Corruption and weak institutions
- Overspending
- Volatility
- Unsustainable investments

To face these issues, resource funds are one of many possible instruments. According to Karl (2007) "a far-reaching 'fiscal social contract' based on transparency" (p. 257) may create incentives to change the rent-seeking behaviour of actors.

Therefore, based on what has been found so far, this thesis will focus on the linkage between resource funds and the resource curse and especially discuss how strong institutional qualities may help defeating Dutch disease, rent-seeking, corruption, overspending and volatility and promoting sustainable investments and growth. It has been suggested that transparency is an important element of institutional quality, and that transparency is essential for the fund to work optimally. Further, it has been shown that ethical investment may work as a tool for making the resource fund facilitate sustainable growth in the long run. Therefore, as illustrated in the figure below, this thesis will further investigate transparency and ethical principles as essential elements in the management of resource funds, as tools in facing the resource curse. More specific details on transparency and ethics will be given in chapter 4, while chapter 7 will discuss the level of transparency and ethical principles in the sovereign wealth funds of Norway and Kazakhstan.

Figure 1: Preliminary framework



Chapter 3: Contextual Overview: Norway and Kazakhstan

3.1 Norway

3.1.1 Background

With a GDP of USD 500 billion, and a PPP GNI (gross national income converted to international dollars by using purchasing power parity rates) per capita of USD 67 450 in 2012, Norway is defined as a high income OECD country by The World Bank (2012). It is a constitutional and hereditary monarchy, and its constitution endows the legislative power in the Parliament. Norway is rich in natural resources such as fish, forests, minerals and oil, and some of the most important industries are petroleum, natural gas and fishing. Free market capitalism is combined with an advanced welfare state (The Stateman's Yearbook, 2009).

According to BBC (2013b), Norway "enjoys one of the highest standards of living in the world," and Moses (2005) explains that people tend to point to Norway's oil wealth when explaining why it is a rich country. However, Norway enjoyed substantial economic growth also before the discovery of oil. After 'The Great Transformation' in the mid-1800s, where agriculture got modernized due to new technology and tenure systems, the Norwegian industrialization took off at the end of the 19th century (Hodne & Grytten, 2002). The rapid industrialization was mainly based on the cheap hydroelectric power Norway could produce because of its waterfalls, which formed a foundation for more productive industries, also within the agriculture, fishery and forestry sectors. The economic progress was followed up by social and political developments, such as democratic and welfare state reforms (Moses, 2005).

Today, Østerud (2007) claims that Norway has "one of the most democratic systems in Europe" (p. 2), and has strong institutions and a public sector that combines private and public interests, with equality and welfare in focus. The economy is stable, with no public debt and a positive balance of trade, and Østerud explains that well-working strategies for acquiring and controlling the oil and gas deposits have contributed to Norway's wealth and stable economy.

Transparency in Norway appears to be high. According to Kristiansen (2014), the Nordic countries were among the first to introduce press freedom, in Denmark-Norway in 1771. This meant abolishing censorship and contributed towards a transparent bureaucracy. Norway has a press freedom score of 10 out of 100, where 100 is the worst (Freedom House, 2013b). Further, the Nordic countries also early introduced freedom of information acts, granting the public access to government documents, thus limiting the rent-seeking as government decisions could be made more based on common and public interests (Kristiansen, 2014). The level of corruption is low, and Norway is ranked number 5 out of 177 countries by Transparency International on their corruption perception index. On the open budget index, which measures the availability of key budget documents, Norway scores 83 out of 100, meaning that Norway provides extensive information (Transparency International, 2013b).

3.1.2 Oil and Oil Dependence

In 1969, petroleum was discovered at the Ekofisk field, which is part of the Norwegian continental shelf. Norwegian authorities declared the ownership of the resources, but international oil companies conducted the first explorations. Production started in 1971, and gradually the Norwegian involvement increased. State owned Statoil took a 50 percent ownership share of all new fields from 1972 and on. Today, the government has a 67 percent ownership share in Statoil (Holden, 2013). An oil price shock in 1973 led several developed countries into recession, but in Norway the economic growth was higher, as Norway could run a countercyclical financial policy in the same period, thanks to the discovery of petroleum. However, partly due to the growth in the petroleum sector, deindustrialization took place, and labour costs were pushed upwards. The Norwegian foreign sector got less competitive. Despite of this, the country experienced a high growth rate in the last three decades of the century (Grytten, 2008). About half of Norway's exports come from the oil and gas sector, and in 2013 the value of output from this sector was NOK 831 billion (Statistics Norway, 2014).

The Norwegian oil production peaked in 2000, and the oil revenues have been falling since. However, there were new oil field discoveries in 2010 and 2011 (Holden, 2013). Today, Norway is Europe's largest oil producer, and an important supplier of oil and natural gas to other European countries (U.S. Energy Information Administration, 2012).

It appears that Norway has so far not experienced any severe consequences of the resource curse. According to Gylfason (2011), "the domestic economy has been largely shielded from the influx of oil money, thereby avoiding overheating and keeping the value of the Norwegian krone from rising" (p. 21). An earlier strategy of transferring a "variable but declining proportion of each year's net oil-tax revenue" (p. 21) to the government budget limited the damage to non-oil exports and import-competing industries. There is a low inflation in Norway which also reflects a disciplined fiscal and monetary policy. How the oil revenues are spent in the Norwegian economy will be further explained later on in this chapter.

Gylfason (2011) points to five key features of the Norwegian oil wealth management that deserves attention (p. 21):

- The oil and gas reserves of Norway were from the beginning defined, by law, as common property and established a legal basis;
- On this basis, the government has been setting aside most of its oil revenues in the Norwegian Government Pension Fund Global (NGPFG);
- The government has laid down economic and ethical principles to guide the use of the oil and gas for the benefit of future generations;
- The main political parties have shared an understanding of the need to shield the national economy and avoid overheating;
- The central bank manages the NGPFG on behalf of the Ministry of Finance, which maintains a distance between politicians.

The ethical principles mentioned above, were implemented in 2004 and are in line with the proposals from the Graver Committee, presented in 2003 (Richardson, 2011). Gylfason (2001) points to Norway as a good example of how good policies can turn resources into a blessing. By investing the money into foreign assets via the NGPFG, Norway manages to divide the oil receipts between the present and the future generations, and shield the domestic economy. However, the total exports of goods and services are no larger in proportion to national income than before oil was discovered, indicating that oil exports have crowded out the non-oil exports.

Larsen (2005) examined Norway's growth performance by measuring its relative performance in Scandinavia. Until the early 1970s, Norway trailed its neighbours and experienced the same growth pace. By using GDP per capita converted to 1999 purchase power parity as an indicator of economic development, Larsen found that Norway accelerated its GDP per capita relative to its neighbours after the oil discovery. In the late 1990s, this turned, as Sweden and Denmark grew faster than Norway. Larsen concludes that this structural break in the late 1990s could be an onset of a mild resource curse, possibly due to a shrinking manufacturing sector. Holden (2013) points out that some mechanisms of the Dutch disease have been at work in Norway, as wage costs have increased relative to trading partners. On the other hand, the reduction of the size of the manufacturing sector relative to the overall economy has been similar to that of several other advanced countries.

Listhaug (2007) claims that Norway has escaped the serious resource curse, thanks to robust institutions that existed before oil was discovered. However, a mild resource curse might exist. It is pointed out that Norwegian voters show signs of discontent to the fact that the oil fortune is controlled in an oil fund, and not spent. When the state is involved in oil activities, the public expects that they will benefit from oil wealth. When expectations are not met, political trust will suffer. Listhaug (2007) observes a political dissatisfaction based on survey data, and concludes:

> It is likely that public perception of a contrast between the growing wealth that cannot be touched, and the demands for more public services and lower taxes, contribute to the policy dissatisfaction that we observe: voters want more of the oil wealth to be spent immediately. Next, these political dissatisfactions weaken political trust. (Listhaug, 2007, p. 146)

3.1.3 Norwegian Government Pension Fund Global

In 1982, a committee was appointed by the government, to investigate conditions that may affect the petroleum sector. This committee was called the Tempo Committee, and in 1983 they recommended that the oil revenues should be placed in a fund, and that only the real return of the fund should be spent, isolating oil revenue from spending (Ekeli & Sy, 2011). The idea of a government oil fund received support in the 1980s. The Norwegian Government Petroleum Fund was created in 1990, and it changed name to the Norwegian Government Pension Fund Global (NGPFG, or the Fund) in 2006. However, the oil revenues which the government received from the oil sector in the 1990s were small, due to a fall in the oil price. There was no savings in that period, and money was not placed into the fund before 1996 (Holden, 2013). Today, the Fund is among the world's most visible investors, and has a remarkable reputation in terms of its structure, governance, transparency and responsible investing (Chambers, Dimson & Ilmanen, 2012).

The Norwegian parliament is the ultimate owner of the Fund, and decides how the Fund should be managed and who is responsible for doing so. The Ministry of Finance is the formal owner, and evaluates the operational management. The governance of the fund is based on a legal act passed by Parliament, and on a management mandate issued by the Ministry. These will also be described in chapter 6. The Norwegian central bank, Norges Bank, is the operational manager, and has a separate entity within its organisational structure, called Norges Bank Investment Management – NBIM. NBIM is charged with the responsibility of the Fund, and implements the investment strategy, in addition to reporting, risk control and exercising the ownership rights of the fund (Holden, 2013). The mandate of the Fund is to maximize international purchasing power, given acceptable risk levels decided by the Ministry of Finance. Significant changes to investment strategy are presented to Parliament before implementation, to help public understanding of fund performance. Both internal and external asset managers are used, to obtain a high level of diversification (Chambers et al., 2012).

According to Holden (2013), when the fund was established:

> (…) it was decided that all government net revenues from the petroleum sector would be transferred to the fund. However, the fund would be integrated in the ordinary government budget, so in case of a deficit in the ordinary budget, there would be an automatic deduction

> from the Petroleum Fund. The idea was to avoid that the politicians could "pretend" that they were saving in the Fund, while they at the same time borrowed to finance the ordinary budget spending. Third, the money from the Fund could only be used on the ordinary government budget. (p. 874)

The government receives oil revenues via different channels. The most important channel is the tax system. In addition to the ordinary 28 percent tax that applies to all firms, the petroleum sector pays an additional 50 percent tax on oil profits. Another important source of government revenue is the direct ownership via State's Direct Financial Interest – SDFI, which has a passive ownership in all active projects. As a third main source, the government receives two-thirds of the dividends from its ownership of Statoil (Holden, 2013).

The Fund mainly invests in publicly traded securities. Due to petroleum inflows, the investment horizon is long, and it is estimated that the annual withdrawals from the Fund to cover the oil-corrected budget deficit will exceed inflows of new money around 2020. All of the assets are invested abroad to prevent the Dutch disease effects and protect the domestic economy. The Fund acts as a passive investor, and seeks to participate in the growth of the world economy, without striving for higher-than-normal returns (Lücke, 2010).

According to Isachsen (2002), the Fund is a tool to lead a responsible and long-term fiscal policy. Petroleum wealth enables increased consumption and welfare on a permanent basis, given that the use of oil wealth is separated from the current revenues. By saving the oil revenues in a fund, the return of the Fund will provide a basis for increased welfare in the future. Also, due to fluctuations in the oil price, oil revenues will vary from year to year. The fund protects the domestic economy from such fluctuations. At last, the fund prevents the mechanisms of the Dutch disease from working too heavily, because one allocates the use of oil money over time. Therefore, the Fund works as both a stabilisation fund and a savings fund. How such funds work will also be described in chapter 4.1.2.

The Social Democratic government in 2001 introduced a fiscal rule guiding the use of oil revenues, to ensure that a large part of the revenues are saved. According to this rule, the spending of oil revenues should be equal to the expected real return from the Fund, which is estimated to be about 4 percent. With this rule, the Fund will never be smaller, as new oil revenues will flow in, but only the expected return is withdrawn. The rule enables the government to run a permanent non-oil budget deficit, and one ensures that large and volatile petroleum cash flows work as a stable supplement to the government budget (Holden, 2013). According to the White paper No. 29 (2000-2001) that presents the fiscal rule, money transferred from the Fund to the budget should be used to stimulate economic growth in Norway. Subsequent governments have not made such arrangements, and some economists argue that the money is spent on welfare and consumption (Holden, 2013). How the money should be spent is thus a continuous debate in Norway.

This chapter has so far presented how the Norwegian oil fund is established and how it works. Chapter 6 will present findings on how the Fund presents transparent information to the public regarding these matters, and chapter 6 will therefore at times refer back to this chapter. More details on how the Fund implements its ethical principles are also given in chapter 6, while chapter 7 will discuss the findings regarding the Fund.

3.2 Kazakhstan

3.2.1 Background

With a GDP of USD 203.5 billion in 2012, and a PPP GNI per capita in 2012 of USD 18 870, Kazakhstan is by the The World Bank (2012) defined to have an income level of 'upper middle income.' One of the main historical experiences of Kazakhstan that still affects the country, is that it is a former Soviet Union republic. The social system of the Soviet Union gradually failed to provide sufficient supplies of basic consumer goods, and after years of stagnation, the Soviet Union was dissolved in 1991 (Myant & Drahokoupil, 2011). After the dissolution of the Soviet Union, the Central Asian countries, including Kazakhstan, were subject to a severe negative economic shock, as the demand and supply networks collapsed (Pomfret, 2007).

Kazakhstan is rich in fossil-fuel reserves, gold, and unmined veins of copper and aluminium (Olcott, 2010), and as an energy exporter, the shift to world prices after the fall of the Soviet Union benefited Kazakhstan (Pomfret, 2007). After achieving independence, the ruling elite showed signs of changing to democracy, but with time Kazakhstan turned more into a family-run state (Olcott, 2010). In the mid-1990s, there was a privatization program, where politically well-connected people gained control, which led to a more autocratic system. The government focused more on oil-sector development, and became associated with wealth accumulation by the elite (Pomfret, 2006, 2007).

The regime in Kazakhstan is still autocratic, and power is centralized to President Nursultan Nazarbayev and his family (Pomfret, 2007). His control over political life has increased, and family members have been appointed to important government positions. Regional level executives are appointed by the president, and Parliament is controlled by threat of dissolution. The president is entitled to issue decrees which have the power of law (Tsalik, 2003).

Olcott (2010) argues that the lack of institutions in Kazakhstan “capable of providing legal protection or balancing the president’s power” (p. 22) is a problem, while the government and the president argue that it is more critical to maintain public stability, than granting the public with the possibility to have a say in the ruling of their country. “President Nazarbayev and his advisers have been trying to build the foundation for patriotism in Kazakhstan by guessing at what the population wants, rather than allowing the people to state their own desires” (Olcott, 2010, p. 23), and in this way the president promotes stability at the expense of public participation. This may influence people to feel less loyal towards the country, and can turn out to be a challenge in the long run. However, the president remains popular among Kazakhs, and he is credited for the country’s economic growth in the first decade of the 2000s (BBC, 2013a). Some of the issues related to the president’s power and how it affects transparency will be further discussed in chapter 7.

The economy and society of Kazakhstan are not regarded as very transparent. According to Olcott (2010), corruption is a serious issue, making it difficult to turn away from autocracy. The president regularly speaks about the need to defeat corruption, but there are few “checks on his personal power” or on those close to him (p. 124). The top leaders of Kazakhstan have all been reported to having used their political position to gain economic advantage. OECD (2012) also mentions the problem of corruption, and points to public procurement, tax administration and use of subsoil resources as areas where the issue is most serious. Furthermore, Kazakhstan scores as number 144 out of 177 countries on the corruption perception index. On the open budget index Kazakhstan has a score of 38 of 100, meaning that Kazakhstan provides minimum information (Transparency International, 2013a).

Further, journalists and press are constrained from expressing their discontent with the power of the few, and their ability to pursue anticorruption campaigns is limited. According to Freedom House (2013a), the press status of the country is “not free”, and Kazakhstan scores 84 on the press freedom score, where 100 is the worst. The constitution guarantees freedom of speech and of the press, but in practice these are restricted by the government, and they are moving towards restricting internet freedom (Freedom House, 2013a).

However, there have been some improvements on reducing corruption. The government has increased its attention to corruption both in the private sector and among the government. The government is also working against corruption in the judicial system, and judicial decisions are now available online, improving transparency (Olcott, 2010). There are rumours that the ruling family has dominant positions in most sectors, and Olcott argues that it is probable “that they will use their continued control of the legal system to introduce transparency only where necessary to meet unrelenting foreign pressure and will seek to expand family control (…) of the economy wherever possible" (p. 224).

3.2.2 Oil and Oil Dependence

With large oil reserves, Kazakhstan became an oil producer in 1911, but the oil production did not increase to a meaningful level before the 1960s (U.S. Energy Information Administration, 2013). After the dissolution of the Soviet Union, there was a surge in oil production, and political independence allowed local elites to push for extended exploration and production (Lücke, 2010). According to Pomfret (2011), Kazakhstan has the Caspian Sea region's largest crude oil reserves. In 2002, KazMunaiGas was created by merging state corporations to form a 100 percent state owned company. Following its independence, Kazakhstan has had a significant increase in foreign investment, and a number of international oil companies are involved in projects in the country (U.S. Energy Information Administration, 2013).

After 2000 there was a global boom in oil prices, and Kazakhstan experienced an economic boom fuelled by oil exports, with a double-digit GDP growth rate in 2000, 2001 and 2002. At the same time, a sharp real depreciation of the currency stimulated exports, and verified policymakers' understanding of market mechanisms (Pomfret, 2006, 2007).

According to the IMF, "Oil accounts for almost one fourth of GDP, 60 percent of total exports, and 40 percent of total budget revenues. The decision on how to deal with oil revenues is therefore of paramount importance to the country" (IMF, 2010, p. 21). Further:

> A key challenge is ensuring that the benefits from the oil wealth are shared by the population as a whole. This would require that a higher proportion of the oil sector value added is used to for medium-term development of non-oil activities. This objective critically depends on a well designed strategy that encourages economic diversification based on Kazakhstan's comparative advantages, and on improved prospects for long-term foreign investment. (IMF, 2011, p. 27)

The dependence on oil poses challenges to macroeconomic and structural policies in Kazakhstan. Kazakhstan's oil resources may lead to a sensitivity to oil price changes, and price declines could hinder exploration and development activities in new wells (IMF, 2011). Kutan and Wyzan (2005) explain that several researchers have pointed to possible Dutch disease effects in Kazakhstan, as exports have turned towards energy-related sectors since independence. Kazakhstan is reliant on revenues from export of petroleum and gas in particular, which raises the possibility for being sensitive to external commodity price fluctuations. Kutan and Wyzan show that changes in oil prices had a significant effect on the real exchange rate in Kazakhstan during 1996-2003, suggesting that there are symptoms of Dutch disease.

Further, Kalyuzhnova (2008) claims that Kazakhstan is in danger of losing competitiveness, which could lead to stagnation of the economy. When excess of revenues from natural resources creates rising demand in other sectors, the spending effect could occur. It is therefore important to have a sober governmental policy on spending the oil wealth. With the aforementioned challenges, and their dependence on oil, it is highly relevant for Kazakhstan to look at one of the tools for handling oil revenues, namely resource funds.

3.2.3 National Fund of the Republic of Kazakhstan

In the late 1990s, there was a suggestion to create a separate budget for the development of Kazakhstan, due to the change in oil revenues. Increasing oil prices in 2000 gave new stimulus to this idea, and the National Fund of the Republic of Kazakhstan (NFRK, or the Fund) was established by presidential decree in 2000 (Bacon & Tordo, 2006).

The Fund is not a separate, legal entity, but an account held at the National Bank. The president makes all greater decisions, and controls the management. Parliament receives the reports on the Fund, but do not accept, decline or amend these. The Ministry of Finance sets the benchmarks for the Fund, while the National Bank reports to the Ministry on its performance (Bacon & Tordo, 2006). Some of these issues are also mentioned and discussed in chapter 6 and 7. The Fund is run by a management council, formed by the president, and includes the president, the prime minister, the heads of two chambers of Parliament, the National Bank chairman and the finance minister. This council is in response of implementing the powers of the president. The operational management is carried out by the National Bank, on the basis of a management agreement between the National Bank and the government (Kalyuzhnova, 2008).

According to the IMF (2011), the NFRK has three objectives. It facilitates capital formation, as the absorptive capacity of the economy limits the amount of investment in development that can be made. The Fund ensures macroeconomic stability, as it protects the domestic economy from oil price fluctuations. At last, it works as a tool for saving for future generations, so that oil revenues can support capital investment also in the future. The Fund therefore works both as a stabilisation fund and as a savings fund. To reflect this, the payments to the Fund are made into two separate portfolios.

Today, according to Lücke (2010), all government revenue is transferred to the Fund, after being accounted for in the state budget. The revenues include taxes, royalties, privatization receipts, capital income of NFRK assets and further on. The stabilisation portfolio mainly consists of short-term assets, while the savings portfolio has a more long-term perspective, and consists of fixed income instruments and equity. Both portfolios are invested abroad, protecting the domestic economy (Kalyuzhnova, 2011).

The Fund makes two types of transfers to the budget. Guaranteed transfers are aimed at development-related expenditures, while targeted transfers are more ad-hoc in nature (Lücke, 2010). The annual withdrawal from the Fund to the state budget is fixed at USD 8 billion. The reason for the exact amount of 8 billion is not known (Kalyuzhnova, 2011). These transfers will also be described in chapter 6.

The Fund has received some criticism from various observers. Pomfret (2011) claims that a major issue of Kazakhstan is to make a credible commitment with the Fund, to avoid that the assets are used in ways they are not supposed to. It may be tempting to use the assets to increase expenditures, instead of saving for the future. Further, Karl (2007) claims that the fund is set up under direct control of the president, and is at risk of being a parallel budget without control. I will come back to a discussion of these issues in chapter 7.

3.2.4 Samruk-Kazyna

Samruk-Kazyna is known as Kazakhstan's "National Welfare Fund," and was created in 2008, when the two funds Samruk and Kazyna merged. Samruk-Kazyna is a joint-stock company, and not a traditional resource fund as the NFRK. It holds, in part or in whole, over 400 companies in different sectors, including the national oil and gas company KazMunaiGas and Air Astana (Pomfret, 2011). Some of the main sectors the fund invests in are oil and gas, energy and infrastructure. The objective of the fund is to improve Kazakhstan's competitiveness and sustainability, and support the diversification of the national economy, by managing interests of different national companies and institutions (Samruk-Kazyna, 2014d).

The state is the sole shareholder of Samruk-Kazyna, and the Fund is controlled by the board of directors, who are responsible for developing and making decisions on long-term development. Samruk-Kazyna was previously led by the president's son in law, Kulibaev, until riots in the town Zhanaozen broke out in 2011 and Kulibaev was fired. Oil workers were protesting, demanding better wages, and some got fired by their employers, which were subsidiaries of KazMunaiGas. The protests later turned into riots, and 16 people were killed (Radio Free Europe Radio Liberty, 2011).

In 2012, Samruk-Kazyna managed more than USD 100 billion of assets, which at that time accounted for half of Kazakhstan's GDP. Samruk-Kazyna plays an important role in the diversification strategy of Kazakhstan, and contributes to financing projects in the non-oil sector (IMF, 2013). By holding different companies, the state remains present in different economic sectors.

The objectives of Samruk-Kazyna are to be achieved by maximising the long-term value and performance of its subsidiaries on the world market, and increasing their efficiency. Samruk-Kazyna involves in both national and international investment projects, supports national producers and aims to attract investments into the real economy (Samruk-Kazyna, 2014d). In the coming years, the fund plans to invest up to USD 40 billion in strategic projects in different sectors (IMF, 2013).

Further, the fund involves in economic stabilisation. During the financial crisis, this was done by taking major stakes in banks (IMF, 2013). USD 3.5 billion were placed in the Kazakhstani banking sector (OECD, 2012). Kalyuzhnova and Nygaard (2011) explain that this involvement expresses an emergence of the fund into a "key governance vehicle and institution" and a "state rescuer" (p. 70). The involvement of Samruk-Kazyna in the financial crisis channelled resource revenues into domestic credit markets.

The NFRK and Samruk-Kazyna will be further presented in chapter 6. Chapter 6 will at times refer back to this chapter, when findings are in accordance with information given here, and it will provide further details on what information the funds provide, and how they engage in ethical conduct. Findings will be compared and discussed in chapter 7.

Chapter 4: Theory on Funds, Transparency and Ethics

4.1 Sovereign Wealth Funds

Chapter 2 proposed that natural resource funds may work as a vehicle for avoiding the resource curse. This section will further describe and problematize how such funds work.

4.1.1 Definitions

Tsani (2013) defines resource funds as follows:

> Resource funds are directly or indirectly government owned and controlled special purpose funds. They are established out of receipts resulting from the extractive and trading operations of depletable natural resources, having no outside beneficiaries or liabilities involved in asset investments in the short or long term (p. 182).

Another common term is sovereign wealth funds (SWFs). According to the International Forum of Sovereign Wealth Funds (IFSWF), they are defined as “special purpose investment funds or arrangements, owned by the general government. Created by the general government for macroeconomic purposes, SWFs hold, manage, or administer assets to achieve financial objectives” (IFSWF, 2008, p. 27).

A resource fund is therefore a sovereign wealth fund with a special purpose, but not all sovereign wealth funds are resource funds. In this thesis, the terms resource fund, oil fund and sovereign wealth fund are used interchangeably. When talking about Kazakhstan’s welfare fund Samruk-Kazyna, the term sovereign wealth fund is more appropriate, as it is not established directly out of receipts from the natural resource sector.

4.1.2 How Sovereign Wealth Funds Work

According to the IMF (2008), sovereign wealth funds serve various purposes (p. 5):

- **Stabilisation funds** insulate the economy against commodity price swings;
- **Savings funds** aim to convert non-renewable assets into a more diversified portfolio of assets, and protects against the effects of the Dutch disease. Underground wealth is converted to aboveground, financial wealth, and wealth is saved for future generations;
- **Development funds** help fund socio-economic projects or promote industrial policies that might raise a country’s potential output growth;
- **Reserve investment corporations**, whose assets are counted as reserve assets, established to increase the return on reserves;

- **Contingent pension reserve funds** provide for contingent unspecified pension liabilities on the government's balance sheet.

Truman (2010) points out that most funds have a mixture of purposes, and that objectives may change over time. These purposes directly face the issues of the resource curse mentioned in chapter 2. As explained in chapter 3, the NFRK and the NGPFG work as both stabilisation and savings funds. Samruk-Kazyna is known as a welfare fund, and fits with the purpose of development funds, as its goal is to contribute in contribute in efficient management of projects and companies to maximise their long-term value, and hence contribute to the country's output growth.

Stabilisation funds address the issue of upward pressure on the real exchange rate (an element of the Dutch disease), and on the instability of prices and revenues. These funds stabilise public finances, and use conditional rules for determining whether financial means will be accumulated or withdrawn from the fund for use in the state budget (Arezki et al., 2011). With a stabilisation fund, spending does not need to track unstable revenues closely – when revenues are high, revenues can be put aside in the fund, and when revenues are low, funds can be withdrawn. Consumption and expenditure is therefore smoothed over a longer time horizon. The country is able to save in plentiful years to compensate for meagre years, and thus the issue of overspending is more easily avoided. Investing in financial assets abroad will further contribute in protecting the exchange rate and the domestic economy from volatility of the resource sector (Humphreys et al., 2007b).

If all resource revenues are committed to current consumption or a reduction in taxes, one will fail to provide for future generations. When revenues are instead placed in a savings fund by investing in financial assets abroad, this will benefit future generations, which promotes sustainability (Bacon & Tordo, 2006). However, this does not necessarily work well for low- and middle-income countries, which have more pressing needs (Gylfason, 2011). If domestic investment opportunities yield greater returns than investing in financial assets abroad, future income is raised by investing domestically. This promotes diversification, and avoids some of the issues of the Dutch disease, where there is a too high level of concentration in the resource sector (Bacon & Tordo, 2006). Further, "Easy revenues from natural resources are especially tempting in the eyes of politicians' need of public support. Therefore, prudence calls for firewalls to be erected between sovereign wealth funds and the heat of the day-to-day process" (Gylfason, 2011, p. 16).

Sovereign wealth funds are not a guarantee for handling the risk of the resource curse appropriately and ensuring sustainability. "While this buffering effect can obviously be important for the stability of public finances over the business cycle, there is no guarantee that stabilisation funds are financially sustainable" (Hamilton & Ley, 2011, p. 138). Hamilton and Ley (2011) further point to a possible problem with savings funds: Governments are free to run deficits, financed by borrowing which offset savings, and as a result, there is no real wealth left for the future. Therefore, as Bacon and Tordo (2006) claim, the legal foundation of the fund, the rules determining the payments into and out of the fund, and arrangements for the financial management of the fund are of great importance.

4.1.3 Institutional Aspects of a Sovereign Wealth Fund

Humphreys and Sandbu (2007) claim that resource funds exist both in countries that use resource revenues well, and in countries that use them badly. Resource funds may restrain overspending, but there is always the risk of the rules of the fund getting changed, or that the fund is raided by the government when they want to increase expenditure. The institutional quality of the funds' contexts are therefore of relevance.

Torvik (2011) claims that "institutions must place strong checks on politicians" (p. 247) to avoid resource funds making the problem of the resource curse worse. When resource revenues are concentrated in a fund, it will be easier for politicians and government to misuse the fund and monopolize the property rights. This indicates that rent-seeking may actually be worsened by a badly managed resource fund. However, "when institutions place strong checks on politicians, (…) petroleum funds may contribute to socially beneficial development. Petroleum funds may help ensure a sustainable use of the petroleum wealth" (Torvik, 2011, p. 247).

Countries that have established resource funds, tend to have better governance and institutions, and the presence of a fund may help avoiding the resource curse through institutional quality (Tsani, 2013). This supports the ideas that were made in chapter 2, that resource funds are useful institutions in facing the curse. According to Ross (2012):

> Under some conditions, stabilization funds are more likely to work: when the government is run by a wise, politically insulated autocrat – or alternatively, by a democratically elected leader whose policies are subject to vigorous checks and balances – when corruption is low; when the public is well informed, and has confidence in the government's policies; and in democracies, when voters are relatively unaffected by campaign spending. None of these conditions are easy to achieve (ch. 7).

One of the institutional aspects that addresses these issues is transparency, which was explained in chapter 2. Ross already mentioned that funds are more likely to work when the public is well informed and corruption is low. The next section will therefore discuss transparency in more detail, to develop a framework for how to analyse and implement transparency to ensure the best performance of resource funds.

4.2 Transparency

4.2.1 Introduction and Definitions

Before investigating what aspects of a resource fund and its management should be transparent, it is useful to define transparency. Florini (2007) defines transparency as “the degree to which information is available to outsiders that enables them to have informed voice in decisions and/or to assess the decisions made by insiders” (p. 5).

Transparency & Accountability Initiative (2014) states that public officials and others have “a duty to act visibly, predictably and understandably to promote participation and accountability. Simply making information available is not sufficient to achieve transparency.” According to them, information should be relevant, accessible, timely and accurate. That is, information should be presented in plain and readily comprehensible language, and retain the details necessary for analysis. Further, it should be made available in time to permit analysis, and be up-to-date and complete.

In chapter 2, it was explained why transparency is relevant to resource funds, and how transparency may improve the institutional quality and the performance of the fund. Tsalik (2003) argues that resource funds should have the same commitment to publish information about its activities as public companies have to their shareholders, since the fund keeps the money of the public.

However, resource funds in general are not regarded as transparent (Karl, 2007), and the IMF (2008) mentions that both “official and private commentators have expressed concerns about the transparency of SWFs” (p. 4). There is no uniform public disclosures of the governance of sovereign wealth funds, and some funds publish no information. Bauer (2014) argues that resource funds may even have been created to act as vehicles for corruption, hence reducing transparency, and claims that transparency requirements are often inadequate in such funds. Even though there is a growing number of funds that have begun to publish relevant information, half of the 54 funds analysed in a study of resource fund governance were “too opaque to study comprehensively, raising questions about how they are being used or misused,” and whom they are truly benefiting (Bauer, 2014, p. 4).

Truman (2008b) mentions four groups that have an interest in how funds are managed. A country’s citizens have an interest in how the country’s wealth is managed. Second, the government itself has policy interests, which may be financial, economic or political. Third, financial-market participants have an interest in how these large investments are made, as they often have an impact on financial markets. Finally, citizens and authorities in the countries in which the funds invest, also have an interest in these investments, as large investments in a country may affect the market balance and prices. For these groups to be able to fulfil their interests, the fund must be transparent. To assess the ability of different funds to defeat the resource curse with help from transparency, and inform these groups, it is relevant to look at what researchers consider as important for establishing transparency.

4.2.2 What should be Transparent?

The IMF (2008) divides transparency of sovereign wealth funds into three categories: Objectives, organisational structure and investment portfolio. Information from these categories should be published for the fund to be transparent. When studying other transparency frameworks, these three categories are further broken down and expanded, and this thesis uses three frameworks as a basis for analysing transparency and evaluating what elements of transparency are most important: Truman's scoreboard (Truman, 2008a, 2010; Truman & Bagnall, 2013), the Linaburg-Maduell transparency index (SWF Institute, 2013), and the Santiago Principles (IFSWF, 2008). These three frameworks cover and specify the three categories of objectives, organisational structure and investment portfolio mentioned by the IMF, but also include two categories not mentioned by the IMF – inflows and outflows, and investment strategy. The three categories presented by the IMF are therefore redefined and expanded into five categories, in accordance with the three frameworks, and elements mentioned by other authors such as Bauer (2014), Humphreys et al. (2007b) and Tsalik (2003). Each category and its importance to transparency will be presented in this section.

Truman (2010) developed a scoreboard for sovereign wealth funds, scoring funds on 33 core elements from four categories. These elements are relevant to all sovereign wealth funds, and the scoreboard makes it possible to compare different funds against each other. Truman's scoreboard and its elements are presented in appendix A. The complete scoreboard provides an appropriate basis for making a framework to analyse the transparency of the fund, as all the scores are based on regular and public information – hence, to achieve a high score, all elements must be publicly available.

The Linaburg-Maduell transparency index is a method of scoring transparency of sovereign wealth funds, and was developed at the SWF Institute. It is based on ten, simple principles that represent transparency to the public, and works as a global standard benchmark (SWF Institute, 2013). The index and its principles are further presented in appendix A.

According to Truman (2010), “in response to widespread support for the development of a code of conduct or a set of best practices for sovereign wealth funds, a group of countries with such funds organised themselves into the International Working Group (IWG) of SWFs” (p. 121). In 2008, the IWG agreed on and published 24 principles that constituted a voluntary code that member sovereign wealth funds pledged to implement. This code is known as the Santiago Principles, or Generally Accepted Principles and Practices (GAPP) (Behrendt, 2010). Their purpose is to provide a framework that reflects appropriate governance and accountability arrangements and investment practices (IFSWF, 2008, p. 4). Several of these principles point to what information should be publicly disclosed, and hence they point towards transparency. The Santiago Principles are presented in appendix A.

a) Governance and legal framework

This category covers and combines the IMF’s ‘objectives’ and ‘organisational structure’ category, as governance and legal framework often include both the objective and organisational structure (Bauer, 2014; Truman, 2008a, 2010).

The most basic elements of sovereign wealth funds that must be made clear to all by transparency, is the objective. A clear objective creates confidence and contributes in holding the government accountable (Truman, 2008a). According to Bauer (2014), many funds lack clear goals, making the public finance related to the funds more complicated and less effective. “The objectives of natural resource funds should be clearly stated in government policy, regulation, legislation or even in the constitution” (Bauer, 2014, p. 20). The lack of well-defined objectives make it difficult to manage the fund optimally, and objectives should be operational to guide the operational rules of the fund (Bauer, 2014).

The objective is a part of the governance and legal framework of the fund, which in general should be known to the public. The governance framework includes the policy purpose of the fund, the governing body of the fund, and the role of managers of the fund relative to its formal owners. The legal framework may include the same elements (if they are stated by law), and includes the legal basis of the fund (IFSWF, 2008; Truman, 2010). A clear governance structure with a clear division of responsibilities ensures the fiscal rules and investment strategy in being implemented correctly. The roles of governing bodies should thus be stated in law or by government policy documents (Bauer, 2014).

b) Inflows and outflows

This category is not mentioned by the IMF, but is included in Truman's scoreboard and the Santiago Principles. The ability of the fiscal rules to meet the objectives of the fund are crucial, and a transparent fund encourages compliance with the fiscal rules. Such rules are committing, and define under which conditions deposits to, and withdrawals from, the fund are made. Withdrawal rules should specify how withdrawals are made, where they go, and the amount of the transfer. To be effective, the rules should be "clarified in legislation, regulation or a binding policy document" (Bauer, 2014, p. 21). Bell and Faria (2007) argue that, "as a general rule, all oil revenue related information should be made public" (p. 307). Relating this statement to sovereign wealth funds, one of the most basic elements of a transparent fund is that the entire chain of revenue inflows to revenue spending is known. It is not sufficient to know what happens to the revenues while in the fund. One needs to know where revenues come from, and where they end up after leaving the fund (Tsalik, 2003). Therefore, the inflows and outflows of the fund should be publicly available.

As pointed out by Humphreys and Sandbu (2007), the resource fund itself should publish details of its transactions, and other decisions regarding the fund. They argue that transfers from the resource fund should go via the national budget, and not on a separate budget. Even earmarked resource revenues should happen trough the national budget. This imposes legal constraints on how the resource revenues can be allocated to different expenditures. Even with some transfers made via the budget, Bauer (2014) argues that an investment strategy that prohibits investing the revenues to the fund in domestic assets, avoids the risk of less transparent transactions made outside the ordinary budget. Domestic spending should rather be made via withdrawals from the fund, to make sure it stays on budget.

c) Investment strategy

While the IMF does not consider the investment strategy, Truman (2008a, 2010) does. According to him, an explicit strategy will work more strongly the larger the holdings of the fund, to guide and protect the investment managers. A clear investment strategy may explain if the fund prioritizes a smooth stream of returns, or higher returns on a longer time scale – the strategy therefore depends strongly on the objectives of the fund. The investment strategy also may explain how risk management is conducted, what kind of assets the fund invests in, and if the fund uses external asset managers, and if so, who they are (Truman, 2010). The chosen level of risk should be explicit, and allocation between different categories of investment could be specified in legislation or fund policies. Specific assets that the fund is allowed to hold, such as real estate, should be publicly available to avoid investors from investing in obscure or riskier investment categories (Bauer, 2014)

d) Investment portfolio

According to the IMF (2008), the investment category includes size, composition, return and risk indicators. Disclosure of such as returns, could help identifying poor investment (Bauer, 2014). Truman (2010) more specifically also includes the geographic locations of investments, while the Linaburg-Maduell model requires an identification of holdings and subsidiaries, if possible (SWF Institute, 2013).

e) Ownership

At last, funds should publish information about ownership, such as voting records and strategy. This element is only mentioned by the Santiago Principles (IFSWF, 2008), but is highly relevant when discussing ethical investment later on.

4.2.3 How to Achieve Transparency?

After establishing the five categories of information sovereign wealth funds should publish, it is necessary for funds to decide how to provide this information to the public. Bauer (2014) argues that transparency could be institutionalized, “by requiring the public release of all regulations, policy documents, quarterly financial statements and annual internal and independent external audits, and requiring that these meet international standards” (p. 25).

To achieve transparency on the categories of investment strategy and portfolio, one of the most common methods is through reporting, which is used to clarify future benchmarks and set public expectations (Bauer, 2014). Bacon and Tordo (2006) argue that reports on fund management are essential tools for ensuring good use of the resources in the fund. According to Truman (2008a), annual reports should contain the same information required by the transparency elements of investment strategy and activities. Further, there is the possibility of publishing quarterly reports, but according to some, this may impose too much focus on short-term returns. On the other hand, quarterly reporting promotes transparency (Truman, 2008a). The reports should further be audited by international auditing firms (Bell & Faria, 2007), ensuring that the fund’s resources are used in a good manner (Bacon & Tordo, 2006). This is also strongly enhanced by the Truman’s scoreboard, the Santiago Principles and the Linaburg-Maduell model.

To provide transparency on the most basic element of resource management, namely an overview of the flow of taxes from resource sector companies to the government, the Extractive Industries Transparency Initiative (EITI) works as a relevant tool. The EITI has an objective of making compliant countries publish information on taxes and other payments made by extractive industries (such as oil) to governments, and make these available in country reports (EITI, 2013a). The EITI and its function, further described in appendix B, therefore provides s*ome* information regarding possible inflows to the fund. Kolstad and Wiig (2009) criticize the EITI: “The initiative does not address transparency in the use of public resource, that is, the expenditure side” (p. 528), thus asking for information on what happens to revenues after received by the government. According to them, the expenditure side is the key in corruption policies. They also point out that the EITI membership is voluntary for states and companies, meaning that countries that choose to follow the initiative may also choose if they wholeheartedly follow up.

One way to provide the pubic with information from all five categories, is via the internet. Bell and Faria (2007) point out that all information regarding resource revenue management, including resource funds, should be uploaded and maintained on the internet, which enables access to all information both locally and internationally. Bacon and Tordo (2006) argue that reports should be published online, as the internet is a strong tool for keeping different groups of the public well informed. The Linaburg-Maduell model provides 1 out of 10 points if the fund has its own website, thus indicating that publishing information online promotes transparency.

Further, implementing the Santiago-Principles may work as a basic vehicle for achieving transparency in all five categories. According to Bauer (2014), being a member of the IFSWF and “agreeing to the Santiago Principles provides an incentive to publish key information, make clear the roles and responsibilities of key bodies and make decisions openly” (p. 73). Evidence exists that “belonging to the IFSWF may have a positive effect on fund transparency (…)” (p. 73).

Another way to publish information, is through interviews in the press. However, Truman (2008a) does not consider this as a sufficient channel of information, as the information will normally only be given on an ad hoc basis, and it is difficult to establish the accuracy of the information given.

Further, Humphreys, Sachs and Stiglitz (2007a) point out that not all documents related to the resource fund should be publicly available. Some data may be sensitive, especially regarding the investment portfolio and strategy. Further, there is a risk of information overload if all relevant documents are published, making it difficult for the public to manage and find the relevant information. Too much published information may lead to a lower transparency. This must be kept in mind when assessing the transparency of the funds, and when considering how funds should become more transparent.

4.2.4 Transparency Framework

Based on the elements from Truman's scoreboard, the Linaburg-Maduell model and the Santiago Principles, I will use the framework shown on the next page to assess the transparency of the funds. Several of the elements from the three models overlap, and the elements chosen in the following framework are the ones that are emphasized in all three models, or that are highlighted by other authors (Bauer, 2014; Humphreys et al., 2007b; Tsalik, 2003). The final transparency framework will therefore be broader than the Linaburg-Maduell transparency index, and consider some elements relevant to governance in general.

As mentioned, the three transparency categories referred to by the IMF (2008) have been expanded into five categories, to make the framework more specific. It is important to note that the categories and elements may overlap. As an example, the source of funding may be a part of the legal framework of the fund, and the investment income and expenditures affect the return given in the category of investment portfolio.

In contrast to the Truman's scoreboard and Linaburg-Maduell index, the elements in the chosen framework are not simple yes/no questions that receive points. There can be different degrees of fulfilling each item, which will be elaborated further in chapter 6, without setting a score on each element. As only three sovereign wealth funds are compared in this thesis, it does not have a purpose to put scores. The framework evaluates which elements are publically available, and further how easily accessible they are. The analytical framework is summarized on the next page.

Figure 2: Transparency framework

Category	Is the following publicly available?
Governance and legal framework	Clearly stated objective
	Governance framework
	Resolution, laws and regulations
Inflows and outflows	Source of funding in general
	Amount of funding
	Investment income
	Approach to withdrawals from the fund
	Amount of withdrawals
	Expenditures
Investment strategy	Investment strategy
	External asset managers
	Categories of investment
	Risk management
Investment portfolio	Size/market value of the fund
	Information on return
	Geographic location of investments
	Companies/indexes in which the fund holds assets
	Market value of holding in each company
Ownership	Voting records
	Ownership strategy

4.3 Ethical Investment

4.3.1 Introduction and Definitions

Considerations of ethical and sustainable aspects of investment are known under different terms: Ethical investment, sustainable investment, responsible investment, socially responsible investment and so on. In chapter 2, a definition of sustainable investments was given by Kiernan (2009). However, as there are different practices when considering ethical issues, it may be wise to take a closer look at more definitions and explain the content of ethical investment.

SRI is probably the most common term for ethical investment, known as both 'socially responsible investment' and 'sustainable and responsible investment.' The Forum For Sustainable and Responsible Investment (2014) defines SRI as "an investment discipline that considers environmental, social and corporate governance criteria (ESG) to generate long-term competitive financial returns and positive societal impact." Individuals and institutions apply SRI strategies to promote stronger corporate social responsibility (CSR), build long-term value and introduce products that yield environmental benefits. SRI investors may be driven by personal values, demand of their clients or their aim for strong financial performance (The Forum For Sustainable and Responsible Investment, 2014).

Kiernan's definition on sustainable investment, given in chapter 2, focused on the future financial outperformance that comes with sustainable investment, while the definitions of SRI are open for investment based on ethical value judgements, not necessarily aiming for a financial outperformance. This is an important difference to notice, as different investors have different reasons for considering ESG issues. In this thesis, the term ethical investment will be used to cover the given definitions.

Ethical investments are controversial, as some believe that investment should be based on financial reasons only (Richardson, 2011). It is important to note that not everyone supports the idea of ethical investment, and especially not related to institutional investors. According to Truman (2010), "(…) SWFs are political by virtue of how they are established, and by their nature are influenced to some degree by political considerations. SWFs could be used to achieve economic or commercial power objectives" (p. 44). Boards and managers of funds could be pressed by the public to increase the returns or to choose certain investments, in ways that do not necessarily increase the performance of the fund over time. Sethi (2005) argues that pension funds have an obligation to obtain financial efficiency and the best possible returns, and have no mandate to consider investments based on personal or less objective preferences. Thus, a sovereign wealth fund or pension fund should maximize returns only, and not consider other criteria not directly related to return.

However, as Sethi points out, institutional investors need to consider the time period of investments, and different types of risk. Performance of investment funds are rarely measured over longer time-horizons. As explained in chapter 2, there are conflicting results on the financial performance of ethical investment, but as some sovereign wealth funds have a long time horizon, they have different risks to consider as compared to traditional investment funds. It is therefore not correct to claim that ethical investment harms the financial return of sovereign wealth funds, as such research has not been conducted on a longer time scale.

Some sovereign wealth funds, such as Samruk-Kazyna, are not able to engage in ethical investment directly, as defined above. For such funds, other definitions are relevant to consider. One of them is related to code of ethics, which "are voluntary statements that commit organizations, industries or professions to specific beliefs, values and actions and/or that set out appropriate ethical behaviour for employees" (Crane & Matten, 2007, p. 175). Organisational code of ethics are specific to a single organisation, and attempt to encourage ethical behaviour. Such codes often seek to define principles the organisation wants to follow, or set out practical guidelines for behaviour within the organisation. Crane and Matten (2007) point out that what is most important, is how the code is truly followed and implemented. To write and distribute the code is not sufficient, and does not promote ethical behaviour itself.

Further, corporate social responsibility (CSR) is also relevant to look at. "[CSR] encompasses the economic, legal, ethical, and philanthropic expectations placed on organizations by society at a given point in time" (Crane & Matten, 2007, p. 49). Companies that are perceived to be socially responsible might experience more satisfied customers and attract more employees. Such companies also contribute to a safer community as a long-term investment, which later benefits the company itself. Further, some companies are powerful actors in society, and it may be argued that they have a moral obligation to use these powers for benefitting the society, according to Crane and Matten (2007).

4.3.2 Ethical Principles

Sparkes (2002) explains that SRI objectives combine social, environmental and financial goals, and that institutions that practice SRI try to achieve a return on investments approaching that of the overall stock market. Kiernan (2009) and other sustainable investment theories are primarily concerned with environmental and social issues, as both have general and crucial economic impacts through sustainability. This thesis will further focus mainly on the environmental and social issues, as these are directly related to ethics and sustainability.

a) Environmental Sustainability

Sparkes (2002) claims that the environment is the most fundamental concern of ethical investment, as there is little point in worrying about other issues, such as financial return or social responsibilities, if Earth does not have the ability to support life. Most ethical investment practitioners therefore consider environmental issues, but as Sparkes explains, some do that on an ethical basis alone because it is morally the right thing to do, and others mainly on an ecological and sustainability basis, considering the long-term effect of environmental considerations. There is no theory that suggests specifically what environmental issues are more correct to consider for fund investments, and various environmental issues are differently considered among investors.

Sparkes (2002) further points out that ignoring environmental issues can provide losses for investors, as environmental damage or risks may lead to potential financial claims and liabilities in the future, lowering the profitability of the companies involved. Sparkes (2002) does not only focus on environmental risks to avoid, but also takes a look at investment opportunities within environmentally sound and sustainable development. Environmental issues directly affect the future generations' possibility to meet their own needs and are therefore crucial for sustainability.

b) Social Responsibility

Social issues are closely related to sustainable development, as they may benefit the economy at large. However, there are some social considerations which are only related to personal values, and not economic return. Hawley and Williams (2000) argue that institutional investors, who are broadly invested into an economy, should only focus on actions related to social issues that enhance wealth. An example of a social issue which has an impact on the long-term return, is education. It is crucial to the long-term economic growth of a country, and as institutional investors capture the benefits of growing economies, they should consider such issues. Another example is tobacco, which has negative effects on health, and therefore has a negative macroeconomic effect, as productivity is reduced and healthcare costs increase. On the other hand, tobacco stocks appear profitable, and the investor must assess which effects to consider (Hawley & Williams, 2000).

4.3.3 Ethical Investment Strategies

According to Kiernan (2009), environmental and social issues “need to be consciously, visibly, and systematically integrated into the nuts and bolts of investing (…) ” (p. 15). Thus, it is necessary to implement strategies and mechanisms for how to consider environmental sustainability and social responsibility when investing. These strategies affect the extent to which these ethical issues are truly taken into account, and to what extent they succeed in fulfilling their ethical principles. The following are major ethical investment strategies, based on PRI Association (n.d.), Eurosif (2012) and Sparkes (2002):

1) **Integrated analysis** involves explicitly considering environmental, social and corporate governance (ESG) risks and opportunities when doing traditional investment analysis, and deciding on investments.
2) **Active ownership** involves investors using their formal right as owners of the companies they hold to affect the way companies engage in ESG issues. This could be through voting, or direct communication with the company to encourage certain actions. A group of shareholders can come together and raise publicity on a company’s action, shareholders can engage in a dialogue with the company, or they can fill shareholder resolutions.
3) **Negative screening** involves excluding companies from the investor’s investment universe, based on certain criteria related to ESG. This includes excluding individual companies, certain products or complete sectors. Common criteria are tobacco, weapons or pornography. There is a risk of these exclusion criteria being arbitrary, and that this approach reduces diversification since the investment universe in decreased, which in turn reduces growth opportunities. Sethi (2005) argues that this strategy is inappropriate for pension funds, as it reflects moral beliefs or social values of small minorities.
4) **Positive screening** on the other hand involves including certain companies or sectors in an investment portfolio based on certain criteria that promote ESG factors. An example would be investing in the sector of renewable energy. In practice it is not so easy to achieve, as it is difficult to obtain reliable data.
5) **Best-in-class** involves investing in those companies that are better performers regarding ESG factors within a sector or category. This option does not need to affect financial performance negatively as the investment universe is not reduced.
6) **Thematic investment** involves selecting securities based on themes linked to ESG, such as climate change.

4.4 Summary and Analytical Framework

At this point, it might be useful to repeat the objective of this thesis. As the title is "Avoiding the curse by transparency and ethics?", chapter 2 suggested that resource funds work as tools for avoiding the resource curse, and pointed to how transparency and ethics are important factors affecting resource funds' ability to face and combat the curse. More specifically, the research questions are:

1) What is the level of transparency in the management of the sovereign wealth funds?
2) How is transparency achieved?
3) How is the awareness of benefits of transparency and ethics?
4) What ethical principles are the funds obliged to follow, and what instruments are they using for their ethical conduct?

Answering these research questions will contribute in suggesting how the funds use transparency and ethics in avoiding the resource curse.

Transparency affects several elements of resource funds and the resource curse. Transparency affects fund performance by preventing rent-seeking and corruption, enabling external analysis and advising of the fund, and strengthening the public's understanding of the fund's operation. A transparent fund will remain more stable, as the rules and objectives are known and more difficult to change, and more profitable as the management is continuously evaluated and rent-seeking is prevented. Good transparency also strengthens the institutional qualities of the fund, hence having an indirect impact on the institutional aspects of the country that may have an impact on the resource curse, as suggested in chapter 2.

Ethical investment relates directly to resource funds, as it works as a useful tool for achieving a sustainable return on the fund. This is especially relevant for resource funds with the purpose of saving for the future. The fund itself should not contribute to conditions that make the future more difficult for the next generations, preventing them from benefiting from the resource wealth. Further, if ethical investment, as suggested by some, provides superior return in the long term, this will increase the wealth accumulated by resource funds with a savings purpose, which in turn promotes economic growth and contributes in fighting the resource curse.

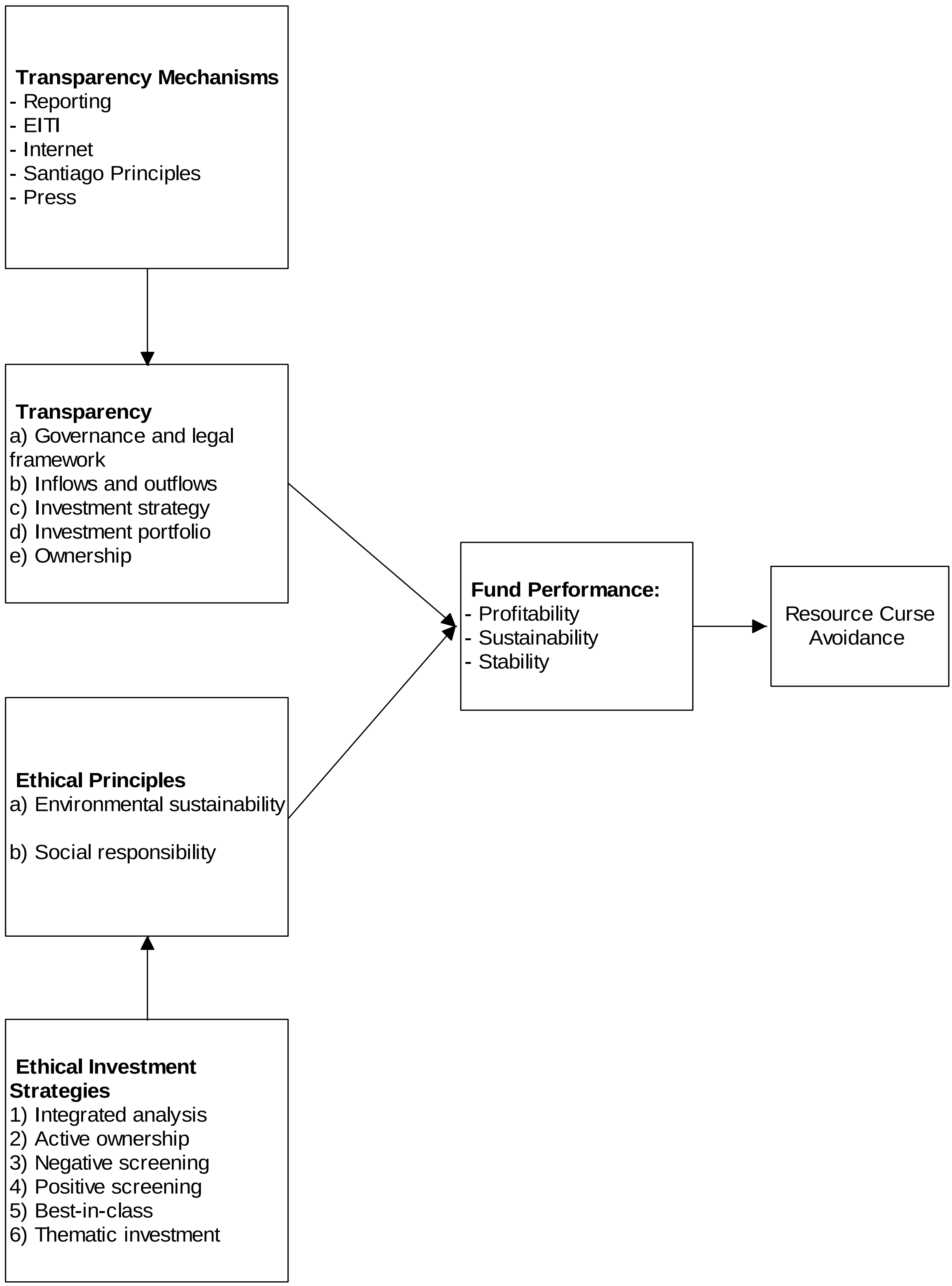
It has now been suggested that transparency and ethical investment have an impact on sovereign wealth fund performance. In accordance with the five purposes of sovereign wealth funds mentioned by the IMF (2008), it is relevant to assess fund performance by the following elements:

- **Profitability** measures the return of the fund. This is particularly relevant for savings funds, as a profitable fund that accumulates more wealth will be better able to benefit future generations;
- **Sustainability** is connected with profitability, and assesses the fund's ability to provide wealth for future generations beyond long-term returns;
- **Stability** relates to the ability of stabilisation funds to prevent upward pressure on the real exchange rate, and to stabilise public financing despite instable oil prices.

Figure 3 on the next page suggests how transparency and ethics affects these elements of fund performance, which in turn affects the ability to avoid the curse. 'Transparency Mechanisms' answers research question 2, and explains how the fund achieves its level of transparency, which is presented in the 'Transparency' box in Figure 3 and relates directly to research question 1.

'Ethical Investment Strategies' have an impact on how the fund implements the 'ethical principles' and both these boxes connect to research question 4. Question 3 is not illustrated as a mechanism in the figure, as awareness on transparency and ethics may both result in and be a consequence of implementing transparency and ethics.

Figure 3: Research framework



Chapter 5: Methodology

5.1 Research Design

It is common to distinguish between three sorts of research studies. An exploratory study "is a valuable means to ask open questions to discover what is happening, and gain insights about a topic of interest," and is useful "if you wish to clarify your understanding of a problem, such as if you are unsure of the precise nature of the problem" (Saunders, Lewis & Thornhill, 2012, p. 171). Such research is flexible and adaptable to change, and one must be willing to change the direction as a result of new insights that occur during research. Exploratory research questions seek to reveal new knowledge about a phenomenon by specifying its matter, which enables one to develop a theory that can result in testable hypotheses (Jacobsen, 2005).

A descriptive study works well for descriptive research questions, often formulated to find out the conditions of a certain phenomenon (Jacobsen, 2005), by addressing who, what, when, where and how questions. Such a design is appropriate for describing the characteristics of objects, people, groups or organisations (Zikmund, Babin & Carr, 2013, p. 53). According to Saunders et al. (2012) "there is a danger of saying 'that's very interesting…but so what?'" (p. 171), and it should be thought of a means to an end rather than an end in itself. Explanatory studies establish a causal connection between variables, to identify a cause-and-effect relationship. Descriptive studies often provide a basis for this type of research (Zikmund et al., 2013). Explanatory research questions wish to answer *why* the conditions of the phenomenon are the way they are (Jacobsen, 2005).

Further, Jacobsen (2005) differentiates between intensive or extensive studies. In an intensive study, one will go in depth of a research question, researching a few units, trying to accomplish a holistic picture of the situation and a complete understanding of the relationship between the unit to be researched and its context. With an extensive study, one is more concerned with the breadth, and wants to look at larger sampling units to be able to generalize the findings.

It is important to notice that the lines between the different types of research are not necessarily clear in all situations. The aim of this thesis is to perform a comparative study of certain aspects of the management of the oil funds of Norway and Kazakhstan, as explained in the introduction, and to investigate possible relationships between transparency, ethics and the resource curse. The study therefore falls into the categories of both exploratory and descriptive research. I wish to examine and describe the role of transparency and ethical principles in the management of the funds today. I am, to a great extent, asking questions like what, where and how to figure out the differences and similarities between Norway's and Kazakhstan's approaches. I seek to figure out the awareness that representatives from the two countries have towards transparency and the implementation of ethical principles, and if they are regarded as useful tools in curbing the resource curse. Further, by building upon the descriptive part, the research is exploratory. An open question is being asked, as this thesis does not have a sufficient empirical basis to finally conclude on whether transparency and ethics truly work as tools for avoiding the resource curse.

The design of this study is intensive, as the research questions are not seeking to generalize any findings. This study will simply establish some facts and observations about the management of the oil funds of Norway and Kazakhstan, and may not be generalized to any other cases. The aim is to go in depth of the research questions, to get a more comprehensive understanding of the roles of transparency and ethical principles. The result of this master thesis may provide a foundation for others to proceed on a more comprehensive explanatory research, where generalizations can be possible.

5.2 Qualitative Method

When deciding on a research design, one also needs to decide on whether a quantitative or qualitative approach is best suited for answering the research questions. Typically, one can say that qualitative methods are about collecting non-numeric data, while quantitative methods require numeric data. A qualitative method is more interpretive, as the researcher will need to "make meaning of the socially constructed meanings expressed about the phenomenon being studied" (Saunders et al., 2012, p. 163).

The qualitative method puts few restraints on the answers the respondent can give, and it will be possible to receive rich and detailed information. One therefore will get a more correct understanding of the phenomenon studied. The data will be nuanced, with different interpretations from the respondents. A qualitative approach is more flexible than the quantitative, and the research questions may be changed as one collects more information and data (Jacobsen, 2005).

Due to the reasons mentioned, the approach applied in this thesis is the qualitative one. Non-numerical data is definitely best suited to describe the implementation and awareness of transparency and ethical principles in Norway and Kazakhstan, as it is difficult to put a number on complex topics such as transparency and ethics. Words are better for describing and explaining these aspects of the oil funds, and words make it possible to figure out *why* the level of these aspects are chosen.

However, the qualitative method can be costly and time demanding. When there are limited resources available, one often has to settle with few respondents, which in turn affects the representativeness of respondents and other data sources (Jacobsen, 2005). There is a danger of bias, as the researcher may, intentionally or unintentionally, affect the respondent and his responses. The respondent can also influence the researcher, and make the researcher less critical in his reflections (Jacobsen, 2005). These are dangers that will always be present when doing qualitative research, but by being aware of them, they can be minimized.

5.3 Data Collection and Sampling Strategy

When using the qualitative method there are several different ways of collecting data. It is common to distinguish between primary data and secondary data. Primary data is data that the researcher himself has collected for the first time, typically by conducting interviews or surveys. When the researcher is using information he has not collected himself, this is called secondary data. Such data is often originally collected by someone else for another purpose, and can take the form of statistics, texts and documents, amongst others (Jacobsen, 2005), and can be used in descriptive and explanatory research (Saunders et al., 2012). Zikmund et al. (2013) argues that the primary advantage of secondary data is their availability. Obtaining such data is often faster and less expensive, and secondary data is essential when primary data cannot be obtained. On the other side, the researcher has no control over the validity of the secondary data, as the data can be inaccurate.

In my research, secondary data is used when available and reliable, and is supplemented with primary data when necessary. Secondary data about transparency and ethics regarding the Kazakhstani funds is not easily available in English, and this data is therefore gathered by conducting interviews.

An important issue when collecting data is deciding on the sampling procedure. According to Zikmund et al (2013), "sampling involves any procedure that draws conclusions based on measurements of a portion of the population. In other words, a sample is a subset from a larger population" (pp. 66-67). It is often not possible to collect or analyse all potential data available. Sampling therefore enables one to reduce the amount of data one needs to collect by considering only data from a subgroup rather than all possible elements (Saunders et al., 2012, p. 258).

5.3.1 Interview

There are many different criteria for how to select respondents for interviews. The most appropriate for this research, is selection based on information, and snowball sampling. When selecting based on information, one seeks to study the respondents one believes has much and valuable information about the subject we are studying. All chosen respondents in this thesis, are selected on the basis of this criteria, together with snowball sampling. Snowball sampling is useful when it is difficult to identify suitable respondents. One selects an initial sample (here based on the information criteria), and then asks the people one is interviewing if they can nominate other candidates (Jacobsen, 2005). This method was especially useful when conducting interviews in Kazakhstan, as I in advance did not have a complete overview of who could provide useful information. The presentation of my final interviewees is given in appendix C.

In an interview, the researcher and the interviewee will engage in a dialogue. One of the benefits with the interview is that there are few limitations on what the interviewee can say. It facilitates getting rich information and the attitudes and perceptions of the interviewee (Jacobsen, 2005), and helps one to gather valid and reliable data that are relevant (Saunders et al., 2012). In the case of this thesis, this is a large benefit as I seek to understand what perceptions the management of the oil funds truly have about transparency and ethics. There is also limited information available otherwise. Most of the interviews were conducted face to face. Face to face interviews make it easier to get a personal connection to the interviewee, and it contributes in creating confidence (Jacobsen, 2005).

According to Saunders et al. (2012), “interviews may be highly formalised and structured, using standardised questions for each research participant, or they may be informal and unstructured conversations” (p. 374). It is typical to categorise interviews as structured, semi-structured or unstructured.

The conducted interviews for this research were semi-structured and non-standardised. As a researcher, I brought a list of themes and key questions to be covered, and let the use of these themes vary from interview to interview, depending on the interviewee’s knowledge. The flow of the conversation decided much on the order of the questions and the topics, and I was open to ask additional questions to explore the topic of the conversation further. The use of semi-structured interviews was most appropriate in this study, as the interviewees were knowledgeable about the subject, and therefore able to decide what was important to mention. The list of topics and key questions used in this research is given in appendix D.

When conducting interviews, there are two types of bias to consider. There is the interviewer bias, where the behaviour or remarks of the interviewer affect the way the interviewee responds to questions. There is also the interviewee bias, where the interviewee may choose not to reveal or discuss aspects of a certain topic because this could lead to probing questions that would interfere on sensitive information (Saunders et al., 2012). Saunders et al. (2012, p. 383) suggests to be aware of the opening comments of the interview, and to use the first minutes to explain the research. Further, questions should be open to avoid bias, and one should follow up with probing questions. Leading questions should be avoided.

These measures were followed during the interviews. Jacobsen (2005) also mentions some important elements to consider. The use of a voice recorder will enable more eye contact, make it easier to collect information correctly, and enable use of verbatim quotes. A voice recorder was therefore used together with notes when suitable, otherwise only notes were taken. Further, an interview should not be too long nor to too short. Most of the interviews lasted about an hour, which was enough time to get the questions answered and without having any rush. All interviewees were given the possibility to withhold themselves from having their name published in the thesis. Some of the interviewees made it clear that they would not have their name mentioned in relation to certain sensitive information.

5.3.2 Documentary Research

Text materials, such as correspondence, reports to shareholders, public records, government publications, journals and books are considered as documentary data, according to Saunders et al (2012). Jacobsen (2005) distinguishes between different types of documentary sources. This thesis uses mainly public sources given by institutions, which are published to reach a larger audience.

Documentary research is suitable when it is impossible to find or get access to primary data, or if we want more objective and less spontaneous sources. As interviews are costly and time consuming, the main reason for conducting documentary research in this thesis is for limiting the need of spending resources on interviews. When sources are reliable and available, documentary research is a valuable supplement to interviews (Jacobsen, 2005).

Documentary sources used in this thesis, which are considered reliable and accurate, are described in appendix C. Documents are supplemented with literature survey, when interviews and documents have not provided extensive answers to the research questions.

5.4 Evaluation of Methodology

When doing research, it is important to evaluate the reliability and validity of findings. Saunders et al. (2012) tell that reliability is "the extent to which data collection technique or techniques will yield consistent findings, similar observations would be made or conclusions reached by other researchers or there is transparency in how sense was made from the raw data" (p. 680). Validity is "the extent to which data collection method or methods accurately measure what they were intended to measure" (p. 684), and "the extent to which research findings are really about what they profess to be about" (p. 684).

Both reliability and validity are challenging issues in the research of this thesis. When conducting semi-structured interviews, it will be difficult for other researchers to obtain the same findings by the same technique. It is therefore important to be clear on what the findings are and where they come from, and how they are interpreted. It is also difficult to obtain perfect validity, as it is not always easy to measure what one was intended to measure when conducting interviews and doing documentary research. Documents are often published for other purposes, and interviews are not fully controllable, so there is a risk that the data obtained are not directly relevant or answering the underlying research questions.

Providing participants with a list of the interview topics in advance help credibility and promotes validity and reliability because it informs the interviewee about what information the researcher is interested in, and provides an opportunity to prepare for the interview (Saunders et al., 2012). For this research, this has been done in several of the cases, by sending enquiries beforehand with a list of key questions.

The interviews that were conducted gave relevant insight and information. The most important was that many of the interviewees helped pointing out relevant documents and webpages, so that I got more sources for my document studies. I have later looked for the same documents that are mentioned in the interviews, to confirm the information that was given. Unfortunately, I did not get the chance to speak to as many institutions as I wanted to. Even with help from the Norwegian embassy in Astana, the National Bank of Kazakhstan, the management of NFRK and Samruk-Kazyna and the management of NGPFG were not willing to give an interview. Further, few of the interviewees knew much about Samruk-Kazyna, and there are few documents and research available. Therefore, there is a chance that there exists relevant information on the NFRK and especially on Samruk-Kazyna that I have not gotten hold of, which affects the validity of the transparency evaluation.

Several of the documents analysed from Kazakhstan were not available in English, and Google Translate had to be used to analyse the content. This has an impact on the validity of the analysis of these documents, as the chance for misinterpretation is considerable. Also, one of the most important interviews was conducted with the help of an interpreter. This affects validity, as there is one extra channel of communication where information may be misinterpreted. The flow of the conversation was also affected, making it difficult to make appropriate follow-up questions before the conversation took a new turn.

Further, due to a high corruption level in Kazakhstan, some would question the reliability of Kazakhstani documents, even from public sources. However, I found no reason to question the reliability of these sources while conducting the data collection and the empirical study.

Chapter 6: Findings

In this chapter, findings are presented separately for each fund, in accordance with the research questions. To answer research question 1, the transparency framework in figure 2 will be followed. In the case of NFRK, some other information is also presented to shed a light on the true transparency level of the fund. As research question 2 covers the awareness on both transparency and ethics, it will be divided into two sections. That is also the case with research question 4, which covers both ethical principles and the instruments that are used for implementing them – namely, the ethical investment strategies. Only findings that are relevant to the research questions are presented, and in chapter 7 the findings will be discussed and compared.

6.1 Norwegian Government Pension Fund Global

6.1.1 Transparency

Research Question 1: Level of Transparency

a) Governance and Legal Framework

The *legal framework* of the NGPFG (the Fund) is set by the *Government Pension Fund Act* (GPF act) No. 123 of 21 December 2005, which is published at the webpage of the Fund, and also at the Norwegian legal database, lovdata.no. The act includes the purpose of the Fund, management of the fund, specification of the income to the Fund, and the use of the capital of the Fund. These will be further described in the later sections.

Further, NBIM's *Management Mandate* is set by the GPF act, and requires NBIM to manage the Fund in accordance with the mandate. The legislative mandate is extensive, describing general provisions, responsible investment, management of the investment portfolio, performance measurement, management costs, requirements for public reporting, and more. Together, the management mandate and the GPF act establish a solid, legal foundation for the Fund. Available on the webpage of the Fund, with English translations, it is easily accessible for the public.

The *objective* of the Fund appears clearly stated and easily available. The GPF act states the purpose of the Fund: "The Government Pension Fund shall support government saving to finance the National Insurance Scheme's expenditure on pensions and support long-term considerations in the use of petroleum revenues" (NBIM, 2011a). The objective is more thoroughly explained by NBIM, stating that "(…) capital is invested abroad, to avoid overheating the Norwegian economy and to shield it from the effects of oil price revenues" and that the fund has a role in financing an expected increase in future public pension costs (NBIM, 2014a).

The *governance framework* of the NGPFG is thoroughly described on the webpage of NBIM, and is in accordance with what was presented on page 19 Ministry of Finance acts as the manager of the Fund, and is accountable to the Parliament. The GPF act sets the governance model by law, while chapter 7 of the management mandate describes the relationship between the Ministry of Finance and NBIM. NBIM explains that the responsibility of the executive board is to lay down guidelines for NBIM's management activities, and its role is further described online, with relevant executive board documents published.

Overall, both the legal framework and the governance framework, including the objective, are well described by NBIM, and easy to understand for the public. The information is easily accessible and available in English, without need for digging deep to find the correct information. As the governance model is set by law, it appears credible and stable.

b) Inflows and Outflows

The GPF act generally describes the NGPFG's *source of funding*:

> *Income to the Government Pension Fund Global consists of the net cash flow from petroleum activities, which is transferred from the central government budget, the net results of financial transactions associated with petroleum activities and the return on the Fund's capital*. (NBIM, 2011a)

A detailed overview of what the gross revenues and expenses from petroleum activities consists of is provided in the GPF act.

As regards to the *withdrawal approach* of the fund, the GPF act states that the use of the capital in the Fund "(…) may only be used for transfers to the central government budget pursuant to a resolution by the Storting (Norwegian parliament)" (NBIM, 2011a). A fiscal policy guideline, known as *the fiscal rule,* whose mechanisms were described page 15, was implemented in 2001, and is set by White paper No. 29 (2000-2001). The fiscal rule provides predictability in the fiscal policies, and thus enhances transparency of the use of the assets of the Fund. However, the fiscal rule is not established by law.

Further, the Fund appears to be well integrated with the budgetary process, making transfers transparent:

> *The fund is an integrated part of the government's annual budget. (…) This means the fund is fully integrated with the state budget and that net allocations to the fund reflect the total budget surplus, including petroleum revenue*. (NBIM, 2014a)

This is proven by the national budget, available from the Ministry of Finance (Norwegian Ministry of Finance, 2014a), which provides key figures for the Norwegian economy and main figures of the fiscal budget. The budget presents the total surplus of the fiscal budget and the Fund, and explains in a detailed manner how this surplus is achieved by deposits and withdrawals of the Fund. The budget is available in English.

The *actual amounts* that are transferred to the Fund emerge from the yearly government accounts (such as White paper No. 3, 2012-2013), available from Ministry of Finance. It presents the petroleum cash flow to the NGPFG, broken down by type. Some of these cash flows were described in chapter 3.

The government accounts also provide information on *transfers from* the NGPFG to the Treasury, and the monthly transfers to the NGPFG. Hence, the national budget and government accounts provide a detailed description of the amounts that are transferred to and from the Fund. However, the government accounts are only available in Nynorsk (new Norwegian), and it is therefore difficult for international researchers and observers to get a hold of it or be aware of its existence.

The annual and quarterly reports grant detailed information on the *investment income* and *expenditures* related to the NGPFG, via its financial statement. The report provides information on how much income/expenses come from equities, bonds, financial derivatives, real estate and investment properties. In the notes of the financial statements, the management expenses and operating expenses are broken down by type.

c) Investment Strategy

In regards to its *investment strategy*, there are limitations on what details the Fund may reveal:

> *NBIM's policy is to be open about NBIM's evaluation of markets, but not about single investments or companies, and to express views on recent market developments, but not forecast the future. NBIM will further be open about how the organisation is managed, but will not comment on individual contracts or business relationships*. (NBIM, 2011b)

However, the limitations do not hinder the Fund from publishing relevant information on its strategy. The website of NBIM has its own section dedicated to the Fund's investment strategy, where it is thoroughly described in both Norwegian and English:

> *The Government Pension Fund Global seeks to take advantage of its long-term outlook and considerable size to generate high returns and safeguard Norway's wealth for future generations.*
>
> *(…)*
>
> *The fund maintains broad exposure to stock, bond and real estate markets. It also seeks out exposure to risk factors that are expected to generate high returns over time and identifies long-term investment opportunities in specific sectors and companies.* (NBIM, 2014d)

The investment strategy makes it clear that "The fund holds 60 percent of its assets in equities, 35 percent to 40 percent in fixed income and as much as 5 percent in real estate. The investments are spread globally outside of Norway" (NBIM, 2014d). Further, the strategy related to equity management, fixed-income management and real-estate management are presented separately. These descriptions continuously clarify *why* the different strategies are chosen, and are quite comprehensive.

When it comes to *external asset managers*, NBIM presents a list of all managers related both to equity and fixed income assets, on their website. Invitations to tenders are also published online.

The *risk management* of the Fund is comprehensively described on NBIM's webpage, in a transparent manner. NBIM informs that "the most important market risk factors are the fund's share of equities, movements in stock prices, exchange rates and interest rates, as well as credit risk changes in fixed-income investments" (NBIM, 2014f), which gives a basic explanation of why risk management is essential. Key figures of different types of risk, such as market risk, credit risk, leverage etc. are given, with the limits set by Norges Bank. Several pdf-documents are available for downloading, with topics such as *highest possible excess return at lowest possible risk*, *measuring and managing market risk*, and *challenges associated with portfolio and risk management*. Operational risk management is also explained in different downloadable feature articles.

d) Investment Portfolio

The *market value* of the Fund is available on the front page of NBIM. The value is continuously adjusted to new information, and therefore the value will change several times a day. The webpage also informs on historical values of the Fund at different points in time, and in addition to the total market value, the separate market value of equity investments, fixed income investments and real estate investments are given.

The *financial return* of the Fund is well accounted for. The annual return is presented on the front page of NBIM, and there are sections on the webpage providing the Fund's return annually back to 1999. The relative return in percentage points is also given. Further, the return is split into return on equity investments and fixed-income investments. One finds the returns of the benchmark indices, relative returns on the three categories of investment, returns in Norwegian kroner, and the return on the Fund after management costs. Monthly returns are available in Excel-files until December 2012.

Further, NBIM informs *how* the returns are calculated: "The methodology for calculating returns on the funds managed by NBIM is based on the international standard Global Investment Performance Standards" (NBIM, 2014e). More details on their calculation method are found on their webpage.

The most basic and effective way the Fund informs on its *holdings*, is via an interactive map available on NBIM's webpage. One can click on the countries on the map, or get a list of countries where the NGPFG holds equity or fixed-income investments. When clicking on a country, an overview of all companies is listed, providing information on amount invested in each company. The webpage also publishes holding lists in PDF, as of December 2013 and back to 1998. These are split into the three investment categories of equity, fixed income and real estate. Further, "A full list of the fund's holdings is published once a year in connection with the fund's annual report. The quarterly reports also provide updated lists of the top ten stock and bond holdings" (NBIM, 2014c).

Together with the interactive map described above, the *geographic location of investments* is well covered. NBIM informs: "The largest geographic exposures are to Europe and North America, followed by developed markets in Asia and Oceania and emerging markets,"(NBIM, 2014c), with 45% of investments in Europe, 33% in North America and 17% in Asia and Oceania.

Overall, the Fund provides extensive information on its investment portfolio, covering its returns and holdings well. All information is easily accessible, as the front page of NBIM provides a short summary of the key figures, with direct links to further details.

e) Ownership

The *voting records* of NBIM are published back to 2008. These records provide the issuer name, date of the meeting, meeting type (special or annual), item category and subcategory, and whether NBIM voted for or against. Voting instructions by NBIM are available from 1 July 2012, and "can be accessed one business day after the general meeting has concluded" (NBIM, 2014h).

NBIM has an extensive *ownership strategy*, thoroughly described on their webpage. The ownership strategy is also described in other government documents, such as white papers, and the webpage of the Ministry of Finance. Shortly summarized, "NBIM seeks to safeguard its investments in more than 7,000 companies worldwide by promoting good corporate governance standards and encouraging businesses to improve social and environmental standards" (NBIM, 2014e). As the ownership strategy of NBIM and the Fund is closely related to their ethical investment practice, this will be further elaborated in the chapter regarding ethical investment.

Research Question 2: How is Transparency Achieved?

- **Reporting**

The Fund publishes annual and quarterly reports, with auditor's report included. The requirements for reporting are specified in the GPF act: "The Bank shall publish quarterly and annual reports on the management of the investment portfolio. The reports shall be based on the greatest possible degree of transparency within the limits defined by a sound execution of the management assignment" (NBIM, 2011a).

The GPF act requires reports with descriptive parts and extracts from NBIM's accounts, and a true summary of the Fund's performance, management costs, strategies and risks. Further, "The annual report shall be published no later than three months after the end of the financial year. The main points in the reports shall be made available in print. Other data may be reported electronically" (NBIM, 2011a).

NBIM clearly satisfies the requirements of the GPF act. The reports are published online, and are also available in print. They provide an extensive summary of different aspects of the Fund, such as the return, the investment strategy, market value, benchmarks and inflow of new capital, together with the financial statements. The Fund's exercise of environmental investment and its ownership rights is presented. Some feature articles are also published in the reports. Overall, the Fund's reporting practice is extensive and informative. The reports are easily available, in both Norwegian and English.

- **White papers**

The Ministry of Finance has published white papers regarding the management of the Fund. These give the public and the Parliament different, relevant information regarding the Fund, and work as an important source of explaining the function and performance of the Fund. The last white paper was published in 2014 (White paper No. 19, 2013-2014), and thoroughly describes and discusses the investment strategy of the Fund, presents financial results of the Fund and follows up its management related to return, risk and responsible management.

- **Webpage**

  NBIM will interact with Norwegian and international media through press conferences, press releases, interviews and press seminars to give more in-depth information about defined topics relating to NBIM's investment activities. NBIM's website shall be the main channel for general information to all target groups about NBIM's activities. (NBIM, 2011b)

The Fund's website, NBIM.no, clearly works as the main channel of publishing information. The website is easy to navigate on, and it publishes information that elaborates the information given in annual and quarterly reports. Other than what is required by the transparency framework, the webpage publishes discussion notes, feature articles, submissions to the Ministry of Finance, and relevant news on NBIM, such as press releases.

It must be noted, that while in the writing of the thesis, the webpage of NBIM went through an extensive redesign. Hence, there is a chance that some of the information that is claimed to exist, is no longer available. However, due to my experience, the content of the webpage has not changed significantly.

- **Santiago Principles**

Norway is a member of the IFSWF, and is therefore required to implement the Santiago Principles. In 2013, the Fund scored 94% on the Santiago compliance index, which was the highest score achieved among the funds that year (GeoEconomica, 2014). This fact implies that Norway has managed to implement the principles, which contribute in achieving transparency. The Ministry of Finance has also published a self-assessment of its adherence to the principles (Norwegian Ministry of Finance, 2011).

- **EITI**

Norway became a compliant country of the EITI in 2011, and has published five reports since 2008. The last report was published in 2012, and the next is due in 2015 (EITI, n.d.). The report shows what payments to the government the oil companies have reported, and payments the government reports to have received. Minister of Petroleum and Energy, Tord Lien, has stated, “transparency on the cash flows related to the extraction of oil and gas is important for making resources a source for a national increase in prosperity” (Norwegian Ministry of Petroleum and Energy, 2013).

Accordingly, the NGPFG uses different channels to provide the public with relevant information. The most important channel is definitely its website, which is comprehensive and straightforward.

Research Question 3a: Awareness of Benefits of Transparency

Transparency appears to be fundamental to the NGPFG. The Norwegian Ministry of Finance states that “transparency is a prerequisite for ensuring widespread confidence in the management of the Government Pension Fund” (Norwegian Ministry of Finance, 2014b), and that transparency “is a prerequisite for broad support” on the construction of the Fund and “proper management in the long term. Transparency also reduces the risk of poor management” (Norwegian Ministry of Finance, 2013). This is also emphasized by NBIM, who explains:

> *We are dependent on confidence to manage our mission, so we aim to be a professional, transparent and responsible investment manager. (…) our goal is for the people of Norway and others to be able to find all the information they need about the fund and its investments.* (NBIM, 2014g)

Hence, it appears that the awareness on the importance of transparency is great, and that transparency is highly prioritized, at least in writing. When Jens Stoltenberg was prime minister, he stated that the NGPFG “is one of the world’s largest and most transparent funds. We receive acknowledgement on this matter, both nationally and abroad. Transparency leads to debate, which I welcome” (Norwegian Ministry of Finance, 2010a).

However, pointed out by Revenue Watch Institute (2011), one must take into consideration some of the characteristics of Norway when comparing its transparency against other funds. All countries have different characteristics, and Norway’s characteristics facilitate a transparent fund. One cannot expect that the characteristics of the Norwegian fund are appropriate to all sovereign wealth funds, and one should therefore be careful to use the NGPFG as a benchmark.

6.1.2 Ethics

Research Question 3b: Awareness of Benefits of Ethics

As mentioned in chapter 3, the NGPFG has implemented ethical principles in its investment practice. The Fund distinguishes between its *ethical guidelines*, which are pursuant to the GPF act and decides on what ground the Fund may *exclude* companies from its investment universe, and on ethical conduct in general which is not related to exclusion.

NBIM, Ministry of Finance and the Graver Committee, which proposed the ethical guidelines and conduct of the Fund, provide several arguments for considering ethical principles in the management of the oil wealth. In general, there are two basic arguments on why the Fund engages in ethical principles: Economic reasons, which considers the long-term return of the Fund, and value-based reasons, which considers the values and beliefs of the Norwegian population.

As for the value-based reasoning, this is explained as follows:

> *[The Fund] is managed on behalf of the Norwegian population. Our common, ethical values must form the foundation for a responsible management of the fund. (…)The fund belongs the Norwegian population, and we must pay attention to important ethical common values in its management. Therefore, we have both a responsibility and an interest in contributing to sustainable development, good corporate governance and environmental protection and social considerations through management efforts*. (Norwegian Ministry of Finance, 2010b, p. 12).

The economic reasons for engaging in ethical investment is thoroughly described by the Graver Committee:

> *To create economic room for manoeuvre for future generations, a long-term perspective must be applied to the management of financial wealth. (…) Achieving high returns over time is dependent on general economic growth. In other words, sustainable economic development is essential to a long-term return on a broad-based financial portfolio*. (Graver Committee, 2003)

> *The requirement for a long-term return gives rise to ethical obligations in relation to the requirement for sustainable development in a longer-term perspective. Sustainable development is a precondition for return on the Petroleum Fund's financial investments in the long term*. (Graver Committee, 2003)

The Graver Committee further explains that companies that do not act in accordance with its owners' expectations are not attractive investments. The Fund may suffer financially if companies engages in activities which harm other companies, as the Fund is broadly involved in the investment universe. The Fund therefore has a financial interest in ensuring that its firms do not pass their costs on to other firms via society, and thus should engage in ethical considerations of their investments. The Ministry of Finance underscores the same aspects, arguing that long-term return depends on sustainable development in economic, environmental and social terms (White paper No. 19, 2013-2014; White paper No. 27, 2012-2013).

Research Question 4a: Ethical Principles

In the management mandate given by the Norwegian Ministry of Finance, Norges Bank is given the responsibility to integrate environmental and social considerations in the investment practices of the Fund. The ethical considerations of the Fund are based on the *UN Global Compact*, *OECD Principles of Corporate Governance*, and *OECD Guidelines for Multinational Enterprises*. Norges Bank and the Ministry of Finance also take part in the UN's *Principles for Responsible Investment* (PRI), which are based on the view that considerations related corporate governance and environmental and social issues may affect the financial return of investments.

a) Environmental Sustainability

Regarding environmental issues, section 2 of the NGPFG's ethical guidelines establishes:

> *The Ministry of Finance may, on the advice of the Council of Ethics, exclude companies from the investment universe of the Fund if there is an unacceptable risk that the company contributes to or is responsible for: (…) severe environmental damage*. (Council on Ethics, 2013)

The Fund argues that environmental issues in general may have an impact on the return of investments, and that achieving a good long-term return is strongly dependent on sustainable development in environmental terms, and it therefore also considers: global climate change, water management and tropical deforestation. (White paper No. 19, 2013-2014):

- Global climate change: Companies should develop strategies related to climate change and provide reports on what companies do to reduce the risk of climate change having a negative impact on the company's profitability (NBIM, 2014e);
- Tropical deforestation: Contributes to climate change, and companies are therefore expected to implement measures to reduce their negative impact on deforestation (White paper No. 19, 2013-2014; White paper No. 27, 2012-2013);

- Water management: Limited access to freshwater is considered an increasing risk to many companies, and is therefore an important ethical consideration (NBIM, 2014b).

b) Social Responsibility

Some of the Fund's ethical conduct related to social responsibility is mentioned in section 2 and 3 of the ethical guidelines (Council on Ethics, 2013):

> *The assets in the Fund shall not be invested in companies which themselves or through entities they control:*
>
> *a) produce weapons that violate fundamental humanitarian principles through their normal use;*
> *b) produce tobacco;*
> *c) sell weapons or military material to states that are affected by investment restrictions on government bonds as described in the management mandate for the Government Pension Fund Global (…)*

and

> *The Ministry of Finance may, on the advice of the Council of Ethics, exclude companies from the investment universe of the Fund if there is an unacceptable risk that the company contributes to or is responsible for:*
>
> *a) serious or systematic human rights violations, such as murder, torture, deprivation of liberty, forced labour, the worst forms of child labour and other child exploitation;*
> *b) serious violations of the rights of individuals in situations of war or conflict;*
> *(…)*
> *d) gross corruption;*
> *e) other particularly serious violations of fundamental ethical norms.*

The Graver Committee (2003) argues that the Fund should consider social issues because companies that break with accepted principles of right and wrong to achieve short-term return may damage the company's reputation, and thus harming the long-term return. As human rights are "firmly rooted in the Norwegian tradition and conception of justice" (Graver Committee, 2003), they are important for the Fund to consider. Further, the Fund specifically is concerned with children's rights:

> *NBIM is mandated to safeguard and build wealth for future generations, but we will not do this at the expense of children. NBIM recognize that enterprises should contribute to the effective abolition of child labour and that promotion of children's rights is closely linked to decent work for youth and adults and human rights standards*. (NBIM, 2011c)

One of the reasons for excluding tobacco is its negative health effects which have considerable costs to society. The exclusion of certain weapons, such as chemical, biological, cluster and nuclear weapons, is to some extent based on what is prohibited by international law, but also one the basis of the values of the Norwegian people (Graver Committee, 2003).

Research Question 4b: Ethical Investment Strategies

The ethical considerations mentioned above are related to different types of strategies, and the strategies and instrument the NGPFG are implementing is now presented. As one may see, the Fund only implements three out of the six strategies mentioned in figure 3, namely active ownership, negative screening and thematic investment.

- **Active ownership**

The operational manager of the Fund, NBIM, is responsible of exercising ownership rights in accordance with the Fund's ethical principles.

> *[NBIM] uses its rights as a shareholder to promote social and environmental issues and help improve standards of corporate governance. The bank is in contact with companies, investors and governments. It also in dialogue with other actors who establish standards for the financial markets*. (White paper No. 19, 2013-2014, p. 95)

As the Fund is one of the largest investors in the world, NBIM argues that they are in a better position to affect markets and individual companies than many other investors are. They prioritize active ownership on companies where the Fund has its largest holding, as they have a greater effect on the risk and return of the Fund. The analyses and development of knowledge that comes from its active ownership is significant for the long-term return of the companies the Fund holds (White paper No. 19, 2013-2014).

NBIM's active ownership is especially concentrated on climate change, water management and children's rights, and it has prepared reports of expectations on these areas. In addition to being in dialogue with companies, investors and governments, NBIM votes in annual general meetings and files shareholder proposals, which is its most important, formal possibility to express opinions and have an influence on companies (White paper No. 19, 2013-2014).

- **Negative screening**

The ethical guidelines of the NGPFG establish on what ground companies, products and sectors may be excluded from the Fund's investment universe. Exclusion is based on product-based criteria, or on conduct-based criteria, and is restricted to special or severe cases:

> *Companies are to be excluded from the Fund if they produce the specified products. Companies can also be excluded if there is an unacceptable risk that they are contributing to, or are responsible for, grossly unethical conduct as defined in the guidelines*. (White paper No. 19, 2013-2014, p. 19)

The Council on Ethics is responsible for assessing whether the criteria for exclusion of companies are fulfilled, and seeks to identify companies that fulfil the criteria of exclusion or observation, regardless of the company's size or home country. The council makes use of consulting companies, researchers and voluntary organisations to document the conduct of the companies the Fund is invested in. Based on documentation from available documents or fieldwork, the council gives its advice to the Ministry of Finance, who makes the final decision (Norwegian Ministry of Finance, 2010b).

On certain occasions, companies may be placed under observation rather than being excluded:

> *The Ministry may, on the basis of advice from the Council on Ethics (…), decide to put a company under observation. Observation may be chosen if there is doubt as to whether the conditions for exclusion have been fulfilled, uncertainty about how the situation will develop, or if it is deemed appropriate for other reasons. Regular assessments shall be made as to whether the company should remain under observation.* (Council on Ethics, 2013)

Monitoring and inspection of the companies of the Fund's portfolio is used to identify whether they produce products prohibited by the ethical guidelines. Companies that should be excluded based on conduct, are identified by monitoring online news in many languages, or by inquiries from external organisations. When activists are protesting on ethical issues related to the Fund, these protests reach the Council on Ethics, and are considered after a thorough review of information from different sources (Council on Ethics, 2014b; Norwegian Ministry of Finance, 2010b; White paper No. 19, 2013-2014). The work of monitoring and inspection is to a large degree done by consulting companies, such as Livingstone & Company, RepRisk and Sustainalytics. These companies have a broad network, which is their trump card, making them able to collect relevant information not found directly in media (Gundersen, 2014).

On page 36, it was shortly explained that negative screening may be inappropriate, as exclusion is considered to reflect moral or political beliefs. This is a greater risk for sovereign wealth funds, as they in principle should not work as political instruments. Øystein Olsen, governor of Norges Bank, has addressed this issue and stated:

> *If the Fund is perceived as an instrument for achieving other political objectives, its role as investor will be undermined. This is sound advice. If Norges Bank is assessed using criteria other than return and risk, its mission will become unclear. This might also impact return performance. There must be no doubt as to the objective of investment management*. (Olsen, 2014)

There are people who consider the NGPFG to act politically, when implementing its ethical principles. Professor Lawrence H. Summers from Harvard believes there is reason for concern when a country is judging the practices of other countries, such as the NGPFG is doing. Former Minister of Finance, Kristin Halvorsen, disagrees, stating “it is not possible to say that this is a political fund.” According to her, fighting child labour and nuclear weapons is of such fundamental character that it cannot be called politics when the Fund is excluding companies (Knudsen, 2008). There clearly exists strong perceptions on whether the NGPFG acts as an instrument for Norwegian political objectives or not, and the debate is continuous. Hence, the Fund experiences the challenges of negative screening.

- **Thematic investment**

The management mandate of NBIM clarifies that NBIM shall make environment-related investments with a market value of 20-30 billion NOK. Since 2009, NBIM has awarded mandates for environmental investments to external and internal managers. These have a focus on renewable energy and water and waste management (NBIM, 2014b). However, there are challenges related to the environmental investments, as the investment universe is unclear (White paper No. 19, 2013-2014).

Current work on ethical investment strategies

The ethical investment strategies of the NGPFG are continuously being assessed and analysed. In 2013, Ministry of Finance appointed the Strategy Council to assess how the work of responsible investment in NGPFG could be strengthened. Their research was finished at the end of 2013, and they gave Ministry of Finance ten recommendations on how to improve the Fund’s responsible investment practices, which should guide the Fund’s managers to purse responsible investment strategies that enhance the value of the Fund. The recommendations that have received most attention, are to delegate exclusion decisions to NBIM, and integrate today's work of Council on Ethics into NBIM. The strategy council believes that exclusion should only be made after all ownership strategies have been tried. Further, integrating decisions into NBIM will avoid some of today's duplication of resources needed for the operation of both NBIM and Council on Ethics (Strategy Council, 2013). The Ministry of Finance considers these recommendations to be useful, while Council on Ethics does not agree with all of them (White paper No. 19, 2013-2014).

The recent recommendations from the Strategy Council and the government's view on these have created debate. It is likely that the responsible investment practices of the Fund will change in the future, and that the Fund to an even greater extent than now will focus on active ownership.

6.2 National Fund of the Republic of Kazakhstan

6.2.1 Transparency

Research Question 1: Level of Transparency

a) Governance and Legal Framework

The main source of information regarding the *legal framework* of the NFRK (the Fund) is Adilet, Kazakhstan's legal database. Adilet contains relevant legislation and presidential decrees, with some information available in English, and most available in Russian and Kazakh.

A presidential decree of August 23, 2000 establishes the Fund:

> *The Fund's assets are concentrated in the account of the Government (…) in the National Bank (…). The amount and direction of the use of the Fund are determined by the President of the Republic of Kazakhstan, on the proposal of the Government (…).* (Adilet, 2000)

However, the most relevant legislative document, is what is named *On the Formation and use of the National Fund of the Republic of Kazakhstan* (Adilet, 2010), also called *the Concept* by some of the interviewees. I will further refer to this presidential decree as *the Concept.* This document is a presidential decree from April 2, 2010.

The Concept describes the *main objectives and principles* of the NFRK, which is "saving financial resources by generating savings for future generations and reduce dependence on the national budget situation on world commodity markets. Accordingly, the functions of the National Fund are savings and stabilisation." Hence, the objective of the Fund is strongly stated in legislation, and appears transparent.

A description of the *governance structure* is provided by a presidential decree from December 28, 2004 (Adilet, 2004), which describes the management board of the National Fund and the board's composition. I have not been able to get hold of public government documents that confirm the governance structure presented on page 19.

As one may see, the legal basis of the NFRK is to a large degree based on presidential decrees. On page 19 it was explained that this involves the president making all greater decisions. Zhanibek Khassan points out that there are issues with such a system, which decreases the transparency level of the Fund:

First of all, the Fund is not a legal entity. Second, it is only managed by executives, like the president, Minister of Finance, and so on. There is no participation of the public, no public discussions about how to manage this Fund. And the only decision maker of the Fund, on how to invest, where to invest, is the president. Just a single person (…)The president can declare that a legal act is urgent, then the parliament has to consider and approve it. The president can discharge parliament and the executive bodies. This structure affects transparency badly, because there are just 10 persons who decide what happens to the nation. There is asymmetry of information, scientists and researchers don't participate. Not every solution is taken into account. (Khassan)

Tsalik (2003) addressed the same issue much earlier, claiming that the Fund should be established by law to make it more difficult to change central rules of the fund by presidential decree. Even though the governance and legal framework of the Fund appears transparent, there are clearly issues with it affecting transparency negatively.

b) Inflows and Outflows

The Concept specifies the *source of funding* of the NFRK, which is in accordance with what was presented in chapter 3.

The Concept further specifies the *withdrawal approach* from the NFRK, which is the guaranteed transfers of USD 8 billion described on page 20. The function of the savings fund is also explained, establishing that its balance should be at minimum 20% of GDP at the end of the financial year. By this, it seems that the Concept gives a fair description of the general source of funding and withdrawal approaches from the Fund. Due to the lack of English descriptions, it is difficult to fully comprehend the mechanisms of withdrawals, but the description appears detailed.

Some point to the fact that the rules of withdrawal from the Fund keep changing, making it difficult to keep track when analysing the Fund. Dina Azhgaliyeva, who has previously done research on the NFRK, explains:

If you want to be transparent, I have to see how much oil producers pay to the government, and how it is spent by the Fund. However, when the amended rules regarding the fund kept changing, and even the name of the law regarding the rules changed, it got difficult knowing which rules were applicable at a point in time. This made it more challenging to analyse the Fund. (Azhgaliyeva)

Further, there exists a list of oil related companies whose taxes are deposited into the Fund, and which companies are on this list decides how much revenues are truly transferred to the Fund. Bauer (2014) claims that this list may be changed arbitrarily from year-to-year, and Azhgaliyeva has pointed to the same issue, arguing that this list contributed to making the rules of deposit and withdrawal less stable and transparent.

Ilyas Sarsenov, Senior Economist at the World Bank office in Astana, explains why the rules keep changing:

> *The government tries to fix the approach, and that is why it is changing the rules so frequently. They are still trying to find the best method to fit Kazakhstan. They have a very volatile environment that needs quick adjustments. When we are more developed and the growth is more sustainable, I think the approaches will change. But for now, this is the justification for these quick changes*. (Sarsenov)

The webpage of the Ministry of Finance of Kazakhstan provides annual and monthly reports on the NFRK, in English, Russian and Kazakh (Ministry of Finance of the Republic of Kazakhstan, 2014). These reports provide *the amount of receipts to the Fund*, broken down by type of inflow, in accordance with the different sources of funding described by the Concept. Likewise, the *amount of withdrawals* is given in the same report, specifying the amount of guaranteed transfer to the national budget, together with the amount of a targeted transfer.

Further, the targeted transfers described in chapter 20 are presented in these reports. According to Sarsenov, these “create some discretion and power on the government side on how much to basically allocate in addition to the guaranteed transfers.” According to Azhgaliyeva, it is difficult to see how these targeted transfers are truly invested, and what the return from they are. There is no data available to the public on what happens to this money, and for all they know, the money could be given away for free. Khassan has pointed to the same issue regarding the guaranteed transfers, stating that in general, “the spending of the Fund is unpredictable, and one cannot trace money. The 8 billion that is taken each year from the Fund is not possible to trace. It is just taken and invested.”

According to Tengri News (2013b), Kazakhstan’s Finance Minister Bolat Zhamishev has also remarked this issue, especially relating to targeted transfers: “There are issues with transparency of use of the National Fund’s money aimed for anti-crisis activities”, Zhamishev stated, further explaining that there are plans on publishing reports regarding the return of the use of the fund’s money to anti-crisis measures (Tengri News, 2013b). Earlier that year, President Nazarbayev said that $10 billion, which were withdrawn from the NFRK to be used in anti-crisis measures, had gone nowhere. “It’s easy to ask for money out of the National Oil Fund. The $10 billion allocated to combat the financial crisis is gone. There is no pay-off" the president stated (Tengri News, 2013a). This is a clear indication that there truly are issues with transparency of the Fund and its use of money.

The national budget of Kazakhstan is available in Russian and Kazakh on Adilet, and shows the transfers from the NFRK, and such confirms the amounts of the guaranteed transfers given in the reports. According to Sarsenov, "flows are reflected in the budget, if they are on budget. There is of course a possibility that they are off-budget." Sarsenov explains that when the $10 billion were taken from the Fund during the financial crisis, part of this money went as a targeted transfer on budget, while some was off budget and borrowed from Samruk-Kazyna.

The investment income of the Fund is given in the annual and monthly reports described above. The investment income is not broken down by type, only a total amount is given. It is therefore impossible to know if the investment income comes from returns on equity, on bonds, or something else. Likewise, with the amount of *expenditure*, the reports provide the "expenditure connected with the National Fund Management and conducting annual external audit." How much is connected to operational management costs of the fund, and how much is related to audit fees, is not possible to know.

c) Investment Strategy

There is little information available about the *investment strategy* of the NFRK. The Concept describes that the policies of the NFRK "will remain conservative. However, the main objectives of investment operations under the management of national funds are safety, maintaining sufficient liquidity to ensure profitability in the long term at a moderate level of risk." The Concept also mentions that the assets of the Fund must be traded in foreign financial markets, and be included in the list of permitted financial instruments. What these permitted instruments are, is not given.

A chapter from the National Bank's annual report gives a hint about some of the investments of NFRK (National Bank of Kazakhstan, 2013). Amongst others, the report reveals that NFRK has a "Global Bond Mandate", a "Global Equity Mandate" and a "Global Tactical Asset Allocation Mandate." *External managers* manage these portfolios, but who these are, is not given.

There is no information available on *risk management*.

The information given in the annual report of the National Bank increases the transparency on the given elements. However, it must be mentioned that none of the interviewees mentioned this report as a possible source of information, and this report is easy to miss, when one is specifically looking for information regarding the NFRK. The information is also quite limited, and not easy to understand for people without deeper knowledge in the field of investments and finance. Summarized, the transparency level regarding the investment strategy is very low.

d) Investment Portfolio

The *size of the Fund* is given in tenge in the annual and monthly reports provided by the Ministry of Finance. The statistical database on the website of the National Bank also gives the volume of the assets of the NFRK in US dollars on a monthly basis. The annual report of the National Bank provides the size of the savings fund and the stabilisation fund separately. The size of the fund is therefore considerably well covered, and Sarsenov argues that "by publishing the size of the Fund on the webpage of both the Ministry of Finance and the National Bank, the data is verified."

The annual report of the National Bank provides *the financial return* of the NFRK since its inception in 2001. The separate returns of the savings fund, the stabilisation fund and the benchmark is given for the year of the report. The return of the equity portfolio, bond portfolio and tactical asset allocation portfolio from 2002 is also given in the report. The return of the fund is therefore covered, if one manages to find the annual report of the National Bank.

The NFRK does not provide any information on *geographic location*, companies in which the fund holds assets or on market value of holding in each company.

e) Ownership

The NFRK does not provide any information on its ownership strategy or voting records.

Other Relevant Information

Different commentators and interviewees have different views on whether the transparency of the NFRK is sufficient or not. Khassan is very clear in his perceptions, stating that the NFRK is "not very transparent." He argues that transparency of the Fund is very important, and that today's situation is making it difficult to know which information is real or not: "Is it just fake information? Is it just like paint, just cooked up for these special purposes?" Sarsenov, on the other hand, believes that the NFRK is quite transparent, but with room for improvement:

It's not that the government hides anything, but there is an issue with consistency of data. When comparing the National Bank's data with the Ministry of Finance data, they use their own approaches which sometimes don't match. (Sarsenov)

Azhgaliyeva agrees with Sarsenov in that there is room for improvement on transparency of the NFRK. Neither she believes that the Fund tries to hide funds, and claims that the National Bank and the Ministry of Finance are doing well at trying to make the Fund more transparent. Regarding corruption, Natalia Malyarchuk, Chair of the Board at Transparency International Kazakhstan, explains: "The main problem of Kazakhstan is top-level corruption. It is connected to oil and to the extractive sector." However, despite of top-level corruption, she considers the NFRK as a "quite clean organisation."

It is also relevant to mention that in her research, Azhgaliyeva found that regarding the stabilisation function of the Fund, the NFRK was able to stabilise the government expenditure in an effective manner, but it did not manage to stabilise the exchange rate. This will be commented in chapter 7.

Research Question 2: How is Transparency Achieved?

- **Reports**

As already mentioned, the Ministry of Finance publishes annual and monthly reports regarding the NFRK on its website, in Russian, Kazakh and English. However, these are not standard, comprehensive, audited reports, but simply one-page reports listing the receipts and application of the NFRK. The same reports are given on a monthly basis. Annual reports exist from 2006, monthly reports from 2012. The reports contain the assets of the National Fund at the beginning and the end of the period, and an overview of the deposits and withdrawals of the Fund.

Khassan believes that the transparency and predictability of NFRK could be improved if the Fund followed Norway's example, making more comprehensive reports available. As he simply summarizes the quality of reporting, "it is regular, but not detailed."

Regarding audited reports, Sarsenov explains "the Fund is subject to an annual audit, by an audit company, but these are not placed in the public domain." Already in 2003, Tsalik argued that the NFRK should commit more to transparency, by making independent audit reports available to the public. In 2010, Lücke mentions that NFRK provides little information, and there are no published annual reports on the operations of the fund.

- **EITI**

Kazakhstan became an EITI candidate in 2007, and was in October 2013 accepted as an EITI compliant country (EITI, 2013b). Their latest EITI report was published in 2011, and according to Dyveke Rogan, Regional director at EITI, this report was more comprehensive than the previous ones. Cash flows are broken down by company in the 2011 report, not just providing a total as it has earlier. However, regarding the National Fund, the EITI report of 2011 does not provide much relevant information. Rogan points out that the report of 2012/2013, which should be available at the end of 2014, should cover where money flows after received by the government, and thus how much flows into the National Fund.

It seems that the reports from the EITI may provide information as a relevant supplement to information given from the government, the National Bank and the National Fund in Kazakhstan. “The source of funding to the National Fund has become very transparent, because of the EITI. EITI helps a lot” (Khassan). Tatiana Sedova, EITI consultant at the World Bank office in Almaty, agrees that the EITI could make the NFRK even more transparent. She also believes that the EITI has changed the way the government thinks about transparency, to the better. However, as the reports work today, the detail level is not high enough create involvement regarding the National Fund on its own.

- **Webpage**

The NFRK does not have its own webpage. Previous literature, such as Kalyuzhnova (2011), describes the existence of a webpage, nationalfund.kz, but this is not up and running. According to Khassan, “when the National Fund was established, there was a webpage. But it has not been working for the last six years.” However, according to him, the webpage of the Ministry of Finance contains all the same information that was provided by the webpage.

- **Santiago Principles**

There did not seem to be much knowledge about the Santiago principles in Kazakhstan. Sagindykovich, from Ministry of Finance, did not know about the Santiago principles, stating “this is the first time I hear about these principles. Maybe they are not formally named, but implemented in practice in the NFRK.” This is in accordance with the results from Kalyuzhnova (2011), who experienced that public officials, managers of the fund and even Kazakhstani analysts had not heard about the Santiago principles, and that Kazakhstan was probably not invited to the Santiago meetings in 2008.

To understand why the Ministry of Finance was not aware of the Santiago Principles, the IFSWF was contacted. Kristian Flyvholm, the Deputy Secretary-General responded:

> *Kazakhstan was not part of the IWG at the beginning of the process, when the Santiago Principles were crafted in 2008. However, it is important to note that the IWG was not a comprehensive group of all SWFs, so many countries were not represented.* (Flyvholm)

Flyvholm elaborates: "In terms of the National Fund of Kazakhstan, we would certainly welcome them as a member of the IFSWF. In fact, we have been in liaison with them in this regard in 2013," further explaining that the NFRK are welcome to apply for membership.

Research Question 3a: Awareness of Benefits of Transparency

There are few written sources on the Kazakhstani government's and state officials' perceptions on importance of transparency. According to the Concept, the formation of the Fund is based on the principle of transparency. Transparency is by the decree defined as mandatory disclosure of approved indicators of the Fund, reports on the use of the Fund, and reports on the investment management of the Fund (Adilet, 2010).

According to Sagindykovich, from Ministry of Finance, transparency is "absolutely essential" in the management of the NFRK.

> *This conversation about transparency is a never ending one, it's an internal conversation. When we are talking about transparency, we need to understand what level of detail there should be, so that there is no redundancy. We need also to be governed by the content, not by the form of transparency.* (Sagindykovich)

By this, it seems that the Ministry of Finance does not have a fixed view on how to achieve transparency in the NFRK, but that it is a continuous process. Sagindykovich further states: "the NFRK is sufficiently transparent. In principle, all relevant information is public, not being kept as a secret, but there is still work going on to improve transparency and regulations on the Fund." However, the transparency of the Fund is not regarded as perfect, and Sagindykovich recognizes that there is still work to be done to make the general public more aware of the Fund and how it works:

> *I guess that the public are aware of the Fund to a quite high extent. However, there is always room to move forward and improve, and some points can be reinforced. (…) An important question is whether the general mass is capable of understanding the given information and reports, reports that sometimes the accountants would not understand. Transparency is*

important, not only from the supply of information, but also on the reception of this information, the recipient must understand this information. (Sagindykovich)

When asking for a higher level of transparency in the management of NFRK, Khassan appears to be very aware of the benefits of transparency:

> *Releasing more information, would give an opportunity to researchers, to investigate, and show the positive and negative sides of the policy, which is around this National Fund management. There could be this opportunity to have a dialogue between researchers, scientists, the general public and the government. This makes ties stronger, investments stronger and the overall policy on these issues stronger. And of course corruption! A transparent management would make less corruption, because of less opportunities to hide money*. (Khassan)

As to why the level and awareness of transparency in Kazakhstan is low, Sarsenov believes that “the development of transparency in the NFRK is a natural process. I think the government is quite comfortable the way it is now.” Malyarchuk points out that the awareness of transparency in Kazakhstan may as well be related to building an image, rather than seeing the true benefits of transparency:

> *NFRK was created not transparent; I don’t see a reason to be transparent now. (…) If we speak about corruption and the anti-corruption activity of the government, I see that there is a desire to be transparent. I see the desire to promote anti-corruption values. (…) For our government, it is more a PR project, to be transparent*. (Malyarchuk)

6.2.2 Ethics

Issues that should have been covered in this section, are awareness of benefits of ethics, ethical principles and ethical investment strategy, in accordance with the structure from chapter 6.1.2. However, the NFRK does not provide information on any of these issues. There is no clear statement confirming that the NFRK truly does, or does not, take ethical considerations in its investment decisions. When Sagindykovich at the Ministry of Finance was asked about this issue, he did not seem aware on the existence and benefits of ethical investment. Exclusion of tobacco companies was given to him as an example of ethical investment considerations, and he responded: “As I said before, the concept of management is very conservative. And we need to understand that these tobacco companies are very profitable, but they are also very risky and it’s not within the concept of our management” (Sagindykovich).

Thus, it appears that the Fund does not implement any ethical decisions in its investments. However, as the investment strategy of the Fund is conservative, there is a possibility that the Fund does not invest in what is typically considered as unethical companies and products. This is impossible to know for sure as long as an overview of companies the Fund holds is not available, and the Fund does not describe what a conservative strategy truly means.

6.3 Samruk-Kazyna

6.3.1 Transparency

Since Samruk-Kazyna (the Fund) is a joint stock company, and not a traditional resource fund as the NFRK and NGPFG, one must expect different results when assessing the transparency of Samruk-Kazyna. Not all the elements mentioned in the transparency framework will be relevant to analyse, and there are other elements not mentioned in the framework that might affect the transparency of Samruk-Kazyna.

Research Question 1: Level of Transparency

a) Governance and Legal Framework

The webpage of Samruk-Kazyna clearly states *the objective* of the Fund (Samruk-Kazyna, 2014b):

> According to the Law, the main objectives of the Fund are as follows:
>
> 1. contribution to sustainable development of the economy;
> 2. contribute to the modernization and diversification of the economy,
> 3. improve the performance of companies.

The objective of the Fund is explained more thoroughly on the webpage. Samruk-Kazyna provides a large degree of transparency regarding its objective, which is strongly stated and well-defined in legislation and presidential decrees as well.

Regarding the *legal framework*, Samruk-Kazyna is regulated by the law on joint-stock companies, which also concerns what information should be publicly disclosed:

> *This Law defines the legal status, the establishment, operation, reorganization and liquidation of the company; rights and obligations of shareholders, as well as measures to protect their rights and interests; competence, order of formation and functioning of the company; powers and responsibilities of the procedure for electing its officers*. (Adilet, 2003)

The webpage of Samruk-Kazyna publishes most of the laws and presidential decrees relevant to the Fund. A presidential decree by October 13, 2008, only available in Russian or Kazakh, establishes the Fund. The relevant laws that are mentioned are also available on Adilet.

The *governance framework* of the Fund is described in English on its webpage. The members of the board of directors are presented, with the CV of each member enclosed, which makes it possible to assess the qualification of the members. An overview of the institutional structure of Samruk-Kazyna is provided in English. Further, the governance system of the Fund is explained: “The Fund evaluates corporate governance on three major components: structure, process and transparency” (Samruk-Kazyna, 2014a), with further details to be found online.

Another issue to consider, relating to the governance of Samruk-Kazyna, is that its management has, or has had, close relations to the government. As an example, the previous head of Samruk-Kazyna, Kulibaev, is the president’s son in law, which was also mentioned in chapter 3. Some of the interviewees, requesting to be anonymous when discussing the issue of family relations to the president, believe this affects transparency. They explain this as part of culture in Kazakhstan, that family relations in politics and business is common and often accepted, but not necessarily a good thing.

Another governance-related issue of the Fund, mentioned by Nygmet Ibadildin, associate professor at KIMEP University, is that it “works as a parallel government, with a parallel budget. It creates another layer of bureaucrats for national companies.” He elaborates: “When Samruk-Kazyna controls the main Kazakhstani companies and their financial flows, they also control a large part of the economy, and in ways works like a government on its own,” and, “there is critique over its centralization of decisions, and overstaffing of directors” (Ibadildin).

Hence, at first glance, the governance structure of Samruk-Kazyna may appear transparent, but there certainly are issues of its governance structure which decreases transparency.

b) Inflows and Outflows

As Samruk-Kazyna is a holding company with subsidiaries, the process of inflows and outflows of the Fund does not follow the same pattern as in traditional resource funds. The structure of this section therefore does not follow the more detailed structure of the analysis of NFRK and NGPFG.

The government resolution from September 14, 2012, *On approval of the Development Strategy of JSC National Welfare Fund Samruk-Kazyna,* describes the development strategy of the Fund. This document is available on Adilet, but not in English. The development strategy describes the *sources of funding* to the holding companies of Samruk-Kazyna, which are (Adilet, 2012b):

1) generated by the company's own funds;
2) low investment and borrowing;
3) borrowing from the National Fund of the Republic of Kazakhstan (…)
4) market borrowing in the domestic and international capital markets;
5) proceeds from the public offering of shares in companies (IPO/SPO);

6) intra-group financing.

Further, “The Fund aims to provide financing for the investment program of the group of companies through the use of all sources of funding available to it, including its own funds, funds of the republican budget and the National Fund (…).”

The Fund does not receive transfers from the national budget on a regular basis, but as shown above, the Fund occasionally may use sources of funding from the budget or NFRK. “Twice, money was transferred from the National Fund to Samruk-Kazyna, first in 2007 and second now in March 2014. Samruk-Kazyna was more an operator of these money” (Ibadildin). Further, the Fund might transfer money to its subsidiaries on certain occasions: “It depends upon the company and project. They finance projects in companies until the project has reached a certain financial stability according to its business plan” (Ibadildin). What is required for the Fund to transfer money to its subsidiaries, is not clearly stated.

The Fund publishes its annual reports, consolidated financial statements (presenting aggregated financial information, including the subsidiaries, as one economic entity) and separate financial statements (presenting financial information of the Fund as parent company) on its webpage. These include statements of comprehensive income and cash flows. These reports provide a high level of transparency in regards of net profit, revenues, grants from the government, expenses broken down by type, and income such as profit from subsidiaries and interest income. The annual report also provides a short, financial summary of the Fund’s major subsidiaries. The separate report provides the relevant information on the Fund’s separate income and expenditures.

Sarsenov believes that the reports present essential information, but that there are still “underwater flows which sometimes are not captured. Unfortunately, the government does not consider the Fund as a contingent liability to their fiscal accounts.” Sarsenov therefore points out that there may be transactions that are not as transparent as they should be. The IMF also calls for increased transparency in the Fund’s transactions and operations:

> *Given the large presence and reach of its activities across many sectors of the economy, concerted efforts are required to properly account for SK’s financial operations, particularly including those involving the fiscal accounts (transfers of taxes and royalties to the budget, loans from the government, holding of government securities, treatment of contingent liabilities, foreign borrowing on behalf of public entities, etc.).* (IMF, 2013)

Based on documents alone, it is not easy to assess the transparency of the general approach of inflows and outflows. Also, the transparency of the Fund is to a large degree dependent on the transparency of its subsidiaries. Understanding the process of inflows and outflows requires knowledge on how holding companies work, and Samruk-Kazyna does not provide information on this matter. As a reputable organisation such as the IMF asks for enhanced transparency, it clearly indicates that there are issues with transparency regarding what money flows into and out of the Fund.

c) Investment Strategy

As the Fund is a holding company that engages directly into the management of its subsidiaries and their projects, the description of its *investment strategy* is not expected to be of the same pattern as of the NFRK or the NGPFG. On their webpage, Samruk-Kazyna makes clear that it has three strategic areas to focus on (Samruk-Kazyna, 2014f):

> *1. Increasing the long-term value of the companies*
> *2. Participation in diversification and modernization of the national economy*
> *3. Social responsibility*

The development strategy, described in the previous section, contains many pages, and describes the strategy both in a basic and a comprehensive manner:

> *Investment activities of the Fund should promote their long-term value. For effective implementation of investments, projects will be given a clear financial discipline, based on market principles. In this case the key criteria the implementation of investment projects should act profitability and strategic importance for the country's development (…) The Fund intends to permanently carry out a detailed analysis of the new opportunities and priority sectors both in Kazakhstan and abroad*. (Adilet, 2012b)

The development strategy further contains a SWOT-analysis, and a description of strategic directions of development, such as how to improve long-term value, how to participate in the diversification of the economy, and sources and funding needs. Describing external asset managers and categories of investment is not relevant to the Fund.

The *risk management* of the Fund is described both on its webpage and in its annual report, in English:

> *The Management Board and the Board of Directors of the Fund are periodically informed about the risks situation (…) In 2009, to improve the effectiveness of the corporate risk*

management and improve the risk communication with the subsidiaries of the Foundation Board it was created the Risk Management Council, which includes the representatives of the Fund and its subsidiaries. (Samruk-Kazyna, 2014c)

The webpage further explain that risk management also involves managing the risks of its holding companies. Hence, the Fund is quite clear on the existence of a risk management system, and describes how it works. Descriptions are also provided in annual reports.

The information available on Samruk-Kazyna's investment strategies does appear to be transparent. There is detailed information regarding both the development strategy and the risk management, which is easily accessible. However, Dyveke Rogan at the EITI tells that the civil society of Kazakhstan request more transparency around the investment policies of Samruk-Kazyna. There is not a lot of clarity on what kind of companies the Fund wishes to hold, and on what basis the Fund buys shares in companies.

d) Investment Portfolio

Not all the companies the Fund holds are publicly traded, and it is therefore not possible to directly find the *market value* of the Fund, without using valuation methods for calculating the value of each company. Thus, there is no meaning to speak of the market value, and the balance sheet may provide a sufficient figure of the Fund's size. The audited separate report of Samruk-Kazyna comprises the Fund's separate balance sheet, which provides a line with the amount of investments in subsidiaries. This could be an indicator of the value of the companies the Fund holds. Values are set by fair value for annual periods beginning after January 2013. In the consolidated report, the consolidated book equity value of Samruk-Kazyna is provided.

As to *financial returns* of the Fund, the annual reports provide information on the EBITDA margin (earnings before interest, taxes, depreciation and amortization as a share of total revenue) for Samruk-Kazyna, together with the return on assets (ROA) and return on equity (ROE). These must be seen as the most relevant profitability/return measures of the Fund.

A *list of subsidiaries* is provided on the webpage of Samruk-Kazyna. This list, not available in English, provides the name of the company and the industry sector. A pull-down menu enables one to choose information regarding net income, assets, operating profit, ROE, ROA, return on investment (ROI) and much more. However, the list is not complete – only 20 subsidiaries are listed. On page 20 it was told that the Fund holds over 400 companies.

The webpage also contains an overview of subsidiaries, with more detailed information of each company, such as history, key figures and company guidelines. As far as I have found, this overview is not complete either.

Information on *market value of holding in each company* is not provided directly by Samruk-Kazyna, but exists for publicly traded companies on the website of Kazakhstan Stock Exchange, www.kase.kz. This requires that one knows which companies the Fund holds.

Summarized, Samruk-Kazyna publishes relevant information regarding its investment portfolio. What is lacking, is an exhaustive list of all its subsidiaries.

e) Ownership

Samruk-Kazyna owns large shares in its subsidiaries, thus following a different ownership strategy than traditional resource funds, which normally owns smaller shares. The overall strategy of the Fund is more related to the management and governance of its subsidiaries, and the ownership strategy may therefore be associated with the development strategy which has been described.

Research Question 2: How is Transparency Achieved?

- **Reports**

As a joint-stock company, Samruk-Kazyna is by law required to conduct annual financial statements. The Fund publishes all its reports, including audited reports, online. Quarterly reports are published now and then, but not every quarter. There are three different reports published:

  - The annual report, which presents general information regarding the Fund, its activities and projects, and relevant figures and facts about the Fund and its subsidiaries;
  - Consolidated financial statement, which contains aggregated financial information (which includes the subsidiaries), such as cash flow, balance sheet and comprehensive income statement, and the auditor's report;
  - Separate financial statement, which includes the same type of information as the consolidated report, but not aggregated together with information from subsidiaries.

Most of the reports are available in English. Samruk-Kazyna thoroughly describes its selection procedure of external auditors, and its auditing policies. The reporting of the Fund must be considered to be quite comprehensive and sufficient, and by publishing audited reports, their reliability increases.

- **Webpage**

The Fund has its own webpage, www.sk.kz, which provides information regarding the Fund. The webpage is to a large extent used to provide relevant information, and most of the information analysed in this thesis regarding the Fund, is collected from its website. A large portion of the information is available in English as well.

Samruk-Kazyna stands out as a good example of how useful a webpage may be, as it makes it easier to collect information and increases the reliability of information. In addition to the information reported in this thesis, the webpage also publishes project maps, information on procurement, and relevant news and speeches regarding the Fund and its subsidiaries. As the name suggests, *Informational and analytical portal of SWF Samruk-Kazyna*, the webpage works as a useful informational portal, even for international researchers and observers. The information published online covers a lot more than what is required in the transparency framework.

Further, in addition to reports and the webpage, Samruk-Kazyna provides information to the press, which is published in different newspapers

- **Santiago Principles**

As explained on page 68 regarding the NFRK, the management of NFRK and the Ministry of Finance were not aware of the existence of the Santiago Principles. Therefore, it is interesting to discover that Samruk-Kazyna joined the IFSWF on February 11, 2014:

> *We welcome JSC Samruk-Kazyna. The IFSWF Board notes the strong commitment of the management to corporate governance and the willingness to endorse the Santiago Principles on a voluntary basis. We look forward to collaborating with Umirzak Shukeyev (Chairman of the Management Board of JSC Samruk-Kazyna) and his team to meet our common objectives*. (IFSWF, 2014)

By becoming a member of the IFSWF, Samruk-Kazyna has accepted to implement the Santiago Principles. This will work as a good tool for the Fund to achieve and maintain transparency.

By using both reports and its webpage as important sources of information, Samruk-Kazyna manages to make relevant information accessible for the public.

Research Question 3a: Awareness of Benefits of Transparency

On their webpage, Samruk-Kazyna makes it clear that transparency is of importance to the Fund: "Samruk-Kazyna will rely on the following key principles: (…) 2. transparency, efficiency and flexibility of Samruk-Kazyna and Companies; (…) 4. commitment and accountability" (Samruk-Kazyna, 2014d). The role of transparency is also emphasized in their business ethics code of the Fund:

> *The relationship with the Sole Shareholder shall be based on the principles of transparency, accountability and responsibility in compliance with the Legislation of the Republic of Kazakhstan (…) and internal documents of the Fund*
>
> *(…)*
>
> *The Fund shall interact with business partners on the basis of mutual advantage principles, transparency and full responsibility for obligations undertaken in accordance with contract terms based on legitimateness, honesty and efficiency*. (Samruk-Kazyna, 2010).

Even though Samruk-Kazyna show awareness on the importance of transparency, the IMF has commented this issue, arguing that "the systemic nature of SK requires enhanced transparency of its operations" (IMF, 2013).

6.3.2 Ethics

Research Question 3b: Awareness of Benefits of Ethics

As a joint-stock company, with large holdings in many Kazakhstani companies, Samruk-Kazyna is better suited to engage in corporate social responsibility rather than directly in SRI activities. Samruk-Kazyna involves itself in the corporate governance of its holdings, and with a larger ownership share in each company than a traditional resource fund would have, the Fund is better equipped to have a major impact on how its subsidiaries engage in CSR.

In fact, Samruk-Kazyna does claim to engage in CSR: "Social responsibility is one of the strategic directions of the development of the Fund" (Samruk-Kazyna, 2012). The Fund has also published a business ethics code, which provides some information on what ethical considerations the Fund makes: "Our Business Ethics Code sets standards for each of the Holding and is compulsory for all, without exception. All the employees and officials of the Fund are responsible for complying with its requirements" (Samruk-Kazyna, 2010, p. 3).

Samruk-Kazyna does not provide extensive information on why it engages in CSR, and it is therefore difficult to assess whether or not it is well aware of the benefits of ethical conduct:

> *Our national management holding – (…) Samruk Kazyna (…) will not be able to grow and develop without the trust from the Government, business partners, employees, and at a*

higher level - without the trust of the society as a whole, the part of which we are. (Samruk-Kazyna, 2010, p. 3)

The scope of activities of JSC "Samruk-Kazyna" and the organisations included in the group of "Samruk-Kazyna", are of strategic importance for the development of the entire economy, and affect the interests of many people. (…) In this regard, the company strives to ensure sustainable development of its business, paying attention not only economic but also social aspects. (Samruk-Kazyna, 2014b)

Research Question 4a: Ethical Principles

a) Environmental Sustainability

Samruk-Kazyna considers environmental protection in its business ethics code (Samruk-Kazyna, 2010):

2.6.5. The Fund shall support the initiatives on ecology and environment protection. (…)

4.5.1. The Fund shall comply with (…) environmental protection stipulated by the current legislation in this sphere. (…)

4.5.3. The Fund shall follow the principles of environmental protection itself and stimulate other companies to introduce energy-saving technologies, non-waste industry, and waste recycling.

It appears that the Fund specifically considers energy-saving and waste-issues. This is also emphasized by the Fund's development strategy, which requires its subsidiaries to minimise the impact of their operations on the environment, and prevent accidents that damage environment, in addition to having energy efficiency and alternative energy sources as key principles. (Adilet, 2012b)

As to why the Fund considers environmental protection, it reasons:

The economic activity of the group of companies of the Fund (…) affects the interests of millions of people. The environmental impact exerted by a group of companies of the Fund in carrying out its activities, determines its responsibility to society. (Samruk-Kazyna, 2012, p. 42)

Hence, the Fund is clearly concerned with environmental issues, but it does not provide much detail on what issues are of importance, and why they are relevant for the Fund to consider.

b) Social Responsibility

Social issues seem to be a greater concern to the Fund, compared to environmental sustainability. According to the business ethics code, the Fund considers the following social issues:

- provide compliance and respect of human rights;
- not to discriminate on race, religion, nationality, sex, age, political and other criteria; recruitment and promotion is carried out exclusively on the basis of compliance with qualification requirements, taking into account the professional skills, knowledge and skills;
- support programs aimed at the development of physical culture and sports, education, culture (…)

Some of the projects of the Fund are "aimed at improving the image of the Fund and/or organisations." As to sports, the main areas focused on by the Fund, are development of sports, sporting events and construction of sports facilities and infrastructure (Samruk-Kazyna, 2014e).

Hence, the Fund clearly emphasizes social considerations, but it does not provide specific information on what those considerations are.

Research Question 4b: Ethical Investment Strategies

This section will describe how the Fund implements the ethical issues it has stated to consider. It must be noted that as the Fund does not engage directly in SRI, but rather in CSR, it cannot directly implement the strategies provided in chapter 4.3.3. The Fund does give some indication on how it implements its social and environmental principles, but it is not given in detail. If the Fund applies negative or positive screening of its current or potential subsidiaries, is not known, and the strategies described below are best suited to describe as active ownership via its business ethics code.

- **Active ownership**

The business ethics code states how the code should be followed (Samruk-Kazyna, 2010):

> *2.4.2. Companies shall adopt their own ethics codes, taking into account their particularities of business conduct, but not contradicting to the basic principles of business ethics set forth in this Code*
>
> *(…)*
>
> *4.7.3. Relevant employees of the Fund should react on the problems connected with violation of the requirements of business ethics (…)*

Further, an ombudsman is appointed to ensure compliance with the Fund's business ethics code. The ombudsman has the right to "initiate procedures revealing the violation" of the code, and "give employees and officials the explanations and interpretations of code's provisions." He or she has the duty to keep records of complaints provided on non-compliance with the code (Samruk-Kazyna, 2010).

As mentioned, some of the social issues the Fund is engaged in, is social projects and sports. This is implemented by providing sponsorship and charitable assistance to projects. On what grounds charity and sponsorship is given, is not explained thoroughly.

The development strategy establishes some ways on how the Fund implements its environmental considerations. The Fund shall:

- collect and evaluate information concerning activities' impact on the environment;
- set measurable targets for improving environmental performance and resource management;
- monitor and verify progress towards goals of environmental protection.

Further, by 2016, the industrial subsidiaries of the Fund shall conduct environmental audits.

Chapter 7: Discussion and Comparison

This chapter discusses and compares the most relevant findings in accordance with the structure from chapter 6, to answer the research questions systematically. Based on the theory and ideas presented in this thesis, this chapter also discusses how transparency and ethics affect the funds' abilities to contribute to avoiding the resource curse.

7.1 Comparison of Transparency and Ethical Principles

Research Question 1: Level of Transparency

Figure 4 below summarizes the findings on the transparency level of the three funds. Some of these elements will be further discussed and compared.

Figure 4: Comparison of transparency level

Element	NGPFG	NFRK	Samruk-Kazyna
Clearly stated objective	Yes	Yes*	Yes
Governance framework	Yes	Yes*	Yes
Resolution, laws and regulations	Yes	Yes*	Yes
Source of funding	Yes	Yes*	Yes*
Amount of funding	Yes	Yes	n/a
Investment income	Yes	Partially	Yes
Withdrawal approach	Yes	Yes*	n/a
Amount of withdrawal	Yes	Yes	n/a
Expenditures	Yes	Partially	Yes
Investment strategy	Yes	No	Yes
External asset managers	Yes	No	n/a
Categories of investment	Yes	Partially	n/a
Risk management	Yes	No	Yes
Size of the fund	Yes	Yes	Partially
Information on return	Yes	Yes	Yes
Geographic location of investments	Yes	No	n/a
Companies/indexes in which the fund holds assets	Yes	No	Partially
Market value of holding in each company	Yes	No	Partially
Voting records	Yes	No	No
Ownership strategy	Yes	No	Yes

* not available in English
n/a: not applicable or not relevant

a) Governance and Legal Framework

All funds have clear objectives stated in respective legislations, which contribute in creating confidence and holding the management accountable. As a joint-stock company, Samruk-Kazyna faces strict requirements, also regarding disclosure of information, by Kazakhstani law. Such requirements do not exist for the NFRK, which is only held as a government account. Samruk-Kazyna and the NGPFG both present the relevant legal framework on their webpage, making it easily accessible for the public. This is not the matter with NFRK, where legislation is only available on Adilet. This is a disadvantage, as the interested public must puzzle together the relevant pieces themselves, thus making it more difficult for the public to judge whether legislation is truly followed.

As pointed out on page 16-17, Kazakhstan is autocratic, with power centralized to the president and his family. This issue is reflected in the management of both NFRK and Samruk-Kazyna, as both are based on presidential decrees, assigning a significant amount of power to the president. The president's power in NFRK harms the credibility of the fund, as the public's trust in the fund depends strongly on their trust in the president. There are currently no reasons to believe that the president would use his power to directly affect the operation of the fund. However, the risk of the president using his control of the legal system to only introduce transparency in areas required by foreign pressure, as argued on page 18, clearly exists regarding the NFRK. In comparison, the legislation of NGPFG appears more solid and credible, as it is approved by Parliament and not dominated by any single person.

Further, Samruk-Kazyna risks to appear less transparent than the other two funds due to the management's close relationship with the government, which was especially the case when the president's son in law was the manager of the fund. This may turn out to harm the credibility of the fund, making it difficult for the public to know on what ground decisions are made, and if the fund in reality places more concern on current politics than on running an efficient fund.

These are elements not directly captured by the transparency framework, which lower the transparency of the Kazakhstani funds compared to the Norwegian one.

b) Inflows and Outflows

By legislation, all funds have to some extent stated how funding and withdrawals are made. As referred to by Bauer (2014) on page 28, such transparent rules work committing, as the funds have a public obligation on how to deposit and withdraw funds. As a joint-stock company, Samruk-Kazyna does not follow the same pattern as the other two funds, and its process of funding and withdrawal appears more complex. It is not easy for the public to comprehend on what grounds Samruk-Kazyna finances projects or transfers money to companies.

On page 28 it was argued why transfers should go via the national budget. The NGPFG is the only fund doing this completely. NFRK makes guaranteed transfers via the budget, which is publicly available, but it may transfer funds to Samruk-Kazyna or others via targeted transfers, sometimes off budget. This points to the same issue mentioned by Karl (2007) on page 20, that the NFRK risks being a parallel budget without control. Hence, some of the transfers of NFRK also end up being less transparent, as was the case of the USD 10 billion that the Kazakhstani president claimed went to nowhere, which was explained on page 64-65. That case shows that there clearly is a need for the NFRK and Samruk-Kazyna to clarify how money from targeted transfers are spent. The plans on publishing reports regarding the return, as mentioned on page 64, are wise, but have not yet been put to life.

Further, as was argued by Ibadildin on page 73, Samruk-Kazyna works as a parallel budget to the national budget, thus creating a separate budget decreasing transparency, which also makes it less clear which transfers the government should be held accountable for. Both NFRK and Samruk-Kazyna should make clarify on what grounds transfers are made, and Samruk-Kazyna should be held more accountable for what happens to funds received by NFRK and what their payoff is. The connection between Samruk-Kazyna and NFRK should lead to increased transparency, and not the other way around.

The NGPFG appears most transparent regarding inflows and outflows. The Norwegian fiscal rule enhances predictability and has been followed by all governments since its implementations. However, as the rule is not established by law, there exists a risk that future governments will not follow the fiscal rule. This limits the strength and true predictability of the rule, which will only work as long as there is democratic stability and political consensus on the application of the rule. The rules of the NFRK keep changing and are less predictable, decreasing its transparency and control. However, as explained on page 64, Kazakhstan might be in need of changing its rules, and achieving a transparent fund must not be at the expense of having an efficient fiscal framework, which to some degree justifies the change of rules. Norway has a more stable political environment, enabling to keep its rules fixed.

Overall, the NGPFG clearly has the most transparent withdrawal approach, as it specifies how withdrawals are made, where they go and the amount of the transfer, and is clarified in legislation and policy documents, as required by Bauer (2014) on page 27. The targeted transfers of NFRK make withdrawals less transparent and predictable, while the withdrawal approach of Samruk-Kazyna is quite diffuse.

Further, the NGPFG and Samruk-Kazyna break their investment income and expenditures down by type, while the NFRK only provides the total amount of investment income and expenditure. Lack of detailed information on this element makes it difficult for the public and external analysts to consider if the NFRK is efficiently managed.

c) Investment Strategy

As the NFRK does not reveal anything on its investment strategy, other than that it is conservative, it has a low level of transparency in this category. However, Samruk-Kazyna presents its development strategy and also its risk management, so there clearly exists a perception in Kazakhstan that information on risk management and investment strategy is interesting to the public. When looking at Samruk-Kazyna, it appears strange that the NFRK does not publish as much information.

The NGPFG thoroughly describes its investment strategy and risk management, which works in guiding and protecting its investment managers. What really distinguishes the NGPFG from both of the other two funds, is that it explains *why* the strategies are chosen. This adds an extra dimension of transparency, enhancing the public's ability to understand the given information. Samruk-Kazyna and NGPFG are better able to guide and protect their investment managers than NFRK, as their strategies are clear and public, thus acting committing.

Both NFRK and NGPFG informs what their categories of investment are, but this information is quite difficult to obtain from NFRK, as it is hidden in the annual report of the National Bank. NGPFG makes it more clear, and explains why these categories are chosen.

d) Investment Portfolio

The NGPFG clearly stands out as highly transparent in this category. While the Norwegian fund provides an interactive map of subsidiaries, continuously updates its portfolio size, provides details on return, and makes all these elements easily accessible on its webpage, the NFRK has spread this information more around. NFRK's information on these matters is not updated as often, and information on return is well hid in the National Bank's annual report, making it more difficult for outsiders to identify poor investments. The NGPFG even explains how returns are calculated, making it possible for external observers to understand and assess the method. The NFRK does not give any such information.

Further, what mostly harms the transparency of NFRK in this category, is that it does not reveal which companies or bonds it has invested in, at all. It is impossible for the public to gain knowledge on what the wealth of the country has been invested into, and if these are profitable, wise investments. The NFRK is claimed to belong to the people, saving for future generations, but lack of information regarding its investment portfolio may decrease the public's trust to the fund and their feeling of the fund belonging to Kazakhstan.

Samruk-Kazyna does not publish information that is directly comparable to the other two funds, but does clearly appear more transparent than NFRK regarding its portfolio. It publishes some of the companies it has invested in, and the annual report describes the profitability of some of its investments. Both NGPFG and Samruk-Kazyna gathers all portfolio related information in one place, while NFRK both spreads and lacks information.

e) Ownership

While the NFRK does not provide any information on its ownership strategies and activities, the NGPFG publishes most of the relevant information, as shown in chapter 6. NFRK's lack of information on this topic makes it difficult to assess what influence the fund has on the companies it has invested in, and whether or not the fund uses its positions as an owner on achieving political goals. For Samruk-Kazyna, active ownership is its main activity, described both in the development strategy, and by news and press releases published online.

Other Relevant Information

As shown on page 67, there does not seem to be a perception in Kazakhstan that the NFRK is affected by corruption or rent-seeking. Neither Sarsenov or Azhgaliyeva believed that the government or the NFRK tries to hide anything, but both Khassan and Sarsenov point out that there is a problem with the accuracy and consistency of information on the NFRK. None of the respondents had strong perceptions on whether rent-seeking and corruption are issues in Samruk-Kazyna, and it is difficult to assess from this thesis. As top-level corruption is a problem in Kazakhstan, there is always a risk that corruption and rent-seeking also take place in the management of the funds. The lack of some credible and accurate information on certain elements of the funds enhances these risks.

During the research, there has not appeared to be any problem of rent-seeking and corruption in the NGPFG. Overall, there is no reason to believe that rent-seeking and corruption are problems in any of the funds, but the risk is definitely greater in the Kazakhstani funds.

Overall, the Norwegian fund appears to have a higher transparency level than the two Kazakhstani funds. This is in accordance with findings of Truman's scoreboard (Truman, 2010), which gives the NGPFG a total score of 97 out of 100, while the NFRK receives 65. However, the SWF Institute (2013) scores the NGPFG 10 out of 10 in its Linaburg-Maduell transparency index, while NFRK scores 8. Thus, it seems that the Linaburg-Maduell index gives the NFRK a quite high score, which contradicts my findings and discussion so far. This may be because the Linaburg-Maduell transparency index is more superficial than Truman's scoreboard or the transparency framework suggested in this thesis, and does not measure all elements or consider them in detail. There are no known measures on the transparency of Samruk-Kazyna.

Research Question 2: How is Transparency Achieved?

The NFRK does not publish audited, annual reports, while the other two funds do. Both Samruk-Kazyna and NGPFG uses their reports to publish general information as well, and manage to set public expectations in their reports and provide information on the investment strategy and portfolio. The NFRK is audited, but as these reports are not published, it harms the credibility of the fund, and it is difficult for the public to know if the fund's resources are used in a good manner. By not publishing the audited reports, the NFRK misses a strong tool for guidance and control of its information. The published reports of the NFRK provide no information on its investment strategy, and little on its portfolio.

Both Norway and Kazakhstan are compliant members of the EITI. By publishing the EITI reports, both countries are able to increase their transparency and level of credibility. The usefulness of these reports will increase when future reports will account for where money flows after received by government, thus facing some of the criticism by Kolstad and Wiig (2009) presented on page 30. In a country such as Kazakhstan, where the trust to the politicians and the government is not considered very high, this supplement must be regarded as useful. The development of the reports also make it more suitable for the public to make use of the information that EITI provides, as it will enable asking questions about the distribution of resource revenues. As the reports work today, the detail level is not high enough to create involvement regarding the funds on their own.

Also, Samruk-Kazyna and NGPFG both have their own websites, where most of the relevant information exists. The NGPFG website appears as the most informative, as all information in available in English, and presented in a clear manner, making it a useful portal for everyone who wants to learn more about the fund. The lack of a webpage must be seen as a drawback to the transparency of the NFRK. If all relevant information regarding the fund was collected in one webpage, it would increase the accuracy of information, making it more reliable and easier to collect for different groups of the public, also outside Kazakhstan.

However, it must be noted that in Norway it works well to publish all relevant information online, while this is not sufficient for Kazakhstan. Even if the NFRK does create its own website, it should not rely on the website as the only channel of information. While most of the Norwegian population is used with finding information online, this is not the case for Kazakhstan, especially in rural areas, where newspapers are more often used for acquiring information. Even though Truman (2008a) on page 30 argued that interviews in the press is not a sufficient channel of information, this channel may work more appropriately in Kazakhstan than in Norway. Both Samruk-Kazyna and NFRK should therefore publish information via other channels as well, such as the press, to reach out to a larger part of the public.

Both the NGPFG and Samruk-Kazyna are members of IFSWF, and have agreed to implement the Santiago Principles. Therefore they face an incentive of providing key information. However, the NFRK is not a member, and claim to not being aware of the existence of the Santiago Principles, even though the information is easily available. It appears remarkable that the Ministry of Finance and NFRK are not aware of the principles, while Samruk-Kazyna has recently joined the IFSWF. It is certainly recommended that the NFRK at least acquire knowledge on the existing principles.

As pointed out on page 30, sensitive data regarding the resource funds should not be published. The NGPFG seems aware of this, and still publishes more comprehensive information online and in annual reports than the NFRK. As the NGPFG is a large fund, this points out that the NFRK also has a potential of publishing more information, without harming its performance.

Hence, Samruk-Kazyna and NGPFG have clearly managed to institutionalize transparency, as required by Bauer (2014) on page 29, by publishing audited reports, having comprehensive websites and implementing the Santiago Principles. By publishing white papers and other policy documents, the Norwegian fund has institutionalized its transparency to an even larger extent than Samruk-Kazyna. On page 25-26 it was pointed out by Truman (2008b) which groups have an interest in how funds are managed, and Samruk-Kazyna and the NGPFG are better than the NFRK at providing information to these groups, by using extensive reports and the internet. The NFRK only manages to provide sufficient information to the government itself, while Samruk-Kazyna and especially the NGPFG reach out to citizens, financial-market participants and citizens and authorities in the countries in which they invest.

Research Question 3a: Awareness of Benefits of Transparency

All funds have stated the importance of transparency in their legislation or in other publicly available documents, thus committing to transparency. However, the degree of transparency in NFRK is not very high, even though Sagindykovich has claimed it to be sufficient. This does not seem to be the case, and one may question if the Kazakhstani government and the NFRK truly acknowledges the importance of transparency. As Sagindykovich also explained on page 69, transparency is affected by the public's ability to understand, but there does not seem to be any attempt in the management of NFRK to make information comprehensible to the public. Compared to NFRK, both Samruk-Kazyna and NGPFG appear more transparent, thus implementing the importance of what is stated by legislation.

Based on the interviews conducted, it also appears that the Kazakhstani society does not consider neither NFRK nor Samruk-Kazyna to be particularly transparent, and some are asking for more accurate information regarding both funds. It also seems like the society is aware that it is a long process to develop transparency, and interviewees claim that there seems to be a will from the government of increasing transparency, but difficulties of implementing it. None of the organisations that were interviewed were working on increasing transparency in NFRK or Samruk-Kazyna, and one might ask, if this indicates a societal acceptance of the low transparency level in Kazakhstan? If so, increasing the transparency level of Samruk-Kazyna, and especially the NFRK, might take longer time, as few are demanding the transparency to increase.

Compared to Kazakhstan, the awareness of the importance of transparency appears higher in Norway. One of the objectives of transparency in NGPFG, is creating confidence and support to the fund with the public. Based on available documents, the confidence to the Norwegian fund appears to be much stronger than the confidence to the Kazakhstani fund, and the awareness on importance of transparency has probably contributed in making the Norwegian fund into one of the most transparent sovereign wealth funds.

Research Question 3b: Awareness of Benefits of Ethics

As far as found in chapter 6, the NFRK does not consider ethical investment practices at all, and the Kazakhstani Ministry of Finance and the NFRK do not appear to be aware on possible benefits of ethical conduct.

However, both Samruk-Kazyna and the NGPFG consider ethical issues. Samruk-Kazyna establish their CSR practice on both value-based and economic reasons, as does the NGPFG in their ethical investment practice. When comparing against the arguments for ethical investment provided in chapter 2.2.3 and 4.3, one may recognize that the NGPFG shares several of the arguments:

- The fund is broadly invested in the global economy, and should therefore be concerned with the performance of the overall economy;
- Sustainable economic development and growth enhances long-term returns;
- Companies that place negative externalities on society harm other companies, and thus harm the return of the investor

The NGPFG does not seem to relate ethical investment to the fact that it contributes to a future, liveable world, as argued on page 8-9. However, the arguments of a future, liveable world may be considered among the NGPFG's value-based reasons for its ethical conduct. As the Norwegian fund acknowledges both economic-based and value-based reasons for ethical investment, it applies the definition of SRI rather than Kiernan's more narrow definition of sustainable investment (see page 7).

Samruk-Kazyna does not provide as comprehensive motivation and reasoning as the Norwegian fund, and one may ask if Samruk-Kazyna is truly aware of the benefits of ethics. Samruk-Kazyna claims that their social responsibility conduct is based on the trust of society and the need for sustainable development, but without specifying this any further.

It seems that the NGPFG is very well aware of the benefits of ethical conduct. This increases the credibility of the NGPFG's ethical conduct, as it appears to be a deliberate decision, while Samruk-Kazyna's CSR practice may appear to have been implemented only because it is expected by society. The NFRK and Samruk-Kazyna might take a look at Norway, and learn from Norway's knowledge, and how knowledge is implemented into practice.

Research Question 4a: Ethical Principles

Both Samruk-Kazyna and the NGPFG focus on environmental issues in their ethical conduct. Samruk-Kazyna considers energy saving, waste issues and environmental protection, while the NGPFG considers environmental damage, climate change, deforestation and water management. Hence, the NGPFG is more precise on what issues it considers. Further, Samruk-Kazyna mainly bases environmental considerations on non-economic reasons, claiming it is their responsibility, while the NGPFG is more concerned with sustainability and its connection to long-term return. The NGPFG provides details on how it considers the environmental issues, while Samruk-Kazyna does not. Hence, it is impossible to assess whether Samruk-Kazyna truly engages in these issues.

Social responsibility is also a concern for both funds, and both consider human rights. Samruk-Kazyna does not explain what they mean by human rights, while the NGPFG refers to international policies, and is specifically concerned with children's rights. The NGPFG also considers social issues by excluding certain products, such as tobacco and types of weapons, while Samruk-Kazyna has not informed on any such restrictions. In its consideration of social issues, Samruk-Kazyna seems more concerned with national events, such as sports and social projects. The NGPFG is more concerned with issues relevant worldwide. This difference is to be expected, as Samruk-Kazyna only invests in Kazakhstani companies, and thus is directly dependent on national issues, while the NGPFG invests worldwide, thus more dependent on global issues.

Research Question 4b: Instruments for Ethical Conduct

The NGPFG is more specific on what instruments it uses for ethical conducts, and one recognizes several of the strategies mentioned in chapter 4. As Samruk-Kazyna engages in CSR and not ethical investment directly, it is not possible to compare it directly against those strategies. Samruk-Kazyna engages in sponsorship, evaluation, performance targets and monitoring, but does not specify how these work.

As the NGPFG engages in excluding companies from its investment universe, it faces the issue of turning the fund into a political instrument, as argued in the findings on page 60. On page 33, Truman (2010) and Sethi (2005) argued that such funds should only be used to achieve economic objectives. However, the NGPFG is doing exactly that – using ethical principles to achieve a high, sustainable return. Not all of its principles are set on the basis of economic reasons alone, some are just considered as necessary and required by the society. This thesis does not seek to speculate in the difference between ethics and politics, but it must be seen as a relevant argument that a fund, which shall support the wealth of current and future generations, should act in accordance with the basic values of these generations. Certain ethical considerations, such as human rights, are so fundamental that violating them would diminish the public's trust in the fund. A sovereign wealth fund considering ethics should be aware of the danger of becoming political, and make sure to base decisions on thorough evidence. If the fund turns into a political instrument, it may lose its credibility and face problems on the international market, decreasing its ability to face the curse. Samruk-Kazyna does not face the same risk, as it only invests domestically, and conducts ethical considerations through management and governance, not through exclusion.

Based on this, one cannot recommend the NFRK do engage in ethical investment, without assessing whether the management of the NFRK is able to do so without political influence. Ethical conduct requires the institutional quality of the fund to be of such level that the fund does not risk meeting political pressure, forcing the fund to make investments that are rather political than ethical, not enhancing long-term return. In the assessment of NFRK's transparency, it appears that the NFRK is in danger of facing political pressure, due to the president's substantial power. Hence, maybe it is wise for the NFRK to stay out of ethical investment – for now?

7.2 Avoiding the Curse?

As this thesis suggests, transparency and ethics work as tools for improving fund performance and thus contribute to avoiding the resource curse. Figure 3 suggested that fund performance could be measured by three elements: profitability, sustainability and stability.

Profitability

An element of the resource curse which may affect profitability is rent-seeking and corruption. It has been argued how transparency may reduce such behaviour, and as the NGPFG is the most transparent fund, it is in a better position to achieve profitability. During the research, there has been no reason to believe that the Kazakhstani funds today experience rent-seeking and corruption. However, with the great power of the president in the country, and close ties between politicians, family and management of the funds, the risk of rent-seeking and corruption is greater in Kazakhstan. Actually, according to Tsalik (2003), critics claim that the NFRK is an attempt of the president to sanitize tainted money. Shortly after US authorities started investigating payments made by American James Giffen to Swiss bank accounts that were linked to senior Kazakh officials, the NFRK was established and money were transferred from the Swiss accounts to the NFRK. Accordingly, these payments were initially made to seal some oil deals, and were perceived as bribery (Tsalik, 2003). If bribery was among the reasons of establishing the NFRK, there clearly exists a risk that bribery, corruption and rent-seeking may affect the fund today as well. Lack of transparency and audited confirmations of inflows and outflows make it easier to use the money in the fund for corruption and rent-seeking, or to hide money from such activities in the fund. Little information on the investment strategy and portfolio contributes to this risk, as the public may not check if money are invested as intended, and what assets they are invested into. Thus, there is a risk that the NFRK invests into assets that are truly not most profitable to the fund, but are rather used to finance bribery or the president's own, private interests. Overall, lack of information in the different categories of our transparency framework means that leaders do not have an incentive to be honest and provide accurate information, which in turn may decrease profitability.

The risk that lack of transparency facilitates corruption or rent-seeking in Samruk-Kazyna is also present. Some have argued that Samruk-Kazyna is just an instrument used by the president to promote his own interests (Goodley, 2010), and thus the lack of transparency on some elements of the fund's governance facilitates the fund being used to achieve the personal interests of the president. Complex mechanisms of inflows and outflows, and unclear investment policies, contribute to the risk of Samruk-Kazyna promoting the president's own interests, rather than being optimally profitable and achieving its stated objectives.

As to the NGPFG, its governance framework works in a transparent manner, thus not facilitating rent-seeking or corruption. Transparency on inflows and outflows, investment strategy, portfolio and ownership contribute in making it difficult for fund managers or government officials to use money from the fund to promote their own interests in ways that are overall less profitable. Further, the NGPFG's clear strategy and information on holdings and return make sure that external analysts and experts are able to provide economic analyses and give advice, ensuring that the NGPFG makes well-informed and wiser decisions, which in turn promotes profitability. The fund actually maintains a low level of management costs (Holden, 2013; NBIM, 2014b), which is probably facilitated by its high level of transparency – as income and costs are transparent, fund managers are held more accountable for the fund's cost level, encouraging managers to keep costs down.

Further, ethical investment may also affect profitability. Many studies show that ethical investment provides better returns, but as explained in chapter 2, some research show the opposite, or that ethical investment has no impact on return. There is clearly a need for more research to be done on this area before concluding, and research should focus on longer time scales than previous studies, to assess the effect for sovereign wealth funds, as they operate with longer terms than traditional funds. If ethical investment provides better returns than traditional investment practices, the NGPFG is better equipped to achieve profitability than the NFRK.

The NGPFG has had an average annual return of 5.7% since its inception (NBIM, 2014e), while the NFRK's average return has been 4.5% (National Bank of Kazakhstan, 2013), indicating that the NGPFG is more profitable than the NFRK. However, it is difficult to simply compare the return of the two funds and assess which of them are most profitable, and thus make assumptions on whether or not transparency and ethics truly have an impact on their profitability. They have different investment strategies, and NFRK follows a more conservative strategy, indicating that the NFRK aims for lower risk than the NGPFG, which in turn decreases the expected return. Both funds achieve returns in accordance with their benchmark. As Samruk-Kazyna is a joint-stock company, measuring and comparing return directly to the NFRK and NGPFG is not appropriate.

Sustainability

A sustainable fund will help avoiding the unsustainable investment element of the resource curse, and is also linked to profitability, as sustainable funds are profitable also on longer terms. A fund practicing ethical investment optimally is better at investing in sustainable companies and activities, has a clearer picture of true risks and opportunities, avoids investments which harm future generations, and make investments which benefit the economy as a whole.

Both the NFRK and NGPFG function as funds saving for future generations, and invest globally. Therefore, both are directly affected by incidents that affect the global economy, and are harmed by companies which profit on placing negative externalities on the economy. The NGPFG takes this into account by its ethical conduct, and is therefore likely better equipped to achieve a sustainable fund performance. The Norwegian fund seeks to avoid unsustainable investments, and is well aware that its long term perspective requires such considerations. In 2013, the total number of companies excluded from the NGPFG's investment universe was 60, and 14 of these were due to severe environmental damage, where 10 of those cases also regarded human rights (Council on Ethics, 2014a). By excluding such companies, the NGPFG avoids some investments that in the future may perform badly itself, or cause other companies to perform worse, due to environmental damage or social issues. The holdings of the NGPFG are therefore in better accordance with environmental sustainability and social responsibility.

As far as this thesis has found, the NFRK does not consider such elements, and there is a risk that the NFRK invests in companies the NGPFG has excluded. The NGPFG is therefore likely to achieve better sustainability in the long-term than the NFRK. Further, the NGPFG engages in active ownership, thus facilitating sustainability via environmental sustainability and social responsibility. In 2013, the NGPFG considered and voted on 239 shareholder proposals on environmental and social issues. The fund's active ownership in accordance with its ethical principles improves the fund's knowledge and provides it with a clearer picture of its risks, which in turn makes it able to improve its long-term return and sustainability, and thus outperform the NFRK in the long run. The NFRK claims to have a conservative investment strategy, but by not considering ethical principles, it is in danger of facing higher and unexpected risks in the long run, harming the sustainability of its investments. The NGPFG, on the other hand, tries to play in concert with the global economy in the long run, thus being farsighted.

Samruk-Kazyna seeks to improve the welfare of Kazakhstan, and it is therefore in the fund's interest to lay a basis for sustainable development, and avoid investments that harm the welfare of the Kazakhstani public. By engaging in CSR, Samruk-Kazyna facilitates its opportunities for achieving welfare and sustainability, but as there is little information available on whether the fund truly does follow its principles or not, it is difficult to assess its true ability of achieving sustainability.

Stability

Stabilising the impact volatile oil revenues have on the exchange rate and public expenditure is an important objective of both NFRK and NGPFG. Stability is related to the Dutch disease, overspending and volatility elements of the resource curse, and transparency may improve the funds' abilities to face these elements. Particularly, transparency of the governance and legal framework and the inflows and outflows are of importance. A transparent governance and legal framework clarifies who is responsible for establishing and implementing the rules of the stabilisation fund, making those responsible truly follow the rules and therefore work as a commitment device. By making the rules of the fund clear and committing, transparency helps the fund putting in place reliable tools to avoid overspending, relieve the pressure on the currency, and smooth expenditure and the effect of volatile oil prices. Hence, managers and leaders are held accountable for the effectiveness of the fund. By preventing weak institutions and populist decisions, transparency contribute in avoidance of overspending. Transparent inflows and outflows make sure that the assets of the fund are used in accordance with the rules, and not for other purposes.

The Norwegian fund is more transparent on these elements, and is therefore assumed to be better equipped to fulfil the stabilising function of the fund. The rules of the NGPFG are stable and clear, and there is little political risk of the fund being used to other objectives than stabilisation and savings. Also, on page 24, Ross (2012) argued under what conditions stabilisation funds were likely to work well. One sees that the Norwegian fund fulfils most of these conditions, due to its transparency: – there is low corruption and the public is well informed and has confidence in the government's policies. As was also mentioned in regards to profitability, the NFRK risks facing the issues of corruption and rent-seeking, which also affects the performance of the fund's stabilisation function. If money are placed in the pockets of policymakers rather than being used according to their rules, the fund will not be able to smooth expenditures or contribute to stabilising the exchange rate. According to Azhgaliyeva on page 67, the NFRK manages to smooth its expenditures, but not to stabilise its exchange rate. This suggests that the NFRK has potential for improvement regarding its stabilisation function, and increased transparency might be one of the elements which may improve the fund's performance on this area.

However, the NFRK keeps changing its rules of withdrawal and deposits, indicating that it is trying to find the best method for Kazakhstan. Transparency is essential in this concern, and if the NFRK changes the rules in a transparent manner, and is open to the public on how it tries to make the fund work, it might succeed in stabilisation in the long-run.

Chapter 8: Conclusion and Policy Recommendations

8.1 Summing up

This thesis has dug deeper into the transparency level of the funds and provides more details, compared to what is given by well-known transparency scores such as Truman's scoreboard and the Linaburg-Maduell transparency index. As appears from chapter 6 and 7, the Norwegian fund clearly stands out as more transparent than the Kazakhstani funds, and meets the definitions given on page 25 to a larger degree. One fundamental characteristic of the NGPFG is that it clearly seeks to make the public understand the information that is given, and why it is important. It does not only intend to inform and provide solid facts, but also to teach and explain. Thorough explanations are given on several of the topics, such as risk management, return calculation and investment strategy. This increases the degree of the transparency, making it comprehensible for a broader public, making it possible for the public to assess the decisions made by insiders in the fund. Samruk-Kazyna and the NFRK both publish some fact-based information, but it is not always comprehensible or retaining the details necessary for analysis. The information provided by the NFRK is difficult to collect, and provides a puzzle rather than the whole picture.

The high transparency level of the Norwegian fund works as a stronger commitment device than the lower transparency of the other two funds, as the fund commits to act in accordance with the given information. It is better able at keeping leaders honest and contribute to avoiding rent-seeking and corruption. The higher level of transparency encourages public debate and makes the public aware of its existence and functions. Debates on how the money in the fund should be used and invested are clearly more common in Norway than in Kazakhstan, and many people feel entitled to have an opinion. The Kazakhstani funds could clearly increase their ability to face the resource curse by increasing their transparency level. In Kazakhstan, Samruk-Kazyna appears more transparent than the NFRK, and the NFRK has therefore much to learn from both the NGPFG and Samruk-Kazyna.

However, as was pointed out by Revenue Watch Institute (2011) on page 54, one must take Norway's characteristics into considerations when comparing its transparency level against others. From chapter 3, Norway appears to be traditionally a more open and democratic country than Kazakhstan, which naturally affect the transparency level of its fund as well. One can therefore not expect the same transparency level of the Kazakhstani funds, without some fundamental changes in the political environment of Kazakhstan, and it would be unfair to use Norway as a benchmark, also regarding ethics. However, even when not comparing against Norway, it is clear that the Kazakhstani funds have room for improvement on their level of transparency. The establishment of a sovereign wealth fund may be a step in the right direction of increasing oil revenue transparency, if handled correctly.

On a short term, ethical investment may not work as an efficient tool for combating the resource curse. One may argue that sovereign wealth funds should be concerned with return and efficiency only, and not about global development and responsibility. However, the effects of the resource curse are best measured on a longer time scale, and defeating the curse should be a long-term project. Short-term return should not be prioritized at the expense of sustainable, long-term returns that also benefit future generations. This thesis has suggested that ethical principles may work as tools for ensuring such sustainability. The NGPFG clearly implements ethical principles as tools for sustainability in its investment practice, while the NFRK does not, and Samruk-Kazyna is somewhere in the middle.

The NGPFG seems very well aware of the possible benefits of ethical conduct, and has implemented strategies for achieving these benefits. Samruk-Kazyna publishes little relevant information, making it difficult to assess whether or not they are using CSR in a manner that helps facing the resource curse. Based on the findings and ideas of this thesis, the Norwegian fund is therefore better equipped to face and combat the resource curse, as it considers long-term return and sustainability which benefit future generations.

8.2 Policy Recommendations

Here are some policy recommendations for each fund, to increase their level of transparency and improve ethical principles and instruments. These recommendations intend to increase the fund's and the public's understanding of these issues, create public debate, provide relevant, accessible and accurate information to researchers, analysts and others, and make managers and policy makers accountable for the management of the funds. This will contribute to better decisions, avoid rent-seeking and corruption, and in general increase the credibility of the funds.

The NFRK could:

- Provide simple and understandable information aimed at the general public, such as booklets, infographics and information in newspapers;
- Re-establish a separate website for the fund;
- Provide relevant information to the press, so that information reaches the public who are not online;
- Publish comprehensive, audited annual reports, also online;
- Make the most relevant information available in English, such as comprehensive annual reports, national budgets and relevant legislation;

- Publish more details on the investment portfolio;
- Provide description of the investment strategy;
- Establish the fund by law alone, not by presidential decree ;
- Make sure changes of fiscal rules are published, clear and traceable;
- Present reports on the pay-off of targeted transfers;
- Collect and consider research and information regarding ethical principles in investment;
- Make a comprehensive assessment on whether ethical principles could improve the performance of the fund;
- Provide clear statements on whether it considers ethical principles or not

Samruk-Kazyna could:

- Avoid close personal relations between top management, the government and politicians;
- Provide an exhaustive list of subsidiaries, as it is the transparency of these companies that affect the transparency of Samruk-Kazyna;
- Give all of the information available on its website in English;
- Provide a closer description of the fund's relation to the government;
- Better explain the process of funding, inflows and outflows, to improve the clarity of its funding processes;
- Better assess and explain why the fund truly engages in CSR;
- Assess if they capture all the benefits of CSR;
- Require subsidiaries to publish reports on how they implement CSR;
- Publish more information on how CSR is implemented in the fund

The NGPFG could:

- Establish the fiscal rule by law, making it independent of the political state in Norway;
- Publish the government accounts in English;
- Publish direct links to the national budget and government accounts on the webpage of NBIM, so that all relevant information regarding the fund and its transactions is gathered in one place;
- Regularly assess how implementation of ethical principles enhances sustainability and long-term performance

8.3 Limitations of the Study

Due to limited time and resources, this thesis has not done extensive research on the corruption level in the three funds. I have only taken for granted what interviewees have told me, that corruption is not a serious issue within the funds. Corruption is an essential element of the resource curse and transparency, and therefore this thesis only assesses transparency to a certain degree, and has not dug deeper into the material.

Further, this thesis has not tried to establish a statistical association between transparency, ethics and the resource curse, but has explored the relationship between them. It is therefore not possible to empirically conclude on a definitive connection between these elements, or the funds' true ability to curb the curse.

As has been noted throughout the thesis, Samruk-Kazyna is not a resource fund, and therefore does not follow the same pattern as the other two funds. The theory given in chapter 2 and 4, together with the transparency framework in figure 2, is therefore not always directly applicable to Samruk-Kazyna. As Samruk-Kazyna is a complex fund, there is a risk that some of the conclusions on its transparency level are not correct, and that mechanisms have been misunderstood. Further, to get a true picture of the transparency and ethical principles of Samruk-Kazyna, its subsidiaries should be objects of studies.

8.4 Prospects for Further Research

Overall, there are two main directions for further research in this field:

Intensify and extend the study that has been performed in this thesis, with continued focus on Norway and Kazakhstan. This could include investigating the level of corruption in the NGPFG, the NFRK and Samruk-Kazyna and to further study how transparent they truly are. The research could also be extended by studying the transparency level on areas related to the oil sectors in Norway and Kazakhstan, thus not only assessing the transparency of oil funds. Such a study could be interesting, as a country's transparency in general has been suggested by Kolstad and Wiig (2009) and Williams (2011) to be related to the resource curse. Such intensified and extended studies could include making research on how well CSR and ethical principles are integrated into the management of organisations.

Seek to generalize and empirically establish the suggested relationships from this thesis, by conducting empirical research on more sovereign wealth funds and assess the causal relationship between transparency, ethical principles and fund performance by using econometric methods. This would require that one gives a score to the transparency level and ethical conduct of the funds, and analyse their relationship with profitability, stability and sustainability/long-term return. However, as few sovereign wealth funds implement ethical principles, this would be difficult, and a comparison against ethical mutual funds and other institutional funds could be necessary to see if ethics have an effect on performance *over the long term*. Next, one should study the effect of fund performance on the resource curse, to establish a connection between ethics, transparency and the curse. Altogether, this would mean extending the research of this thesis to an explanatory research design.

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Appendixes

Appendix A: What should be Transparent?

Truman's Scoreboard

Truman's scoreboard consists of 33 elements/questions that can be answered either yes or no. The elements are grouped into four categories. All categories are presented here, while the elements belonging to the categories are presented in detailed as question. All scores of the elements are based on regularly, publicly available information, hence the scoreboard gives an idea of what elements of an SWF should be publicly available.

The first category is the structure of the fund, and includes fund's objective and links to governmental fiscal policy. It covers the basic organization of the SWF.

Governance of the fund is the second category. The roles of the government, the board of the fund, and whether the fund follows guidelines for corporate social responsibility are evaluated in this category. Elements that are scored includes internal ethical standards and ethical investment guidelines. According to Truman, the element considering ethical investment guidelines is controversial, and involves socially responsible investment, sustainable development, active promotion of clear energy etc. It is pointed out that even ignoring ethical considerations is seen as an ethical guideline.

The third category regards accountability and transparency in investment strategy, investment activities, reporting and audits.

The last category is behaviour of the fund in managing its portfolio and its risk management policies, including the use of leverage and derivatives. This category has not been prioritized when making a framework for evaluating the transparency, as it has not been promoted by other researchers.

The list of elements/questions that are asked to score an SWF:

Every yes receives a point.

Structure

- Is the SWF's objective clearly stated?
- Is there a clear legal framework for the SWF?
- Is the procedure for changing the structure of the SWF clear?

- Is the overall investment strategy clearly stated?

Fiscal Treatment

- Is the source of the SWF’s funding clearly specified?
- Is the nature of the subsequent use of the principal and earnings of the fund clearly specified?
- Are the SWF’s operations appropriately integrated with fiscal and monetary policies?
- Is the SWF separate from the country’s international reserves?

Governance

- Is the role of the government in setting the investment strategy of the SWF clearly established?
- Is the role of the governing body of the SWF clearly established?
- Is the role of the managers in executing the investment strategy clearly established?
- Are decisions on specific investments made by the managers?
- Does the SWF have internal ethical standards for its management and staff?
- Does the SWF have in place, and make publicly available, guidelines for corporate social responsibility that it follows?
- Does the SWF have ethical investment guidelines that it follows?

Transparency and accountability

Investment Strategy Implementation

- Do regular reports on investments by the SWF include information on the categories of investments?
- Does the strategy use benchmarks?
- Does the strategy use credit ratings?
- Are the holders of investment mandates identified?

Investment activities

- Do regular reports on the investments by the SWF include the size of the fund?
- Do regular reports on the investments by the SWF include information on its returns?
- Do regular reports on the investments by the SWF include information on geographic location of investments?
- Do regular reports on the investments by the SWF include information on the specific investments?
- Do regular reports on the investments by the SWF include information on the currency composition of investments?

Reports

- Does the SWF provide at least an annual report on its activities and results?
- Does the SWF provide quarterly reports?

Audits

- Is the SWF subject to a regular annual audit?
- Are the audits independent?

Does the SWF publish promptly the audits of its operations and accounts?

Behaviour

- Does the SWF have an operational risk management policy?
- Does the SWF have a policy on the use of leverage?
- Does the SWF have a policy on the use of derivatives?
- Does the SWF have a guideline on the nature and speed of adjustment in its portfolio?

Linaburg-Maduell Transparency Index

Each principle adds one point to the index rating. A minimum of 8 points is recommended by the SWF institute to claim adequate transparency.

Point	Principles of the Linaburg-Maduell Transparency Index
+1	Fund provides history including reason for creation, origins of wealth, and government ownership structure
+1	Fund provides up-to-date independently audited annual reports
+1	Fund provides ownership percentage of company holdings, and geographic locations of holdings
+1	Fund provides total portfolio market value , returns, and management compensation
+1	Fund provides guidelines in reference to ethical standards, investment policies, and enforcer of guidelines
+1	Fund provides clear strategies and objectives
+1	If applicable, the fund clearly identifies subsidiaries and contact information
+1	If applicable, the fund indentifies external managers
+1	Fund manages its own website

+1	Fund provides main office location address and contact information such as telephone and fax

The Santiago Principles

The Santiago Principles are a voluntary code of principles, “documenting SWF’s investment decisions to be driven by financial and economic considerations, not political motives” (Behrendt, 2010, p. 2). The aim of GAPP is to support the institutional framework and investment operations of SWFs (International Forum of Sovereign Wealth Funds, 2008). The principles are divided into three parts. The first part call for SWFs to disclose their legal framework, policy purpose and funding and withdrawal arrangements. The second part covers institutional frameworks and governance structures, while the third part requests SWFs to apply appropriate investment and risk management frameworks. IWG was later renamed to International Forum of Sovereign Wealth Funds, and works as “an informal coordination and knowledge-sharing platform” (Behrendt, 2010, pp. 4-5). Behrendt has performed assessments of how compliant the member countries are to the principles, and found that there is a wide spread among the countries regarding their commitment to the 24 principles.

The 24 principles are presented below. I have marked the ones that are directly related to transparency in bold and italics. These are principles that require public disclosure, or in other ways are reasonable to associate with transparency.

- **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 Subprinciple* The legal framework for the SWF should ensure the legal soundness of the SWF and its transactions.
    - *GAPP 1.2 Subprinciple* ***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***.
- **GAPP 2. Principle**
  The policy purpose of the SWF should be clearly defined and publicly disclosed.
- **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.
- **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 Subprinciple* ***The source of SWF funding should be publicly disclosed***.
    - *GAPP 4.2 Subprinciple* ***The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.***
- **GAPP 5. Principle**
  The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as 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 Subprinciple* The investment policy should guide the SWF's financial risk exposures and the possible use of leverage.
  - *GAPP 18.2 Subprinciple* 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 Subprinciple* ***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 Subprinciple* ***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 Subprinciple* 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 Subprinciple* 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 Subprinciple* ***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.

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Appendix B: EITI

The EITI "is a global coalition of governments, companies and civil society working together to improve openness and accountable management of revenues from natural resources" (EITI, n.d., What is the EITI?). The EITI principles "underline the importance of transparency by governments and companies in the extractive industries and the need to enhance public financial management and accountability" (EITI, 2013, p. 9). Further, "we are committed to encouraging high standards of transparency and accountability in public life, government operations and in business" (p. 9).

The authoritative source on how countries can implement the EITI is the EITI standard. There are two groups of implementing countries: candidate countries and complying countries. EITI candidature is a temporary state, intending to lead to compliance with the EITI standard, becoming a compliant country. For a country to become an EITI candidate (EITI, 2013, p. 11):

- The government is required to issue an unequivocal public statement of its intention to implement the EITI;
- The government is required to appoint a senior individual to lead on the implementation of the EITI;
- The government is required to commit to work with civil society and companies, and establish a multi-stakeholder group to oversee the implementation of the EITI;
- The multi-stakeholder group is required to maintain a current workplan, fully costed and aligned with the reporting and Validation deadlines established by the EITI Board.

To become a compliant country, countries must demonstrate that they meet the following requirements (EITI, 2013, p. 10):

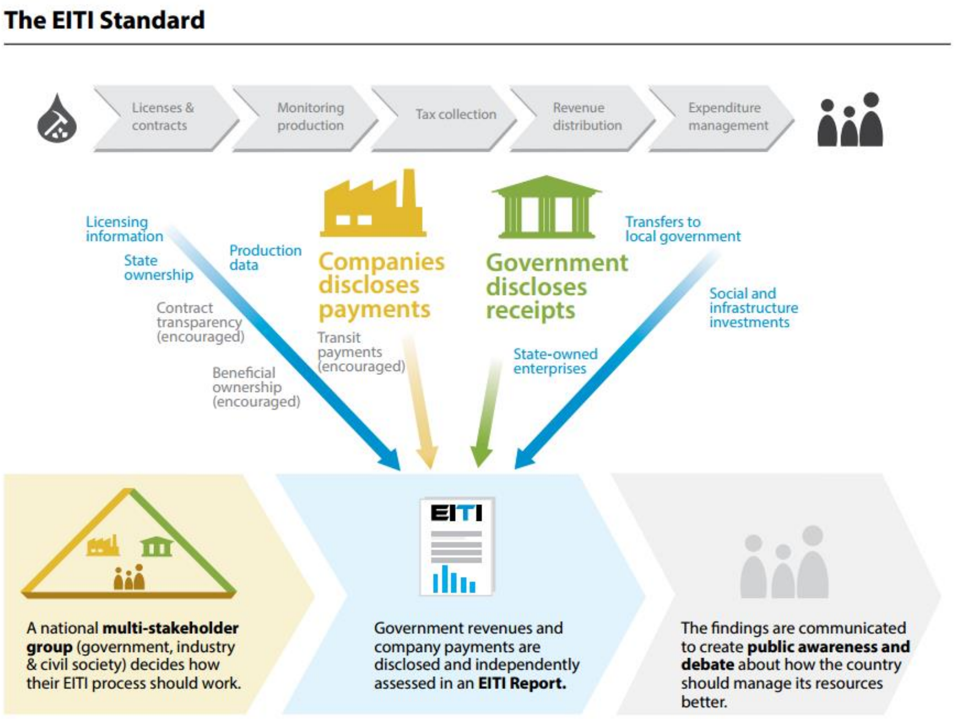
- Effective oversight by the multi-stakeholder group.
- Timely publication of EITI Reports.
- EITI Reports that include contextual information about the extractive industries.
- The production of comprehensive EITI Reports that include full government disclosure of extractive industry revenues, and disclosure of all material payments to government by oil, gas and mining companies.
- A credible assurance process applying international standards.
- EITI Reports that are comprehensible, actively promoted, publicly accessible, and contribute to public debate.
- The multi-stakeholder group to take steps to act on lessons learned and review the outcomes and impact of EITI implementation.

Countries implement the EITI standard to ensure full disclosure of taxes and other payments made by the extractive sector to the government. These payments are published in the annual EITI report, which allows citizens to see for themselves how much their government receives in payments from the extractive industry. The EITI report is required to include contextual information about the extractive industries, and should:

> Indicate which extractive industry revenues, whether cash or in-kind, are recorded in the national budget. Where revenues are not recorded in the national budget, the allocation of these revenues must be explained, with links provided to relevant financial reports as applicable, e.g. sovereign wealth and development funds, sub-national governments, state-owned enterprises, and other extra-budgetary entities (EITI, 2013, p. 22).

EITI implementing countries need to go through an external validation process. Candidate countries need to do this within two and a half years, while compliant countries are required to be validated every three years.

The EITI Standard is illustrated below.



Source: EITI (2013)

References:

EITI. (2013). *The EITI standard*   Retrieved from http://eiti.org/document/standard

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Appendix C: Interviewees and Documents

Presentation of Interviewees

Name	Date	Institution	
Zhanibek Khassan	22 February	International Academy of Business/ Soros Foundation, Almaty	Lecturer at IAB, has previously done research on public transparency and the NFRK via Soros Foundation.
Natalia Malyarchuk	26 February	Transparency International Kazakhstan, Almaty	Chair of the board at TIK, works with providing transparency and anti-corruption initiatives. Provided thoughts about the transparency of NFRK.
Tatiana Sedova	27 February	World Bank: Central Asia Regional Office, Almaty	EITI consultant, provided information on the work EITI and how this relates to NFRK.
Dina Azhgaliyeva	3 March	Nazarbayev University, Astana	Lecturer in field of economics, has done research on NFRK.
Ilyas Sarsenov	3 March	World Bank Country Office, Astana	Senior economist with charge of macroeconomic analysis, provided information on NFRK and Samruk-Kazyna
Usenov Amangeldy Sagindykovich	4 March	Ministry of Finance, Astana	Director of department of budgetary lending, national fund and interaction with finance sector. Interview conducted with interpreter. Interview arranged with help from KIMEP University and the Norwegian embassy in Astana.

Dyveke Rogan	6 March	EITI, Oslo	Regional director of EITI, provided info on the work of EITI. Before the meeting, she provided contact details for some of the interviewees mentioned above.
Wilhelm Mohn	7 March	Ministry of Finance, Oslo	Senior adviser. Provided information already publicly available, and provided relevant documents regarding ethical investment in NGPFG.
Kristian Flyvholm	11 March	International Forum of Sovereign Wealth Funds	Deputy Secretary-General. Answered questions via e-mail, regarding IFSWF (previous IWG) membership.
Nygmet Ibadildin	20 February, 2 April, 10 April	KIMEP University, Almaty	Associate professor. Discussed the topic of resource funds in general, and later answered follow-up questions via e-mail.

Several attempts to make interviews with others has been made. The Norwegian embassy in Astana, Kazakhstan helped sending formal request written in Russian to the Ministry of Finance, the National Fund of Kazakhstan and Samruk-Kazyna. NFRK never replied, but Samruk-Kazyna were willing to meet. However, they did not find a time for a meeting during my stay in Kazakhstan.

Presentation of Documentary Research Sources

Kazakhstani sources

Institution	**Type**	**Information**
Ministry of Finance	Webpage: www.minfin.gov.kz	Provides reports on NFRK. Russian, Kazakh and partly in English.

Adilet: Legal database	Webpage: www.adilet.zan.kz	Publishes Kazakhstani laws, orders and presidential decrees. Mostly in Russian and Kazakh.
The National Bank of Kazakhstan	Webpage: www.nationalbank.kz	Provides the annual report on NBK and some statistical data on NFRK. Information in Russian, Kazakh and English.
Akorda: Website of the President	Webpage: www.akorda.kz	Provides info when laws and decrees are signed. Mainly Russian and Kazakh.
Samruk-Kazyna	Webpage: www.sk.kz	Main source for information about Samruk-Kazyna, in Russian, Kazakh and English.

Norwegian sources

Institution	**Type**	**Information**
Ministry of Finance/ the Norwegian Government	Webpage: www.regjeringen.no White papers Graver report	Main source in understanding attitudes and reasons for transparency and ethics, available in Norwegian and English. Main source for ethical principles The White paper no. 27, 2012-2013 and White paper no. 19, 2013-2014 are relevant documents used from MoF. The Graver Committee, appointed by government, presented its proposals to ethical guidelines in

		the Graver report. This report explains several of the aspects behind NGPFG's ethical guidelines.
Council on Ethics	Webpage: www.regjeringen.no	- Ethical guidelines - Annual reports - Recommendations
Norges Bank Investment Management	Webpage: www.nbim.no	Provides information on the management of NGPFG, main source for analysing transparency.

Appendix D: Interview guide

For interviewing NFRK, NGPFG, Samruk-Kazyna and others

Transparency

The role of transparency in the management of the fund

- Stated somehow in the law?

Is transparency considered to be important in the management of the fund?

- Why?
- Political reasons? Economical reasons?

Benefits or disadvantages with a high/low level of transparency

What is the level of transparency?

- What information is publicly available?
  - Objectives of the fund
  - The organizational structures of the fund and institutional arrangements
  - Investment policy and strategy
  - Investment portfolio – returns, size, composition
  - Annual reports? Quarterly reports?
  - Source of funding?
  - Spending
  - Approach of withdrawal from the fund
  - Detailed and regular reporting
- Where is the information available?
  - Internet
  - Newspapers
  - Reports

    - Trenger navn på presse!

- In what language? Why?

Is Internet considered to be an important source of information?

What work is done by organisations or government to improve transparency?

The president's substantial power regarding the fund

- How and why?
- Is this optimal?
- Does it affect transparency?

Is the fund based on a legislative act or only backed by presidential decree?

Specifically about Samruk-Kazyna

"Samruk-Kazyna will rely on key principles: (…) Transparency, (…) Accountability"

- How followed?
- Succeeded?
- Why?

"The fund is a code of corporate governance and code of ethics that define the company's values and principles of its operations and external communications."

- What are the principles?
- Are they followed?

The president's son in law, Kulibaev, has been head of Samruk-Kazyna

- Other relatives of the president that are connected to oil money?
- Are there any challenges related to this regarding transparency, governance and ethics?

Ethical Guidelines

Any ethical guidelines implemented?

- Regarding investments directly
- Regarding governance and internal guidelines
    - How made known to staff?

Why/why not?

- Economical
- Political
- Deliberate decision?
- Benefits/disadvantages of such guidelines
- Focus on sustainability and far-sighted companies when investing?
- Is it costly to implement and control guidelines?

What are the ethical guidelines?

- Access?
- Main principles and focus areas
- Why these?
- Based on industries? Principles? *Countries?*
- If none: are no considerations made due to industry, products etc?

How are the guidelines implemented?

- Exclusion
- Negative screening
- Active ownership
- Index-based investment
- Positive screening
- Best in-class performance

To what degree are guidelines followed?

Is there political pressure behind implementing guidelines and investment decisions?

- Hvordan skille mellom økonomiske, politiske og moralske årsaker? Hvor kommer de moralske «retningslinjene» fra? Eks tobakk vs alkohol. Er det støtte i befolkningen?

Does the management of the fund consider itself to have an important role as a universal owner in society, beyond the economical perspective?

- Nationally?
- Internationally

Does the implementation of ethical guidelines affect the performance of the fund?

Does the fund have an overview or database of information about relevant ethical aspects of each company it has invested in (greenhouse gas emissions, human rights, HMS)?

Has there been any incidents where the funds has excluded any companies? Why?

Norge: "Strategirådet i oppdrag å utarbeide en rapport om den overordnede strategien for ansvarlig investeringspraksis i SPU, 2013» - Status?

Hvordan sikrer man at ekskluderingen av selskaper og andre reaksjoner er basert på et riktig grunnlag?

Specifically about Samruk-Kazyna

Active ownership?

Any companies that may violate ethical considerations?

Dashing between oil workers and police in Zhanaozen 2011 – workers demanded better wages, improved working conditions – head of SK (Kulibaev) and KazMunaiGas being fired

- How are such cased being handled?
- Did this result in considerations about transparency or ethics?
- Are there other cases?

Ensuring that Business Ethics Code (2010) is being followed

- Purpose

Misc

Are Santiago-principles accepted and implemented?

- Bring principles in appendix

EITI

What is your mission?

Transparency of NFRK and Samruk-Kazyna?

- Or in general about oil revenues – what happens to them?
- How does it work?
- Where are revenues reported?
- Does the government report revenues received?
- Where?
- Satisfactory?
- How are you approaching the issue?

Could NFRK and SK make information more publicly available?

- How?
- Language?

Any recommendations?