



Sovereign Wealth Funds

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Ladies and gentlemen,

Thank you for the opportunity to speak at this year's OECD Forum and allowing me to share with you Norway's perspective on the subject of Sovereign Wealth Funds. The debate on Sovereign Wealth Funds is indeed of great importance to Norway, as the desire to manage our petroleum resources wisely has given rise to such a fund – the so-called Government Pension Fund – Global.

Let me begin by drawing the attention to the OECD's valuable work on providing guidance to recipient countries on the matter of foreign investment. When debating the merits of Sovereign Wealth Funds, and to what extent they represent a concern, it is important to remind ourselves that well-functioning financial markets are beneficial to us all. In that respect the continued efforts by the OECD of advocating the benefits of a free and open global investment climate are important. Likewise, we support the efforts, facilitated by the IMF, to agree on a common set of voluntary principles for Sovereign Wealth Funds, drawing on the existing body of principles and practices.

While maintaining an open global investment environment is vital to the world economy, we must also recognise that it is legitimate for individual countries to retain the right of protecting essential national security interests. However, restrictions on foreign investments, either private or by governments, on the basis of national security concerns must not be a cover for financial protectionism.

Concerns raised in relation to Sovereign Wealth Funds mainly reflect speculation on whether some of the funds operate with hidden political agendas in their investments decisions. The significant assets under management of such funds have also given rise to concerns of whether they may pose a threat to the stability and functioning of financial markets. But to put these concerns into perspective, there exists to my knowledge no evidence of Sovereign Wealth Funds investing for other motives than maximizing financial returns, or of causing increased market volatility. On the contrary, recent developments, notably investments by several of these state owned funds in distressed financial institutions, rather support the idea that they may represent a stabilizing element in international financial markets by way of their long investment horizon and strong risk-bearing capacity.

I believe transparency is a key issue in the debate on Sovereign Wealth Funds. Transparency builds trust – both internationally and domestically. Though some funds

may seem reluctant about providing information on their investment objectives, institutional arrangements and investment activities, I have an impression that there is an increased willingness to address the concerns raised by recipient countries. Coupled with what has become a more informed debate in recipient countries, one may be optimistic that this debate can lead to a mutually beneficial outcome.

In the management of Norway's Pension Fund – Global, there is a high degree of transparency. And this pertains to all aspects of the Fund's purpose and operation. Nevertheless, let me point to that the high level of openness in the management of our sovereign wealth is not the result of pressure from the international community. Instead it is a prerequisite for the Fund's existence. A high degree of transparency is essential to be able to build and maintain support for the Government's management of the petroleum wealth, which entails running large budget surpluses and building up substantial and very visible financial assets in order to meet large unfunded pension liabilities in years to come. It would be impossible for the Norwegian government to put aside the equivalent of 15 percent of GDP a year, in a fund that is now 100 percent of GDP and growing, without giving an account of the rationale for building up such substantial financial assets, and of course also providing the public with information on the management of that wealth.

Having said that, I would like to stress that there is a limit to what we, as investors, can disclose of information on the basis of pure business considerations. There is a need to strike a balance – also for us – between the need for transparency on the one hand, and on the other hand to use business sense and not be put at a disadvantage in the market place. Furthermore, transparency also has to run both ways. If recipient countries set up screening processes to address national security concerns, there must be transparency with respect to how such screening decisions are made, by whom and under which criteria. In this context, the investment policy guidance for recipient countries as proposed by the OECD provides a useful benchmark.

I am pleased to note that very few people have any problems with how we invest the Norwegian sovereign fund. And I can assure everyone that there is no reason to be concerned about the Fund's investment activities. Without going into details about the Fund's purpose and organization, I would like to highlight the five factors that I believe have been critical in avoiding scepticism from recipient countries when we invest:

- There is an explicit aim to maximize financial returns. We have no hidden political or strategic agenda.
- The Fund is a financial investor with non-strategic holdings. The average ownership share is less than 1 per cent, and investments in individual companies may not exceed 10 per cent to underscore the Fund's role as a financial investor.
- There are clear lines of responsibility between political authorities and the operational management. The individual investment decisions are not politicized.
- We have a high degree of transparency in all aspects of the Fund's purpose and operation, and finally

- The Fund's Ethical Guidelines are transparent and predictable, and are based on internationally recognized standards, such as the UN Global Compact, OECD Principles of Corporate Governance and the OECD Guidelines for Multinational Enterprises. The Ethical Guidelines recognize the objective of sound financial return, along with the obligation to respect fundamental rights of those that are affected by the companies in which the Fund invests.

Let me point to that institutional funds in general, and funds owned by governments in particular, face specific challenges. While individual shareholders may sell their holdings of individual assets or funds they do not find ethically acceptable, the citizens of Norway have to accept to be the ultimate owners of the companies that the Fund invests in. To preserve the legitimacy of the Fund, it is important that the ownership in the various companies is acceptable for most citizens. Hence, the Fund avoids investments in companies whose practices constitute an unacceptable risk that the Fund is or will be complicit in what is deemed as grossly unethical activities. The decision to exclude a company from the Fund's investment universe ultimately rests with the Ministry of Finance, but is based on publicly available recommendations from an independent Council on Ethics for the Fund. This should not be misrepresented as undue political interference with the Fund's investments. While based on principles of transparency and fairness, ensuring that investments are ethically acceptable to most stakeholders may be a necessary measure to maintain support and legitimacy for a fund which is a cornerstone of macroeconomic policy.

As a final remark, let me add that in the endeavour of reaching a common understanding, and thus a solution acceptable to both investing and receiving countries alike, it's important that all affected parties contribute positively. As the cooperative effort, facilitated by the IMF, gets underway to identify and draft a set of voluntary, generally accepted principles and practices for Sovereign Wealth Funds, it is also important to show that recipient countries are supporting an open international investment environment.

Thank you for your attention.