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Implementation of the Santiago Principles for Sovereign Wealth Funds: A Progress Report

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At the annual meeting of the International Forum of Sovereign Wealth Funds (IFSWF) held in Oslo, Norway on October 2–3, 2013, the forum reviewed and subsequently released its second report on members' experiences in the application of the Santiago Principles for sovereign wealth funds (SWFs).[1] The Santiago Principles were adopted by a group of countries with such funds in September 2008 in response to concerns about threats to political, economic, and financial security in countries receiving SWF investments. The objective was to promote the transparency and accountability of SWFs for the countries of origin as well as the countries in which the funds were investing.

This Policy Brief evaluates the 2013 IFSWF report on progress in implementing the Santiago Principles. The analysis is based, in part, on the SWF scoreboard developed by me (Truman 2007, 2008a, 2008b, 2008c, and 2010) and updated with Allie E. Bagnall (Bagnall and Truman 2013).[2]

I commend the IFSWF on this second evaluation of progress in implementing the Santiago Principles—the first was conducted in 2011—but my enthusiasm is qualified. The report exaggerates the extent of implementation of the Santiago Principles by SWFs associated with the IFSWF. It states that all of the funds participating in the survey have implemented each of the Santiago Principles at least partially, which is contrary to my research. Although SWFs on average have made important progress in increasing their transparency and accountability over the past six years, the room for improvement is substantial. Based on my research, a number of the SWFs associated with the IFSWF register very low on my SWF scoreboard and have shown little improvement. The 2013 IFSWF survey and associated report do not provide the impetus necessary to promote more extensive adherence to and implementation of the principles by members and nonmembers of the IFSWF, which should be the goal of the forum.

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1. See IWG (2008) for the Santiago Principles. See IFSWF (2013) for the 2013 report on the experience of members in the application of the principles and IFSWF (2011) for the previous report.

2. This Policy Brief is based upon a presentation at the IFSWF annual meeting in Oslo. Bagnall and I (2011) earlier evaluated the previous IFSWF report on members' experience.

Table 1 Record of SWF transparency and accountability on the SWF scoreboard

Group	Average[a] (percent)	Change from 2007[b] (percentage points)
All SWFs (49)	54	17
IFSWF members (26)	65	21
2013 survey participants (22)	72	22
Non-IFSWF members (23)	42	10

IFSWF = International Forum of Sovereign Wealth Funds

a. 2012 SWF scoreboard for 49 funds.
b. Change for the 32 funds evaluated in the 2007 SWF scoreboard.

Source: Bagnall and Truman (2013).

RECORD OF THE IFSWF FUNDS

As reported in Bagnall and Truman (2013), and summarized in table 1, the SWFs associated with the IFSWF on average are more transparent and accountable than other SWFs and have increased their transparency and accountability since my first assessment six years ago. This record is admirable.

As shown in the first column, on my 33-element SWF scoreboard, the average for the 49 SWFs Bagnall and I recently scored is 54 percent out of 100. The corresponding average for 26 funds associated with the IFSWF is 65 percent, and 72 percent for the 22 funds that participated in the 2013 survey by the IFSWF.[3] The average is only 42 percent for 23 non-IFSWF funds.

Equally impressive is the average improvement over the past six years by the IFSWF participating funds (second column). The average improvement for the 32 funds that I first scored in 2007 is 17 percentage points.[4] For the 21 funds now associated with the IFSWF and that I first scored in 2007, the improvement is 21 percentage points and essentially the same for the 20 participants in the 2013 IFSWF survey. The improvement for the 11 remaining non-IFSWF funds is only 10 percentage points.

The greater transparency and accountability of funds associated with the IFSWF is not as pronounced for the 18 large SWFs, those with estimated total assets under management of at least $50 billion as of mid-2013. The average SWF scoreboard result for these funds is 56 percent, which is about the same as the overall average of 54 percent. The 12 large funds associated with the IFSWF average 59 percent, again somewhat lower than the average for all IFSWF-associated funds at 65 percent. On the other hand, for the 11 large SWFs that are associated with the IFSWF and that I scored in 2007, the increase is 28 percentage points, which is above the average increase for all IFSWF-associated funds.[5]

Table 2 2012 SWF scoreboard and the Santiago Principles

Group	Scoreboard	Santiago Principles: 25 elements	Santiago Principles: 16 elements
All SWFs (49)	54	58	58
IFSWF members (26)	65	68	69
2013 survey participants (22)	72	74	76
Non-IFSWF members (23)	42	46	47

IFSWF = International Forum of Sovereign Wealth Funds

Source: Bagnall and Truman (2013).

THE 2013 IFSWF SURVEY OF IMPLEMENTATION OF THE SANTIAGO PRINCIPLES

Before putting forward my assessment of the 2013 survey, it is necessary to establish the basis of comparability. The Santiago Principles consist of 30 principles and subprinciples. They overlap with 25 of the 33 elements on my SWF scoreboard.[6] Alternatively, 16 of the 24 headline Santiago Principles overlap with one or more of the elements on my SWF scoreboard. Table 2 summarizes the average scores of the SWFs on my SWF scoreboard and two versions of the Santiago Principles where there is overlap: 25 and 16 principles.[7]

The average score on the Santiago Principles is 3 to 5 percentage points higher because my SWF scoreboard is a bit more demanding. However, the difference is not statistically significant and is essentially the same for funds that are associated with the IFSWF and those that are not. The average level of implementation is between 65 and 69 percent for all 26 funds associated with the IFSWF and between 72 and 76 percent for those that participated in the survey.

3. In our work, Bagnall and I treat the two Chilean SWFs separately, but their scores are sufficiently similar, at 91 for the Economic and Social Stabilization Fund and 85 for the Pension Reserve Fund, not to bias the results. Therefore, we have 26 funds associated with the IFSWF rather than the 25 funds linked to the IFSWF website. Four funds did not participate in the 2013 IFSWF survey. Thus, we consider 22 IFSWF-associated funds rather than 21 funds.

4. Because of the smaller sample, the improvement is from 42 to 59, not the 54 shown in the first column in the table.

5. It should be acknowledged that funds with high scores already in 2007 had less room for improvement.

6. See Truman (2010, appendix 6A) for the correspondence.

7. In the latter case, the scores of more than one element on my SWF scoreboard are averaged to produce a composite score for one of the Santiago Principles; see Truman (2010, appendix 6A).

In contrast, as seen in the last row of table 3, the average level of implementation of all 24 Santiago Principles reported in the 2013 survey is 86 percent, or 93 percent giving half credit for reported partial implementation.[8] For the 16 principles where there is an overlap, two-thirds of the way down table 3, the survey reports implementation of between 87 and 94 percent, 9 to 18 percentage points higher than my assessment based on my SWF scoreboard.

It is instructive to compare the 2013 IFSWF survey results for the 22 participating funds with my SWF scoreboard results on the implementation of the 16 individual principles where there is an overlap. Before doing so, I should note two qualifications: First, the correspondence between my scoreboard elements and the Santiago Principles is not always perfect. Second, my scoreboard approach relies on publicly available information because the motivation of the approach is to assess SWF accountability and transparency to the general public at home and abroad. However, only six of the Santiago Principles explicitly mention public disclosure, which is a weakness in the principles. Consequently, funds may provide the information to their government owners, and arrangements and procedures between owners and funds may be clear to both parties, but that information is not in the public domain.

With respect to the four principles under the heading of legal framework and similar aspects, the average difference between my scoreboard and the implementation survey is not large, at most 8 percentage points.

On principle 3 (integration with macroeconomic policies), my scoreboard records a lower figure, or almost as low a figure, in part, because the match between the two elements is not perfect and, in part, because a number of the funds apparently jealously guard their independence and are reluctant to coordinate or communicate with their own governmental authorities.

In contrast, on principle 4 (the sources and uses of the funds), my scoreboard finds much less detail in the public domain than the funds themselves report.

Turning to the principles grouped under institutional framework and governance structure, the average difference is larger, between 4 and 13 percentage points. It is most pronounced for three elements.

On principle 9 (decisions made by management), available pubic information provides much less clarity than the funds themselves report.

On principle 12 (auditing), the 100 percent rate of implementation reported in the survey is in striking contrast with the 86 percent on my scoreboard. One reason may be that some funds do not inform the general public about their auditing policies. An element in the scoreboard that does not have a counterpart in the Santiago Principles is the public disclosure of a fund's audit. This is a shortcoming of the principles. About half of all SWFs do release their audits to the public. Seventy-five percent of the funds covered by the 2013 survey do so.

Principle 13 (internal ethical standards), illustrates where an absence of public disclosure may undermine public confidence. According to the public record, the 22 SWFs score at 63 percent on having internal ethical standards, but 86 percent of them report that they implement this principle in full and the remaining funds report that they do so in part.

For the third group of principles (investment and risk management), the average difference between the two measures of implementation is largest, between 28 and 39 percentage points.

The difference is very large with respect to investment policies (principle 18) but substantially larger with respect to the principles guiding those policies (principle 19) and corporate responsibility policy (principle 21). On these two principles, one would think that public disclosure should be at the heart of such policies. Outsiders should be able to confirm that the funds at least had adopted such principles.

On the other hand, on principle 22 (risk management framework) both sets of results reveal a disturbingly low level of implementation.

GENERAL COMMENTS AND CONCLUDING OBSERVATIONS

Although I commend the members of the IFSWF for conducting and publishing a second survey of implementation of the Santiago Principles and that as a group their improved results on my SWF scoreboard are impressive, they should not rest on their progress to date.

As the report on the 2013 implementation survey states, the funds associated with the IFSWF are not a uniform group, including with respect to their implementation of the Santiago Principles or the equivalent. However, that diversity is obscured in the report. As detailed in Bagnall and Truman (2013), implementation of the Santiago Principles by the 26 IFSWF-associated funds ranges from close to but less than 100 percent to the single digits. Although 11 of the 12 top-scoring funds on my SWF scoreboard, registering 83 percent or above, are associated with the IFSWF, three of the bottom

8. As discussed below, the IFSWF survey reports at least partial implementation by all participating SWFs for every one of the principles. The SWF scoreboard allows for partial credit on most of its elements.

Table 3 Implementation of the Santiago Principles, by principle

Principle	SWF scoreboard	2013 IFSWF survey: Full	2013 IFSWF survey: Full and partial[a]	Difference[b]
Legal framework, objectives, and coordination with macroeconomic policies				
1. Legal framework	92	95	98	6
2. Policy purpose	98	95	98	0
3. Integrated with macroeconomic policies	70	55	78	8
4. Source of funds and use of earnings	81	95	98	17
Subtotal (average)	85	85	93	8
Institutional framework and governance structure				
6. Division of roles	91	90	95	4
7. Role of government	91	86	93	2
8. Role of governing body	91	95	98	7
9. Decisions made by management	77	95	98	21
11. Annual report	86	95	98	12
12. Audit	86	100	100	14
13. Internal ethical standards	63	86	93	30
17. Financial information disclosure	80	81	90	10
Subtotal (average)	83	87	96	13
Investment and risk management framework				
18. Investment policies	61	80	90	29
19. Investment principles	35	95	98	63
21. Corporate responsibility policy	34	76	88	54
22. Risk management framework	77	71	86	9
Subtotal (average)	52	80	91	39
All 16 principles (average)	**76**	**87**	**94**	**18**
Nonoverlapping principles				
5. Statistical data		90	95	
10. Accountability framework		90	95	
14. Third-party procedures		90	95	
15. Disclosure in host countries		90	95	
16. Governance framework		81	91	
20. Avoid conflict of interest		86	93	
23. Investment reporting standards		90	95	
24. Self-review of Santiago Principles implementation		58	79	
Subtotal (average)		84	92	
All 24 principles		**86**	**93**	

IFSWF = International Forum of Sovereign Wealth Funds

a. Half credit for partial implementation.
b. Full and partial compliance on 2013 survey minus 2012 SWF scoreboard.

Sources: Bagnall and Truman (2013) and IFSWF (2013).

13 funds, registering 29 percent or below, are as well. They are the funds of Equatorial Guinea, Libya, and Qatar, which is estimated to have one of the 10 largest SWFs. In addition the funds of Bahrain, Iran, and Mexico score less than 50 percent. I scored three of these six funds in 2007, and the average improvement from those low scores was only 15 percentage points, compared with 23 percentage points for the other 18 that already had higher scores.

The 2013 IFSWF report contains less context for the principles and fewer explanations of why certain principles were not being implemented or not being implemented in full.

The scoreboard's more granular approach, to use the language of the IFSWF report on the 2013 survey, finds that no fund achieves full implementation of all the Santiago principles or subprinciples. For the 22 funds participating in the 2013 survey, we find some degree of implementation by all funds in only three of the 24 components where there is an overlap between the principles and subprinciples and the elements on my SWF scoreboard: in part of principle 1 on the legal framework, in principle 2 on policy purpose, and in part of principle 18 on investment policies. On my SWF scoreboard, we do not find full implementation by all funds of any of the 24 elements where there is an overlap with the Santiago Principles. Put another way, the scoreboard finds a lack of any implementation by an average of five of the 22 funds on 21 of the 24 separate elements. In contrast, the report on the 2013 IFSWF survey of implementation states that all 21 participating funds implemented each of the Santiago Principles at least partially.

A particular criticism of the report on the 2013 implementation survey, compared with the report on the 2011 survey, is that it provides less information to an outsider. The 2013 IFSWF report contains less context for the principles and fewer explanations of why certain principles were not being implemented or not being implemented in full.[9] From this perspective, I endorse the report's recommendation that future reports provide more granularities. The proposed enhanced use, and I hope release, of case studies might help in this regard. The IFSWF should institute a formal peer review of implementation of the Santiago Principles to reinforce this effort.

9. However, it is a plus that two more SWFs participated in the 2013 survey than in the 2011 survey.

As I noted earlier, concern by some SWFs about operational independence from their governments apparently is preventing more forceful implementation of the Santiago Principles. As a former central banker, I can appreciate these sensitivities, but SWFs are governmental entities and exist to serve the citizens of their countries. From this perspective, a high level of accountability and transparency should be in their DNA.

Public disclosure deserves greater emphasis in the Santiago Principles and in their implementation. I think many funds agree with this proposition, but not all funds embrace that perspective. Websites, annual reports, and other public documentation are tools of public disclosure that can help disseminate information about a country's fund or funds. If those materials are in English, understanding is enhanced beyond the country's borders. Some funds address their implementation of the Santiago Principles in special dedicated sections of their websites. More should do so or have a search function that allows visitors to do so. The 2011 implementation survey reported that four funds associated with the IFSWF had posted information about their implementation of the principles, and three others were in the process. Unfortunately, the 2013 survey did not update this information.

The report on the 2013 implementation survey notes, in passing, that the report itself, as well as case studies, should be useful to prospective members of the IFSWF. It is critical to the future success of the Santiago Principles not only that those members of the IFSWF that have fallen short in their implementation of the Santiago Principles step up their implementation but also that the IFSWF attract new members both from participating IFSWF countries, including the United States, where there are SWFs that are not now associated with the IFSWF, and other countries.

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