Norway's sovereign fund sets an ethical example

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The role of sovereign wealth funds in the capital markets has become the focus of one of the most continuous economic debates. Key concerns relate to a lack of transparency and possible non-financial objectives for the investments.

This is not the case with the Norwegian Government Pension Fund – Global. Instead the fund has a high degree of transparency in all aspects of its operation, including its role as an investor with non-strategic holdings, its explicit aim to maximise financial returns and the clear lines of responsibility between political authorities and the management of the fund. Managers aim for international best practice and the exercise of ownership rights is based on internationally accepted principles such as the United Nations Global Compact and the Organisation for Economic Co-operation and Development guidelines on corporate governance and multinational enterprises.

We believe that our fund has the potential to influence positively financial markets through enhancing market liquidity and resource allocation. Typical characteristics of SWFs are: long-term investment horizons, no leveraging and no demands for the imminent withdrawal of funds. SWFs have a strong risk-bearing capacity and ability to accommodate short-term volatility.

We believe transparency is a key tool in building trust. Domestically it helps build public support and trust in the management of Norway's petroleum wealth. Openness about how the fund's management can contribute to stable financial markets and exert a disciplinary pressure on managers.

We support the work of the International Monetary Fund and the OECD in studying the effects of SWFs. Work on developing a voluntary set of best practices for SWFs should be carried out by the IMF with the collaboration of relevant partners. However, we see no need for regulations that would restrict the present investment activities of our fund or any regulation imposing restrictions on SWFs over and above those applying to non-SWF investors.

The fund is not an instrument for political posturing or one that makes politicised investment decisions. Two years ago the fund drew criticism from Iceland's prime minister, when Norges Bank, our manager, expressed an investment view on some Icelandic securities. This was an example of how a recipient country wanted to introduce politics into the investment process, not proof of a politicised investment decision.

The fund was set up to manage Norway's petroleum wealth in a sustainable manner. This helps us meet the challenge of rising pensions and health expenditures. The fund, now valued at more than $350bn, has become an influential investor. Greater influence means greater responsibility in deciding how the fund is invested.

We wish to be responsible investors and have therefore established ethical guidelines for the fund. We have two main ethical obligations: first, to ensure financial returns so that future generations benefit from the oil wealth. Second, to respect fundamental rights of those who are affected by the companies in which the fund invests. Since we think long-term returns benefit from adherence to generally accepted norms of ethical behaviour, we see no contradiction between these two goals.

What are these accepted norms? The conventions laid down by organisations such as the UN, the OECD and the International Labour Organisation set out a consensus defining what should, in the least, be required by companies regarding fundamental rights and the protection of the environment, human life and health.

We promote the ethical foundation by exercising ownership rights and excluding companies from the fund. In cases where it is possible to encourage a company to put in place systems that reduce the risk of ethical infringements, the use of ownership rights is the preferred option. In cases with no hope of changing unethical practices, the exclusion mechanism is a defensive measure to avoid a situation where the fund runs the risk of being complicit in unacceptable practices.

The guidelines are applied in a totally transparent way, with full disclosure of the criteria and how they are applied in individual cases.

I am pleased to see that the ethical guidelines, and our enforcement of them, are being noticed and in some cases copied by other funds both domestically and internationally. This gives me confidence that ethics will become a permanent and vital part of fund management across borders and that investors may mutually inspire each other in this pursuit.

The writer is minister of finance, Norway.