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Sovereign Wealth Funds and the Santiago Principles

Where Do They Stand?

Sven Behrendt

As a voluntary code of conduct, the Santiago Principles risk failure if they do not gain wider support of the largest sovereign wealth funds.

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Summary

Sovereign wealth funds (SWFs) have become dominant players in global finance and world affairs, controlling considerable financial assets. Their investment behavior continues to resonate across the world economy and their increasingly extroverted investment policy prompted a political backlash in mature economies. Reacting to this backlash, in October 2008 a group of 26 SWFs committed themselves to transparency, good governance, and accountability standards by signing a voluntary code of principles, the “Generally Accepted Principles and Practices” for SWFs (GAAP), also known as the “Santiago Principles.”

Some eighteen months after the publication of the Santiago Principles, their implementation is highly uneven. A small group of SWFs, predominantly from democratic countries, shows a high degree of commitment to the principles. A second group shows partial implementation, and a third group, mainly from the Gulf Arab region, has yet to reach satisfactory implementation levels.

The Santiago Principles and the commitment of their sponsors—some of the biggest SWFs—are an important test for the viability of new forms of global governance. However, their sluggish implementation risks devaluing the Principles, thereby increasing SWFs’ political risk exposure.

Sovereign Wealth Funds: Political Exposure and Reactions

When sovereign wealth funds emerged as a powerful global investor class in recent years, many actors in advanced economies reacted with a considerable degree of unease. Critics saw SWFs as promoting a new concept of state capitalism at the expense of global free market principles. Governments were suggested to act not merely as providers of stable institutions for markets to operate efficiently, but through their SWFs to engage as powerful, distinct, and, as the term suggests, sovereign market participants themselves. Stronger critics argued that SWFs posed a threat to national security and to the economic competitiveness interests of those countries in whose assets they invested. SWFs, perceived to support their governments’ distinct foreign and national policy agendas through economic means, unwittingly injected considerable fuzziness into international affairs, obscuring the boundaries between international economics and geopolitics.¹

The conceptual discourse about the deeper relevance of SWFs in global politics in 2007 and 2008 transformed itself into a political debate, predominantly in advanced economies, on how to respond. Eventually, it culminated in new regulations and market interventions designed to protect national economic and broader security interests against the presumably harmful side-effects of sovereign investments and their associated political influence.

This somewhat hostile reaction surprised most SWFs. They had misread initial warning signs and some, having existed for decades, had difficulty understanding why they had become so politically exposed at this particular time. By April 2008, a group of countries, collectively owning 26 SWFs, recognized an urgent need to demonstrate and communicate more clearly their constructive role in the world economy. Supported by the International Monetary Fund (IMF),² they formed the International Working Group of Sovereign Wealth Funds (IWG) which as of beginning 2010 represented around \$2.3 trillion in financial assets under management. The main objective of the IWG was to develop a joint position among SWFs to maintain an open and non-discriminatory cross-border investment regime.

The Santiago Principles: Providing Guidance for SWF Governance

The IWG decided that the best way forward would be to develop a voluntary code of principles documenting SWFs' investment decisions to be driven by financial and economic considerations, not political motives. Accordingly, in September 2008 the IWG in Santiago, Chile agreed on and in October published 24 distinct principles. These principles constituted the body of a comprehensive code that SWFs pledged to implement: the "Generally Accepted Principles and Practices" (GAAP), also known as the "Santiago Principles." By voluntarily submitting to the Santiago Principles, IWG members ceded their autonomy to establish governance arrangements in line with their individual needs and preferences. In a way, they made a conscious decision to limit the reach of their "sovereignty."

Table 1. List of IWG members, asset volume based on most recent information provided by SWFs by March 2010

Fund	Country	Volume (US\$ bn)
Government Pension Fund	Norway	399.3
Abu Dhabi Investment Authority	UAE	*395.0
China Investment Corporation	China	297.5
Kuwait Investment Authority	Kuwait	*295.0
Government of Singapore Investment Corporation Pte. Ltd.	Singapore	247.5
Temasek Holdings Pte. Ltd.	Singapore	130.0
National Wealth Fund	Russia	91.9
Reserve Fund	Russia	76.4
Qatar Investment Authority	Qatar	*70.0
Libyan Investment Authority	Libya	65.0
Australian Future Fund	Australia	58.3
Alaska Permanent Fund	United States	33.7
National Pensions Reserve Fund	Ireland	23.8
Economic and Social Stabilization Fund	Chile	20.2
Korea Investment Corporation	Korea	17.8
State Oil Fund	Azerbaijan	14.9
Alberta Heritage Savings Trust Fund	Canada	13.3
Oil Stabilization Fund	Iran	13.0
Superannuation Fund	New Zealand	9.8
Pula Fund	Botswana	6.9
Petroleum Fund of Timor-Leste	Timor-Leste	4.9
Heritage and Stabilization Fund	Trinidad and Tobago	2.9
Pension Reserve Fund	Chile	2.5
Future Generations Reserve Fund	Bahrain	N.A.
Fund for Future Generations	Equatorial Guinea	N.A.
Oil Revenue Stabilization Fund	Mexico	N.A.
Total		2,288.0

Sources: Author's compilation from annual reports, latest web-based information provided by SWFs, and owners of SWFs as of March 2010.

* Note: Estimates provided by the Institute of International Finance (2009), *GCC Regional Overview*, Washington D.C.²

The Principles' main objective is to provide guidance for SWFs, ensuring that investment decisions are based on economic and financial risk return-related considerations, unless publicly declared otherwise. The publication and implementation of these Principles should foster the understanding of SWFs as financially and economically oriented entities, contributing to the stability of the global financial system, reducing protectionist pressures, and helping maintain an open and stable investment climate.

The 24 individual principles are divided into three distinct parts.³

The first part requests SWFs to disclose their legal framework (GAPP 1) and define and disclose their policy purpose (GAPP 2). SWFs also are asked to publicly disclose their funding and withdrawal arrangements (GAPP 4).

The second part covers SWFs' institutional frameworks and governance structures. At its core rests the idea of distancing the political aspirations of the owner, that is, the government on the one side, and its operational management on the other. The provisions of the Santiago Principles imply that any narrowing of this distance, expressed in weak governance and accountability arrangements, compromises the funds' financial return objectives. They stipulate that each SWF should have a sound governance framework that clearly and effectively divides roles and responsibilities among its constituents (GAPP 6). The owner's influence should be limited to setting the fund's objectives, appointing the members of the governing body (or bodies), and overseeing the SWF's operations (GAPP 7). The governing body(ies) should have a clear mandate to set the strategy and policies aimed at achieving the SWF's objectives and should carry ultimate responsibility for the fund's performance (GAPP 8). The operational management should be tasked with implementing the strategies set by the owner and the governing bodies independently and in accordance with clearly defined responsibilities (GAPP 9).

The third part requests that SWFs employ appropriate investment and risk management frameworks. It asks funds to disclose their investment policies (GAPP 18), including information about investment themes, investment objectives and horizons, and strategic asset allocation. They should disclose investment decisions that are subject to non-economic and non-financial considerations (GAPP 19.1) and whether they execute ownership rights to protect the financial value of investments (GAPP 21). The SWF should have a framework that identifies, assesses, and manages the risks of its operation (GAPP 22) and measures to track investment performance employing relative and/or absolute benchmarks.

Santiago Principles: Implementation Left to Individual SWFs

The IWG evolved into an informal coordination and knowledge-sharing platform, renamed the International Forum of Sovereign Wealth Funds (IFSWF). Meeting in April 2009 in Kuwait City and October 2009 in Baku, the IFSWF also acquired elements of an increasingly relevant representative body with its own policy agenda.⁴

But it left the implementation of the Principles up to the individual SWFs. GAAP 24 states that it is desirable for each SWF, its owner, or governing body, to use the Santiago Principles to review the SWF's existing arrangements and regularly assess how it implements the Principles. The implementation is to be verified through self-assessment or third-party verification. It invites the fund's owner or the governing body to publicly disclose the assessment to enhance trust in recipient countries and contribute to stability in international financial markets.

In the spirit of GAAP 24, a number of SWFs sought to demonstrate their commitment to the Santiago Principles throughout 2009. Some reported having conducted self-assessments to ensure compliance with the Principles; many published their first annual reports.

These have been positive developments. However, there has been no public assessment of the principles' implementation by all 26 IWG signatories, nor has there been third-party verification. During its meeting in Kuwait, IFSWF discussed engaging in a peer-review process to monitor compliance with the Principles.⁵ However, this process appears not to have been moved forward.

Uneven Commitment to the Santiago Principles

We therefore attempt to assess how well the 26 signatories to the Santiago Principles comply with the provisions and have built a "Santiago Compliance Index." This index is based on relevant data accessed from January 2010 to March 2010 and provided by SWFs, the IWG, and the IMF.⁶ It provides a snapshot of the compliance level to the Santiago Principles across its 26 signatories as of March 2010, based on publicly available data provided exclusively by official sources.

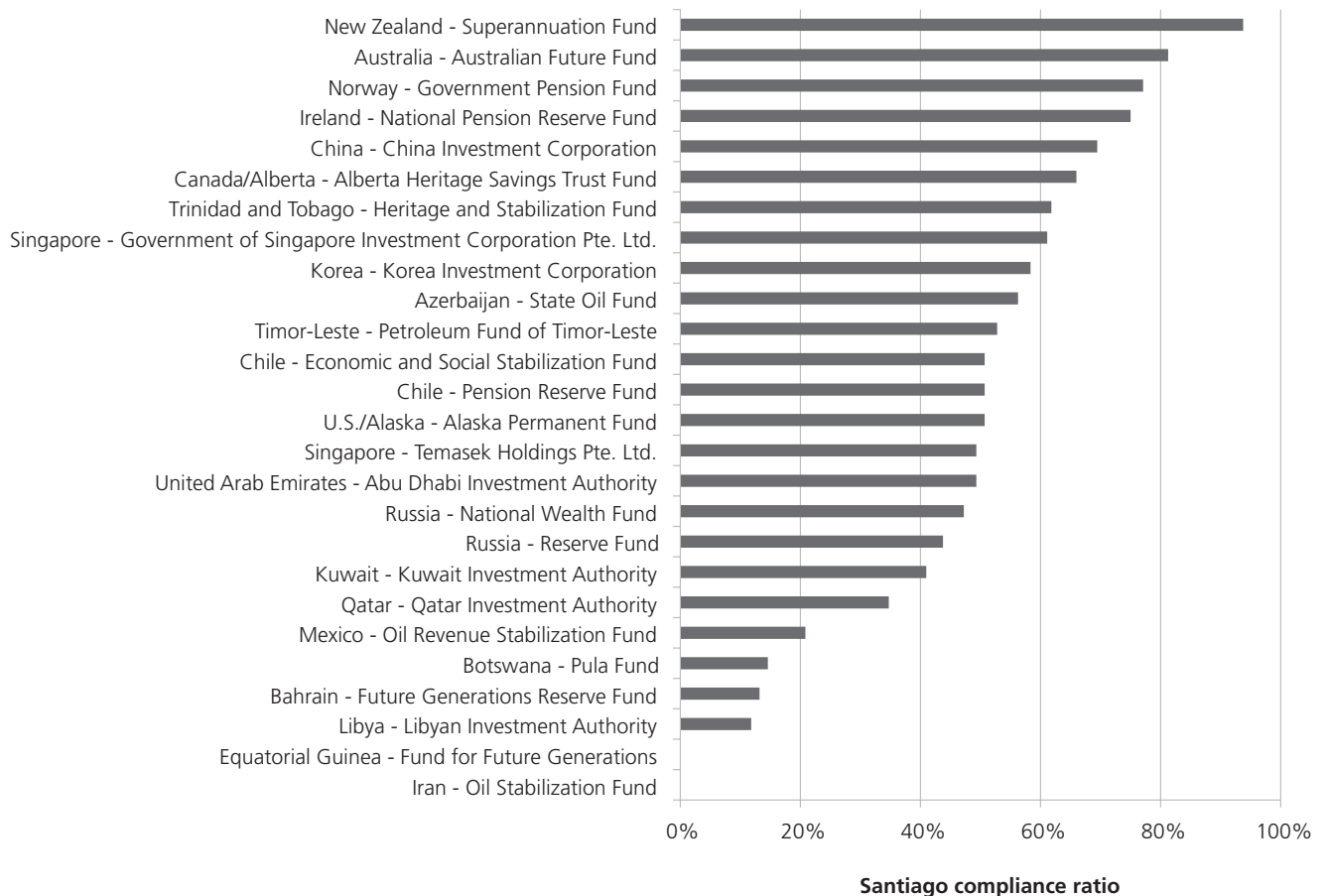
Figure 1 documents the level of compliance for each of the signatories as measured by our Santiago Compliance Index.

The results of our assessment are fairly striking. We can identify a tremendous spread across SWFs regarding their commitments to the Principles. These are clustered in four distinct groups with the volume of the assets under management representing their relative weight.

The top performers include funds that more or less fully comply with the Principles: New Zealand’s Superannuation Fund, the Australian Future Fund, Ireland’s National Pension Reserve Fund, and Norway’s Government Pension Fund.

Each provides sufficient and detailed information about its policy objectives, governance arrangements, funding and withdrawal arrangements, financial positions, and overall investment policy, including information about non-financial and non-economic considerations that might drive investment behavior. This first group represents nearly \$500 billion in assets under management—some 20 percent of the total assets under management by the Principles’ signatories.

Figure 1. Santiago Compliance Index as of March 2010



Sources: Author’s assessment

The second group includes the bulk of the funds. Each reaches compliance levels of approximately 60 percent. This group represents nearly \$1.2 trillion in assets under management—some 50 percent of the total assets under management by the Principles’ signatories. All provide at least basic information that covers most of the Principles. But most funds in this group are struggling to convincingly communicate how checks and balances shield the funds from their governments’ tactical political considerations.

The third group includes the two Russian funds (the National Wealth Fund and the Reserve Fund), the Kuwait Investment Authority, and the Qatar Investment Authority. This group represents nearly \$500 billion in assets under management, some 20 percent of the total assets under management by SWFs. These institutions provide only rudimentary information about how they observe the Santiago Principles. This is astonishing, as all four entities have faced significant public attention in recent years. Russia might have been tempted to use its assets to foster its geopolitical ambitions. The Qatari government has used QIA to strengthen its political ties to Europe and to select emerging economies. KIA has come under considerable domestic pressure about the value of its foreign investments as well as its role in stabilizing Kuwait’s domestic economy.

The fourth group, representing the remainder of some US\$200 billion assets under management, includes funds for which only very limited or no data could be obtained.

Assessing Santiago Compliance and Systemic Relevance of Single SWFs

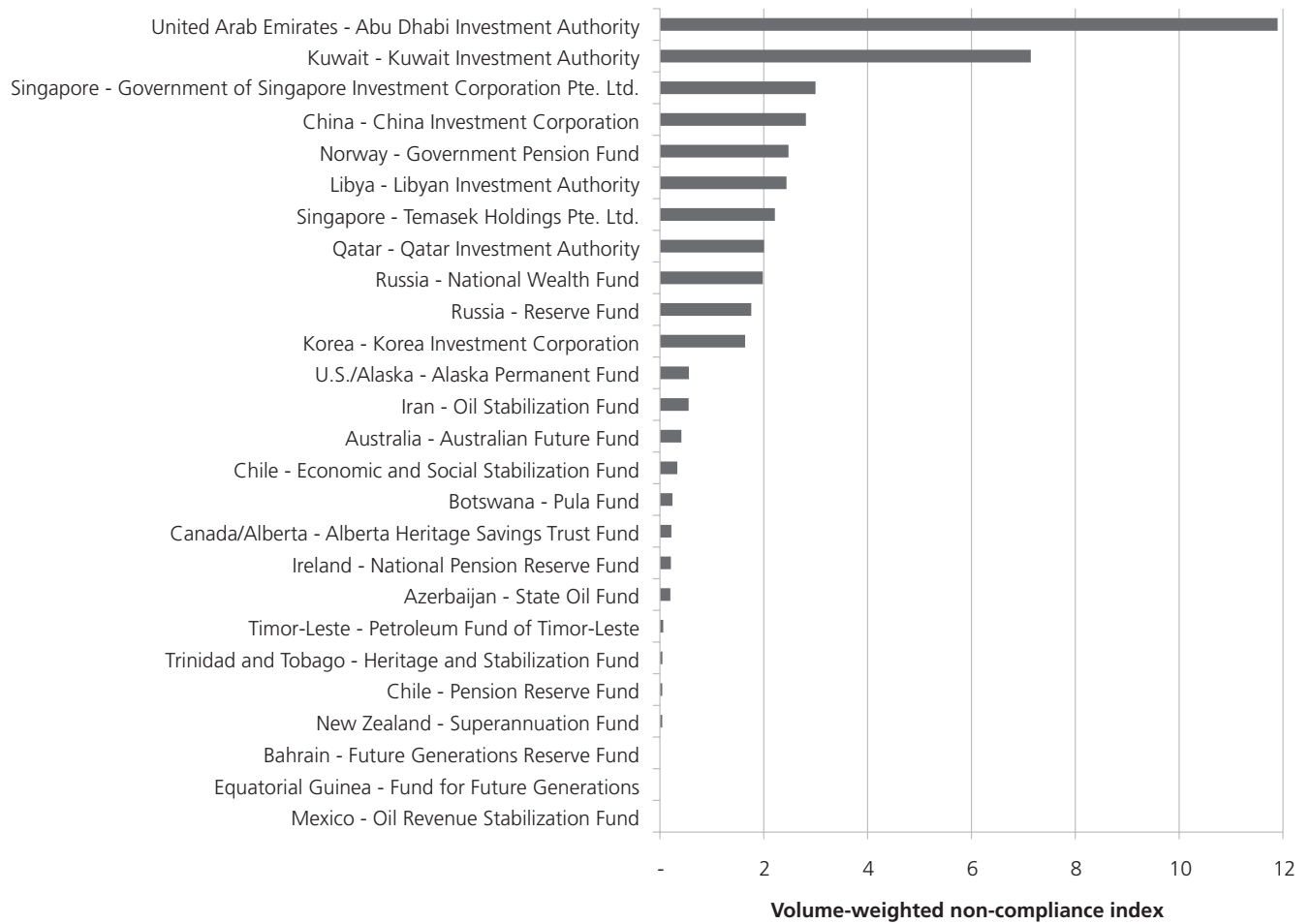
Arguably, the degree to which the funds that control bigger volumes of financial assets comply with the Principles has higher significance for the global financial and economic system than those that control smaller volumes. The Santiago Compliance Index provides only an unweighted assessment of compliance levels. Though it indicates the funds that are performing well and those that are lagging behind, it does not provide information about their relative systemic significance.

Therefore, for a more granular perspective of each fund’s systemic relevance and compliance ratio, we have developed a derivative of our Santiago Compliance Index, the “Weighted Unchecked Sovereign Wealth Index.” This index ranks funds according to the degree to which they fail to comply with the Santiago Principles weighed by the volume of their assets under management. Funds that feature a low Santiago compliance ratio and control big financial volumes feature prominently on the index.

The funds ranking highest by this measure are the Abu Dhabi Investment Authority and the Kuwait Investment Authority. Both control significant wealth and rank fairly low on the Santiago Compliance Index. These are followed by the Government of Singapore Investment Corporation, the China Investment Corporation, the Norwegian Government Pension Fund, and the Libyan Investment Authority.

These funds are particularly relevant for observing the Santiago Principles because they command the highest influence on the global financial system, and—with the exception of Norway’s GPF and to an extent Singapore’s GIC—have not yet complied satisfactorily with the Santiago Principles.

Figure 2. “Weighted Unchecked Sovereign Wealth Index” as of March 2010



Source: Author’s assessment

Political Governance Arrangements Indicate Santiago Commitment

How can we explain the uneven degree to which SWFs implement the Principles?

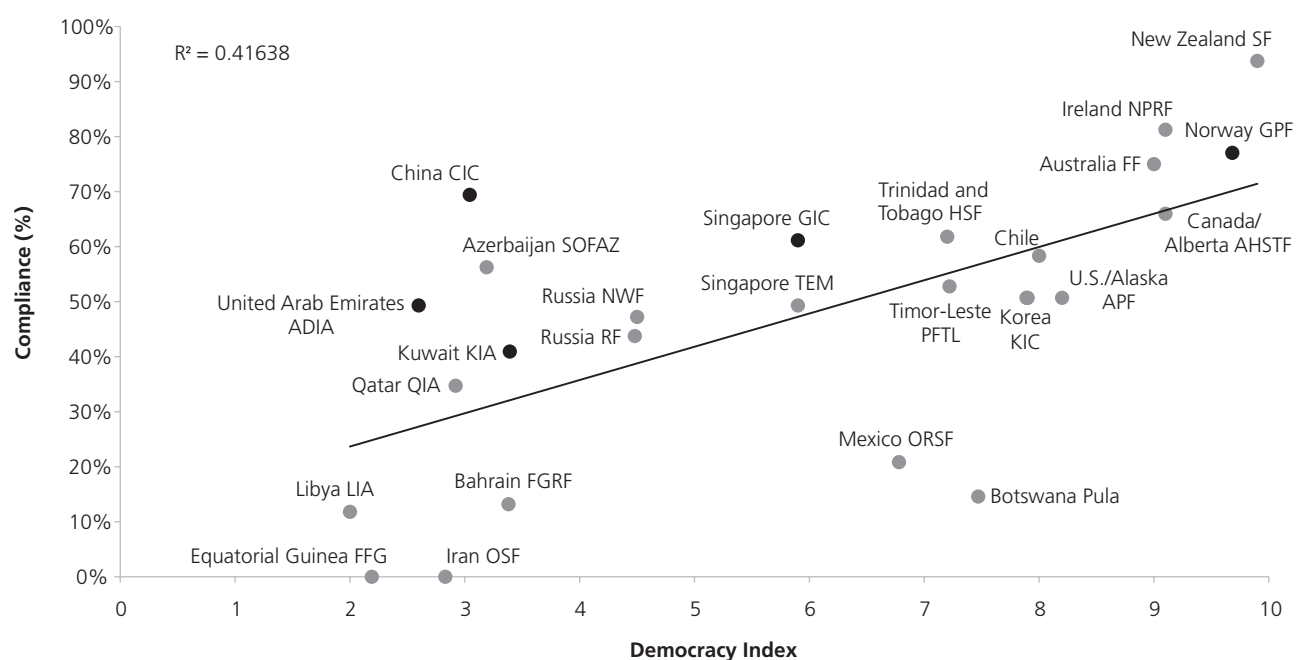
IWG members and Principles signatories come from countries featuring substantially different political governance arrangements. Consequently, we develop the hypothesis that their distinct local political institutions transcend SWFs' governance, accountability, and transparency commitments and have a measurable impact on their compliance with the Santiago Principles.

We used the Economist Intelligence Unit's "Index of Democracy 2008" to test our hypothesis. The democracy index measures the state of democracy for 165 independent states and two territories based on five categories: electoral process and pluralism; civil liberties; the functioning of government; political participation; and political culture. Countries are then classified as full democracies, flawed democracies, hybrid regimes, or authoritarian regimes.

Our analysis confirms intuition and suggests a close correlation between our Santiago Compliance Index and the Economist Intelligence Unit (EIU) democracy index. SWFs that are owned by democratic governments featuring stable institutions, pluralism, political participation, and a liberal political culture show higher commitments to the Santiago Principles. Conversely, SWFs

Figure 3. Compliance With Santiago Principles by Democratic Institutions

(dots in black: funds > \$200 billion)



Sources: *Santiago Compliance Index*, calculations by the author, Economist Intelligence Unit's Index of Democracy 2008, available at <http://graphics.eiu.com/PDF/Democracy%20Index%202008.pdf> (accessed October 4, 2009).

of countries with authoritarian regimes generally perform worse than the average of the Santiago Compliance Index.

The correlation suggests four distinct clusters of SWFs: (1) well-governed, accountable, and transparent SWFs from full democracies; (2) well-governed, moderately accountable, and transparent SWFs from flawed democracies and hybrid regimes; (3) underperforming SWFs from countries with non-democratic government arrangements; and (4) funds for which data is insufficient. This correlation, if taken at face value, has considerable policy significance.

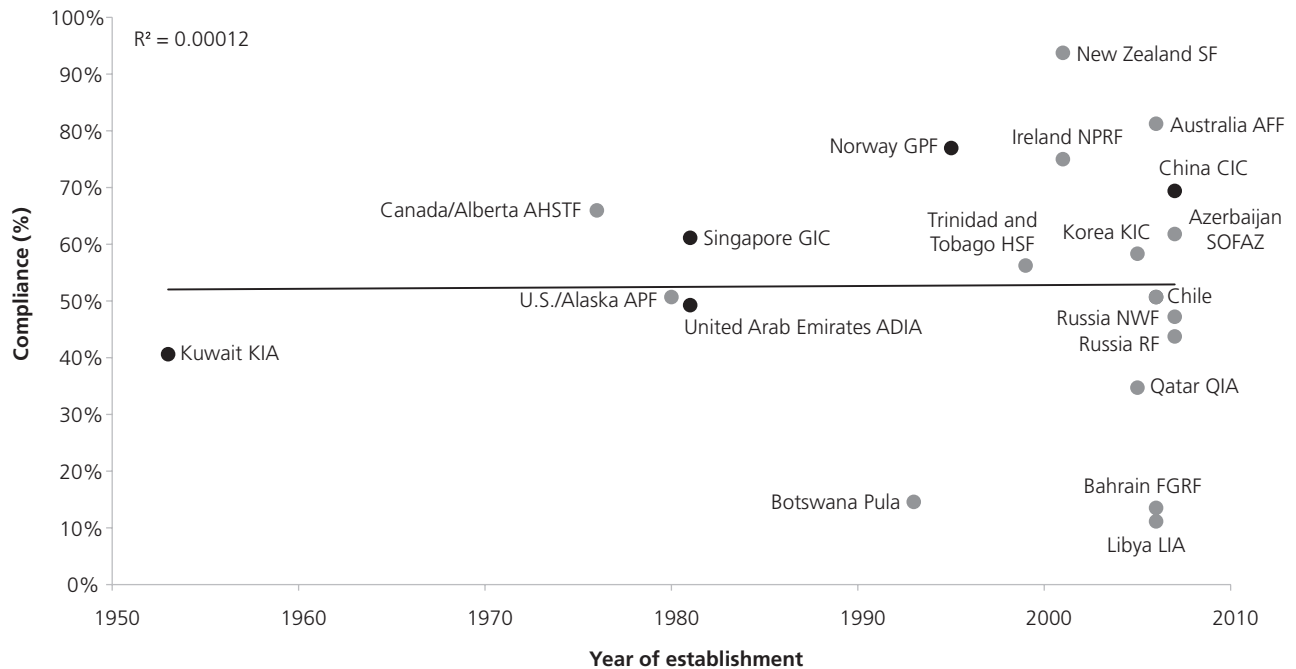
Maturity Provides No Explanation of Santiago Commitment

The link between an SWF’s Santiago compliance and political governance arrangements of countries that own them appears solid.

To further confirm this finding, we identified alternative explanatory variables, such as a possible relationship between the maturity or age of a fund and its commitment to the Principles. It could be assumed that more mature, older SWFs have over time established stronger governance frameworks that are more compatible with the Principles’ “best-practice” requirements. One also could argue that younger, and therefore institutionally less mature, SWFs could react more flexibly to the regulatory provisions of the Santiago Principles and therefore reach higher compliance levels. Our analysis suggests that neither hypothesis can be confirmed.

Figure 4. Compliance With Santiago Principles by Fund Maturity

(dots in black: funds > \$200 billion)



Sources: Author’s calculations

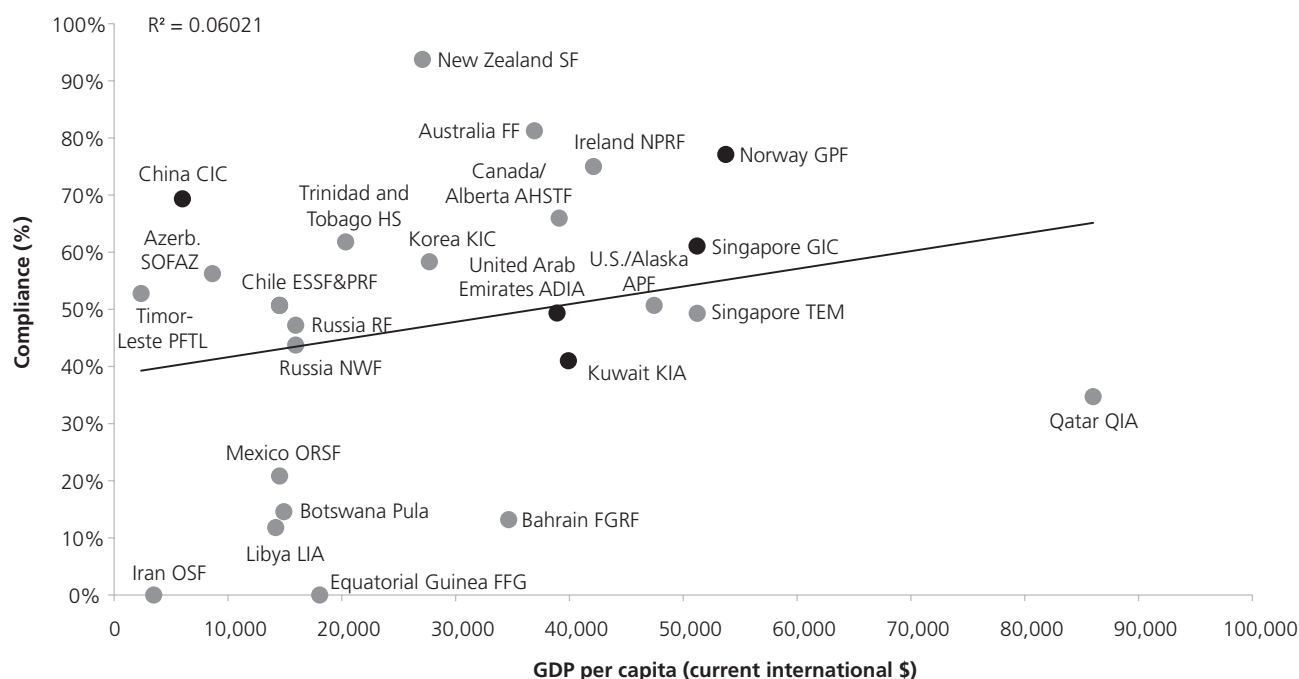
Figure 4 identifies no correlation between the age of an SWF and its performance in the Santiago Compliance Index. The age of an SWF does not indicate its commitment to the Santiago Principles.

Level of Economic Development Plays No Role in Explaining Santiago Commitment

Another hypothesis assumes that mature economies are based on heightened transparency, good governance, and accountability arrangements, which underpin the viability of markets and provide the backdrop for more transparent and well-governed SWFs.

Figure 5 is based on the assumption that the commitment of individual SWFs to the Santiago Principles might be explained by the economic development of countries owning SWFs, as measured in GDP per capita. As Figure 5 indicates, this hypothesis cannot be confirmed either. SWFs from countries with relatively low GDP per capita—China, Azerbaijan, or Timor-Leste—are among the better performers. Those from the Arab Gulf region, where GDPs per capita are similar to those of mature industrialized economies, display low compliance ratios.

Figure 5. Compliance With Santiago Principles by Economic Development
(dots in black: funds > \$200 billion)



Sources: Author's calculations; International Monetary Fund, "World Economic Outlook: Sustaining the Recovery" (Washington, D.C.: International Monetary Fund), October 2009.

Governance and Government Effectiveness Explains Santiago Commitment to a Limited Extent

A further argument could be made that an SWF owned and operated by a country with high overall government effectiveness performs better on the Santiago Compliance Index than one owned by a government of a country with lower overall government effectiveness. We used the World Bank’s “Worldwide Governance Indicators” (WGIs) to test this hypothesis.⁷

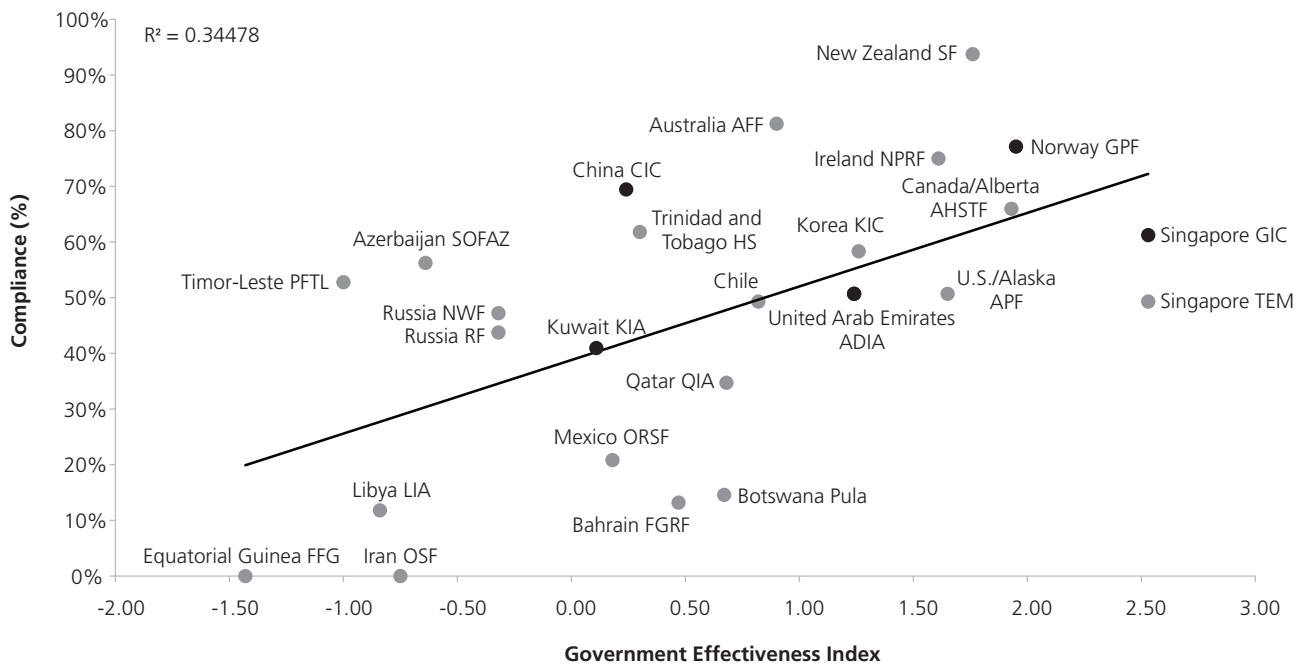
Our analysis suggests a fairly strong correlation between SWFs’ performance in the Santiago Compliance Index and the WGIs.

Figure 6 illustrates that countries with high government effectiveness tend to display a high degree of commitment to the Santiago Principles. Countries with low government effectiveness show less commitment.

Our findings indicate that SWFs’ commitment to the Santiago Principles is deeply rooted in their owners’ domestic political governance arrangements. Commitment to the Principles cannot be explained by SWFs’ maturity or by their countries’ economic development. General national governance indicators appear to play a considerable role in explaining SWFs’ commitment to the Principles, as illustrated most strikingly by correlating the political governance variables captured in the EIU’s Democracy Index with the Santiago Compliance index.

Figure 6. Santiago Compliance Index by Government Effectiveness

(dots in black: funds > \$200 billion)



Sources: Author’s calculations; “Government Matters 2009: Worldwide Governance Indicators, 1996–2008,” available at http://info.worldbank.org/governance/wgi/sc_country.asp (accessed October 31, 2009).

Moving the Santiago Principles Forward

Our findings indicate that the Santiago implementation process needs to show progress. Implementation has been patchy, and the process appears to have lost some of its earlier momentum. The global financial crisis and the subsequent power shifts in the global economic system might suggest that the Santiago Principles have lost some of their relevance for the signatories. In the past two years perceptions of SWFs have shifted. Once regarded as subversive agents of state capitalism, they are now sought-after providers of capital.

However, in the long run, there is no doubt that a more accountable global financial system, based on stable and transparent institutions, will be more robust. Though SWFs are only one and in fact a relatively small investor class among other global market participants, their growth dynamic suggests that their investment and policy behavior will resonate across the global economy. Their choices will therefore be an integral part of global efforts to establish a more resilient and inclusive framework for international financial markets.

Arguably, the funds that most need to provide dynamic, forward-moving leadership are the largest and therefore the most systemically relevant ones. According to the “Weighted Unchecked Sovereign Wealth Index” presented in this paper, the onus is on the four large funds that have yet to show full commitment to the Principles: the Abu Dhabi Investment Authority, the Kuwait Investment Authority, the Singaporean GIC, and the China Investment Corporation. These funds have indicated their readiness to comply more fully with the Principles. In the past twelve months, all except KIA have published their first annual reports, increasing their overall transparency, and thereby indicating higher commitments to the Principles than the political governance arrangements in their home countries suggest. These SWFs have exposed themselves domestically in their drive to reach the absolute benchmarks in the Santiago Principles, positioning themselves to catch up with the industry leaders.

There is no authority that enforces the Principles. Increasing SWFs’ compliance will therefore require additional support from among the group of SWFs. Much will depend on an implicit peer-review process by which industry leaders encourage underperformers to demonstrate higher commitment. Advanced SWFs such as the New Zealand Superannuation Fund, the Australian Future Fund, the Irish National Pension Reserve Fund, and the Norwegian Government Pension Fund have an interest in helping improve compliance across all signatories. Otherwise, political intuition suggests that their own constituents might question the value of supporting a process that does not perform.

It is surprising that, beyond an initial appreciation, recipient economies have not paid much attention to the Santiago Principles. In the past twelve months some SWFs have acquired sizable equity stakes in strategically important industries in advanced economies. Although these investments had a tremendous impact on the industrial geography of recipient economies, investors’

compliance with the Principles was not considered. The OECD has been a major platform for recipient economies to develop a joint position towards SWFs, but lately it has been rather quiet about the signatories' progress toward full implementation. It would be important for the OECD to assess and acknowledge the work done by the IWG/IFSWF as well as the implementation of the Santiago Principles.

The global community of analysts tracking SWFs is most responsible for placing the subject on the public policy agenda. After all, it identified them as a distinct investor group within international finance; argued that, given the funds' current and projected size, SWFs had become a relevant force in international finance; and highlighted conceptual challenges that the global economic system would be exposed to. Without other third-party verification plans, the global analysts' community plays an important role assessing SWFs' moves, thereby creating the transparency needed to consolidate SWFs' position as legitimate participants in international markets.

The Broader Policy Relevance

The Principles were designed to create trust in recipient economies and maintain an open cross-border investment regime. Arguably, they could become relevant beyond their initial mandate if they were used as an active tool to build new relationships. We offer three suggestions for broadening the Principles' scope. The first concerns the very concrete investment situation between sovereign investor and private investee; the second refers to the Principles in the respective domestic policy arenas of their signatories; and the third places the IWG and the Principles in the broader context of global governance.

Leveling Governance Arrangements

SWFs have been part of a recent, broader global trend of industrial restructuring. Ownership patterns will continue to change, and sovereign or private investors from emerging economies will be important drivers of this process, leaving them in more influential positions. This process cannot, and should not, be contained; however, it must be managed.

The Santiago Principles help synchronize very different governance arrangements across one stakeholder group of the global financial system. Moving beyond that objective, they and the work of the IWG might also provide guidance for establishing more robust and value creating relationships—between sovereign investors from emerging economies and private investees from advanced economies in binding investment situations.

Consider the Qatar Investment Authority's 2009 investment in Volkswagen. The German manufacturer is set to become the world's largest automotive company and represents the industrial heartland of the world's third largest

economy. Reportedly, QIA paid approximately \$10 billion for its 17 percent stake in the company. This represents an estimated 14 percent of QIA portfolio's value, estimated at \$70 billion. Both sides made a considerable commitment and placed a high degree of trust in each other: Qatar because its Volkswagen investment represents a highly concentrated single investment, and Volkswagen because the government of Qatar became its third largest shareholder. Yet political and corporate governance standards in Germany and Qatar could not be more different.

SWFs have been largely quiet investors, but that is likely to change in coming years. SWFs with considerable investments in industrial assets in mature economies, such as QIA's investment in Volkswagen, will want a more active role in the design and execution of corporate leadership. Given the current discrepancies of governance arrangements across mature and emerging economies, it should be mutually beneficial to synchronize standards.

Accelerating the Political Modernization Agenda

As this paper has attempted to show, implementing the Santiago Principles depends ultimately on the political governance arrangements of the countries that own them. Two alternative conclusions can be drawn from this:

Underperforming SWFs' commitment to the Principles can only increase with the implementation of a broader domestic reform agenda. The Santiago compliance levels of SWFs from non-democratically governed countries should improve if their governments pursue meaningful political reforms. This might take some time, however. China has opened economically, but it is unlikely to engage in a deeper political reform process. In the Arab world, the democracy and reform agenda have been in limbo for some time and produce meaningful results only gradually. The verdict is out on whether Russia's concept of "sovereign democracy" will inch closer to that of a liberal one.

But the policy impulse could work in reverse. Management of SWFs owned by non-democratic governments is exposed to the international and IFSWF-mediated debate on best practices, and subsequently then translates those principles into a profound restructuring process of their funds. This gradually distances SWFs from the more rigid political governance arrangements in respective countries. The China Investment Corporation shows higher Santiago compliance levels than the level of democracy in China would imply; Azerbaijan's State Oil Fund and the Abu Dhabi Investment Authority also are more compliant than their countries' political governance structures might indicate. These three funds have not yet sufficiently implemented the Principles, but they have shown a higher degree of commitment than might be expected given the political institutions of their countries.

It is beyond the scope of this assessment to provide a full analysis of the factors that can explain the relative performance of these three funds. However,

we offer the hypothesis that political leadership and fund management have been able to deploy substantial political capital and commitment to lift their funds out of the position that the striking correlation between our Santiago Compliance Index and the EIU's Democracy Index would otherwise locate them in. We can only speculate about the perhaps modest contribution that higher Santiago compliance levels and associated reforms could have on domestic political reform agendas.

Innovating Global Governance

The Santiago Principles can be considered as an experiment on how global governance arrangements could be designed in an increasingly fragmented economic and political global space. The IWG's creation of the Principles is a rare example in global finance where representatives from advanced and emerging economies have developed a joint policy agenda and framework. This agenda covers only a small subset within the pool of global issues that deserve international attention, but it constitutes an innovative example for future global governance arrangements.

The Santiago Principles fall into a grey zone of global governance. They are not legally binding international law or a derivative thereof, such as an international convention. They are more than a mere unilateral declaration of intent. Their signatories are SWFs, not nation states. The term "sovereign wealth fund" suggests these funds carry sovereign or quasi-sovereign powers, but the Principles acknowledge that their signatories cannot be held accountable for translating their substance into national law.

The Principles were voluntary—not imposed by an international authority or by the weight of the dominant economic powers. The IWG provided an artificial level playing field, using skillful diplomacy to negate existing balances of power and encourage all parties to agree on a joint policy agenda. Creating the Principles was significant, but that accomplishment is meaningless without broader SWF compliance to them. The biggest test faced by this approach to collective action remains the overall compliance level of SWFs to the Principles. Should this commitment to compliance increase, it might be worthwhile identifying the mechanisms that helped turn the work of the IWG into a success and apply lessons learned to other global public policy arenas.

Notes

- 1 Lawrence Summers, “Funds That Shake Capitalist Logic,” *Financial Times*, July 29, 2007; Henry A. Kissinger and Martin Feldstein, “The Rising Danger of High Oil Prices,” *International Herald Tribune*, September 15, 2008; Niall Ferguson, “An Empire at Risk,” *Newsweek*, December 7, 2009, p. 34; C. Fred Bergsten, “The Dollar and the Deficit,” *Foreign Affairs*, November/December 2009; Robert M. Kimmitt, “Public Footprints in Private Markets: Sovereign Wealth Funds and the Global Economy,” *Foreign Affairs*, January/February 2008.
- 2 The Abu Dhabi Investment Authority, Qatar Investment Authority, and Kuwait Investment Authority do not disclose assets under management. The IMF subscribes to information that the Abu Dhabi government provides to rating agencies, suggesting ADIA’s asset value to be at least two times GDP (International Monetary Fund, “United Arab Emirates: 2009 Article IV Consultation—Staff Report; Public Information Notice; and Statement by the Executive Director for United Arab Emirates,” country report no. 10/42, Washington, D.C.: International Monetary Fund, February 2010). Abu Dhabi’s GDP amounted to \$141.5 billion in 2009. An IMF staff estimate suggests that Qatar’s net International Investment Positions (IIP), excluding unknown foreign financial claims and liabilities of the private sector, is roughly \$70 billion (International Monetary Fund, “Qatar: 2009 Article IV Consultation—Staff Report; and Public Information Notice,” country report no. 10/41, Washington, D.C.: International Monetary Fund, February 2010). This figure is in line with other publicly available estimates. The IMF does not identify any reference for the value of foreign assets held by Kuwait’s government. IIP data provided by the Central Bank of Kuwait exclude the external assets held by the general government because of legal constraints on dissemination (International Monetary Fund, “Kuwait: 2009 Article IV Consultation—Staff Report; Staff Statement; and Public Information Notice on the Executive Board Discussion,” country report no. 09/152, Washington, D.C.: International Monetary Fund, March 2009).
- 3 International Working Group of Sovereign Wealth Funds, “Sovereign Wealth Funds: Generally Accepted Principles and Practices, “Santiago Principles,” Washington, D.C.

- 4 International Working Group of Sovereign Wealth Funds, “Kuwait Declaration,” International Forum of Sovereign Wealth Funds, April 6, 2009; “Sovereign Wealth Funds Issue ‘Baku Statement’ Reaffirming the Need for Maintaining Open Investment Environment,” press release, September 10, 2009.
- 5 International Working Group of Sovereign Wealth Funds, “Working Group Announces Creation of International Forum of Sovereign Wealth Funds,” press release no. 09/01, April 6, 2009.
- 6 This assessment should acknowledge a number of factors that affect data accuracy, such as availability and accessibility. Applicability of data exposes the index to considerable interpretation, which we hope will solidify as new data emerge. For a more thorough description of the establishment of the Santiago Compliance Index, see Sven Behrendt, “Gulf Arab Sovereign Wealth Funds: Governance and Institution Building,” paper presented at 11th Mediterranean Research Meeting, European University Institute: Florence & Montecatini Terme, March 24–27, 2010.
- 7 The WGI project reports governance indicators for 212 countries and territories from 1996 to 2008 and assesses the global quality of governance along six dimensions: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption (World Bank 2009).

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