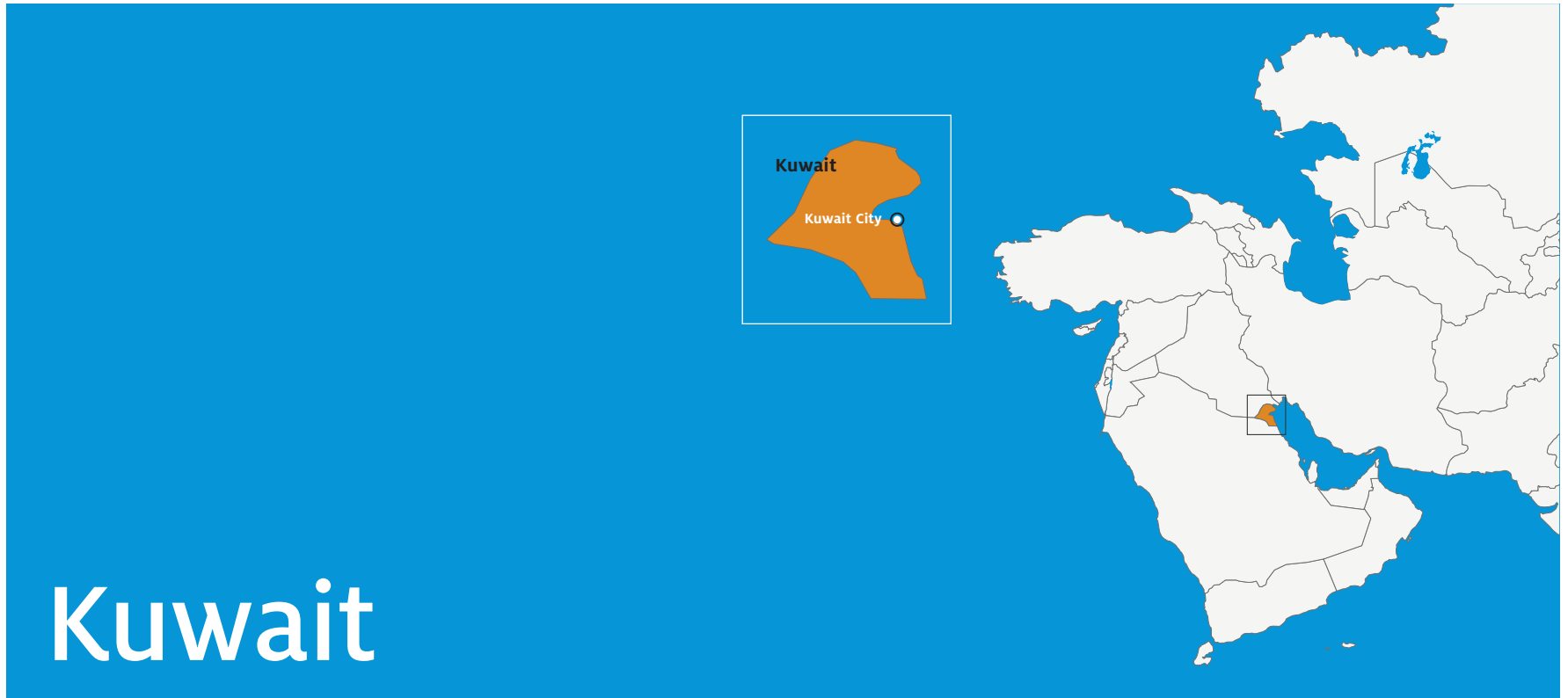


## Natural Resource Funds



## Kuwait's Future Generations Fund



**Market Value**

**Kuwait’s Future Generations Fund**  
**\$290 billion**  
*(est. 2012)*



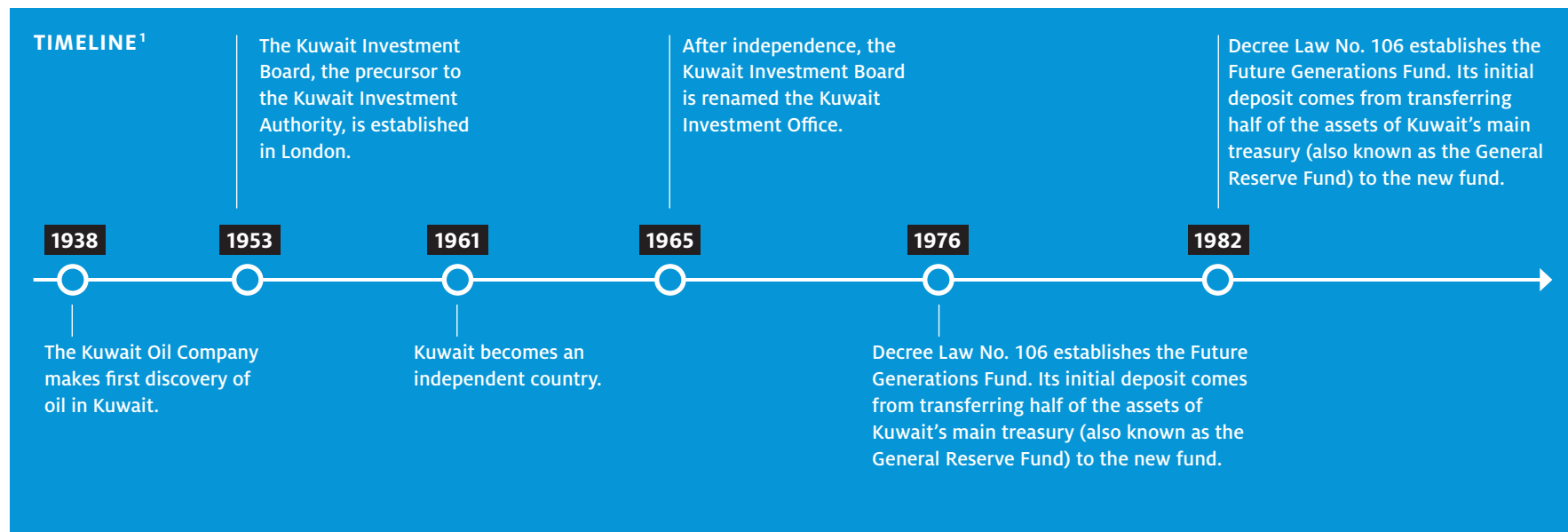
Good Governance Fundamentals	
Clear Deposit Rules	yes
Clear Withdrawal Rules	no
Clear Investment Rules	no
Transparent	no
Publicly Available Audits	no
Effective Oversight	no

**Fund Highlights**

- Kuwait’s Future Generations Fund was established as a long-term savings fund in 1976 by decree of the Deputy Emir.
- Since 1982, the Fund has been managed by the Kuwait Investment Authority. The Kuwait Investment Authority’s Board of Directors, appointed by the Council of Ministers, has ultimate responsibility over Fund management.
- 25 percent of all state revenues must be deposited into the Fund annually.

- Withdrawals of any size may be made as long as they are sanctioned by law. However it is unclear whether withdrawals are ever made.
- While the Fund is subject to oversight by several bodies, including by the National Assembly as well as internal and external auditors, government control over these groups limits their effectiveness.
- The Future Generations Fund is one of the world’s least transparent. Virtually no information on inflows, outflows or investments is publicly available.

# Timeline and Fund Objectives



## Fund Inception

- The Future Generations Fund was created in 1976 under **Decree Law No. 106** by the Deputy Emir of Kuwait.<sup>2</sup>
- Until 1982, the Fund was managed by the Kuwait Investment Office, which was originally established in 1953 under the title of Kuwait Investment Board to invest the country's surplus oil revenue.
- In 1982, **Law No. 47** established the Kuwait Investment Authority, formally named the Public Investment Authority, which now manages the Fund.<sup>3</sup>

## Fund Objectives

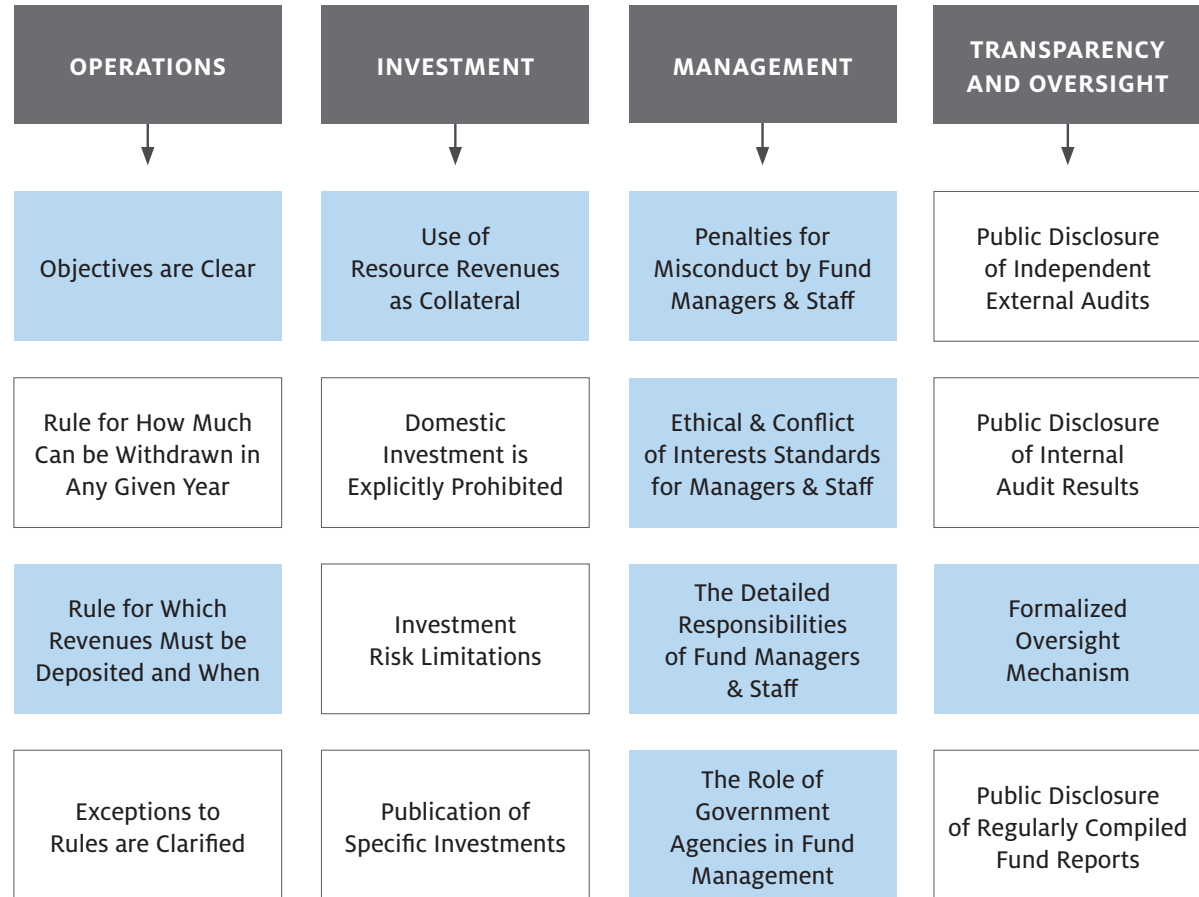
- The Future Generations Fund is a **future generations savings fund**.
- The Kuwait Investment Authority's principle objective is to achieve long-term returns on its investments, while also providing an alternative revenue source to oil sales.<sup>4</sup>
- The Kuwait Investment Authority also holds all government assets, including public enterprises, in the General Reserve Fund, the general treasury account from which state budget expenditures are made.<sup>5</sup>

# Good Governance Standards and Gaps in Regulation

Each box represents a regulatory standard essential for promoting consistent use of and safeguarding resource revenues. White boxes highlight regulatory gaps in fund governance.

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Good Governance Standards Met



Presence of Regulation
  Absence of Regulation

## Operational Laws, Rules and Policies

*All withdrawals must be authorized by the National Assembly.*

### Fund Structure

The Kuwait Investment Authority is mainly responsible for managing two funds:

- The General Reserve Fund, which both holds the government's stake in Kuwait's public enterprises and is the main treasury of the government from which all state budgetary expenditures are paid; and
- The Future Generations Fund.

### Fund Deposit Rules<sup>6</sup>

#### General Reserve Fund

- The General Reserve Fund receives all government revenues, including all oil revenues and the General Reserve Fund's investment income.

#### Future Generations Fund

- The Future Generations Fund originally received 10 percent of state revenues, including investment income, from the General Reserve Fund each year. Beginning in fiscal year 2012-2013, the Council of Ministers raised the deposit amount to 25 percent.<sup>7</sup>

### Fund Withdrawal Rules

#### General Reserve Fund

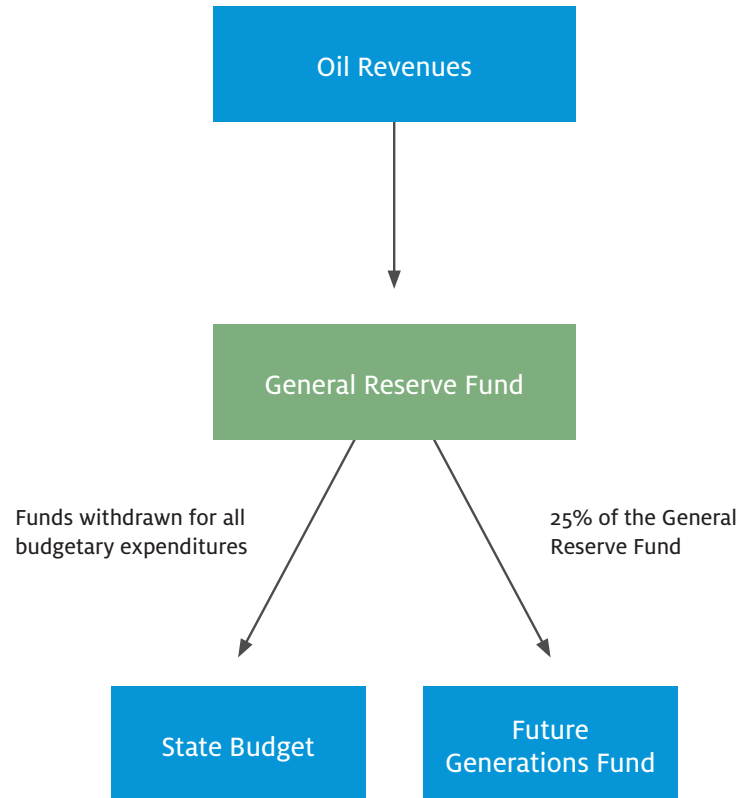
- Since all state budgetary expenditures are paid from the General Reserve Fund, withdrawals are determined and authorized by the National Assembly. Withdrawals include the annual transfer to the Future Generations Fund.

#### Future Generations Fund

- Presently, Law No. 106 prohibits withdrawals of the Future Generations Fund's investment income, which must be reinvested. For funds to be withdrawn from the Future Generations Fund, a specific authorization law must be passed by the National Assembly.<sup>8</sup>

# Operational Laws, Rules and Policies

## Flow of Funds



## Investment Laws, Rules and Policies

### Investment Authority

The Future Generations Fund is managed by the Kuwait Investment Authority. The Kuwait Investment Authority's Board of Directors is chaired by the Minister of Finance.<sup>9</sup>

### Investment Objectives

The Kuwait Investment Authority's objective is to achieve investment returns that exceed the Board of Directors' benchmarks based on a three-year rolling average.<sup>10</sup>

### Investment Strategy

Detailed and formal rules governing Kuwait Investment Authority's investment strategies are not made publicly available. In addition, the Fund's reports are also not publicly available.<sup>11</sup> Therefore, asset allocation, risk management, detailed investment objectives and portfolio performance details are unavailable.

Notwithstanding the Fund's investment strategy opacity, the following investment rules have been made explicit:<sup>12</sup>

- Funds cannot be invested in companies whose principle business involves gambling, liquor or adult entertainment.
- Venture capitalism is not allowed.
- External fund managers are prohibited from investing any more than 5 percent of the Fund's investment portfolio into any single securities issuer.

### Actual Investments

The actual investment allocation of the Future Generations Fund portfolio is not disclosed.

### Policy on In-State Investments

The Kuwait Investment Authority can invest funds domestically, but it does not use the Future Generations Fund to invest in Kuwait.<sup>13</sup>

# Management and Accountability

## Management and internal accountability

The Board of Directors is responsible for the Fund's management. It consists of the Minister of Finance (who serves as the Chair), the Minister of Energy, the Governor of the Kuwait Central Bank, the Undersecretary of the Ministry of Finance and five private sector representatives chosen by the Council of Ministers.

The Board appoints an Executive Committee to assist with setting the Fund's strategic goals. The Executive Committee is chaired by the Managing Director, who is appointed by the Board to oversee Fund management. The Board also appoints the Audit Committee which is headed by the Chairman of the Board.

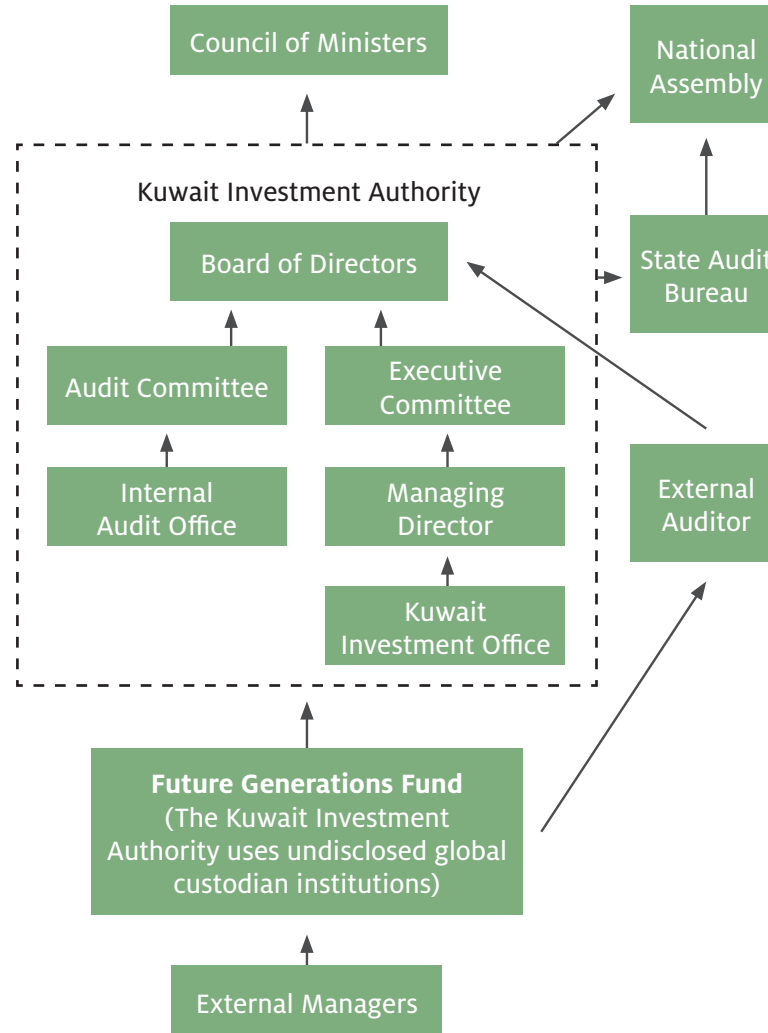
While most of the Fund's assets are managed externally (particularly equities, bonds and cash assets), a portion is managed internally through the Kuwait Investment Office, the London branch of the Kuwait Investment Authority.

## External accountability

The Kuwait Investment Authority reports to the Council of Ministers and makes annual presentations before the National Assembly.

The State Audit Bureau conducts annual audits and reports to the National Assembly.

Two external auditors are appointed by and report to the Board of Directors.





## Oversight and Safeguards

*Although the Fund is subject to multiple audits, reports are not made publicly available.*

### Oversight Mechanisms

- The **Board of Directors** is empowered by law to monitor and “police” Fund activity, ensuring government compliance with the regulations that govern the Fund.
- Finances are subject to **regular and comprehensive internal audits**. However audits are not made public.
- Spending from petroleum revenues must be **approved by the National Assembly**. However the Emir’s ability and tendency to dissolve the legislature gives him significant influence on spending approval.
- Funds are managed separately from the country’s **international reserves**.
- Fund finances are subject to a **regular and independent external audit**. However audits are not made public.
- The Board of Directors conducts a **periodic review of investment methodology** to improve management of investments.

### Common Oversight Mechanisms or Safeguards Not Present in Kuwait

- **International oversight institutions**, such as the World Bank or the International Monetary Fund, do not routinely monitor Fund management.
- There is no **regular monitoring** by citizens or civil society organizations.

## Transparency Laws, Rules and Policies

**There is public disclosure of the following:**

When or how often Fund reports are published and made publicly available	no	
Which individuals or organizations are responsible for publishing Fund reports*	no	
Size of the Fund(s)	no	
Deposit and withdrawal amounts	no	
Returns on investments	no	
Detailed asset allocation – geographic location	no	
Detailed asset allocation – asset class	no	
Detailed asset allocation – specific assets	no	
Natural resource prices and other fiscal assumptions used to calculate deposit and withdrawal amounts allowed under fiscal rules	no	

\* Although the Kuwait Investment Authority submits reports to the Council of Ministers, Law No. 47 prohibits public disclosure of these reports.

## **Annex:** List of Applicable Laws

### **The Constitution of The State of Kuwait**

<http://www.kuwaitconstitution.org/kuwaitconstitutionenglish.html>

### **Decree Law No. 106 of 1976: Concerning the Future Generations Fund**

### **Law No. 47 of 1982: Establishing the Public Investment Authority (Kuwait Investment Authority)**

### **Law No. 22 of 1968: Regulation of the Banking Profession (amended by Decree Law No. 120 of 1977)**

### **Law No. 32 of 1970: Regulation of Dealings in Securities of Companies**

### **Law No. 30 of 1964: Establishing the Audit Bureau (amended by Decree Law No. 4 for 1977)**

### **Decree Law No. 31 of 1978: Preparation of Public Budgets**

The citations and information in this profile derive almost exclusively from the Kuwait Investment Authority website (<http://www.kia.gov.kw>).

## Endnotes

1. <http://www.kia.gov.kw/En/KIO/About/Pages/default.aspx>
2. [http://www.kia.gov.kw/En/About\\_KIA/Overview\\_of\\_Funds/Pages/default.aspx](http://www.kia.gov.kw/En/About_KIA/Overview_of_Funds/Pages/default.aspx)
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4. [http://www.kia.gov.kw/En/About\\_KIA/Overview\\_of\\_KIA/Pages/OverviewofKIA.aspx](http://www.kia.gov.kw/En/About_KIA/Overview_of_KIA/Pages/OverviewofKIA.aspx)
5. [http://www.kia.gov.kw/En/About\\_KIA/Overview\\_of\\_Funds/Pages/default.aspx](http://www.kia.gov.kw/En/About_KIA/Overview_of_Funds/Pages/default.aspx)
6. [http://www.kia.gov.kw/En/About\\_KIA/Overview\\_of\\_Funds/Pages/default.aspx](http://www.kia.gov.kw/En/About_KIA/Overview_of_Funds/Pages/default.aspx)
7. Kuwait Increases Contribution to Future Generations Fund. SWF. September 17, 2012. Available at: <http://www.swfinstitute.org/swf-news/kuwait-increases-contribution-to-future-generations-fund/>
8. [http://www.kia.gov.kw/En/About\\_KIA/Overview\\_of\\_Funds/Pages/default.aspx](http://www.kia.gov.kw/En/About_KIA/Overview_of_Funds/Pages/default.aspx)
9. [http://www.kia.gov.kw/En/About\\_KIA/Mission\\_Principles/Pages/default.aspx](http://www.kia.gov.kw/En/About_KIA/Mission_Principles/Pages/default.aspx)
10. [http://www.kia.gov.kw/En/About\\_KIA/Objective\\_Strategy/Pages/default.aspx](http://www.kia.gov.kw/En/About_KIA/Objective_Strategy/Pages/default.aspx)
11. [http://www.kia.gov.kw/En/About\\_KIA/Transparency/Pages/default.aspx](http://www.kia.gov.kw/En/About_KIA/Transparency/Pages/default.aspx)
12. [http://www.kia.gov.kw/En/Marketable\\_Securities/Portfolio\\_Management/Pages/default.aspx](http://www.kia.gov.kw/En/Marketable_Securities/Portfolio_Management/Pages/default.aspx)
13. [http://www.kia.gov.kw/En/About\\_KIA/Overview\\_of\\_Funds/Pages/default.aspx](http://www.kia.gov.kw/En/About_KIA/Overview_of_Funds/Pages/default.aspx)