



The Yorway Model

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A Permanent Fund is one of the most significant (yet, less well known) economic innovations of the last 50 years. Done well, a permanent fund is the best known economic innovation that can mitigate resource curse and safeguard intergenerational equity. In recent times, the stellar success of the Norwegian permanent fund has highlighted the need for permanent funds in countries that are blessed with natural resources (or cursed, as the case may more likely be). Part (a) in the series, sets out a framework for the adaptation of successful permanent fund models by countries in need; part (b) of the series uses Goa (in India) as a case study.

The Yorway Model (a)

Introducing the Yorway model

The 'Yorway model' is an innovation framework primarily for sovereign wealth permanent funds (national natural resource endowments) but adaptable for other long-horizon endowments too. The model recognises the non-homogeneous nature of sovereign funds and adopts a personalised approach whilst adopting the Santiago principles (issued by the International Forum of Sovereign Wealth Funds) and seminal research and best practices including the Norway Model. The Yorway approach is based on the simple idea that specific user needs must be at the heart of any innovation or product design. (Yorway being a word play on 'your way' and the famous Norway Model). The model makes this idea actionable with a toolkit that includes a 'Yorway butterfly', 'Yorway quadrants', and 'Yorway checklist'. Designers and guardians of permanent funds can innovate in three iterative steps including scoring the model fund using the Truman Index as a benchmark.

The Norway model

In the world of endowment and long-term asset management, and as someone trying to design a model permanent fund for India, it is hard not to have a crush on the Norwegian Fund. What's not to like? The fund is well on its way to reaching a trillion dollars in value by 2016, it has hyper transparent systems and disclosures, it has a responsible investing programme and it openly confronts its own ethical dilemma of being a responsible investor even whilst augmenting its capital by selling fossil fuels. So, in designing a new fund for Goa (and a model for India), it's quite tempting to copy the [Norway model](#) without much ado. After all, Goans, like the Norwegians, love their seafood.

Know thyself

But the similarities seem to end there. Norway is like neither Goa nor India, for better or worse. Norway has 5 million citizens compared to India's 1.3 billion. Norway is a bit more homogeneous with 95% of the population using Norwegian as a first language as compared to India's 122 major languages and 1,599 other languages. But a more direct and telling example of difference is this: on Transparency International's 2014 Corruption perception index of 174 countries, least to highest, Norway ranks no 5 while India ranks no 85. The implication is that at each level - legal framework, governance, and investment management – Goa's fund will need innovative processes to prevent it being compromised; processes that are different from Norway's which relies on existing good governance.

Similar differences exist amongst the entire universe of sovereign funds. Besides economic, political and cultural differences, each Fund's resources are different in terms of prices and stores – Goa must therefore follow its own path based on its unique needs, capabilities and values. How to do this is the question. Answers are contained in Part (b) but we start with setting up the Yorway framework.

Resource curse

The 'resource curse' is a phenomenon where countries with abundant natural resources tend to have worse economic, social, and political outcomes than countries without such resources. This is often attributed to factors such as corruption, rent-seeking, Dutch disease, and political instability. The negative impact of natural resources on development is captured by the famous quote "oil is the devil's excrement" which highlights how the presence of oil and other resources can hinder a country's progress and development by promoting dependency, inequality, and other negative effects.

Intergenerational equity

Intergenerational equity in the context of natural resources means that present generations have a responsibility to use resources in a sustainable way that meets their needs without compromising the ability of future generations to meet their own needs. After all, what gives one generation the right to squander the shared inheritance of all generations?

Permanent fund as solution

Permanent funds, if designed and managed well, mitigate the negative effects of the 'resource curse' by stabilising a country's economy through investment in a diversified portfolio of assets (outside the home state) using revenue generated by natural resources. They aim to avoid over-reliance on resource revenues, inflation, and economic volatility whilst providing a sustainable source of income for future generations (via non-wasting assets).

THE YORWAY FRAMEWORK

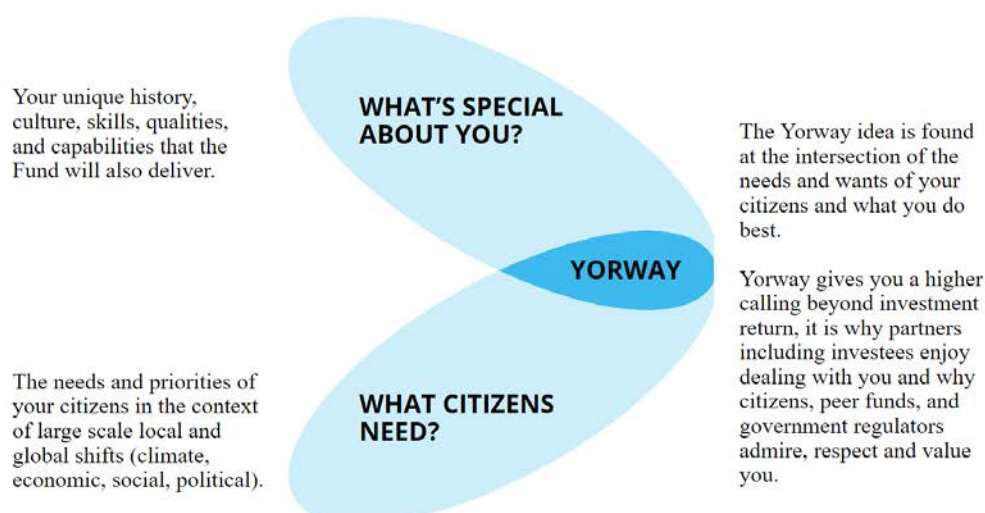
Step 1: The Yorway idea - a core organising idea

The starting point of the model is the use of a core organising idea that permeates and informs all else. This organising idea arises where 'your own needs' intersect with 'what the world (your citizens) need'. It may be intangible but it is not a tagline and must be high on integrity. For example, and fittingly in a transparent society where each citizen's annual tax return is published online, Norway's organising idea might be described as 'transparent citizenship'. Similarly, Yale's organising idea that drives success could be about 'campus community'.

Interestingly, because the Norwegian fund is arguably the most famous of all the permanent funds, one might automatically think that it generates the highest return too – it has compounded well but it certainly does not boast the highest return for comparable funds. Sure, its size has contributed to its popularity, but one might argue that the transparent citizenship idea is what makes it stand out.

How then to identify your Yorway idea?

THE YORWAY BUTTERFLY

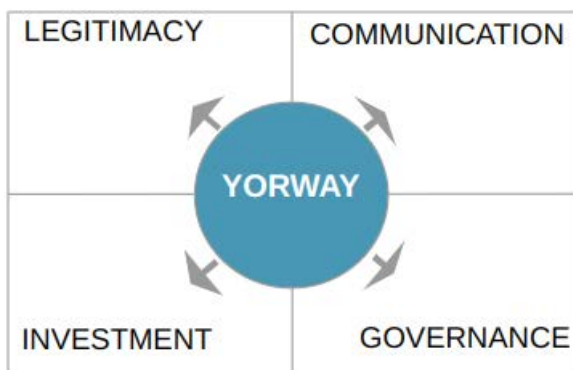


Step 2: The Yorway benchmarks and checklist

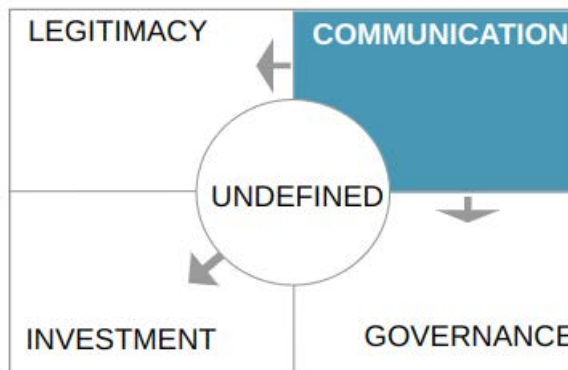
A Yorway checklist applies the core Yorway idea through four quadrants that include the following benchmarks:

- A. Legitimacy (legal structures, objectives, and social contract)
- B. Governance framework
- C. Investment and risk management framework
- D. Communication (including image, identity, transparency, and reporting).

Like this..



Not like this..



The checklist uses the lens of the Yorway central idea across each factor to devise policies appropriate for that Fund. The four benchmarks should not be viewed in isolation. They interact with and can inform each other. But perhaps the most important of all the benchmarks is legitimacy. Without this, the temptation for society and politicians to raid the large sums of money in permanent funds is too high. Even a legal framework may not be sufficient to maintain the legitimacy benchmark. A strong social contract is also needed. It is in this area that the Yorway model can have the greatest impact.

For example, the Yorway checklist covering all four benchmarks and closely mirroring the Santiago principles, includes questions such as (and perhaps most valuable):

“How might we use our central idea (one that reflects the needs of our citizens and the culture, values, capabilities, and political economy of our land) to design legal structure(s) and social contract(s) that can legitimise the permanent fund for all future generations?”

See Annexure 1 for the comprehensive checklist.

Step 3: Benchmarking using the ‘Truman Index’

Finally, the newly designed fund (or those seeking to remodel their fund) can rate their fund using the Truman Index. The Truman Index is a scoreboard and global benchmark of all sovereign funds. It ranks funds using 33 elements and it significantly overlaps with the Santiago Principles with a correlation of 0.96 amongst its elements. By way of comparison, the top rated fund is Norway with a score of 98/100 and the lowest rated fund is the UAE's Istithmar World with 17/100.

Next: The Yorway model as applied to Goa.

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Annexure 1: The Yorway checklist (with reference to Santiago Principles (SP's))

“How might we use our central Yorway idea (one that reflects the needs of our citizens and the culture, values, capabilities, and political economy of our land) to design legal structure(s), governance framework, investment policy and risk management, and communication that can enhance the legitimacy, governance, reputation, and performance of the permanent fund (and prevent the temptation for it to be raided) for all future generations?” The response to each of the questions below should also state why it is consistent with the Yorway framework or at least neutral.

A) LEGITIMACY

“How might we use our central Yorway idea and values to design legal and social structure(s) that safeguard the Fund for all future generations (preventing the temptation for it to be raided)?”

1. How should the legal structure(s) for the Fund be so that it is sound and supports the effective operation and the achievement of its stated objective(s)? Is this publicly disclosed? (SP1)
2. Are the objectives and purpose of the Fund clearly defined and publicly disclosed? (SP2)
3. Where the Fund's activities have significant direct domestic macroeconomic implications, are those or how will those activities be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies? (SP3)
4. Has or will there be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the Fund's general approach to funding, withdrawal, and spending operations (including disclosing the source of Fund funding and the general approach to withdrawals from the Fund and spending on behalf of the government) (SP4)
5. How can we use the central Yorway idea and tools such as citizen dividends, education, responsible investing and other forms of citizen engagement to create a social contract with citizens and the Fund?

B) GOVERNANCE

“How might we design a governance framework that can enhance the legitimacy, reputation, and performance of the permanent fund keeping in mind the needs of our citizens and the culture, values, capabilities, and political economy of our land?”

6. Has or how will the governance framework for the Fund be designed so that it is sound and establishes a clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the Fund to pursue its objectives? (SP 6)
7. Has or how will the owner set the objectives of the Fund, appoint the members of its governing body(ies) in accordance with clearly defined procedures, and exercise oversight over the Fund's operations? (SP7)
8. How will the governing body(ies) act in the best interests of the Fund, and have a clear mandate and adequate authority and competency to carry out its functions? (SP8)
9. How will the operational management of the Fund implement the Fund's strategies in an independent manner and in accordance with clearly defined responsibilities? (SP9)
10. Is the accountability framework for the Fund's operations clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement? (SP10)
11. Does the legislation include that an annual report and accompanying financial statements on the Fund's operations and performance be prepared in a timely fashion and in accordance with recognized international or national accounting standards in a consistent manner? (SP11)
12. Does the legislation include that the Fund's operations and financial statements be audited annually in accordance with recognized international or national auditing standards? (SP12)
13. Are professional and ethical standards clearly defined and made known to the members of the Fund's governing body(ies), management, and staff? (SP13)

14. Has the Fund incorporated that dealing with third parties for the purpose of the Fund's operational management should be based on economic and financial grounds, and follow clear rules and procedures? (SP14)
15. Does the legislation provide that Fund operations and activities in host countries be conducted in compliance with all applicable regulatory and disclosure requirements of the host countries? (SP15)

C) INVESTMENT & RISK MANAGEMENT

"How might we design an investment and risk framework that is consistent with our Yorway framework?"

16. Is the Fund's investment policy clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the owner or the governing body(ies), and based on sound portfolio management principles? The investment policy should guide the Fund's financial risk exposures and the possible use of leverage. The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored. A description of the investment policy of the Fund should be publicly disclosed. (SP18)
17. How will the Fund's investment decisions aim to maximize risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial ground (based on sound asset management principles)? If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed. (SP19)
18. The Fund should create and disclose its responsible investing policy and practices?
19. Does the Fund have written legislation preventing it seeking or taking advantage of privileged information or inappropriate influence by the government in competing with private entities? (SP20)
20. Funds view shareholder ownership rights as a fundamental element of their equity investments' value. If the Fund chooses to exercise its ownership rights, it should do so in a manner that is consistent with its investment policy and protects the financial value of its investments. How does the Fund publicly disclose its general approach to voting securities of listed entities, including the key factors guiding its exercise of ownership rights. (SP21)
21. The Fund should have a framework that identifies, assesses, and manages the risks of its operations. What will this framework look like? (Include reliable information and timely reporting systems, adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function. The Fund's risk management framework should be publicly disclosed.) (SP22)

D) COMMUNICATION

"How might we communicate consistent with our Yorway idea and in a timely and transparent manner such as to enhance the image, identity, and reputation of the Fund?"

22. How can communication be used to create a strong connection with citizens (including naming and describing the Fund, and other communication innovations)?
23. How, when, and where will the objectives, legal structures, governance framework, source and usage of funds, and other items covered in Section A and B of this checklist be publicly disclosed? (SP16)
24. How, when, and where will items in Section C including relevant financial information regarding the Fund be publicly disclosed to demonstrate its economic and financial orientation, so as to contribute to stability in international financial markets and enhance trust in recipient countries? (SP17)
25. How and where will the items in Section C including the assets and investment performance (absolute and relative to benchmarks, if any) of the Fund be measured and reported to the owner and what should the clearly defined principles or standards be? (SP23)
26. How, when, and where is the statistical data pertaining to the Fund reported to the owner? (SP5)
27. When and how will the Fund engage in a process of regular review of the implementation of the above principles? (SP24.)