



ISSUES OF ENSURING THE TRANSPARENCY OF SOVEREIGN WEALTH FUNDS

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ABSTRACT

This article examines and analyzes the criteria for maximum transparency, which is the main criterion for evaluating the effectiveness of sovereign funds. Two globally recognized methods for assessing the maximum transparency of sovereign wealth funds have been analyzed. The Santiago Principles and the Linaburg-Madwell Transparency Index, approved by 26 member countries of the International Monetary Fund and based on generally accepted rules, have been studied and analyzed in detail. Foreign experience in ensuring maximum transparency of sovereign wealth funds has been studied. A number of problems in ensuring the maximum transparency of the Fund's activities, which are the main criteria for assessing the effectiveness of the Fund for Reconstruction and Development in our country, were analyzed, scientific, and practical suggestions and recommendations were made to ensure maximum transparency of the Fund's activities.

Introduction

In order to create favorable conditions for attracting foreign investment to our national economy, to ensure a state and individual approach to assessing the financial and economic efficiency of investment projects, to put an end to bureaucracy, red tape and bureaucracy, to increase the responsibility of officials for expertise. many Resolutions and Decrees were adopted. In particular, the Decree of the President of the Republic of Uzbekistan No. PF-4947 of February 7, 2017 "On the Action Strategy for further development of the Republic of Uzbekistan", PF-5614 of January 8, 2019 "On additional measures to further develop the economy and increase

economic policy" , Decree No. PF-5635 of January 17, 2019 "On the State Program for the implementation of the Action Strategy for the five priority areas of development of the Republic of Uzbekistan in 2017-2021 in the" Year of Active Investment and Social Development "December 18, 2017 PQ-3437- Resolution "On the introduction of a new procedure for the formation and financing of state development programs of the Republic of Uzbekistan." In addition, President Mirziyoyev highlighted this issue in his speeches on the effective implementation of the tasks of complex socio-economic development, the timely identification and elimination of a number of shortcomings that hinder the timely



implementation of reforms in the country, and determines the priority of investment projects in order to gain a foothold in the international arena [1].

The Fund for Reconstruction and Development of the Republic of Uzbekistan plays an important role in the implementation of projects on modernization and technical re-equipment of leading sectors of the economy in our country, as well as effective structural reforms and investment policies. One of the main tasks of the Fund is to finance strategic investment projects in the implementation of priorities related to the development of leading sectors of the economy, the formation of production infrastructure.

The existence of a number of problems in ensuring maximum transparency of the Fund, which is the main criterion for assessing the effectiveness of the Fund for Reconstruction and Development in our country, has a negative impact on the intensification of the Fund's investment processes, development of social infrastructure and investment efficiency.

These circumstances require a radical overhaul of the procedure for forming investment programs, its financing mechanisms, increasing the transparency and efficiency of the selection of proposed projects.

The President of the Republic of Uzbekistan Sh.M.Mirziyoyev, emphasizing the importance of investment in achieving high economic growth and ensuring strong social protection, criticized the fact that so far the work in this area has been carried out in a fragmentary manner. Many enterprises went bankrupt as a result of the lack of investors' own funds. Commercial banks, which have been tasked with rehabilitating them, have also suffered.

Therefore, starting from this year, the practice of transferring bankrupt enterprises to the balance of banks has been stopped. As a result of the superficial economic analysis, the projects did not justify themselves even after their commissioning - production was not mastered due to lack of raw materials, lack of energy and gas supply, and economic inefficiency" [2].

Based on the above, the removal of restrictions on the official publication of certain information in our country today is a very important issue.

At the same time, it is important to ensure maximum transparency of the Fund for Reconstruction and Development of the Republic of Uzbekistan.

One of the criteria for determining the effectiveness of sovereign wealth funds is to ensure maximum transparency of the activities of funds, which many economists have stated in their research.

Of these, the Russian economist K. Pupynin, in his research, prioritizes the issue of transparency of sovereign wealth funds, recognizing that non-transparency of fund activities is a problem that hinders the development of the fund. [3]

Another Russian economist, E. Vasin, divided the criteria for assessing the effectiveness of sovereign wealth funds into seven groups, noting that the main criterion is to ensure maximum transparency of sovereign wealth funds. [4]

The Santiago Principles were developed by a special working group set up by the International Monetary Fund with a special focus on ensuring maximum transparency in the activities of sovereign wealth funds. According to him, the principles of transparency are the result of the joint efforts of sovereign wealth fund managers in developed economies and





emerging markets to create a comprehensive framework that provides a clearer understanding of fund activities. [5]

The Linaburg-Madwell Transparency Index was developed by Carl Linaburg and Michael Madwell of the Institute for Sovereign Wealth Funds to assess the transparency of sovereign wealth funds. [6]

Materials and Methods

The main purpose of the study is to develop scientific and practical proposals and recommendations to ensure maximum transparency of the Fund for Reconstruction and Development in the country as a result of studying and analyzing the criteria for ensuring maximum transparency, which is the main criterion for assessing the effectiveness of sovereign wealth funds. Comparison, grouping, and economic statistical methods were widely used in the research process. As a result of the study, conclusions were made on ensuring maximum transparency of the Fund for Reconstruction and Development, and scientific and practical recommendations were developed to ensure the transparency of the Fund's activities.

Results

The need to ensure the transparency of sovereign wealth funds is explained by the formation of sovereign wealth funds on

the one hand, and by the efficient use of fund funds on the other.

We can see from world practice that in most countries the income of sovereign wealth funds is formed on the basis of funds from the export of strategic products and gold and foreign exchange reserves. The fact that not only the current generation but also future generations have a contribution to these sources of funding shows the need for transparent governance.

Transparency of the Fund's activities is an important factor in the effective use of sovereign wealth funds, ensuring the purposefulness, targeting of funds, prevention of looting of funds.

In world practice, the criterion for ensuring maximum transparency in assessing the effectiveness of sovereign wealth funds is one of the main criteria, and two different methods of determining it are common.

The first method is the Linaburg-Madwell Transparency Index, developed by Carl Linaburg and Michael Madwell of the Institute of Sovereign Wealth Funds as an understandable indicator of the level of transparency or information transparency of sovereign wealth funds.

The Linaburg-Madwell Transparency Index includes 10 indicators and is evaluated on the principle of adding 1 point to each completed indicator. We can see these figures in Figure 1 below.



- +1 •History of the Fund, the reasons for its formation, a description of the sources of formation of financial resources, the composition of state property
- +1 •Presentation of the results of independent audits of the Fund's annual reports
- +1 •Provision of information on the share of the Fund in the property of the holding companies and the geographical location of the holding companies
- +1 •Provision of information on the market value of the fund's investment portfolio, fund's return, risk, as well as fund management costs
- +1 •The degree to which the Fund implements an investment policy with an obligation to adhere to ethical standards of investment
- +1 •The activities of the Fund are based on clear goals and strategies
- +1 •Provision of the Fund's subsidiaries and their contact information (if any)
- +1 •Availability of external managers managing the Fund's assets (if any)
- +1 •The Foundation owns its own website
- +1 •Provide the address and contact information of the head office of the Fund. For example, fax and telephone numbers for inquiries about the activities of the sovereign wealth fund.

Figure 1. Indicators of transparency of sovereign wealth funds [7]

Sovereign funds with a high Transparency Index of 10 points are in Norway, New Zealand, Chile, Singapore and other

countries. The transparency index of countries with sovereign wealth funds can be seen in the figure below (Figure 2).

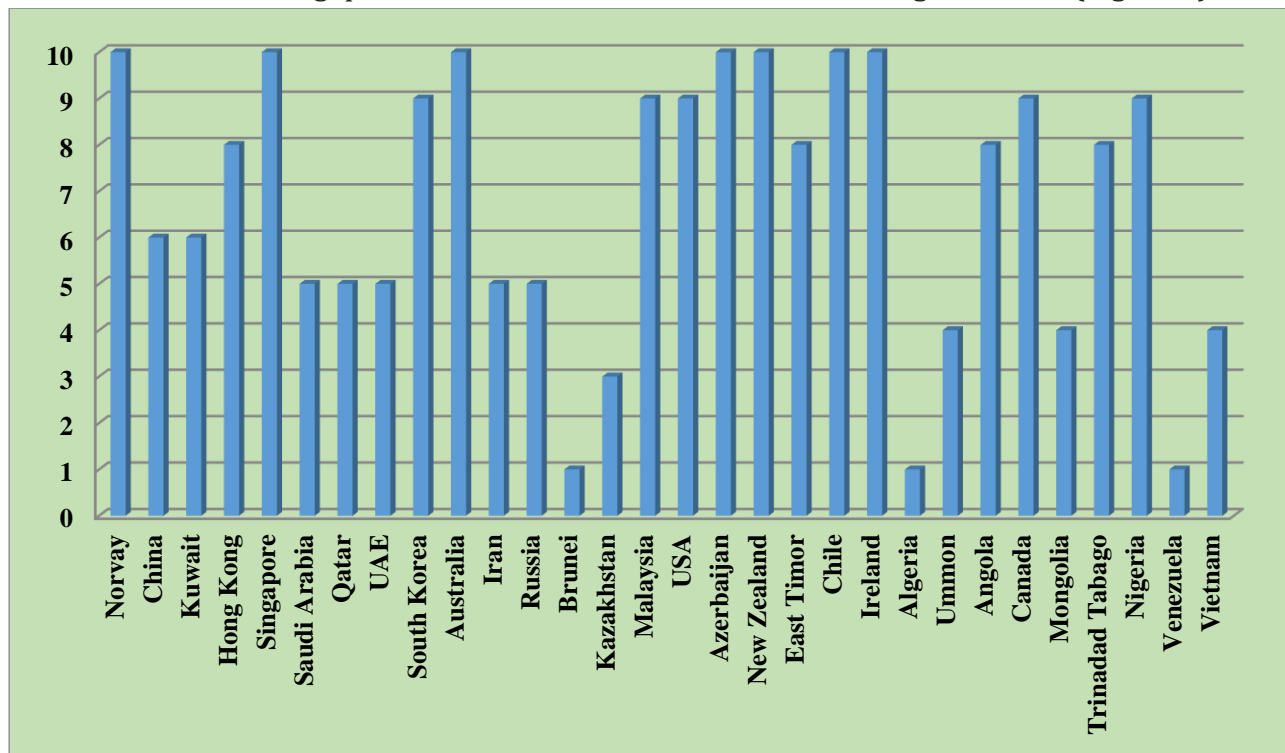


Figure 2. Linaburg-Madwell transparency index of some countries with sovereign wealth funds [7]



As a result of the analysis of the above picture, it will be possible to draw the following conclusions.

First, the sources of revenue generation are explained by the fact that sovereign wealth funds that are not dependent on resource sales are generally open to funds formed from the export of natural resources, while closed sources that are dependent on resource sales are closed to non-dependent funds.

Second, the transparency of sovereign wealth funds has geographical aspects. In general, European, American, Australian sovereign wealth funds are relatively open. These include the Azerbaijan Oil Fund, the Norwegian Global Pension Fund, the Future Fund of Australia and others. Sovereign funds in the Middle East, Asia and Africa are relatively closed. These include the Venezuelan Macroeconomic Stability Fund, the Brunei Investment Agency, the Oman State Reserve Fund, and others.

The transparency index is not defined at all because about 30 sovereign wealth funds in the world today do not publish data. In particular, there is no transparency index for the activities of sovereign wealth funds from Central Asia in Uzbekistan and Turkmenistan.

If we look at the index of transparency of sovereign wealth funds in countries where the sovereign wealth of the Fund depends on the export of raw materials, we can see that in Kazakhstan, Saudi Arabia, Qatar, Iran, Kuwait and Russia this figure is 5 points.

The second way to determine the transparency of sovereign wealth funds is the Santiago Principles, which are based on generally accepted rules approved by the 26 member countries of the International Monetary Fund. [7]

The principles of transparency are the result of the joint efforts of sovereign wealth fund managers in developed economies and emerging markets to create a comprehensive framework that provides a clearer understanding of fund activities. The Santiago Principles represent generally accepted rules and practices that adequately reflect the goals and investment activities of sovereign wealth funds.

These principles are based on the following fundamental positions:

- support for a transparent and robust organizational structure of fund management, including risk management and accountability, and appropriate operational control;

- ensuring compliance with all legal norms on the disclosure of information disclosed in the countries where investments of sovereign wealth funds are made;

- guaranteeing that sovereign wealth funds will invest only in terms of economic and financial risk, as well as in terms of profitability;

- promoting the stability of the global financial system and supporting the free flow of investment and capital.

The Santiago Principles include 24 principles. We can conditionally divide these 24 principles into three major groups:

- Compliance of the legal framework, objectives and financial resources of the funds with the macroeconomic policies of the country;

- Institutional bases of funds and principles related to the management structure;

- principles applicable to investment and risk management systems.

Many states with sovereign wealth funds are unable to implement even 50 percent of the Santiago principles. Such





sovereign wealth funds come from the Middle East, Asia, the Russian Federation and other countries. At the same time, it should be noted that the Fund for Reconstruction and Development of the Republic of Uzbekistan is one of the sovereign wealth funds without maximum transparency.

Discussion

In our opinion, the lack of transparency of the Fund for Reconstruction and Development of the Republic of Uzbekistan has the following disadvantages:

First, due to the fact that the Fund for Reconstruction and Development is part of the consolidated budget and is accountable to the people for its activities, the funds of the Fund are also equal to the budget. The requirements of the Principle of Transparency set forth in Article 17 of the Budget Code are equally applicable to the activities of the Fund, and despite the fact that it has been established for 13 years, this principle has not been implemented;

Secondly, the Action Strategy of the Republic of Uzbekistan pays special attention to ensuring the transparency of information on public funds, despite the fact that President Mirziyoev prioritizes the principle of openness and transparency in all areas, the slow pace of work in this area;

Third, the low level of openness and transparency in the development and implementation of state and regional programs, investment projects in this area allows the misuse and inefficient use of funds from the fund, as well as various cases of abuse;

Fourth, inefficient use of the Fund's resources, failure to take into account the effectiveness of investment projects, the presence of risks of looting and so on.

Conclusion

Based on the above, in order to ensure the openness and transparency of the Fund for Reconstruction and Development of the Republic of Uzbekistan, special attention should be paid to the publication of the following information on the Fund's activities:

- The history of the Fund, the reasons for its formation, a description of the sources of funding, the composition of state property;

- Publication of quarterly and annual reports of the Fund;

- The annual reports of the Fund provide the results of independent audits;

- Participation of the Fund in the charter capital of corporate structures (business associations) and evaluation of their effectiveness;

- Provide information on the investment portfolio of the Fund and its market value, return on capital, risk, degree of diversification, as well as management costs of the Fund;

- Provide the Fund with the scope and geography of investment activities (only for one country, region or foreign countries);

- Information on projects implemented jointly with other institutions;

- The level of implementation of investment policy with the obligation of the Fund to comply with the ethical standards of investment;

- Availability of external managers to manage the Fund's assets (if any);

- Compliance of the Fund's website with the basic requirements of the official website of state and economic administration bodies, local state authorities.

The removal of restrictions on the official publication of information on the Fund's activities and the priority given to





the above in ensuring transparency will ensure compliance with the above international principles.

This will allow the Republic of Uzbekistan to obtain a sovereign credit rating and fully demonstrate the economic

potential and investment attractiveness of the country for international rating agencies and investors, as well as increase public confidence in the state and strengthen the confidence of domestic and foreign investors.

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