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Tightening the chain:

How the Norwegian Government Pension Fund Global can make investments more responsible

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Preface

This Master thesis is written as the final part of the Master's programme in International Development Studies at the Norwegian University for Life Sciences, and counts for 30 ECTS points.

The topic of this thesis is inspired by the work done by a number of organizations in Norwegian civil society, some of which I have been fortunate enough to work with. For as long as the Government Pension Fund Global has existed, organizations have worked to ensure that financial gains are not the only concerns of the investment managers, and to inform the Norwegian population of how their pension is being invested. Without these organizations, it is unlikely that the GPFG would have taken the steps it has to become a responsible investor.

I would like to thank all of my respondents for taking time from their busy schedules to meet with me and assist me in the creation of this thesis. Their names are listed in the thesis, and I appreciate the input and assistance from all of them. I would also like to give special thanks to Changemaker Norway for providing me with the stipend that enabled me to go to the Netherlands to conduct interviews, and for giving me the opportunity to write a report based on the findings in this thesis. In particular, I would like to thank Tuva Krogh Widskjold and Mina Hennum Mohseni for assisting me in finding a direction for the thesis and the subsequent report.

To my supervisor, Bill Derman, I am most grateful for the support and discussions we have had in the process of writing this thesis. You have always helped me pave out a path when I have felt stuck in the process. Your insight, reflections and questions have provided valuable perspectives and I know the thesis is a stronger work because of it.

A special thank you to my family and friends for your support and understanding when I have been absorbed in my own thoughts working with this thesis. I am grateful for my wife Ingrid, your encouraging words and patience during stressful days of writing has kept my spirits up. And finally, I want to say thank you to my son Mikael; you are my inspiration and my hope is that my generation will leave you a world where nature and human beings are truly valued higher than material goods.

Abstract

The Norwegian government pension fund is the largest sovereign wealth fund in the world today, holding values of more than 7800 billion Norwegian Kroner. The fund has chosen a responsible investment strategy that relies heavily on company dialogue, but what happens when companies fail to change behavior and live up to the expected standards that the fund has for its investments? This thesis investigates the tools the fund has in place to ensure that investments are made responsibly, with special attention paid to the expectations document on water. Comparing the practices of the fund with other investors, and using input from civil society actors as well as actors previously involved in the development of responsible investment practices of the fund, this thesis discusses how the fund can strengthen its responsible investment strategy further. The conclusions suggest that more transparency regarding the implementation of the responsible investment strategy is needed if the fund is to strengthen this strategy. It is also necessary for the different tools in the investment strategy to be more closely connected. Finally, this thesis proposes six policy recommendations that can be considered by the fund in developing its responsible investment strategy.

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Abbreviations

CSR – Corporate Social Responsibility
ESG – Environmental, Social and Governance factors
FFG – Fair Finance Guide
FIVAS – Norwegian Association for International Water Studies
FIVH – Future in Our Hands Norway
GPFG – Government Pension Fund Global
KLP – Kommunal Landspensjonskasse (Norwegian institutional investor)
NBIM – Norges Bank Investment Management
PFZW - Stichting Pensioenfonds Zorg en Welzijn (Dutch pension fund for the health and care sector)
PGGM – Dutch investment manager, managing the PFZW
PRI – Principles on Responsible Investments
RI – Responsible Investments
SDGs – Sustainable Development Goals
SRI – Socially Responsible Investments
VBDO – Dutch Association of Investors for Sustainable Development

1.0. Introduction

1.1. Background

The background for this thesis has been a personal interest in understanding the responsibility investors have for the sustainability of their investments, and to understand to what extent large institutional investors turn this responsibility into practice. As a Norwegian citizen, the investments of the Norwegian Government Pension Fund Global (GPFG) affect me as the fund is created to secure the pensions of myself and all other Norwegian citizens. This means that if the fund invests in unethical behaviour I am personally benefitting from it. This has given me a personal interest in the funds work on responsible investments.

On a more global level, the funds status as the world's largest sovereign wealth fund gives it an influence on the world that is unmatched by any other area of Norwegian policy. With the fund invested in thousands of companies and operations all over the world, it seems almost impossible for the fund not to make an impact on the development of individuals and communities. The funds impact on water management caught my attention for two reasons. Firstly, it is an area already stated as a focus area for the GPFG. Second, the right to water is one of the most fundamental human rights because no human life can be sustained without water. At the same time, water has been identified as a resource under increased pressure (United Nations Water 2007). With water being an input factor in practically all industries, it seems clear to me that the business world will have a role to play in challenging the threat that is posed by increased pressure on water resources. I further saw a connection between NBIM and water issues because the fund is such a large investor with assets in almost 9000 companies worldwide. I wanted to research what responsibility a fund like NBIM has according to international frameworks, and I wanted to investigate what measures the fund takes to meet these responsibilities.

Knowing the size of the fund, and that it is often referred to as a leading actor among investors when it comes to sustainable responsible investments, I was curious to find out what tools were in place to ensure that their investments really are sustainable and how the fund works to address issues of water management and the social responsibility held by businesses. I was also curious because, despite the leading role the fund has, there is pressure among a wide range of civil society organizations to strengthen its work on responsible investments.

Therefore, I wanted to hear the views from some of these organizations on how the fund could improve its work in this field. I also wanted to hear from other leading investors how they work to ensure their investments are responsible. Finally, I wanted to hear the perspectives from people who were involved in developing the strategies for responsible investment strategy of the fund but are no longer involved with the fund, as well as professionals within the field from other settings that could have a fresh view on the topic. I wanted to use all these different perspectives to understand where the fund can still improve, and suggest policy changes to strengthen this work.

1.2. Historical background

The discovery of oil on the Norwegian continental shelf on Christmas Eve 1969 changed the financial fortunes of the country (Larsen 2005). While already a well-established social democracy at the time, the revenues of oil and gas production have allowed for the expansion of a strong welfare state and the opportunity to save portions of the revenues for future generations. The need to preserve this welfare model for future generations, and to avoid the so-called Dutch disease, caused Norwegian parliament to establish its national sovereign wealth fund, a motion that was passed by parliament in 1990 (Lie 2013). The first instalment was made in 1996 and was invested in government bonds. The next year, Parliament decided to invest 40 % of the funds value in equities, and in 1998 NBIM was established to manage these investments (NBIM 2016a).

With the decision of investing in equity markets came the discussion on whether there should be any limitations to such investments. While this topic was already on the political agenda, it gained further traction with revelations from civil society organizations of investments made in companies that violated human rights and contributed to environmental degradation (RORG Network 2017). These revelations subsequently led parliament to establish a panel to develop a public report (NOU). The work was led by Hans Petter Graver, a professor of law at the University of Oslo, and the commission presented their report in the summer of 2003. The report suggested the establishment of ethical guidelines for the investments of the GPFG as well as the creation of a Council on Ethics to help the fund in upholding these guidelines (NOU 2003:22). The Norwegian Parliament accepted the suggestions presented by the report, and both the ethical guidelines and the Council on Ethics were introduced in 2004. The ethical guidelines limit the financial mandate of the fund by introducing certain criteria for what the

fund can and cannot be invested in. The guidelines concern specific production industries such as tobacco and controversial weapons such as nuclear arms, as well as guidelines for company behaviour with regards to issues such as corruption, environmental damage, and human rights violations. The funds' mandate states that these principles are based on internationally recognized frameworks such as the UN Global Compact and the OECD guidelines for multinational enterprises.

After a new series of revelations tied the funds' investments to child labour, an expectation document on company behaviour to avoid child labour was introduced in 2008. This was the first document of its kind and was followed up by similar documents on water, climate, and more recently on human rights. Water management was included as an area of focus by NBIM in 2009. Since then, the fund has reported annually on their dialogue with companies and how they implement their expectations, as they do with all their documents of expectation. An expectation document on transparency and international tax regimes was introduced in April of 2017 (NBIM 2017a). The expectation documents on water, climate change and child labour were all updated in 2015.

The Norwegian Government Pension Fund Global, popularly known as the Oil Fund, has now grown to become the world's largest governmental pension fund. At the time of writing, the fund holds values exceeding 7300 billion NOK. The majority of the fund's assets, around 60 % of the value, is invested in equity holdings in around 9000 companies worldwide. It is this part of the fund that will be of interest for this thesis. Furthermore, the fund is split up in investments in equities, fixed income securities, and real estate (NBIM 2016a).

The main objective of the fund, as stipulated in the funds mandate, is to ensure the highest possible financial returns for future generations, within the limitations set up for the fund (Norwegian Ministry of Finance 2010). The fund was created in the acknowledgement that the incomes from non-renewable resources like oil would not last forever. The intention is to save the vast majority of these profits for a future where oil revenues are no longer available. Therefore, the fund's mandate to create as large revenues as possible is restricted by the boundaries of moderate risk (Norges Bank 2016a). The funds mandate is therefore a purely financial one, but with an ethical principle of intergenerational justice where the rights of future generations are secured. Furthermore, NBIM's mandate considers in section 1.1.3 that *"a good long-term return is considered dependent on sustainable development in economic, environmental, and social terms, as well as well-functioning, legitimate and efficient*

markets" (Ministry of Finance 2010). With this, the funds mandate explicitly identifies a correlation between economic returns and sustainable development. To achieve this, the same paragraph reads that *"The Bank shall integrate its responsible management efforts into the management of the GPFG"*.

In addition to the principle of intergenerational justice, the fund has implemented several tools over the years intended to secure that the funds' investments are in correlation with economic, environmental, and social sustainability. These tools include the expectation documents, which will be discussed in this paper, and the voting guidelines for how the fund should vote in general assemblies. The development of these tools, and of the investment practices in general, has by some observers been labelled *"conservative innovation"* (Agenda 2017). The fund has been described as one of the pioneers among publicly owned investors for their efforts to implement standards for responsible investments in their activity (Jensen 2016; Ghahramani 2014). Former president of the European Union, José Manuel Barroso labelled the fund *"the golden standard for national investment funds"* (Norsk Rikskringkasting 2008). Despite this praise, many civil society organizations would claim that the fund does not do enough to ensure that it's investments are not only profitable, but also ethical. I will present some examples of this in chapter 1.5 of this thesis.

1.3. Norway as a promoter of human rights

The promotion of human rights has, together with the support for the UN, been an essential part of Norwegian foreign policy for decades (Lie 2006). The government's own webpages state that *"the promotion of human rights and democratic principles is at the heart of Norwegian foreign policy"* (Ministry of Foreign Affairs 2017). For as long as the GPFG has existed, human rights have also been an important element of Norwegian foreign policy. In 1999, the centrum-coalition government produced a white paper titled "Menneskeverd i sentrum: Handlingsplan for menneskerettigheter" which stated that *"human rights are for all individuals, whether or not they live in Norway or in other parts of the world"* (NOU 1999:21:3). The political platform of the current conservative government states that respect for human rights as one of the goals for the governments foreign policy, as well as one of the tools to promote development (Høyre & Fremskrittspartiet, The Sundvolden Platform 2013). Similarly, the previous government led by the Labour party, the Socialist Left Party and the Centre party stated the promotion of human rights as one of its main goals in its foreign policy work (Arbeiderpartiet, Sosialistisk Venstreparti & Senterpartiet, Soria Moria Platform II

2009). Regardless of political colours, the promotion of human rights has been expressed as a main element of Norwegian foreign policy over the last twenty years.

There is a broad consensus among Norwegian politicians that the GPFG should not be used as a tool to promote Norwegian foreign policy, as was the fear among some investors when the fund was first created. This was also a concern when the Graver commission presented their suggestions (NOU 2003:22:18). However, the report from the Graver commission also states that *"it is the opinion of the commission that the management of the Petroleum Fund should be in accordance with and support Norwegian foreign political targets to the extent that the management of the fund can serve such a function"* (NOU 2003:22:91). While the fund should not be used to promote certain political interests, it should also try to avoid working against the principles that Norway promotes in its foreign policy.

The mandate of the GPFG does not mention the concern presented by the Graver Commission specifically, but the ethical guidelines can be understood as a description of the actions and behaviour that work against Norwegian foreign policy principles. However, the guidelines form part of the Council on Ethics area of responsibility and as such do not form part of the active monitoring of the fund. For the active engagement, it is the funds expectation documents that provides the most specific description of how the fund intends to avoid working against other foreign policy principles.

1.4. Key elements of the responsible investment strategy

Before analysing the funds strategy on responsible investments, it is necessary to identify and understand the key elements of this strategy. The fundamental principle to the work of NBIM is that it is possible to combine the superior goal of achieving economic returns with an ambition to maintain its position as a sustainable investor. When the fund first gained ethical guidelines, it stressed that there was no contradiction between financial interests and sustainability (NBIM 2005). This is also reflected by the report provided by the Graver commission, which stated that *"in a number of situations, there is concurrence between the wish for long-term returns and other ethical obligations"* (NOU 2003:22:15). From this ideal, the strategy is divided into what the Graver Commission called the *"three-part approach"* (NOU 2003:22:23).

The first element of the three-part approach is the active ownership. Going through NBIMs webpages, the first headline you see when browsing through the responsibility section is "*We*

are an active owner" (NBIM 2016b). Active ownership must not be mistaken for active investing. The first describes the dialogue and engagement an investor has with the companies it invests in (Dimson et. al. 2015), while the latter describes owners who actively search the market for the most profitable companies to be invested in (Grinold & Kahn 2000). It is within the active ownership that we find most of the tools used by NBIM in its strategy for responsible investments, such as dialogue, voting in general assemblies and the use of expectation documents. The active ownership strategy is based on the reasoning that one can achieve more through changing the behaviour of companies than through simply selling out. The funds mandate obliges NBIM to report on *"The work on responsible management… including use of instruments and the effect of the ownership work, and how the principles for responsible management are integrated into the management"* (Norwegian Ministry of Finance 2010). It is also within the means of the active ownership to divest if the risks related to a company are too grave. Unlike exclusions from the Council on Ethics, NBIMs decision to divest does not have to be grounded on specific evidence. Divestment is therefore a tool that requires less resources, but it also provides less transparency on the reasons for divesting.

The second element of the investment strategy is that of negative screening. This mechanism is based on production criteria and excludes companies that produce product such as controversial arms or tobacco from the investment universe of the fund. The decision on what products should be subject to negative screening lies in parliament and is therefore a political decision. From 2016, the fund has also included coal to the list of products it wishes to avoid (NBIM 2017b). Companies receiving more than 30 % of their incomes from coal production or use of coal are to be avoided.

Finally, there is the element of exclusion based on moral grounds. In the ethical guidelines, this is exclusion of companies where there is "*an unacceptable risk that the company contributes to or is responsible for… serious violations of fundamental ethical norms".* It is for this element that the Council on Ethics was created: to monitor the portfolio of the fund and identify companies that violate the ethical guidelines and to provide recommendations to NBIM based on thorough research of these companies. The Council of Ethics is an independent council, with members nominated by NBIM but appointed by the Ministry of Finance. The council has five members, including Chair and co-Chair of the Council, whose expertise is a combination of international law, humanitarian law, and economy. The Council has a secretariat responsible for investigating and preparing cases, while the Council itself is responsible for providing recommendations based on thorough analysis and dialogue with

companies. It is important to note that while the Council on Ethics provides recommendations on exclusions, the final decision lies with NBIM. The recommendations from the Council of Ethics are made public together with the final decision made by NBIM.

1.5. Problem statement

While it may be correct that there is often a concurrence between long-term economic profit and ethical obligations, one would have little trouble in pointing out cases in which the financial interests of the fund do contradict with environmental interests or labour rights interests. One such example is presented by the Norwegian Association for International Water Studies (FIVAS) in their report named "Dead in the Water" (FIVAS 2014). The report looks at the funds' investments in Coca-Cola and three specific cases where the company was accused of hindering local communities access to water at their plants in India. In these situations, the fund finds itself in a position where it should choose between two of its principles. They can decide to stay invested, often arguing that they want to change company behaviour through dialogue (NBIM 2016b), or they can decide to divest and exclude the company from their investment portfolio if they find that the activities of the company cannot be defended morally. The criticism often voiced from civil society is that when they find themselves in these situations, the fund will usually let financial interests trump other interests (Changemaker 2012; Rainforest Foundation Norway & Friends of the Earth Norway 2012).

A report ordered by the ministry of finance to develop the investment strategy of the fund maintained that while the fund should not be a tool to reach political goals, it nonetheless saw a "*need for principles and ethical considerations that may not have financial effects on the Fund's performance"* (Dimson et. al. 2013). From this statement, it is evident that there will conflicts of interests between the financial targets of the fund and its' ethical obligations. Such conflicts are common to the world of responsible investment (RI), where financial values are always balanced against contradicting values (Dumas & Michotte 2014). As Deva points out, if there really was a business case for human rights in all investments and to all businesses, one would perhaps not have all the debate around businesses and their obligation to respect human rights (Deva 2016).

The report on the fund's investments in fossil fuels presents several arguments for why mere exclusion of companies is seldom an efficient tool for changing company behaviour. Like many other fund managers, the GPFG prefers to promote slow change from rather than to pulling out its investments in a company. This is also expressed within the funds principles

for responsible investment management (NBIM 2016c). There are several tools available to investors wishing to invest in in sustainable and socially responsible ways. While the basis for this paper will be to look at a specific tool, documents of expectation, the paper also intends to point to other tools that may strengthen the implementation of the funds expectations. Therefore, it is relevant to be aware of the set of the tools used by the GPFG.

Many of the tools used by the GPFG today can be directly connected to the implementation of expectations. Per their own reports, the GPFG use active ownership through active voting and dialogue, as well as contributing to standard setting measures and collaboration with other investors. The focus of this thesis will primarily be on the role of active engagement and dialogue in the ownership strategy, and what measures are taken when dialogue does not provide the expected results. While the fund intends to use its voting privileges in all the companies it is invested in, it admits that they are only able to follow up dialogue with the largest companies as well as companies in certain sectors (NBIM 2016d). Relevant questions I have investigated are what the dialogue entails, what considerations are made when companies fail to change behaviour, how NBIM reports on their company engagement, and how the Council on Ethics is included in the chain of tools. These questions formed the basis for the findings and the analysis in this thesis, and the policy recommendations in the conclusion of this thesis addresses these issues.

Other tools available to the fund include negative and positive screenings. Negative screening refers to the practice of refusing to invest in companies based on certain criteria (Statman 2007). The GPFG uses this tool to avoid investments in products such as tobacco, cluster bombs and nuclear arms (NBIM 2016d). This is opposite of the practice of positive screening. Rather than focusing on excluding worst performers in a segment, positive screening supports investing more in best-practice companies. This solution is suggested by Krosinsky, among others, who argues that simply divesting is to rid oneself of the responsibility to change (Krosinsky 2016). Another tool available to investment funds is impact investments. In these cases, funds will invest in a particular company or sector in order to make what it considers to be a positive impact on the market. Because the mandate of the fund limits the size of individual investments through the principle of moderate risk, it will also limit the funds opportunity to make impact investments.

Table 1.1 NBIMs mandate, section 1-3

SECTION 1-3 THE MANAGEMENT OBJECTIVE
(1) The Bank shall seek to achieve the highest possible return after costs measured in the investment portfolio's currency basket, see section 4-2, first paragraph, and within the applicable management framework.
(2) The Fund shall not be invested in companies excluded pursuant to the provisions in the Guidelines for observation and exclusion from the GPFG.
(3) The Bank shall integrate its responsible management efforts into the management of the GPFG, cf. chapter 2. A good long-term return is considered dependent on sustainable development in economic, environmental and social terms, as well as well-functioning, legitimate and efficient markets

1.6. Objectives and research questions

The main purpose of this thesis is to examine how expectation documents are used in the GPFG, to what extent these documents are implemented and to compare the GPFG to other funds to see if there are ways the fund can strengthen its' ability to implement expectations.

Objective 1: To assess what measures NBIM employ to implement its expectations to companies concerning water sustainability.

Objective 2: To assess how the fund lives up to its mandate of creating a chain of tools in its responsible investment strategy, and suggest how this chain of tools can be strengthened.

Objective 3: To propose other tools of active ownership that can be used to strengthen the implementation of the expectation document.

1.7. Structure

Having introduced the background, problem statement and objectives of this thesis, the

following chapter will explain some of the steps taken to narrow down the focus of this paper. Chapter three will present a brief overview of some of the existing literature the topics discussed in this thesis, while chapter four will present the contextual framework including relevant theories. Chapter five will present the methodological approach of the paper. In chapter six I have presented what I find to be the key findings in the interviews in the documents I have examined. Chapter seven presents briefly introduces the actors I have interviewed and presents the major findings from the interviews I have performed. Chapter eight will then discuss the findings presented in chapter six in relation to my objectives. Finally, chapter nine will present some policy recommendations based on my findings as well as a brief summary and prospects for future research.

2.0. Scope of the study

The field of responsible investments is very wide and it would be impossible for a thesis like this to cover all aspects of it. Even within the GPFG, the discussions on how to be a responsible investor are too many to discuss them all in one paper. It is therefore necessary to narrow down this paper to some specifics that can be identified and studied.

2.1. Differentiating funds and investments

The field of investments is enormous, with a seemingly endless number of funds and investors organized in various ways. In order to compare the GPFG to other funds, it is necessary to narrow down this universe of actors to those that are comparable to the GPFG. First, there is the difference between a passive and an active investor. An active investor is defined as an investor actively altering its portfolio to yield in order to beat the market average. Passive investors on the other hand spread their assets out across the market, following the movements of the market. The last couple of decades has seen a rise in passive, institutional investors (Appel et. al. 2016). NBIM is largely a passive investor as it seeks broad exposure in its investments, but it does actively seek out sectors and companies expected to yield good returns (NBIM 2016e). Due to the size of NBIM and similar funds, they tend to have assets spread over broad and diverse sectors, and they tend to be international as they have to look globally to find enough companies suitable for investments (Hawley 2016). This makes the fund a universal investor, spreading its assets in a little bit of everything.

Second, the GPFG is a pensions fund with a stated long-term investment horizon. This differentiates it from mutual funds investors, as well as some other institutional investors, because its investment horizon stretches much further than for short-term investors (Neubaum & Zahra 2006). Funds with short-term investment horizons may make different considerations than long-term investors on what is profitable and financially sustainable business. It is therefore only relevant to compare the investment strategies of the GPFG to other pension funds with similar, long-term investment horizons.

Third, the GPFG is an institutional investor as opposed to a private investor. This is a relevant differentiation because it affects how beneficiaries of the fund can interact with the fund. Members of private funds can withdraw their money and place them elsewhere should they disagree with the investment strategies of the fund, but this option is not available to beneficiaries of institutional funds. As such, stakeholders of institutional funds depend on the funds to provide them with ways of interacting and affecting investment strategies.

Finally, the GPFG is not a regular institutional investor, it is a sovereign wealth fund with a responsibility to the population it is saving money for. This gives the fund a political dimension that even most institutional funds lack. In the case of the GPFG, the person with the final responsibility for the management of the fund is the Minister of Finance, an elected politician responsible for carrying out the decisions of an elected Parliament.

Because the GPFG is the largest fund of its kind, and unique in Europe due to its model and size, it is difficult to find funds of a similar mold to compare it to. For the purposes of this paper I have therefore chosen to look at other large pension funds managers in Norway and in the Netherlands, that have taken a similar stand as the GPFG in terms of taking a leadership role on responsible investments.

2.2. Negative and positive investments

One of the most widely discussed topics the topic of responsible investments at the moment is the potential of funds to make positive impacts with their investments. This has also been discussed with regards to the GPFG. There is for instance an ongoing discussion on the possibility of investing parts of the fund in unregistered infrastructure, and on moving parts of the portfolio to be invested in developing economies (Agenda 2017). While these kinds of positive impact investments are certainly interesting issues, it will not be debated in this paper as it has more to do with which sectors and companies are considered to have impacts on development, and less to do with active engagements with companies.

2.3. Why expectation documents?

My impression when starting the work on this thesis was that the use of expectation documents is something quite unique to the GPFG. This impression was confirmed as I did my interviews. None of the representatives from funds I interviewed said that they used such documents and none of the Dutch civil society organizations I interviewed were familiar with the practice either.

NBIM's use of and implementation of such documents, and whether other funds worked with similar documents, seemed like an area worth investigating. Knowing that civil society had worked hard for the creation of such documents, it also seemed relevant to understand why these organizations considered expectation documents to be important in the funds responsible investment strategy. The focus on expectation documents has seen something of a revival among civil society organizations in the last couple of years. In 2016, the Rainforest Foundation and other Norwegian civil society organizations collaborated on a successful

lobby campaign to introduce an expectation document on human rights for the fund (Regnskogsfondet 2016), and an expectation document on transparency and tax regimes was introduced in April of 2017 (NBIMc 2017). Expectation documents are therefore tools that are considered important among civil society actors, and it seems relevant to investigate the application and effect of such documents.

2.4. Why water?

Some of the expectation documents the fund uses have very wide range, such as the documents on climate change and on human rights violations. Compared to these, the topic of water management is more concise and easier to investigate. Therefore, it seemed the most fitting to conduct this type of research on. Water is also interesting as a resource as water can be a contested resource, and one that virtually all industries depend upon. As NBIM expresses it in their expectation document on water *"Water is an input in a number of processes for many sectors. Companies depend on water in their direct operations or through their supply chains or products' lifecycle"* (NBIM 2016f:1).

Nevertheless, water is not among the most common areas of focus on responsible investments and water management as criterion for responsible investment monitoring is not yet mainstreamed among investors. In fact, the decision to include this as an area of focus in 2009 made NBIM something of a pioneer in this respect. While funds like Storebrand and PFZW have water management implemented in their responsible investment criteria, other leading investment managers such as KLP do not. The relevance of NBIM having an expectation document on this area is therefore significant.

The relevance of water as a resource reaches far beyond water as an input factor in production. From a development perspective, water is an important element in human development and access to clean drinking water as a fundamental human right. Water scarcity is recognized as an increasing threat to both the world economy (World Economic Forum 2016) and to human development (United Nations Water 2007). Simply put, water is fundamental to human life and lacking access to water severely inhibits human development.

The human right to access to clean water is established in several human rights frameworks. In 2010, the United Nations General Assembly adopted resolution 64/292, recognizing safe and clean drinking water and sanitation as an essential human right (United Nations 2010). The UN framework on the right to water was further strengthened by resolution 70/169 which further specified that *"the human right to safe drinking water entitles everyone, without*

discrimination, to have access to sufficient, safe, acceptable, physically accessible and affordable water for personal and domestic use" (United Nations 2015a:4). As I will present further in chapter six, businesses responsibility to respect the right to water is explored in both the UN guiding principles on business and human rights, as well as in the water stewardship of the UN global compact.

Furthermore, water is a key element in sustainable development, and this is reflected in the entire Sustainable Development Goals (SDG) agenda. One can argue that almost all the 17 SDG goals have a direct or indirect link water as a resource. In addition to goal six, which speaks of the right to water and sanitation, it is also relevant to for instance goal 3 which covers health, with target 3.9 aiming to *"substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination"* (United Nations 2015b:16). Water scarcity is addressed in the sustainable development goals, with target 6.4 calling for improved efficiency in the use of water resources across all sectors as well as a reduction in the number of people suffering from water scarcity (United Nations 2015b). Water is also an important element in achieving goal 12 of the agenda, which covers sustainable consumption and production patterns.

The huge impact agriculture has on water resources ties this to goal 2 in the agenda, which not only covers ending hunger but also aims to promote sustainable agriculture. With 20 % of the worlds' water consumption coming from industry, and another 70 % from farming which is often industrialized (United Nations Water 2015), investors have a very real opportunity to impact water efficiency if they put forth expectations for the companies they invest in. Investors also have a role to play in pressing companies to avoid potentially harmful operations in areas where water can be a contested resource, such as in cases where there is danger of water grabbing. As Franco et. al. point out, the business strategies of large multinational corporations may pose a risk of *"potential re-allocation of water to the 'highest economic value' having detrimental impacts on local lives, livelihoods and water and food security"* (Franco et. al. 2013:1668). Being the largest investment fund of its kind, NBIM's standards and practices on water management have the potential to influence these companies to refrain from pursuing strategies that can have detrimental effects on people's access to water, as well as being an influence on many other investors.

Finally, water as a criterion also seemed relevant as it is something that NBIM has had as a focus area for a few years, and yet it is the only expectation document that is not accompanied

by specific criterion in the funds ethical guidelines. This means that the fund cannot exclude companies from the portfolio or the investment based on them breaching expectations on water management. The lack of such a criterion to use as a method of sanction when companies do not meet expectations suggest that there is a discrepancy in the ownership strategy when it comes to the implementation of the funds expectations when it comes to water management.

2.5. Why Netherlands?

The Norwegian responsible investments landscape is dominated to a very large degree by NBIM. Although investment funds such as KLP and Storebrand can provide some basis for comparison, the dominance of NBIM is so strong that most other actors in Norway follow their practices (Jensen 2016). Therefore, I felt that the paper would benefit from including perspectives on how responsible investments are practiced by investors outside the Norwegian context. There are no large government pension funds to speak of in Europe, other than the GPFG. This meant that I had to look to other types of public pension funds for similarities. I decided to look to Dutch funds because of the country's reputation as a progressive force in terms of responsible investments. Institutional funds such as the National Civil Pension Fund (ABP) and Stichting Pensioenfonds Zorg en Welzijn (PFZW), as well as the commercial bank Triodos, have been at the forefront of the development of responsible investment strategies, well guided by civil society organizations such as the Dutch Association of Investors for Sustainable Development (VBDO) and initiatives such as the Fair Finance Guide Netherlands (Hachigian 2016). The Fair Finance Guide was introduced in Norway in the fall of 2016 by Future in Our Hands and the Norwegian Consumer Council.

There is an interesting similarity between the GPFG and Dutch funds because they are all mandatory for their beneficiaries. Rudy Verstappen from VBDO explained in my interview with him how Dutch funds are based on employment, either sector based, corporation based or within a certain occupation. As my respondent explained, *"in the Netherlands you can't choose your pension fund ...So, if you're working at Heineken, you can't choose to put your money in the Phillips pension fund or in the PFZW"*[1]. In many ways, this is similar to the GPFG. Norwegians cannot choose not to be included in the fund, they are included simply by means of being citizens. Interestingly, Mr. Verstappen said this in the context of why Dutch

[1] Interviewed on December 13th 2016, at VBDO offices in Utrecht, Netherlands.

funds are considered to be progressive compared to other large funds globally. Mr. Verstappen explained this in the following way:

"The pension funds are fueled by an obligation to manage the money in a proper way, it's more of a moral driver. It is because they believe that it is good finance to invest responsible, but they also feel morally obligated to listen to the participants and to take into account their wishes."

This principle of democratic participation from the recipients of the returns of the funds can be transferred to the GPFG. When Norwegians cannot themselves choose whether to have a stake in the fund or not, one can argue that this gives the fund an extra obligation to include the wishes of the population in their investment strategy. These similarities make Dutch funds relevant when trying to compare the GPFG with other funds.

3.0. Literature review

3.1. Corporate Social Responsibility

Much has been written about corporate social responsibility (CSR) over the last twenty years, and there is also an increasing literature on responsible (RI). There is a wide variety of definitions of corporate social responsibility (CSR) and what this term entails. Private companies, NGO's, and supranational entities such as the ILO and the World Bank all have their definitions of what CSR is (Crane et. al. 2014). The origins of the term go back to the 1950's and Howard Bowen, whom Carroll (1999) labels "*the father of corporate social responsibility"* (Carroll 1999:270). Carroll himself provides an overview of the development of the CSR term in this work.

Garriga & Melé (2004) provide an overview of different theoretical approaches to CSR. They present four groups of CSR theories; instrumental, political, integrative, and ethical (Garriga & Melé 2004:52-53). These categories will be further presented in chapter four of this thesis. Another attempt to classify the different understandings of CSR is found in Dahlsrud (2008), while Frederick explains what he considers to be several stages of CSR (Frederick 1998). Others have looked at why there are differing understandings of CSR in the first place. An example of this is Matten & Moon (2008) who divide CSR theory into two approaches, one European and one more commonly held in North America.

Some have criticized CSR on the basis that although companies may have provided some positive contributions for the communities they operate in, the motives of companies were seldom to have a developmental effect (Frynas 2005; Blowfield & Frynas 2005). Certain scholars have questioned the motives behind the CSR work of large companies, with one paper criticizing CSR and arguing that *"there is now a deep and profound cynicism regarding its authenticity in relation to the activities of large enterprises"* (Fleming et. al. 2013:337-338). Such criticism led scholars to realize that CSR had to be about company behaviour in their own production, not simply philanthropic endeavours to improve company reputation. In turn, the term ESG emerged, describing environmental, social, and governmental factors thought to be critical to company behaviour, particularly in long-term perspectives (Hawley 2016). This discussion of different ways of understanding CSR is further outlined in chapter four of this thesis.

However, while some businesses clearly recognize that CSR gives a responsibility for the company's impact on human rights issues, this is not the case for all. Some, like Pedersen (2010) have argued that business managers have varying understandings of what CSR entails and that many have limited understandings of the concept. A recent report by research analysts Vigeo Eiris suggests that many businesses are still not very committed to CSR and ensuring that their business behaviour does not violate human rights (Vigeo Eiris 2017). Nevertheless, Andreassen & Vinh note that there has been progress on the field of business and the respect for human rights, in part attributed to the Ruggie principles (Andreassen & Vinh 2016).

There is some literature on how the term CSR has developed in Norway. Some, such as Albareda et. al. (2008) have noted that the development of CSR in Norway has been particularly strongly connected to foreign policy and human rights work internationally. Ihlen & von Weltzien Høivik (2015) show how CSR in the Norwegian context soon spread to an understanding of the concept as something that demanded responsibility beyond the countries own borders.

3.2. Responsible Investments

It has been argued that responsible investments (RI) have been under-researched compared to other areas of research within finance (Hoepner et al. 2016). Much of what is written on RI looks at the economic performance of investment funds that follow ethical guidelines. This topic was already being discussed in the early 90's, with researchers looking at the performance of funds fronting a sustainable investment strategy (an early example is for instance Hamilton, Jo & Statman 1993). More recent contributions to this discussion include Richardson (2007), Statman (2007) and Sandberg (2013). The conclusion from the report written by Dimson et. al. for the GPFG is that existing scientific studies are inconclusive when trying to see a link between financial gains and corporate governance of companies (Dimson et. al. 2013). However, a recent study by the European Centre for Corporate Engagement (ECCE) in cooperation with Dutch investors NN Investment Partner suggests that excluding companies that perform poorly on environmental, social and governance (ESG) factors may be beneficial to financial returns (NN Investment Partners & ECCE 2016).

Other works of literature seek to unveil why funds decide to invest in socially responsible businesses in the first place (Glac 2009;), while Godfrey et. al. (2009) discuss the wider benefits that companies CSR activities can bring to shareholders. Less is written about the

actual implementation of RI, and what if any, effect it has in changing company behaviour. Zarbafi (2011) and Letourneau (2016) discuss how institutional investors such as large government funds can be drivers of change and practice responsible investments. Louche and Hebb (2014) discuss whether responsible investments really have an impact on society, while also arguing that "*not all positive …. ESG changes can be argued simply from the perspective of the business case*" (Louche & Hebb 2014:285). In terms of the debate on the tension between social performance and financial performance, Barnett and Salomon (2006) found that there is a "curvilinear" relation between financial returns and screening intensity (Barnett & Salomon 2006). In other words, they found that while funds using few screenings would see a negative impact on their returns, returns became gradually stronger with added screenings (Barnett & Salomon 2006).

Hawley (2016) makes a distinction between the earlier understandings of the term socially responsible investments (SRI) and responsible investments, arguing that the term RI developed after the founding of the UN Principles for Responsible Investments (PRI). Despite this attempt to mainstream concepts, Hawley opines that even some of the largest actors and investors use various terms interchangeably.

Without a doubt the most comprehensive source on how responsible investments as a concept is being implemented worldwide is provided by Hebb et al. (2016). This work looks at responsible investments in several countries, providing a thorough overview of how responsible investments is being understood in different areas of the world. It also provides insight into different types of investors, including government pension funds, as well as commentary on some of the most important issues in the current discussion on responsible investments. The work argues that responsible investments are increasingly understood as not simply a moral or ethical issues, but that ESG factors also influence financial returns and that anticipating and mitigating risks related to these factors may improve financial gains. The book also finds that while there are many ways of implementing responsible investments, some of the most common strategies include integrating ESG factors into the investment portfolio, as well as what the authors refer to as "shareholder engagement". The latter is divided into private and public engagement and describes the effort investors take to influence company behaviour through dialogue and publishing of company performance (Hebb et. al. 2016:5). While the authors mostly emphasize engagement over divestment, the work recognizes that external pressure *"impact directly and indirectly the perspectives of institutional investors"* (Hebb et. al. 2016:6). The authors conclude that *"responsible*

investment has attracted strong interest from investors, investment professionals, policy makers and the general public" (Hebb et. al. 2016:8).

Hebb et. al. also describe how RI has developed in Nordic countries such as Norway as Sweden. Other Nordic perspectives include Bengtsson (2008), who provides a historical outline of how responsible investments have developed in the Scandinavian countries. Another piece by Scholtens & Sievänen (2013) studies the Nordic countries in general, seeking to disclose national characteristics to explain how responsible investments have developed differently in four Nordic countries. Though these works do not discuss the GPFG specifically, they do provide a basis for understanding how the concept of responsible investments are understood in Norway. In particular, Jensen's piece in Hebb (2016) explains the dominant role the GPFG plays in the Norwegian investor landscape.

3.3. Sovereign Wealth Funds

While the presence of large sovereign wealth funds (SWFs) is still a new phenomenon in the investor landscape, there is some literature on these types of investors. Johnson (2007) briefly presents the rapid growth these funds have had, while Gilson & Milhaupt discussed the possibility of suspending voting rights due to fears of political involvement from SWFs (Gilson & Milhaupt 2008). The latter suggests a distrust in the ability of states to separate ownership from political decisions. Contradicting this fear, Avendaño & Santiso (2009) found that the motivations behind SWFs investments were not radically different from mutual funds. Truman has looked at the same topic and suggested a blueprint for best practices based on an analysis of SWFs (Truman 2009). Rose (2008) discusses whether sovereign wealth funds should be considered passive or active investors, arguing that they are passive by design.

Megginson & Fotak (2015) provide an overview and analysis of existing literature on the subject, confirming the importance of SWFs on the global economy and discussing investment strategies of such funds. Others have had a single focus on the investment strategies of SWFs (Chhaochharia & Laeven 2008; Bernstein et. al. 2013). Stating a concern over government control over large assets, Truman (2007) calls for greater transparency in SWFs.

3.4. Literature on the GPFG

There is some literature on the investment strategies of the GPFG as well. Caner & Grennes (2010) have looked at the financial performance of the fund, while other pieces have

discussed ethical aspects of the fund. One such piece looked at the potential impact of the GPFG on the ethical investments of Norwegian charities (Kreander et. al. 2015). Chesterman wrote about the Council on Ethics of the GPFG as far back as 2008, looking at the disinvestment of companies violating human rights (Chesterman 2008). Clark & Monk (2010) discuss the legitimacy of the GPFG and whether the funds model is a functional for the future.

An interesting perspective on the funds role as a universal owner is provided by Gjessing & Syse (2007) who were both involved in the responsible investments work of the fund at the time. Because it was written while the authors were still employed with the fund, it provides an insight to how the investment managers saw their responsibility at a point where the ethical guidelines were still quite new. Backer (2009) used the GPFG as a case to discuss the different regulatory issues related to SWFs. In this work, Backer also notes the distinct characteristic of the entire Norwegian population being beneficiaries and what implications this has for how the fund is regulated. Finally, the GPFG has been the subject of a few MA theses prior to this one. Among those relevant to this thesis are Gill (2010) who discusses the consequences for companies excluded from the fund's portfolio and finds that there is indeed a negative reaction and increased trading in excluded companies immediately after the exclusion has been made public, but that this is to an extent balanced after a few days. Aas & Rønning (2015) discuss exclusion of companies based on their production of non-renewable energy and find that there is no negative correlation between divesting from such companies, and financial returns.

3.5. Civil society reports on the GPFG

A report on the GPFGs water management was published by the Norwegian NGO FIVAS in 2014. The report looks at the particular case of the fund's investment in Coca-Cola and the company's activity in India. The report also suggests some proposals on how to better implement the expectations on water management that the fund has for its companies. Two of these suggestions, namely exclusion based on repeated offenses on sustainable water management and company level reporting on active ownership, will be explored further in this thesis. Similar reports on the investments of the GPFG can be found from other civil society organizations such as Changemaker (2012), The Rainforest Foundation (2012) and the DanWatch (2017), to mention a few. The RORG network, an umbrella organization for all Norwegian organizations receiving support from NORAD to spread awareness and information on development issues, have provided a good overview of civil societies work on

the GPFG over the last twenty years (RORG Network 2017). One of the most recent reports, provided by the think tank Agenda, discusses the potential for the fund to invest in unregistered infrastructure (Agenda 2017).

4.0. Contextual framework

This chapter will introduce some of the contextual framework and theories that this thesis rests on. Looking at the interaction between politics and economics, the concept of universal ownership, sustainability, and transparency, it will lay the foundation for the discussion found in chapter 8 of this thesis.

4.1. Economics as politics

For a long time, leading institutions such as the World Bank and the IMF held on to the neoliberal truths that a free global market would lead to investment and thus propel both economic growth and social development (Peet & Hartwick 2009). This approach can be traced to the development economics of the 1950's, and particularly Rostow's theory of economic development and stages of growth (Peet & Hartwick 2009; Todaro & Smith 2008). Just like Rostow used his theory of development in the West as a universal platform for development, the Bretton Woods institutions used the neoliberal approach in the West as a blueprint for developing nations to follow. The mantra from neoliberal thinkers was that private providers were more efficient in providing services to the population, and that government regulations were obstacles for these providers to efficiently provide services (Williamson 2003). Furthermore, economists such as Friedman held that the sole responsibility of enterprises is to make money for their shareholders (Carroll 1979).

The deregulation of international enterprises may have led to foreign investments for countries in Africa, Asia, and Latin America, but it quickly became evident that the presence of multinational corporations was not only positive (Aaronson 2005). The realization that the activities of multinational corporations affect societies in more than simply financial terms led to the rise of and CSR as a mainstream part of corporate governance (Levy & Kaplan 2008). With the enormous amounts of capital located in investment funds, and with these numbers only increasing, there is a great amount of power in the hands of investors (Sethi 2005; Berry & Junkus 2013). This power is not only economic; it is also to an extent political.

The fear of mixing economics with finance is an argument often used for not enforcing regulations on GPFG. For instance, it has been argued that regulations on ethical grounds would be political governance of what is primarily a financial actor (Dyrdal 2016). The argument that the fund as a financial actor should not be guided by political goals has been repeated often by both NBIM and the Ministry of Finance (Ministry of Finance 2014). An

expert group commissioned by parliament to evaluate the fund's investments in fossil fuels presented the same argument (Skancke et. al. 2014). However, while it can be a valid argument that the fund itself should not perform investments based on political preferences, this does not mean that it's decisions are never political. As Keynes argued, any international transfer of capita is essentially political (Keynes 1933). In fact, the whole study of political economy concerns itself with how politics and economy interact, with "*a special emphasis on the role of power in economic decision as making"* as Todaro & Smith phrase it (Todaro & Smith 2009:8). If this is the case, an investment in a company can be considered as much of a political motive as a decision to withdraw from a company. Furthermore, the Norwegian parliament has already put in place several tools to regulate its' investments on ethical grounds. This can be considered at least a partial recognition that the fund does need an element of political governance.

4.1.2. Universal Ownership

The "universal ownership" term was introduced by Monks when describing the rise of what he called "the new owners", large institutional investors such as the GPFG (Monks 1999). Monks outlines five characteristics of these new owners, these being that they are global, universal, long-term, legal, and humane (Monks 1999:21). The GPFG is recognized by all these characteristics. It is global and universal in that it spreads its values across practically all sectors and in all countries where it believes it can get the best returns. As previously explained, the mandate of the fund provides a long-term perspective and the framework and structure is a legal one as it is created by parliament and regulated by laws. Finally, it is humane in that the *"beneficial owners comprise a substantial portion of the population"* as Monks describes institutional owners (Monks 1999:21).

Hawley & Williams (2000) explore the impacts policy issues can have on the financial return of the portfolios of universal owners. Their argument is that the role of universal owners extends beyond traditional ideas of corporate governance, but that institutional investors must also mind the responsibility towards society with the responsibility towards the beneficiaries of the fund (Hawley & Williams 2000:58-59). As Dimson et.al. describe it, this is what differ the active engagement of universal owners from that of other traditional investors (Dimson et. al. 2015).

While still working with the ethical aspects of the ownership strategy of NBIM, Henrik Syse and Ola Peter Krohn Gjessing discussed the role of NBIM as a universal owner (Gjessing &

Syse 2007). In this text, the authors discuss both the opportunities such ownership can provide as well as some of the limitations. Explaining the funds strategy on universal ownership, they explain this concept as being *"about the factors influencing absolute returns"* (Gjessing & Syse 2007:427). The text also mentions several of the subjects I will explore are briefly discussed in their piece, though not at length. Examples of the issues they present are resource limitations, the effects of active engagement, transparency, and the risk of using the fund as a political tool.

4.1.3. Resources as the foundation of economic activity

Economic activity is tied to natural resources because all production depend on the input of natural resources. Water is one of the most important resources in that respect because it is an input factor in practically all production. This is what lays the foundation for the link between economic growth and sustainability: If resources are not extracted in a sustainable manner they will eventually disappear, and without resources there will be no economic activities for future generations to base their economy on. Overconsumption of any resource, and especially of non-substitutable resources such as water, can therefore be a threat to long-term economic growth, and subsequently a threat to the rights of future generations.

While the foundation of the concept of sustainable development is that it is possible to combine economic development while staying within the natural limitations of natural resources, there is still a conflict between these two interests. Shanmugaratnam describes this as a *"fundamental contradiction between the interests served by the more actively pursued policies and practices of economic growth and public expenditure… and the welfare of the broad mass of people and long-term sustainability of bio-physical environment"* (Shanmugaratnam 2011). Simon (2011) has claimed that classic development theories were late to recognize the limitations natural resources put on development efforts, but that environmental concerns have been an integral part of the development agenda for the last 25 years. Simon sums up his perspective on sustainability and economic development saying that *"it is now widely accepted that the cost of taking no action to tackle climate change… will rapidly prove more costly and damaging than being proactive at all scales"* (Simon 2011:212).

4.2. Responsible for what? The Ruggie principles and the UN PRI

The most widely acknowledged frameworks for corporate social responsibility are the UN guiding principles on business and human rights and the OECD guidelines for multinational

enterprises. Investment funds use both these tools when assessing company behaviour. In addition, the Norwegian Government Pension Fund is a founding signatory of the United Nations Principles for Responsible Investments (PRI) which labels itself as "*the world's leading proponent of responsible investments*" (UNPRI 2016).

As John Ruggie, the man behind the UN guiding principles, puts it: "*the business and human rights agenda involves regulating corporate conduct*" (Ruggie 2015). The need to regulate corporate conduct suggests two things. First, it is an admittance that there is indeed a need to regulate companies, suggesting that companies have a degree of responsibility for the impact its enterprises have on both environment and stakeholders. Secondly, it is a recognition that the market is not able to regulate itself to a satisfactory extent. The guidelines are by no means the first attempt to regulate business conduct, but the wide recognition they have received from funds and businesses has given them a new authority. While the principles have been criticized for being voluntary rather than obligatory norms, it has also been noted that doing so could result in less support for the principles and as such diminish their effect (Apter 2016). For now, the principles are perhaps the best the world can agree upon.

While the Ruggie Principles mainly speak of the responsibility of states and enterprises, the UN PRI focuses on the responsibility held by investors. An important element these principles is that they only speak of the responsibility an investor has for its investments. It does not look at the investors ability to influence and change the behaviour of a company. This is relevant because the opportunity to change the behaviour of a company is at the core of the active ownership strategy. As former Minister of Finance[2] Kristin Halvorsen explained in my interview with her, the expectation documents were developed because there was a need to develop a broader set of tools in the ownership strategy. But the PRI do not concern the effect of such tools, they simply state that investors have a responsibility for their investments.

4.2.1. Fiduciary duty

As any fund manager will point out, the first responsibility of an investment manager is to ensure that the money they invest are handled in compliance with the interests of the beneficiaries, and not necessarily the interests of the asset manager (Sandberg 2011). This is what is known as fiduciary duty. As Sandberg points out, the discussion on whether

[2] Interview performed at Cicero offices at Forskningsparken in Oslo on the 3rd of January 2017.

responsible investments are compatible with fiduciary duty has been ongoing for as long as the term responsible investments have existed (Sandberg 2011:147).

Much has been discussed concerning this potential conflict. While some have argued that fiduciary duty makes it difficult for companies to engage in responsible investments, others have argued that it is precisely because of fiduciary duty that investment managers should engage in responsible investments (Juravle & Lewis 2008). The most recent findings seem to suggest that there is no contradiction between integrating ESG factors and financial returns (Freide et. al. 2015). If integrating ESG factors does not harm the financial returns of a company, there is no reason for investors to avoid pursuing responsible investments on grounds of fiduciary duty.

Fiduciary duty is important to this thesis because it is the fiduciary duty to future beneficiaries that is at the foundation of the funds' belief that long-term returns depend on sustainable development. The long-term investment horizon of investment horizon of the GPFG and similar investors means that they must take into account the interests of beneficiaries that may not even have been born yet. Knowing what will be financially profitable for beneficiaries that will not take out their returns until several decades later is impossible to estimate. Therefore, the Graver commission presented the link between sustainability and the financial interests of the fund. While we may not know what will be financially profitable in the future, we can with almost full certainty say that unsustainable development will hurt the interests of the funds beneficiaries.

4.2.2. The relationship between Corporate Social Responsibility and Responsible Investments

Responsible investments (RI) can be understood as a parallel to corporate social responsibility (CSR). Where CSR focuses on the behaviour of an individual company, RI looks at the behaviour and power of those investing in companies (Louche & Lydenberg 2011). Put simply, investors can use responsible investments to change company behaviour and strengthen their dedication to their corporate social responsibility (Hill et. al. 2007). It is not surprising then that the ESG term is being included among investors, as has been reflected in my interviews and the documents I have been analysing. This correlates with Hebb et. al. description that RI is taking environmental, social and governance (ESG) factors into decision-making when investing (Hebb et. al. 2016:3). Richardson argues that "*if investors were more sensitive to sustainable development, then probably so too would the companies in*

which they invest" (Richardson 2007:187). Given the close relation between the two, it is relevant to look into CSR theory when discussing responsible investment.

4.2.3. Theoretical approaches to Corporate Social Responsibility

As mentioned in chapter three, Garriga & Melé have categorized the various theories on CSR based on the understanding of the degree of responsibility companies have to society. The first of the four categories are described as the instrumental theories. In this, the sole responsibility of a company is to create revenues. As the authors describe it, these theories "*understand CSR as a mere means to the end of profits"* (Garriga & Melé 2004:52). Garriga & Melé maintain that the instrumental theories have been the most popular within the business sector, and that it rests on a long tradition (Garriga & Melé 2004:53). This approach has been divided into different arguments for why CSR is good for business (Weber 2008). Among these arguments is the cost savings argument, which Williamson et. al. would define as a business performance argument due to its emphasis on reducing costs and strengthening efficiency (Williamson et. al. 2006).

The second group, described as political theories, emphasize the responsibility of companies to acknowledge certain duties to society and partake in social cooperation. The political theories, as Garriga & Melé describe them, rest on the idea that businesses have a certain amount of power in society and that this leads them to also have some responsibility (Garriga & Melé 2004:55). Scherer & Palazzo have discussed what they label "political CSR" and argued that *"whether they like it or not, on the global playing field, corporations are addressed as economic and political actors"* (Scherer & Palazzo 2011:922).

Garriga & Melé continues by describing what they call the integrative theories and ethical theories. The integrative theories are recognized by how businesses take social demands into their own business practices. As described by the authors, these theories argue that *"business depends on society for its existence, continuity and growth"* (Garriga & Melé 2004:57). The authors go on to describe the focus of these theories to be *"on the detection and scanning of, and response to, the social demands that achieve social legitimacy, greater social acceptance and prestige"* (Garriga & Melé 2004:58). Among the theories included in this group are the stakeholder management theory, public responsibility principle and corporate social performance.

The ethical theories, according to the authors, *"focus on the ethical requirements that cement the relationship between business and society"* (Garriga & Melé 2004:60). The theories

included here include sustainable development, universal rights, the common good approach, and normative stakeholder theory. The difference between the integrative and the ethical theories seem to be that while the first can be susceptible to changes in a society's understanding of what is moral, the latter is based on what a company itself considers to be ethical. The integrative approaches to CSR are therefore influenced by external factors, while in the ethical approaches the business actors themselves define what they perceive to be morally appropriate.

The argument of Garriga and Melé is that the four approaches are interlinked, and that elements of all four perspectives are to be found in all theories. But while interlinked, the four approaches provide different understandings of just how far the responsibility of a company reaches. Only the integrative and ethical approaches understand responsibility to include how the core activities of a company affects environmental and social factors. There are also differences in how active the companies themselves are expected to be in defining what is morally correct in the various approaches.

4.2.4. The development impact of investments

The sheer size and dominating position of the largest corporations in the world gives them great economic, and sometimes political power, over smaller developing countries who oftentimes have smaller Gross National Income (GNI) than the value of said companies (Todaro & Smith 2009). Despite the issues related to this power balance, there is still a consensus that investments are necessary for the long-term development of countries and societies. Borensztein et. al. argue that multinational corporations can contribute to development and technology diffusion if there is sufficient human capital in the country it is investing in (Borensztein et. al. 1998).

The need for foreign investments to create development is clearly reflected in the sustainable development goals introduced by the United Nations in 2015 (United Nations 2015b). Goal 12 speaks of sustainable consumption and production patterns, while several other goals depend on sustainable economic growth to be achieved. In short, the assumption in these goals are the same as in the mandate of NBIM: that sustainable development and economic growth do not contradict, but in fact depend on each other.

Parts of the business community has already embraced the SDGs as potential opportunities for business. This sentiment is for instance expressed in the 2017 report for business and sustainable development commission. Similarly, the outcome document for the UNs

Financing for Development meeting in 2015 stressed that "*private international capital flows… are vital components to national development efforts"* (United Nations 2015c:17). However, the document also recognizes the need for public policy and regulatory frameworks to *"better align private sector incentives with public goals"* (UN 2015:17). The business and sustainable development commission also recognize this, stating that:

"business will need to demonstrate that it pays taxes where revenue is earned; abides by environmental and labour standards; respects the national politics and customs where it operates; integrates social and environmental factors in its investment decisions; and, above all, engages as a partner with others to build an economy that is more just" (Business & sustainable development commission 2017:7-8).

This statement emphasizes that for a business investment to contribute to development, the business enterprise must take responsibility that extends beyond creating financial returns.

4.3. Sustainability

The concept of sustainable development, first coined by the Brundtland-commission, is ever present in the field of development and has taken into it a range of different meanings. However, the report itself makes the premise that in order for development to be sustainable, the economic development needed to eradicate poverty rests on both social issues as well as the ability of the economy to produce within the means that our natural resources provide (United Nations 1987). Since then, three pillars of sustainable development have emerged: economic, social, and environmental. There are however many differing opinions of what these three entail (Kates et. al. 2005). In fact, it has been argued that it did not take long for the term sustainable development to be given numerous definitions (Gladwin et. al. 1995).

Van Marrewijk & Werre (2003) have argued that rather than understanding CSR as a "one size fits all" approach, the concept should be understood to have multiple levels and that different approaches can be necessary for different companies (Van Marrewijk & Werre 2003). For investors trying to implement responsible investment strategies, this means recognizing that various factors are important for sustainability of different sectors and companies.

Both the mandate of the GPFG and the Graver Commission highlights that the future revenues of the fund are closely linked to the sustainability of the investments. As previously

described, the mandate mentions both social, environmental, and economic factors of sustainability, staying in line with the three pillars of sustainability that have emerged in sustainability theory. With the sustainable development goals setting the UN agenda for development, sustainability has gained increased relevance and some investors, such as PGGM, are working specifically with the SDGs to see how the goals relate to them as investors (Algemene Pensioen Groep & PGGM 2016).

In stating that *"a good long-term return is considered dependent on sustainable development in economic, environmental and social terms"* (Ministry of Finance 2010), the mandate of the GPFG clearly recognizes the link between long-term financial performance and sustainability. As I presented in chapter 3.2., there is a growing literature on the financial performance of funds that focus on responsible investments. The research suggesting that poor performance on ESG standards affects financial returns negatively support the mandates consideration. If the pillar of economic sustainability rests on the two other pillars of sustainability, it becomes vital for long-term investors to consider social and environmental sustainability if they wish to see long-term financial gains. However, as Solow rightly points out, knowing precisely what is going to be profitable or even desirable for future generations is close to impossible (Solow 1990). What investors assume, however, is that certain resources will be important also to future generations and that sustainable investments must therefore mean to avoid the overuse or damage of such resources.

4.3.1. Intergenerational justice

The concept of sustainable development rests on the idea of intergenerational justice (Gladwin et. al. 1995). This means that for development to be sustainable, the interests of one generation cannot be pursued at the expense of other generations. Gosseries and Meyer (2009) provide a thorough overview of the concept of intergenerational justice, it's challenges and contemporary discussions on the topic. Some, like Padilla, have argued that traditional economic analysis fail to give enough consideration to intergenerational justice (Padilla 2002). Sustainable development can be seen as an attempt to link this gap, providing a long-term perspective that links current economic activities to future ones by showing how they are all dependent on the same resources. In *A theory of justice*, Rawls introduces the just savings principle (Rawls 1971). In this work, Rawls reasons that every generation should set aside savings for the future and proceeds to discuss how to determine what would be just savings (Rawls 1971:252).

Barry (1997) explores the concept of intergenerational justice, relating the concept to sustainability and claiming that sustainability is a necessity for justice. Howarth (1992) provides a more general discussion on the term, arguing that intergenerational justice does not simply reach from one generation to the next. Rather, Howarth argues, the concept should be understood as a chain where one generation will fail the next if it fails to enable them to fulfil their own obligations (Howarth 1992).

Heyd explains the just savings principle and notes that *"the just savings principle demands that we leave enough capital and resources for future generations while making transfer to our contemporary poor"* (Heyd 2009:171). This serves as a good description of the function of the GPFG, which main purpose is to save revenues from current oil and gas production for future generations while at the same time allowing for a small portion of the returns to be added to the state budget.

4.4. Transparency

Transparency has been defined as *"the degree that information is made available about how and why decisions are produced within a certain institution"* (De Fine Licht et. al. 2014:112). While there is a general consensus among theorists that transparency is an important element of governance, there is also a debate on just how much transparency institutions should provide (Mansbridge 2005). Mansbridge provides a distinction between *"transparency of process"* and *"transparency in procedures"*, with the former providing knowledge on how a decision-making process is being done while the latter provides transparency on why decisions were made (Mansbridge 2005:236). Mansbridge argues that rather than seeking excessive transparency on processes, one should seek transparency on why decisions are made. De Fine Licht et. al (2014) make the case that while transparency is important to legitimacy, it does not automatically follow that more transparency will strengthen legitimacy. The argument from these works is that while some transparency is important, full transparency may not always be of benefit to neither the public institutions nor the populace.

As a response to the concern of Truman and others that there was not enough transparency within sovereign wealth funds, the International Working Group for Sovereign Wealth Fund was created in 2007 together with a set of guidelines known as the Santiago Principles (International Working Group of Sovereign Wealth Funds 2008). Norway was instrumental in this development, being one of the founding members of the group and hosting one of its initial meetings. The principles seek to ensure the independence of funds from government

influence through providing a best practice for funds on issues such as corporate governance, accountability, and transparency.

While the Santiago principles see transparency as mostly important from a perspective of securing independent financial institutions, there are also arguments for transparency in relation to CSR. Dubbink et. al. hold that *"if there is an effective need for CSR in contemporary society, there is also a need for CSR transparency"* (Dubbink et. al. 2008:1). In their work, Dubbink et. al. argues that while there are advantages to transparency, there are also issues related to full transparency from a company. These issues include costs related to disclosure, company freedom and that demand for full transparency may lead companies to become reluctant to comply (Dubbink et. al. 2008:5). While transparency is generally a good, there are both financial and strategic issues for describing just what transparency should entail.

Kaptein & Van Tulder (2003) point to the importance of companies being transparent to stakeholders. While they point to stakeholders as investors of a company, the same argument can be applied for investors and their beneficiaries. In the case of the oil fund, the stakeholders are the Norwegian people. The same work also argues the importance of governments getting involved in holding companies accountable for sustainability. Expecting companies to be regulated solely by NGO pressure and the risk of reputational damage for companies is perhaps too much to ask. As both a state mandated investor, NBIM holds much power to influence companies to show transparency. But they also hold much responsibility to ensure transparency themselves.

Boone & White (2014) found that the presence of institutional investors, such as the GPFG, strengthen the production of information provided by companies. They also find that this information can be beneficial to other investors, underlining the importance of institutional investors pushing firms for more transparency. Given the focus on responsible investments and financial performance, it is perhaps not surprising that there is an extensive literature on how portfolio disclosure affects the financial performance of institutional funds, as Agarwal et. al. show (Agarwal et al. 2015). While there is not much literature yet on the effects of transparency on financial returns, a recent study by PRI suggests that transparency may help investors make better informed decisions and thus would be beneficial to financial returns (United Nations PRI 2015).

5.0. Methods

5.1. Research design

The methodological approach of this study combines semi-standardized interviews with comparative document analyses. As the expectation documents are based on other documents providing framework for responsible investments, it seemed an obvious decision to include this as part of the methodology. Furthermore, I have chosen to combine this approach with a set of strategically selected interviews because I recognize that the value of the documents is not measured in what they outline, but in how they are being applied. This being a study of a specific unit compared to others, the GPFG being the unit compared to other funds and frameworks, the selection of interview objects was done strategically (Grønmo 2007).

5.2. Qualitative research

The selection of research method is key to a successful research. Broadly speaking, the field of social sciences can be divided into two research methods: qualitative and quantitative. Berg & Lune (2012) describes qualitative research as referring to "*the what, how, when, where and why of things – its essence and ambience"* (Berg & Lune 2012:3). Where quantitative research looks to measure phenomena, qualitative research tries to describe them. For a research such as this one, where the purpose is to analyse the implementation of a limited set of documents and to propose a small number of policy suggestions, qualitative methods are the suited method of research. However, had the intention been to solely measure how efficient expectation documents are as tools for implementation, a quantitative study could have been useful as well.

As Berg & Lune describes, data collected through qualitative research are seldom stable (Berg & Lune 2012). While it is easy to quantify the number of expectation documents NBIM uses or the number of companies they keep dialogue with, there can be differing opinions on the quality of the documents or the dialogue. Because the data are not stable and different perspectives will give different understandings, it is important to bring in as many perspectives as possible to get a complete understanding of the topic one is researching. This is what is referred to as triangulation (Mathison 1988). It is with this perspective in mind that I have decided to use to combine two different methods of obtaining data, and it is also why I decided to include respondents with different backgrounds and relation to the GPFG in my interviews. While this research does not include enough different methods or theories to fully avoid what Berg & Lune refer to as the "triangle of error" (Berg & Lune 2012), it does

attempt to counter some of these potential errors by trying to find different perspectives on the same topic.

5.3. Strategic interviews

I considered a strategic selection of interview objects to be necessary because the information needed for the study is very specific. I concluded that only people with specific knowledge of the subject would be able to provide answers to the questions I wanted to pose. In addition to respondents from NBIM and the Council on Ethics, who are responsible for implementing the responsible investment strategy of the fund, I looked to find respondents who had previously been responsible for developing the funds strategy on responsible investments. I also looked to other large pension funds with a reputation for being progressive in the field of responsible investments, as well as civil society organizations with a history of working towards pension funds or the GPFG specifically.

The interviews were semi-standardized, providing a certain structure but allowing me as an interviewer to adjust questions during the interview. Berg & Lune (2012:112) describes this interview method as one that allows the interviewer to probe on answers that do not necessarily respond directly to the standardized questions. The flexibility of the semi-standardized interviews allowed me to introduce follow-up questions where I felt it would be relevant, and I could change the order of questions if necessary. At the same time, it gave the interviewee opportunity to move beyond the specific questions. This provided an opportunity for me to hear perspectives I might not have thought of, and that would have not come through if I had stuck to a structured interview.

5.4. Content analysis

The second part of the methodology is a content analysis that looks at the expectation documents and reports from NBIM, and compare these with relevant frameworks such as the UN guiding principles and the Fair Finance Guide. Berg & Lune describes content analysis as a technique that examines *"artefacts of social communication"* (Berg & Lune 2012:353). These artefacts can take many forms, but in the case of this thesis will limit itself to written documents to do a qualitative document analysis (Grønmo 2007).

Miles & Huberman (1994) divides content analysis into three different approaches: interpretive, social anthropological and collaborative social research. As the latter two focus on ethnographic research, it is clear that for the purposes of this research I have to use an

interpretive approach to content analysis. Applying this approach to a document analysis, one can choose to code the research by looking for specific words, themes or paragraphs, or clusters of these, or one can choose a more phenomenological approach where one tries to capture the essence of the document (Berg & Lune 2012). It is the latter approach I have chosen for this research, my interest being in how the expectation documents and reporting from NBIM reflect what the PRI and other guidelines suggest.

The documents from NBIM have been the basis for the analysis. NBIM have a set of documents that describe their work responsible investments, including their expectation documents, the annual reports on the responsible investments, the funds own guidelines for responsible investments and ethical guidelines, as well as external reports requested by the Ministry of Finance. As explained in chapter 6.1, I have chosen several of these for the document analysis. In order to compare the strength of these documents, I have used the UN guiding principles on business and human rights and the UN global compact, as well as the OECD guidelines on for multinational enterprises and the UN principles for responsible investment. I have also looked at how the CDP report on water management and how the Fair Finance Guide framework incorporates water in its analysis.

5.5. Ethical aspects

Maintaining ethical integrity is fundamental to all research. Berg & Lune (2012) maintain that social scientists may have an even greater obligation to ethical standards than the average citizen. With regards to factors that could potentially harm the validity of the paper, there are fewer risks associated with text analysis and interviews of experts than traditional field studies. However, there are still a few potential pitfalls I have tried to be aware of. While none of the subjects I have interviewed can be considered particularly vulnerable, there was still a need to ensure that the interviews adhered to ethical guidelines. This meant ensuring that informants were aware of their right to anonymity and confidentiality, and ensuring that the information included in the paper reflect the intentions of the informants.

To maintain the validity of the paper and to act in accordance with my ethical obligations as a researcher, I have ensured that all respondents have been informed of the purpose of the paper. They have also been informed of the report that will be written based on the results of the thesis. All informants were given the opportunity to read through the transcripts of the interviews, as well as reading the parts of the paper related to their interviews. All respondents were informed of their opportunity to withdraw at any time, and that they could withdraw,

change, or add to statements made up till the printing of this thesis. In the cases where informants did not wish to have their interview recorded, or preferred correspondence through mail, I have complied with this.

5.6. Assessment of the interviews

I performed a total of eleven interviews, one background conversation and received information from one more respondent through mail correspondence. The information received through mail correspondence added little new information, and has therefore not been included in the final thesis. The interviews were performed in a two-month period between the 22nd of November 2016 and 13th of January 2017. In order to present the opinions and quotes of interview objects as accurate as possible, most of the interviews were recorded and transcribed. However, the respondent from NBIM did not wish for the session to be recorded or directly referenced in the text, and so I have complied with this. In this particular case, I took careful notes during the conversation and sent a transcript of this to the respondent for verification. While I could not add this to the text, I have tried to reflect what transpired in the conversation in the rest of the text. The respondent from the Council on Ethics did not wish to perform an interview, but in this case I retrieved information through mail correspondence. This meant that the information retrieved from this respondent was less extensive as it would have been had I done an interview, but as the respondent was hesitant to do an interview it was necessary to comply with this.

Another measure I initially took to accurately represent was to perform all interviews in English, even when the interview objects were native Norwegians. My intention in doing this was to avoid losing or misinterpreting important points in translation. My initial assumption was that because many of the interview objects were proficient in speaking about their area of expertise in English, it would not be an issue that they were not interviewed in their native tongue. However, I realized after the first three interviews that it could indeed be limiting for interviewees not to be speaking their native tongue when being interviewed. I therefore changed my strategy, performing the rest of the interviews with native Norwegians in Norwegian and then translating the text only when quotes were used in the text. I cannot exclude the possibility that the information retrieved in the first interviews could have been more precise. However, I do not believe it weakens the legitimacy of these interviews as all respondents had the opportunity to read both the transcribed interviews as well as the quotes and excerpts included in the paper.

Most interviews were done face to face at the offices of the interviewee, apart from the conversation with NBIM and the interview with PAX that for practical reasons had to be performed by telephone and Skype respectively. Meeting with interviewees in their offices was a conscious decision as I believed it would place the interviewees in a familiar and private setting that could perhaps lead them to be as open as possible when being interviewed. As previously mentioned, one respondent did not wish to attend an interview but agreed to provide some information through mail correspondence. Again, I accepted this to respect the wishes of the respondents while trying to attain as much information as possible.

Since the interviewees represented different actors with different perspectives, I decided to create four different questionnaires. This allowed me to probe different perspectives with different actors, based on their position. I created one set of questions for NBIM and another set for other investor representatives. Furthermore, I created another set of questions for the civil society actors and a fourth for actors with previous involvement with the GPFG.

Each interview lasted between forty and seventy-five minutes. Due to the sheer amount of information retrieved in the interviews, there was a need for me to prioritize what information to include in the thesis. I have tried to include statements and themes from the interviews that most clearly respond to the stated objectives of the thesis. Some topics, such as the need for transparency on how the fund implements its expectations and the question of whether divestments should be made on political or financial grounds, were discussed by many of the respondents and are therefore important to include. Because the different respondents represent different actors, they all provided some information that was relevant to the thesis but not necessarily important to include in the findings. For instance, the investors provided interesting aspects on the development of responsible investments while the Dutch respondents provided important knowledge on the Dutch investment universe. While not all these insights have been included in chapter seven, they are reflected in other chapters of the thesis.

5.7. Relevant documents

Paragraph 2.2 section 3 of the funds mandate specifically mentions the UN Global Compact, OECD guidelines for corporate governance and the OECD guidelines for multinational enterprises as frameworks that NBIM must adhere to in their responsible investment strategies (Ministry of Finance 2010). In addition, NBIM is a signatory of the United Nations Principles on Responsible Investment (PRI). These four documents make up the framework for the

responsible investment strategies of the fund. Additionally, the fund uses CDPs standards in their work on responsible water management, as was emphasized in my interview with NBIM. Due to this, I decided to include the CDP global water report in my document analysis. Finally, I have decided to look at a few civil society frameworks for measuring responsible investment. Civil society have often been at the forefront of pushing the fund to strengthen its responsible investment strategy, and I believed that they could provide useful perspectives on how to strengthen this work further. The frameworks I have included is the Fair Finance Guide, where I have interviewed both Norwegian and Dutch organizations working with this tool.

The UN Principles on Responsible Investment

The Principles on Responsible Investment (PRI) is perhaps the most widely acknowledged framework for responsible investment in the world today. This is reflected in the high number of signatories, counting more than 1300 asset owners, investment managers and service providers (Hebb et. al. 2016). While funded by the UN, the PRI is not part of the UN and it describes itself as truly independent (UN PRI 2016). The Norwegian government pension fund is a founding signatory of the principles and played part in drafting the principles.

OECD Guidelines for Multinational Enterprises

These guidelines are a set of recommendations provided by the OECD as guidelines for responsible business conduct, specifically for business in a global context. Stakeholder theory incorporated in the principles (OECD 2011). The guidelines are part of the OECD declaration on international investment and multinational enterprises, and provide a set of ESG standards for investors as well as recommendations on how to implement these standards.

UN guiding principles on business and human rights

The UN guiding principles, also known as the Ruggie principles, are a set of guidelines that set standards on the responsibility states and companies have for human rights. In addition to the principles, the guidelines provide guidance on how states and companies can comply with these standards. Though the principles are not explicit on specific human rights, the principles speak of the responsibility of states and enterprises in ensuring that rights in general are respected. As John Ruggie explains it, these principles rest on three pillars (Ruggie 2015). The first pillar of the PRI focus on states responsibility, mostly outlining state responsibility within its own territory and state owned companies. The second pillar focuses on businesses and explicitly states that businesses have a responsibility to respect human rights. The third

pillar focuses on the ability of victims to access remedy in cases where their rights have been violated. This third pillar incorporates stakeholder theory, recognizing victims of human rights violations as stakeholders entitled to compensation

UN Global Compact

The UN global compact is a CSR initiative created by the United Nations. It consists of ten ESG principles for companies to live up to, covering human rights, labour rights, environmental and anti-corruption work. The compacts management model presents six steps for CSR work, outlining the CSR work from commitment to communicating results (UN Global Compact 2010). The initiative states that it will promote tools and resources that are in alignment with the UN guiding principles on business and human rights (United Nations Global Compact 2017). The compact has more than 12000 signatories, including more than 9000 companies worldwide.

CDP

The CDP, formerly known as the Carbon Disclosure Project, aims to promote climate related change through encouraging companies and other actors to disclose their environmental performance. The project has expanded from simply focusing on carbon emissions to provide self-reporting platform on issues related to water scarcity and deforestation. Their standpoint is that sustainable investments in climate are the profitable alternative overall. The CDP provides annual reports on water of which NBIM are the lead sponsors while KLP are signatory as well as Norwegian partner. The CDP also works with investors and enable them to use CDP data.

Fair Finance Guide

The Fair Finance Guide is an extensive guide that measures banks and insurers performance on responsible investments based on more than 300 questions. The initiative started in the Netherlands as a cooperation between several NGOs, and has now expanded to eight other countries with Norway being one of the latest additions. In Norway, the initiative has been started as a cooperation between Framtiden I Våre Hender (FIVH) and Forbrukerrådet. Water is a separate criterion in the FFG, but can be found under other several other criteria, such as mining, biodiversity, food production and the oil and gas. FFG in the Netherlands are currently working on a fair pensions guide framework that will look exclusively at the investment practices of pension funds.

6.0. Document analysis

6.1. The documents NBIM bases its documents on

This section will present some of the documents and frameworks that the GPFG states as the foundation for their own guidelines and expectation documents. The list is not an exhaustive list of all the documents NBIM bases their responsible investment strategy on, but presents the documents and frameworks that speak of corporate responsibility, human rights, and responsible investments. Frameworks such as the UN guiding principles on business and human rights, the UN global compact and the OECD guidelines for multinational enterprises are not only stated by NBIM to be the basis for their expectation documents, they are also internationally recognized standards for corporate responsibility. In addition to these documents that outline the social responsibility of companies, I have also included the UN principles on responsible investment (PRI) that outline the responsibility investors have for ensuring that their investments are not in violation of ethical standards. Finally, I have included frameworks such as the Fair Finance Guide and the CDP global water report to provide a basis for comparing how NBIM reports on their work on responsible investments.

As this thesis focuses mostly on the expectation document and the active ownership strategy, I have not included the ethical guidelines of the GPFG for comparison with other documents and frameworks. The guidelines do form part of the ownership strategy, but exclusion based on the guidelines is considered a last step and is therefore a separate evaluation when active ownership has failed. Furthermore, I have not included the OECD principles for corporate governance as they primarily focus on the responsibility corporations have to their owners and other financial stakeholders, and to a lesser extent focus on the responsibility corporations have for individuals and communities affected by their operations.

6.1.1. UN guiding principles on business and human rights

The UN guiding principles on business and human rights discuss the responsibility enterprises have for respecting human rights in section two of the document. Principle eleven, which is presented as a foundational principle, sets the premise for what this responsibility entails and reads that *"business enterprises should respect human rights. This means that they should avoid infringing on the human rights of others and should address adverse human rights impacts with which they are involved"* (UN 2011:13). The responsibility is further specified in the following paragraph which reads:

"the responsibility of business enterprises to respect human rights refers to internationally recognized human rights – understood, at a minimum, as those expressed in the International Bill of Human Rights and the principles concerning fundamental rights set out in the International Labour Organization's Declaration on Fundamental Principles and Rights at Work" (United Nations 2011:13).

The commentary of the guidelines describes the relevance of this paragraph by stating that *"because business enterprises can have an impact on virtually the entire spectrum of internationally recognized human rights, their responsibility to respect applies to all such rights"*.

Principle 15 of the UN Guiding Principles on business and human rights states the following tools for companies to be able to meet their responsibility to respect human rights:

> *(a) A policy commitment to meet their responsibility to respect human rights; (b) A human rights due diligence process to identify, prevent, mitigate and account for how they address their impacts on human rights; (c) Processes to enable the remediation of any adverse human rights impacts they cause or to which they contribute.* (UN 2011:16).

The commentary on this principle states that *"business enterprises need to know and show that they respect human rights. They cannot do so unless they have certain policies and processes in place"* (UN 2011:16). Principle 16 then elaborates on how these policies should be developed, commenting that the policy commitments of companies should be *"publicly available and communicated internally and externally to all personnel, business partners and other relevant parties"* (UN 2016:16). The commentary for this principle specifically states investors as actors to which such policies should be communicated actively. A discussion of the use of company policies is provided by Mullen (2016).

6.1.2. UN Global Compact

The UN global compact presents six steps for CSR work (UN Global Compact 2010). These steps include commitment, assessment, defining goals, implementation, measuring and communicating results. Principles 7, 8 and 9 of the UN global compact cover environmental issues, including water management. The global compact has also developed the CEO water mandate, as well as a set of guidelines for corporate water disclosure. These principles make a business case for water management and urge companies to identify business risks related to water as well as providing "water stewardship" to help companies strengthen their water

management (UN Global Compact 2014a). NBIM contributed to the development of these guidelines through their participation in the corporate water disclosure stakeholder advisory group.

The focus of the guidelines relates to issues such as the risk posed by water stress and operational efficiency. The guidelines for corporate water disclosure covers employees right to safe drinking water, sanitation, and hygiene services. Beyond this, the guidelines recognize that water management may have external impacts and that *"a company's water practices may harm people and ecosystems, causing risk to the company, undermining sustainable water management, and potentially impinging on human rights"* (United Nations Global Compact 2014a:56). The report particularly points to access to water as a human right that may be affected by companies, and suggests for companies with advanced disclosure practices in place to report on the enterprises impact on *"impacts on water availability, water quality, and access to water and WASH services"* (United Nations Global Compact 2014a:58). The guidelines also suggest for companies to report on how they respond to such issues, and suggest for companies with advanced disclosure systems to report on the following three points:

"Descriptions of the company's policies and processes that address human rights risks and impacts on the rights to water and sanitation specifically

Explanations of the company's key business relationships and how the company addresses risks to human rights to water and sanitation arising from these relationships

Information on any severe impacts on the rights to water and sanitation with which the business has been involved and how they have been addressed, as well as any lessons learned" (UN Global Compact 2014a:65).

In its 2015 publication *"guide to corporate sustainability"*, the global compact reports that only 34 % of participating companies report on the measures they take to reduce their water footprint and improve their water management (UN Global compact 2014). The 2017 Global Opportunity Report, which is created with the support of the UN global compact, showed that companies see great opportunities in tackling water related issues (DNV-GL 2017:8).

6.1.3. The OECD guidelines for multinational enterprises

Despite the fund stating that the OECD guidelines for multinational enterprises is among the guidelines it bases its framework on responsible investments on, there has been debate related

to their application of these rules. In 2012, the Norwegian umbrella organization ForUM decided to appeal NBIMs investments in the South Korean company Posco to the national contact point of the OECD. The company was accused of severe human rights violations in the state of Orissa in India, and ForUM argued that NBIM was violating its own ethical guidelines by investing in the company. In doing so, it was ForUM's opinion that NBIM was also violating the OECD guidelines for multinational enterprises. NBIM on the other hand claimed that the OECD guidelines did not include them as an investor because they were a minority investor. The national contact point concluded in May 2013 that the guidelines did indeed count for NBIM as an investor, and that NBIM had breached the guidelines. In my interview with Hans Petter Graver[3], he reiterated that the OECD conclusion left no doubt that the guidelines cover the investments of NBIM and other institutional investors.

As for the guidelines themselves, sustainable development is included in the first paragraph of the general principles which states that companies should *"Contribute to economic, environmental and social progress with a view to achieving sustainable development"* (OECD 2011:19). Furthermore, the next paragraph reads that companies should *"respect the internationally recognised human rights of those affected by their activities"*. Paragraphs 10, 11 and 12 speak of companies' responsibility to limit and avoid adverse effects of their activities and activities they can be linked to.

In the comments to the general principles, paragraph 25 uses water project as cases where it companies should seek stakeholder engagement, reading *"effective stakeholder engagement is characterised by two-way communication and depends on the good faith of the participants on both sides"* (OECD 2011:25). Paragraph three of the same comments reads that *"There should not be any contradiction between the activity of multinational enterprises (MNEs) and sustainable development, and the Guidelines are meant to foster complementarities in this regard"* (OECD 2011:21).

Section three of the guidelines is dedicated to recommendations on disclosure. The first paragraph of this section reads as follows:

"Enterprises should ensure that timely and accurate information is disclosed on all material matters regarding their activities, structure, financial situation, performance, ownership and

[3] Interview performed at the Faculty of Law at the University of Oslo January 13th 2017.

governance. This information should be disclosed for the enterprise as a whole, and, where appropriate, along business lines or geographic areas. Disclosure policies of enterprises should be tailored to the nature, size and location of the enterprise, with due regard taken of costs, business confidentiality and other competitive concerns." (OECD 2011:27)

Paragraph 2f of section three reads that companies should disclose *"foreseeable risk factors"* (OECD 2011:27). The commentary of this chapter stresses that disclosure should not "*place unreasonable administrative or cost burdens on enterprises"* and that companies are not obligated to disclose information that *"may endanger their competitive position unless disclosure is necessary to fully inform the investment decision and to avoid misleading the investor"* (OECD 2011:29). To aid the understanding on what should be reported, the guidelines uses the concept of materiality and reads that *"material information can be defined as information whose omission or misstatement could influence the economic decisions taken by users of information"* (OECD 2011:29).

6.1.4. The UN Principles on Responsible Investments

The UN principles on responsible investments consists of six responsibilities that signatories commit to follow, as well as a list of specific suggestions on how to implement each of the principles.

The first principle concerns the integration of ESG factors in the investment management. One of the suggested forms of action in this area is to *"address ESG issues in investment policy statements"* (United Nations Principles for Responsible Investments 2016). Other suggestions include the support of development of tools and research on the topic and introducing ways to assess how well investment managers integrate ESG factors.

The second principle concerns active engagement and the implementation of ownership strategies. Suggested measures to implement include to *"Develop and disclose an active ownership policy consistent with the Principles"* and to *"exercise voting rights"*. The principles mention engagement with the following suggestion for funds to be *"engaging in with companies on ESG issues"*.

Principle three concerns disclosure, and reads as follows: *"We will seek appropriate disclosure on ESG issues by the entities in which we invest"*. It is perhaps worth noting that the list of potential measures for implementation on this principle is much shorter than for most of the other principles. Nonetheless, the proposed measures focus on company reporting

and include to *"Ask for information from companies regarding adoption of/adherence to relevant norms, standards, codes of conduct or international initiatives (such as the UN Global Compact)"*. The principles also suggest for companies to *"Support shareholder initiatives and resolutions promoting ESG disclosure"*. Principles four and five concern the investment industry itself, and the promotion of the principles within the industry as well as the cooperation of the signatories to *"enhance our effectiveness in implementing the Principles"*.

The final principle relates to the disclosure of the funds themselves, and reads "*we will each report on our activities and progress towards implementing the Principles"*. This principle is supported by several suggestions that are relevant to this thesis. Suggestions include for funds to disclose *"how ESG issues are integrated within investment practices"*, to disclose *"active ownership activities (voting, engagement, and/or policy dialogue)"* and *"what is required from service providers in relation to the Principles"*. Finally, the fourth suggestion presented reads that for funds to *"Communicate with beneficiaries about ESG issues and the Principles"* while the seventh suggestion is for funds to *"make use of reporting to raise awareness among a broader group of stakeholders"*.

Table 6.1. United Nations Principles on Responsible Investments

Principle 1
We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2
We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3
We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4
We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5
We will work together to enhance our effectiveness in implementing the Principles.

Principle 6
We will each report on our activities and progress towards implementing the Principles.

6.2. Other frameworks

While the frameworks presented above are among the most prominent for the global development of responsible investments, there are other initiatives that are also worth mentioning. For the purpose of this paper, I have chosen two such frameworks that are relevant with regards to water issues in particular and to the Norwegian investors' landscape in general.

6.2.1. CDP global water report

The CDP global water report provides data on a range of water related issues, including companies risk and opportunities assessment, accounting, governance issues and the companies own targets and initiatives to improve water efficiency. The report is relevant to this paper as it sets a standard for disclosure and because NBIM was the lead partner for the 2016 report and provided an investor commentary in the report.

The report discloses some of the companies who consistently fail to report on water issues (CDP 2016:11). The companies listed here include Royal Dutch Shell, Exxon Mobile and Chevron, three large oil companies who are all among the GPFG's largest investments. For instance, Shell is one of the five largest single investments of the fund; the GPFG owns shares worth 46 billion NOK in the company. The report also reveals that while the disclosure rate was the highest CDP has reported, more than half of the 1200 companies contacted failed to respond. Furthermore, the report shows that of one third of the companies that do report do not monitor their own water use. The report includes an extensive list of all the companies contacted as well as how they rate on the CDP rating, with all companies that have failed to report rated with an F.

The CDP also measures the amount of companies that report that they have set goals and targets for their water management. The report describes targets as *"quantifiable objectives to manage water resources"* and goals as *"qualitative aims leading towards improved water stewardship"* (CDP 2016:18). Barely half of the companies that responded had targets and goals in place for their water use.

Another area covered by the report is engagement and response. This section reveals that as many as 83 % of the reporting companies had integrated water into their business strategies. However, the report states that *"there is considerable room for improvement in the percentage of companies with a publicly available, company-wide water policy that includes*

direct operations, supplier best practice and acknowledges the human right to water, sanitation and hygiene (WASH)" (CDP 2016:22). Per the report, only 15 % of all companies that reported had this in place.

Finally, the report presents a set of measures which constitutes best practice on water management. Among the measures is to have *"implemented a company wide, publicly available water policy"* which includes acknowledging "*the human right to water, sanitation and hygiene"* (CDP 2016:54).

6.2.2. Fair Finance Guide

The Fair Finance Guide methodology is divided into reporting on guidelines and on practical implementation. In the reporting on guidelines, the guide provides several criteria on water management, although water is not a main topic in itself. These are criteria that banks are expected to have in place for companies they invest in. In the assessment of the banks guidelines the Norwegian Fair Finance Guide provides two specific criteria related to water for the mining sector, food production sector, the oil and gas sector and in the section for natural conservation and biodiversity. (Etisk Bankguide 2017). The criteria read that *"companies conduct water scarcity impact assessments and prevent negative impacts in water scarce regions"* and that *"companies do not start new operations in areas where water scarcity is pre-existing and operations would compete with the needs of communities"* (Etisk Bankguide 2017:7). In addition to these criteria, the section on food production provides two more criteria. Banks should expect from these companies that they *"prevent water pollution"* and *"use as little water as possible"* (Etisk Bankguide 2017:11). Finally, the guide suggests guidelines for companies in the forestry industry to avoid water pollution.

In the wider methodology of the Fair Finance Guide, water use and water scarcity is discussed as part of the cross-cutting theme of nature. The methodology also point to the UN Global Compact CEO water mandate and the CDP framework for water program as initiatives and frameworks that companies can participate in to strengthen their water management strategies.

6.3. How the expectation documents and reports stand up to the standards

Having introduced the frameworks that NBIM state that their documents are based on, as well as other frameworks relevant for reporting, the final section of this chapter will look at NBIM's own documents and compare them to the documents presented above. Because my

respondent with NBIM did not wish for quotes from the conversation to be included in this thesis, I have tried to find relevant references in the various documents from NBIM that reflect what was discussed in the background conversation.

6.3.1. The expectation document on water

The mandate for the GPFG does not specifically mention the UN guiding principles on business and human rights, but the expectation document on water does and states it as one of the recognized standards it builds on. The first question one can pose is how the expectation document deals with principle 11 in these guidelines and its intention to avoid infringement on human rights and addressing adverse human rights impacts. The answer is that it deals with this in very general terms. Section D of the expectation document presents the funds expectations on *"transparency on interaction with policy makers and regulators, and* engagement *with other stakeholders"* (NBIM 2016f:4). The third point of this section reads as follows:

"Companies should understand their social and environmental impact on, and the associated needs of, the communities surrounding their direct operations and supply chains, as well as on the users of their products and services. They should seek to contribute to local populations retaining necessary access to water" (NBIM 2016f:4).

For the rest of the document, the expectation is for companies to analyse *"relevant water challenges"* and that this analysis *"should reflect that water stress is region-specific, and include local hydrological, environmental, social, economic and regulatory factors as appropriate".* Beyond this, businesses are expected to *"understand"* the social and environmental impacts of their behaviour and production. However, the documents do not present any expectations on companies to avoid infringing on individual rights to water or how companies should behave should their activities infringe on these rights.

Concerning principle 15 in the guidelines for business and human rights, the expectation document does not mention reporting on the tools companies use to report on due diligence in relation to human rights. The closest one comes to this is the expectation expressed in section C which reads that *"company reporting should reflect that water challenges are region-specific, and include basin-level hydrological, environmental, social, economic and regulatory information as appropriate"* (NBIM 2016f:3). While this does recognize the three sustainability pillars as risk factors, it fails to mention the human rights of individuals and how companies can ensure that these are not violated.

The argument for responsible water management presented by the Global Compact is quite like the one made by NBIM. The risk factor expressed in the Global Compact is repeated in the expectation document. The expectation document is not as specific on the risk posed by impinging rights to water, focusing instead on the more general term "social implications". However, while the arguments are similar the expectations for what companies should report on are not. While the Global Compact suggests for companies to report on the impact their activities have on specific human rights risks and environmental risks, NBIM does not expect them to report on this. The expectation document on water simply expects companies to

"when relevant, develop a framework to monitor and set relevant benchmarks, key performance indicators and targets, for direct and indirect company water consumption, conservation and reuse, waste water discharge, and environmental quality. They should report on progress against such targets" (NBIM 2016f:3).

Without any references to the implications excessive may have on the human rights of individuals affected by the company's activities, such frameworks and benchmarks seem to focus solely on the financial risk related to water use.

Compared to the criteria in the Fair Finance Guide, NBIMs expectation document on water does expect companies to assess their impact on water resources. However, the document does not present specific expectations on companies to prevent negative impact in areas where water stress is prevalent. Furthermore, it does not expect companies to avoid starting new activities in areas where water stress would lead the company to compete with the water needs of local communities.

Comparing the expectation document with the reporting presented by CDP, the expectation document does mention that companies should develop targets for their water consumption *"when relevant"*. However, it does not present an expectation to make the company water policy publicly available and it does not request for this strategy to acknowledge the human right to water or to sanitation.

NBIMs expectation document on water uses the risk approach to water, and can be understood to see water as a *"foreseeable risk factor"*. The expectations of the fund state that a *"company reporting should reflect that water challenges are region-specific, and include basin-level hydrological, environmental, social, economic and regulatory information as appropriate"* (NBIM 2016f:3). The OECD guidelines for multinational enterprises puts more

emphasis than the UN documents when it comes to avoiding damage, be it financial or reputational, to companies. As such, NBIMs lacking expectations on company reporting is more in line with the OECD guidelines than the UN frameworks.

6.3.2. The expectation document on human rights

In addition to the expectation document on water, I have included the expectation document on human rights in this section. This is because the frameworks provided by the OECD and the UN mostly speak of human rights in general terms, and not specifically on for instance water. Additionally, the expectation document on human rights is a new element to the ownership strategy that was introduced in 2016 and reported on for the first time in 2017 (NBIM 2017b).

The expectation document on human rights state the UN guiding principles on business and human rights as a good point of reference for companies to understand human rights and how company activities may affect these rights. The document also firmly establishes that *"the responsibility to respect human rights applies to all companies"* (NBIM 2016g:2). The document further reads that NBIM *"encourages companies to identify the human rights, which may be at risk of the most severe negative impact through a company's business operations, including in supply chains and other business relationships, as well as products and services"* (2016g:2).

Concerning the human rights due diligence proposed by the UN guiding principles on business and human rights, section B of the expectation document on human rights reads that *"companies should conduct ongoing human rights due diligence, based on the perspective of those who may be negatively impacted. They should strive to identify actual and potential negative impact on relevant human rights in relation to all aspects of a business operation"* (NBIM 2016g:3). The following point covers prevention and mitigation of severe human rights violations, reading that *"Human Rights due diligence efforts should be guided by the severity of the potential adverse impact on human rights and practical considerations such as company size, sector, operational context, and business structure"* (NBIM 2016g:3).

Section C of the document, which covers what companies are expected to report on, expects companies to publicly disclose their own human rights strategies and policies. The same point also calls for companies to report on how they implement frameworks such as the UN guiding principles for business and human rights. On mitigation, the document reads in section D that *"companies should establish or participate in effective and accessible operational-level*

grievance mechanisms for individuals and communities that may be adversely impacted by their operations" (NBIM 2016g:4). The expectation document is very much in line with the OECD guidelines, emphasizing that *"strategies and policies should be appropriate to company size, sector, operational context, ownership and structure"* (NBIM 2016g:3).

6.3.3. The annual report on sustainability

Since 2015, NBIM have published an annual report on sustainable investments. The purpose of this report is to present how NBIM works with responsible investments and how they have implemented their strategy in the previous year. While the expectation documents are primarily for companies and other actors to know what NBIM expects, the sustainable investment reports present NBIM's own work. The annual report states that active ownership, standard setting, and risk management are the main pillars of the funds work with responsible investments (NBIM 2017b). NBIM's participation in OECD initiatives and in the CDP is described in the report, but the PRIs are not mentioned in a relevant manner in the report. Interestingly, the PRIs are not mentioned as one of the international standards the fund follows although both the OECD guidelines and the UN guidelines for business and human rights are mentioned.

The report describes their risk management strategy as "*a general assessment of topics and sectors*" and that it covers "*many topics that are also addressed through standard setting and ownership*" (NBIM 2017b:7). From this general assessment, the report describes, the fund goes more deeply into specific issues. The report reveals that finding data to base the risk management assessments on, and specifically non-financial data, is an area where both external providers and NBIM themselves work to improve.

If the risk monitoring reveals a need to follow up a company, the next step in the active ownership is usually dialogue with a company. In terms of actual reporting, NBIM does not disclose a list of companies it has engaged with. The report provides aggregated numbers of company engagement, based on country and sectors. The fund does however mention specific case studies of company engagement. For instance, the report discloses that the fund is in engagement with AngloGold Ashanti, Royal Dutch Shell and ENI regarding environmental issues. In addition, the report lists 30 cases of company dialogue where both company and reason for dialogue is disclosed. Most of these relate to governance issues, but five of them concerned sustainability issues such as company's activities to plan for climate change and mitigation of human rights risks in the value chain. The report also shows that the fund

prioritizes dialogue with the top fifty holdings, where they had dialogue with all but two of their top fifty investments in 2016. Concerning how to measure the impact of company dialogue, the report reads that NBIM records *"company interactions according to company specific ownership goals"* and that they *"document such goals before the start of an activity and measure progress over the duration of a company engagement"* (NBIM 2017a:44).

Beyond dialogue, the main active ownership tool for the fund is voting. The fund reports that its intention is to vote at *"all shareholder meetings"* and exercised their voting right more than 11.000 times in 2016 (NBIM 2017b:32). The report also provides information on how many times the fund voted against the board, as well as a list of specific cases for voting against the board in its fifty largest assets. In very rare cases, NBIM could potentially contribute to removing an entire board if a company failed to meet relevant expectations. In the 2016 report, NBIM discloses that it has taken action against the board in Volkswagen due to governance issues, and that they have still not seen improvement. This is the only specific example provided of companies where the fund explicitly says that it does not see any improvement in a specific company. The report does not disclose information on what proposals the fund have presented, if any.

In addition to the tools presented above, the risk management assessments can also "lead to adjustments to the portfolio and divestments" (NBIM 2017b:7). In other words, the fund may choose to divest based on risks identified in the risk management assessment. Divestments of this kind are based on the funds integrated risk model. The 2016 sustainability report tells that the fund divested from 23 companies on the grounds of risk-based assessments, but the report does not reveal which companies. Finally, the most severe cases go to the Council on Ethics in line with the Guidelines for Observation and Exclusion, but the 2016 report does not reveal how often this happens.

On the expectation documents, NBIM provides what it calls focus area assessments. The report reads that the expectation documents *"serve as a starting point for our interaction with companies on climate change strategy, water management, human rights, and children's rights"* (NBIM 2017b:14). These assessments focus on specific sectors and markets that NBIM considers particularly exposed to the risks presented in the expectations documents. In these assessments, NBIM reports aggregated numbers of how companies have scored on. The report acknowledges that due to lacking disclosure from companies on actual performance, their rating may not be an accurate reflection of how well companies perform on the specific

focus area. For all three expectation documents, NBIMs sustainability report for 2016 shows that the majority of companies received the rating “weak” or “very weak” (NBIM 2017b). On climate expectations, only two out of more than 1200 companies received the rating “very good”. This was still an improvement from the previous report where not a single company received that rating. It should be noted that the reported number of companies NBIM have contacted regarding the focus areas significantly increased from 2015 to 2016. For each of the focus areas, the report provides a list of ten companies that have received the best rating among different sectors. The 2015 report also provided provides a case presentation from each focus area where the strategy of one company that has received good rating is presented.

Concerning the reporting on water management, NBIM assessed companies within the following sectors: consumer goods, pulp and paper, mining, and utilities sectors. The beverage sector was not assessed individually, but falls under the category consumer goods. Companies such as Coca-Cola, Nestlé and Heineken are among the companies presented as providing the best results in the report. The report states that companies are rated based on five main indicators, but does not state what these indicators are. It does however mention that there are major differences among between companies when it comes to reporting on *“information on risk assessments and ensuing actions”* and *“analysis on water risks”* (NBIM 2017ba:29). The report further explains that the information NBIM retrieves is based on information revealed by companies, either through publicly available information or through reports from actors such as CDP.

On water management, around 300 of the 600 companies NBIM rated were labelled “weak” or “very weak”. 51 companies were rated “very good” while around 100 companies received “good” rating. The percentage of companies not providing any information on how they address water management risks increased from 11 to 13 %, something that perhaps can be attributed to the increased number of companies contacted by the fund. On the other hand, water management was the focus area with the best overall performance out of the three focus areas NBIM reported on in 2016. Divestments based on water related issues is presented as a specific issue in NBIMs sustainability report. The report for 2015 revealed that NBIM focused on *“gold mining companies where costs associated with environmental externalities such as CO2 emissions, water use and waste production were estimated at being above a relevant percentage of revenues”* (NBIM 2016d:96). NBIM did not divest from any companies for reasons related to water risk alone in 2016, but they divested from nine companies for such reasons in 2015 (NBIM 2017b:81) and divested from companies for

similar reasons in the two preceding years. The fund did divest from three companies in 2016 due to oil sands operations where water use is presented as one of several present risk factors. While the report does reveal how many companies where divested from, and the various risks it has identified for divesting, it does not reveal the specific companies that were divested from.

Finally, the 2016 sustainability report for the GPFG did not disclose specific information on the contact between NBIM and the Council on Ethics. This may perhaps be reported in the annual report for the Council, but this was not yet published at the time of writing. Therefore, I have had to use the reports for 2015 to examine how much contact there is between these two actors. The report shows that NBIM contacted the Council on 16 occasions regarding information on individual companies (NBIM 2016d). Apart from this, representatives from NBIM met with the Council on seven occasions, four of which were ordinary meetings for exchanging information.

7.0. The Interviews

7.1. Background information of interviewees

Before introducing the findings in the interviews, I will present the various actors I have interviewed as well as their background and the organization they represent.

7.1.1. Norges Bank Investment Management

Writing a thesis on the investment practices of Norges Bank Investment Management (NBIM), it was essential to communicate and receive information from their organization. I had a background conversation based on publicly available sources on NBIM's work on responsible investments with Wilhelm Mohn, the head of sustainable initiatives at the ownership strategies department at NBIMs office in London. I have also had some mail correspondence with him to follow up on some of the statements in the conversation. Mohn has a background with the Norwegian ministry of finance and Storebrand, and has been working within NBIMs ownership strategies department since 2014. Mohn did not wish for quotes or references from the conversation to be included in the final thesis, therefore there are no direct references to the conversation in this chapter.

7.1.2. Other investors

In order to evaluate NBIMs work with responsible investments, I needed to look at other investors with similar build up and strategies. For this purpose, I interviewed respondents from the Norwegian funds Storebrand and Kommunal Landspensjonskasse (KLP) as well as Dutch PGGM.

Storebrand is a Norwegian financial actor that provides, among other services, pension savings funds for their customers through Storebrand Asset Management. According to their own webpages, Storebrand Asset Management is the largest private investment manager in Norway, holding more than 570 billion Norwegian kroner (NOK) (Storebrand 2017). The bank was rated second in the Norwegian Fair Finance Guide in 2016 (Etisk Bankguide 2016), and top among the conventional actors. The company was also ranked second in a global sustainability ranking created by Corporate Knights (Corporate Knights 2017). Though the guide covers several aspects of a banks sustainability efforts, responsible investments is an important part of this and as such Storebrand can be considered one of the leading actors on responsible investments in Norway. At Storebrand, I interviewed Harald Martens Holm. Holm is head of sustainability communications and has worked with Storebrand throughout his professional career.

KLP is a Norwegian mutual insurance company that manages the pensions and insurances of the public sector in Norway, including a large number of municipalities and counties. The KLP group holds almost 600 billion Norwegian kroner in assets (KLP 2017). KLP ranked third on the Norwegian Fair Finance Guide for 2016. At KLP, I interviewed Jeanett Bergan who has worked as Head of Responsible Investments for ten years. Bergan has long experience on the field and has also participated in the public debate on responsible investments and the GPFG.

PGGM is the asset manager of the Stichting Pensioenfonds Zorg en Welzijn (PFZW), which is the pension fund for Dutch unions for the health care and social work sector. The fund is the second largest pensions fund in the Netherlands, holding more than 200 billion Euros in pension assets (PGGM 2017). The PFZW have ranked first on the Dutch Association of Investors for Sustainable Development (VBDO) annual ranking of sustainable investors for ten consecutive years (VBDO 2016). At PGGM, I interviewed Brenda Kramer who is an advisor at the responsible investments department.

7.1.3. Civil society actors

Having been involved with Norwegian civil society myself, I knew that there are many organizations in Norway with different opinions on how the GPFG should work with responsible investments. A few examples of organizations that have worked with the funds' investment include environmental organizations such as Greenpeace and the World Wildlife Foundation Norway, human rights organizations such as the Rainforest Alliance and Amnesty as well as large aid organizations such as the Norwegian Church Aid. A more comprehensive overview of organizations that have addressed these issues is provided by the RORG Network (2017). Wanting to get a good understanding of the Dutch investment climate, I also interviewed two Dutch organizations, Pax and VBDO, that have worked with responsible investments for some time.

The Rainforest Foundation Norway is an NGO working to protect the rainforest and to secure the human rights of indigenous people and traditional forest people. The organization has worked with the Oil Fund for several years, mainly focusing on investments that may harm the rainforest or violate the rights of the people living in or depending on the rainforest. In 2012, the organization published the report "Beauty and the Beast" which focused on the discrepancy between Norway's official policy on protecting the rainforest and investments in the GPFG that contributed to depletion of the rainforest. The Rainforest Foundation Norway

were one of the organizations that pushed for the fund to include a separate expectation document on human rights, which was introduced in 2016. At the Rainforest Foundation Norway, I interviewed senior policy advisor Vemund Olsen. Olsen has been working with the organization for close to ten years and has had the investments of the GPFG as one of his focus areas since then.

The Association for International Water Studies (FIVAS) is a small Norwegian NGO which focuses on issues relating to water as a human right, water sustainability and water and sanitation. It is the only organization in Norway focusing solely on water in a global development perspective. In their 2014 report “Dead in the water”, the organization discussed how NBIM failed to implement its expectations on water management using Coca-Cola’s production in India as case studies. I interviewed the director of the organization, Jonas Ådnøy Holmqvist. He has been in his position since 2011, and was responsible when the organization contributed with recommendations when NBIM updated its expectation document on water management.

Jørgen Magdahl is a former board member at FIVAS and the author of the report “Dead in the Water”. Magdahl was also employed at FIVAS for a period. It is due to his involvement with the report and his background working with water issues that I chose to interview him for the thesis. He is currently a PhD candidate at the Department of Sociology and Human Geography at the University of Oslo.

Future in Our Hands Norway (FIVH) is a Norwegian NGO that works with issues related to consumption and sustainability. With around 25 000 members, the organization is one of the largest membership organizations in Norway working with solidarity and environment. FIVH were among the first organizations to work with responsible investments in the GPFG. It was with the help of the editorial project “Norwatch”, which was an independent part of FIVH, that the first discussions on the responsibility of the fund were raised. The organization took a leading role in promoting the development of ethical guidelines for the fund, and in more recent years worked with getting the fund to divest from coal and to invest more in green infrastructure (RORG 2017). In the fall of 2016, they introduced Fair Finance Guide Norway in cooperation with the Norwegian Consumer Council.

At FIVH, I interviewed Ingrid Stolpestad and Gustavo Parra de Andrade. Stolpestad works as a researcher with the ethics and business department. She has a background from Changemaker and the Norwegian Church Aid and has worked sporadically with the GPFG in

both organizations. Parra de Andrade is the project leader on Ethical Bank Guide and as such participated in establishing the guide in Norway. He has a background from the bank sector.

The Dutch Association of Investors for Sustainable Development (VBDO) is a Dutch civil society organization promoting responsible investments and corporate responsibility. Since 2007, they have published a benchmark rating of the 50 largest investors in the Netherlands. At VBDO, I interviewed Rudy Verstappen who is the senior project manager on responsible investments.

PAX is a Dutch organization working with their partners to protect human rights in conflict areas, end armed violence and create just peace. Their work with responsible investments is mainly focused on promoting divestment from controversial arms such as cluster munition and nuclear arms. In addition to other reports, PAX contributes to the yearly Fair Finance Guide reports in the Netherlands together with organizations such as Amnesty and Oxfam. PAX is also partaking in the development of a fair pensions guide. At PAX, I interviewed Cor Oudes and Suzanne Oosterwijk. Oudes is the programme leader on conflict, human rights, and the financial sector. Oosterwijk is the programme leader on cluster ammunitions and has previously worked with the organizations programme on nuclear arms.

7.1.4. Previously involved actors

In order to get an understanding of how the process of developing tools for responsible investment for the GPFG has been, I wished to interview actors that had been heavily involved with this process. In doing so, I also hoped to gain different perspectives on the responsible investment strategy than the ones I received from the investors and the civil society organizations.

Kristin Halvorsen is the former leader of the Socialist Left party in Norway and served as the Minister of Finance from 2005 to 2009 in the second Stoltenberg government. She led her party from 1997 to 2012 and served as a Member of Parliament from 1989 to 2013. Her party was among the first parties in Norway to raise the issue of responsible investments within the GPFG and they also argued for the creating of ethical guidelines. Halvorsen entered office the year after the ethical guidelines were introduced, and it was during her time as Minister of Finance that NBIM first developed expectation documents.

Hans Petter Graver is a professor of law and currently the dean at the Faculty of Law at the University of Oslo. Graver led the commission that was tasked by parliament to propose

ethical guidelines for the GPFG. Graver also served as the leader for the Norwegian national contact point to the OECD guidelines for multinational enterprises. During his term as leader, the contact point worked on the Posco case where NBIM was accused of violating its own guidelines.

7.2. Findings in the interviews

This section of the paper will look at the objectives presented at the beginning of the thesis and use them to analyse the information I retrieved in my interviews.

7.2.1. The chain of tools

Kristin Halvorsen explained that in developing the expectation documents, it became apparent that "*the combination of the mechanisms for exclusion we had in the ethical guidelines and the expectation documents could be developed into quite powerful tools and that they could work together"*. In other words, she saw a potential link and interplay between the expectation documents and the ethical guidelines.

When questioned on the potentially contradicting elements of the risk-management approach in NBIM and the moral mandate given to the Council on Ethics, Hans Petter Graver pointed out that there are in fact three elements in the responsible investment work of the fund. As he explained it, there is *"the political aspect, on issues such as tobacco and nuclear arms. These are political decisions made by parliament".* This constitutes the framework that NBIM can operate within. Second, there is the corporate governance, the active ownership which Graver considers to be based on "*much more long-term economic perspective than the pure risk-management you find with short term investors who change their portfolio more frequently".* Finally, Graver explained the third aspect as *"exclusions of individual companies based on the risk of contributing to grave violations of the ethical guidelines".* This is where the Council on Ethics provide recommendations, and Graver noted that this was not a political decision. Graver stressed that this was never intended to be a large part of the ethical work, stating that "*the fund is invested in so many companies that it is impossible to control them all. And the world being as it is, there are so many violations happening all over the world that it is almost impossible to invest so broadly without investing in some of these things"*. Graver added that because of this, using withdrawal from individual companies as the only tool would only be symbolical. He nevertheless acknowledged the importance of this mechanism. On this, he explained how *"there are cases where conditions are so grave that there is a risk of becoming entangled in morally questionable situations. Either because*

companies are unscrupulous when it comes to respecting the rights of others or because companies refuse to get involved to reduce risk".

Jørgen Magdahl, author of the FIVAS report "Dead in the water"[4], expressed that it was important for NBIM to use all the instruments in available to them, including exclusion. He argued that *"the fund has two regimes it utilizes, where one is more positive and focuses on dialogue while the other provides a mechanism for sanctioning. We don't think companies will necessarily change their behavior if there is no risk for sanctions in place".*

Jeanett Bergan, head of responsible investments at KLP[5], commented on the tools used by NBIM that she felt that *"NBIM should use the synergy between divestment and exclusion because it is a great way to improve company behavior"*. She expressed a concern that the changes made to the investment model, which included placing the divestment decision within the bank, has led to risk led divestments that *"are transparent, but not transparent enough"*. She also noted that *"there are clearly some weaknesses in terms of the time it takes to investigate and come to a decision and divest"*. Commenting on their own practices, Bergan stated that an important factor was to clearly outline which companies and sectors they intended to follow up. She also added that *"we've always practiced a policy where we always follow up serious violation"*, explaining that she felt it was important to follow up serious allegations regardless of the size of the company they invested in.

7.2.2. How to measure implementation?

One of the reasons I chose to interview actors such as VBDO, PAX and Future in Our Hands was that they have worked with tools on how to measure and rate responsible investment performance. I therefore wanted to question them on how they measure this, and in particular what tools are in place to measure how well responsible investment strategies are implemented.

Rudy Verstappen, project manager at the Dutch Association for Investors for Sustainable Development (VBDO), explained their framework when I interviewed him. He explained that they based their ranking of Dutch funds strategies on responsible investments based on four different criteria: policy, governance, accountability, and implementation. Verstappen

[4] Interview performed at the University of Oslo on the 10th of December 2016.

[5] Interview performed at the Oslo offices of KLP on November 24th 2016.

revealed that they would consider the most relevant tools for each asset class they had identified. He listed exclusion from the investment portfolio, engagement with companies, ESG integration, voting at annual general meetings and impact investments as tools available to public equity investors.

Verstappen argued that proving implementation on exclusion is a fairly straight forward process where funds can report on which companies they have sold out of and why. He stressed that the VBDO did not concern themselves with what type of companies chose to exclude, as long as it was in line with the company's stated vision of sustainability. Verstappen stated that the same applied for other tools such as ESG integration or engagement, the VBDO rating seeks to rate how well the process is performed and not to comment on the specific criteria funds use in their work with responsible investments. Verstappen also stated that he believed it was easier for active investors to implement responsible investments because *"they have many more tools available than passive investors"*. Nevertheless, he pointed out PGGM as an investor with a passive portfolio that managed their responsible investment strategy well.

Cor Oudes, programme leader on conflict, human rights, and the financial sector at PAX Netherlands[6], revealed that in addition to their contribution on Fair Finance Guide Netherlands, they are in the process of developing a similar guide for pension funds. While the project is still being developed, Oudes described it as *"a two-tier model where the first tier looks at the policies and principles of the fund while the second tier has a different line of research where we will choose one theme each year"*. He went on to explain that the purpose would be to *"look at the practices of financial institutions and ask them to show us what they are doing to avoid becoming involved in companies associated with human rights violations, or other unethical practices"*. When discussing how they measure implementation in the Fair Finance Guide, Oudes stated that *"the core of the implementation research is always to which companies' financial institutions are linked"*. Oudes added that the information they use is based on interviews with investors and publicly available information.

Ingrid Stolpestad of Future in Our Hands[7] stressed that the Fair Finance Guide was mostly a tool to analyse guidelines and responsible investment policy, and that the focus on

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[6] Interview performed via Skype on January 11th 2017.

[7] Interview performed at the Future in Our Hands offices in Oslo on the 16th of December 2016.

implementation was mainly on specific case themes. She stated that for these cases, they had the opportunity to go in depth and look at implementation but that *"the whole process of testing implementation is a patchwork. You only get glimpses of the whole picture because the investment universe is so huge"*. Stolpestad's colleague, Gustavo Parra de Andrade, explained the relationship between implementation and accountability in the following way *"for us to believe that reporting is credible it, the guidelines on a specific subject have to cover central elements to the specific issue"*. Parra de Andrade explained that institutions that provided more detailed questions on implementation for their companies would perform the best on their Fair Finance Guide. While Parra de Andrade did not wish to comment on the different strategies and tools banks applied, he maintained that they not only expected banks to inform on the topics for the dialogue they had with companies, but also *"the names of the companies, the specific reason for the dialogue as well as what was the outcome and the timeframe for this"*.

Brenda Kramer explained that PGGM were in the process of developing tools to measure their implementation. She further explained that their method was that in order to integrate the importance of ESG in the fund management, their strategy was *"to spread the responsibility of integrating ESG into investment to the individual fund managers"*. She added that they expected every individual fund manager to have enough knowledge on ESG criteria to be able to apply this in their work. Commenting briefly on why water had been chosen as a criterion, Kramer noted that measuring the use of water as an input factor was *"fairly easy"*. Finally, discussing the gathering of data, Kramer noted that data related to the impact of engagement was one of the issues of concern. Commenting briefly on the relation between responsible investments performance and financial returns, Jeanett Bergan of KLP expressed a belief that *"companies with leaderships that really want to do responsible business will be the winners"* but added that *"but this is really difficult to measure"*.

Hans Petter Graver made a few suggestions on what the fund could do to better report on how to monitor potential breaches to the expectations. He suggested that one could report on "*identified areas of concern, such as geographical areas, financial sectors and so on"*. Reporting on such areas would help understand the funds strategy for identifying risk. Furthermore, Graver expressed that the fund should also show more transparency on how the steps taken when a company has been identified for further dialogue. Specifically, he stated that the fund should be more transparent on *"the general routines they have for engaging in dialogue with companies, how many resources they put into this work and how the dialogue is*

raised". He expressed these concerns in relation to the need for transparency, thus making the same link between transparency and implementation as Future in Our Hands did in my interview with them.

7.2.3. Implementing expectations

Throughout all my interviews, the message from civil society organizations and other investors was the same: The issue is not the documents but how they are used and particularly the lack of transparency. For instance, Jonas Holmqvist of FIVAS explained that he had read the document when the organization was invited to give their views when the document was being revised, and that felt the document was quite good when he first read it[8]. Vemund Olsen of the Rainforest Foundation said that the expectation documents provide a *"generally quite good expressions of what NBIM expects"*[9]. Finally, Jeanett Bergan said that she thought the expectation documents of NBIM were *"great documents"*.

However, when discussing the implementation of the document Jørgen Magdahl, who wrote the FIVAS report "Dead in the water", explained that he found the implementation of the expectation document on water to be *"fragmented, somewhat arbitrary and not concise"*. Speaking more generally about the ownership strategy, he expressed that he was critical of how the expectation documents were implemented and stated that *"it appears to me, based on the very limited information that is available, that NBIM does not take any measures beyond voting at general assemblies"*. Magdahl went on to suggest that NBIM could *"systematically enter into dialogue with companies or they could create networks with other socially responsible investors"*. He conceded that this may require more resources but added that *"this is the whole point of expectation documents: to allow you to work in depth on certain topics"*.

When asked if he thought introducing an exclusion criteria on water management could strengthen the implementation of the expectation document on water, Jonas Holmqvist answered that *"there is so much distance between exclusion and the ownership work that they would not necessarily affect each other"*. Speaking about the legitimacy of the fund, Homqvist explained that as soon *"as soon as you start to ask questions about how ethical the fund is you also have to say something about how you implement your tools"*.

[8] Interview performed at FIVAS offices in Oslo on the 3rd of January 2017.

[9] Interview performed at the offices of the Rainforest Foundation on the 22nd of November 2016.

Vemund Olsen revealed that he thought the fund did use the documents actively to implement but also added that he had not *"…seen any examples of NBIM explicitly claiming to have entered into dialogue or attempted direct shareholder engagement with companies on account of their deforestation expectation"*. He was also very clear in his opinion that the implementation was the responsibility of NBIM, stating that *"There's nothing specific in those documents that prevent NBIM from taking a much more active ownership position"*. Olsen stated that he felt the fund could be doing more to follow up the expectations on the focus areas, and that he had the impression that *"the bank is prioritizing risk based divestment over active engagement"*.

When discussing the expectation documents, Hans Petter Graver expressed a wish for the fund to be *"transparent, not only about the use of the expectation document, but also about what kind of systematic measure they have in place to identify where in the portfolio there may be issues related to the expectation documents"*. In this lies a link between increased transparency and strengthening the implementation of expectations.

Harald Martens Holm expressed that while he felt many asset managers were talking about ESG factors, he was *"unsure"* of how much attention they paid to implementation[10]. Speaking about their screening method, Holm argued that part of the strength of the method was that it *"sends a signal that we use traditional financial methods, but we also show companies that other things matter to us as well. Things such as ESG integration, how you conduct business and how you use your input factors matter to us"*.

Jeanett Bergan of KLP commented that *"NBIM probably have some work to do in terms of determining which companies their beneficiaries, the Norwegian people, can expect them to follow up"*. Finally, there was a recurring theme among the investment managers I interviewed that the dialogue with companies laid the foundation for the opportunity to implement expectations.

7.3. Other tools

The last part of this chapter will present what I consider the most important findings in the interview when it comes to alternative tools that NBIM can consider including in their responsible investments strategy. These include extended negative screening, an exclusion

[10] [10] Interview performed at Storebrand offices in Lysaker on December 8th 2016.

criteria on water management in the ethical guidelines and transparency on engagement with companies.

7.3.1. Extended negative screening

During my interviews, I discussed several other tools with my respondents. One of these tools, which I have labelled extended negative screening, is already being used by investors such as Storebrand and PGGM. Explained briefly, these investors have created their own frameworks consisting of sets of ESG criteria that they rank companies on. The framework creates an overall baseline, where companies that rank among the bottom 10 % in their sector are automatically excluded from the investment universe.

Harald Martens Holm, head of sustainability communications at Storebrand, explained their model to me in our interview. The model weights somewhere between 150 and 200 parameters on ESG issues, liquidity and expected long-term sustainability of the company. All these parameters are then added up to a final score where, as Holm explained, the ESG factors count for 40 %, the expected long-term sustainability of the company account for 40 % and the liquidity count for 20 %. Holm explained that to them, these exclusions were simply risk based and he did not consider them to be ethical decisions. PGGM has a similar model, but unlike Storebrand they rate companies based solely on ESG criteria.

Holm explained the importance of understanding how to use the data available, stating that *"when it comes to sustainability you have to recognize the materiality of each sector, that different aspects are important for different sectors. The first thing you must find out is what is important for each sector."* Both Storebrand and PGGM gather their data from external data providers such as Sustanalytics. Data providers such as Sustainalytics specialize in retrieving data from company and selling it on to investment managers. While some of the data may be publicly available, much of it is from internal reports and may not be publicly available. For NBIM's part, they disclose in their sustainability reports that they retrieve data directly from companies as well as through publicly available through actors such as the CDP. Discussing the various ESG criteria, Holm revealed that *"philanthropy is a small part of the social, maybe smaller than for example American companies would like".* Other criteria included in the social factors are, per Holm, employee turnover rate, contractors, and supply chain factors.

Brenda Kramer[11], an advisor at the responsible investments team at PGGM, explained their work with following up their criteria the following way: "*For every theme we have, we make an engagement card and on those cards, we identify what we want to reach with a company, what companies we want to talk to and how we are going to influence them."* She further explained that: *"we have experts on every theme who will identify a shortlist every year. We share that with our clients to tell them which companies we will engage with and for what reason and what results we want to reach".* This way, the fund manager informs

Concerning water, Storebrand use water intensity as one of their criteria on operations, with companies reporting unsustainable intensity levels from their operations receiving a lower rating than those who report more sustainable levels. Holm discussed the importance of water, saying that *"water in energy is clearly important, and it is going to be increasingly important"* and that *"there is a lot of focus on carbon now, but I guess water will be the next carbon".* Brenda Kramer informed that the decision to include water as one of the focus areas for the PFZW, the fund managed by PGGM, had happened in dialogue with the fund. She explained that water usage would be the area of concern if they decided to engage with a company. She also expressed a belief that the sustainable development goals would lead to an increased focus on water management among investors, stating "*I expect that there will be more attention to water now that it is so prominent and is included as a main goal in the SDGs".*

Jeanett Bergan, who was previously with Storebrand before working with KLP, explained why KLP does not use this approach and pointed to the lack of reliable data. According to her, *"ESG data that is out there has some great limitations"*. Among these limitations, she explained, were the lack of resources among smaller companies which meant that large companies would often score well on ESG reporting. Bergan also pointed to what she called *"the regional dimension",* arguing that European companies tend to perform better than American or Asian companies on reporting. Bergan further commented that there are many companies who do not report, but that this does not necessarily mean they are among the worst performers. Finally, she pointed to the time aspect and argued that it could take as much as two years from a company reports on their practices till it is included in the investors strategy. Still, Bergan did not see any financial issues related to divesting from the worst

[11] Interview performed at PGGM head offices in Zeist, Netherlands on the 13th of December 2013.

performers. Commenting on responsible investments and financial returns, she stated that *"if there is any linkage into what we've seen, the better companies don't perform better but the worst companies might perform worse"*.

Given the issues presented by KLP related to gathering data, I decided to question the representatives of Storebrand and PGGM about this. Brenda Kramer of PGGM did concede that finding data was sometimes an issue, but also expressed a development in the market in this area. She stated that *"I think the ESG data available is getting better and better. There's been a lot of market development that help us there, although there is still a lot of room for improvement"*. Holm said that gathering data had been an issue, but that technology and availability had improved and that for much data *"you can just go a supplier and buy it"*. Holm also stated that he believed while there is much room for improvement, *"the data available out there really is good enough to use"*.

When asked of his opinion on the extended negative screening tool, Holmqvist underlined that the largest impact would be made from trying to push the best companies forward. He did however concede that an extended negative screening could function as one of many measures in the toolbox of responsible investments.

Ingrid Stolpestad of the Future in Our Hands admitted she did not know of the model used by Storebrand and PGGM, but described it as interesting. She particularly stressed the potential of reducing resources spent on following up companies that repeatedly perform below expectations expressed in the documents. She added the importance of transparency in using such a screening, including which companies have been excluded from the investment universe and why.

7.3.2. Exclusion criteria on water consumption

The FIVAS report "Dead in the water" proposed that *"repeated offenses on sustainable water management and the human right to water"* should lead to exclusion based on the criteria of environmental damage and violations of human rights in the ethical guidelines. Taking this a step further, this thesis proposes to include a separate criterion on water management to the ethical guidelines, and this has been a subject that all the respondents have been asked to discuss.

When asked about the potential of such a criterion, Jonas Holmqvist from FIVAS brought up the existing criteria on environmental degradation and that this could cover water

management, but that it was a matter of interpretation. He did, however, concede that this did not necessarily cover unsustainable use of water and that such overuse is a big issue in itself. He also admitted that the use of the existing criteria on environmental degradation is not applied often, stating that *"the bar for using this criterion seems to have been set very high"*.

Kristin Halvorsen also brought up the existing criteria when asked on the potential of a new criteria for water management. She expressed that it could be an issue to measure what sustainable water use could be, but said she was *"not sure that the criteria on environmental damage, such as it is today, will cover cases of overuse of water resources"*. Discussing the difficulties of taking up human rights issues with NBIM, Vemund Olsen stated the following: *"I guess most human rights issues identified in business operations or supply chains may not qualify for a formal exclusion, at least not the way the Council on Ethics interpret the ethical guidelines"*. This, Olsen explained, was one of the reasons for working to establish an expectation document on human rights. Both Olsen and Halvorsens statements suggest that overuse of water is not adequately covered in the funds ethical guidelines today.

When asked specifically about an exclusion criteria on water management, Jørgen Magdahl stated that he felt there is *"an institutional discrepancy between the expectation document and the Council on Ethics"*. He also highlighted that while the Council on Ethics has looked at certain water issues related to the mining industry, it does not appear to look at other important sectors such as the beverage industry. Commenting on the ownership strategy in general, Magdahl added that "*if you look at water specifically, there does not seem to be a holistic approach in the ownership strategy"*. Commenting on how companies might react to such a tool, he stated that while not all companies would care to change behaviour, *"a lot of companies would do what they could to avoid divestment if they knew that exclusion from such a large fund was a possibility"*.

From the investors perspective, the responses were somewhat different when it comes exclusion. Both Kramer and Holm highlighted the importance of decisions being made based on financial aspects. Kramer stressed the importance of making a *"business case"* and that "*investors have to create an interest for companies to change and show that there is something in it for them"*. She also stated that she found this to be straightforward when it came to water management, saying that *"…if you use less water, it is less costly. And in certain geographic areas, water is a risk factor. You can show companies that it is an*

advantage to create systems that use less water now, in order to prevent the risk of water shortage later".

Holm lamented that the decision to exclude coal based companies from the GPFG had been a political one, stating that *"our experience is that you have to integrate sustainability in the asset management. The front office employees making the decisions have to buy in on the strategy when it comes to sustainable investments"*. Holm explained that Storebrands decision to divest from coal in 2013 had been based on risk management issues, adding *"... I think we were the first established, traditional investor in the world to do exclusions based on coal"*.

7.3.3. To disclose or not disclose engagement

One tool presented in the report "Dead in the water" is to widen the reporting NBIM does on their active ownership to include interaction with individual companies as well as assessments of how companies develop. I have presented this tool to the investors I have interviewed, as well as the civil society organizations and NBIM.

KLP is among the few investors to report on companies they have active engagement with, and the only one of the investors I interviewed. Explaining the rationale behind their decision to disclose publicly which companies they are engaged with, head of the sustainability department Jeanett Bergan said the following:

"We don't consider ourselves to be in competition with other investors on this area. We do what we do because we want to ensure that we are not violating human rights or contributing to serious environmental degradation through our investments. We believe that by being transparent, and by linking our decisions to human rights conventions, we can also contribute to making the world a better place".

Bergan also stated that the potential to influence other investors was a motivation, saying that they wish for other investors to *"... use the information that we've published to consider their investments, and maybe decide to put the same pressure against their financial assets that we've done"*. Bergan stressed that this dialogue did not necessarily entail a negative reaction to the company, using the Norwegian word "selskapsoppfølging" to stress that the reporting can be on both positive development or issues where they feel the company can improve. Talking of their experiences with this strategy, Bergan underlined that *"Personally, I don't believe we've had any bad experiences with being transparent about which companies we've been following up"* as well as explaining that what they reported on was not very secretive.

Summarizing her opinion, Bergan stressed that *"it is possible to be transparent in a sensible and constructive way without ruining the reputation or revealing business secrets"*. Finally, she concluded that this should not be an issue for companies, arguing that *"there is a very great principle in the investment world that all shareholders should be treated equally, which means that a company shouldn't tell NBIM any secrets"*.

The other investors I interviewed were more understanding of NBIMs strategy not to reveal information on who they have active engagement with. Holm explained this from an instrumental perspective. He argued that due to Storebrands strategy of choosing a number of companies to invest in, rather than being spread out over the whole market, allowed them to focus on individual companies and integrate ESG concerns. He also concluded that in the end their decision is based on resources and remarked that *"active ownership or dialogue does move companies, but money talks"* adding that:

"*If we move more assets to more sustainable companies, and at the same time pull money from the laggards, we're not excluding but we might send an even stronger signal to the companies. If companies move in the right direction, we wish to make access to capital cheaper for that company. If the company is lagging behind, we're not necessarily excluding, but we invest less in the company, hence possibly making capital more expensive"*.

Brenda Kramer of PGGM explained that they report to their clients on the engagement they have had with companies, but that this is not public. She did however reveal that they did make public positive examples of companies that had improved. Explaining this strategy, she expressed a concern that revealing too much information would make companies more reluctant to enter dialogue and this lessen investors opportunity to advocate positive change. She stated that *"we use our engagement to try to talk to the companies and not to expose them, to change behavior before they get exposed. I think exposing them with a vote against is the last resort you go to"*.

Among the civil society organizations I interviewed, there seemed to be a consensus that this type of reporting could be beneficial and strengthen transparency. Gustavo Parra de Andrade, project manager for Fair Finance Guide at Future in Our Hands, pointed to research presented by PRI that does not show any negative correlation between transparency and financial returns. He used this as an argument to say that *"it does not harm the fiduciary duty if fund managers prioritize ownership engagement and transparency"*. Parra de Andrade also confirmed that for their work with the Fair Finance Guide, they considered that there was a

strong correlation between the degree of transparency an institution provided and the level of commitment they showed towards their work on responsible investments.

Parra de Andrade's colleague at FIVH, Ingrid Stolpestad, revealed during the same interview that one of the findings during their work with Fair Finance Guide was that banks with the largest responsible investment departments also had the most elaborate frameworks for responsible investments. Stolpestad also claimed that while the strategy of not disclosing dialogue may push the individual companies to improve, it was necessary to see transparency at a more principal level. Underlining that she did understand the arguments presented by fund managers, she did not find them convincing when compared with the counter-arguments. She asked rhetorically that *"perhaps it is necessary for companies to sometimes give up the close, private dialogue behind closed doors for the superior principle to be sustained"*. Stolpestad also pointed to transparency on company dialogue when asked what measures NBIM could take to strengthen their work on responsible investments. Stolpestad also expressed a scepticism for the willingness of financial actors to provide transparency, stating that *"I believe that the sector perhaps does not have a strong understanding for public regards and the public's right to access of information"*. She did however add that she believed that attitudes towards this were changing in the financial sector.

When asked about reporting on company engagement, Rudy Verstappen of VBDO expressed that this was uncommon in the Netherlands and that *"what you hear from the pensions sector is that engagement processes are based on mutual confidence and that they don't want to publish the current engagement companies"*. Verstappen did find the tool interesting, however, stating that such sharing of information might enable funds to *"get other investors to collaborate with you in order to gain power"*. He conceded that there were strengths and weaknesses to the tool, and recognized that such a tool might make the investor seem more *"activist"* in its approach.

The representatives from the other Dutch NGO I interviewed, PAX, expressed a similar understanding of the arguments presented by investors but maintained positive towards more transparency. Suzanne Oosterwijk, programme leader for the cluster ammunitions program at PAX, stressed that there are varying commitments to responsible investments and that *"it is not a given that financial institutions show a willingness to be transparent, so it is something that is important to encourage"*.

When asked about tools that he thought could strengthen the implementation of the expectation documents, Vemund Olsen of the Rainforest Foundation highlighted transparency and said about NBIM: *"I believe increased transparency about their engagement with companies would be a help"*. He further stated that he felt the fear of divulging company secrets in reporting was an *"overstated fear"*. He also claimed that while NBIM have already started going in the direction of releasing more information about their engagement with companies and are more transparent than most international funds, it was still *"unnecessarily reticent"* when it came to reporting.

Olsen pointed to the Swedish AP funds as a good model for level of transparency, describing that that they *"mention the company, it mentions the general issue for the engagement and it sets some specific targets also on an overall level. Then it reports year by year if there are any recent developments in that dialogue"*. Summing up his views, he explained that the lack of transparency on NBIMs part *"makes it harder for them to improve their work, and harder for the rest of us to gage the effectiveness of it"*.

Asking Jonas Holmqvist of FIVAS why they had decided to include this tool as a suggestion in their report, he replied that reporting was important in part because *"it is better to do something than nothing and all. And then there is the hope that you have for all large bureaucracies, that they will do what they have to report on"*. Holmqvist also stated that the he felt the lack of knowledge surrounding the companies NBIM invests in, and how they are followed up, is an issue in itself. As he put it, *"the bank says that it is important to have strong ethical guidelines, but we know very little about how they are being implemented and what the effect of having them is"*. Through opening up on transparency and reporting, Holmqvist expressed, it would be clearer for the outside world to know what tools NBIM apply in their engagement with companies.

Holmqvist, like Olsen, argued that revealing information on which companies the fund is engaged in dialogue with was very little information to divulge. He felt that saying that such reporting could hurt the reputation of a company was a *"conservative approach"* and added that *"it is first when this kind of dialogue has been going on for years, and you see it in relation with other information, that it can become damaging for the reputation of the company"*. Addressing concerns he had heard from investors claiming that they risked being sued if they revealed to much information, Holmqvist remarked that *"it seems extraordinary*

that you would get sued for stating that you have had dialogue on one of four focus areas on sustainability".

Jørgen Magdahl was very critical of the lack of transparency in NBIM during my interview with him, commenting that *"The Council on Ethics have their mandate and are at least to an extent independent, but when it comes to the active ownership we barely know anything about what is being done"*. He also stated that his impression was that even parliamentarians knew very little of how NBIM performed their ownership strategy. When asked about KLPs standard of reporting, Magdahl stated that *"it shows that there are some cracks in NBIMs arguments, and certainly that there are differences among financial institutions in analysing how much information can be revealed"*. He also stated that he found it *"puzzling"* that private institutions with fewer democratic obligations went further in their reporting than a state-owned institution such as NBIM. Like Stolpestad, Magdahl expressed a concern that financial actors did not necessarily understand the importance of transparency. He noted that he believed economists found it *"convenient to not be in the spotlight"*. He also expressed a concern that the financial market in general *"tend to chase short-term revenue"*, though he did recognize that investors such as KLP seems to show that some actors are willing to take steps towards more transparency.

Explaining the suggestions made in his report, Magdahl stated that he felt it was only natural that NBIM should provide a list of the companies they enter dialogue with because he felt it was *"reasonable that the public receive information on what the dialogue with companies entail"*. Magdahl was also sceptical to the information NBIM base their current reporting on, noting that there seemed to be methodological issues when companies such as Nestlé and Coca-Cola have been highlighted in NBIMs reports as some of the top performers on water management (NBIM 2016d). Commenting on what more information and transparency would mean to the work done by civil society, he stated that *"we would definitely pay more attention to companies if we knew they were on such a list. It would mean they were closer to a sanction by the fund, and that would create a political space that we could not miss out on"*.

Former Minister of Finance, Kristin Halvorsen, was open to the development of such a tool, but suggested that it be introduced after a specific amount of time. Pointing out that it can be difficult for outsiders to know the processes around such dialogue, she suggested taking *"a pragmatic approach"* in order to find the appropriate time to divulge information. She suggested setting a timeframe for reporting dialogue with companies, arguing that *"you can*

take that into the dialogue and companies would know that by next year they may have to report and answer to the expressed expectations from the fund". She added that this approach may help speed up the change the fund wants to see from the companies, and that the consideration on what is the most efficient tool for change should be what determines if and how to implement reporting on company dialogue.

Responding to Halvorsens suggestion of setting a timeframe for when to disclose dialogue with companies, Jonas Holmqvist remarked that this solution could have an adverse effect because it *"may strengthen the argument that disclosing this information may hurt the company"*. Holmqvist said that he felt *"there is a value in routine reporting"*, and argued that this approach could hide whether a company was in dialogue because of a specific issue or as a routine dialogue. This, Holmqvist argued, could help protect the company from potential reputational damage.

When asked about the transparency of the fund, Hans Petter Graver was quick to stress that he had not followed the fund since his term as national contact point for the OECD ended and as such could not say anything specific about the current status, other than that he had the impression that there had been some development. Graver did however reveal that transparency had been an issue when the Posco case had been tried with the contact point. Specifically, Graver stated the following:

"*We felt there was a lack of transparency on NBIMs part concerning the criteria they used, and the due diligence and quality assurance systems they had in place to identify and set forth demands to the companies they were invested in. We did not receive this information, so we didn't know anything about it"*.

Speaking more generally about transparency, Graver stated that he felt that NBIM "*should be transparent, not only concerning the expectation documents, but also on the systematic measures they take to identify where in the portfolio there may be issues related to the expectation documents"*. On more specific measures, Graver suggested that the fund could *"be transparent about the general routines they have for entering dialogue with companies, the amount of resources the use on this and how the dialogue is initiated"*. Finally, Graver recognized that there could be some limitations to transparency based on what might be the most efficient way to change company behavior. Still, he concluded that *"I can't see any arguments for not publishing a yearly list of the companies NBIM has been engaged with and why"*.

7.4. With great assets comes great power – and great expectations

The final recurring theme in my interviews was the responsibility NBIM has for governing a state-owned institution such as the GPFG, and the impact a large actor such as NBIM have on the rest of the investor community.

There was a clear understanding among the other respondents I interviewed that the GPFG was a considerable actor with much influence within its market. Suzanne Oosterwijk of PAX noted the impact the GPFG had had when banning cluster ammunition and stated that *"the GPFG is still a one of the funds that other financial institutions are looking to"*. Her colleague expressed that *"the Norwegian circumstances are always very interesting to us"*.

Ingrid Stolpestad at FIVH expressed her belief that what the GPFG did influenced other investment managers, stating that *"we see this both internationally and in the way many Norwegian bank institutions will adopt the criteria used by the fund more or less automatically"*. She also expressed that for a small country like Norway, *"a fund like the GPFG is the one area where Norway can make a difference"*. She added that *"the influence is not only limited to the financial value in the fund. The guidelines of the fund are referred to internationally, and that matters"*. Her colleague added that fund managers such as NBIM wield extensive power because *"they decide where their money will be invested and what it will be spent on"*. He reasoned that there will always be companies fighting for this capital, and that it was important that society as a whole is informed on how fund managers decide who they choose to invest in. Stolpestad added an example where the fund had excluded from Nevsun but did not divulge why. Stolpestad stated that *"the company was accused of using slave labor in their operations in Eritrea. If NBIM had announced publicly why they excluded the company it could have put the company on the blacklist of many other funds"*.

While he accepted that an individual fund *"will very rarely be in a position to make a difference"*, Vemund Olsen expressed a belief that NBIM was in a unique position in the market because of their size. Olsen also admitted that *"it is not the mandate of the fund to be an international role model. But if it did take that role, it could push the entire international finance sector in a more sustainable direction"*. He also added that *"We know that a huge number of investors follow routinely the recommendations from the council on ethics"* and expressed that he wished for this leadership role to be extended to the active ownership strategy. Finally, Olsen stated that he felt that "*NBIM seem very reluctant to take a leadership role and reluctant to cooperate directly and publicly with other investment funds*". When

asked why, Olsen expressed that he felt it was because the fund did not want to be seen as a political tool.

Jonas Holmqvist of FIVAS expressed that *"it is raised beyond any doubt that there is a strong signal effect to any decision NBIM makes"*. He also mentioned that NMIB themselves claim to have influence over companies despite being a minority owner. Speaking of why FIVAS chose to write a report related to the GPFG and its investments in water, Jørgen Magdahl stated that "*if the fund would start to move in a positive direction, it would also send a positive signal to other investors"*. He added that for people and organizations working with water issues globally, *"it could be an important resource to show the developments made in Norway"*.

Commenting on transparency issues, Jeanett Bergan stated that *"NBIM is a very attractive owner. They own relatively large portions of companies and have a very strong power that they can use in a constructive and positive way. But they are not showing the Norwegian stakeholders how they are using that power"*. She recognized that due to their size and their role as a state-owned fund, it is necessary for NBIM to take *"other considerations than many other funds"*. Bergan still maintained that *"NBIM has a lot of power which they could use in a constructive and positive way"*. Bergan also noted that *"what NBIM does, and which companies they own and don't own really sets a standard for business behavior. They have a great influence that should be used more constructively"*. Commenting on the fund divestments after the model for the fund was changed, she argued that she was worried that *"the power in publishing divestment decisions on certain issues, that can drive and make the world a better place, is lost when the reasons for divestment are not disclosed"*. Bergan explained that this was an issue for them and other investors because *"our customers expect us to follow NBIM, so when we are involved in a company and GPFG is not it puts us in a difficult spot. All institutional investors in Norway want to be aligned with NBIM, but that is difficult if we don't know why they have excluded"*.

Harald Martens Holm noted that *"the larger actor you are, the more attention you will receive and NBIM naturally receives a lot of attention"*. He said this in the context of explaining why he felt that NBIM should base their exclusions based on financial reasoning. Speaking generally of the development of sustainable responsible investments, Holm made the argument that larger institutions had been at the forefront just as much as niche investors. He mentioned Storebrands attempt to start up sustainable funds in 1995 as an example of this.

Holm also expressed a belief that *"at least some companies will give you attention if you as an investor tell them that they have to consider more aspects than just the traditional ways of understanding returns"*.

8.0. Discussion

Having presented my findings from both interviews and document research, the following section will provide a discussion to answer the objectives presented at the start of this thesis.

8.1. Political framework, financial investments

One of the clearest lines of division in my interviews was the discussion on political influence on the investments of the GPFG. NBIM has repeatedly pointed out that they want to avoid the risk of being seen as a political tool, for instance expressed in their letter to the ministry of finance regarding the expert group report on investing in coal and petroleum companies (NBIM 2015). Harald Martens Holm of Storebrand was also very clear on his conviction that decisions to divest should be taken on financial grounds. Other actors I interviewed were of an opposing view, arguing that the fund in its construction is and must be in part political.

As I have already claimed, it can be argued that any transfer of money is in part political, and global transactions means it has an impact on foreign policy. It is also founded in the Graver commission that while the investment managers within NBIM should only be concerned with the financial aspects of the fund, the framework NBIM operates within is created by parliament and is therefore political. This framework is vital to the fund. As a government fund securing the pension of all Norwegians, it should be accountable to the political representatives of the Norwegian people, namely Norwegian parliamentarians. Not only does the investments of the fund have political impact, it is also essential for the legitimacy of the fund that politicians decide the structure of the framework the fund operates within. Because the beneficiaries of the fund, Norwegian citizens, have little opportunity to influence the investments of the fund, it becomes even more important that the political representatives of the beneficiaries create frameworks for the fund that finds legitimacy in the population.

Parliamentarians must assume that the investment managers in NBIM make the best decisions to uphold the financial mandate of the fund, and that they recognize that long-term returns depend on sustainability. Anything else would be to breach the fiduciary duty as it is stated in the funds mandate. However, it is also in the interest of the investment managers that the political framework they operate within provides clear mandates on where money can and cannot be placed. The more precise the framework fund managers operate within is, the easier one can assume it would be for them to stay responsible to both beneficiaries and true to their ethical guidelines.

Judging by answers given by my respondents, it seems evident that risk management factors are usually what motivate investors to create responsible investment strategies. The exception seems to be on certain product-based criteria, such as tobacco or controversial weapons, where the industry is profitable but some investors such as the GPFG choose not to invest in it. For GPFG's part, these decisions have not been made by NBIM, but are part of the political framework the fund operates within. Similarly, the ethical guidelines provide specific criteria for the fund to divest from or exclude a company. The more specific these criteria are, the easier it can be for NBIM or the Council on Ethics to make a decision or recommendation on whether it would be necessary to act to avoid the risk of becoming involved in unethical behaviour.

With regards to the danger of exclusions being understood as political rather than financial decisions, it is important to remember that the decision to exclude a company from the investment portfolio lies with NBIM. Furthermore, the Council on Ethics is not a political instrument. The ethical guidelines, like Hans Petter Graver pointed out, provide guidance on what it would be morally wrong for NBIM to be financially involved in. While the framework itself is political, neither the expert group providing recommendations nor the investors having the last word can be considered political actors. It is also an argument that the ethical guidelines are based on internationally recognized standards such as the UN Global Compact or the OECD guidelines for multinational enterprises. Exclusions based on these criteria should therefore not be considered politically motivated as these guidelines are not an expression simply of Norwegian policy, but of global efforts to promote human rights.

The premise that the funds' investments should be in accordance with stated Norwegian foreign policy, as was stated by the Graver commission, provides another argument for the fund's framework to fully take into account the political dimensions of its work. Human rights have been a fundamental element of Norway's foreign policy for several years and through various governments. While the fund itself is not a political tool, its investments nonetheless have political power and influence. Continued investments in companies that repeatedly violate human rights contradicts stated Norwegian foreign policy aims.

8.2 Grade of responsibility

One of the main issues concerning responsible investments is to what extent investors are responsible for the actions of the companies they invest in. There is a general consensus that there is a responsibility, and this is evident in both the UN PRI as well as the OECD

guidelines as was made clear by the national contact point statement on the Posco case. The Graver commission also very clearly establishes this responsibility, confirming that *"to own equities or bonds in a company that is expected to commit gravely unethical actions could be considered complicity to these actions"* (NOU 2003:22:14). The question is therefore not whether NBIM as an investor has an ethical responsibility for its investments, but how far this responsibility reaches.

8.2.1. Responsible for trying, not for succeeding

There is a strong emphasis among investors on the business case for responsible investments, and this emphasis is also present in the documents I have looked at. Both the CDP report and the UN global compact water stewardship guidelines argue that more efficiency in water management will benefit the companies financially, and NBIMs expectation document on water management echoes this view. This win/win perspective on water management and financial returns is not surprising as it reflects traditional ideas of responsibility firstly to stakeholders. It also fits well with the universal ownership theory that was reflected in the Graver commission. If investments depend on sustainability for good long-term returns, it makes sense for universal owners to argue that sustainability is good business.

However, while it may hold true that businesses are more open to reasoning based on financial issues, it also poses the question of what to do with companies who do not consider it a financial risk to overuse water. It is therefore necessary to understand CSR not only as a financial incentive, but as something that must be integrated in the company's own business enterprises. Indeed, the focus from both investors and in the relevant documents I have looked at recognize that company responsibility includes integrating ESG factors into the companies own activities. Using the theoretical framework of Garriga and Melé, this is going beyond both the instrumental and political approach to CSR and acknowledging that CSR responsibility relates to the company's own core activities. The integrative approach is also what is reflected in NBIM's expectation to companies.

NBIM's sustainability report can be understood as an effort to meet expectations presented in the PRI. In it, the fund shows that it does have a strategy for responsible investments, gives some insight into how they engage with companies on ESG issues and discloses some information on how they work to implement expectations. However, it can be argued that the fund has some ground to gain when it comes to article six which speaks of funds responsibility to disclose on their own activities. In particular, the report lacks disaggregated

data on company engagement which makes it difficult to assess how the fund engages with companies on ESG issues. While the fund does disclose much information on its voting strategies, and specific information on how it voted against board recommendations in its largest holdings, this specific information lacks for other companies where the fund has voted against board recommendations. The voting record also shows that the fund primarily focuses on governance issues, and it provides very little information on how the fund voted on environmental and social issues.

An important element in the discussion on responsible investments is the fact that the PRI do not set guidelines for what to do if a company does not change behaviour, it only speaks of the responsibility the fund itself should act per the standards set by the guidelines. This is understandable. As Hans Petter Graver commented in the interview, the sad state of the world is that there are so many rights violations going on all over the world that it would be impossible for a fund the size of the GPFG to avoid investing in unethical behaviour. If they were to be held directly responsible for all the violations committed by companies, and they were to avoid this, there would not be enough companies to invest in. Companies are responsible for changing their behaviour in accordance with their responsibility to respect human rights. The responsibility of investors lies in the steps they take to push companies to take their responsibility for respecting human rights. The UN guiding principles speak of a responsibility to respect human rights, and this will at times come in opposition to returns. In these cases, it is the responsibility of investors like NBIM to ensure that the respect for human rights are given precedence.

The fundamental questions are then: what is an investor to do if a company does not show any intention in changing its behaviour? And at what point should the fund conclude that active engagement has not had the intended effect? This is where the Council on Ethics ideally would provide support to NBIM. The role of the Council on Ethics is to provide guidance on what to do in cases where company behaviour may cause the fund to be financially related to behaviour that violates its ethical guidelines. Since the PRI do not define what measures investors should take in these cases, it can be argued that NBIM are not responsible for taking actions against companies that do not meet expectations. However, as an institutional investor NBIM is not only responsible for implementing the PRI. It is also responsible for informing their beneficiaries, the Norwegian people, on how their pension fund is managed. While the PRI may not require the fund to act against companies, the Norwegian people may still want measures to be taken. And this is where the Council on Ethics comes in.

Ideally, when NBIM considers that a company is not willing to meet expectations the case would automatically go to the Council on Ethics to provide guidance on the particular case. However, this does not seem to be the current practice. The number of companies reported not to meet expectations on water management outnumber the total amount of companies NBIM sent information to the Council on Ethics on by quite some distance. In brief, there does not seem to be any automatic relation between poor performance on focus areas and the involvement of the Council on Ethics to advice on what measures to take next. It is important to note here that involving the Council on Ethics does not mean that the Council would recommend any action. It is quite possible that the Council would find many cases not to be in violation of the ethical guidelines. However, this is a recommendation that NBIM should seek when they see that their other tools for implementing expectations are not efficient.

8.3. The tools are not linked

Both Jørgen Magdahl, who wrote the FIVAS report on the expectation document on water, and former Minister of Finance Kristin Halvorsen highlighted the importance and effect of the expectation document in combination with the mechanisms for exclusion. Paragraph 2 article 1 of NBIMs mandate also underlines that it should seek to "*establish a chain of measures as part of its responsible management activities"* (NBIM 2016a:3). The word "chain" suggests a chronological use of the tools, where failure to resolve issues with one measure leads to the use of the next tool in the chain.

Ideally, the chain of tools might function as follows: A negative screening would exclude certain companies from the investment universe, avoiding that NBIM invest in them in the first place. This would exclude companies that produce controversial weapons, tobacco or where coal make up more than 30 % of the company's activity, as well as companies already excluded for violating the ethical guidelines. A negative screening could also include a model similar to that of Storebrand or PGGM, where the worst performing companies in certain sectors would automatically be excluded based on NBIMs own matrix for risk management. After this screening, the process would follow much as it is explained in NBIM's sustainability reports: A broad risk management process based on the expectation documents, as well as other ESG factors, would reveal to NBIM which companies were in danger of not meeting expectations. NBIM could then contact these companies and engage in dialogue, once again based on the expectation documents. Failing to show a willingness to change would lead NBIM to use their voting rights actively at the next General Assembly. Finally, if

this did not lead to a desired change, NBIM would send the case to the Council on Ethics to decide if the violation of expectations is so grave that it violates the ethical guidelines. Based on the recommendation from the Council on Ethics, the current model would leave NBIM with the last say on whether to divest and exclude or continue with the active ownership.

The description above is how the chain of tools would look ideally, and in theory this is what happens. There are, however, several missing links in the chain. First, it is not clear at which point NBIM decides that it is necessary to use its voting rights if companies do not meet expectations. While it is understandable that this may vary in individual cases, my findings do not suggest that there are any obstructions to introducing a more specific guideline to this. Furthermore, there is little transparency on what causes NBIM to engage the Council on Ethics on specific cases. As I stated above, the reporting suggests that there is no automatic relation between breach of expectations and the involvement of the Council on Ethics. It also seems to be a rarely used option by NBIM, given both the number of companies in the portfolio and the number of companies that reportedly do not meet expectations.

The mandate of the Council on Ethics leaves them to focus on specific cases where companies are accused of violating the ethical guidelines. The work of NBIM is however mostly focused on changing the behaviour of a company as a whole. This mismatch makes it difficult for the Council on Ethics to get involved on their own initiative in cases where companies do not meet expectations presented in the expectation documents, but where there is no specific case to study. For the Council on Ethics to become involved in such cases, it depends on the information it receives from NBIM.

The 16 letters and four ordinary meetings where NBIM exchanged information with the Council on Ethics suggests that the information NBIM provides to the Council on Ethics is rather limited. Given the sheer number of companies deemed to perform poorly on the expectations of the fund, and the number of times the fund voted against boards on general assemblies, one could expect this number to be higher. Furthermore, when 13 % of companies report that they do not have any policies on water management it could be considered a failure to communicate a policy commitment, and as such a breach of principle 16 of the UN guiding principles as well as a breach of the funds own expectations towards the companies. While the aim of the fund should be to change company behaviour, not simply to exclude those who fail to meet expectations, there should be a correlation between failing to meet expectations and further sanctions. The possibility of exclusion based on recommendations from the Council on

Ethics is one such tool for sanctions, but for it to be efficient companies need to know that breaching expectations will lead to the risk of exclusion.

8.3.1. Expectations versus reasons for exclusion

One feature worth noting is that the expectation document NBIM present to companies do not necessarily correlate with the criteria for exclusion that the Council on Ethics work with. There are no clear criteria in the funds ethical guidelines that can be directly tied to overuse of water resources. While the criteria on environmental degradation may apply for aspects related to water management such as pollution, as was suggested by some of my respondents, it does not cover the simple overuse of water resources that can still have drastic effects on individuals right to access to water. Environmental degradation does not cover all issues related to water management as water pollution is not the sole impact business activity can have on water resources. Other issues, such as water grabbing and diversion of water resources may also have an impact on the right to water. Overuse of water, particularly in already water-stressed areas, may impinge on communities and individuals right to access to water even if the water source is not polluted.

At the same time, the expectation document on water management sees these issues from primarily a financial perspective. The document speaks of risk reduction, potential benefits, and financial impact, but do not mention human rights or the risk of violating these. The only clear demand on individual's rights to water can be found under the fourth expectation, where the document states that companies should "*seek to contribute to local populations retaining necessary access to water*" (NBIM 2016f:4). What this contribution should entail, however, is not specified. This leaves issues related to the right to water to be covered by the other expectation documents, particularly the expectation document on human rights. While issues such as land rights, and subsequently rights to water sources, and excess use of water, could be covered by the expectation document on human rights, the implementation of this document is not fully developed and has so far not been used to address water issues.

Given the large spectre of areas that can be covered by the expectation document on human rights, it will be close to impossible for the fund to report on it all. For now, the fund has narrowed this down to look at human rights issues in the value chains of the global clothing industry. Therefore, the expectation document on human rights does not cover the human right to water yet, and as such this right is not clearly covered by any of the expectation documents. The right to water is such a fundamental human right that it should be reflected in

the human rights work of all companies. As an investor, NBIM has a responsibility to ensure that companies respect this right. Avoiding overuse of water should be a priority not only because it is profitable, but because overuse that impinges the right to water puts individual at grave risk and should be considered unethical behaviour. The severity of this violation of human rights should be included in the ethical guidelines of the GPFG with a separate criterion that specifically addresses the human rights effects of overuse of water.

8.3.2. How efficient are expectation documents as tools for responsible investments?

Nine years have gone since the introduction of the first expectation document, and the use of such documents seem to have received renewed attention from civil society organizations. In chapter 7.2.3., I presented the findings on how the expectations presented in the expectation documents were being implemented. The information retrieved in my interviews reveal a general understanding among civil society organizations and other investors that the documents themselves are strong but that it is difficult to see how well they are implemented or how. There seems to be a discrepancy between the expectations civil society organizations have for these documents and the current use. The findings in my research leaves the impression that the expectation documents are used in the process of monitoring the investment portfolio, and to a lesser extent as part of a wider dialogue when engaging with companies.

With five expectation documents currently in place, the expectation document on tax and transparency having been recently introduced, it seems legitimate to ask just how efficient these documents are. The expectations on water are included in the broad risk monitoring process performed by NBIM. The various expectations are also included as part of a broader dialogue when engaging with a company. However, there does not seem to be clear routines for sanctioning if companies violate the expectations on water management. NBIM does not report disaggregated numbers on the number of companies they have dialogue with on their focus areas, nor the companies they decide to escalate engagement with. However, the total numbers from the 2015 report on sustainability inform that there were only 32 companies where engagement was scaled up. Scaled up in this context means that NBIM decided to vote against the continued board presence of board members they found not to be cooperating (NBIM 2016f). Given the sheer number of times they voted, and the number of companies reported to perform poorly on the expectations presented in the expectation documents, this is at best a moderate number of companies.

The expectation document on water management is stated to be based on, among other guidelines, the UN guiding principles on business and human rights and the OECD guidelines for multinational enterprises (Ministry of Finance 2010). However, the document analysis in this paper shows that it is mostly the latter that has lent influence to the document. The strong emphasis on both businesses responsibility to respect human rights, and the need for stakeholders to be heard, that is found in the UN guiding principles is not very well reflected in NBIMs expectation document on water management. This underlines the impression that the expectation document on water is primarily a tool for assessing financial risk, not for ensuring that the funds' investments avoid impinging on individuals right to access to water.

According to NBIMs report on sustainable investments for 2016, the fund engaged in dialogue with 600 companies on water management issues (NBIM 2016a). In NBIMs own evaluation of how these companies reported on water management, around half of the companies received a label of "weak" or "very weak" (NBIM 2017b:29). It is perhaps worth noting that while the report states that these assessments are based on five main indicators and several other indicators, it does not list these indicators and so it becomes difficult to say anything about how the quality of these assessments. Furthermore, among companies that did score well were Coca-Cola Company and Nestlé, companies that have been involved in controversial activities concerning water management (Franco et. al. 2013; FIVAS 2014). As Jørgen Magdahl argued, this suggests that there are some issues regarding the methodology NBIM uses to rate companies. This may reflect the concern expressed by Jeanett Bergan at KLP, that large companies would automatically score well on reporting simply because they have the resources to provide the information requested by the investment manager. It can be argued that this flaw has more to do with the poor overall performance in the market, and less to do with the strength of the expectation documents or how NBIM implements them. Nonetheless, it can also be argued that when companies that have been accused of impinging on people's right to water score well, such as Nestlé or Coca-Cola, it does not bode well for those companies that do not perform well. There is a breach in the implementation of the documents if NBIM fails to follow up engagement with companies that perform poorly in what is already a weak class. It is possible that they do follow this up, but given the lack of reported information it is impossible to know. And if the annual reports really do report all the activities NBIM have on responsible investment, one could conclude that what has not been reported has not been measured.

The only water related divestments reported by the fund were in relation to mining companies. Because the fund does not report more specifically on the reasons for divesting, it is unclear if the divestments were made because of the potential risk of environmental damage or if it was due to poor water management on the companies' part. With no such information revealed, and very little information revealed on the engagement NBIM has with individual companies, it becomes very difficult to assess just how well NBIM succeeds in implementing their own expectations. This is relevant because the premise for active engagement is that it can change company behaviour. Without knowledge on how companies change their behaviour, it becomes difficult for the stakeholders of the fund to assess whether the change they wish to see is actually taking place.

While it is difficult to measure the effects of the engagement a fund has with a company, it seems that it should be possible to measure the steps funds take to change company behaviour. This means that it is possible for funds to show that they take the responsibility they have as it is expressed in the PRIs. In fact, this is in essence what the annual report on sustainability is. With NBIM being an active participant to the CDP and basing their expectation documents on the UN Global Compact, there can be little doubt that the tools to measure their own steps for implementing expectations on water management are in place. In fact, NBIM have been at the forefront of developing this field. It seems evident then that when civil society actors request more information on how NBIM implement their expectations it is not for lack of information that NBIM does not disclose this. If NBIM can report on how many conversations they have had with companies on different topics, they also have the disaggregated numbers they have used to calculate the total number. When they can also report an aggregated ranking of how well companies report, and a list of best performers, it is evident that they must necessarily have the list of companies that do not perform well. It is a stated strategy of the fund that they only wish to disclose the best performers in order to present positive incentives. Still, there is no contradiction between doing this and at the same time disclosing information on companies that have not shown signs of improvement over time.

8.3.3. Resources limit implementation

It is understandable that the GPFG chooses certain focus areas for its responsible investment strategy. As was repeated by several of my respondents, both those from civil society and those representing funds, company engagement is a matter of resources. No fund, not even one as large as NBIM, will have the capacity to follow up all companies. It is a fair argument

that funds with extensive portfolios do not have the capacity to focus on every aspect of ESG, a fund's primary concern is to create returns and at a certain point monitoring companies will have a negative impact on this concern.

There are problematic aspects of introducing too many expectation documents as well. Introducing more focus areas without increasing the resources spent on monitoring would lead to less attention given to each focus area. This could ultimately undermine the intention of choosing specific focus areas. But, as was also repeated, when a fund has chosen particular areas to focus on one should expect the fund to at least follow up these. NBIM is an active manager, implying that they recognize that their responsibility as an investor goes beyond merely informing companies of what they expect from them. If NBIM recognizes that they as an investor are responsible for trying to influence company behaviour, one can also expect them to use the full set of tools available to them to try to change this behaviour to comply with their expectations as an investor.

In the annual report for the GPFG, the fund reports that the costs related to the management of the fund amounted to four billion NOK in 2015 (Norges Bank Investment Management 2016a). As these are aggregated numbers for the whole management of the fund, it is difficult to give an estimation of how much of this was spent on activities related to active ownership or engagement with companies but it shows that a considerable amount is spent on managing the fund. In comparison, the Council on Ethics had a budget of 14.2 million NOK for 2015 (Council on Ethics for the Government Pension Fund Global 2016). The Council reported contact with 42 companies in 2015. With such limited resources, one can assume that the Council on Ethics will often depend on NBIM for information if it is to be able to follow up companies accused of breaching ethical guidelines.

Even with a budget of four billion NOK, NBIM is only able to follow up around a third of the companies they have invested in. Even if these companies make up the bulk of the fund's investments in financial assets, there is still a large portion of the fund that NBIM due to resources issues cannot follow up. Because company engagement is a costly affair when you have to monitor 9000 companies, the extended negative screening may be an interesting tool for the fund. While the tool certainly has its flaws, and excluding companies from the investment universe is but a small part of responsible investment work, this tool would help identify worst performers that NBIM may not be able to engage with. Given the reporting from CDP that certain companies repeatedly fail to report on their water management, one can

assume that many of the worst performers show little interest in changing company behaviour. As a first tool in a chain of tools, extended negative screening can strengthen responsible investments by removing the worst performing companies and allow NBIM to focus their engagement efforts with companies more willing to change their behaviour to meet expectations. It should be noted that extended negative screening should not be introduced to replace company engagement, but rather as a supplement to the existing tools for responsible investments.

8.4. How much transparency is too much?

Another topic in my interviews that has shown lines of division is the issue of transparency. Storebrand and PGGM emphasized the importance of being able to change company behaviour through confidential engagement. This stand is shared by NBIM, who has previously expressed that *"public disclosure of ongoing company engagements may be detrimental to their progress and to future engagements"* (NBIM 2014). This has been the main argument for not disclosing more information on the engagement they have with companies. Nonetheless, all the investors I interviewed seemed to agree that a level of transparency was indeed necessary, and NBIM does provide case examples of company engagement in their sustainability report. Many of the civil society organizations, while acknowledging the arguments concerning the ability to change company behaviour, felt that there is still room for NBIM to be more transparent in their reporting.

Using Mansbridges' distinction between transparency of process and transparency of procedures, my conclusion is that the NBIMs annual report provides information on both process and procedure. The bank deserves credit for providing extensive annual reports on their work with responsible investments, and the reports show that NBIM is increasing the number of companies it contacts concerning various issues. However, the reports provide more information on the general processes and less on the specific procedures. While the fund reports a lot of information on the number of companies they have engaged with, where they have voted and other contributions to strengthening investor practices, there is little specific information on why they have chosen to engage with specific companies. There is naturally a limit to how much information that can be disclosed from several thousand company engagements, but disclosing at the level that KLP should not be beyond the capacity of the GPFG.

Kristin Halvorsen's argument that how much information the fund discloses should be based on what has the most positive effect on the goal of changing company behaviour lies at the foundation of the argument here. The fund's annual report on sustainability shows that many companies do not comply with expectations, and the lack of reporting is also reflected in the CDP global water report. It is natural to assume that it is the interest of the fund that companies meet their expectations. The question is then whether the argument that more detailed reporting on company engagement would hurt the funds ability to change company behaviour. This thesis suggests strengthening the transparency of the fund through reporting on the companies that the fund maintains engagement with. This is primarily based on two findings in my research: The CDP global report on water and the reporting practices of KLP.

As is stated in the UN guidelines for business and human rights, there is a need for businesses to have certain frameworks and policies in place to prove that they are in fact committed to respecting human rights. Therefore, if NBIM wishes to be a responsible investor it should seek to ensure that these policies are in place. With the introduction of the expectation document on human rights, NBIM seems to have strengthened this aspect of the responsible investment strategy. However, if the Norwegian population as beneficiaries of the fund are to know this for certain it needs to know more than they do today. It can also be argued that with regards to the right to water, the expectations are not satisfactory. The expectation document on water focuses mainly on financial risks and does not talk about water as a human right, while the expectation document on human rights does not speak specifically of the right to water. There is a danger that the right to water may fall between these expectations.

Concerning water, there is a financial argument for disclosing information on water use. Because water is an input factor in most industries, it makes sense from a business perspective for companies to know just how much water they in each operation, as well as outlining how much can be saved if the company is able to reduce the amount of water they use. If the company can reduce the amount of water use, it will cost them less money to manufacture their products. Companies that can report well on water use could therefore be considered more attractive to investors, meaning that rather than reputational risk there is the potential of improving reputation for companies. Because of this, there are few excuses for large companies not to report on their water use. For this reason, NBIM should be well within their rights as an investor to sanction companies that repeatedly fail to report on their water use.

The CDP report, which NBIM contributes to as a lead partner, discloses information that is much more specific than what NBIM chooses to disclose. The report specifically names every company that has been contacted and even rates them, thus creating a potential for public shaming and reputational risk to companies that have either chosen not to report or who rank poorly in their reporting. Furthermore, the report highlights three large companies that have repeatedly failed to report. Again, this could expose the companies mentioned to reputational risk. What's more, these three companies are among the largest investments of the fund. Royal Dutch Shell is the fund's second largest investment and the most profitable investment in 2016 per the fund's annual report for 2016 (NBIM 2017c). There seems to be a disconnect between the reporting in a report NBIM have contributed strongly to, and the funds own reporting on company dialogue.

One could perhaps argue that because CDP is a non-profit, facing little financial risk in disclosing information, that they are in a different position than investors. However, KLP is one of the largest institutional investors in Norway and they too disclose more information on their engagement with companies than NBIM does. While not going as far as the CDP report, KLP does provide information on which companies they are in engagement with, as well as the topic for engagement. In the interview, Jeanett Bergan addressed the issue of company shaming and potential reputational by stressing that their engagement did not necessarily mean that the company was not performing well. When NBIM has engagement with a large number of companies and on a broad range of topics, it would seem strange to assume that all of these engagements were based on companies failing to meet expectations. If engagement is not tantamount to negative performance or problematic company behaviour, it should present little reputational risk to disclose that the fund has engagement with a company.

Another argument could be that NBIM already does disclose some information in the form of aggregated numbers and specific case studies. The argument from civil society concerning disaggregated disclosure is that there is a clear correlation between level of disclosure and how strong expectations are implemented. This was repeated by both FIVAS, Pax and Future in Our Hands. It was also argued that disclosing more information could strengthen cooperation with other investors, as the publicly available information could incentivise other investors to engage on the same issues that NBIM is engaging in. Finally, it is argued that disclosing more information would enable civil society to become more efficient in their work to change company behaviour.

All the arguments presented above focus on strengthening the intended result of engaging with companies, namely to see a change of behaviour. Concerning the cases where NBIM does disclose information, it seems clear that NBIM is concerned with protecting companies from reputational risk. Most companies mentioned by name are there based on what NBIM consider to be good performance on water management. The reasoning seems to be that lifting up positive cases is the best strategy to inspire companies to change behaviour. The other companies that NBIM does disclose engagement on are special cases, such as Eni, Royal Dutch Shell, and AngloGold Ashanti. In all these cases, the Council on Ethics provided suggestions that were not followed by the Ministry of Finance, and it was the Ministry that have ordered NBIM to report on the engagement. As such, it is not the decision of NBIM to disclose this information. While NBIM does provide some information, there seems to be room for increasing the amount of information disclosed without significantly increasing the risk of harming the dialogue NBIM has with companies.

8.4.1. Divest or exclude?

An element of the responsible investment strategy that was discussed by several of my respondents was the difference between divesting and excluding companies. NBIM's reports show that divestment as a tool has been used in a number of cases in the period between 2013 to 2015, and the latest report shows that the fund chose to divest from 23 companies based on risk assessments in 2016. Vemund Olsen expressed a concern that the fund prioritizes divestment rather than active engagement, while Jeanett Bergan of KLP was worried that divesting without disclosing the reasons for divesting would take away an opportunity to send a signal to other investors.

As with implementation, the decision to divest or to exclude is in part related to resources issues. Recommendations from the Council of Ethics are provided after thorough research because the fund must be certain that the company is indeed violating the ethical guidelines. This process is important, because the decision to exclude a company from the investment portfolio is not only a recognition that a company fails to meet expectations. it is also a statement saying that what a company is doing is so unethical that the fund for moral reasons cannot be involved in it. But thorough research requires resources, both in terms of time and money. It is perhaps understandable then that NBIM in many cases decides to spend less money and time investigating a company if there are financial arguments for divesting.

Still, as was pointed out by several respondents, there are transparency issues related to the practice of divesting. This is an issue of communicating with beneficiaries and reporting in order to raise awareness among stakeholders, as is suggested by the United Nations PRI as a way of implementing the principles. Because the bank does not disclose which companies have been excluded, it becomes difficult for other investors to follow their example. It also makes it difficult for civil society actors to use the withdrawal to put pressure on companies to change behaviour. This was in particular highlighted by the respondents from Future in Our Hands, a position they have also expressed publicly recently (Norsk Rikskringkasting 2017). While it is positive that NBIM does divest from companies due to risks related to ESG factors, and that they disclose which potential risks they have considered, some of the potential impact such divestments can have on the market are lost when information on individual companies is not disclosed. To use the words of Jeanett Bergan, the fund is transparent but not transparent enough. One could also reason that perhaps the Norwegian population, as the direct stakeholders in the fund, would be entitled to full information on why divestments have been made and from which companies.

The counter argument would perhaps again be that companies risk reputational damage, and that this would hurt NBIM's ability to have a close dialogue with companies. However, disclosing which companies the fund has divested from would not reveal much more information than what is already available. With NBIM already disclosing the reasons for divesting, and with the fund's portfolio updated each year and publicly available, there is room for speculating why specific companies have disappeared from the portfolio. Disclosing specific companies would remove the room for speculation. Furthermore, any investor is free to invest or divest as they see fit and it seems a strange argument that divesting due to ESG reasons is more of a reputational damage than simply stating that the investor does not believe the company will be profitable. Finally, any investor is obliged to inform its beneficiaries on investment decisions. When the beneficiaries are the entire population of a country it seems that making information publicly available is an efficient way of informing all beneficiaries.

8.4.2. External factors drive responsible investments

An important argument for the need for more transparency is what drives investors to strengthen their responsible strategies. Here, it seems relevant to make a distinction between what makes investors consider responsible investments, such as risk management issues, and what factors that leads investors to consider risk in the first place. Several of my respondents

discussed reputational risk, particularly the potential risk for companies to have their reputation damaged by revelations of unethical behaviour. While Ingrid Stolpestad of FIVH expressed uncertainty of how much this risk would affect a company's financial returns, Kristin Halvorsen seemed convinced that reputational damage would have a negative impact on returns in the long run. Brenda Kramer at PGGM also discussed reputational risk to investors involved in companies with poor reputation. Kramer acknowledged this as an element the PGGM considered in their responsible investment strategy, while Harald Martens Holm at Storebrand disclosed that this was not a major concern for the responsible investment strategy of Storebrand.

Interestingly, there were some similarities between what the Dutch interviewees cited as the beginnings of an interest in responsible investments and what caused the GPFG to introduce tools for managing responsible investments. In both cases, the public gaining knowledge of behaviour considered to be unethical caused legislators to act and investors to change behaviour. Neither the Dutch funds nor the GPFG stopped their investments in controversial weapons until there was public pressure for them to do so. This relation between external pressure and changing investor behaviour was expressed by the respondent from VBDO, Brenda Kramer from PGGM and former Minister of Finance Kristin Halvorsen, as well as with several of the civil society organizations. What this suggests is that reputational risk is only a risk factor when information is available to external actors, it depends on outsiders gaining knowledge of how companies or investors behave. This makes transparency a key element in responsible investment as well as in corporate social responsibility.

8.5. GPFG and its influence on the market

As shown in chapter seven, one of the recurring themes in my interviews was the influence the GPFG has on the market. This is not limited to other investment funds in Norway, but in fact has a global reach. While this may not be an intended effect for NBIM, this influence nevertheless provides them with the power to influence companies that reaches beyond their own investments. However, this influence is limited by the amount of information NBIM shares publicly.

The impact that NBIM has is not limited to their own investments, but virtually all capital that Norwegian investors have. Several of my respondents emphasized the importance NBIM has had, and still has, in influencing other actors. For instance, Kristin Halvorsen explained the large international interest on the topic when she served as Minister of Finance. Similarly,

Dutch NGO Pax expressed an interest in the development of responsible investments in Norway. Others stated that many Norwegian investors more or less copied the guidelines of the GPFG. There seems to be little doubt that while the fund may not be focusing on setting the standard, it nevertheless exerts a power by example that goes beyond Norwegian borders. This also means that if the fund is not transparent, it can have a detrimental effect on the efforts of other actors as it becomes difficult for other actors to mould their own strategies based on the decisions of NBIM. On the other hand, more transparency will provide other investors with information on which companies need an extra push to change their behaviour. With this information, smaller Norwegian funds can cooperate with NBIM in applying pressure to change company behaviour in a more sustainable direction.

9.0. Conclusions and policy recommendations

9.1. Summing up

The starting point of this thesis was to evaluate how effective NBIM are in implementing their expectations to companies on water management, how well they have succeeded in creating a chain of tools in the responsible investment strategy and to find tools that could strengthen this strategy. In order to investigate these questions, I have performed interviews with relevant actors and analysed NBIMs documents with other relevant frameworks for responsible investments.

Comparing NBIM's expectation document on water management with the UN guiding principles for business and human rights, or the Ruggie principles, I have found that the expectation document focuses mainly on the financial aspect of water management, but not on the impacts overuse may have on other communities and individuals using the same water resource. This means that the expectation document on water does not reflect the fact that clean drinking water is an international human right, and as such fails to live up to the standards presented in the UN guiding principles and by the UN Global Compact. The document is more in line with the standards presented by the OECD guidelines for multinational enterprises. The other expectation documents applied by the fund do not adequately cover the potential human rights violations related to issues such as overuse of water or water grabbing.

While NBIM does seem to use the expectation documents in their responsible investment strategy, they are mainly used as a risk management tool and only to a lesser extent used as part of a wider dialogue with companies. More transparency on just what this dialogue entails is necessary for providing a more precise answer on the implementation of expectations. Therefore, I have argued that there is a need for more specific and disaggregated information on the funds engagement with companies. Transparency is important both for securing that companies change behaviour to meet the international standards of business conduct that the expectations are based on, and to ensure that the Norwegian populations as beneficiaries of the fund can affect the investment strategies of the fund. For this reason, it is also fundamental to the fund that the framework the bank operates within is political. As such, criticism of the fund being used as a political tool is unfounded. The framework is supposed to be set in place by parliamentarians, the representatives of the Norwegian people, and the standards in the framework are internationally recognized standards that can hardly be reduced to reflect

simply Norwegian policy interests. Looking at the historical development of responsible investment strategies within the GPFG and among Dutch funds, I have concluded that transparency is also important because change towards more responsible investments is almost always a result of external pressure.

Using the limited information that is available, there seems to be little doubt that one of the issues the fund faces in its strategy on responsible investments is the lack of connection between failure to meet expectations and the use of other tools in the strategy. While water management is the focus area where companies report the best results, there are still many companies that fail to meet expectations or simply do not report at all. While active engagement is a useful tool, it is but one of several tools. There is little information on what NBIM does when companies fail to meet expectations, but the reported numbers show that it only leads to involvement of other tools in the responsible investment chain in a minority of cases. This paper also argues that for this chain of tools to be efficient on the topic of water management, there needs to be a specific criterion on overuse of water in the ethical guidelines of the fund.

Finally, I have argued that the share size of the fund makes it impossible to follow up engagement with all companies. The state of the business world also makes it impossible for a fund the size of GPFG to avoid becoming involved in unethical behaviour. Limited resources are a legitimate obstacle to responsible investment strategies. Precisely because resources limit the work with responsible investment, the fund should consider tools that can reduce costs by excluding companies that clearly show unwillingness to change behaviour. How this can be done specifically is presented in the policy recommendations below.

9.2. Policy recommendations

Having identified some areas where the ownership strategy of NBIM can be improved, and having discussed some tools for doing so, this section will present four specific policy recommendations that can help further strengthen the responsible investment strategy of the fund.

9.2.1. Extended negative screening

An extended negative screening can be introduced as the first step in the chain of ownership tools. NBIM can model this tool based on the methods used by Storebrand and PGGM, although the method should be based on NBIMs own matrix for risk management. Because

the GPFG is a much larger investor than Storebrand and PGGM and therefore have more assets to spread out across the market, one can also consider whether setting the bar at the 10 percent poorest performing companies is wise. If setting the bar at ten percent makes it impossible for the fund to place redistribute all its assets, one could set this bar at a lower level that allows for efficient redistribution of assets. While this tool does not improve company engagement, it is a way for investors to strengthen their work with responsible investments on all the companies it can't actively engage with. Assuming that the worst performing companies are among the least likely to change behaviour, setting a minimum standard for which companies to invest in can ensure that the fund focuses its active engagement efforts on companies it is more likely to affect. It should also be noted that the worst performing companies would not be excluded from the investment universe, but simply the portfolio. This provides an incentive for the companies to improve, as they will know that simply reaching a market average will be enough to be considered back in the portfolio. If it introduces this tool, the fund should also disclose the criteria they use to rate companies.

9.2.2. Disclose information on company engagement

As I have argued in this paper, the information disclosed by NBIM in its annual reports on sustainability provides a lot of information on general process but little information on specific procedure. A way to provide more specific information would be to disclose which companies the fund has engaged with and on which topic. In the case of water management, much of the information related to water use is already available because it is already in the company's interest to reduce costs related to input factors. Much information is also disclosed by the CDP, and a large investor such as KLP already provides this information. Disclosing this information would allow both other fund managers and civil society to follow the development of engagement, and to ask questions when companies do not appear to be willing to change behaviour. The fund can also introduce a limit for how long companies can fail to report on focus areas before the Council on Ethics becomes involved. This would allow for companies to have a specific timeframe for when they need to show improvement, while also providing a specific regulation on when the bank should seek the support of the Council on Ethics.

9.2.3. Disclose companies the fund has divested for ESG risks

As I discussed in chapter 8.4.1., there are many instances where NBIM chooses to divest from a company due to risk assessments related to ESG factors. While they do disclose what these

risks are, they do not which companies they have divested from. This thesis suggests making the names of these companies' public. In part, they are already public as both the fund's portfolio and the reasons for divesting are disclosed. However, this creates room for speculation that does not benefit companies while at the same time limiting the opportunity to send signals to other investors and thereby strengthening the effect of such divestments. As beneficiaries of the fund, the Norwegian population is entitled to information on which companies they have divested from and why, and disclosing this information therefore falls within the duties of the investment managers.

9.2.4. Automatic communication between NBIM and the Council on Ethics

One of the obstacles for creating a stronger chain of tools is the lack of communication there seems to be between NBIM and the Council on Ethics. The reported communication is limited and does not reflect that a large number of companies do not meet expectations on focus areas. This thesis proposes that the fund develops a set of specific and mandatory criteria for when the Council on Ethics is to be involved in the ownership strategy. These criteria should provide a reasonable time frame for companies to show that they are changing behavior to meet expectations on focus areas, and outline at which point NBIM should seek support from the Council on Ethics when companies do not show signs of changing behavior. Strengthening the link between NBIM and the Council of Ethics will strengthen the latter's position in the chain of tools, and make the potential of sanctions more integrated for companies that do not change behavior.

9.2.5. An exclusion criteria on water management

The focus area of water management stands out in NBIMs work with responsible investments because there are no exclusion criteria on water management in the ethical guidelines to match the intentions of the expectation document. If the tools for responsible investments are to function as a chain, there must be a correspondence where the failure of one tool must lead to the introduction of the next tool in the chain. The final tool in this chain is exclusion, a last resort for investors to use when they do not feel that the company is making progress on expectations and when the violations on ESG standards are so grave that the fund cannot ethically defend them.

Exclusion is not only important as a tool because it serves to maintain a baseline for ethical standards, it also serves as a reminder for companies of what the final sanctions could be if they do not change behaviour. As I have argued, the issue of overuse of water resources

seems to fall between the present criteria in the ethical guidelines. While the criteria on environmental damage may cover pollution of water resources, this criterion does not cover issues such as water grabbing or diversion of water resources. A more specific criterion will not only make it easier for the Council on Ethics to consider specific cases where simple overuse of water impinges on individuals or communities right to water, it can also make it easier for NBIM to use overuse of water as a reason for divesting from a company.

9.2.6. Revision on the function of the expectation documents

Given the apparent lack of relation between poor performance on the focus areas and further sanctioning by NBIM, it seems evident that the expectation documents are primarily tools for risk management. This is particularly evident with the expectation document on water management, which speaks of financial risks related to overuse of water but does not speak of the risk of impinging on the human right to access to water. Still, there seems to be an unfulfilled potential for the documents to be more firmly included as part of the responsible investment toolkit. The impact of expectations documents lies in how well they are being implemented, if they do contribute to changing company behaviour there is certainly merit to the documents. However, if the documents are to have this effect they must be used actively in the active engagement with companies. For these reasons, and because NBIM seem to be unique in the use of such documents, this paper proposes an evaluation of the use of expectation documents. Such an evaluation can help clarify the intention of the documents as well as suggesting measures to strengthen the relation between the documents and other responsible investment tools available to the fund.

9.3. Limitations of the study

The clearest limitation to this study is the lack of information on the dialogue and engagement NBIM has with companies. The lack of information on precisely what NBIM discusses with companies makes it difficult to assess how well they succeed in implementing their expectations, and thereby in changing company behaviour in a more sustainable direction. Therefore, this study has had to rely mostly on the publicly available information and on the individual opinions of the interviewees to try to present the processes of responsible investment within NBIM as accurate as possible. The reluctance of NBIM and the Council on ethics to partake in regular interviews, and to provide information beyond what is provided in public reports and documents, also limits this thesis. Gaining further information on the rationale behind the various elements of the investment strategy would have contributed to a

better understanding of how NBIM manages the tension between the financial mandate they have and the ethical guidelines.

Additionally, this paper has not focused much on voting at general assemblies as a tool for responsible investment. Likewise, the study does not present the work NBIM does in cooperating with other investors and other actors to recognize the importance of responsible investments. Any overall assessment of how well NBIM takes its responsibility as a large, institutional investor should also include these elements.

Finally, there will always be issues in comparing NBIM with other investors simply because there are few funds similar to the GPFG. The GPFG is the largest state owned investment fund in the world, and many of the other sovereign wealth funds are found in areas of the world where the focus on responsible investment has not been as eminent as it has been in many parts of Europe. While I believe there are many similarities between NBIM and the other investors I have presented in the study, one must always consider that there are differences in structure and size that should be considered if the GPFG is to implement tools employed by other funds.

9.4. Prospects for future research

As has been mentioned in this thesis, the work with introducing a new expectation document on human rights is in the early stages. When this work has been developed further, it stands out as an area that should be subject for future research. This could help shed light on how well expectation documents function in promoting responsible investments. More research is also needed on the relation between implementing CSR efforts and financial returns. If further research can confirm that there is no negative correlation between the two, investment managers need not worry about fiduciary duty when considering whether to implement responsible investment strategies. There is also a need for more research on the relation between reputational risk and financial returns. If disclosing information on company engagement does not harm the financial returns of funds, this would also leave the fiduciary duty argument invalid. Finally, it could be relevant to investigate how NBIM intends to incorporate the Sustainable Development Goals into its investment strategy and how other funds work to do the same.

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Appendix A: Interview Guides

Questions for conversation with Wilhelm Mohn, NBIM:

1) When did you start considering SRI and why did you decide to engage in it?
   - On a personal level, how long have you been involved in SRI work and what is your background?

2) Can you explain what tools the GPFG have for responsible investment, and how they are applied chronologically?

3) How do you think the GPFG is generally considered in terms of being a progressive actor on SRI? On what do you base that impression?

4) In your own opinion, do you believe that SRI is a major concern for investors and do you see any changes from when NBIM started focusing on it?
   - If so, what do you believe are the reasons for this change? Do you consider it something that is a pushed from within the funds or is there an external pressure for funds to include SRI strategies?

5) NBIM considers itself an active owner, but have also been honest about the limitations to trying to maintain dialogue with 9000 companies. Can you say something about why this is an issue and what you do to maintain control over all these companies?

6) How many companies would you say you have an active dialogue with concerning sustainable water management? In other words, companies that you meet with and maintain a board dialogue with.

7) At what point do you engage in dialogue with a company? Is there a standard for how many or what type of violations reported before you engage in such dialogue?

8) You have an expectation document on water management, an area not always covered by other funds emphasizing SRI. Why is water management one of your target areas?
   - How was this document developed (by who)?

9) Can you elaborate on the criteria you use for monitoring water management?

10) How often would you say that you have had to take measures against companies for failing to meet the funds expectations on water management?

11) Does the fund have any tools to measure how effective the expectation documents are? If so, can you say a little about these?

12) In the expectation document for water, the fund states that it expects companies to "consider putting in place a mechanism for third-party expert input to company water

management strategy". How is this measured and what impact do you believe it has that you expect companies to "consider" rather than to implement?

13) It has been suggested by civil society organizations that the fund should report on dialogue on individual company level. What are your thoughts on this?

Questionnaire other funds:

1) First, can you say a little bit about your background and your personal motivation for the work that you do?
   - What are your areas of responsibility?
2) Can you describe the importance of SRI in your investment strategy, and can you say a little about when and why you first developed an SRI strategy?
   - What would you say is your major motivation for having such a strategy?
3) Can you explain what tools your fund uses for responsible investment, and how they are applied chronologically?
4) (For Storebrand specifically): One of the strategies you apply at Storebrand is the decision not to invest in companies that score among the 10 % poorest on SRI in any sector. Can you say a little more about why you have chosen this strategy, and how you monitor who performs amongst the lowest 10 %?
5) The GPFG uses expectation documents as their tool for initiating dialogue and presenting their expectations to companies. Can you say a little bit about what documents you have in place for this, and what principles you base your documents on?
6) Tell me a little about the criteria you have for SRI and why you have chosen these.
   - If water is not mentioned: Have you considered including water management as one of these criteria?
7) From your personal experience, do you consider SRI to be a major concern generally among investors?
   - Has there been a development in this over the last 10 years? If so, what do you think is the main reason for this? Where does the pressure to focus on SRI come from?
8) How many companies are in your portfolio and how many of these would you say you have an active dialogue with?

- Do you find it a challenge to follow up all these companies and implementing your expectations as owners? If so, what are the limitations you face as owners?

9) How do you express your expectations concerning sustainable water management to the companies in your portfolio?
10) You are a pension fund, as a contrast to funds that perhaps look for more short-term returns. Do you feel that this also gives you a different ethical responsibility than short-term investors?
11) Some civil society organizations have called upon the GPFG to report on dialogue with individual companies, what is your stand on this?

Questionnaire civil society organizations:

1) Can you say a little about your organization and the work you do on SRI?
2) For you personally, what is your motivation for working with this topic and what is your background?
3) From your perspective, why is it important that funds invest in SRI?
4) How do you see the connection between the human rights perspective and the work you have done on the GPFG?
5) What has been your main priority when working with SRI in the GPFG?
6) (For Rainforest alliance): You worked, together with a few other organizations, to get an expectation document on human rights in place. Why did you choose to focus on this to improve the funds SRI performance?
7) In your opinion, what impact does expectation documents have on the SRI performance of the fund?
   - Do you see any limitations to the use of these documents?
   - If so: What can be done to improve the efficiency of the documents?
8) It has been suggested that the fund should report on their dialogue with companies on an individual level. Is this something you have worked with? If so, do you believe this would be fruitful for civil societies ability to monitor the fund?
   - Can you see any arguments for why this would be difficult for the fund to do?
9) What measures would you suggest in order to strengthen the SRI work within the fund?

Questionnaire previously involved actors:

1) Can you say a little bit about your background and how you have worked towards the GPFG?

2) Can you say something on your involvement in developing the ethical guidelines for the fund? What were the fundamental principles and what were the main issues you had to discuss?

3) As you remember it, how did the people in NBIM react to the establishment of ethical guidelines and the Council on Ethics?

- Did the attitudes towards SRI change through the years in NBIM? If so, how?

4) It's a common claim among civil society organizations that the GPFG has become Norway's largest influence on the world today. What do you make of this claim?

5) If the GPFG is Norway's largest influence internationally, is it then possible to make a clear separation between politics and finance in the case of the fund?

6) There seems to be a discrepancy in the way civil society understands financial institutions responsibility and the responsibility they understand to have themselves. What responsibility would you say that finance institutions have when it comes to both human rights and development issues, but also when it comes to transparency?

7) On a principle level, is there a difference between the responsibility a public institution has compared to a private institution?

8) In your opinion, what are the most important arguments for focusing on SRI within funds?

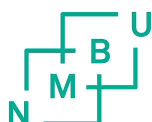
9) The GPFG seem to be unique in its use of expectation documents as part of their SRI strategy. What was the intention when establishing these documents, and what impact do you think these documents have in dialogue with companies?

10) Some civil society organizations have called for more transparency regarding the funds dialogue with companies on an individual level. What are your thoughts on this? What could be the benefits of such a strategy, and what could be potential adverse effects?

11) There seems to be a wish for the fund to change behavior of companies on an individual basis. Do you see it as a possibility that this focus can hinder the focus on changing the market or sectors as a whole?

12) Given the sheer size of the fund and number of companies it is involved in, what do this mean in terms of limitations to efficient implementation of SRI strategy?

13) Looking back, what do you consider to be the largest contributions to developing the SRI strategy of the fund in your time? And are there things you see now could have been strengthened further?



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