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To cite this article: Samara López-Ruiz & Maria Luisa Grande-Gascón (2021): Pension funds: guarantors of international legality in Western Sahara? Evidence from Norway and Sweden, The Journal of North African Studies, DOI: [10.1080/13629387.2021.1917123](https://doi.org/10.1080/13629387.2021.1917123)

To link to this article: <https://doi.org/10.1080/13629387.2021.1917123>



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Published online: 21 Apr 2021.



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Pension funds: guarantors of international legality in Western Sahara? Evidence from Norway and Sweden

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ABSTRACT

Natural resources have been defined by the Sahrawi Arab Democratic Republic, Polisario Front, and a number of non-governmental organisations not only as an essential part of the Western Sahara conflict, but also as a battlefield that has attracted the interest of the international community. This article explores how the ethical trade guidelines of two large institutional investors – the Norwegian and Swedish pension funds – have affected the behaviour of companies that export and exploit the natural resources of Western Sahara. The results of applying a triad-network model suggest that as pension funds have more instruments of influence, their strategy becomes more effective. Moreover, investments that follow ethical trade guidelines play a key role in pressuring companies to modify objectionable behaviours.

KEYWORDS Western Sahara; pension funds; natural resources; international law; ethical business



Introduction

The dispute over the status of Western Sahara is one of Africa's longest running conflicts.

The discourse of the Sahrawis, the inhabitants of what is known as the last colony in Africa, has evolved over the course of their battle to achieve a long-desired independence.

Although Sahrawi demands initially concentrated on questions related to economics and human rights, they later focused directly on the idea of independence. Currently, the management and exploitation of natural resources is a central part of the Sahrawi discourse, which is aimed at keeping their demands on the international political agenda (Allan 2016).

Academics and the international community have paid increasing attention to the role of natural resources in the continuity of the Western Sahara

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conflict (Olsson 2006; Smith 2015; White 2015) and their intermittent importance in the construction of an independent Western Sahara (Kamal 2015). The behaviour of states and international organisations like the United Nations (UN), European Union (EU), and African Union (AU) has served as the reference point for more extensive analyses (Benabdallah 2009; Darbouche and Colombo 2010; Smith 2013). For example, the history of the pillage and control of these natural resources – during both the Spanish and Moroccan occupations – has been examined both historiographically (Zoubir 2007; Drury 2012) and in the context of international law (Saul 2015). However, given the evolution of the international community, where private actors (non-governmental organisations, or NGOs, companies, etc.) have successfully undermined the hegemony of subjects of international law (states and international organisations, or IOs), it is almost compulsory to look at role they have played in the development of the Sahrawi conflict (Campos 2008; Darbouche and Colombo 2010; Hagen 2015; Fišera 2017).

The economic interests that stalk the Sahrawi conflict are difficult to ignore. Western Sahara is a land rich in a multitude of natural resources that are of strategic and financial value for Morocco and also meet the needs of other states. For this reason, a variety of foreign companies have provided investments and technology in order to profit from these natural resources that, according to international law, cannot be exploited without the express consent of the Sahrawis, if it is detrimental to their interests or entails infringements of fundamental right (Corell 2002; Case T-512/12). The international legislation on natural resources in non-self-governing territories seems clear. However, both the Sahrawis – in statements issued by the Sahrawi Arab Democratic Republic (SADR) and Polisario Front (PF) – and various NGOs report that this region is being stripped of resources like salt, fish, and minerals without the consent of the legitimate inhabitants. The occupying power has permitted this, because the export of resources allows Morocco to solidify acceptance among the international community that it is legitimately in possession of the territory. However, the non-Moroccan operating companies come from foreign states whose governments are parties to resolutions like UNGA Resolutions 1514 (XV) and 1803 (XVII) and have not tacitly recognised Western Sahara as part of Moroccan territory.

In light of the economic dimension of the conflict, this article analyses Norwegian and Swedish pension funds and the investments they have made in companies involved in the export of Sahrawi resources. Given the commitment of these funds to act on corporate social and environmental issues, combined with their efforts to change company attitudes and values by applying their dominant position in the world's financial markets (Sandberg 2013), an exploration of the outcomes of the work these funds have done to influence corporate social and legal behaviours, as well as the efficiency of shareholder pressure, is both timely and beneficial. Indeed, they have used

financial tools to try to modify the behaviour of companies that import natural resources from Western Sahara. Who are they? What instruments do they use to achieve their interests? Have they been successful? These are some of the questions that this article attempts to answer.

The article is structured as follows. Following this introduction, Section 2 summarises the legal status of Western Sahara and its natural resources; Section 3 describes the empirical strategy used; Section 4 presents and discusses whether the Norwegian and Sweden pension fund ethical investment strategy has had an impact on the companies who import natural resources from Western Sahara without Sahrawi consent; and the paper ends with a series of conclusions and recommendations.

Legal status: non-self-governing territories and natural resources

Western Sahara is a disputed territory that measures 266,000 km², with a population of 582,000 inhabitants,¹ and located on the northeast coast of Africa. It is partially 'occupied' by Morocco and partially controlled by the Sahrawi Arab Democratic Republic, or SADR.² The largest territory with the greatest population density of the 17 currently on the United Nations Special Committee on Decolonisation list, it was occupied by Spain until the late twentieth century. It was not until 1963 that the UN included Western Sahara on the list of non-self-governing territories (United Nations 1963). Two years later, the United Nations General Assembly (UNGA) passed its first resolution regarding Western Sahara, calling upon Spain to decolonise the territory. Despite the fact that in the Report of the Committee on Information from Non-Self-Governing Territories (United Nations 1963), the Spanish representative included a warning about the difficulty of entering into consultations in Western Sahara due to the size of the nomad population that characterised the Sahrawi way of life (United Nations 1963, 8), Resolution 2229 (1966b) requested that Spain hold a referendum on the right of the indigenous population to freely exercise its right to self-determination. Morocco, Mauritania, and Algeria, three key actors in the future conflict, voted in favour of the resolution (United Nations 1980). In 1971, the Fourth Commission of the UNGA decided to postpone the decolonisation of Western Sahara. However, the 1972 Resolution 2983 reaffirmed 'the inalienable right of the people of the Sahara to self-determination and independence' despite the abstention of Morocco and other countries (UNGA 1972).

In July 1974, the Spanish government announced its intention to hold a referendum on self-determination in early 1975. A dissenting Morocco, backed by Algeria, prompted the UNGA to pass Resolution 3292 (XXIX) on 14 December 1975, which requested that the International Court of Justice (ICJ) give an advisory opinion on some Moroccan and Mauritanian claims regarding Western Sahara. It also asked that a special visiting mission be

sent to evaluate the situation on the ground. Accordingly, Spain agreed to postpone the consultation.

The United Nations visit to the territory confirmed the broad support of its inhabitants for independence and the Polisario Front (PF),³ while the ruling handed down by the ICJ recognised the right of the Sahrawis to self-determination and rejected any Moroccan claim to sovereignty over the territory. However, it soon became clear that Morocco had no intention of abiding by the ruling, but planned to take over the territory through the so-called Green March of 1975. Despite its strong resolutions, the UN was unable to prevent the Moroccan occupation and the forced evacuation of more than half of the Sahrawi population, largely to Algeria.

In 1975, Spain tried to cede administrative control of the territory to a joint Moroccan⁴ and Mauritanian administration in the Madrid Agreement. However, in Resolution 3458 (A), which was issued shortly after the Agreement was signed, the UNGA ignored its stipulations (Ruis-Miguel 2008), meaning that the UN does not recognise the legality of the cession of Spain's status of 'administrative power' or its sovereignty. In the words of the report of 29 January 2002 written by the UN Under-Secretary-General for Legal Affairs, Hans Corell, the Agreement 'did not transfer sovereignty over the territory, nor did it confer upon any of the signatories [Morocco and Mauritania] the status of an administering Power, a status which Spain alone could not have unilaterally transferred' (Corell 2002). The AAN 256/2014, of July 7, 2014, FJ40 states Spain remains as administering power. Additionally, the judgment of the General Court in Case T-512/12, confirms that despite European Union address the Moroccan authorities with regard the territory of Western Sahara, that fact does not lead to any recognition *de facto* or *de jure* of any sovereignty of the Kingdom of Morocco over the territory of Western Sahara.

However, after the war between Mauritania, Morocco, and the Polisario Front⁵ and Mauritania's subsequent withdrawal, Morocco secured *de facto* control of most of the territory, including the primary cities and natural resources. Hence, despite the fact that the UN that does not consider that the term 'occupied' can apply to Western Sahara, for all practical purposes and according to an analysis based on international law, everything indicates that the territory is under Moroccan military occupation (Florén 2016). Moreover, according to Article 6 of the Fourth Geneva Convention relative to Protection of Civilian Persons in Time of War, this means that

[...] the Occupying Power shall be bound, for the duration of the occupation, to the extent that such Power exercises the functions of government in such territory, by the provisions of the following Articles of the present Convention: 1 to 12, 29 to 34, 47, 49, 51, 52, 53, 59, 61 to 77, 143. (ICRC 1949)

Here, the Moroccan policy to encourage the settlement of Moroccans on Sahrawi territory is crucial, since Morocco's strategy to control the territory

is not only based on force. Rather, the cornerstone of the policy is the introduction and promotion of colonisers who live off the resources while simultaneously delaying self-determination by sowing confusion about who has the right to vote. This directly contravenes Article 49.6, which states that 'the Occupying Power shall not deport or transfer parts of its own civil population into the territory it occupies' (ICRC 1949). Notably, most of the inhabitants of the occupied territories are colonists who benefit from commercialising Sahrawi merchandise, but whose consent to or benefit from the exports has no effect on the requirements established by Hans Corell (2002). Additionally, Paragraph 16.2 of the UN Charter of Economic Rights and Duties of States dictates that no 'State has the right to promote or encourage investments that may constitute an obstacle to the liberation of a territory occupied by force'. Even earlier, the International Covenant on Civil and Political Rights, adopted by the UNGA in 1966, stated in Article 1, Paragraph 2 that

All peoples may, for their own ends, freely dispose of their natural wealth and resources without prejudice to any obligations arising out of international economic co-operation, based upon the principle of mutual benefit, and international law. In no case may a people be deprived of its own means of subsistence. (UNGA 1966a)

In the same vein, the UN in 1962 had passed Resolution 1803 (XVII) of 14 December on Permanent Sovereignty over Natural Resources. This also declared that

the exploration, development and disposition of such resources, as well as the import of the foreign capital required for these purposes, should be in conformity with the rules and conditions which the peoples and nations freely consider to be necessary or desirable with regard to the authorization, restriction or prohibition of such activities.

At the same time, it was understood that the insufficient enjoyment of peoples to their right to permanent sovereignty over natural resources represented a serious impediment to the enjoyment of important human rights (Haugen 2007).

After years of Morocco's effective control over Western Sahara, in 2002 the UNGA – in its ongoing effort to protect the inhabitants and natural resources of non-self-governing territories from exploitation and plunder by foreign economic interests – requested an opinion on the question from then UN Under-Secretary-General for Legal Affairs Hans Corell regarding the 'legality [in] the signing of contracts with foreign companies for the exploration of mineral resources in Western Sahara'. Although the request from the Security Council was related to legal contracts for oil and natural gas exploration, Corell determined that if they involved additional exploration and exploitation activities 'in disregard of the interests and wishes of the people of

Western Sahara, they would be in violation of the international law principles applicable to mineral resource activities in Non-Self-Governing Territories' (Corell 2002). Thus, Corell's conclusion differentiated between activities that harmed and activities that benefited the indigenous inhabitants. Finally, although Corell was not asked to take the territory's fishery and phosphate resources into consideration, he himself pointed to the possibility of making an analysis by analogy (Corell 2010).

Considering not sovereignty has been recognised to Morocco over Western Sahara, any treaty celebrated with Morocco should not be applied in Western Sahara territory due to article 34 of the Vienna Convention. As stated by European Union Court of Justice in case C-104/15 P, para 95, treaties cannot impose any obligations or confer rights upon third states without their consent. The population of Western Sahara, represented by Polisario Front, are a third party within the meaning of the principle of relative effect. Therefore, their consent is required to include Western Sahara in the scope of any treaty.

Empirical strategy

Area of study

The national pension funds of two Nordic countries – Sweden and Norway – were analysed in relation to their investments in companies that do business in Western Sahara. As two of the largest sovereign wealth funds in the world that also maintain a high ethical investment standard, these entities provide an important opportunity to investigate the effect of ethical business on the conflict over the natural resources that exist in the non-self-governing territory of Western Sahara. Indeed, the Norwegian pension fund is the largest in the world, managing more than one trillion dollars in assets and accounting for 266.3 per cent of the country's gross national product. The Swedish fund also manages large reserves worth more than 200,000 million euros (OECD 2019). Both funds have earned substantial profits from their annual investments, especially since they implemented strict ethical codes. In real terms, between 2013 and 2017, the Norwegian Government Pension Fund Global (GPF) obtained an annual rate of investment return of 6.7 per cent, while Sweden's return was between 8.2 per cent and 11 per cent, depending on the fund being analysed⁶ (OECD 2019).

At this time, environmental, social, and corporate governance (ESG) frameworks are becoming increasingly important components of institutional investment programmes. These trends are affecting the investment landscape and infrastructure as investors demand greater transparency and more information regarding the impact of their investments. Social impact investments, broadly speaking, seek to have a beneficial social or

environmental impact in areas ranging from human rights to health, safety, education, and general wellbeing.

The conflict in Western Sahara, its location, and its natural resources have revealed the limits of the justice intrinsic in international law and the UN's ability to take action. As discussed above, Western Sahara has been a non-self-governing territory since 1963 and under Moroccan occupation since 1976. Despite the fact that no government recognises Moroccan sovereignty over Western Sahara, business development around its natural resources can be seen as a *de facto* recognition of that sovereignty. Therefore, natural resources have a social importance in that they legitimise Morocco's position, both domestically and internationally (White 2015). As business ethics have been said to begin where the law ends, questions that are beyond the scope of the law, or where there is no definitive consensus regarding what is good or bad, are of particular concern (Treviño and Nelson 2016, 34). In this respect, the assessment of the behaviour of these two sovereign wealth funds in zones of conflict or non-self-governing territories like Western Sahara is highly revealing. It is not always easy to convince companies that they should abstain from investing in certain places or encourage them to withdraw their activities. However, an appeal to human rights has been found to be effective in many cases, due to the sensitivity to criticism related to ethical standards that exists in companies and state governments, particularly democratic ones.

Consequently, natural resources can be used to gain support for the Sahrawi cause, if international companies can be convinced to cease operations in Western Sahara. In the words of Erik Hagen, director of the Norwegian Support Committee for Western Sahara,

While Morocco is not going to stop extracting and trading Sahrawi resources, because it is impervious to pressure and erroneously considers Sahara its own, international companies are susceptible to modifying their behaviours through international pressure and increased support for the Sahrawi cause. (E. Hagen, telephone conversation, 25 May 2020)

Moreover, an analysis of the case elucidates a number of questions with regard to (a) whether investors who enact ethical trading guidelines have the clout to convince companies to modify their objectionable behaviour; and (b) whether economic and soft-power mechanisms and institutions like the pension funds analysed here can act as agents for change in the conflict over natural resources in Western Sahara and emerge as significant actors in the approach that the international community takes to this conflict.

Data and data handling

The analysis in this study drew on data from primary and secondary sources. The secondary data were obtained from sustainability reports, annual reports,

corporate webpages, publicly available information, newspaper articles, books, and journals. The primary data was acquired from direct contacts with AP4 communication directors in Sweden, the head of communications for the Norwegian ethics advisory board, and Spanish and Norwegian coordinators from the NGO Western Sahara Resource Watch (WSRW). All these contacts were asked about the pressure and divestment processes related to the companies operating in Western Sahara and to identify these companies. A semi-structured survey was also conducted by telephone with the coordinator and member of the executive council of WSRW regarding the role played by natural resources in the Western Sahara conflict, the activity of pension funds with regard to exploiting natural resources, and the role of the NGO itself. Additionally, the literature in the following areas was extensively reviewed: the Western Sahara conflict, Western Saharan natural resources, shareholder engagement, ethical business, socially responsible investments, ESG, influence strategies, pension funds, and international law. An in-depth review of the two pension funds was conducted by analysing publicly available information such as newspaper articles, annual and sustainability reports from the year they began to 2020, and investment policies. In addition, information on ethics councils was analysed (Figure 1).

The so-called triad-network model for social analysis was used, since the pension funds are connected to different actors or interests that can easily be divided into three sub-networks: economic, political, and societal. According to Mol (1995), the triad-network model constitutes a combination of a specific analytical perspective, distinctive institutional arrangements, and a restricted number of interacting actors, encompassing more than one analytical perspective. Specifically, the triad-network model rests on three network perspectives (Mol 1995):

- (1) Economic networks: these focus on interactions through economic rules and resources between economic agents;
- (2) Political networks: these focus on the interaction between institutions that involve state organisations from a primarily political-administrative perspective; and
- (3) Societal networks: these aim to identify relations between economic sectors and civil society organisations associated with the 'life world', both directly and indirectly through state agencies.

These three sub-networks are particularly suitable to classify the actors and interests connected to pension funds. Most significant is the main role of the economic network, which is directly tied to the economic aspects of the financial performance of the funds and includes the communication between the investing company and the pension funds themselves (Wagemans, van Koppen, and Mol 2018). For this reason, a fund's divestment

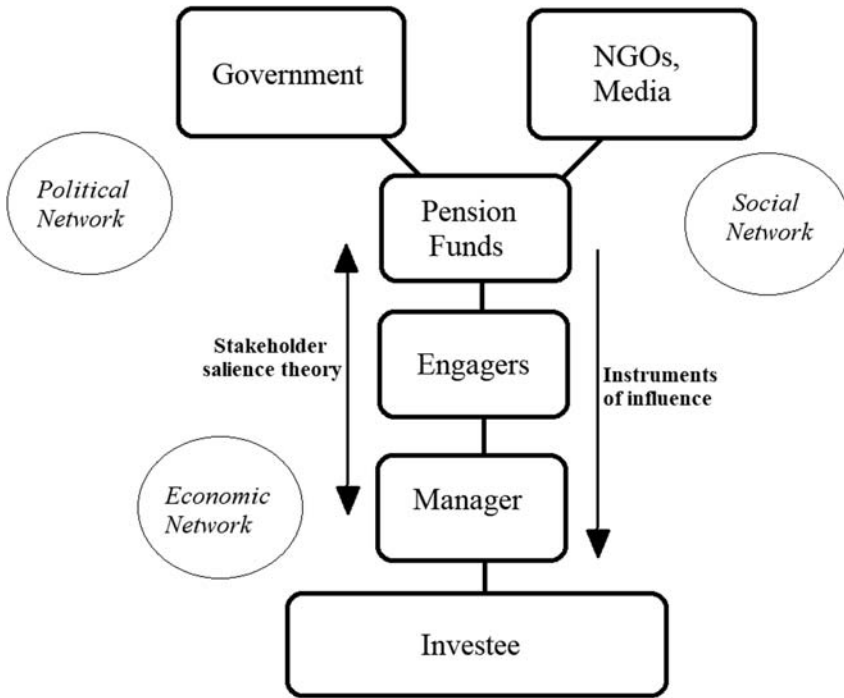


Figure 1. Analysis scheme.

policy and its effect on the behaviour of the companies included in the pension fund study are examined. The political network is made up of the legislative framework and policies that regulate the pension funds, specifically the applicable international law and the behaviour of the states and pension funds. The social network – NGOs and other societal actors – that may influence the concerns that affect pension funds and, above all, their ethics committees as they relate to social, environmental, and economic aspects is considered as well.

The data were also analysed using the stakeholder salience model (Mitchell, Bradley, and Wood 1997), which explains the extent to which the characteristics of stakeholders influence decision-making in companies with respect to the claims of other stakeholders (Majoch, Hoepner, and Hebb 2017) and has been shown to be effective when analysing cases involving institutional investors (Ryan and Schneider 2003). This theory establishes that the perception of company managers regarding the importance of what is proposed by other interested parties is based on the degree to which they possess one, two, or three of the following attributes: power, legitimacy, and urgency (Weitzner and Deutsch 2015). The factors identified by Gifford (2010) are included: the size of the stake and the shareholder, coalition building, the values of the managers, and proximity. Although it is recognised that they have no direct

relationship with other factors, these can affect the attributes of shareholder salience both positively and negatively (Wagemans, van Koppen, and Mol 2018).

Ethical business in the fight against human rights violations

The exploitation and export of natural resources from Western Sahara by Moroccan and foreign companies is associated with a number of ethical, political, and legal concerns. As noted, Western Sahara is a territory rich in natural resources (fish, phosphate rock, and sand, among others), and in 2001 Morocco issued the first licenses to foreign companies to look for oil and natural gas in the non-self-governing territory. The UN Security Council responded by asking its legal office whether the measure was illegal, and the UN legal counsel responded that, based on the rights of the peoples of those territories to self-determination and the fact that the territory has not completed the decolonisation process, any further oil or natural gas exploration or exploitation in Western Sahara would violate the law if the indigenous Sahrawi people (a) did not consent; and (b) did not benefit from it (Corell 2002).

Despite the fact that the UN and the international community have declared that international humanitarian law – which prohibits the commercial exploitation of Sahrawi natural resources except for the immediate satisfaction of the original population – does not apply to Western Sahara,⁷ the international legislation that applies to the development and export of natural resources from Western Sahara, Permanent Sovereignty over Natural Resources, is sufficiently mature. The question, however, concerns the enforceability of the regulation, particularly because companies are not full subjects of international law. Moreover, the standards and measures contained in international law are conceived for state action and not for actors like the SADR, which is recognised as the political representative of the Sahrawi people, but not as a full subject of international law.⁸ Consequently, Corell's opinion can serve as the starting point for the concerns of investors when they negotiate with companies that trade or exploit Sahrawi natural resources.

Through the SADR, the Polisario Front, and various NGOs, the Sahrawi people have identified natural resources as a political threat with regard to their eventual independence and for that reason, have made them the focus of their efforts (Allan 2016; E. Hagen, telephone conversation, 25 May 2020). Supporters of the Sahrawis argue that, as the cost of the occupation is covered by the sale of natural resources, they could serve as an incentive to deactivate the conflict (E. Hagen, telephone conversation, 25 May 2020; Allan 2016). In any case, if international law is not directly applicable or enforceable with regard to international companies and the UN and international community are not inclined to act decisively, how can Corell's (2002) opinion be forcefully applied?

Non-governmental organisations like WSRW choose to apply media and societal pressure by gathering and publishing data to create active strategies related to political persuasion, while other parties begin the corresponding legal work (E. Hagen, telephone conversation, 25 May 2020). They also recognise the key role of international actors like large investors, who can apply pressure or withdraw financial support from the companies operating in Western Sahara, impeding the plunder and sending a message (E. Hagen, telephone conversation, 25 May 2020). However, if large investors are going to decide to put pressure on the companies in their portfolios that do business in Western Sahara or even exclude them from their investment universe, their decisions cannot be based exclusively on market or economic reasoning. Rather, their strategies must be motivated by ethical concerns related to the exploitation and export of the natural resources of non-self-governing territories. They must conduct their business on the basis of ethical considerations and strong socially responsible investment (SRI).

Ethical business and corporate social responsibility

Traditionally, the rationale guiding a company is to maximise benefits and increase value. However, in recent decades, a new investment strategy has gained importance that is known as ethical business or socially responsible investment (SRI), part of the broader corporate social responsibility (CSR) (Wagemans, van Koppen, and Mol 2013; Ivanova 2017). These strategies have been expanding particularly rapidly in the financial sector.

Ethical business and social responsibility are used almost interchangeably in everyday language. As many definitions have been given for the concept of CSR (Van Marrewijk 2003) and ethical business can mean different things to different people (Jones, Parker, and Ten Bos 2005), the two concepts require definition. For the purposes of this article, ethical business is understood to be the integration of social values into day-to-day business activities, and is a reflection of those values and behaviours when companies implement ethical principles comprehensively; it does not drive them. Corporate social responsibility, in turn, is often described as the totality of a corporation's financial, social, and environmental performance when it conducts its business. This article uses the definition of CSR provided by Taylor (cited in Sarpong 2017):

CSR [...] means respecting environmental values, contributing to economic growth, promoting social progress and conducting business in a way that prevents or mitigates negative impacts and enhances or sustains positive impacts on local communities and host countries.

Therefore, SRI is an investment strategy designed to obtain financial returns and approach nonfinancial risk through the integration of environmental,

social, and governance factors (ESG) when making investment decisions (Renneboog, Ter Horst, and Zhang, 2008). Investors apply a number of instruments of influence from SRI (for example, regulation-based research, positive or negative evaluations, stakeholder participation, impact investing), allowing companies to voluntarily contribute to socially positive development through actions related to the environment or to human rights (Crane and Matten 2007). In fact, stakeholder participation is commonly used as a strategy in socially responsible investment to influence corporations in a desirable way (Hamilton and Eriksson 2011; Ivanova 2017). A company's commitment to CSR, therefore, suggests that its strategy fulfils its social responsibilities as expected by the stakeholders (Maignan and Ferrell 2004).

In many cases, SRI investors focus their efforts on influencing corporations that have violated or run the risk of violating existing international standards, principles, or regulations (Goodman et al. 2014), such as the permanent sovereignty of the peoples of non-self-governing territories over their natural resources. Given the complex, multifaceted nature of SRI that emerges when companies intersect with societies, an analysis of the subject cannot be limited to the existence of ethical codes in a company. Rather, it is essential to examine a company's actions and to ensure that they are effectively guided by the ethical codes they possess in writing (Murphy 1988).

In fact, pension funds have four primary instruments at their disposal with which to influence companies: a commitment to dialogue, voting, legal procedures, and threats of divestment or exclusion. In other words, the funds can engage in dialogue, using a regulation-based focus to identify the companies they should invest in, vote or present resolutions at the annual shareholder meetings of the participating corporations, or focus on exclusion, dissociating themselves from a particular company. These instruments are interrelated and not mutually exclusive.

However, opinions vary regarding the role that pension funds should have in SRI. Critical voices claim that these funds should only concentrate on their role as fiduciaries for their clients: retirees and contributors (Schäfer and von Arx 2014). Others argue that pension funds are among the actors whose ideology moves beyond conventional market logic and must apply principles that transcend economics, while bearing in mind long-term profitability (Goodman et al. 2014). Others go even further, contending that the global holders of capital should transform pension funds into actors with a tremendous capacity to produce positive externalities by influencing the companies in their investment universe (Allen, Letourneau, and Hebb 2012).

The Norwegian and Swedish pension funds

Multinational companies on international stock exchanges are often 'ownerless', in that they are owned by everyone and there is not necessarily one single major

shareholder (Hagen 2015). This poses an additional challenge, since it is not always easy to identify the responsible party when a company is behaving irresponsibly and no one owner controls more than a small portion of the stocks. In this respect, large institutional shareholders like pension funds are seen as amongst the most powerful and influential actors in the financial market.

One of the reasons that pension funds are such salient stakeholders is their size, since they invest an enormous amount of money in a wide range of stocks and bonds on the stock exchange (Schäfer and von Arx 2014). The Norwegian pension fund is worth 1.1 trillion dollars (8.6 trillion kroner), and invests in more than 9,000 firms in 72 countries (CNBC 2017), while the Sweden pension fund manages reserves valued at more than 200,000 million dollars (OECD 2019). Moreover, Norway and Sweden are two of the four most active countries in Europe with regard to shareholder engagement (Eurosif 2014), and their socially responsible investment practices are largely driven bottom-up by the pension funds themselves and other institutional investors (Eurosif 2016).

In both countries, the ministries of finance are responsible for administering the pension funds. However, Norway is unique in that it ceded operational management of its Government Pension Fund Global to Norges Bank as a separate mandate. On the other hand, Sweden's AP funds are a Swedish government authority and its operations are primarily regulated by the National Pension Insurance Funds (AP Funds⁹) Act, a law enacted by the Swedish Parliament in 2000¹⁰ that specifies the operation and mission of each AP fund.

The pension funds in these two Nordic companies share a primary objective: to realise a greater financial return with regard to each country's income index (all of the capital in the Norwegian fund is invested abroad in foreign currency). However, this goal must be balanced with the obligation to consider ethical and environmental aspects in investment policies. Accordingly, the funds have established an SRI policy that involves pressuring or excluding companies that do not follow universally agreed-upon ethical and environmental standards (Hoepner and Schopohl 2018). Based on this general objective, the Swedish funds have formulated some set core values which they have summarised as acting in accordance with 'the principles of engagement, action, and change', with the aim of making a difference. The definition of what is considered ethical is made by the fund's Council on Ethics by assimilating the international conventions signed by Sweden. This ensures that there is greater consensus about what actions are preferable and, thus, that the impact is greater, since the other investors and companies share the same definitions, producing 'real power for change' (K. Hammar, email communication, 29 April 2020). In fact, since 2007, when the Council on Ethics was founded, there has been close collaboration between AP1, AP2, AP3, and AP4 aimed at aligning their positions. The ethical guidelines

followed by Norway's GPF, in turn, have been in force since 2004 and are part of a broad, transparent framework in which a range of tools are applied to ensure responsible management of the fund. The threshold to exclude companies is high, following the UN Guiding Principles on Business and Human Rights (E. Erlandsen, email communication, 24 April 2020). The GPF differentiates between sectors where investment is prohibited and those that require observation and exclusion if there is an unacceptable risk that they may contribute to or be responsible for certain actions, including serious or systematic human rights violations, serious violations of the rights of individuals in situations of war or conflict, severe environmental damage, or other particularly serious violations of fundamental ethical norms.

In the particular case of Western Sahara, the Swedish Council on Ethics has taken a public position, focusing its analysis on companies that can be linked to the extraction of mineral resources from Western Sahara in various ways. The aim is to persuade these companies to address the problem and also to adopt preventive policies, to cease extracting or purchasing mineral resources from Western Sahara or, alternatively, to demonstrate that the extraction or purchase of mineral resources is done in accordance with the interests and wishes of the Saharawi people, in line with the 2002 UN opinion on the situation in Western Sahara and procedures to prevent future violations of these conventions (Council on Ethics, [undated](#)). The GPF, however, has not reserved a special place for Western Sahara on its webpage. Nonetheless, the fund has taken an active position and issued statements in the divestment reports it has produced over the years. The concerns that the fund takes into account include a company's knowledge about and specification of the source of phosphates, the interchangeability of the phosphate, and a company's contractual ties with the Moroccan state-owned *Office Cherifien des Phosphates* (OCP).

Pension funds in the social network analysis

In accordance with triad-network model for social analysis applied to the case of Western Sahara here, three types of interdependent networks influence the behaviour of pension funds: economic, political, and societal (Wagemans, van Koppen, and Mol 2018). The economic network is home to the shareholder engagement between pension funds and investees. Although the funds in the two countries are transparent regarding active ownership and are known to publish a list of the companies with which they have entered into a formal dialogue, most of this process takes place behind closed doors. Moreover, while pension funds do not have a single strategy based on divestment or the exclusion of companies, their general strategy hinges upon two lines of action. The first focuses on trying to convince the identified companies to change their position on operating in Western Sahara, when

this is seen as contravening international law or humanitarian norms. This line is very important, and many companies do not, in fact, need to be excluded. Rather, they change their position when contact is initiated and they are put under pressure, as described by Hagen (2015). The second line does consist of excluding companies from the investment portfolio. However, a combination of the two lines is also used, and immediately excluding a company without first trying to modify its position is uncommon. On the contrary, as the funds and investors in general argue, excluding companies that do not meet ethical standards eliminates the possibility of being able to directly and positively influence them. At times, the real threat of divestment is sufficient and has the added bonus of serving as a declaration of expectations or priorities on the part of the funds.

Regarding the Swedish funds, since early 2009, the Sweden Council of Ethics engagement consultant has conducted more than 600 face-to-face meetings as part of the engagement programme, with the aim of driving positive change based on constructive dialogue (Council of Ethics 2018). Similarly, the fund portfolios confirm the divestment of holdings in the Canadian fertiliser companies Agrium and PotashCorp and the Australian Incitec Pivot in 2013 because their activities in Western Sahara did not adhere to Corell's opinion (2002). Agrium and PotashCorp merged to form Nutrien in 2018. However, as that company was also plundering Western Saharan resources without the consent of the Sahrawis and there was, moreover, a risk of human rights violations, Sweden divested from Nutrien as well (E. Hagen, telephone conversation, 25 May 2020), although the country is open to rethinking the relationship since receiving reports that this activity ceased in December 2018.

Additionally, the AP funds are using ESG service providers like Sustainalytics – a corporate engagement company serving the financial industry – to gain supplementary information for their analyses and to develop and implement an integrated investment strategy that takes ESG into consideration. In some cases, the ESG providers also engage in dialogue with investees and they have succeeded in bringing shareholders together through their services, providing engagement opportunities in coalition with other shareholders.

In the case of Norway, the Government Pension Fund Global has played an active role in influencing the companies that operate in Western Sahara since the fund excluded San Leon Energy Plc, an Irish oil company that had received two licences to operate in occupied Western Sahara, from its investment portfolios in 2003. Since then, it has divested from other companies, including PotashCorp in 2011 and Agrium in 2014, because of their long-term contracts with the *Office Chérifien des Phosphates* that were seen as posing an unacceptable risk of contributing to violations of basic ethical norms, contravening the guidelines of Norway's largest pension company, KLP, for responsible investment. The GPF also heeded a recommendation

from the Council of Ethics to sell its stakes in Cairn Energy and Kosmos Energy, worth a combined 49.6 million euros, in late 2015. In 2019, on the other hand, Nutrien, which had been importing almost half of the phosphates from Western Sahara, was taken off the blacklist when it ceased to operate in the territory in late 2018, a decision viewed as an engagement success. Moreover, the impact of this decision on the actors in the Sahrawi phosphate market was twofold, since Nutrien is the largest shareholder in Sinofert, a Chinese company that concentrated 5 per cent of phosphate imports in 2018 and is also expected to move away from the market.

However, the director of the GPFG noted in an email (E. Erlandsen, email communication, Apr 24, 2020) that:

[...] in some cases, the Executive Board may deem active ownership a better suited alternative for reducing the risk of continued norm violations. In addition to exclusions based on the ethical guidelines, the Fund may make financial risk-based divestments based [on] environmental, social and governance issues, within the risk limits.

This is what appears to have happened in the case of the recommendation made by the Council of Ethics in 2015 regarding the American company Inno-phos (WSRW 2015), when the Council decided that the company's activity was contributing to maintaining the area's unresolved international legal status. Although the Council considered it grossly unethical for the company to purchase long-term contract phosphate minerals extracted in Western Sahara by the OCP, Norges Bank decided to continue to invest. Despite this decision, however, as Table 1 shows, the company ceased to import phosphates from Western Sahara.






The second segment of the triad-network model concerns political networks. It is not possible to separate the behaviour of investment funds from the broader context that includes the official positions of national governments on the conflict or the development of international standards regarding the natural resources in non-self-governing territories. The organic structure of the funds also has an impact on their management strategies. The way in which they are involved in state organisations and their degree of independence have had different effects in the case of engagement strategies in Western Sahara.

There is a close relationship between fund management and the political apparatus. The funds are free to act, but within certain limits imposed by the government, which decides the ethical guidelines to be included. The funds use active ownership as a tool to influence a company's decision-making processes. For instance, ministries of finance have used funds as leverage over companies that contravene their values or councils of ethics. In the case of Norway, these actions have had an influence on the country's foreign policy; the Norwegian government has urged businesses to stay away from the territory, as the annexation of Western Sahara is not recognised (WSRW 2011a).¹¹

Table 1. Imports per company as a percentage of total exports (2012–18).

	2012	2013	2014	2015	2016	2017	2018
PotashCorp (Nutrien since 2018)	16.8	32.5	9	33.5	15.4	24	46
Agrium (Nutrien since 2018)		7.8	37.8	31.2	31.2	33.3	
Innophos	15.7	12.3	7.7				
Ravensdown (New Zealand)	10.4	8.2	4.9	7.1	10.1	6.9	11
Lifosa	9.8	18.3	19.4	4.8	3.7		
Ballance (New Zealand)	8.9	6.4	7.6	7.3	8.7	14	12
Unknown (India)	8.8	2.3	2.6				
Tripoliven	7.1	1.8	1.6				
Menomerus	4.7	4.9	4.8	2.9	3.1	1.1	
Incitec Pivot	3.4	3.2	4.6	4.5	5.7		
Unknown (South Korea)	3.9						
Unknown (Argentina)	3.1						
Unknown (Ukraine)	2.6			1.8			
Impact	1.8						
Unknown (Brazil)	1.4						
ISUSA	1.4	1.2					
Unknown (Point Comfort USA)		1.1					
Unknown (AB Lifosa?)				3.2			
Unknown (Venezuela)				3.7	3.7		
Paradeep (India)					18.5	20.7	24
Sinofert (China)							5
Coromandel (India)							1

Legend

	Divested by Swedish pension fund
	Divested by Norwegian pension fund
	Recommendation to divest
	Divested by both funds
	Pension fund investee

Source: Data from P for Plunder 2019, WSRW.

However, changes in this network can influence the way in which funds operate in Western Sahara. For example, since 18 December 2014, GPFG exclusions have been regulated by guidelines established for the observation and exclusion of companies adopted by the Norwegian Ministry of Finance. The question of who decides to exclude a company from the fund's investment universe or place a business on the watchlist, however, has changed. Prior to 1 January 2015, decisions were made by the Ministry of Finance, but as of that date, Norges Bank's Executive Board has assumed responsibility, coinciding with the decision not to implement the recommendation to disinvest from Innophos (despite the fact that the government also asserted that the opening to invest in the 'illegitimately annexed' territory was given under the condition that it benefitted the local population, in other words 'the Sahrawi people') (WSRW 2011a).

Politics has also materialised in Norway's determination that not all companies that buy phosphates from Western Sahara should necessarily be accused of unethical behaviour. In its decisions to adopt recommendations from the Council of Ethics, the Ministry of Finance usually attached particular

importance to whether the companies knew the source of the phosphates and had specified that they wanted phosphates from Western Saharan mines, and whether the purchase was a one-off (WSRW 2011b).

As state agencies, the Swedish AP funds also depend to a large extent on the legislative framework that monitors them. In the political network, they are constrained by the Swedish government through the AP Funds Act (Sveriges riksdag 2000), which establishes a difference between the various funds. For instance, AP7 is not allowed to vote in corporations listed on the Swedish stock market (AP7 2019), while AP1 and AP4 can participate and vote in nomination committees in that market (AP1 2018; AP4 2019). The political network, consequently, limits AP7's instruments of influence.

The third and final factor is the social network, which has become increasingly important in the relationship between Western Sahara and pension funds. Most of the actors who use shareholder engagement and cooperation platforms and coalitions with stockholders logically concentrate on the economic network. However, interviews have shown that NGOs can play a particularly important role in the working of the funds. This involves informal coalition building, in which investors are grouped together or work with NGOs, policymakers, or other stakeholders to strengthen their all-around salience (Wagemans, van Koppen, and Mol 2018). The coalitions support each other to identify issues for action, disseminate information related to these issues, and propose action strategies. The AP funds recognise the need for companies like Sustainalytics to improve the quality of the information required to implement fund strategies based on ethical criteria. This same role is played by NGOs like Western Sahara Research Watch, which defines itself as a 'databank for the Sahrawi people and other structures similar to our NGO that can use these data to inform more active strategies'.

At this time, there are dozens of companies operating in Western Sahara. The complexity of the issue highlights the importance of managing efforts and establishing limits. As they monitor the situation, NGOs provide information that can help funds differentiate between what actions are serious, very serious, or go too far. In fact, some funds have, for example, distinguished between companies that have oil and gas exploration licenses and those that have actually begun to drill, in order to begin conversations or to exclude them from the investment universe.

Conclusion and recommendations

This article has examined the corporate social outcomes of dialogue with shareholders regarding pension fund participation as a socially responsible investment strategy in Western Sahara, finding several individual examples of significant results in the corporate social performance of these entities.

Recent decades have witnessed an increase in the importance of pension funds and other institutional investors in stock markets around the world. At the same time that their clout, size, and legitimacy have increased in this sector, the funds have incorporated a set of values and tried to influence the ethical performance of their investees using socially responsible investment strategies.

The two funds studied in this article are looking for higher financial returns. However, the operations must also take into account a body of values that, in the Swedish case, align with the conventions signed by the country, and in Norway, conform to guidelines that have been in force since 2004 designed to watch and/or exclude companies. The optimal management of the retirement capital of the respective populations is intrinsically tied to the funds playing an active role in the companies in which they participate, and to the involvement of environmental, social, and corporate governance factors.

When the funds influence the companies operating in Western Sahara, it suggests that the more tools of influence they have, the more effective their strategy will be. This seems to indicate that investors who implement ethical trade guidelines are a key driving force behind urging companies to modify their objectionable behaviours. The analysis also shows that the primary mechanisms to influence companies are economic, particularly the threat of the divestment (which does not always have to be carried out). By using these instruments and stakeholder engagement, funds can serve as an agent for change in the conflict. Although some companies continue to export natural resources from Western Sahara, all of the enterprises that have been watched or expelled from the investment universe have ceased their export activity (see [Table 1](#), phosphates, 2012–18). Nonetheless, except in the case of Innophos and Nutrien, the decision to leave the Sahrawi market did not occur immediately after divestment.

The export of natural resources has been used by Morocco as a strategy to legitimise the country's occupation. Nutrien's decision to stop exporting phosphates – almost 50 per cent of the total – demonstrates both the success of pension funds and a growing awareness within companies. At this time, Morocco is increasingly dependent on just a few companies. If Sino-fert leaves the market – due to the fact that its main investor is Nutrien – the export of Sahrawi phosphates will be concentrated in four companies (Balance,¹² Ravensdown,¹³ Coromandel and Paradeep) from two countries (New Zealand and India).

At the same time, the role of coalition building in successful strategies is notable. In this case, the funds that have made use of ESG service providers found that this improved their dialogue with shareholders regarding participation. Another important informal coalition brought the funds together with Western Sahara Research Watch, since this group engages in large-scale monitoring that the funds use to identify possible actions that may require

investee observation. According to whether the funds are able, or wants to strengthen cooperation with other interested parties in the conflict, like NGOs, and align with political initiatives, it is reasonable to assume that they will be able to raise their legitimacy and immediacy in the eyes of their investees, consequently increasing the effectiveness of the shared commitment to socially significant results. This is particularly important since the funds do not participate in all of the companies involved, making it necessary for this type of strategy to be shared with other investors.¹⁴

The commitment of funds to socially responsible investment has been effective, as shown by the enterprises that have ceased to export phosphates and other natural resources. However, an increasing number of companies are currently investing in renewable energy in Western Sahara. Due to the funds' commitment to environmental, social, and corporate governance factors, this may be one way of eluding some of the ethical guidelines. Future research must be done into how the funds manage this type of investment in an occupied territory.

Notes

1. UNdata, the database of the United Nations Statistics Division (Department of Economic and Social Affairs, United Nations). Available on: <http://data.un.org/en/iso/eh.html>
2. Responsible for resource development in the liberated area of the territory. The SADR has taken a leading role in asserting territorial sovereignty and preserving natural resources pending the restoration of complete independence through the UN-mandated self-determination process.
3. The illegitimate Sahrawi interlocutor to the UN. It represents the concerns of the people regarding the looting and plunder of natural resources.
4. Morocco formally claimed the territory in 1957.
5. The UN considers the Polisario Front the legitimate representative of the Sahrawi people.
6. Sweden's sovereign wealth fund has a differentiated structure, with four funds (AP1 through AP4) in addition to AP6, each with a different investment strategy.
7. This would involve recognition of the occupation of the territory in the terms defined by the Hague and Geneva conventions.
8. The Sahrawi state would have to be recognised and have all the prerogatives of a subject of international law.
9. The APs are organised into five buffer funds (AP1, AP2, AP3, AP4 and AP6) and one premium pension fund (AP7). The pension system is divided into several funds to spread the financial risk in asset management. There are several differences between the funds in terms of how the investments are divided amongst different types of assets, since the governing board of each fund makes its own allocation decisions within the framework of the National Pension Insurance Funds Act (AP1 2019).
10. In January 2019, the AP Funds Act was amended to include sustainable development as a new goal.
11. Despite the fact that Norwegian firms have said that the signals they have received from the Ministry in terms of what they can do in the territory have

been unclear, since 2011 the direction seems straightforward. At this time, there are no Norwegian companies involved in Western Sahara exports.

12. For Balance's position on Western Sahara: <https://ballance.co.nz/Ethical-Sourcing>
13. For Ravensdowns's position on Western Sahara: <https://www.ravensdown.co.nz/services/product-availability/phosphate-rock-supply>
14. Hagen (2015) analyses and describes the actions of other investors who have also engaged in similar strategies with differing degrees of success.

Disclosure statement

No potential conflict of interest was reported by the author(s).

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