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Sovereign Equity for Economic Development

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The expanding role of SWF reflects a secular inversion in the distribution of global wealth.

Mature economies, USA, Japan and Europe, are giving way to:

- Countries with favourable demographics, such as China, India and Brazil and
- Countries with sizable natural resources such as the UAE, Norway, Australia and Russia.
One size does not fit all

- **Stabilization Funds**: Insulate Budget/Economy (e.g. Chile, Kazakhstan, Azerbaijan, Algeria, and Venezuela)
- **Savings Funds**: Inter-generational transfer (e.g. Kuwait, Qatar, U.S., Alaska)
- **Reserve Investment Corporations**: Part of Reserves; Increasing Returns (e.g. Korea)
- **Development Funds**: Socio-Economic Objectives
- **Contingent Pension Reserve Funds**: Finance unspecified; contingent pension liabilities of governments (Australia, New Zealand)
• **IMF definition of development funds**
  “help fund socio-economic projects or promote industrial policies that might raise a country’s potential output growth”.

Many states have resorted to ‘sovereign development funds’ i.e. quasi-independent investment vehicles to pursue a variety of objectives.

1. Unlock capital in capital-starved industries
2. Inject efficiency and discipline where none exists
3. Spread best practice of corporate governance
4. Catalysts for domestic financial and real-asset markets
Hybridization

- The influence and the role of public and private entities in the economy shifts constantly.
- None of the two approaches are successful in all circumstances => Airbus vs. MCI
- A stash of public funds is always a temptation.
1) AP6, Sweden  
2) Central Huijin, China  
3) Emirates Investment Auth., UAE  
4) Hellenic Republic Asset Development Fund, Greece  
5) Infrastructure Fund, NSIA, Nigeria  
6) Khazanah, Malaysia  
7) Mubadala, UAE  
8) Mumtalakat, Bahrain  
9) National Development Fund, Iran  
10) National Development Fund, Taiwan  
11) National Development Fund, Venezuela  
12) Oman Investment Fund, Oman  
13) Palestine Investment Fund, PA  
14) Public Investment Corporation, South Africa  
15) Public Investment Fund, KSA  
16) Russia Direct Investment Fund, Russia  
17) Samruk-Kazyna, Kazakhstan;  
18) State Capital Investment Corporation, Vietnam  
19) Strategic Investment Fund, France  
20) Strategic Investment Fund, Italy
Norway vs Saudi Arabia

- Is it preferable for Norway to invest in foreign assets or to boost its economy?
- Is it riskier to pile up government bonds or to invest in biotechnology?
- Why should people pay taxes to fund foreign companies or...
Intergenerational transfer is giving way to domestic concerns economies

Is there reason for concern?
• The Mystique of Diversification
• Long term investment are a bet on the synergies between human and institutional capital
• Domestic investments in most SDF countries have higher expected returns and lower management costs
Six Killer Applications

- Political and economic competition
- Rule of law
- Scientific revolution
- Modern medicine
- Education
- The work ethic

Institutional Capital

Human Capital
• The investment must generate high returns (otherwise the investments should be done via the state budget);

• It must not crowd out the private sector (i.e. no real estate)

• Leverage foreign capital through co-investment from abroad to maximize the impact and reduce the risk of interference
• SDFs provide a point of contact for foreign investors in search of reputable partners

• SDFs might provide an interface with local policy makers, regulators and civil servants.

• The SDF must have a robust governance framework that can stand up to foreign due diligence. Indeed, if this fund is going to originate deals locally and bring co-investors alongside, it needs to be able to prove that it is in fact doing what it says it’s doing.

• The SDF also must develop trust through regular transparency and accountability
Thank You

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