The Challenges of Setting Up a SWF: When, Why, How & Size?

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In Quest for Stability: The Global Governance of Sovereign Wealth Funds

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Outline*

1. What is the right environment for the creation of a SWF?
2. When does it make sense to set up a SWF?
3. How do we do it? (the How?)
4. Operational model, investment objectives and vehicles;
5. Cash flow projections for the fund - how much can (or should) it grow? (the How Large?).

* Questions were advanced by the moderator. Each panel member was supposed to react to these questions in sequence.
1. **What is the right environment for the creation of a SWF?**

- The need to separate decision-making on investment from government bodies to more autonomous entity.
- Desire to isolate the operation from political meddling
- Encourage other SWFs to co-finance in domestic markets
2. When does it make sense to set up a SWF?

- Proper management of the excess finance-concern about return on investment
- Indirectly impact the management of macroeconomic issues
- Accountability and rewards
- Best training grounds for human capital
3. How do we do it? (the How?)

- Mission formulation is crucial
- Related to the degree of development of the political process
- Short term vs. long term
- Citizens awareness regarding the value of such funds
- The best time is when there are stable economic conditions
- Stable political environment
4. How do we do it? (the How?)

- Start with the objective(s)
- Start with one
- Shop for the closer to you
- Assess local capabilities - hire expatriates - train locals
- Learning curve
5. Cash flow projections for the fund - how much can or should it grow? (the How Large?)

- The growth depends on the available cash allocated...after satisfying the budgetary requirements.
- The final results depends on population characteristics, age, etc.
- The size should not be established in advance? Why? Norway with 5.5 million and 840 billion, should they stop?
The Questions Were?

1. What is the right environment for the creation of a SWF?
2. When does it make sense to set up a SWF?
3. How do we do it? (the How?)
4. Operational model; investment objectives and vehicles
5. Cash flow projections for the fund - how much can or should it grow? (the How Large?).
The Questions Were?
(Some Quick Answers)

- Separate decision-making
- Best training grounds for human capital
- Mission formulation is crucial
- Shop for the fund which is closer to you
- The final form depends on population characteristics, age, etc.
- The size should not be established in advance?
  Why? Norway with 5.5 million and USD 840 billion, should they stop?
Conclusions and Final Thought

• Create a fund by emulating one which is closer to your needs and objectives
• Hire locals to be trained by the expats
• Ensure separate decision-making
• Size should NOT be an issue
Grazie

Thank you
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