الصندوق العماني للاستثمار
Oman Investment Fund

In Quest for Stability:
The Global Governance of SWFs

BAFFI Center on
International Markets, Money and Regulation

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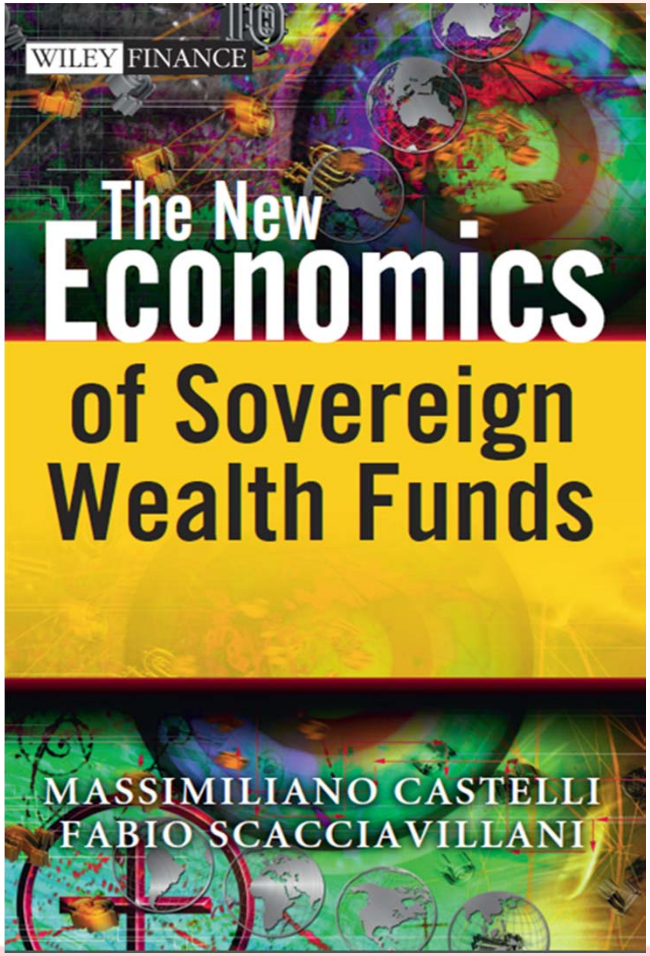

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Why a SWF?

- Historically the creation of SWFs is motivated by the desire to preserve the windfall revenues from the appetite of pressure groups (and political constituencies) competing for budgetary resources to pursue short term objective.
- With time ring-fencing the revenues became a way to foster transparency in the use of public funds
- Smooth the boom and burst cycles induced by commodities price fluctuations.

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SWF Classification

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)

Initially SWFs or FWFs aimed to transform underground wealth into over-ground wealth.

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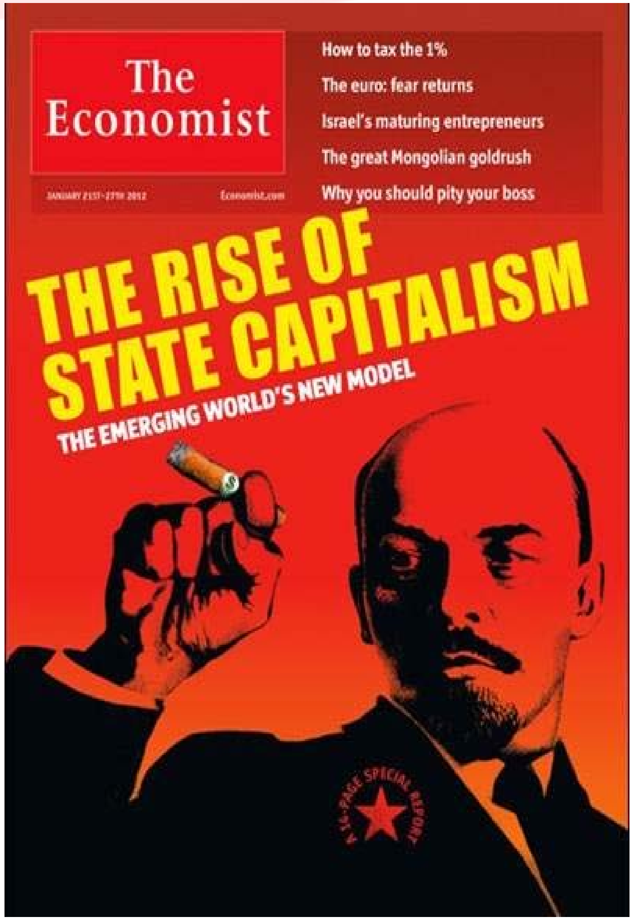
State Capitalism



"The crisis of Western liberal capitalism has coincided with the rise of a powerful new form of state capitalism in emerging markets"

"The crisis of liberal capitalism has been rendered more serious by the rise of a potent alternative: state capitalism which tries to meld the powers of the state with the powers of capitalism".

Source : Special Report on State Capitalism

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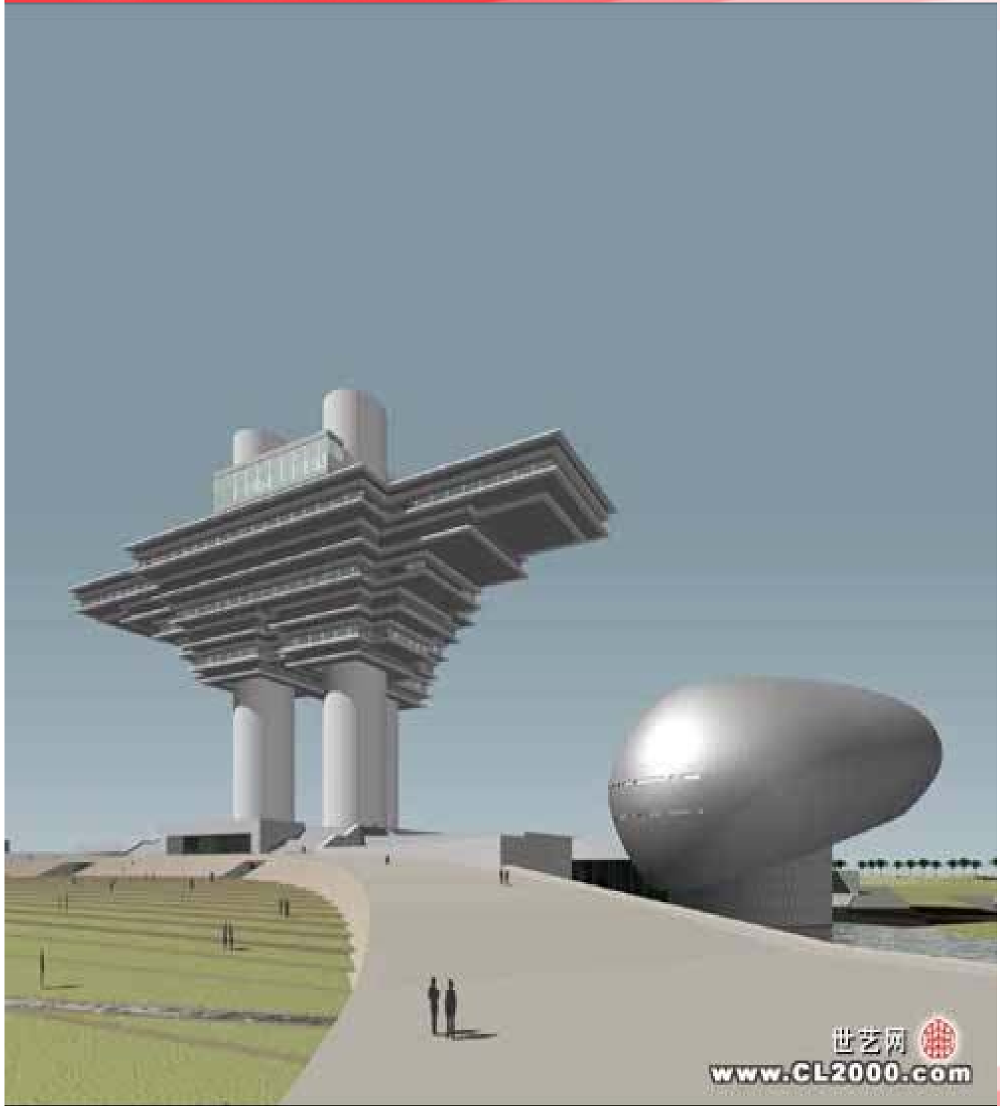
The role of SWFs



The expanding role of SWF reflects a secular inversion in the distribution of global wealth from mature economies, to countries such as China, India and Brazil which enjoy favourable demographics, and to those with conspicuous natural resources such as the GCC, Norway, Australia and Russia.

The surge in capital flows that we have witnessed over the last 25 years is the fundamental propeller of this re-balancing because it transformed the sign of the demographic variable in the equation of economic development.

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Absorption Capacity

Qatar or Norway

- Economy too small to handle the resources windfall
- Overheating
- Limited human resources
- Immigration woes

Russia or Timor Leste

- Limited private sector
- Investment climate
- Rule of law
- Investor protection
- Red Tape
- Inefficient financial markets

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A wide spectrum

- In small economies absorption capacity is constrained by physical and resources bottlenecks
- In some large countries absorption capacity is limited by the institutional and legal framework
- In between China whose SWFs constitute a shadow pension fund, and manage funds that otherwise could be devoted to public services such as health care or social safety net
- For Norway, an already prosperous country, arguably it might be preferable to stop pumping Oil for 20 years rather than accumulate wealth and deploy it in financial markets
- Optimal management of natural resources?

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Governance blues

- The 2010 IMF Staff Report on Papua New Guinea argued that "As country experiences suggest, special fiscal institutions (such as SWFs) themselves are not a panacea, but need to be integrated into a sound fiscal policy framework".
- "In fact, in some countries with special fiscal institutions [i.e. SWFs], government spending followed commodity revenues without averting pro-cyclicality of fiscal policy, and no meaningful difference has been found in the behaviour of spending relative to similar countries without special fiscal institutions (Davis and others, 2001)".
- In other countries with special fiscal institutions, government spending did not follow commodity revenues, but this was the case before and after the establishment of special fiscal institutions (Ossowski and others, (2008)).

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Models of governance

- The key issue is the borderline between political responsibilities and managerial autonomy
- In theory there are various alternatives, in practice beyond the letter of the legislation what matters is the self confidence of management and above all its communication skills
- A Yesmen attitude often is the surest road to perdition

Key Tenets

- Limits of autonomous decisions can be established on the basis of the investment limits on which management can take decisions
- Hiring must be insulated from outside pressure
- Remuneration policy has major implications for investment style

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Size

- Economies of scale vs diseconomies of control
- AUM as a function of objectives
- The 1% rule for asset management
- Regional offices
- Networks
- Red, blue yellow, white clients
- Attraction of Talent

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Thank You

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