Bharat Sovereign Wealth & Development Fund

A Report by

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January 1, 2021



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Why do we need it?

India is a country with a large population and growing and has resources that have been latent for a long time. We have to draw out a strategy to leverage these resources and grow them to meet our ever-increasing needs. We are currently doing a tight ropewalk to maintain the fiscal deficit and running the government, but we have not thought of long-term provisioning for India's need. With each year passing, our asking rate of GDP growth per capita is increasing, slowly sliding the country into a potential long-term crisis and a possible downgrade. One path breaking idea for this year's budget could be to set up the Sovereign Wealth Fund (SWF), unique from any other Sovereign Wealth Fund in the world. This SWF should catalyse India's growth, and become the new nucleus of India's growth story and dominance, and secure India's future in meeting future spending needs for development. I have worked on this document to give a sense of what and how India can leverage the SWF opportunity. More details can be discussed, if needed.

65 countries have already established at least one SWF, and in the past decade, 34 new SWFs have been set up (Capape, Schena, Rose, & Lopez, 2019). More so, SWFs in the developing economies have a pivotal role in the country's financial architecture (Preqin, 2018). Also, SWFs play a crucial role in saving resource revenues and prudence around the intergenerational distribution of wealth and benefits. Thereby addressing the demographically driven spending needs over the coming decades (Alsweilem, Cummine, Rietveld, & Tweedle, 2015).Imagine, if India had a SWF, it would have invested in vaccine research across the globe, catapulting India into a world leader for COVID vaccine.
If we track the SWFs, the assets under the SWFs had increased from $3 trillion in 2008 (Capape, Schena, Rose, & Lopez, 2019) to $ 10.6 trillion by the end of 2014, and was expected to touch $ 15 trillion by 2020 (Muysken, et al., 2020). This trend is likely to increase. India, from being just amongst the top investment destinations for SWFs, should have its SWF to invest in the top investment destinations.

I am putting the top 10 SWFs and the data on these countries' GDP and their population to give a sense of what the SWF can do to India. If we look at Norway, its GDP is just $ 414 billion, but its assets under the management (AUM) of the sovereign wealth fund is three times the size of its GDP at approximately $1.2 Trillion. Similarly, if we add all the sovereign wealth funds of China, the total AUM of the SWF is $2.2 trillion (Including the Hong Kong SAR). Similarly, Abu Dhabi has an AUM of $ 579.62 billion while its GDP is $354 billion, and the same is the case of most of the countries where the assets under the management of the sovereign wealth fund exceed the GDP of their nation.

Why do we need it?

There is a wonderful opportunity for India setting up its Sovereign Wealth Fund. Countries like Kuwait set up their SWF a good 70 years ago (1950). In 2015, India set up The National Investment and Infrastructure Fund ("NIIF") with an investment of Rs.20,000 crore for co-investing in domestic infrastructure projects. In my view, this was too late, too little and is just an infrastructure investment fund and not what India could have leveraged from a Sovereign Wealth Fund.

Top 10 Sovereign Wealth Funds

	Country	Annual GDP	Population	Sovereign Wealth Fund (AUM)	Fund name
1	**Norway**	$ 414.23 Billion*	5.4 Mn**	**U.S. $ 1.18 Trillion**	Norway Government Pension Fund Global
2	**China**	$ 16.49 Trillion*	1.43 Bn**	**U.S.$ 940.6 Billion**	China Investment Corporation
3	**Abu Dhabi**	Approx. $354 Bn.	1.48 Mn***	**U.S.$ 579.62 Billion**	Abu Dhabi Investment Authority
4	**Kuwait**	$ 116.13 Billion*	4.2 Mn**	**U.S.$ 533.65 Billion**	Kuwait Investment Authority
5	**Hong Kong - China**	$ 364.68 Billion*	7.4 Mn**	**U.S.$ 528.05 Billion**	Hong Kong Monetary Authority
6	**Singapore**	$ 362.52 Billion*	5.8 Mn**	**U.S.$ 453.2 Billion**	GIC Private Limited
7	**China**	$ 16.49 Trillion*	1.43 Bn**	**U.S.$ 417.84**	SAFE Investment Company
8	**Singapore**	$ 362.52 Billion*	5.8 Mn**	**U.S.$ 375.38 Billion**	Temasek Holdings
9	**Saudi Arabia**	$ 735.48 Billion*	34.81 Mn**	**U.S.$ 360 Billion**	Public Investment Fund
10	**China**	$ 16.49 Trillion*	1.43 Bn**	**U.S.$ 325 Billion**	National Council for Social Security Fund

Source: Statista. July 2020. * IMF Oct 2020 (GDP @Current Prices). ** 2020 Worldometers * World Population Review**

The path India should take for its SWF

Sovereign Wealth Fund

Wealth/Asset Manager

Active Investor

The Bharat Sovereign Wealth & Development Fund should have precise functions; one is to manage the money/wealth and grow it, and the second is to be an active investor. The structure should be vertical's oriented.

On the Wealth and money manager role, it should manage the performing and non-performing assets both and grow them, and on the investor side, it must invest in existing and emerging sectors.

How to create the SWF?

- Land banks of Government/ Government Undertakings should be brought under this SWF
- PSU/EPF holdings should be transferred to the SWF
- Large portions of the RBI Profits should be parked into SWF leaving only BOP & Debt needs.
- 1% of the tax receipts should be allocated to SWF
- Foreign exchange reserves are not yielding much for India and a proportion of the same may be parked in SWF*
- Sick PSUs be handed over to the SWF turnaround team
- Offset clause/ capital of international deals be parked in the SWF
- Set up bi-lateral funds, JV funds with FIIs, family offices and other SWFs

*Keeping the reserves for short-term debt (due in one year) and forex needed for imports in one year, and the remaining forex reserves could be parked in the SWF.

SWF Can

Catalyse and become the nucleus of India's growth story	Be a Mid & Long term investor and Long-term Wealth Manager	Assess, consolidate and monetize the assets
Insulate the economy agains shocks	Be a Strategic Global Investor	Boost the domestic economy
Create jobs	Support Development - Socio-economic return - SDGs	Deliver a minimum return of 10%. Definitely more than the cost of capital

- SWF can leapfrog India's economy with a quantum jump, and that too, with multi-dimensional impact.
- Grow India's stature as an economy and real power besides the soft power. I believe that, if the SWF idea is executed well, India's SWF may be around $ 3-5 trillion to start with, and it can become $ 10 trillion in the next decade if it is managed the way I am envisioning it.
- India (SWF) can strategize the sectors and countries where it needs to invest and create sizeable holdings in key economies of the world and critical sectors.
- When the SWF invests in companies across the world, it can push the organizations where it invests to start operations or office in India, thereby creating local jobs.
- SWF can secure future generations and help make provision for India's needs for social security for its aging population and development needs.
- Once this SWF grows big, it can help balance short-term fiscal positions for the government, insulate the budget and economy against volatility - generally commodity price fluctuations- serve as an additional policy tool for meeting government payment and foreign exchange.
- Create long term assets with social impact.
- It can insulate the economy from shocks with its holdings.
- SWF can balance private sector anti-competitive practices and monopolies.
- Boost domestic companies with the risk and growth capital, and support India in creating three to five trillion-dollar Indian corporations by 2035.

Strategy for the SWF

Define core and non core focus areas/ sectors

Define the focus in developing and developed economies

Support existing engines of growth

Invest in emerging engines of growth

Set up bi-lateral innovation and social impact funds

Manage - Real Assets; Operating Assests (MBOs); Fiscal Assets

Set up a SPV for turning around NPAs

Partner with various ministries for sectoral funds

Partner with various states for domestic growth

Invest in Circular Economy and create leadership globally

- The vision should be long-term investments in early and growth-stage companies and sectors.
- Companies that have a scope for listing may deliver the highest return on their listing, and this could be a focus of the SWF
- SWF should look at real assets, operating assets, and fiscal assets. Essentially, considering risk, return, and diversification.
- SWF should have a vertical approach for investment and AUM.
- On the verticals, it could address the existing and new or emerging sectors. Like on the existing one, it could be aviation, agriculture, and real estate etc., and on the new and emerging sectors, this could include Artificial intelligence, robotics, and space exploration etc. The sectoral and vertical focus could help to cross-subsidize.
- Define the core and non-core areas. For the core areas, the holding and association should be more than strategic
- Hire SMEs (Subject matter experts) for its sectoral investment and management filling a huge need gap for setting up strategic PSUs.

Strategy for the SWF

- Set up Bi-lateral funds with various institutions and governments.
- Set up a special purpose vehicle (SPV) for non-performing assets (NPAs), and taking sick units directly or from BFIR and turning them around and then, either running them or divesting them to cash out.
- Strategic investments clubbed with social impact investments can further geo-strategic political partnerships.
- It might be useful to consider the SWF accumulates returns for the first 5-7 years, and then, only invests the 'return' saving the capital. But this would need more discussions based on the quality and quantity of assets under SWF management.

Governance of the SWF

- The SWF should be insulated from political interference, bureaucratic controls & judicial interventions. The institutional structure and reporting should ring-fence it from bureaucracy and judiciary.
- SWF should be run by the best professionals from around the globe.
- SWF should have sector-specific mandates.
- As a long-term strategic investor, its mandate should be approved by the select committee of public representatives (Parliament) who are capable of understanding and furthering the vision.
- The SWF's performance report should be submitted to the parliament every year and vetted by the national auditor with a team dedicated to auditing the SWF. Though, the investment decisions of the SWF should not go beyond the internal investment committee defined by the board of directors.
- The SWF board should have no serving or retired bureaucrat or judge or a government official.
- All hiring decisions should be made by the SWF independently.

Salary of the SWF Staff

- Pay for performance /outcomes: Market linked salaries be split into a fixed component and a variable component linked to the SWF's performance. So, if the SWF shows 15% growth in a year, the salaries of the key staff could be increased by 50% of the fund's annual growth, say 7.5% in this case. So, the team will work to maximize their return of the variable salary component and thereby, increasing the overall return for the SWF.

Examples - Success Stories - Case Studies

- Saudi Aramco had 40 planes, and it formed a leasing company to monetize, and it also started hospitals. It is an interesting example of how assets can be monetized.
- Mubadala was established in 2002, and is a global investment entity with a presence in 50 countries with a clear mandate for UAE's economic diversification and global integration. Today, 50.3% of Abu Dhabi's total GDP is not related to hydrocarbons. The story of Mubadala's success in transforming the nation is a success story of an SWF (Capape, Schena, Rose, & Lopez, 2019).
- Temasek contributed $ 380 Bn to the development of a more sustainable food system (Capape, Schena, Rose, & Lopez, 2019).
- Mubadala (Abu Dhabi) has invested $ 12.5 Bn in solar and wind power projects through its wholly-owned subsidiary Masdar (Capape, Schena, Rose, & Lopez, 2019).
- Masdar City has a population of 4,000, with 600 companies now operating out of the city, from global corporations to local enterprises. The city gets 10,000 visitors per month (Capape, Schena, Rose, & Lopez, 2019).
- Mubadala made a critical and strategic investment in the aerospace industry, which stimulated the aerospace sector from scratch and led to partnerships with aircraft makers like Boing, Airbus, and GE. This SWF (Mubadala) is a part of the overall vision to diversify the economy beyond fossil fuels. It has generated hundreds of aerospace-related jobs for locals – Emiratis (Capape, Schena, Rose, & Lopez, 2019).
- CIC (China) has acquired a 100 % controlling stake in Cadent Gas in the U.K. (Capape, Schena, Rose, & Lopez, 2019).
- Ireland Strategic Investment Fund (ISIF) was founded in 2014 with a mandate to support economic activity and employment in the state (Capape, Schena, Rose, & Lopez, 2019).
- Khazanah (Malaysia) – SWF was founded in 1994 to manage the government's commercial assets and invest in strategic and high-technology sectors. The fund has grown significantly, and it has now started investing in other sectors and geographies and opened its offices in Beijing, Mumbai, Istanbul, San Francisco, and Shanghai (Capape, Schena, Rose, & Lopez, 2019).
- Ireland's National Treasury Management Agency in 2018 issued $ 3 billion in climate bonds to finance green projects in Ireland (Capape, Schena, Rose, & Lopez, 2019).

Examples - Success Stories - Case Studies

- Singapore's Temasek has generated a 40-year total shareholder return of 18 percent: Malaysia's Khazanah has a ten-year Internal rate of return of 13 percent. South Africa Public Investment Corporation has a ten-year Internal rate of return of 16 percent (Sharma, 2017).
- Private markets had the potential for higher returns than public markets (IFSWF, 2016). Sovereign wealth fund allocation was 28.5 % in domestic markets and 71.5% in foreign markets. Developed markets 92.5% and emerging markets 7.5% according to a report (IFSWF, 2016).
- Real estate and infrastructure remain the most favoured asset class for SWFs. Investments from SWFs in hedge funds have grown over the years (Preqin, 2018).
- The Russian Direct Investment Fund's mandate is to act as a catalyst and attract $ 25 billion of FDI in Russia. In its first four years, this fund has already signed deals with 20 institutional investors (Muysken, et al., 2020, p. 32).

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