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Sovereign Wealth Fund round table – Exploring the potential of sovereign wealth funds for investment in sustainable development

UNCTAD XIII special event

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Summary prepared by the UNCTAD secretariat

1. On 22 April 2012, UNCTAD and the Qatari Investment Authority initiated a dialogue between sovereign wealth funds and policymakers at a round table during the UNCTAD World Investment Forum 2012, with the aim to channel more investment by those funds into developing countries, including the poorest nations.

2. The round table featured a dialogue involving six government ministers from Colombia, Djibouti, Mongolia, Namibia, Rwanda and Uganda, and eight executives from sovereign wealth funds and pension funds from China, Kuwait, the Netherlands and Qatar, as well as senior managers from United Nations organizations and international experts. The event was chaired by Dr. Hussain Al Abdulla, Board Member Executive of the Qatar Investment Authority, and moderated by Mr. Maher Chmaytelli from Bloomberg.

3. Sovereign wealth fund executives and government ministers pointed out significant opportunities for investing in developing countries, including the least developed countries (LDCs), in sectors such as infrastructure, agriculture and agricultural processing.

4. Sovereign wealth funds, including those managed by the governments of major oil-exporting developing countries and emerging economic powers such as China, had a total of some $5 trillion in assets, and the sum was growing by about 10 per cent each year. Only a small percentage of that total – currently about $110 billion – had been invested by sovereign wealth funds in foreign direct investment (FDI). That had raised the question of how such vast quantities of money might be channelled to LDCs in ways that would help them broaden and fortify their economies, create jobs and raise living standards.

5. Sovereign wealth fund executives suggested that the opportunity was real, since investments in unstable stock markets were becoming less attractive to such funds, and

their long-term investment outlook was in line with the characteristics of development-enhancing investment projects. Dr. Abdulla said that more than 40 per cent of the portfolio of the Qatar Investment Authority was going to direct investment, and their investment had created much-needed jobs in the host countries. The Authority had also invested $2 billion in the agricultural sector over the last two years.

6. Meanwhile, executives of sovereign wealth funds from China, Kuwait, and Qatar – as well as a representative of the public-sector pension fund of the Netherlands – pointed out that astute policy steps were vital for increasing sovereign wealth fund investment in developing countries; stable policy frameworks, strong institutions and openness to foreign investment were also prerequisites.

7. They suggested that well-structured project proposals by developing countries – or by developing regions – were highly useful for attracting sovereign wealth funds that did not have the capacity to identify and pursue small-scale projects in difficult investment environments. Emerging economies and LDCs were also advised to expand their financial markets to better accommodate operational requirements by sovereign wealth funds or large government funds.

8. Sovereign wealth fund executives said there was a need to look at their own business model and regulatory frameworks or mandates governing their investments to fully tap into opportunities offered by FDI. For example, changes in rules might be necessary to allow sovereign wealth funds and pension funds to invest more in development-oriented projects.

9. Representatives of international organizations, including the International Finance Corporation (IFC) Asset Management Company and the International Fund for Agricultural Development (IFAD), revealed the scale of LDC investment needs in the infrastructure and agricultural sectors. The Food and Agriculture Organization of the United Nations estimated that more than $80 billion in investment were needed annually in agriculture alone – and the current level was less than $10 billion. Clearly, the opportunity to deploy sovereign wealth fund resources to cover part of the gap was too valuable to forgo.

10. In order to channel more investment into projects in LDCs that were usually too small for sovereign wealth funds, partnerships with specialized investment vehicles, such as IFC, IFAD and development banks that had more experience and expertise in investing in these countries, were advocated to fill the gap.

11. Ministers strongly recommended investment that spurred durable, long-term economic growth in the globe’s 48 LDCs and advocated policy initiatives that could reduce obstacles to sovereign wealth fund investment flows, including through international cooperation.

12. While expressing their commitments to investing in sustainable development, sovereign wealth fund executives emphasized that a balance of interests between government funds and host countries was essential to reap the benefits of sovereign wealth fund investment; the bottom line was that investment must be profitable, which was as true for sovereign wealth funds as it was for private investment.

13. Sovereign wealth fund executives and government ministers called for a continued dialogue among UNCTAD and its member States on how to surmount barriers to investment by sovereign wealth funds. They suggested a clear role for international organizations, including UNCTAD, in strengthening both the policy environment for investment and local institutions in developing countries. Such efforts would help LDCs and regional organizations structure project proposals and would serve to raise awareness of investment opportunities, especially in Africa.