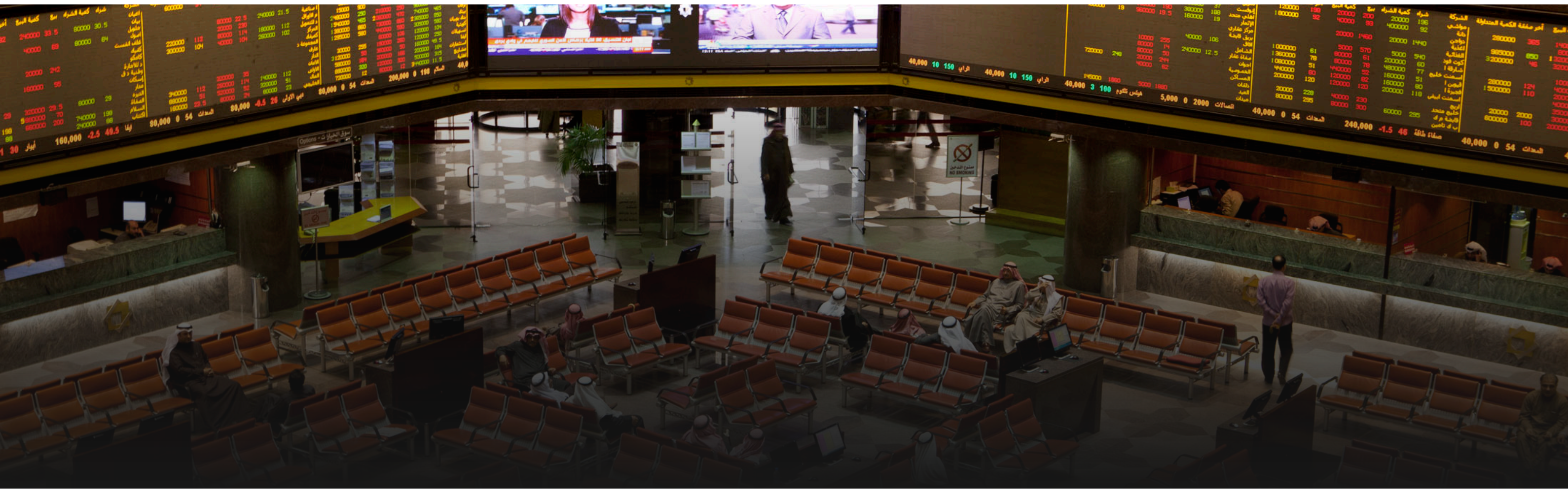

Neil Lee Husam Arman December 12th, 2024

Sovereign Wealth Funds: from Piggy Banks to Strategic Actors

by Neil Lee & Husam Arman

Investors sit inside the Kuwait Stock Exchange buidling in the financial district of Kuwait City, February 2012. Source: Kuwait Finance, Flickr.

Sovereign wealth funds (SWFs) used to be boring, dour things. Pumped up by money from oil and gas, the first of these funds served largely as piggybanks for future generations and helped to avoid the Dutch disease. The most successful are now huge players in the world economy. Saudi Arabia's Public Investment Fund claims $925 billion in management and Norway's Government Pension Fund owns more than 1% of all shares worldwide. Seeing this, other countries have tried to mimic their success and there has been a wave of new funds created. According to the SWF database, which counts them, 73 new funds have been established since 2010.

But while the first funds were simply there to store wealth, the new generation aim to create it. SWF have become an increasingly important tool of domestic economic and industrial policy. These so-called ‘Strategic Funds’ use public capital to try and make investments, often to crowd in public funding. For example, Singapore’s Temasek has a venture capital arm, Vertex Ventures, which takes equity stakes in companies to encourage them to locate in Singapore and jump-start the Singaporean funding system. Other countries, from China to France, have established their own funds with the same aim of domestic economic development. But this increasingly important policy tool raises questions: what does the global landscape of strategic funds look like? And what policy lessons can we take from their successes and failures?

We try to address these questions in a new project funded by the LSE Kuwait Programme. A team of Professor Neil Lee and Dr Martina Pardy of the LSE, Dr Husam Arman and Ahmad Alawadhi from the Kuwait Institute for Scientific Research (KISR), Professor Simona Iammarino from the University of Cagliari, and Yasmeen Al Jalal from the Shuwaikh Economic Office. We have two main objectives: 1) to map the landscape of the economic development efforts of SWF worldwide and 2) and offer recommendations to relevant decision-makers in Kuwait. We will provide timely, evidence-based policy recommendations from a new global survey of the SWFs and the selected case studies relevant to Kuwait that will be conducted as part of this project.

Our initial findings show the wide scope of strategic funds. We have identified 53 strategic funds globally, each of which has a clear focus on national development. The global trend is to invest in infrastructure development, the technology sector, and real estate, particularly in EU countries. But there are regional differences as well. In the GCC, for example, strategic funds seem to focus on sectoral development and diversification. These funds often form a core part of countries’ long-term visions and national development plans. For example, the Saudi Public Investment Fund has played a key role in their long-term plan, Vision 2030, and helped to fund Neom, the futuristic city.

The next phase of our research will consider case studies of success and failure. Strategic funds can be a powerful policy tool and the best make investments aligned with national priorities. They can crowd in private sector investment, help fund infrastructure, and serve goals from national development to net zero. Long-time horizons means that they can provide patient capital which the private sector might not. And they can align with other national policies, helping provide capital which matches strategic needs.

However, there are also some major problems with the use of strategic funds as a policy tool. The opportunity cost of providing capital can be large, particularly set against public debt. And the need for state funding is not always clear. The UK, for instance, has well stocked pension funds which are more likely to complain about a shortage of investable propositions than a lack of finance.

But the biggest problem is political. Successful funds need to meet political agendas without falling prey to political biases. Where funds have collapsed, this has often been because bad investments served political needs. The Brazilian government used the Sovereign Fund of Brazil to take a politically motivated stake in Petrobas, and it wasn't large enough to take the hit. Good governance and transparency are essential ingredients to any fund management, considering the scale of the business and the finances involved. For instance, according to the Armenian media, the Armenian fund was dissolved in May 2024 due to corruption.

Kuwait was one of the first countries to establish a SWF. But it has come late to the game in many developing activities, including these new advancements in the role of SWF. Last year, Kuwait announced its intention to branch out a new fund – Ciyada – dedicated to domestic investment and local development. The aim is to make domestic investments that will fuel economic development and diversify Kuwait's economy. The fund is in its early stages and we are keen to use our findings to shape policy in Kuwait and across the world.

[To read more on this and everything Middle East, the LSE Middle East Centre Library is now open for browsing and borrowing for LSE students and staff. For more information, please visit the MEC Library page.]

About the author

Neil Lee

Neil Lee is Professor of Economic Geography at LSE and CIFAR Fellow on the Innovation, Equity, and Future of Prosperity programme. He has held visiting positions at Oxford, Columbia, Science Po Toulouse and the University of Inland Norway.

Husam Arman

Husam Arman is Research Specialist at the Kuwait Institute for Scientific Research (KISR). His work focuses on national innovation systems and SME development. Previously, he was Research Fellow at the University of Nottingham, where he collaborated with firms like Rolls-Royce to optimise technology and innovation strategies.

Posted In: Kuwait