

The Progressive Foreign Experiments in the Activity of Sovereign Wealth Funds

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Abstract: This article discusses the experience of leading foreign countries in sovereign funds. As a result of the analysis of sovereign funds of foreign countries in our country, scientific recommendations and practical recommendations for the development of the Fund for Reconstruction and Development was developed.

Keywords: the sovereign fund, Norwegian Global Pension Fund, Abu Dhabi Investment Agency, “Temasek” Holding, the Russia Stability Fund, the Kazakhstan National Fund, the Fund for Reconstruction and Development

Introduction

In the world practice, Sovereign Wealth Funds is an energizing force for the investment and innovation with their amount on operating the large infrastructural projects, developing the economy speedily for constructing the production objects with high modern technology, operating the social-economic projects with the foreign investments in partnership. According to information in 2018 more than eighty sovereign wealth funds were organized more than in fifty countries and their common capital was 8.1 trillion USD. If we look at the geography of organizing sovereign wealth funds, we see its 40, 24 percent are in the Near East countries, 39, 74 percent are in Asia, its 13, 11 percent are in Europe, 2, 8 percent are in America, 2, 7 percent are in Africa and 1, 4 are in other countries.

Today every country is tending to strengthen its position in the world economy by providing its economic development. The tendency of forming sovereign funds in the various countries, extending their sizes and geography, organizing such institutions and their importance, the participation of some countries as a practical instrument for the social-economical development show that learning the experiments of these funds is very important.

In addition, many sovereign funds in the several countries, a mission of resolving the deficiencies of sovereign wealth funds in the objective market, a monetary peculiarity and a mission of stopping inflation, investing state money into the human capital, raising the diversification degree of the state economical sector and other missions increase the importance of sovereign wealth funds. So, we devoted this article to the progressive foreign experiments in the activity of sovereign wealth funds.

Analysis of literature on the theme

A. Rozanov who used the term “sovereign fund” first time explained sovereign funds as state investment funds and noticed functional differences of state pension funds and gold reserves that spent on operating the monetary policy. According to his words, “the managers of sovereign

funds in economy whether they are Central banks or governments of countries, state reserves are changing from traditional management to sovereign wealth management. In this way, sovereign funds have not some obligations and unlike state pension funds their amounts don't invest in the high-risk activities."

The main way to distinguish sovereign funds from state financial reserves in our opinion is they are the means of operating the state economic policy and their amounts are spent for macroeconomic purposes. These purposes:

- Stabilizing budget costs and national currency rate
- Forming funds for future generation
- Financing future pension provision from the account of investment income
- Providing the stable raising of social-economic development.

Every country with a portion of incomes that connected with the market conjuncture in the common size of budget incomes in macroeconomic size tends to create a mechanism that protecting from changing the state budget incomes and to organize an effective system of managing the excessive amounts that found opportune periods. In this, it is important for organizing the activity of sovereign funds.

In M. G. Baronova's opinion "sovereign fund is a special fund of money that was spent by the government for performing the main constitutional laws of citizens, operating the economic effective investment projects with high social importance and based on knowledge and financing the budget deficit." We can see it tried to release the stabilization peculiarity of sovereign funds.

Economist K. Kelimbetov explained it as he used the "Sovereign fund" idea in his researches. "Sovereign fund is an economic institute and an instrument operating the government policy, it is planned to operate the missions of social-economic security and it is also a fund for the activities material and financial (except State budget) that on the purpose of providing the long stable development of state (national and international).

Research Methodology

The main purpose of the research is learning the experience of leading foreign countries in sovereign funds and working on the suggestions and recommendations based on scientific to use for the activity of the Fund for Reconstruction and Development working as a sovereign fund in Uzbekistan. During the research, it was used from comparing, organizing and economic statistical methods.

Analysis and results

At first, sovereign wealth funds started to organize in the middle of the last century. During these periods their formation, volume, and intention developed intensively. The first sovereign wealth fund was organized in Kuwait in the second part of the twentieth century and today more than 80 sovereign wealth funds are working in more than 50 countries. The sovereign wealth funds institute was organized in 2007 and this institute announces the ranks of sovereign wealth funds for their several parameters. We can see 10 sovereign wealth funds for their actives. (Table 1)

We see Norwegian Government Pension Fund Global is leading the rank with its 1 trillion USD active in the rank announced by the sovereign wealth funds institute. In addition, we see information about 10 other sovereign wealth funds with their sources of formatting the actives, financial amounts, and their transparency index. We can see information about other sovereign

wealth funds in the application 2.

Table 1
Top 10 the largest sovereign wealth funds in the world (01.01.2020)

N	Country	Sovereign wealth fund's name	Assets, billion USD	Year of organized	Source of amounts	Linaburg - Madewell Transparency index
1	Norway	Government Pension Fund Global	1058,05	1990	Oil	10
2	China	China Investment Corporation	941,4	2007	Non-Commodity	8
3	UAE, Abu-Dhabi	Abu-Dhabi Investment Authority, ADIA	683	1976	Oil	6
4	Kuwait	Kuwait Investment Authority	592	1953	Oil	6
5	Hong Kong	Hong Kong Monetary Authority Exchange Fund	522,6	1993	Non-Commodity	8
6	Saudi Arabia	SAMA Foreign Holdings	515,6	1952	Oil	4
7	China	SAFE Investment Company	441	1997	Non-Commodity	4
8	Singapore	Government of Singapore Investment Corporation, GIC	390	1981	Non-Commodity	6
9	Singapore	Temasek Holdings	375	1974	Non-Commodity	10
10	Saudi Arabia	Public Investment Fund	360	2008	Oil	5

The results of the analysis of sovereign funds activity in the world economic development allow us to see the following conclusions:

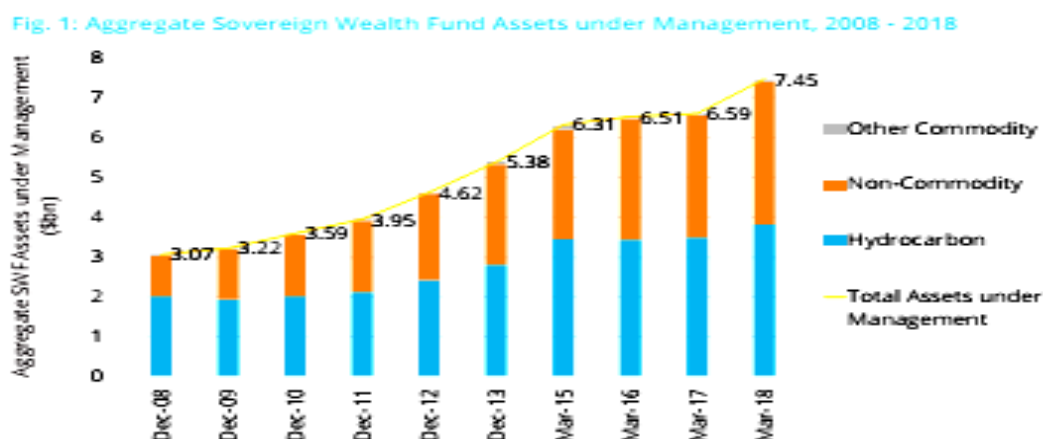
- Every fifth country in the world has its own sovereign fund;
- The United Arab Emirates has been the leader in sovereign fund assets for many years. In recent years, Chinese funds have been rapidly expanding their financial and investment volumes. The distinctive feature of this is that the assets of the sovereign funds of the UAE are formed as a result of the sale of raw materials, and Chinese sovereign funds are expanding at the reserves, which are largely independent of raw materials;
- About 90% of total assets of sovereign funds in the world are concentrated in sovereign funds in 25% of countries;
- The sovereign funds with the largest assets in the Commonwealth of Independent

States are in Kazakhstan and the Russian Federation, and the sovereign funds of these countries are the leaders in financial assets.

According to the Sovereign Wealth Funds Institute approach, the main criteria for evaluating the performance of sovereign funds are the level of openness, the profitability of the investment portfolio and the size of the assets. In addition, the year of the fund was established, the criteria for increasing the number of its assets in the short term.

Assets of sovereign investment funds in 2008 amounted to 3.07tnUSD; it increased more than twice and reached 7.45tn US dollars at March in 2018. This indicates the rapid growth of these funds (Figure 1).

The resources of sovereign funds increase not only through the proceeds from exports of products, but also through operations in the global capital markets. The sovereign investment funds in the United Arab Emirates, Kuwait, Norway, and Russia are mainly formed by the export of natural gas and investments in oil products.



As of March 2018, assets of the top five sovereign investment funds in the world account for nearly 50.0% of total assets. Assets of sovereign funds related to oil and gas products worldwide account for 54.4% of total assets.

Differences in the operation of funds in foreign countries are caused by a number of factors. In particular, it is related to income description, costing mechanism, and cost constraints. The peculiarities and approaches to the implementation of investment policies in various countries around the world are determined by their own interests. To better understand the investment mechanisms implemented by sovereign funds, we will look at some of them.

The sovereign fund with the largest assets in the world is the Norwegian Government Pension Fund Global. The fund is one of only two funds in Norway's pension system. This is because the State Pension Fund operates in the country.

The aforementioned fund was originally called the State Oil Fund and was established legally in 1990 and its previous financing was granted in 1996. Thus, in the mid-1990s, the most of incomes of Norway's oil and gas fields went into the national budget and used to pay off public debt. In 2006, the Norwegian Oil Fund was renamed the Government Pension Fund Global.

According to experts, currently operating profit in the oil and gas industry is the highest rating and it will decrease during the next decades. Thus, the Fund was formed firstly to resolve the effects of decrease in front of the profits and mitigate the harmful effects of changes in oil prices. Over time, the Fund's strategy is characterized by the following tendencies: risk premium, diversification of investments, and creation of social investments, profitability, and medium level

of active management. This fund is known as one of the most transparent in the world. The Fund regularly publishes annual reports on its activities, voting reports, and evaluation criteria for the fund's activities and strategy.

Although the name of the fund is known as the “Government Pension Fund Global”, it is not a pension fund and is formed not by pension contributions but by oil revenues. However, its renaming emphasized the fundamental role for saving the public revenue on financing the expected increase pension costs in future.

Currently, there are no official retirement obligations in the fund. Its investments are divided into several asset categories. More than half of the capital is invested in shares and the remainder is invested in fixed income instruments. Geographically, investments are focused on Europe (50%), Middle East, America, Africa (36%) and Asia and Oceania (14%). The fund's assets are placed in shares of about 8,500 companies in 60 countries. 60% of assets are placed in shares and 40% in bonds. By mid-2012, the Fund made up 1% of global securities markets and became the largest shareholder in Europe.

Table 2
Particular peculiarities of Government Pension Fund Global and Fund for Reconstruction and Development

Peculiarities	Government Pension Fund Global, Norway	Fund for Reconstruction and Development, Uzbekistan
Formation of Management	Government	Government
Organization of Management	Ministry of Finance and Central bank	Ministry of Finance and Central bank
Main resources for formatting sums	Oil and Gas	Gold
Investment direction	Outer	Inner
Portfolio of outer investment	Shares and bonds	Deposits
Transparency	High (10)	Low

Today, the fund's investment strategy is to preserve the long-term growth rate of Norway's national wealth for future generations, setting optimal investment standards for foreign countries. 60% of the assets of the Fund are allocated for shares, 35-40% for fixed income financial instruments and 5% for real estate. The Fund has the world's most transparent, well-diversified financial resources and investment strategy and it continues to serve successfully.

Now let's talk about the similarities and differences between the Government Pension Fund Global of Norway and Fund for Reconstruction and Development (Schedule 2).

From the table, it can be concluded that the activities of the Government Pension Fund Global as a contributor to the development of the Fund for Reconstruction and Development include being a member of the financial market for investment activities, maintaining high transparency in the Fund's activities, and overseeing asset management we note activity in external market.

The United Arab Emirates. Abu-Dhabi Investment Authority (ADIA). Abu Dhabi Investment Authority that was established in 1976, is a multifaceted sovereign fund owned by the

Emirate of Abu Dhabi. As the Fund's annual reports show, the fund's primary goal is to invest in high-income sectors on behalf of the government to ensure the future prosperity of the Emirate. ADIA is the largest sovereign fund in the Middle East and the world with its major source of revenue from oil exports.

ADIA is an independent juridical person and operates independently to achieve its stated purposes. About 80% of the fund's assets are managed by external fund managers and about 60% is spent on strategic development.

ADIA manages a diversified investment portfolio with more than 24 asset classes. These include stocks, fixed income financial instruments, real estate, juridical persons, infrastructure and others.

Most of ADIA's investment activity is in North America (35% -50%), Western Europe and Scandinavian countries (25% -35%), and Asian countries (10% -20%).

The Fund's performance has a lower the transparency index. Therefore, to date, there is no accurate information on the size of its assets. Thus, in the second half of 2012, according to various sources, its value increased from \$ 600 billion to \$ 800 billion. In the first half of 2018, it had \$ 683 billion, according to data provided by the Sovereign Investment Funds Institution. According to the Transparency Index, the Fund's transparency is estimated at 6 points.

Temasek Holding is a sovereign fund in Singapore. Temasek Holding was established with the initial investment of 350 million USD in 1974. Currently, the assets of the holding are formed through government assets, dividends, bonds, and periodic capital investments.

Temasek Holding has been operating as an independent, commercial investor focused on long-term gains from the day it was established by the Ministry of Finance. Dividends regularly paid to the government. Temasek has no obligation to manage currency reserves or develop the economy. Since its inception, the Fund has achieved long-term profitability of 17% per annum. As of September 2012, the total assets of the fund were approximately \$ 157.5 billion. 375 billion USD in the first half of 2018 and increased a half of two. It is one of funds with the high Transparency Index (the transparency index is a maximum of 10 points).

Temasek's investment strategy is implemented in the following tendencies:

- Achieving high profitability by investing in the financial structures, infrastructure, and logistics of the economies of China, India, Southeast Asia and Latin America;
- Compensating the growing consumer demand through investment in telecommunications, media technologies, real estate and more;
- Providing competitive advantages through searching other sources of business projects, intellectual property and competitive advantage;
- Developing new Leader companies by investing in strong competitive companies as well as companies that have the potential to become regional and world leaders.
- The balance sheet of Temasek's portfolio is distributed between Asia and other regions about 70 and 30 and financial and industrial investments are still the largest sectors of the portfolio of fund.

In our opinion, using low government interference in the management of the Temasek Fund in Singapore in managing the Fund's activities will increase the effectiveness of Fund's activity.

There are sovereign funds in Russia, Kazakhstan and Turkmenistan among the CIS countries.

The Stabilization Fund of the Russian Federation is a special fund of the Russian Federation and it was established to stabilize the economy. Its main tasks are to stabilize the social sector, the economy, and public finances, and to reduce investment costs that financing from budget. Since February 1, 2008, the fund has been divided into two, namely the Reserve Fund and the National Development Fund (Welfare). The Fund's resources are formed by transfers from the oil and gas sector to GDP, as defined by the budget legislation. As of July 1, 2016, Reserve Fund sums were 38.22 billion USD and Welfare fund sums were 72.76 billion USD. The transparency of these funds is 5 degree on the international level.

The Fund for Stabilization of the Economy and Development of the Republic of Kazakhstan in other words, the sovereign investment fund is the "National Fund of Kazakhstan". The fund was established on the basis of the Decree of the Republic of Kazakhstan on August 23, 2000, number 402 "On the National Fund of the Republic of Kazakhstan" and its resources were equal to 77.0 billion USD on June 2016. Its sums are formed mainly from oil, gas and metal exports. The international transparency rating is 2. The assets of the National Fund are controlled by the National Bank of Kazakhstan.

The main purpose of the Fund is to provide sustainable economic and social development of the country, accumulate international financial resources for future generations, and reduce the dependence of the national economy on various negative external factors, the dependence of republican and local budgets on the conjuncture of world market prices. World practice shows that a number of countries have created an effective mechanism with the support of sovereign funds for future raw material damage. In other words, the quality of the fiscal policy was ensured through collecting sums in sovereign funds during the budget period, while the revenues from the sale of consumed natural resources were volatile and limited and in particular, improved the quality of fiscal policy through lower budget revenues.

In addition, the effective functioning of sovereign funds will enable the national exporters to remain competitive while avoiding the real strengthening of the national currency. Sovereign funds must perform functions that facilitate the process of economic diversification, as well as ensure transparency in the targeted use of sums.

Effective management of sovereign funds is a difficult task because of the inability to provide in the development of the global economy, a clear imagination of the development tendencies of government and financial markets. For example, the sustainability funds' activities have not fully achieved their expectations in Venezuela. This is due to management errors, some changes in rules for fundraising and use eventually made it difficult to achieve these goals.

Thus, the best progress was made by countries that initially set specific rules governing the activities of funds and subsequently adhered to them. These are countries such as Norway, Singapore, and China. Where the rules are unclear and unnecessary, and governments have the option to spend their resources voluntarily, the collecting sums are usually not effectively spent, preventing them from achieving their intended objectives.

Conclusions and Suggestions

As a result of the analysis of the experience of the leading foreign countries on sovereign funds, the following conclusions will be formed:

First, there are the following tendencies in the development of sovereign funds: an increase in the number of sovereign funds emerging in non-resource-dependent countries; more

and more funds are being formed from non-commodities; Asia where have large gold reserves will continue to be the major region where new funds will be created in the future; the structure of investment portfolio of sovereign funds is changing towards more risky assets, with the best combination of risk/profitability; In the sovereign funds, infrastructure funds are created that focus on domestic investment in the economy, where their resources are most problematic from the point of view of development.

Secondly, as good ways of foreign experience to become a member of the financial market for investment activities, as well as to provide the high level of transparency of the Fund's activities and to provide an active foreign market in asset management;

Thirdly, in order to ensure access to the Fund for Reconstruction and Development of the Republic of Uzbekistan to the National Sovereign Wealth Fund and international rankings, it is necessary to publish the Fund's financial statements in accordance with international standards.

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