SOVEREIGN WEALTH FUNDS AND FOREIGN INVESTMENT

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ABSTRACT

Sovereign wealth funds (SWFs) are expanding rapidly around the world and are becoming a major force in global capital markets. Notably, the number of funds has quintupled to approximately 80 since 2000, and more are being created all the time. Additionally, SWFS AUM has grown by $400-500 billion per year since the GFC and is now over $6.5 trillion. In theory, SWFSs have significant potential to invest in sustainable sectors and support sustainable development goals.

Sustainability is their inherent long-term and comprehensive coverage. Because of its unique layout. SOEs typically have longer-term or well-defined liabilities that allow them to invest in more liquid assets. In addition, certain SWFS funds, such as sovereign wealth funds, have a specific mandate to invest in sectors that support the social and economic development of local economies. However, several structural problems have hindered the movement of capital from public investment funds to long-term sustainability the perspective of sovereign wealth fund investors and public procurement, and budget constraints for talent acquisition, all of which lead to a reduced risk appetite. Regardless of funding, there are measures that should be included in the portfolio of the country's investment funds to support sustainability goals. Initially, the openness of the state investment fund to different investment objectives is measured. development. The methods to do the above are not very developed, but with the current technological development of information technology and machine learning, there are many possibilities for this. These possibilities are explored in this article. The third part examines the prevailing models by which sovereign wealth funds have achieved their investment objectives and examines additional challenges in investing in sustainable development. It also examines the specifics of alternative investments in the private sector as the most influential form of long-term investment in sustainable sectors.

An SWF is a financial entity established by a national government to invest public money. The basic idea of creating a public investment fund is to postpone the immediate consumption of

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public surpluses and invest them in such a way that the pool grows over time and there are ready funds to meet various goals in the future. Sovereign wealth funds are defined as those owned by public entities for specific investment funds or arrangements. Public entities are established for macroeconomic purposes. Sovereign wealth funds hold, manage or manage funds to achieve financial goals and employ investment strategies that include investing in foreign financial assets. Sovereign wealth funds are usually created based on balance of payments surpluses, official currency operations, privatization expenditures, government surpluses and/or income from the export of goods. A sovereign wealth fund is a state-owned investment fund consisting of money produced by the government, often the country's surplus reserves. State funds benefit the country's economy and citizens. Funding for an SWF can come from a number of sources. Popular sources are state-owned surpluses from natural resource revenues, trade surpluses, bank reserves that can be accumulated from tax surpluses, foreign exchange operations, privatization proceeds, and government transfers. In general, sovereign wealth funds have a targeted purpose. Some countries have public investment funds that can be similar to private venture capital. Sovereign wealth funds have been around for several decades. However, for a long time, they were unknown to the public and out of the political spotlight. That relative obscurity changed dramatically in 2006 when Dubai Ports World acquired the port management operations of six major US port terminals. The proposed takeover raised national security concerns in the US, which quickly led to a wider debate about the roles, rights and responsibilities of sovereign investors. At the same time, several countries began to accumulate foreign exchange and public finance surpluses and actively invest them in foreign financial assets. Suddenly, numerous cross-border institutional investors came out of the states. This development attracted considerable political and commercial interest. They also generated controversies that became so widespread and politically intense that in October 2007 the international community asked the IMF and other international organizations to analyze key issues related to sovereign wealth funds and engage in dialogue with sovereign wealth funds and sovereign wealth fund recipient countries. Stabilization funds are created with the aim of helping to balance the short-term financial position of the public finances. They are designed to insulate the budget and economy from volatility (usually fluctuations in commodity prices) and are an additional policy tool to meet government payments and currency obligations in countries with less developed capital markets and/or currencies. For example, when commodity prices are low, reserves flow out and are used to stabilize the budget, protecting the deficit. When prices are high, excess funds flow into the fund. Examples of stabilization funds are in Botswana, Chile, Mexico, the Russian Federation and elsewhere. Savings or reserve funds are created with the aim of investing in surpluses for the benefit of future generations. The source of inventory is usually from current, once-in-a-generation surprises. There are certain reserve investment funds that are used to supplement foreign exchange reserves and are managed by the country's central bank. The goal is to invest additional funds in slightly riskier assets to boost returns. The pension funds or "buffer funds" are savings surpluses that will be used for specific purposes in the future. The funds[1] come from extra revenues or the current tax base of the state and are intended to cover contingent and undefined pension liabilities on the government's balance sheet from sources other than individual pension contributions. The difference between a pension fund and a state pension fund is that the fund's debts go directly to the state, and the state uses the fund to cover the shortfalls of the pension system. As for the state pension fund, the flow of bonds goes directly to the contributors of the fund. Examples of pension funds are in Australia and New Zealand. These funds may not have a specific responsibility, but their development has a specific purpose. In New Zealand's case, it aims to offset the future tax burden of providing retirement income from the country's aging population. Ten of the six largest sovereign wealth funds investing in Indian stocks saw assets grow by more than 50 percent year-on-year in June. The government of Singapore was the largest SWF with investments of ₹1.76 trillion at the end of June, followed by Norway (₹76.812 billion) and the Kuwait Investment Authority (₹8.790 billion). ABU DABI Investment Authority's holdings rose 400 percent to ₹ 2.885 billion, the highest in percentage terms among the top 10 sovereign wealth funds. Investments in the UAE have recovered, while Saudi Arabia is taking India more seriously due to strong government ties. Canadians have stopped investing in China and are investing in India and other emerging markets. India has also established its own sovereign wealth fund, the National Investment and Infrastructure Fund (NIIF). NIIF is a non-commercial strategic national investment fund. It differs from normal SWFs in two key ways. First, it is not 100% state-owned, but 49% financed by large domestic or foreign financial institutions. Second, unlike other sovereign wealth funds that invest both domestically and abroad, NIIF invests exclusively in sectors strategically important to the economy in India. India has overtaken China as the most attractive emerging market to invest in emerging market debt, according to a recent global survey by Invesco. India remains the fastest-growing emerging market with reduced risks due to the T+1 settlement cycle, rapid urbanization and growing purchasing power. SWFs directly invested $6.7 billion

[1] (Economics of sovereign wealth funds - IMF) https://www.imf.org/external/pubs/nft/books/2010 accessed 2[1] 9 September 2023

in India in FY22, compared to $4.3 billion in the previous year. The main industries receiving direct investment include aerospace, healthcare, entertainment, property management and renewable energy, in addition to new-age and emerging industries. "A key development in the participation of SWF and PF funds is their move from using money as limited partners of private equity funds and public market funds to investing directly in companies of interest in global GP-led companies. The interest has grown so significantly that many of them have a physical presence in India. As of 2020, sovereign wealth funds have been granted tax exemptions under Indian tax laws if they invest directly in certain infrastructure companies. Such exemption was also extended to investments in shares of InVITS and alternative investment funds investing in infrastructure companies. This discount is available for investments made before March 31, 2024, if the holding period is at least three years. Sovereign wealth funds make up a large and growing part of the global economy. The size of these funds and their potential impact on international trade caused considerable opposition, and criticism grew controversial investments.

The injection of foreign investment is important for developing and transition economies because it promotes faster economic restructuring, facilitates the acquisition of new technology and promotes enterprise management. FDI in India has gained momentum since the introduction of the liberalization, privatization and globalization model (1991), which brought major changes in the composition and type of FDI in the economy. Foreign direct investment is a transaction involving the flow of money between countries, which can be inflow or outflow, whereby one gets some benefit from the investment, while the other gets an opportunity to increase productivity and find a better position. by acting. A similar point of view was shared by the Monterey Consensus at the United Nations Conference on Financing for Development in 2002, which famously stated: "Foreign direct investment contributes to the financing of sustainable economic growth in the long term. They are particularly important because of their potential for knowledge and technology transfer, job creation, overall productivity growth, improved competitiveness and entrepreneurship and ultimately eradicating poverty through economic growth and development. The role of foreign direct investment (FDI) in promoting economic growth is one of the most controversial topics in the development literature. The great promise of foreign direct investment (FDI) by multinational companies is that capital stimulates dynamic growth. In addition to increasing incomes and employment, FDI[2] in

[2] (OECD.org - OECD) https://www.oecd.org/dev/44301172 accessed 29 September 2023

industry is expected to generate knowledge that indirectly affects the building of know-how and technological capability of local firms and catalyzes broad-based economic growth. The role of foreign direct investment (FDI) in the development process has undergone several changes. Foreign investment would bring associated benefits through technology transfer, marketing know-how, adoption of modern management techniques and new export promotion opportunities. Therefore, the government welcomes foreign investments that are in the interest of the country's industrial development. Foreign direct investment is considered the most attractive capital flow for developing economies, as it is expected to bring the latest technology and improve economic productivity. Foreign investment refers to both foreign securities investment and foreign direct investment (FDI). FDI brings better technology and management, access to marketing networks and provides competition that helps Indian firms thrive, besides benefiting consumers. This contribution to the effectiveness of FDI is much more important. Foreign direct investment is generally classified as horizontal, vertical or multi-sectoral. With horizontal direct investment, a company establishes a similar business abroad that operates in its home country. An example would be an American cell phone provider buying a chain of phone stores in China. In vertical direct investment, a company acquires another company from another country. In a conglomerate, a company invests in a foreign business that is not related to its core business. Since the investment company has no previous experience in the field of foreign companies, it is often done as a joint venture. The effects of foreign direct investment depend on the level of the stage of economic development of a country, and these stages are divided into four stages. In the first stage of development, natural people resources play the most important role and at this stage, no significant impact on the economy of the host country is visible. If the country, whose economic development is in the second stage, is reflected in the growth of domestic investments, there are investments in public goods, communications and transport. The current regime carries its interest in the production of labor-intensive goods from natural resources, and the effects depend on infrastructure and macroeconomic policy. The third stage includes the development period innovations, knowledge management, organizational advantages, production rationalization and investments are supported. All of these variables affect the competitiveness of local businesses and entering new markets. The fourth stage is the highest stage of economic development and many companies providing post-industrial services are registered at this stage. The Products there are direct services and cross-border connections and the impact is stronger at this stage. The impact of foreign direct investment on the economic development of the host country depends on the strategy that the country has chosen: an import substitution strategy or an export development strategy.

Sovereign wealth funds have been around for the past 67 years, but so little is known about them. Although SWF assets have grown to more than $6.5 trillion, their unique characteristics mean that this large amount is not fully available for investment in sustainable sectors. The role of SWFS in investing in and supporting the 2030 Sustainable Development Goals is important, but effective capital mobilization requires a deeper understanding of organizational drivers and impacts. Inevitable assets in this article include investments in long-term private market asset classes such as infrastructure, real estate, agriculture, venture capital and private equity are the most effective strategies to support the SDGs.