Analytical study of the Sovereign Wealth Funds policies and strategies in the Sultanate of Oman

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BBS Doctoral SYMPOSIUM
Brunel University
23rd & 24th March 2009
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Abstract

Sovereign wealth funds which manage the foreign assets of national states have recently emerged as a significant class of global investors. The resource rich countries, mainly oil producing countries, have set up the sovereign funds with an investment objective to stabilize the economies since their economies are vulnerable to the volatility of oil prices. Being an oil producing country, Oman has failed to invest the fund in the best opportunities in the global market. Hence the present study explores the present status of policies and strategies of funds and aims at suggesting the necessary changes required.

Key words: Sovereign funds, Investments, Policies and strategies

Introduction

"The sovereign wealth funds are the latest topic de jour in international finance". (Truman EM, 2007, p1). Over the last three decades, countries in the emerging market economies have created sovereign wealth funds with huge amount of money. Alkan C (2007, pp32-34) observes that sovereign wealth funds are a good way of channeling oil wealth, for example, into profitable investments, diversified between several markets. In recent years sovereign wealth funds have increased their influence on global financial market. The history of sovereign wealth funds dates back to at least 1953, when Kuwait investment board was set up with the aim of investing surplus oil revenues to reduce the reliance of Kuwait on its finite oil resources. In later years the sovereign wealth funds were set up by other resources rich countries which benefit from high oil and commodity prices. "Based on combination of private and official sources, Sovereign welfare funds are estimated to have accumulated between at least US$ 2 and 3 trillion" (Beck R and Fidora M, 2008, p5). For many countries, the return from the sovereign funds is very important sources of revenue in the financial budgets.
of some countries. The revenue from sovereign fund has a direct impact on development. As known, the major sources of revenue differ from country to country. But countries around the world cannot rely on a single source of income. For example the over dependency of oil producing countries on the income from petroleum, may create problems when the oil price declines. That means when a country is dependent on a single source of income, any decline in the revenue from the dependent source will adversely affect the economy of the country. Hence there is a need for the reserve fund, which can be used for different purposes like deficit financing, easing tax, stabilising financial market, and so on. The purpose of these funds can be maximised when they are invested in profitable alternatives. Therefore, some countries have designed the best policies and strategies to manage these funds. At the same time, some countries have failed to adopt appropriate policies and strategies to manage the funds and utilize these funds for investment in different alternatives.

Oman, a member of Oil Producing and Exporting Countries has created several reserve funds to meet different needs. But there is a general opinion that Oman has not given enough attention to invest these funds in different alternatives, both inside and outside the country. Oman has major source of revenue from petroleum apart from agriculture, fisheries, and tourism. Every year fifteen percent of the total revenue from petroleum has been transferred to the sovereign funds. But there is no serious effort to utilize these funds for investment.

**Importance of the study**

Oman is an important partner in the emerging global market economies since 1970 when the present ruler Sulthan Qaboos came to throne. Revenue from petroleum accounts for 80 percent of the total revenue of the country. The rest 20 percent of the revenue come from agriculture, fisheries and tourism. Like other member countries of Gulf cooperation council, the tax revenue of the Oman government is negligible. The investments inside and outside the economy of the country is not satisfactory compared to other member countries in the region. As noted earlier, Oman has created eleven sovereign funds with different purposes. Among these funds, several funds is the most important fund and others being pension fund and Oman investment fund. While investing these funds, Oman government has given more attention to invest in
the inside the country because they believe in the development of the domestic economy and are apprehensive about the risks involved in the investments outside the country.

Therefore, there is a need for the study to analyse the present investment policies and strategies of sovereign funds in Oman to bring out the problems in the governance, strategies, policies, structure, and other related aspects of the sovereign funds. The study is also important to compare the policies and strategies of other countries in Gulf Cooperative Council who are successful in the investment of the funds.

**Objectives of the study**

Current study is an empirical study which will help to design a new model to implement the policies and strategies for the management and operation of the fund. Based on the review of literature, it is clear that there is no specific research in Oman in this area, and the present study is a serious attempt to analyse the different aspects of sovereign funds in Oman with the following objectives.

1. To analyse the present status of policies and strategies of sovereign funds
2. To suggest the changes required in the policies and strategies related to sovereign funds.
3. Suggest new models of policies and strategies.
4. To suggest the long term planning and future investment targets.
5. To suggest the changes required in the attitude of the officials towards the investment of the funds.
6. To give suggestion to Oman government to implement the corporate systems for the investment of the funds and inculcate corporate culture in the governance of the funds rather than bureaucratic systems.

The study will be conducted in Oman to find out the necessary change required in the policies and strategies to invest the funds in profitable ventures both inside and outside the economy of Oman. The comparative study of Oman with the status of sovereign funds of other countries in the region will give a clear picture of the position Oman in utilising the funds.
**Methodology**

The study is designed empirically, based on the survey method. Data will be collected from both primary and secondary sources.

**Data Base**

Keeping the nature and objectives of the study, efforts have been made to evolve a unique methodology involving primary and secondary data, historical source materials, Interview schedules, and official publications, formal and informal interactions with academicians, researchers, corporate citizens and ministry officials in Oman. To familiarize the researcher with the various aspects of the study to evolve the appropriate methodology and to formulate a conceptual framework, a detailed survey of literature will be undertaken. The origin and growth of sovereign funds will be traced with the help of historical source materials and official publications of Government of Oman.

**Secondary Data**

The major sources of secondary data are the publications of United Nations, World Bank, IMF Publications, publications of various research institutes, and scholars. It is proposed to make use of the data provided in the publications of the World Bank, United Nations and IMF wherever they are found relevant. The annual reports and other official publications of the organisation and agencies in the area of study are another important data source for the study. The secondary data will be collected from the libraries of universities and institutes in Oman and abroad. Statistical reports of government agencies research articles published in various journals, Study reports of various agencies, Web-sites, Economic review published by the government of Oman and other Published reports of independent research projects are also considered. The researcher wish to make use of data available in the libraries of different Universities.
Primary Data

Primary data is used to assess the investment pattern, policies and other related issues of sovereign funds. Separate structured questionnaires will be used for this purpose. The questionnaire will be divided into four sections namely in the survey, the following aspects will be covered:

- The different departments involved in the operation and management of the funds
- Regulation, rules and system of the sovereign funds in Oman
- Policies towards investment of funds in the economy as well as outside the economy
- Government planning and future targets to increase the investment in the outside economy
- Changes required in the investment system
- Merger of different pension funds
- Implementation of professional focus and corporate identity of management of the funds
- Present problems of management of the funds
- Vision for future

The questionnaires will be administered to the officials of:

1. Finance Ministry
2. Reserve funds
3. Oman investment company
4. Oman Investment marketing
5. Pension funds such as (Royal Oman Police, Royal Guard of Oman, Special Force, Royal Office, Civil Service, Social Security, Diwan of Royal Court, Ministry of Defence, and Internal Security Services).
6. Sulthan Qaboos University and financial market in Oman
7. Investment companies.
Sampling Design

The universe of the study was contains officials, experts, researchers, academicians and investors. In order to have a better representation, a sample of (350) respondents from Sultanate of Oman will be selected for the study.

Apart from this a separate interviews will be held with (25) prominent people in the government of Oman. The responsible persons like Under Secretaries of the government departments and ministries, General Managers and managers of the funds, investment companies and consultants. Here the idea is to collect the information on the present situation of investment of SWF in Oman and outside Oman. Interviews will help to get the views of this group of people on the strength and shortcomings of the current policies and strategies of investment of SWF. The discussions will also help to ascertain the changes required in legal framework and strategies.

The data will be collected on the following aspects:

- The different departments involved in the operation and management of the funds
- Regulation , rules and system of the sovereign funds in Oman
- Policies towards investment of funds in the economy as well as outside the economy
- Government planning and future targets:
  a. To increase the investment in the outside economy
  b. Changes required in the investment system
  c. Merger of different pension funds
  d. Implementation of professional focus and corporate identity of management of the funds
- Present problems of management of the funds
- Vision for future
Conclusion

In the global economic system, the strategies of different countries to regulate and stabilise the economy are different. One of such strategy is to create the sovereign wealth funds. These funds play an important role in the emerging market economies to stabilise financial markets and fiscal conditions. The success of the utilisation of funds depends upon the policies and strategies adopted for management and operation of the funds. There is a need for good planning and future vision to invest the funds. Being an oil producing country, Oman has created a considerable amount of reserve funds. But the present investment strategies of Oman are not satisfactory and there is a need for a complete research study on the present status of the management of funds and future actions required to maximise the benefits from the funds.
References


