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How Kuwait Investment Authority Built A Solid Savings Nest

It has long been a very secretive organization, but lately there have been a few hints that the Kuwait Investment Authority (KIA), the country’s huge sovereign wealth fund, is starting to open up a little. Whether it represents the start of a longer-term trend towards full transparency seems doubtful, but it is a welcome development nonetheless.

The most significant sign of the new approach came in the IMF’s annual review of the Kuwait economy, which was published in January following consultations with the Kuwait government. The report revealed unusually detailed estimates and forecasts on the savings that have been built up inside the KIA.

The government still hasn’t officially disclosed the size of the KIA’s assets, but according to the IMF’s estimates, the organization had assets of $533.7 billion in 2016, up slightly from $526.6 billion in 2015 but lower than the $561.3 billion in 2014.

These figures are all lower than the estimate of the U.S.-based SWF Institute, which tracks sovereign wealth funds around the world. It reckons the KIA holds $592 billion in assets and is the fourth largest fund of its kind in the world, behind Norway’s Government Pension Fund, the Abu Dhabi Investment Authority (ADIA) and the China Investment Corporation.

Even if there are some differences about the precise scale of the KIA, there is no doubt the numbers involved are big and they put the country in a strong position, particularly in light of the lower oil revenues the government has been receiving in recent years. The financial buffers built up by the KIA are thought to be more than four times the size of the country’s GDP and could cover spending for many years into the future.

“We estimate that the assets of the KIA, if the government were prepared to fully use them, could last decades if financing needs stayed at the level we expect,” says Krisjanis Krustins, an associate director at credit ratings agency Fitch Ratings.

The signs of increasing openness have been welcomed by observers. “Kuwait has quite significantly increased its transparency on its external assets,” says one analyst. “The KIA has been very secretive about their assets. I was surprised to see much more disclosure in the IMF report. It was a positive sign.”

The IMF has been pushing for greater transparency still. In an addendum to the Article IV report, it said “disclosure of the KIA assets...would be particularly useful to boost investor confidence as Kuwait seeks to access global markets and build up debt.”

Change at the top

The greater openness coincides with a planned change in the leadership of the organization. In February this year, news emerged that Bader Al-Saad would step down in

April from his position as managing director, which he has held for 14 years.

He will retain a seat on the KIA’s board, but will be replaced as MD by Farouk Bastaki, the executive director for alternative investments.

Whether Bastaki pushes ahead with even further transparency remains to be seen, but changing the secretive nature of the KIA will not be easy, given its long history. KIA is the oldest sovereign wealth fund in the Gulf region, with a history that goes back to 1953 with the establishment of the Kuwait Investment Board (later renamed the Kuwait Investment Office) in London.

The current organizational structure dates to 1982, with a nine-strong board of directors headed by the minister of finance and including the governor of the Central Bank of Kuwait and the minister of oil.

KIA manages two main pots: the General Reserves Fund (GRF) and the Future Generations Fund (FGF), with the latter thought to be around twice the size of the GRF. The GRF was the first to be set up and from 1953 was run by the Kuwait Investment Board. The FGF followed in 1976. It was given 50% of the GRF’s assets at the time and, every year since, has received a minimum of 10% of the government’s revenues. The only time the government has departed from the 10% rule was in 2011-13, when parliament increased the proportion of revenues being transferred to 25%.

All government revenues are first deposited in the GRF, which hands 10% to the FGF and then distributes other funds to cover government expenditure in line with the budget. Any surpluses are retained by the GRF. Around 80% of the GRF assets are held in cash, but it also has shareholdings in some publicly-owned enterprises such as the Kuwait Fund for Arab Economic Development and Kuwait Petroleum Company. It also manages Kuwait’s participation in multilateral and international organizations such as the World Bank and IMF.

Investment strategies

The GRF makes investments in both Kuwait and the wider MENA region. By contrast, all of the FGF’s assets are invested abroad, with a variety of asset classes targeted with a view to long-term investment, including equities, bonds, private equity, real estate and infrastructure.

While the GRF’s funds can be used to help finance any budget deficit, no withdrawal is allowed from the FGF, including its investment income, unless sanctioned by law. To date, the only known time that FGF assets have been drawn down was from 1990-94, when $85bn was used following the Iraqi invasion and the subsequent reconstruction of Kuwait. The money was later repaid back into the fund.

More recently, there have been signs that the KIA’s investment approach is changing, or at least evolving. The FGF generally takes minority stakes and has historically been seen as a cautious investor, but recent statements suggest a new direction is being taken.

In a rare interview, Al-Saad said in January that the KIA was planning to control more investments in-house rather than rely on external managers, in a move that mirrors the approach recently taken by ADIA. Al-Saad told Bloomberg it was planning to increase the proportion of funds managed in-house to 8%, compared to 1-2% at the moment.

Al-Saad also outlined plans to invest more in private assets and large infrastructure projects, in an effort to increase returns in the current low interest rate environment. Among the recent deals was the acquisition of a minority stake in the U.K.'s Kemble Water Holdings, the owner of the Thames Water utility which serves London and surrounding areas, that was announced in March.

Despite all this, while the relative increase in openness has been welcomed, few expect the nature of the KIA or its funds to change radically in the near term. “I think the FGF will remain a very cautious investor,” says the analyst. “They won’t want to replicate what the Qatar Investment Authority has done. I don’t think they will turn to something risky. They are really cautious about this part of the fund.”

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