

Bahoo, Salman; Hassan, M. Kabir; Paltrinieri, Andrea; Khan, Ashraf

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A model of the Islamic sovereign wealth fund

Salman Bahoo

Department of Economics and Statistics, University of Udine, Udine, Italy;

School of Business and Law,

University of Agder, Kristiansand, Norway and

Islamia University of Bahawalpur, Bahawalpur, Pakistan

M. Kabir Hassan

University of New Orleans, New Orleans, Louisiana, USA, and

Andrea Paltrinieri and Ashraf Khan

University of Udine, Udine, Italy

Abstract

Purpose – The purpose of this paper is to propose a model of the Islamic sovereign wealth funds (ISWFs) based on Islamic finance principles to modify the precarious image of SWFs from Muslim countries. The Shariah laws are the cardinal direction for this study.

Design/methodology/approach – The authors applied a qualitative research technique that consists of three approaches: exploratory case study approach to critically examine and rank the existing status of SWFs; descriptive analysis; and content analysis to present a model of ISWFs in comparison of conventional SWFs.

Findings – The authors propose a model of the “Islamic Sovereign Wealth Funds” based on four key pillars: the major Shariah principles; the Islamic corporate governance framework; the Islamic transparency and disclosure framework; and the Islamic corporate social responsibility framework. Furthermore, the authors argue that the potential effect of the ISWFs on Islamic finance and economy will be positive.

Research limitations/implications – The model is an initial work and idea to convert SWFs from Muslim countries into ISWFs, which required an in-depth policy review by governments.

Practical implications – The findings of the paper are useful for policymakers and governments of the Muslim countries to overcome the issues and criticism on SWFs by converting them in ISWFs.

Originality/value – This paper contributes to the literature related to Islamic finance and sovereign wealth fund by presenting a first model of ISWFs for Muslim countries.

Keywords Sovereign wealth funds, Islamic sovereign wealth funds, Islamic finance,

Shariah principles, Economy

Paper type Research paper

1. Introduction

The traditional states are re-designed as advanced secretarial governments have full ownership and control of the institutional investors (Aguilera *et al.*, 2016). States have emerged in the global financial system as a dominant and large player through intensive “State-Capitalism” (Musacchio and Lazzarini, 2014). Sovereign wealth funds (SWFs) are modern vehicles used by the state or government to increase the state-capitalism nationally and internationally. The governments are reacting as commercially oriented global investors to manage the wealth of nations as a legal guardian (Megginson and Fotak, 2015).



The term sovereign wealth funds (SWFs) was coined by Rozanov (2005) in his work “Who Holds the Wealth of Nations?” (Dewenter *et al.*, 2010). SWFs are government-owned and controlled funds (Knill *et al.*, 2012). They have appeared as vast and unique investors having a total size of \$7,997.07bn that consists of 80 SWFs around the world. Muslim countries own 30 SWFs out of 80 having a total size of \$3,328.5bn (see Figure 2). The SWFs enormous size and control by political governments have increased their threatening image as an investor.

The governments of the Arab Gulf countries are unable to fully cover the western concept of democracy (Table II) and to reform governance and control mechanism of their SWFs. Consequently, the host country and corporates that receive an investment of SWFs from Muslim countries look it as a public and commercial hazard (Cohen, 2009). Muslim countries can amend the menacing image of their SWFs through adaptation and implementation of ethical standards of investments, finance, transparency and governance. While exploring the ethical standards for Muslim countries, the Islamic finance is one of the mainstreams of the international economic system that explains every aspect of investment, governance, management, transparency and control of business (Zaher and Hassan, 2001; Al-Bashir Al-Amine, 2015; Hendransatiti and Asutay, 2016; Khaled, 2018; Mansoori, 2013; Mili, 2014; Wan Jusoh and Ibrahim, 2017). Shariah law is the foundation of Islamic finance that guides all facets of business and economic activities of Muslims (Delorenzo, 2002). It could be argued that the application of Islamic finance principles on conventional SWFs that belong to Muslim countries will improve governance mechanism and reduce the threatening image of SWFs.

This study proposes a theoretical model of the ISWFs based on Islamic finance principles to modify the precarious image of SWFs from Muslim countries. The Shariah laws are the cardinal direction to establish ISWFs. We introduce the model by critically analyzing the following research questions related to SWFs:

RQ1. How to define SWFs and which belong to Muslim and non-Muslim countries?

RQ2. What is the prominent criticism on SWFs from Muslim countries?

RQ3. What is the current status of the structure, management, governance, transparency and accountability of SWFs from Muslim countries?

RQ4. What could be the appropriate model of the ISWFs?

RQ5. What could be the role of ISWFs in the growth and development of Islamic finance and economy?

We use state-of-the-art methods including, content, descriptive and exploratory case study analyses to produce the model of ISWFs (Gaur and Kumar, 2018; Given, 2008). Our study provides the following contributions of theoretical and practical nature for scholars and policymakers.

First, we discuss the concept of “sovereign wealth fund” and divide eighty SWFs between non-Muslim (50) and Muslim (30) based on their origin country and dominant religion (Tables I–II and Figure 2).

Second, we identify the following four issues and criticisms on SWFs from Muslim countries: the lack of stabilization effect, the SWFs establishment and large size, the geopolitical objectives of SWFs and the governance, transparency and operational issues of SWFs.

Third, we critically review the existing status of SWFs from Muslim countries and rank them into three dimensions; the structure and management, the governance and the transparency and accountability (Tables III–V). We apply exploratory case study approach to rank SWFs. The results show that SWFs from Muslim countries are essential to reform their structure, management, governance, transparency and accountability mechanism.

Fourth, we present a theoretical model of the “Islamic Sovereign Wealth Fund” through the application of Islamic finance principles that consist of Shariah laws (Figure 3).

S. No.	Name of fund	Country	Incorporation	Source of fund	AUM (\$ billion)	L-MTI, 2018
1	Government Pension Fund-Global	Norway	1990	Oil/commodity	1,035.24	10
2	China Investment Corporation	China	2007	Non-commodity	941.4	8
3	Hong Kong Monetary Authority Investment Portfolio	China-Hong Kong	1993	Non-commodity	522.6	8
4	SAFE Investment Company	China	1997	Non-commodity	441	4
5	Government of Singapore Investment Corporation	Singapore	1981	Non-commodity	441	4
6	Temasek Holdings	Singapore	1974	Non-commodity	375	10
7	National Social Security Fund	China	2000	Non-commodity	295	5
8	Korea Investment corporation	South Korea	2005	Non-commodity	134.1	9
9	Australian future Fund	Australia	2006	Non-commodity	105.4	10
10	National Welfare Fund	Russia	2008	Oil/commodity	66.3	5
11	Alaska Permanent fund	USA-Alaska	1976	Oil/commodity	61.5	10
12	Taxes Permanent School Fund	USA-Texas	1854	Oil/commodity	37.7	9
13	New Zealand Superannuation Fund	New Zealand	2003	Non-commodity	28.5	10
14	New Mexico State Investment Council	USA-New Mexico	1958	Oil/commodity	20.2	9
15	Permanent University Fund	USA-Texas	1876	Oil and gas/commodity	17.3	9
16	Timor-Leste Petroleum Fund	East Timor	2005	Oil and gas/commodity	16.6	8
17	Social and Economic Stabilization Fund	Chile	2007	Cooper/commodity	14.7	10
18	Alberta Heritage Fund	Canada	1976	Oil/commodity	13.4	9
19	Russian Direct Investment Fund	Russia	2011	Non-commodity	13	7
20	Pension Reserve Fund	Chile	2006	Cooper/commodity	9.4	10
21	Ireland Strategic Investment Fund	Ireland	2001	Non-commodity	8.5	10
22	Fiscal Stabilization Fund	Peru	1999	Non-commodity	7.9	n/a
23	Permeant Wyoming Mineral Trust Fund	USA	1974	Minerals/commodity	7.3	9
24	Sovereign Fund of Brazil	Brazil	2008	Non-commodity	7.3	Removed
25	Oil Revenues Stabilization Fund of Maxico	Mexico	2000	Oil/commodity	6	4
26	Paula Fun	Botswana	1994	Diamonds and millers	5.5	6
27	Heritage and Stabilization Fund	Trinidad and Tobago	2000	Non-commodity	5.5	8
28	China-Africa Development Fund	China	2007	Non-commodity	5	5
29	Fundo Soberano de Angola	Angloa	2012	Oil/commodity	4.6	8
30	North DoKota Legacy Fund	USA	2011	Oil and gas/commodity	4.3	10
31	Colombia Saving and Stabilization Fund	Colombia	2011	Oil and mining	3.5	n/a
32	Alabama Trust Fund	USA	1985	Oil and gas/commodity	2.7	9
33	Utah-SITFO	USA	1896	Land and mineral	2	n/a
34	Idaho Endowment Fund	USA	1969	Land and mineral	2	n/a
35	Louisiana Education Quality Investment Board	USA	1986	Oil and gas/commodity	1.3	n/a
36	Fondo De Ahorro de Panama	Panama	2012	Non-commodity	1.2	10
37	FINPRO	Bolivia	2012	Non-commodity	1.2	n/a
38	FEM	Venezuela	1998	Oil/commodity	0.8	1
39	Revenue Equalization Reserve Fund	Kiribati	1956	Oil/commodity	0.6	1
40	State Capital Investment Corporation	Vietnam	2006	Non-commodity	0.5	4

Table I.
List of SWFs from
non-Muslim countries

(continued)

S. No.	Name of fund	Country	Incorporation	Source of fund	AUM (\$ billion)	L-MTI, 2018
41	Gabon Sovereign Wealth fund	Gabon	1998	Oil/commodity	0.4	n/a
42	Ghana Petroleum fund	Ghana	2011	Oil/commodity	0.45	n/a
43	Western Australia Future Fund	Australia	2012	Minerals/commodity fund	0.3	n/a
44	Fiscal Stability Fund	Mongolia	2011	Minerals/commodity fund	0.3	n/a
45	Funds for future Generations	Equatorial Guinea	2002	Gas/commodity	0.08	n/a
46	Papua New Guinea Sovereign Wealth Fund	Papua New Guinea	2011	Gas/commodity	n/a	n/a
47	West Virginia Future Fund	USA	2014	Oil and gas/commodity	n/a	n/a
48	Fondo Mexico del Petroleo	Mexico	2014	Oil and gas/commodity	n/a	n/a
49	Luxembourg Intergenerational Sovereign Fund	Luxembourg	2015	Non-commodity	0	n/a
50	Reserve Fund	Russia	2008	Oil/commodity	0	5

Notes: AUM, total asset under management (USD billion), L-MTI, Linaburg-Maduell Transparency Index (2018). The table presents the details about SWFs that belong to non-muslim countries

Source: Sovereign Wealth Funds Institute (2018) and compiled by authors

Table I.

The model includes four essential pillars: Pillar 1: the major Shariah principles; Pillar 2: the Islamic corporate governance framework (Table VI and Figure 4; Pillar 3: the Islamic transparency and disclosure framework (Table VII); Pillar 4: the Islamic corporate social responsibility (ICSR) framework (Table VIII). We use the term conventional SWFs for the SWFs from Muslim countries before the implementation of Islamic finance principles.

Finally, we critically review the role of SWFs on the development of Islamic finance and economy by using descriptive analysis as a case study. We confirm that ISWFs will be helpful to improve Islamic finance and economic growth.

As per our knowledge, this is the first study that presents the theoretical model of the “Islamic Sovereign Wealth Funds (ISWFs)” based on Islamic finance principles by considering Shariah laws. The model of the ISWFs may have a specific interest from policymakers of Muslim countries that own and control conventional SWFs. Furthermore, the critical review of conventional SWFs may be useful for the government bodies, parliaments, the board of directors and management to perceive the existing status of the fund’s structure, governance, and transparency presentation toward stakeholders. Finally, a model of the ISWFs may be useful to governments who owned SWFs from Muslim countries to convert their conventional SWFs into ISWFs.

2. Methodology

We applied qualitative methods of research. Qualitative methods are research approaches used to explore a specific field of a study (Given, 2008). We used three important approaches: an exploratory case study approach, to critically examine and rank the existing status of the SWFs (Khalfan, 2004); descriptive analysis; and content analysis, to provide the theoretical model of the ISWFs in comparison of conventional SWFs (Gaur and Kumar, 2018; Potter and Levine-Donnerstein, 1999).

Our method consists of the following stages: the identification of SWFs from Muslim and non-Muslim countries; the identification of prominent criticism related to SWFs from Muslim countries; the systematic ranking of top SWFs from Muslim countries; the presentation of the ISWFs model based on Islamic finance principles guided by Shariah law; the comparison of the ISWFs model with world top-ranked SWF; and the analysis of the impact of the ISWFs on the growth of Islamic finance and economy. Figure 1 shows our methodology.

Table II.
List of SWFs from
Muslim countries

S. No.	Name of fund	Country	Region	Incor- poration	Source of fund	AUM ¹	L-MTI, 2018	Score ² board	Islamic/Shariah law ³	Government system
1	Abu Dhabi Investment Authority	Abu Dhabi	MENA/ AGC	1976	Oil	683	6	58	Full	Non-DMO
2	Kuwait Investment Authority	Kuwait	MENA/ AGC	1953	Oil	592	6	73	Partial	Non-DMO
3	SAMA Foreign Holdings	Saudi Arabia	MENA/ AGC	1952	NON-COM	494	4	n/a	Full	Non-DMO
4	Qatar Investment Authority	Qatar	MENA/ AGC	2005	Oil and gas	320	5	17	Full	Non-DMO
5	Public Investment Fund	Saudi Arabia	MENA/ AGC	2008	NON-COM	250	5	n/a	Full	Non-DMO
6	Investment Corporation corporation of Dubai	Abu Dhabi	MENA/ AGC	2006	NON-COM	229.8	5	21	Full	Non-DMO
7	Mubadala Investment Company	Abu Dhabi	MENA/ AGC	2002	NON-COM	125	10	n/a	Full	Non-DMO
8	Abu Dhabi Investment Council	Abu Dhabi	MENA/ AGC	2007	Oil	123	n/a	n/a	Full	Non-DMO
9	National Development Fund of Iran	Iran	MENA	2011	NON-COM	91	5	n/a	Full	DMO
10	Libyan Investment Authority	Libya	MENA	2006	Oil	66	4	6	Full	DMO
11	Samruk Kazna JSC	Kazakhstan	Others	2008	NON-COM	60.9	10	n/a	Partial	DMO
12	Kazakhstan National Fund	Kazakhstan	Others	2000	Oil	57.9	9	71	Partial	DMO
13	Brunei Investment Agency	Brunei	Others	1983	Oil	40	1	21	Partial	Non-DMO
14	Turkey Wealth Fund	Turkey	Others	2016	NON-COM	40	n/a	n/a	Partial	DMO
15	Khazanah Nasional	Malaysia	Others	1983	NON-COM	38.7	9	59	Partial	DMO
16	Emirates Investment Authority	UAE-Federal	MENA/ AGC	2007	Oil	34	3	6	Partial	Non-DMO
17	State Oil Fund	Azerbaijan	MENA	1999	Oil	33.1	10	35	Partial	DMO
18	State General Reserve Fund	Oman	MENA/ AGC	1980	Oil	18	4	27	Partial	Non-DMO
19	Mumtalakat Holding Company	Bahrain	MENA/ AGC	2006	NON-COM	10.6	10	39	Partial	Non-DMO
20	Revenue Regulation Fund	Algeria	MENA	2000	Oil and gas	7.6	1	29	Partial	DMO

(continued)

S. No.	Name of fund	Country	Region	Incor- poration	Source of fund	AUM ¹	L-MTI, 2018	Score ² board	Islamic/Shariah law ³	Government system
21	Oman Investment Fund	Oman	MENA/ AGC	2006	Oil	6	4	n/a	Partial	Non-DMO
22	National Investment Corporation	Kazakhstan	Others	2012	Oil	2	n/a	n/a	Partial	DMO
23	Bayelsa Development and Investment Corporation	Nigeria	Others	2012	NON-COM	1.5	n/a	n/a	Partial	DMO
24	Nigerian Sovereign Investment Authority	Nigeria	Others	2012	Oil	1.4	9	n/a	Partial	DMO
25	Senegal Fonsis	Senegal	Others	2012	NON-COM	1	n/a	n/a	Partial	DMO
26	Development Fund of Iraq	Iraq	MENA/ AGC	2003	Oil	0.9	1	n/a	Partial	DMO
27	Palestine Investment Fund	Palestine	Others	2003	Oil	0.8	n/a	n/a	Partial	DMO
28	National fund of Hydrocarbon Reserves	Mauritania	Others	2006	Oil and gas	0.3	1	n/a	Partial	DMO
29	Turkmenistan Stabilization Fund	Turkmenistan	Others	2008	Oil and gas	n/a	n/a	n/a	Partial	DMO
30	Sharjah Asset Management	Sharjah	MENA/ AGC	2008	NON-COM	n/a	n/a	n/a	Partial	Non-DMO

Notes: n/a, not applicable; AUM, total asset under management; NON-DMO, non-democratic; DMO, democratic; NON-COM, non-commodity; COM, commodity; MENA/ AGC, Middle East and North Africa/Arab Gulf Countries, L-MTI, Linaburg–Maduell Transparency Index. The table presents a detailed overview of the conventional SWFs belong to Muslim countries ¹In \$-billion; ²Bagnall and Truman (2013); ³laws implemented-full, or partial

Source: Sovereign Wealth Funds Institute (2018) and compiled by authors

Table II.

Table III.
Survey of structure
and management of
SWFs from
Muslim countries

S.No.	Name of fund	Mission/objectives (key points)	Culture/principle/values (key points)	Organization structure*	Management Structure*	Media and resource*	Other factors	Rank
1	ADIA	(i) Long-term prosperity (ii) disciplined investments	Prudent innovation, effective collaboration, disciplined Execution,	Y	Y	Y	Details about fund investments	4th
2	KIA	(i) Long-term returns, (ii) reduce uncertainty in future, (iii) excellence in private sector	Integrity, social responsibility, empowerment and accountability, team work,	Y	Y	Y	Details about BOD, management, and organization	1st
3	SAMA-FH	(i) SWF of Saudi Arabia Monetary Authority (central bank)	No information available	N	N	N	No website and reports are available	8th
4	QIA	(i) Long-term return, (ii) support economic development	Integrity, mission focus, excellence, respect for people, entrepreneurship	Y	Y	Y	Details about investment, CEO, CFO given	2nd
5	PIF	(i) Long-term return, (ii) support global opportunities, (iii) economic development	No information available	N	N	Y	Future program upto 2030	5th
6	ICD	(i) Wealth improvement, (ii) economic development	Excellence, commitment, sustainability, integrity, respect	N	N	Y	Future program upto 2021, portfolio strategy	6th
7	MIC	(i) Long-term benefit of Abu Dhabi	Ethical standards of business, integrity, speaking up, respect and fairness	Y	Y	Y	Portfolio overview performance, strategy	3rd
8	ADIC	(i) Financial success, (ii) growth and development of economy	No information available	N	N	N	No website and reports	7th

Notes: ADIA, Abu Dhabi Investment Authority (UAE-Abu Dhabi); KIA, Kuwait Investment Authority (Kuwait); SAMA-FH, SAMA Foreign Holdings (Saudi Arabia); QIA; Qatar Investment Authority (Qatar); PIF, Public Investment Fund (Saudi Arabia); ICD, Investment Corporation of Dubai (UAE-Dubai); MIC, Mubadala Investment Company (UAE-Abu Dhabi); ADIC, Abu Dhabi Investment Council (UAE-Abu Dhabi). The table represented the survey and analysis of the structure and management of the top eight SWFs and ranked them in eight positions. The information is given on the website. *Y = Yes; N = No

S. No.	Name of fund	Board of directors' details (yes or no)					Board committees (yes or no)					Govt and fund association					Santiago principles (yes or no)					Remarks	Rank
		1	2	3	4	1	2	3	4	5	6	Govt and fund association	1	2	3	4	5						
1	ADIA	Y	7	N	Y	Y	Y	Y	Y	N	(i) Independent	Y	Y	Y	Y	Y	Y	Good presentation of CG	1st				
2	KIA	Y	9	N	N	Y	Y	Y	N	Y	(i) Govt provide funds	Y	Y	N	Y	Y	Y	Reasonable information is available as compared to others	2nd				
3	SAMA-FH	N	N	N	N	N	N	N	N	N	(ii) Govt provide funds	N	N	N	N	N	N	No official website and reports, etc.	8th				
4	QIA	Y	7	N	Y	N	N	N	N	N	(i) Independent	Y	N	N	Y	Y	Y	Lack in proper information	3rd				
5	PIF	Y	9	N	N	Y	Y	Y	N	Y	(i) Independent fund	Y	N	N	Y	Y	Y	Lack in proper information	4th				
6	ICD	Y	5	N	N	N	N	N	N	N	(ii) Report to CEDA	Y	N	N	N	N	N	Lack in proper information	5th				
7	MIC	Y	7	N	N	N	N	N	N	N	No information	N	N	N	N	N	N	No Information but have official website	6th				
8	ADIC	N	N	N	N	N	N	N	N	N	No information	N	N	N	N	N	N	No official website	8th				
Notes: ADIA, Abu Dhabi Investment Authority (UAE-Abu Dhabi); KIA, Kuwait Investment Authority (Kuwait); SAMA-FH, SAMA Foreign Holdings (Saudi Arabia); QIA, Qatar Investment Authority (Qatar); PIF, Public Investment Fund (Saudi Arabia); ICD, Investment Corporation of Dubai (UAE-Dubai); MIC, Mubadala Investment Company (UAE-Abu Dhabi); ADIC, Abu Dhabi Investment Council (UAE-Abu Dhabi); SCFAI, Supreme Council for Economic Affairs and Investment; CEDA, Council of Economic and Development Affairs. The table represented the survey and analysis of the governance of the top eight SWFs and ranked them in eight positions; Variables: (i) board of directors' details (1. Information available, 2. Size of the board, 3. Number of meetings, 4. Governance organism); (ii) Board committees (1. Audit committee, 2. Investment committee, 3. Risk management, 4. management committee, 5. governance committee, 6. Executive committee); (iii) Santiago principles (1. Information is given, 2. Adoption of principles, 3. Detail compliance with all 24 principles, 4. Governance framework, 5. Investment policy framework), Y = Yes; N = No																							

Table IV.
Survey of governance
of SWFs from Muslim
countries

Table V.
Survey of
transparency and
accountability of
SWFs from
Muslim countries

S. No.	Name of fund	Portfolio overview						Publication of reports			Rank
		1	2	3	4	IAD	1	2	Audit report		
1	ADIA	Strategy and planning department	Developed equities (42%), emerging equities (20%), small cap equities (5%), govt bonds (20%), credit (10%), alternative (10%), real estate (10%), private equity (8%), infrastructure (5%), cash (10%)	North America (50%), Europe (35%), Emerging Markets (25%), Developed Asia (20%)	6.1%	Y	2016	68	N	6	2nd
2	KIA	Planning and senior management department	General reserves, marketable securities, alternative investments	N	N	Y	N	N	N	6	4th
3	SAMA-FH	N	N	N	N	N	N	N	N	6	8th
4	QIA	Investment teams report to CEO/general council and legal BOD	Equities, real estate assets, credit/fixed income, private equity, multi-strategy, real assets	N	N	Y	N	N	N	5	5th
5	PIF		Saudi Holding, sector development, real estate and infrastructure development, saudi giga-projects, international strategic investment, international diversified pool	N	N	N	N	N	N	5	7th
6	ICD	Three step Investment process/BOD	Finance and investment (27.9%), transportation (18.8), real estate and construction (17.2), hospitality and leisure (15.6), retail and other holdings (2.7)	Africa, Europe America, Middle East, Australia Asia	4.37%	Y	2017	131	Y	5	1st
7	MIC	Investment committee	Aerospace, capital investment, defense service, healthcare	N	N	Y	N	N	N	10	3rd
8	ADIC	N	Information and communication technology, metals and mining midstream	N	N	N	N	N	N	n/a	8th
Notes: ADIA, Abu Dhabi Investment Authority (UAE-Abu Dhabi); KIA, Kuwait Investment Authority (Kuwait); SAMA-FH, SAMA Foreign Holdings (Saudi Arabia); QIA, Qatar Investment Authority (Qatar); PIF, Public Investment Fund (Saudi Arabia); ICD, Investment Corporation of Dubai (UAE-Dubai); MIC, Mubadala Investment Company (UAE-Abu Dhabi); ADIC, Abu Dhabi Investment Council (UAE-Abu Dhabi); IAD, Internal Audit Department. The table represented the survey and analysis of accountability and transparency of the top eight SWFs and ranked them in eight positions. Variables: (i) Portfolio overview (1. Department play investment role, 2. Portfolio by asset class (max percent), 3. Portfolio by regions (max percent), 4. Annual returns); (ii) Publication of reports (1. During years, 2017, 2016, 2015, 2014, 2013, 2. Number of pages of report); (iii) L-MTI, Linaburg-Maduell Transparency Index (2018) (out of 10). Y = Yes and N = No											

Proposed Islamic governance principles for SWFs (authors contribution based on BNM principles)

1. Board composition and structure: the board should be independent of the owners, which are mostly governments in case of SWFs. The board should be very active, strong and experience to manage the fund. The experts from relevant fields are required to be on board
2. Board composition and type of directors: the board should contain several types of directors to make it independent like a private mutual fund. The board should maintain a balance among directors' appointments, and they should be representative of different stakeholders, for example; directors as representative of shareholders, directors from a private mutual fund, from a central bank, ministry of finance and outside directors as well
3. Board responsibilities and board committees: the primary function of the board is work as a bridge among owners (government) and the management of the fund. The board is responsible for formation of the board committees like (i) risk management, (ii) audit committee, and (iii) governance committee, (iv) Shariah committee and (v) investment committee
4. Shariah advisory board: the SWFs should have independent Shariah advisory board that should be based on the experts. The advisory board should directly report to the parliament/government and perform main functions related to Shariah review and audit
5. Implementation and monitory of Shariah principles/ law: it is responsibility of owners, board, boards committees, Shariah advisory board and Shariah audit committee to implement and monitor the implementation of the Shariah principles/law for every investment and transaction
6. Transparency, disclosure and communication: the SWFs should develop a proper system of discussion at both levels; vertical and horizontal and inner and outer. There should be a separate department that will perform these actives. There should pre-defined system and mechanism of disclosure and to be monitor by the boards by following multiple Santiago principles (GAAP) and Islamic finance principles. The SWFs should develop, adopt and implement the both Santiago principles, Shariah principles and any other accounting requirements under Islamic finance, such as rules, standards by AAOFI, IFSB, and IIFMO. The SWFs actively must increase their annual reporting, in the form of annual review, quarterly review, governance and ethical investment report, etc.
7. Qualification of the board and management: the directors on board, Shariah advisory board and key executives should have enough and relevant qualification, skills and experience to be appointed on the board
8. Board committees and their functions: the SWFs should have the following committees: audit committee, Shariah committee, risk management committee, governance committee and investment committee. An SWF must have following committees on the board, and it is required their regular meetings with disclosure. These committees should be very independent in their task. The responsibilities, task, authorities and functions of these committees should be adequately defined
9. Remuneration and conflict of interest: there should be a formal and transparent procedure for fixing the compensation of boards and management. There should not be any conflict of interest; the person who is involved in the decision-making process should work for the benefits of the SWFs
10. The separation between the owner (government) and management: the government should not be involved in direct management and control of the funds. The board, Shariah advisory board and management should be independent
11. Board performance and meetings: the board, Shariah advisory board should meet regularly and furnish the complete record of the meeting. There should be a formal way of analyzing the performance of the boards and board committees
12. Risk management and disclosure: the risk management committee, investment committee and board itself should actively perform the function of risk management. The risk related to every transaction must be managed and appropriately disclosed in annual reporting

Notes: The table presents the governance principles presented by authors. The primary source of these principles is Bank Negara Malaysia (BNM) in 2013. However, we recommend amendments keeping in view the scope of SWFs

Table VI.
Proposed governance
principles of
Islamic sovereign
wealth funds

3. Theoretical analysis of SWFs

3.1 How to define SWFs and which belong to Muslim and non-Muslim countries?

3.1.1 *SWFs overview and growth.* In 2005, Rozanov for the first time introduced the term "Sovereign Wealth Funds". They generally fall into two main categories based on their

Table VII.

Proposed rules and standards for ISWFs

S. No.	Details	Principles, standards, guidelines and rules	Total numbers	Proposed to be implemented on Islamic SWFs
1	Santiago Principles		24	All 24 are recommended to be implemented
2	Islamic Financial Service Board (IFSB) (IFSB, 2018)	Standards	19	Relevant are recommended to be implemented with amendments are per requirement and scope of SWFs
3	Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) (AAOIFI, 2018)	(i) Shariah Standards (ii) Accounting statements and standards (iii) Accounting guidance notes (iv) Auditing standards (v) Governance standards (vi) Ethics standards	(i) 48 (ii) 26 (iii) 1 (iv) 6 (v) 7 (vi) 2	Relevant are recommended to be implemented with amendments are per requirement and scope of SWFs

Note: The table presents the Islamic principles standards, guidelines and rules that can be implemented ISWFs after amendments

Table VIII.

Proposed principles of Islamic corporate social responsibility for ISWFs

Mandatory principles of ICSR	Recommended principles of ICSR
(i) Screening of investment as per Shariah principles (ii) Screening of earning prohibit as per Shariah principles (ii) Rights of employees (iv) Implementation of Zakah system	(i) Qard Hasan (ii) Reduction of worst impact on environment (iii) Screening of industries (iv) Social impact-based investment quotes (v) Excellent customer services (vi) Safeguard the micro-scale business (vii) Employees welfare (viii) Charitable activities

Note: The table shows the principles of Islamic corporate social responsibility principles to be implemented by Islamic SWFs

source of foreign exchange assets, such as oil, gas or any other/commodity funds and non-oil/non-commodity funds (Paltrinieri *et al.*, 2014; Sun *et al.*, 2014; Rozanov, 2005; Aizenman and Glick, 2009). Furthermore, International Monetary Fund divides SWFs into five types based on their objectives (International Monetary Fund, 2008, p. 2): stabilization funds, saving funds, reserve investment corporations, development funds and contingent pension reserve funds. SWFs have become an essential class of institutional investors in term of their asset under management (AUM) (Boubakri *et al.*, 2017). The period between the 2000s and 2018 experienced the creation of more than 80 SWFs, whereas their AUM has dramatically increased from the \$1 trillion in the early 2000s to nearly \$7.97 trillion in 2018 (SWFI, 2018). Figure 2 shows a detailed portfolio of SWFs.

3.1.2 SWFs from non-Muslim countries. We discuss and explore the SWFs established by Muslim and non-Muslim countries based on the main religion of the state. The 50 SWFs are from non-Muslim countries as given in Table I. The total AUM of these 50 funds is \$4,668.57bn and see Figure 2 for the division of commodity and non-commodity funds.

3.1.3 SWFs from Muslim countries. The 30 SWFs belonging to Muslim countries have a total AUM of \$3,328.5bn. They are further divided into 18 commodities and 12

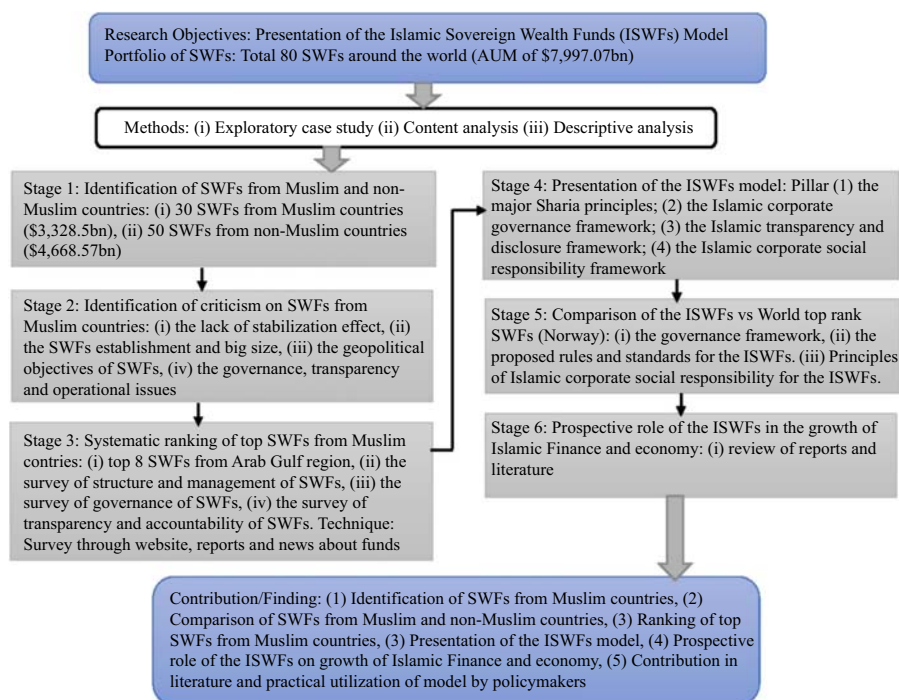


Figure 1.
Methodology

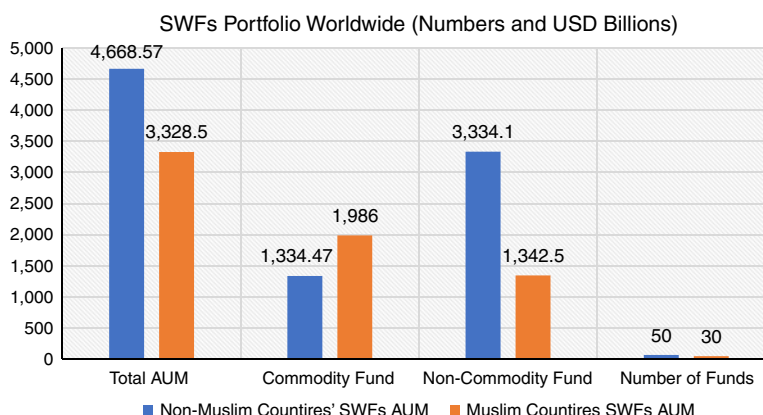


Figure 2.
80 SWFs division by
Non-Muslim, Muslim
countries funds and
commodity and
non-commodity

non-commodities, having a portfolio of \$1,342.5bn (Figure 2). Table II shows the origin country, size, transparency index of these funds. The scoreboard shows that governance mechanism is weak and need systematic improvement.

3.2 What is the prominent criticism on SWFs from Muslim countries?

During the financial credit crisis in late 2007, SWFs came to rescue the financial institutions in the USA and other western countries and invested over \$60bn (Cohen, 2009). In 2007, Bob Davis, a senior market analyst quoted that SWFs should stand for “salvaging withering

franchises” in his article “Wanted: SWFs Money Sans Politics (Cohen, 2009)”. However, there are several risks related to the investment of SWFs, especially when they belong to the non-democratic government with poor governance and management systems. We identified criticisms about SWFs through a review of the previous literature, reports and public news.

3.2.1 The lack of stabilization effect. SWFs impact turn out to be pro-cyclical rather than stabilizing to market fluctuations. In 2008, Bear Stearns and Wachovia Bank requested for SWFs investments to get stabilization, but they both collapsed. One reason was the negative publicity they faced after SWFs investment. According to Stephen Schwartzman, “The availability of money from SWFs was beneficial to a limited number of American and other financial institutions around the world (Cohen, 2009)”. Kirshner (2009) presented that SWFs are only political tools and have no relationship with stabilization. Moreover, Bahgat (2010) argued in the same direction that the SWFs has no stabilization effect and mostly they are not integrated with country’s fiscal policy. Furthermore, this criticism improves when non-democratic countries own SWFs.

3.2.2 The SWFs establishment and large size. Several developed countries had the current account deficits in the 1990s, but over the past decade, many emerging markets like China became global creditors. These global imbalances started in the twenty-first century, and the shift of wealth led to the building of a huge amount of foreign exchange reserves and the formation of SWFs (Eichengreen, 2006). Moreover, the countries having major income source of oil, gas and minerals shifted their revenues in stabilization funds by creating SWFs (e.g. Korea, China, Norway, Arab Gulf countries and Russia) (Megginson and Fotak, 2015). However, Monk (2009) argued that governments establish SWFs to safeguard state autonomy and sovereignty. Similarly, Hatton and Pistor (2011) considered SWFs formation as “autonomy-maximization theory” in non-democratic countries, such as Kuwait, Abu Dhabi, Saudi Arabia and China. The status and reputation of the SWFs from non-democratic countries caught the eye of policymakers from western countries, and they are concerned about enormous size and non-economic objectives of the SWFs (Gilson and Milhaupt, 2009).

3.2.3 The geopolitical objectives of SWFs. Wu and Seah (2008) showed that the goals of SWFs creation are dual: first, political to accomplish geopolitical tasks and, second, economical for the stabilization and growth of the country’s economy. Lenihan (2014) argued that SWFs are non-military internal balancing tools among nations through the power of finance. Similarly, Braunstein (2016) claimed that SWFs establishment is political and there is a role of political strategies in economic policy. In response to such arguments, big size and non-democratic size of SWFs, the western countries and the USA regulated or banned their investment (Gilson and Milhaupt, 2009; Kunzel *et al.*, 2011). This argument of political risk related to SWFs is strong for non-democratic countries, such as Russia, Saudi Arabia, UAE and Qatar (Cohen, 2009).

3.2.4 The governance, transparency and operational issues. The lower level of governance standards, transparency, and operational issues is the critical criticism of SWFs. One of the main arguments behind these lower standards is non-democratic governments that want to keep control of these funds for political objectives (Gilson and Milhaupt, 2009). Furthermore, the operations of SWFs are highly concerned as they are in direct control of the political governments (Norton, 2010). Surprisingly, the large SWFs, such as China, Abu Dhabi and Saudi Arabia, are managed by less than 3,000 employees (Megginson and Fotak, 2015). Another concern is the transparency, as SWFs do not generally publish annual reports or data. The Santiago principles, established by the International Forum of SWFs (ISWF), are not implemented by Muslim countries. In 2013, Truman evaluated the implementation of the Santiago principles and found that SWFs from Muslim countries have a low level of compliance. Our analysis of transparency and governance indexes also shows that SWFs from Muslim countries have a little value of the index (Table II).

3.3 What is the current status of the structure, management, governance, transparency and accountability of SWFs from muslim countries?

We critically examine the current status of SWFs from Muslim countries instead of merely relying on the previous literature or thoughts of policymakers. We conduct an exploratory case study analysis of the biggest top eight SWFs by following the methods of Kensicki (2003) and Lee *et al.* (2001) and Bahoo *et al.* (2018). We review their websites, published data, reports, news and any other information available on internet related to their structure, management, governance, transparency and accountability mechanism and rank them from 1st (best) to 8th (worst). These eight funds belong to the following Muslim countries UAE- Abu Dhabi (4 funds), Kuwait (1), Saudi Arab (2) and Qatar (1).

3.3.1 The structure and management of the SWFs. We survey the structure and management of SWFs through the website and published reports of SWFs as given in Table III. We rank all eight SWFs based on their available information and reporting by the fund. The Kuwait Investment Authority and SAMA foreign holdings are classified at first and eight positions.

3.3.2 The governance of the SWFs. The poor governance mechanism of SWFs creates a threatening opinion of policymakers. Non-adoption of Santiago principles is the main reason that produces doubts about these funds. We conduct an in-depth review of the governance mechanism by considering important indicators used by Wanyama *et al.* (2009). The analysis and ranking are given in Table IV. Our results show that Abdu Dhabi Investment Authority and SAMA Foreign Holdings and Abu Dhabi Investment Council have first and last position.

3.3.3 The transparency and accountability of the SWFs. The discussion of corporate governance without transparency and accountability is not complete. Hermalin and Weisbach (2007) argued that the proper and right disclosure depends on the board of directors and governance mechanism. The SWFs from Muslim countries face criticism of non-transparency and politically biased due to weak governance mechanism being considered as a geopolitical tool of autocratic and non-democratic governments (Chwiero, 2014). Therefore, we critically reviewed these funds and ranked them between first and eight positions. The Investment Corporation of Dubai and SAMA Foreign Holdings and Abu Dhabi Investment Council are listed at first and eight positions (Table V).

3.4 What could be the appropriate model of the Islamic sovereign wealth funds?

The SWFs from Muslim countries face a massive criticism of their political objectives (Hatton and Pistor, 2011), weak governance (Cohen, 2009), poor transparency and accountability (Calluzzo *et al.*, 2017). Therefore, we conducted an in-depth review of the top eight SWFs that belong to Muslim countries. Overall, we conclude that it is essential for SWFs to improve its governance mechanism by following a systematic framework.

3.4.1 Practical and theoretical background. The SWFs are exclusive purpose investors with highly specific objectives. Braunstein (2016) and Chwiero (2014) argued in two different studies that creation of SWFs is politically biased and have governance and transparency issues. This criticism improves if SWFs belong to non-democratic governments (Cohen, 2009; Gilson and Milhaupt, 2009). Mostly, SWFs from Muslim countries fall under the definition of non-democratic governments (Table II). Furthermore, our rational analysis of structure, management, governance and accountability shows that SWFs from Muslim countries need to improve their framework and mechanism. Thus, SWFs from Muslim countries have two options: first to follow the structure or mechanism of top conventional SWFs like Norway and, second, to formulate and adopt their system based on Islamic finance principles that are based on Shariah law.

3.4.2 *Implementation of Islamic finance as a solution to SWFs from Muslim countries.* Islamic finance is a reliable system that is available with Muslim countries that consists of Shariah laws. Islamic finance is a prominent stream of the international financial system that represents the Islamic financial system and coined in the mid-1980s but developed very fast. The Islamic financial system includes the Islamic economy, banking, institutions and products based on Shariah laws (Zaher and Hassan, 2001). Archer and Abdel Karim (2002, p. 3) defined Islamic finance as: “Islamic Finance is the provision of financial services on the basis that is compliant with the principles and rules of Islamic commercial jurisprudence (fiqh al mu’amalat), a branch of Islamic Shariah jurisprudence.” The Shariah laws guide Muslims on every aspect of their life, like the business, finance and personal daily life (Delorenzo, 2002; Alexakis and Tsikouras, 2009).

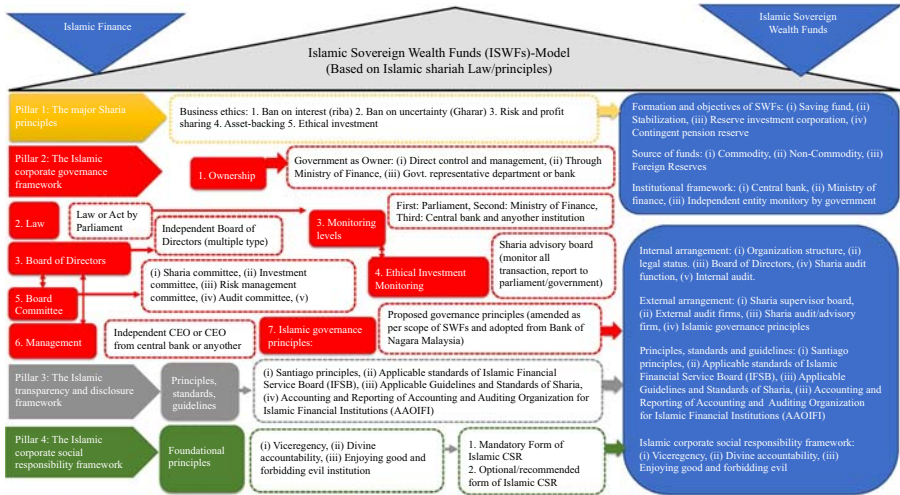
The implementation of the Islamic finance could serve as a solution to improve the structure, management, business ethics, governance, transparency and accountability of conventional SWFs from Muslim. The Islamic finance principles under the light of Shariah laws can provide a systematic model of the ISWFs. Therefore, we propose a model of ISWFs based on key pillars of Islamic finance. This model of the ISWFs will be a countermeasure to improve the structure and image of conventional SWFs from Muslim countries in comparison to Norway SWFs (Government Pension Fund-Global (GPGF)) that is considered as a most transparent fund (Clark and Monk, 2010). We use term conventional SWFs for the funds before implementation of the ISWFs model.

3.4.3 *Islamic sovereign wealth funds model.* We develop a systematic model of the ISWFs by implementing the Islamic finance principles under the guidelines of the Shariah law. Figure 3 represents our model of ISWFs. The model consists of four pillars:

- Pillar 1: The major Shariah principles.
- Pillar 2: The Islamic corporate governance framework.
- Pillar 3: The Islamic transparency and disclosure framework.
- Pillar 4: The ICSR framework.

3.4.3.1 Pillar 1: the major Shariah principles. The Shariah law is the main set of guidelines for Muslim related to business, finance and personal life. There are five major principles of Shariah, which differentiate Islamic finance from conventional finance. The adoption and

Figure 3.
Islamic sovereign
wealth funds
(ISWFs)-model



implementation of these major principles are mandatory at the first stage to establish ISWFs. The following five Shariah principles must be followed by SWFs from Muslim countries (Alam, 2009): the ban on interest (riba)-based transaction, the ban on uncertainty (gharar), the risk-sharing and profit-sharing, ethical investment, and the asset-backing transactions. The SWFs from Muslim countries first need to implement these basic five Shariah principles in true spirit.

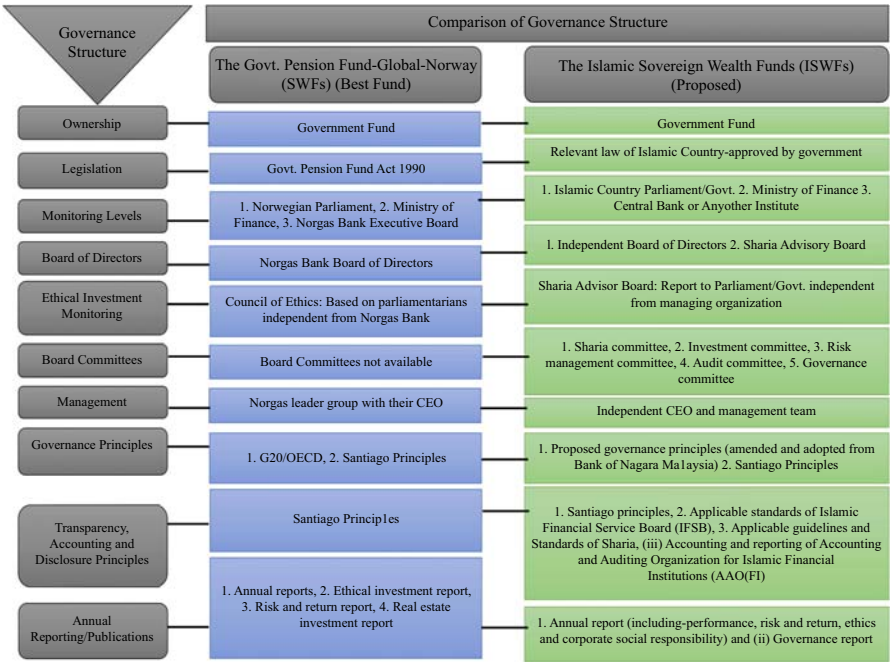
3.4.3.2 Pillar 2: the Islamic corporate governance framework. (a) Governance principles. The conventional SWFs from developed countries like Norway and the USA follow the Santiago principles to formulate the mechanism of their structure, management, governance, operations and transparency. In terms of governance mechanism, the Organization of Economic Co-operation and Development (OECD) issued governance principles in 2004 with the aim of guiding the governments and organizations. Furthermore, the Basel Committee on Banking Supervision presented governance principles for financial institutions that are amendments of the OECD principles. However, in Islamic finance, the available governance principles are related to financial institutions, such as published by the Bank Negara Malaysia (BNM) in 2013. Therefore, we adopted and amended the principles of BNM according to the scope of the SWFs. We propose these principles keeping in view that SWFs are a special type of investors as compared to financial institutions and other asset management companies. Table VI shows the list and details of 13 principles.

(b) Governance framework. The corporate governance framework of these special type investors (SWFs) should be convenient, realistic and adaptable. The SWFs are special purpose investors with unique objectives as compared to the financial institutions and asset management companies. Therefore, we propose a highly systematic and comparative framework based on Islamic finance principles. Our framework is based on two elements: first, the governance framework of SWFs should be unique from Islamic financial institutions, and, second, comparative to “The Government Pension Fund-Global (GPF), Norway” that is world most transparent fund (Truman, 2007; Clark and Monk, 2010). Our ultimate goal is to present and formulate the best governance framework as compared to GPF based on Islamic governance principles (Figure 3). Furthermore, we compare the proposed ISWFs and GPFA governance framework in Figure 4.

3.4.3.3 Pillar 3: the Islamic transparency and disclosure framework. The transparency and disclosure framework have a key role in good management and performance of the SWFs. We found that conventional SWFs has weak transparency and disclosure mechanism. We propose to establish a good transparency and disclosure framework based on the existing mechanism for Islamic financial institutions and propose to amend them as per the requirement of SWFs. First, we recommend the implementation of Santiago principles. Second, we review and recommend amendments as per the scope of SWFs in the audit, transparency, disclosure, accounting and reporting standards formulated by Islamic Financial Service Board (IFSB) (IFSB, 2018), and Shariah and accounting guidelines and standards by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI, 2018). Table VII shows the details of the transparency and disclosure principles and standards.

3.4.3.4 Pillar 4: the Islamic corporate social responsibility framework. The 4th pillar of the ISWFs model is the adoption and implementation of the ICSR principles. In Shariah, the Holy Quran and Hadith are the primary references for the ICSR. The religious book of the Muslims guides about ethics and social responsibilities (Ismaeel and Blaim, 2012). We argue that conventional SWFs from Muslim countries should follow the ICSR principles as given in Table VIII and framework (Figure 3). The tenets of ICSR based on the following concepts (Farook, 2007): First, vicegerency: this principle denotes that humans are the representatives of God on the earth. Humans must behave as per the guidance of the Allah in the world in

Figure 4.
Governance of the
GPFG-Norway
vs ISWFs



aspects of life, personal or business and trade. Second, divine accountability: this principle follows the vicegerency principle that if a human does not behave ethically and socially responsible as per the guidance of Allah that is presented for them in Quran, he/she will be accountable before Him/herself at the day of judgment. Finally, forbidding evil: this principle denotes that Allah places the Muslim in the world as trustee and inform them that you can enjoy this thing and you are prohibited from sin. Therefore, Muslim is forbidden doing wrong in their personal daily life and business.

3.5 What could be the role of Islamic sovereign wealth funds in the growth and development of Islamic finance and economy?

The impact of conventional SWFs on international finance and economy is significant especially after the subprime financial crisis of 2007–2008 (Mihai, 2013). The main objectives of SWFs creation are the stabilization and sustainable economic growth and development of the economy (Li, 2015). The concept to use the SWFs as a tool of stabilization to convert the commodities revenues in funds is started by Arab Gulf countries, such as Kuwait, Qatar, UAE and Saudi Arabia. Mochebelele (2013) examined the effect of the SWFs on host country economy and concludes that SWFs have a limited impact on economic growth and development. Recently, Mishrif and Akkas (2018) examined the effect of SWFs on Islamic finance through the descriptive case study for the Gulf countries. They conclude that despite both industries have grown during the last decade, the real effect of SWFs is limited to Islamic finance due to several management issues of the SWFs.

Contrary to the above, Rugman (2014) argued that SWFs and Islamic finance growth are linked with each other in Arab Gulf countries. The role of the SWFs on the economic development of the Middle East region is critically analyzed by Li (2015). He showed that in 2014, the GDP of Middle Eastern countries reached \$2.64 trillion after the creation of SWFs. He concluded the SWFs have a positive effect on the economic growth and macroeconomic policies.

Besides, Guerrero and Fuentes (2015) explored the relationship between Islamic finance and SWFs. They presented the following two aspects: first, a link between economic growth and Muslim population; they argued that due to increase in Muslim population their economic growth will increase. In 2010, the Muslim population was 23.4 percent of the world population, and it is expected to grow upto 26.4 percent in 2030 that will result in the expected growth of 37.5 percent. Similarly, they report IMF data show reflects that 57 member countries of the Organization of Islamic Corporation will grow an average rate of 6 percent between 2013 and 18.

Second, they report that SWFs from Muslim countries are drivers of the halal industry through utilizing the Islamic banking channels, 77 percent of the governance bodies of SWFs from Muslim countries doing transactions under Islamic finance, 28 percent support the Islamic business strategy, 71 percent follow Islamic principles of investment, 26 percent are Shariah compliant, and 61 percent are working with non-Muslim countries based on Islamic principles.

Despite the above fact, currently, no full-fledged ISWF exists in Muslim countries. The 30 conventional SWFs from Muslim countries indirectly support the economy, halal industry and Islamic finance. ISWFs have a unique type of structure, function and governance mechanism as discussed in relevant sections. These facts about the positive role of SWFs also support our model and argument that Muslim countries are required to adopt the pure model of ISWFs to improve their governance, image and function in growth and development of Islamic finance and economy.

4. Conclusion

Currently, 30 SWFs from Muslim countries exist around the world that have total AUM of \$3,328.5bn. The funds are under high criticism of having a weak structure, governance and transparency mechanism. Moreover, these SWFs are owned by non-democratic and tyrannical governments, such as Saudi Arabia, UAE, Qatar, Russia, China and Kuwait as per definition of democracy by the USA and western countries. The policymakers of several developed countries consider investment by SWFs as a national and commercial risk. As a response to this threatening image of SWFs from Muslim countries, many developed host-countries banned or critically examine the SWFs investments. Therefore, it is essential for the SWFs from Muslim countries to overcome this criticism and improve their structure, governance, and transparency by adopting a well-tested and start-of-the-art mechanism based on fundamental principles and laws. The SWFs from Muslim countries have two options: first, to take the arrangement of developed countries SWFs, such as Norway, America and the Netherlands that is based on Santiago principles; and, second, to establish and formulate their mechanism based on Islamic finance principles and Shariah laws. However, the implementation of Shariah law by Muslim countries is more practical and already well-tested in the case of Islamic banking and finance. Consequently, this paper argues that conventional SWFs from Muslim countries required an ISWFs through the implementation of the Islamic finance principles and Shariah laws.

As a solution, this paper presents an the ISWFs model based on fundamental four pillars: the major Shariah principles, the Islamic corporate governance framework, the Islamic transparency and disclosure framework and the ICSR framework. The vital contribution of this paper is first, the division of the portfolio of SWFs between Muslim and non-Muslim countries; second, exploration of the criticism on SWFs from Muslim countries; third, practical and critical examination of the existing status structure, management, governance, transparency and disclosure of SWFs from Muslim countries; fourth, the investigation of the prospective role of ISWFs on growth and development of the economy; and finally, the presentation of the first ISWFs model based on Islamic finance principles and Shariah law for Muslim countries.

This study has two limitations. First, the model is an initial work and idea to convert SWFs from Muslim countries into Islamic SWFs requires in-depth policy review by governments of the funds. Therefore, it is essential to design several policies, rules and principles related to this model at the individual fund and country level. Second, we are unable to empirically check the effect of SWFs on Islamic finance and economy due to the non-availability of the data.

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Corresponding author

Salman Bahoo can be contacted at: bahoo.salman@spes.uniud.it

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