THE KEYS TO SOVEREIGN DEVELOPMENT FUND SUCCESS:
INNOVATION, COLLABORATION, & COMMERCIAL FOCUS

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ABSTRACT: Sovereign development funds (SDFs) and strategic investment funds (SIFs) have become increasingly important investment vehicles for sustainable development. This paper explores how the design and governance of these funds aligns institutional capital with large, long-term investments such as infrastructure, all while yielding high commercial returns for institutional investors. Using the National Investment and Infrastructure Fund (NIIF) of India as a case study, this paper demonstrates how SIFs can crowd-in private capital into strategic assets via collaborative investment models. The paper thus offers a blueprint for how large, long-term institutional capital can be channeled into long-term projects that support economic growth and innovation.

KEYWORDS: sovereign development fund (SDF); strategic investment fund (SIF); collaborative model; crowding-in private investment; infrastructure; institutional investment.

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INTRODUCTION

Investments in infrastructure are critically needed to promote economic development and accelerate the low-carbon transition. Private investment in infrastructure has long been viewed as a necessary means to fill these lingering investment gaps. Yet, these investments remain stagnant for the eighth year running, despite almost returning to pre-pandemic levels in primary markets. The US$172 billion committed to infrastructure projects in 2021 by private investors falls far below what is needed to close the infrastructure investment gap (GI Hub 2022).

Investment trends also differ across high-, middle-, and low-income countries. While private investment in infrastructure projects grew by 8.3% in high-income countries and accounts for 80% of all investment activity, investments made in middle- and low-income countries have fallen by 8.8% and now make up only 20% of total investment volumes. Yet, sustainable infrastructure financing continues to strengthen. In 2021, 60% of all private investment in infrastructure was ‘green’ (a record high) and primarily concentrated in the renewable energy sector. This trend towards greener investments cuts across countries, mirroring global sustainability trends seen in other asset classes (GI Hub 2022). This movement toward green investment is encouraging, although volumes remain smaller in middle- and low-income countries.

At the same time, large institutional investors—e.g., sovereign wealth funds, pensions funds, endowments, family offices, etc.—are holding trillions of dollars in capital and are aggressively looking for infrastructure and other strategically important projects to invest in as a means of meeting their long-dated liabilities (Clark, Dixon, and Monk 2013). But governments sponsoring long-term investment opportunities, especially in infrastructure projects, struggle to tap into institutional investor capital to finance infrastructure development (Clark and Monk 2015). Although there is mutual affinity for collaboration, institutional barriers prevent the alignment of interests and hamper such investments from being made. For instance, regulatory prerequisites, prevailing market conditions, and local capacity requirements are especially important for investing in infrastructure via public-private partnerships (PPPs). Without them, these markets for private investment in infrastructure struggle to mature (Casady et al. 2020; Casady 2021, 2023). Bringing public and private capital together therefore requires a proactive yet structured approach with aligned coordination between governments, industry leaders, and global asset owners (see figure 1).
This figure depicts a “structural hole” in the marketplace today, and the need for a structured approach with proactive and aligned coordination between asset owners, governments, and industry leaders that will bring all parties together.

Sovereign development funds (SDFs) offer one promising means of achieving this alignment between institutional capital and large, long-term investments, such as infrastructure. According to the International Monetary Fund (2008), SDFs are a sub-class of sovereign wealth funds (SWFs) and “…typically help fund socio-economic projects or promote industrial policies that might raise a country’s potential output growth” (see also Santiso 2008). Put another way, SDFs are “publicly-sponsored commercial investment funds that combine financial performance objectives with development objectives…” (Clark and Monk 2015: 2). Although SDFs remain a rather small sub-group of the broader SWF community, their popularity has increased dramatically over the past few years. This is because SDFs are often seen as suitable vehicles for catalyzing local economies and markets while generating high investment returns, if set up correctly (Sharma 2017). This means strong investment performance and national development priorities are not mutually exclusive. For example, as of 31 March 2022, Singapore’s Temasek has garnered a 40-year, total shareholder return (TSR) of 16%\(^4\). Likewise, Mubadala Investment Company, an Abu Dhabi-based sovereign investor, 

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holds a five-year rolling rate of return of 12.2 percent since 2017\(^5\). Moreover, the Sixth Swedish National Pension Fund (AP6) posted a five-year average return of 16.8 percent and a ten-year average return of 13%\(^6\). These examples highlight that despite having an inherent development function, high returns can be achieved by such funds. In fact, a key argument of this paper is that SDFs that are set up in a commercial manner and operate specifically to achieve high returns are more likely to execute on their broader mandate and vision.

Successful SDFs offer a compelling template and partner for long-term investors (LTIs) looking to achieve both above market financial returns and environmental, social, and governance (ESG) objectives. SDFs are similarly appealing to governments looking to accelerate economic growth, achieve strategic national development priorities, and scale investments in low-carbon infrastructure as well as other climate-related assets, especially those pertaining to climate adaption and mitigation in support of the Sustainable Development Goals (SDGs) (Sharma 2017). However, not all SDFs are created equal. Guidelines and policies for the creation, organization, and operation of SDFs are needed. The intent of this paper is to demonstrate how the commercial focus of SDFs makes these funds more successful at achieving their development mandates. The following section begins by briefly documenting the evolution of SDFs, including the advent of strategic investment funds (SIFs). Next, the importance of independent, investment decision-making in these funds, the use of the collaborative investment model, and the importance of internalized investment capabilities is outlined. Then, the National Investment and Infrastructure Fund (NIIF) of India is presented as a case study to show how the institutional design, governance, and commercial orientation of such funds facilitate investments into strategic assets like infrastructure. Finally, this paper concludes with recommendations for governments looking to set up their own successful, commercially-oriented SIFs.

**THE EVOLUTION OF SOVEREIGN DEVELOPMENT FUNDS (SDFS)**

Although SDFs existed in limited form before the 21st century as national development vehicles for communist governments, they have only recently garnered recognition as modern investment vehicles for development (Dixon and Monk, 2014). Sharma (2017: 18) notes that “[m]ost SDFs are created in countries that have broader economic development agendas, unlike a lot of Western developed countries where the role of government is limited.” Countries with


higher levels of state control and intervention, such as China, Singapore, and Malaysia, tend to use SDFs as policy tools in their long-term economic development initiatives to achieve sustained economic growth. Ongoing investments by SDFs are designed to promote greater employment, income, and innovation, as evidenced by the countries in which these investment vehicles are legislatively established. Yet, Western governments appear reluctant to pursue such long-term investments in their domestic economies, instead opting for short-term austerity measures that limit the role of government and fiscal spending (Dixon and Monk, 2014). This suggests countries using SDFs, or those intending to establish them, often do so within the context of broader economic development objectives.

As a result, Clark and Monk (2015) note SDFs generally assume one or more of following operational strategies (see figure 2).

![Figure 2: SDF Categories](https://ssrn.com/abstract=4497428)

*Source: Clark and Monk (2015).*

**Figure 2: SDF Categories**

This figure illustrates the four operational strategies often used by top performing SDFs. *Reinforcing* focuses on reorganizing, professionalizing, and innovating underperforming national assets (e.g., companies, infrastructure, or other real assets). *Crowding-In* attracts private and public investors from other nations to invest in domestic industries. *Catalytic* involves creating new industries and diversifying the economy away from unsustainable or unprofitable ones. *Financialization* helps underwrite the
development process through the growth of capital markets and the emergence of new financial intermediaries and investors.

Although many top-performing SDFs adopt a variety of these strategies, those that focus on crowding-in private investment are advantageous because LTIs can directly co-invest alongside the government in relatively large, strategic projects such as infrastructure. These types of funds focusing on attracting foreign capital are commonly known as strategic investment funds (SIFs) (OECD 2020).

Following the 2007-2009 global financial crisis and the contraction of Western banks and related financial institutions, many national governments with weak public budgets began setting up new SIFs to bridge financing gaps. Some examples include the French Fonds Stratégique d’Investissement (FSI), Italian Fondo Strategico Italiano (FSI), the Ireland Strategic Investment Fund (ISIF), and European Fund for Strategic Investments (EFSI). Although SIFs often are discussed synonymously with SDFs because they share key characteristics—e.g., being set up by governments predominantly for domestic investment (fully or predominantly) and having commercial return as well as development objectives (double bottom line), SIFs are usually established as investment funds or corporations with a specific mandate to attract foreign capital into the country for large investments such as infrastructure. This specific focus on crowding in foreign private capital into domestic investments is what differentiates SIFs from other types of SDFs. For this reason, countries with specific resource dependencies and underdeveloped industries are beginning to view such funds as a means of accelerating economic diversification. Moreover, several emerging economies are already experimenting with new strategic investment models to harness SIFs for sustainable development (El-Sholkamy and Rahman 2022).

Institutional Focus on Independent, Investment Decision-Making

SDFs and SIFs therefore come from countries with varying levels of development, reliance on resource wealth, and objectives for growth. This means such funds tend to reflect the development trajectories of their host countries, although most typically reside in areas with underdeveloped domestic financial markets. They are also “fundamentally aligned with and linked to their government sponsors, but they exist at arm’s length given the distinctive capabilities and resources needed to be an effective LTI” (Clark and Monk 2015: 2). So, while most SDFs and SIFs are state-sponsored and take the form of state-owned companies, they tend to have a different legal, governance, and management frameworks than more traditional,
government-linked institutional investors. Although it is not possible for sovereign funds to achieve complete independence from government, the use of arm’s-length or double arm’s-length arrangements by these funds allows for independent investment decision-making focused on financially viable projects that can earn market returns (Sharma 2017). This independence is made possible when sponsors appoint a board consisting of both independent members and government officials. These boards typically have seven to nine members, as is best practice in the private sector (see, e.g. Clark and Urwin 2008), and most are accountable either to a government audit office or separate government agency. Additionally, a small Management Executive Committee, chaired by the Managing Director, is “responsible for the day-to-day activities of the fund, including the framing and implementation of investment strategy, management of the investment team and its external partners, and sustaining the operational services of the fund consistent with its objectives” (Clark and Monk 2015: 5).

As indicated above, the objectives of SDFs also tend to be multi-tiered, consisting of a “mandate”, a sectorial or regional focus, and certain functional aims for realizing the fund’s mandate. In general, the mandate serves as the overarching charter for the fund (top tier). The fund’s focus therefore is its domain of operation (middle tier), while its performance becomes a function of executing the charter in accordance with its operational domain (lowest tier). This tiered prioritization of initial, secondary, and even tertiary mandates allows well-governed and managed SDFs to be both innovative and dynamic in pursuit of their strategic objectives, especially when supporting the social and economic development of local economies (Sharma 2017). Since innovation is key to long-term outperformance among all professional investors, this institutional design appears to be—with the appropriate governance—an important competitive advantage of these funds. By having less narrowly defined objectives, SIFs are further empowered by their flexibility to pursue both returns and development when using operating frameworks that crowd-in private investment.

The Collaborative Investment Model

A big component of modern SIFs centers around the mandate to crowd-in private capital from domestic and international sources to help execute national economic development initiatives. To succeed at this, SIFs must structure their investment entities and activities in a way that is attractive for professional LTIs everywhere. Most importantly, there must be an alignment of interest between prospective LTIs and the SIF. Alignment of interest has become increasingly

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7 For a more detailed discussion of double arm’s length governance, see the IFWSF governance guidelines.
important for LTIs when it comes to investing in assets such as infrastructure, because the time horizon of the underlying assets is not easily compatible with the short-term oriented investment vehicles typically used for investments in private assets (e.g., private equity funds). To attract large LTIs, SIFs often pursue investing models and mechanisms that resonates more strongly with longer horizons. There are numerous models that have been adopted by large institutional investors to achieve certain objectives. A quick review of the distinct ‘models’ are detailed below.

First, the Norway investment model is based on the strategy used by the Norwegian sovereign wealth fund. This model primarily involves investing in traditional public market assets—whether that be equities or fixed income. Returns are generated through benchmarking public market indexes. The Norway model (advocated by Professor Elroy Dimson from London Business School and Professor Andrew Ang from Columbia Business School) uses a large in-sourced team with a small allocation to external managers to achieve its objectives.

Second, the Yale or endowment model (credited to David Swensen, CIO of the Yale endowment) adds risk to the portfolio by investing in private assets classes such as private equity, real estate, infrastructure, and hedge funds using external managers. A “top down” model is employed in house for the selection of an asset class/strategy, with an emphasis on selecting the best external managers. Those asset managers then take on most of the responsibility for making investments. The endowment model drives up fees, and performance is achieved by getting priority access to well-performing external managers.

The third model is the Canadian investment model (supported by Professor Keith Ambachtsheer, University of Toronto), first employed by large, sophisticated pension fund investors in Canada. Those funds developed strategies with high allocations to private asset classes but invested them through largely in-house (direct) investment teams to drive down fees. There are advantages and disadvantages to each of these models and work is being carried out to track their relative performance.

Lastly, the collaborative investment model is the fourth strategy being increasingly employed by a number of institutional investors (Monk, Sharma, and Sinclair 2017). The collaborative model essentially combines a number of existing models by recognizing that:

- private investing in infrastructure and development projects is consistent with long-term investment strategies;
● the direct method of investing is a more cost-effective means of accessing private market investments; and
● alternative, external investment managers are required, but the governance must be redefined to achieve more alignment.

Against this background, the collaborative model focuses on developing innovative platforms directly with other peer investors and governments. These platforms/vehicles that investors are developing among themselves are seen as a means of investing more efficiently in long-term assets and getting as close to the direct method as possible. They include co-investment platforms/vehicles, joint ventures, and seeding managers. This also includes the platforms that direct investors are using to invest in special regions/opportunities, such as infrastructure in emerging economies. The collaborative model in many ways reflects the need for these organizations to act in a long-term manner that is commensurate with their original mission and objectives. As such, the collaborative model appears to be well suited for how SIFs can be structured, to crowd in large institutional investor capital into domestic investments. The collaborative model can thus be applied both to the structuring of an SIF when attracting capital to the investment vehicle, and to the flow of capital into assets such as infrastructure, thereby providing a multiplier effect amongst investors via co-investments and other partnerships.

**The Importance of Internalized Investment and Policy Capabilities**

In order to effectively crowd-in institutional capital into infrastructure and other strategic assets, Clark and Monk (2015: 14) stress that SIFs…

“…learn from government and market failures so as to avoid making short-term decisions that lead to long-term problems at the domestic level. Consequently, funds should invest in their internal capabilities and resources in ways that create well-equipped research teams.”

Because increasing organizational capacity is often critical for enabling these types of investments, particularly in infrastructure via PPPs (Casady 2021; Casady 2023), SIFs need to develop their own internal capacity to help facilitate such investment programs because their development-orientation is not an excuse for lack of rigor in investment prioritization and decision-making. This capacity is critical for launching initiatives and originating investment
opportunities that bring PPP projects to market. Many governments already have specific
government agencies or semi-independent organizations that promote, facilitate and/or assess
new projects, such as Infrastructure NSW and Infrastructure Ontario (Casady and Geddes
2019). However, these organizations do not typically invest directly in the assets in which they
prepare and procure. But SIFs do invest in these projects, which is why they need to be staffed
with seasoned investment professionals. They can then utilize their internal investment
capabilities and resources to directly manage, govern, and oversee the operations of their assets,
typically via board-level appointments. Additionally, developing expertise on the policy side
as well as private investment side helps SIFs advise government on national investment and
policy priorities, champion new initiatives, and establish a wide network of strategic
partnerships. By unlocking critical policy and creating a favorable investor landscape, the SIF
can attract long-term, patient capital into infrastructure and adjacent sectors and avoid doing
things the government or free market normally would do alone. Instead, the SIF is able to
pursue new business ideas for funds and portfolio/platform companies that achieve their double
bottom line—i.e., generating high financial returns and driving domestic economic
development.

This internal control of the investment process also enables SIFs “to identify, capitalize
upon, and lock-in local knowledge of their markets, domestic industries, and macro-economic
trajectories” (Clark and Monk 2015: 9), much like other state-owned enterprises (SOEs) (see
Mai and Casady 2023). For example, SIFs might leverage their relationships with government
to establish contacts with SWFs and other large strategic institutional investors around the
world to catalyze their fundraising efforts. By controlling investment commitments and the
flow of returns using their proprietary knowledge of local market conditions, privileged access
to certain investment opportunities, and trusted relationships with government and other LTIs,
SIFs develop distinct investment capabilities that yield cumulative advantages over time. Such
“positive feedback control loops” lead to “structural alpha” (Monk 2014). Taken together, SIFs
can use these unique capabilities to 1) screen investments for commercial return, 2) help
governments prioritize projects in their national development agenda, 3) insulate investment
decision-making from political pressure, and 3) crowd-in private capital to diversify risk and
expand implementation capacity (Gelb et al. 2014; see also Casady and Geddes 2016, 2019).

Doing so, however, requires a robust governance framework that can stand up to
external, professional due diligence. A fund’s ability to originate deals locally and bring in co-
investors is also dependent on recruiting top talent and being able to source, evaluate, structure,
and de-risk investment opportunities. Much of this will be driven by the clarity of mission and
commercial mandate of the new investment vehicle. Therefore, it is crucial SIFs adopt an independent, commercially focused organizational structure staffed by management teams with a strong investment track record (Clark and Monk 2015).

NATIONAL INVESTMENT AND INFRASTRUCTURE FUND OF INDIA: A CASE STUDY

Background

Over the last decade, India’s share of global GDP has grown from 4.5% to over 7.1%, making it the third largest economy by real GDP. This growth has caught the attention of many large global institutional investors (IMF 2022). The National Investment and Infrastructure Fund (NIIF) was created in 2015 by the Government of India (GoI) Department of Economic Affairs in the Ministry of Finance as an SIF to catalyze capital from international and domestic investors into infrastructure and allied sectors in India. The GoI committed approximately $3bn to NIIF per year but remains a 49% shareholder relative to other investors invested in the entity to ensure its commercial set up.

The GoI established NIIF to leverage this attractive growth story occurring in India and take advantage of earlier structural reforms put in place to help facilitate foreign direct investment and infrastructure development. The GoI also wanted to address a shortage of equity capital for infrastructure development at various levels that was limiting investment opportunities for infrastructure debt providers.

At the time of NIIF’s inception, there was US$840 billion of investment opportunities in greenfield (i.e., new) and brownfield (i.e., operating) infrastructure projects. Furthermore, the government was looking to monetize its operational infrastructure assets and recycle the proceeds in new projects, as other jurisdictions such as Infrastructure Ontario and Infrastructure NSW have done successfully in the past (Casady and Geddes 2020). The GoI designed NIIF to be the largest and most impactful infrastructure investment vehicle in India, both in terms of the amounts of capital it would raise from international investors and the transformational nature of its investments domestically. Already, as of 2022, NIIF has helped India attract more than US$7 billion in sovereign investment, nearly a third of which has been spent on infrastructure (SWF 2022). Although NIIF does not formally pursue a double bottom line, its entire strategy of pursuing attractive investment returns in India’s infrastructure and adjacent sectors has inherent development impact. In this regard, maximizing financial performance will deliver maximum developmental performance for the country.
Structural Independence and Arms-Length Governance

As of this writing, NIIF currently operates three funds: 1) a Master Fund, 2) a Fund of Funds, and 3) a Strategic Opportunities Fund. NIIF Limited (NIIF Ltd.) was set up as a company, as opposed to a state-controlled agency, to manage these funds (IFSWF 2022). This highlights NIIF Ltd.’s role as a commercial investment entity, with decision-making independent of policymaking. Figure 3 outlines the commercial structure of NIIF, as set forth by the government’s initial memo outlining its creation.

As part of NIIF’s governance arrangements, the government supported keeping decision-making independent from policy decisions. As such, there is no separate entity tasked with overseeing the government’s capital investment into NIIF, and there is no GoI representative on the Investment Committees. Each individual fund has its own investment committee and is comprised of team executives as well as independent members, as stipulated in the Private Placement memorandums of each respective fund. Every fund also has an Advisory Board with investor representation, in line with global best practices, that oversee operations and any potential conflicts of interest.
NIIF Ltd. also has a Board that oversees its operations. The Board is made up of investor representation (i.e., each investor holding greater than a 10% stake gets a seat), NIIF Ltd.’s CEO, one independent member, and two seats from the government. The Board meets once every quarter. The GoI’s representation on the Board is limited to a minority by NIIF Ltd.’s shareholder agreement. No board member has a casting vote.

Additionally, there is a Governing Council for NIIF, which is chaired by the Minister of Finance, and includes members from the business, investment, and policy communities. The Council meets annually, providing guidance on NIIF’s overall strategy.

Source: Authors

Figure 4: Governance of NIIF

This figure shows the governance of NIIF, highlighting its arms-length independence from the government to ensure commercial decision-making is not compromised.

As outlined in figure 4, the governance of NIIF serves as a key success driver for the organization. The systems put in place ensure the government does not let policy decision-making impact the commercial decision-making process required for NIIF to make lucrative investments for its investors. However, the government is provided ample mechanisms to provide oversight and assistance to help the organization achieve wider economic success. A driving principle for NIIF, which commercial investors have acknowledged around the world, is that supporting investments in private market asset classes like infrastructure will have development and economic growth impacts that also generate high returns. This is particularly relevant in India, a country with strong projected growth over the coming years and favorable macroeconomic opportunities at present.
In terms of attracting talent to the organization, NIIF has grown to more than 90 team members, with over 50 investment professionals. Remuneration is consistent with other sovereign and leading pension funds, encompassing both fixed and variable compensation based on performance. As is the case with other SWFs, while remuneration may not be on par with private equity or investment banking firms, NIIF has leveraged its standing in the economy and the unique experience it can offer employees to attract a high-caliber staff. Staff recruitment and retention for NIIF is also consistent with research done on this topic for sovereign funds (see Bachher and Monk 2012).

Overall, NIIF’s clear commercial orientation, professional management, and independence from government interference in investment decision-making have been crucial to attract institutional investor capital. NIIF’s target portfolio returns are also in line with typical investor equity return expectations for infrastructure projects, and investors appraise NIIF just as any other commercial investment, with decisions being made on the basis of risk/return expectations.

**NIIF: The Collaborative Model**

The NIIF structure is partly inspired by the collaborative investment model (Monk, Sharma, and Sinclair 2017). The initial and flagship fund of NIIF, the Master Fund, exemplifies the collaborative model of investing. NIIF Master Fund investors are also shareholders in the investment manager, thereby producing an investor-owned fund management platform. The Master Fund then invests in infrastructure assets through platforms, which allows it to partner with developers/asset managers directly in an aligned manner and provide co-investment rights to existing and other potential investors. This is emblematic of the partnership approach to investing, as illustrated by the collaborative model. Figure 5 details the Master Fund structure below.
By adopting the collaborative model in structuring this investment vehicle, NIIF resonated strongly with large institutional investors. NIIF represents a truly aligned long-term investment vehicle for accessing attractive investment opportunities. As a result, the Master Fund was oversubscribed, raising US$2.34 billion, well over the initial target for the fund. The Fund of Funds and Strategic Opportunities Fund have also attracted US$ 0.8 billion and US$ 1.1 billion respectively. The collaborative model has been crucial for NIIF to achieve its overall mission and vision as a catalyst for global institutional investor capital into domestic investments in India, forming the largest, long-term investment vehicle for infrastructure in the country.

**Catalytic Fundraising**

Another way NIIF leverages its relationship with government involves a unique and innovative way of fundraising. NIIF’s strong relationship with the Ministry of External Affairs has helped it obtain introductions to foreign SWFs and pension funds (both public and private). NIIF senior executives were invited by the Ministries through various forums to brief Indian ambassadors and high commissioners on the strategy and activities of NIIF. Several ambassadors and high commissioners know NIIF well and highlight NIIF investment.
opportunities to authorities in the countries where they are posted, deferring more advanced conversations directly to the NIIF management team. This process has proven effective in establishing contacts with SWFs and large strategic institutional investors around the world.

**Strategic Initiatives and Policy Advisory**

Lastly, the ‘sovereign’ nature of SDFs can be advantageous because they can leverage the government in order to help facilitate investment success. In order to capitalize on its sovereign backing, NIIF established a Strategic Initiatives and Policy Advisory (SIPA) team within the organization. The SIPA team is made up of team members from investment, consulting, and economic policy backgrounds. The SIPA team has been structured in a way to play an important role in context of its three connected but separate stakeholders - (i) Government, (ii) NIIF as an AMC and (iii) NIIF’s underlying three funds. Specifically, some of the objectives the SIPA team has taken on include:

- driving conceptualization and roll-out of investable opportunities in priority sectors and supporting key national initiatives like the National Monetisation Pipeline (NMP) and National Infrastructure Pipeline (NIP);
- attracting long-term, patient capital into Indian infrastructure and adjacent sectors;
- creating a favorable investor landscape by unlocking critical policy;
- evaluating and championing new products / strategic initiatives relevant to the growth of the NIIF franchise;
- driving innovation through cutting-edge research and thought leadership;
- creating sectoral ecosystems to establish a wide network of strategic partnerships;
- enhancing international visibility through active participation in global forums and conferences;
- originating investable opportunities and new business ideas for funds and portfolio companies; and
- supporting portfolio / platform companies.

The objectives of SIPA have been corroborated by certain mandates put forward by the GoI. These mandates include working with central and state governments on investment related policy issues, helping originate investment opportunities and initiatives to bring PPP projects to market, creating multiple platforms to nurturing India’s investment ecosystem (e.g., global investors, central and state governments, public sector enterprises, think tanks, private
enterprises, etc.), and reporting on macroeconomic conditions as well as other emerging developments.

Accordingly, the SIPA team plays a crucial role in leveraging NIIF’s relationship with government to help execute on the organization’s wider vision. Since its formation, SIPA has achieved some notable milestones. For example, the SIPA team is providing actionable thought-leadership on new areas such as offshore wind, aircraft leasing, and urban infrastructure. Leaders from SIPA also co-chaired the infrastructure and financing task force at B20 Italy 2021, served as knowledge partners for BRICS 2020, and sit on the World Economic Forum’s Global Future Council.

One natural outcome from SIPA’s initiatives is the creation of deal opportunities for NIIF’s funds, which is also an underlying goal of the Government. To this end, SIPA has been able to originate investment deals for NIIF’s funds in the aviation, roads, urban and healthcare sectors. Both teams (SIPA & individual funds) work closely in asset management situations for resolving business issues - as has been exemplified in the areas of infrastructure finance, renewable energy and logistics sectors.

At home, representatives from NIIF’s SIPA team advise the taskforce for India’s NIP and have previously hosted closed-door roundtable events between the Prime Minister and leading international investors. This advisory work has also translated into important policy initiatives with India’s Ministry of Finance, which now 1) enable domestic pension and insurance funds to invest through alternative investment funds (AIFs) and 2) facilitate fiscal incentives for infrastructure investments from global pension funds and SWFs.

These efforts have even played a key role in the monetization of 6 non-metro airports, helped the National Highways Authority of India (NHAI) for structuring the project finance package for a large greenfield expressway and has been working with the national health departments on hospital PPP project ideas.

Today, the team is still actively partnering with central and state governments to identify potential infrastructure investment opportunities in India and deliver on its operative objective of crowding-in private investment in infrastructure.

Case Study Synthesis

The NIIF case offers an illustrative example of how the SDF model is evolving in a way that helps catalyze long-term, institutional investor capital into domestic investments. The NIIF is a powerful role model thanks to the scale of capital it has been able to crowd-in and serves as
an investment model that can help to bridge the gap between the assets that need long-term capital and LTIs that are looking for attractive long-term investments.

The key elements that define the NIIF model, and what has contributed to its relative success so far, are:

1) its structure as a commercial vehicle with independent governance and decision-making; and

2) the adoption of the collaborative investment model to ensure alignment of interest between the fund and outside investors.

Finally, the SIPA team gives NIIF unique access to local governments, ministries, and other government entities, offering the fund a competitive edge for investors looking for a reliable, strategic local partner. A summary of NIIF’s key features is presented in figure 6.

<table>
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<th>Sponsor</th>
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<th>Founded</th>
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<tbody>
<tr>
<td>Government of India</td>
<td>Asset Management Company (AMC)</td>
<td>2016</td>
<td>Board of Directors oversees activities and strategy</td>
<td>6 members (1 from international investor, 1 representing domestic investors, 1 independent, NIIF CEO, 2 from Govt.)</td>
<td>Catalyze foreign institutional investor capital into domestic infrastructure and other sector investments and become the largest Infra vehicle in India.</td>
<td>Commercial Returns for each fund strategy: Master Fund – core economic infrastructure Fund of Funds – funds in adjacent Infra sectors Strategic Opportunities Fund – growth equity</td>
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**Source:** Authors.

**Figure 6:** Summary of NIIF’s Key Features

This figure summarizes the key features of NIIF, include its sponsor, legal status, year of founding, oversight, board structure, key objectives, and return target.

**SUMMARY AND CONCLUSIONS**

Around the world, there is a growing willingness on the part of low- to middle-income countries to use SDFs as catalysts for investment in infrastructure and other strategically important asset classes. SDFs are often created to unlock capital in what would otherwise be capital-starved industries or regions, create jobs, and build local competencies. SIFs, a specific adaption of the SDF model, do so by attracting foreign investors and by bringing efficiency and financial discipline to government investment processes.

In the context of broader headwinds facing private investment in infrastructure, this paper demonstrates how the design, governance, and management of SIFs align institutional capital with large, long-term investments such as infrastructure assets, all while yielding high
commercial returns for institutional investors. By exploring NIIF’s independent, investment decision-making and governance, its use of the collaborative investment model, and its internalized investment capabilities, this case serves as an illustrative example that can help bridge the gap between assets that need long-term capital and LTIs that are looking for attractive long-term investments. Although “[t]he purpose and the design possibilities of a [SIF] are, ultimately, contingent on local conditions, resources, and the essential developmental needs of the country and its population” (Dixon and Monk 2014: 357), NIIF provides a new type of investment framework that successfully combines key institutional, organizational, and capacity requirements to deliver industrial innovation, economic growth, and attractive returns; one might even call this the ‘Indian Model’ of institutional development investing.

Overall, this new type of model provides a proactive yet structured approach for aligned coordination between governments, industry leaders, and global asset owners (see figure 1). When these new investment vehicles are staffed by management teams with a strong investment track record, they can successfully source, evaluate, structure, and de-risk local investment opportunities that align with their development mission and satisfy the commercial mandate of co-investors. Adopting such robust governance frameworks and collaborative models of investing will likely also help close the global infrastructure gap and accelerate the low-carbon transition.

Moving forward, future research should continue to explore how these nascent investment models housed in quasi-governmental organizations can better cater to private capital and achieve ongoing development success. More work is specifically needed on discerning how the commercial focus of these models can accelerate development and drive innovation in key strategic areas such as renewable energy, infrastructure development, and adjacent business sectors, all while generating high financial returns.
REFERENCES


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