

Orientation towards economic diversification through sovereign funds *- comparative study between Algeria and the UAE-*

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Abstract	Article info
<i>This study aims to demonstrate and analyze the role of sovereign funds in supporting the economic diversification efforts in the oil countries by highlighting the realities of the UAE's development experience and post-oil planning through strategies of economic diversification and sustainable development, in order to address the UAE experience that seeks to establish a sustainable and diversified economy through its establishment. " Model Swap Fund ", seeking to invest petroleum wealth to benefit from it in other economic areas, while not relying on petroleum alone as a major source of national income, diversifying sources of income and building economic projects that contribute to job creation in new sectors, as in Algeria for the Investment Fund (Revenue Control Fund), whose budget function was expenditure and public debt relief.</i>	Received : 08/04/2014 Accepted : 14/05/2024 Keyword: ✓ sovereign funds. ✓ economic diversification. ✓ revenue control fund . ✓ fund investment .

1. Introduction

Sovereign wealth funds have emerged since the 1950, and their size is increasing day by day, especially after some countries have achieved significant financial surpluses as a result of the rise in the prices of products and raw materials in international markets, as it led to giving them a new breath and the ability to convert financial surpluses into productive surpluses in other economic sectors. The UAE's experience is among the leading models in the field of diversifying its sources of income locally and internationally by relying on sovereign wealth funds, and Algeria, like other oil countries, has adopted many policies with the aim of diversifying its economy. Excessive reliance on oil revenues raises the challenges of researching the best economic ways to reduce the heavy dependence on oil revenues, ensure the protection of the national economy, and find effective mechanisms that can be relied upon to diversify its activities so that dependence on the oil resource as a sole source decreases. In this context, we pose the following problem:

How do Sovereign Funds contribute to economic diversification in Algeria and the UAE?

To answer the problem at hand, we have developed the following hypothesis:

- Sovereign funds are considered a financing tool to achieve economic diversification.

2. Fundamentals of Economic Diversification

2.1. The concept of economic diversification:

Many countries in the world are characterized by the availability of an important natural resource, which often constitutes the main sector in terms of production, export or operation. This dependence on a single resource has made many of these countries become economies.

✓ Economic diversification means that a country has to produce to export a wide list of goods and services. For countries that depend a lot on the oil sector, economic diversification means reducing heavy dependence on exports and revenues of the hydrocarbon sector and developing the non-oil sector (Shakouri Sidi Mohamed, 2012, p. 63).

✓ Economic diversification is defined as the process that refers to the reliance on a growing group of items that participate in the formation of output. It can also translate into the diversification of export markets or the diversification of sources of income away from domestic economic activities, that is, income from external investment, or the diversification of public revenue sources. Economic diversification (Al-Jubouri, 2015, p. 24) is the process of diversifying sources of income, expanding the productive base, and increasing the contribution of the productive sectors (goods and services) to GDP, thus freeing the economy from the risks of relying on the dominance of one primary commodity or commodity (maaskri & yamani, December 2020, p. 903).

2.2. The main elements of economic diversification:

The basic elements of economic diversification are embodied in the following points (Hamida, 2016, pp. 144-145):

✓ Economic diversification frees from dependence on a major commodity: The adoption of the production and export of one major commodity as a source of income and a major

financier of the development of the economy is a threat to the stability of the economy, especially if this commodity is a primary raw resource that often has alternatives and is considered depleted resources and vulnerable to fluctuations and fluctuations in their prices. Economic diversification ensures freedom from dependence on one major commodity.

✓ Economic diversification is a gradual process of diversifying sources of income: Diversification, being structural transformations, depends on building a solid economic base, diversified, integrated sectors and intertwined units capable of providing job opportunities, finding new and renewable sources of income and generating an economic surplus.

✓ Economic diversification is a relative process of economic transformation: the economy consists of major sectors with overlapping and interconnected relations and is a starting point for constructive transformations in the structure of the economy and determining the main relative importance in its various branches.

✓ Diversification is a cumulative process to increase the contribution of sectors to output and productivity: Economic diversification aims to balance the structure of the economy by achieving a state of proportionality in the relative contribution of economic sectors to the generation of GDP and national income, so that they contribute to most sectors in an important and convergent proportion and thus the diversity of the economic structure is not focused on a particular sector only.

✓ Economic diversification is synonymous with economic development: development includes qualitative changes in many aspects, including changes in the composition of production and the structure of the contributions of various inputs to the production process and the various changes in the economic structure, especially in shifting its focus from the production and export of raw raw materials to the development of manufacturing as a driver of development. Therefore, economic development aims to create a diversified economy in which all sectors and economic activities contribute and generate GDP and national income in a balanced manner. Therefore, the success of development depends on the extent of diversification achieved in the economic structure.

✓ Economic diversification expands participation in development efforts: Diversification allows a wide area to establish sound foundations for the establishment of a mixed economic system that plays a pivotal and positive role in the development process by granting opportunities to the private sector as a complementary sector to the public sector and opening the way for its innovations and its role in mobilizing national savings and contributing to the implementation of development projects.

2.3.Indicators of economic diversification:

There are several indicators that indicate the extent of economic diversification of any country, the most important of which are (Deif & Azzouz, 2018, p. 23):

✓ The rate and degree of structural change, as evidenced by the percentage contribution of different sectors to GDP. In addition, the contribution of these sectors has increased or decreased over time. It is also useful to measure real GDP growth rates by sector, where data are available.

✓ The degree of instability of GDP, and its relationship to the instability of the price of oil. Understandably, diversification is supposed to reduce this instability over time.

✓ The development of oil and gas revenues as a percentage of the total government revenues, because one of the objectives of diversification is to reduce dependence on oil revenues, and another useful indicator is the pace of expansion of the non-oil revenue base over time, as this indicates success in developing new sources of non-oil revenues.

- ✓ The ratio of non-oil exports to total exports, and the components of non-oil exports. In general, the steady rise of non-oil exports indicates increased economic diversification. However, short-term changes in this metric can be misleading, as they can result from fluctuations in oil prices and exports.
- ✓ Total employment as a whole has evolved by sector, and it is clear that this measure should reflect and reinforce changes in the sectoral composition of GDP.
- ✓ The relative contribution of the public sector and the private sector to GDP has changed, and this is an important indicator because economic diversification implies an increase in the contribution of the private sector to overall economic activity.
- ✓ Measures of productivity, where these measures can be applied especially to various activities in the private sector to assess the rate of its development and modernization.

2.4. Methods of measuring economic diversification:

The previous indicators indicate the extent of economic diversification in the country, but they do not give us the degree of economic diversification accurately, due to the dispersion and difference of the indicators used to know the extent of diversification. In order to make comparisons regarding the extent of economic diversification, whether between different countries or in the same country during different periods, it is necessary to rely on a single indicator that measures the extent of economic diversification. There are two main measures by which the degree of economic diversification can be known.

- ✓ **Herfindal-Hirshman Scale:** This scale determines the degree of economic diversification in any economy by the following equation:

$$H.H = \frac{\sqrt{\sum_{i=1}^n (x_i / x)^2} - \sqrt{1/N}}{1 - \sqrt{1/N}}$$

Where H.H. Hirschmann index: takes the value (0) when there is full diversity (all sectors contribute to economic growth in the same proportion) in the entire studied variable (all sectors contribute to economic growth in the same proportion), and takes the value (1) when the amount of diversity is zero, which is the case where the output is concentrated in only one sector.

X_i : GDP in sector i .

X : GDP in the PIB sector.

N : Number of output components (number of sectors that make up the structural structure studied).

- ✓ **Vladimir Kosov Scale (Fladimur-Cossouv):** This indicator takes the following formula:

$$\text{Cos} = \frac{\sum_{i=1}^n \alpha_i \times \beta_i}{\sqrt{\sum_{i=1}^n \alpha_i^2} \times \sqrt{\sum_{i=1}^n \beta_i^2}}$$

Where: α_i : The relative importance of each sector in the total GDP in the base period.

β_i : The relative importance of each sector in the total GDP in the comparison period.

Cos : The Vladimir Kosov index, where the greater the value of $0 = \text{Cos}$, this means structural

changes in the economy concerned, and conversely, in the event of a significant departure from

this value, it indicates the lack of those structural changes (Deif & Azzouz, 2018, pp. 23-24).

2.5.Factors of success of economic diversification:

There are a set of common factors that contributed to the success of many of the experiences of economic diversification, most notably the following (Hamid, 2020, pp. 38-39):

- ✓ Considering the increase in the level and diversification of exports as one of the main development priorities.
 - ✓ Give an important role to the private sector to contribute to the process of diversification and development.
 - ✓ The government is convinced of the risks inherent in the development strategy based on natural resources.
 - ✓ Directing public investment in a good and targeted manner.
 - ✓ Openness to foreign investors and external expertise and how to promote exports and reach foreign markets.
 - ✓ Controlling the management of exchange policy in a controlled manner in order to avoid a large rise or sudden changes in real exchange rates.
 - ✓ Providing a business-friendly environment that reduces the costs and obstacles facing investors, whether local or foreign.
 - ✓ Improving education, upgrading skills, promoting scientific research and development, and establishing an appropriate and effective infrastructure for doing business.
 - ✓ Providing incentives and encouraging sectors exposed to external competition, so that they can reduce their costs and keep pace with their competitors by reducing taxes and customs duties to reduce the cost of labor.
 - ✓ Investing in the acquisition of technical and technological knowledge, encouraging scientific research in universities and institutes, and stimulating skills, invention and creativity. Successful experiences around the world have proven that competitive advantages are not based on an abundance of natural resources or low-cost labor as much as they are achieved through innovation, knowledge and good management.
 - ✓ The success of economic diversification is linked to the role played by the state to help the private sector, which is mainly evident in addition to providing the necessary infrastructure and the stimulating environment for the growth and expansion of the business sector in modernizing laws, legislation, investment, attention to the labor market and human development, especially education and training.
 - ✓ Diversification of the productive base: in parallel with the reform of the general framework to promote macroeconomic stability. There must be supply-side reforms as well, and the production base must be diversified away from the hydraulic sector
- The diversification of the production structure is a long-term challenge that requires the development of human capital accumulation, public sector reform and private sector reform, reducing the concentration of markets and wealth in it and building an industrial base that supports the diversification process.

3.Sovereign Wealth Fund

There is no unified agreement to define the Sovereign Revolution Funds. Each party knows them according to a certain criterion and according to the estimates of the assets of those funds, whether in real time or in the future.

✓ Definition of the International Monetary Fund:

The International Monetary Fund defines sovereign wealth funds as general investment funds or arrangements with specific purposes, owned and controlled by the government, with the task of holding and managing assets, in the medium and long term, to achieve macroeconomic and financial objectives. These funds are established from foreign exchange

operations, the proceeds of privatization, public financial surpluses, or the revenues of commodity exports. These funds apply investment strategies that include investments in foreign financial assets. In this definition, the IMF includes yield stabilization funds, provident funds, development finance funds, and government pension funds that have no liabilities (work agenda, 2008, p. 26).

✓ **Definition of the Organization for Economic Cooperation and Development:**

"Sovereign wealth funds are a group of financial assets owned and managed directly or indirectly by the government to achieve national goals and funded by either foreign exchange reserves, exports of natural resources, public revenues of the state or any other income (bouflih, 2011, p. 93).

✓ **Definition of the Sovereign Wealth Fund Institute:**

"The sovereign wealth fund is a government investment fund consisting of financial assets such as stocks, bonds and other financial instruments, noting that the fund's resources is formed from the surplus balance of payments, the public budget, the outputs of privatization operations or the revenues of commodity exports. According to this definition, the sovereign wealth fund does not include government pension funds and state-owned economic companies in addition to exchange reserves managed by monetary authorities and used to achieve monetary policy objectives (bouflih, 2011, pp. 86-87).

3.1.Types of sovereign wealth funds:

Sovereign wealth funds differ and are distinguished from each other according to the main objectives of their origin and income, so we find that they are classified into several categories, and this is what made them gain great importance at the local and global level, as governments establish sovereign wealth funds for many reasons. The IMF's analysis indicates that there are five types of these funds that can be distinguished in general according to their main objective (Jalouli & ratoul, 2015, p. 86):

- ✓ **Stability funds:** Their primary objective is to protect the budget and the economy as a whole from fluctuations in commodity prices (usually oil).
- ✓ **Provident Funds for Future Generations:** Aimed at transforming non-renewable assets into a more diversified asset portfolio.
- ✓ **Reserve Investment Firms:** Their assets are still mostly included in the reserve asset class and are created to increase the return on reserves.
- ✓ **Development funds:** They usually help to finance social and economic projects or encourage policies in the sectors of activity that can promote the growth of potential output in the country concerned.
- ✓ **Retirement Contingency Reserve Funds:** covers contingent retirement liabilities not specified in the government balance sheet.

IMF experts have started working in cooperation with representatives of sovereign wealth funds to develop a set of best practices, including the formation of an international working group of these funds to start technical discussions and drafting work as of April 2008. The best practices will cover general government, transparency and accountability issues, all of which help to deepen understanding of the operations of sovereign wealth funds and prepare a set of best practices that guide other countries, strengthen their policy frameworks and local institutions, and support their macroeconomic and financial interests. In addition, these practices lead to allaying concerns related to sovereign wealth funds in countries receiving investments and contribute to the establishment of an open global monetary and financial system.

3.2.The Importance of Sovereign Funds:

We will try to include in addition to the importance of these funds globally, and the importance of these funds for investment, and their importance for the countries of origin, and this importance is represented in (Jalouli & ratoul, 2015, pp. 133-134):

- ✓ Supporting fiscal policy to cover and manage liquidity and work to stabilize international financial markets.
- ✓ Transferring knowledge through investments, strengthening government companies, mitigating economic crises, enhancing regional and international cooperation, implementing structural reform, gaining confidence, ensuring efficient risk management processes, managing financial and operational risks, governance, disclosure and transparency for economic and long-term investment, which prevents fluctuations in international financial markets, as well as enhancing social and economic development and increasing the integration of the global economy, distributing investment portfolio and focusing on returns.
- ✓ Fighting unemployment by investing in real assets and the distributional benefit of national wealth benefits between current and future generations as well as between the current generation itself, and approaching Islamic distribution theory through the convergence of individual rights with group rights.

Due to the increasing and growing importance of sovereign funds and the size of the assets they will manage and the implications of their decisions on the overall financial situation in the world, a special item was included in Mandi Davos in 2008 , especially since here are varying assessments of the role and importance of the directives of these funds due to the overlap between the economy, politics and the long-term strategic view of foreign investments. This was also addressed to the possibility of sovereign funds investing in clean technology and addressing the phenomenon of climate change, as two-thirds of their wealth is from gas and gas projects. Sovereign funds can contribute to the development of some external economic sectors that supply local industries in the Arab countries, especially sectors related to food security and the development of industries in which the Arab countries with the largest sovereign wealth funds in the world have productive preferences. Such trends will contribute effectively to the development of productive sectors, including modern technologies and the distribution of national income sources, and achieve rewarding returns from investment of other external resources, as well as yours (Jalouli & ratoul, 2015, pp. 135-136):

- ✓ The ability to perform the role of reserve for the countries that own it, by transferring part of their revenues to the benefit of future generations after the depletion of raw materials.
- ✓ Allowing them to diversify sources of GDP by developing new activities, as in the case of Abu Dhabi and Dubai funds by developing sovereignty, agriculture and industry... etc.
- ✓ Providing permanent and regular materials to the countries that own them that are not linked to the raw materials that are destined to be depleted.
- ✓ Playing a stabilizing role by absorbing shocks resulting from the temporary decline in raw material prices.
- ✓ Maintaining jobs (contributing to getting rid of unemployment).
- ✓ Contribute to greater integration of the global economy and increase participation and linkage of interests.
- ✓ The importance of sovereign funds despite the different and diversified economic systems.
- ✓ The importance of sovereign funds through the depletion of oil wealth.

- ✓ The importance of managing the investment of money and production at the level of the global economy.
- ✓ Opposite transfer of external investment to transfer returns and profits.

3.3.The Role of Sovereign Funds in Achieving Economic Diversification:

Sovereign wealth funds, called Development Funds, have become a real or pivotal role in financing development, and contribute positively to the development of national strategies for economic diversification of the countries owning these sovereign funds (Reisen. H 2008a , 2008b, 2008c). This developmental role was strengthened when sovereign wealth funds were forced, after the large losses suffered as a result of their rush to acquire many bankrupt Western institutions, in order to take advantage of investment opportunities to modify their strategies and allocate their assets towards local economies. This developmental role is not limited only to the owning countries, where these entities participate in the development of local strategies for industrial diversification and structural economic transformation, but this role expands to include many developing countries through the achievements of many investment projects in Asian, African and some Latin American countries. This trend is expected to continue in the future.

Sovereign wealth funds that seek to achieve development goals are looking to direct national savings towards financing long-term investment projects, which are of strategic importance to local economies in the absence of well-developed local financial markets, and the flight of private national savings abroad .The orientation of these sovereign funds towards local development will enhance the challenges of managing the operations of sovereign wealth funds, because it requires the establishment of a strategy that requires coordination between the managers of these funds, the state and other institutional actors interested in the development process. It also requires regular monitoring of investments so that they do not exceed the absorptive capacity of the local economy. It also needs to resort to external observers or to the establishment of a special section entrusted with the internal control process.

In order to enhance the economic diversification of countries, these funds aim to obtain strategic contributions or finance social and economic projects, or to promote industrial policies capable of stimulating the growth of the industrial and productive sector in the country. This is why development funds usually help to finance social and economic projects, which can enhance the level of economic and social well-being in the economies that own these funds. These funds can also finance infrastructure, establish industrial partnerships or alliances or invest in strategic sectors to develop the productive and competitive capacities of the countries to which they belong. Therefore, it is necessary to distinguish between development banks and development-oriented sovereign wealth funds. In order for the latter to be effective in achieving their objectives, the allocation of funds' assets must be based on selection and targeting only for development projects that have a very high return on investment and are not linked to any political objectives. The criteria for the absence and selection of projects must be precisely determined when establishing the sovereign fund, because it is noted that in the event of weak asset allocation strategies, the strategies of sovereign funds turn into mere political priorities. If the sovereign development fund is carried out through exchange reserves, it must direct its investments broadly abroad, without contradicting the exchange policy (Belkacem, 2019, pp. 07-08).

The philosophy of establishing this type of fund is based on the nature of the alternative options presented to the owning countries, after the depletion of natural resources, which are the main source of financing for various sovereign funds. On this basis, preparing for this stage is the greatest concern for economic and social policy planners and decision-makers in

the countries that own these funds, which calls for urgent measures to diversify sources of income through the development of non-oil sectors. These concerns appear clearly and varied in most of the Gulf Arab countries according to the level of dependence of each country on natural resources, and to meet such challenges resulting from the high level of dependence on natural resources, many oil countries have taken the initiative to use part of the oil revenues to promote local development, through the development of the infrastructure necessary for the development of productive and service sectors, encouraging the financial services sector and tourism. We point out that the process of economic diversification depends on many factors such as "the size of reserves and production, and thus the size of revenues per capita and the size of the economy compared to those revenues, and other factors related to the current and possible potential of that economy, and this means that the economies of small countries, small populations and with limited diversification potential, have a greater incentive to establish savings funds or invest oil revenues, but even those considerations may change over time, and as a result of economic policies, the absorptive capacity of the national economy increases and its determinants change, and the potential for diversification is dynamic and also dependent on economic policies". Also, the future of many sovereign funds, especially the newly established ones, is highly correlated with the accumulation of exchange reserves. On this basis, and with the recent decline in oil prices, many uncertainties have emerged about the sustainability of these reserves, which raises the problem of achieving many local development projects because they are linked to the future of these newly established funds (Belkacem, 2019, p. 10).

4.The experience of the UAE and Algeria in easing economic diversification through sovereign funds:

Oil prices have experienced many fluctuations in global markets as a result of being affected by a range of economic and political factors. The Arab oil countries, especially the UAE and Algeria, were subsequently exposed to positive and negative shocks, which in turn affected the internal and external economic balances of these countries. In front of this situation, these countries, like other oil countries, developed sovereign wealth funds such as the UAE, as well as the establishment of a resource control fund in Algeria, like the rest of the countries, which helped to finance budget deficits as well as the ability to alleviate public debt. These funds participate as a mechanism to absorb financial surpluses resulting from positive shocks and keep them in the form of reserves to face negative shocks to their economy.

4.1.The performance of sovereign funds in the UAE "Model Swap Fund":

The Model Swap Fund is an active partner for a select group of international companies, with which it makes significant human and financial investments to enhance capabilities in key sectors of great importance to the economic growth and diversification process in the Emirate of Abu Dhabi.

✓ **Introducing the sovereign fund "The Model Swap Fund ":**The Model Swap Fund Development Company emerged as a joint stock company owned by Abu Dhabi in 2002 with financial assets estimated at \$10 billion, and employs five hundred employees. Its board of directors is chaired by the Amir's brother, and this leading company at the local and

regional level is involved in many major development projects such as those related to industry, energy, aviation, tourism, and everything related to hotel equipment, hospitals, education, transportation, and others (Ramadan, 2016, p. 81).

The income of The Model Swap Fund Investment Company (the sovereign fund of the Emirate of Abu Dhabi) increased by 35.8% during the past year 2020, bringing the total comprehensive income (attributable to the owner) by the end of the year to 72 billion dirhams, compared to 53 billion dirhams in 2019 (the dollar is equivalent to 3.67 dirhams). The value of assets owned by The Model Swap Fund increased by 4.8% to reach 894 billion dirhams by the end of 2020, compared to 853 billion dirhams in 2019. Currently, its assets are estimated at AED 1.045 billion, equivalent to USD 284 billion (Swap box, 2024).

✓ **The Model Swap Fund's contribution to the process of economic diversification:** Any effort to diversify the economy requires a commitment to innovation, which is not limited to physical products or financial investments only, but also extends to creativity, development and contribution to the achievement of progress in the fields of knowledge and human capabilities. In The Model Swap Fund Fund, we find the latest technologies as well as the innovation of distinct and unique solutions, of which we will mention the following (Ramadan, 2016, p. 82):

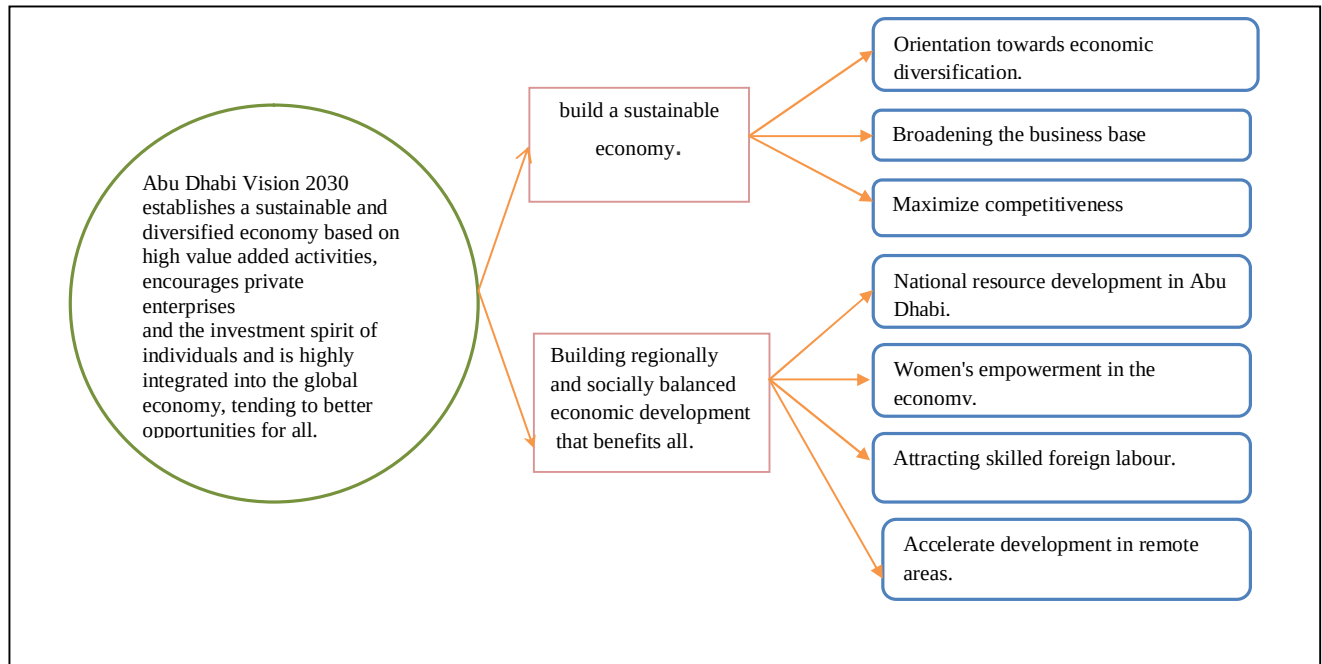
- **Within the framework of the partnership with (GE):** The Model Swap Fund Development held on July 2, 2000 an agreement from General Electric as a co-investor in the field of finance, aviation, industry and training, with a financial value of \$8 billion. This is in addition to the launch of a \$300 million regional infrastructure fund on November 10, 2008, funded by The Model Swap Fund Development Company (GE) and the Swiss loan Crédit Suisse. This fund is geared to invest in connected infrastructure, electricity, water, transportation and communications in both Turkey and MENA countries.
- **In the field of water:** On October 7, 2008, The Model Swap Fund Development signed a partnership with Veolia Eau, a branch of Veolia Environnement, in the field of water production, collection and treatment in the Middle East and Africa. The ownership of this partnership is 51% for Veolia Eau and 49% for The Model Swap Fund Development.
- **In the field of energy:** As a partner with Occidental Petroleum Corporation (Oxy), the American gas production in Oman and with both Total and Oxy to develop the gas transport network across the Persian Gulf countries, and with Conoco Phillips for oil exploitation and production in Kazakhstan.
- **In the field of aviation:** On July 15, 2008, The Model Swap Fund Development signed an agreement with (EADS) to develop the Abu Dhabi Aircraft Components Factory, as well as the completion of an engineering and research center directed to maintenance and repair, in addition to its alliance with Finmeccanica to manufacture some vehicles and its work with Rolls-Royce and other areas of cooperation with major international companies in this field.
- **In the field of technology:** The Model Swap Fund Development Company has established a partnership with the American Development Company AMD, which specializes in the production of microprocessors (Microprocesseurs) worth \$750 million, and The Model Swap Fund Development Company has been participating since 2004 in the

American Foundation eds for the Development of Information Technology in the Gulf Region.

- **In the field of real estate:** In March 2008, The Model Swap Fund Development and The John Buck Company established a real estate services company (promotion, sale, rent, management) in Abu Dhabi, where it developed some major projects such as the new financial center on Swah Island.
- **In the automotive industry:** Since 2005, The Model Swap Fund Development owns 5% of Ferrari with the Italian group Mediobianca and funds Ferrari in the Four Milla One races. It has partnered with Dutch Leaseplan who specializes in long-term vehicle rental and other joint ventures for this fund.
- **In the field of health:** The Model Swap Fund Development has invested significantly in this area through its participation in the Laboratoy corporation of America holdigs to establish a reference laboratory in Abu Dhabi, with Simon Healthcare and John hopkins Medecine to develop a medical imaging center for the detection of cancer and heart and neurological diseases and with Cleveland Clinic to complete and exploit a first-class hospital in Abu Dhabi, and its establishment of other participating projects dealing with diabetes and medical research.
- **In the field of education and training:** The Model Swap Fund Development has established a campus jointly with the French Sorbonne University and a trade school with l'INSEAD.
- **In the field of private equity:** The Model Swap Fund Development Company invested \$1.35 billion in Carlyle's capital, equivalent to 7.5%, with the possibility of investing an additional \$500 million.
- **Other areas:** The Model Swap Fund 's investments have spread to other countries in the Middle East, Africa and East Asia in the oil and gas sector (Oman - Algeria, Libya, Thailand. ID Philippines, Vietnam) and in aluminium in Saudi Arabia, telecommunications in Nigeria, real estate in Singapore and Malaysia, and health in Korea.

These models of strategic diversification in The Model Swap Fund Development Forms are effective contributions to achieving economic diversification and sustainable development in Abu Dhabi and in many parts of the world, especially in developing countries. It represents a model of value-added generation for present and future generations (Ramadan, 2016, p. 82).

Under the Abu Dhabi Economic Strategy 2030, the Emirate of Abu Dhabi seeks to establish a sustainable and diversified knowledge-based economy that is based on high value-added activities, encourages private enterprises and the investment spirit of individuals, and is highly integrated into the global economy, which leads to better opportunities for current and future generations to achieve sustainable development by working to enhance the economic environment and the business climate that also contributes to further strengthening the link between the Abu Dhabi economy and the global economy, by attracting foreign and local investments alike, and facilitating capital exports through the establishment of deliberate investments with global partners, as summarized in the following figure:

Figure 01 : Abu Dhabi Economic Vision 2030.

Source: Abu Dhabi Council for Economic Development, General Secretariat of the Executive Council, Department of Planning and Economy, Abu Dhabi Economic Vision 2030.

4.2.The Algerian Alternative Investment Fund Future Revenues of the Algerian Seizure Fund:

The National Investment Fund was established in 2009 with an allocation of DZD 150 billion, to contribute to the direct and long-term financing of national investment projects that are of special importance to the Algerian economy, in addition to the role of development and revitalization that the Fund is working on to encourage investment outside hydrocarbons and included in the state budget and supported by co-financing (budget/treasury). The Fund can also employ additional financial resources in the form of advances and borrowing from the treasury in order to finance or contribute to investment projects or enterprise projects. The Fund can also invest its funds in the capital market (Habarak, 2020, p. 287).

Whereas, the projects presented to the National Investment Fund for financing must fall within the objectives of the Fund and must achieve economic, financial and technical privileges, and that they do not have a negative impact on the environment. Eight sectors have been identified for this, namely: industry and industrial handling - construction and public works - the world, communications and technological innovation - agriculture and food industries - transport and logistics - tourism - financial services - renewable energies. The financing of the Fund shall be through the periodic suspension of 1 billion in a special allocation account for the state treasury, and the contribution shall be 49% in the capital of small and medium enterprises with a maximum limit of 100 million Algerian dinars (khalifa, larbi, & kedad, 2021, p. 80).

✓ Mechanisms used to achieve economic diversification in Algeria:

A set of foundations can be laid on which Algeria can build a new strategy that aims to get rid of the rentier economy and build a diversified economy outside oil, in order to put it relatively safe from the fluctuations of the global economy, which are as follows:

- **Establishing a new sovereign wealth fund:** Supporting the diversification programs of the economy of the state owning the sovereign wealth fund in order to reduce dependence on oil is one of the objectives of establishing these funds. To achieve economic diversification in countries that depend on oil production and export, these countries have followed two correlated and independent paths in each other. The first is to use part of the oil revenues to develop the infrastructure necessary for the development of the productive and service sectors appropriate to their circumstances. The second is to save part of the immediate oil revenues and develop them with internal and/or external investment to form an alternative income for oil when it depletes in the long term. Algeria established a sovereign wealth fund in 2000 called the "Revenue Control Fund" as a result of achieving significant financial surpluses resulting from the record rise in oil prices. The balance of the budget surplus was estimated at 400 billion dinars, and the aim was to finance the state budget deficit in years that define the decline in petroleum collection revenues to a level lower than the estimates of the Finance Law, and reduce public debt. The value of the Fund, according to the Central Bank report, reached a minimum (740 billion dinars) at the end of 2016 as a result of its financing of 58% of the budget deficit for 2016 (boutlaa & Ben Debache, 2018, p. 308).
- **Increasing interest in the tourism sector:** The tourism sector plays an important role in the economies of many countries, as it is considered one of the most important sources that generate significant financial revenues, especially from hard currency. There are many countries in the world, including oil countries, that have found their interest in the tourism sector, so they exploited their resources and tourism potential in a way that ensures their sustainability and avoids dependence on depleted sources of wealth, especially reserves of oil wealth. Despite the relatively small contribution of the tourism sector in Algeria to development, this sector is considered one of the most promising sectors in the Algerian economy if it is well exploited, starting with ensuring the effective implementation of the Tourism Development Master Plan 2025 program, developing a local and international advertising strategy to introduce the Algerian tourism product, and improving Algerian tourism services, especially in terms of hygiene, maintenance, quality, and price ... In addition to benefiting from everything new in information and communication technology in the field of tourism (boutlaa & Ben Debache, 2018, pp. 308-309).
- **Activating renewable energy for economic diversification:** Algeria has one of the most important solar capabilities in the world due to its distinguished geographical location, as the duration of solar radiation exceeds 2000 hours annually on the entire national territory, and reaches 3900 hours in the upper plateaus and the desert, as the average energy obtained per day on a horizontal area is 5 kWh /square meter, equivalent to 1700 kWh /square meter per year in the north and 2263 kWh /square meter per year in the south.

Table 01: Planned program for the development of solar and wind energy 2011 - 2030.

Years	2011-2020		2021-2030	
Solar photo voltaic	800 MWh/year		1200 MWh/year	
Years	2011-2013	2016-2020	2021-2023	2024-2030
Solar energy	production of two projects capacity of 150 MWh	production of four centers with a 1200 MWh	production with a 500 MWh/year	production with a 600 MWh/year
Years	2011-2013	2014-2015	2016-2030	
wind energy	With a capacity of 10 MWh	With a capacity of 20 MWh	Conducting studies to find suitable sites for deferred installation of air turbines with capacity 1700 MWh	

Source: Samra maaskri, Yamani Laila, Renewable Energies as a Tool for Economic Diversification in Algeria, Al-Bashaer Economic Journal, Volume 06, Issue 02 December 2020, p. 907.

From the above table, Algeria activated a generation plant in May 2011 through electricity (gas - solar power SPP1) in Al-Hasani Al-Raml with an estimated production capacity of 221 MW, including 12 MW produced from solar energy. Four plants with a capacity of 300 MW are also being completed for the plant.

The German Space Agency also submitted the request to invest in the Algerian desert to the German government after it discovered that the Algerian desert is the largest reservoir of solar energy in which solar radiation lasts 3000 (hours/year).Algeria is also seeking to invest about \$60 billion in the field of renewable energies by 2030, and national electricity production is expected to be 37% of solar energy by 2030.

As for wind energy, Algeria sits on two large distinct geographical areas (north and south), which made its sources of wind energy very uneven from one region to another. This difference is due to the topographic and climatic diversity. Algeria is characterized by winds that carry a lot of humid marine air and large quantities of continental and desert air, with an average annual speed of more than 7m/ s, especially in coastal areas. Adrar is one of the most important areas with high winds in the southwest (6 m/s), and Ain Amenas in the southeast. Algeria has set ambitious plans to use this source of energy with positive technology that reduced its cost to 25 Euros per kilowatt by 2020.

Wind energy is expected to generate profits of more than 3 billion Euros annually , as well as the ability of this promising sector to create thousands of jobs as mentioned above and provide clean energy and about 3% of electricity production, in addition to 7200 megawatts of thermal energy, a vessel that will provide Algeria with 12,000 megawatts by 2030.

✓ **Developing the industrial sector and small and medium enterprises and enhancing their competitiveness:** Industry is one of the main pillars of comprehensive economic and social development because it can create new job opportunities, diversify sources of income, increase national income, and enhance exports. Therefore, the Algerian state has recently paid special attention to the industrial sector, given the recession in this sector, which is one of the basic variables to improve the national production equation And the rehabilitation and revitalization of the existing industrial sector, and this does not mean the dominance of the public sector and the central management of the economy, and the support of the petrochemical industry, which works on the one hand to reduce the export of crude oil and gas and increase the added value by exporting derivatives and refining products, and on the other hand meets the growing local needs of derivatives and fertilizers required by the industrial and agricultural sectors.

Supporting SMEs and diversifying their activities as the cornerstone of new industries, by providing them with the necessary funding, modernizing the central and local administration, tax administration

5.Conclusion:

The process of economic diversification requires the implementation of various policies that stimulate and direct investments towards sectors that allow the promotion of structural transformation and accelerate it and the transfer of the economy towards sectors that achieve more economic growth and employment. We find that there are two types of economic diversification. The first type depends on the diversification of the local industrial production structure of the country (import substitution policy).

The second depends on an export diversification strategy that must include the diversification of products and services. Thus, export diversification is considered the best for the success of the economic diversification process, as the export diversification strategy is based on the existence of diversification in the productive base. In addition, all modern methodologies in building diverse economies as well as theories of economic diversification and all pioneering experiences in economic diversification call for the direction of export diversification. Sovereign wealth funds are one of the modern tools to finance the economy, as they contribute to the diversification of the country's sources of income, by not investing in various economic sectors such as industry, agriculture, telecommunications, tourism, infrastructure and real estate, which contributes to exiting the dependency of the hydrocarbon sector.

The study yielded several findings, summarized as follows:

✓ The "**Model Swap Fund**" in the United Arab Emirates has effectively contributed to the activation of the bases of economic diversification by stimulating growth and development in various sectors and various projects of the approved industries, such as industry, information technology and other sectors that give more flexibility to the economy in dealing with the cyclical fluctuations in oil prices;

- ✓ The significant role of the " **Model Swap Fund** " in achieving the economic diversification path in the United Arab Emirates is demonstrated through the adoption of an Integrated Track Fund, generating more financial returns and contributing to GDP, which also aims to achieve the goal of sustainable economic diversification;
- ✓ Sovereign funds are regarded as instruments Investment allows support for local economic growth strategies and allows the state in Earning income to cover the fiscal deficit, but its success depends on its ability to disclose the transparency and clarity of its investment strategy.

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