

A Review of the Sovereign Wealth Fund and Sustainable Development in Nigeria

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Abstract

Sovereign Wealth Fund is a pool of money derived from a country's reserve set aside for investment purposes that benefit the countries economy and its citizens. Development as a concept that has to do with improvement in the quality of life must be sustained to have a lasting impact that transcend generations. This work examined how this pool of money SWF can impact on the development of the country that future generations can reap from. Howbeit, strict adherence to the 3 mission statement of the Nigerian Sovereign Investment Authority (NSIA) to build a savings base, develop infrastructure and promote fiscal stability for the country is no doubt an avenue to engender development that will benefit future generations in Nigeria. To defend this assertion the work examined the various strategies of the NSIA as the Body set up by the Nigerian government to achieve this goal. Since development reflects the realization of the potential of human personality, and sustainable development is seen as the ability of Nations to achieve positive economic and social development, SWF is indeed a viable option. The NSIA built on the Santiago Principles to maintain a stable global financial system and free flow of capital and investment, is a viable avenue for sustainable development in Nigeria. It is in the light of this that we encourage the government of Nigeria to promote the ideals and improve on the principles of the SWF through strong support for the NSIA.

Keywords: *Sovereign, Economic Infrastructure and Sustainable Development.*

Background to the Study

Society is dynamic and transformations are constantly evolving, that the world has become so inter connected, interdependent and inter-related and states are keying in and developing strategies and mechanism to fit into this trend. Nigeria is not an exception as the country is trying to use its available resources to strengthen her development strides. The Sovereign Wealth Fund (SWF) is a state owned investment fund established from balance of payment surpluses, official foreign currency operations, proceeds of privatization, governmental transfers, fiscal surpluses and or receipts from resources exports. Sovereign Wealth Fund is made up of financial assets like stocks, bonds, property and other financial instruments. It manages national savings for investment purposes. They are assets of states held in domestic and different reserve currencies. Some SWF may be held by a central Bank which accumulates the fund in the course of its management of the country's banking system for major economic and fiscal purposes. Others could be state savings that are invested by various entities for the purposes of investment return that may not have significant role in fiscal management. It is state's pool of money set aside for investment purposes for the benefits of the State.

Sources of SWF could also be from foreign currency deposits, gold, Special Drawing Rights (SDRS) and IMF reserves positions held by central banks and monetary authorities along with other national assets such as pension investments, oil funds and other industrial and financial holdings. Some states have more than one. The United States of America for instance does not have a federal SWF but many of her states have their own SWFs. The state of Texas has 2 (The SWF Institute) Wikipedia. Assessed 3/2/16). SWF can be seen as Maximizing long term return with foreign exchange reserves serving short term. They can be classified as :

1. Stabilization funds.
2. Savings /future generations funds
3. Pension Reserve funds
4. Strategic development funds.

In 2008, a joint effort of the International Monetary Fund (IMF) and the international working Group of Sovereign Wealth funds came up with 24 guideline as best practices for the operations of the SWF. These principles are known as the Santiago Principles. The Santiago principles demonstrates SWF investment as economically and financially oriented entities in both their domestic and global investments.

Development is basically improvement in the quality of life of man by being free from any impediments to his survival and self-reliance. Development connotes freedom. It reflects the felt needs of the people. Development leads to the realization of the potential of human personality. Development is a multi-dimensional process that involves re-organization, and reformation of the entire social system. Development processes is beyond economic values but also incorporates environmental, political and social values. It involves changes in social structures, political attitudes and national institutions as well of the acceleration of economic growth. The United Nations Development Programme (UNDP) Report (1997) maintained that meeting people's need for food, water, shelter and employment, thereby

improving human wellbeing are the central goals of development. This process must be in a sustainable way that today's benefits does not imperil the future. Here lies the link between development and sustainable development that guarantees the needs of not just the present but future generations.

The 1987 Brundtland report titled "our common future" defined sustainable development as that which meets the needs of the present generation without compromising the ability of future generation to meet their own needs (see OECD 2002, Moro 2008) According to Hasna (2007) "sustainability is a process which tells of a development of all aspects of human sustenance. It means resolving conflict between the various competing goals and involves the simultaneous pursuit of economic prosperity, environmental quality and social equity. The UN 2005 World Summit outcome document refers to the "interdependent and mutually reinforcing pillars of sustainable development as economic development, social development and environmental protection. Sustainable development is infact a variegated concept with wide array of issues.

According to the Organization for Economic Co-operation and Development OCED (2007), given the progressively deteriorating environmental and social trends, there is an urgent need for genuine political commitment for taking action to establish in countries the environment in which stakeholders can engage efficiently in debates and action, to develop real partnership between government, the private sector and civil society, to agreed roles and responsibilities for sustainable development to establish effective coordination mechanisms and work on agreed principles. These agreed principles and build-ups are manifest in the NSIA mission and vision to ensure sustainable development, there is need to build efficient and transparent public sector administration and management that are committed to sound economic policy formation and implementation. The NSIA Act was built on the Santiago Principles based on the 24 guidelines.

Objectives of the Study

The main objectives of this study is to review the impact of the Santiago principles on which the NSIA is built on sustainable Development in Nigeria. Specific Objectives are:

1. Examine the SWF generally and its impact on sustainable development.
2. To assess the principles and targets of the NSIA as the principal SWF agency in Nigeria.
3. To analyze the impact of the mission and vision of the NSIA on sustainable development in Nigeria.

Conceptual Framework

The Concept of Development

As earlier stated, development is a victim of definitional pluralism. Gboyega (2003) see development as an idea that embodies all attempts to improve the conditions of human existence in all ramifications. It implies improvement in the material well-being of All in a sustainable way that today's consumption does not imperil the future. It also demands that poverty and inequality of access to the good things of life be removed or drastically reduced. As earlier noted, development is usually taken to involve not only economic growth, but also

some notion of equitable distribution of all services and goods with a view to improving the individual and collective quality of life. Aremu (2003) sees development as a process of social advancement in which improvement in the well-being of people are generated through strong partnerships between all sectors, Corporate Bodies and other Groups in the society. As a process that makes it a growth-based concept, development is premised on the idea that other things being equal, the growth of the economy could benefit the whole society either by market-driven 'trickle down' effects or by state-driven social policy.

Development economists; Rostow (1952) and Harrod and Domar (1957) among others proposed models of development generally identifying structural changes, savings and investments as the source of economic development and growth. This assumption is based on the fact that as the economy grows and output increases, there will be more happiness and improved welfare arising from the larger pull of resources which if well distributed would have generally improved the wellbeing of the people. In other words, as the economy grows, trickle-down effect, will at least lead to improvement for everybody.

Sustainable Development

Daly (1991) maintains that "the concept of sustainable development was originally synonymous with that of sustainability and is often still used in that way. Both terms derive from the older forestry term "sustained yield". Pezzey (1992) documents that sustainable development refers to "a mode of human development in which resources use aims to meet human needs while ensuring the sustainability of natural systems and the environment, so that these needs can be met not only in the present, but also for generations to come. The term 'sustainable development' was used by the Brundtland Commission, which coined what has become the most often-quoted definition of sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs". Smith and Rees (1998) posit that the concept of sustainable development has in the past most often been broken down into three constituent parts: environmental, economic and socio-political sustainability.

In 1992, the World Bank described sustainable development as development that continues. Pezzey (1992) stated that sustainable growth means economic growth that is supported by the physical and social environment. Thus, sustainable development may be understood as the process of economic development and structural changes helping to broaden human possibilities. This development is determined by the power of knowledge about development and is best seen through sustainable and balanced development of human possibilities and ability to assume social responsibility for oneself, the society, and future generations. Pearce, Markanday and Barbier (1989) provided a more generalized definition of sustainable development that includes the creation of a social and economic system that guarantees supports for increase in real income, improvement of the level of education, and the improvement in the populations' health and the general quality of life. Sustainable development encompasses a very important ethical components, a manifested right of every person to the proper and fair share of the planet's resources.

Pearce, Markandya and Barbier (1989) provides a more generalized definition of sustainable development that includes the creation of a social and economic system that guarantees support for:

1. Increase in the real income
2. Improvement in education
3. Improvement in the living condition of the population
4. A general quality of life,

Sustainable development encompasses complete and multi-dimensional issues which must combine efficiency, and intergenerational equity on economic, social and environmental forces that requires global, regional and community integration and efforts that the Nigerian government tried to key into through the NSIA.

The Nigerian Sovereign Investment Authority (NISA)

SWF in Nigeria is built on the Excess Crude Account. The NSIA was created by Act of the National Assembly in 2011, to manage this fund. The NSIA is purely seen as “a public sector establishment with a private sector philosophy”. The vision of the Authority is to be a world class sovereign wealth fund manager and became a premier infrastructure investor/co-investor partner of choice for all commercially viable projects in Nigeria. The mission of the Authority includes:

1. To build a savings base for future generations of Nigerians.
2. Enhance the development of infrastructure in Nigeria
3. Promote fiscal stability for the country in times of economic stress. (Orji, 2014).

The fund is to act as security against future economic instability, infrastructural development and a savings mechanism for future generations using the country's excess oil revenue. The fund is to protect the country from external shocks. It will act as:

1. A last resort from which government may withdraw annually to meet short falls in the budget resulting from falls in oil prices and other budgetary constraints.
2. A savings fund for long –term investment and assets to provide savings for future generations of Nigeria.
3. An infrastructure fund to secure investment in infrastructural development in agriculture and other government directed projects.

The initial fund was \$1.billion. 85% from it was distributed among the 3 windows with an initial 15% or \$150m unallocated to be assigned to either of the 3 funds as needs arise. The funds are to be invested in various securities. Stabilization fund had an initial 20%, while future generation and infrastructure had 32.5% each. The infrastructure fund will invest in Health care, transport, agriculture and power. (Orji, 2014)

Nigerian's Sovereign Wealth Fund though as a late Joiner to the club is the third largest in Sub –Saharan Africa after Botswana and Angola. Kuwait launched its before independence in 1953 to accommodate the countries oil revenue surpluses.

Overview of the Fund's Outlets

Here we will make an examination of the outlets for the fund.

The Stabilization Fund

The key objective of this fund is to provide stabilization support and augmentation to the federation revenue in times of economic stress. This fund would be managed under the guide of external investment advisers.

The Future Generation Fund

The future generations fund is to invest in diversified growth investment to provide future generations of Nigerians a savings base when our hydrocarbon reserves are exhausted. This fund will basically serve as a growth asset, deflation and inflation hedges. As a growth asset, its investments will be equity assets, fixed and floating obligation of corporations and individuals and also provide a stream of current income and appreciation of principal for real growth in excess of inflation.

The Hedge Fund

As a deflation hedge, the fund will consist of high quality, nominal fixed income from investment grade sovereign or cash with the aim of providing a hedge against severe deflationary recession and diversification, relative to the growth assets component. As an inflation hedge, it will serve as investment in hard assets like real estate, commodities, natural resource equities and inflation-linked bonds. All to provide potential protection against the risk of unanticipated severe inflation and also a source of cash when the other portfolios are depressed.

Infrastructural Fund

The infrastructure goal of the fund is an investment portfolio that aligns with national priorities. It will catalyze private sector participation, generate attractive returns and make outstanding national impacts. All these are aimed at transformation, development and support goals.

The fund's major investor is government where understanding will be built for the development of investor-friendly policies that will among all

1. Unlock private sector opportunities,
2. Accelerate the evolution of infrastructure development and
3. Create liquidity pools and opportunities to pioneer the development of new infrastructure securities to attract conservative.

The focus sector allocations are clearly captured as follows:

Agriculture, Health care, Transport, Power Generation, Distribution and Transmission, Road, Real Estate, Communication, Gas pipelines, storage and processing, Mining and Basic materials, Ports, oil refining and Free Trade Zones and Industrial Parks.

The NSIA general guiding principles are:

1. Sustainable financial returns
2. Independence Decision making
3. Transparency of process where investors periodically present report on performance

of fund. (Orji, 2014) All these are geared towards successful investment management

The NSIA and Sustainable Development in Nigeria

We will examine the efforts of the NSIA and implications on sustainable development in Nigeria. The NSIA activities enumerated so far have both internal and external benefits to Nigeria:

1. Will provide co-investment opportunities with other SWFs through the International Sovereign Wealth Fund Forum (IFSWF) and Institutional Investor Roundtable that have become a powerful forum for co-investment opportunities.
2. It is also an avenue for attracting Foreign Direct Investment (FDI) into the infrastructure sectors as larger SWF increase allocation to emerging markets and real sector.
3. It will also enhance corporate governance and operating standards as Private Equity Firms look to SWFs as key partners for private partnership because the SWFs appear more transparent and have good investment philosophy.
4. The establishment of the NSIA to provide financial savings, investment opportunities and capital growth are indeed sustainable ventures. The Santiago principles also known as Generally Acceptable Principles and Practices (GAPP) on which the NSIA is anchored upon are principles designed to promote global best practices that will keep Nigeria in tune with the international community.
5. NSIA transparency in operation will surely instill prudence in resource management and reduce the culture of unrestricted spending of unanticipated income. Investment will be based on sound, clear and beneficial economic and financial parameters.
6. The Savings Pool as Hedge funds for future generation is equally a sustainable agenda that will surely benefit generations to come
7. Availability of a counter-cyclical economic stabilization fund will assist in smoothing budget variations in income over a period of time.
8. The infrastructure fund will provide intervention in critical areas of the Nigerian economy and end infrastructure deficit. (Ndamusa, 2015)
9. The NSIA's role as an investment fund to promote the achievement of multiple economic objectives for the country will impact directly or indirectly on the people of Nigeria. Since Nigeria is at the forefront of reforming both institutions and policies and providing and improving social services in the face of the current challenges in the country, benefits from the NSIA agenda are most desirable. As earlier stated, the infrastructural fund expected to secure investment in agriculture, and other government directed projects including healthcare, motorways, housing /real estate and power are already on course in the NSIA activities. The NSIA has entered into strategic partnership agreements with the federal ministry of health and leading global health care sector participants to identify and invest in health care infrastructure projects.
10. Nigeria with a population of over 160 million people, rapid urbanization and inadequate housing stock is in dire need of housing for at least all levels particularly in the low and middle income class, which the NSIA is projecting into. The NSIA through the infrastructure fund have invested in the Nigerian Mortgage Refinance

- Company (NMRC) to increase liquidity and other leverages within the mortgage market that will improve access to mortgage credit for the Nigerian population.
11. The NSIA in partnership with the Julius Berger Construction Company is developing a project to finance, construct, operate and maintain the second Niger Bridge in order to improve the connection between the South-South and South –East zone of Nigeria. The NSIA is indeed actively pursuing investment in road infrastructure delivery and maintenance.
 12. Also, given the important role of power generation and distribution in our economy, the NSIA approved the establishment of a number of Corporate Subsidiaries to operate as legal entities under which the infrastructure fund would invest in specific target sectors of the country. (Nnamocha, P and Okonkwo, O. 2015). All these avenues are develop efforts that will benefit the present and future generations of Nigeria.

Conclusion

SWF generally seen as stabilization, future generations and strategic developments funds no doubt is aimed at improving the quality of life of man. These goals are clearly captured in the vision, mission and principles of the NSIA and in line with Aremu (2003)'s position that development is a process of societal advancement in which improvement in the wellbeing of the people are generated through strong partnerships. Gboyega (2003)'s view on development as improvement in a sustainable way that today's consumption does not imperil the future connects NSIA's principles to sustainable agenda. NSIA's mission to build a savings base for future generations of Nigerians and development of infrastructure for Nigeria are goals that are sustainable.

As a deflation and inflation hedge, the SWF is a sustainable development force for fiscal stability. NSIA's transformation, development and support agenda's in water resources, rail way, aviation, power transmission, generation and distribution, mining, oil refinery, gas pipeline, storage and processing as well as agriculture, healthcare, ports, roads, communication, free trade zones and industrial parks are real exciting development strides that future generations must benefit. The SWF is indeed a worthy developmental strive. If Nigeria had keyed into this venture in the hail days of the oil boom we would have been saved of all the economic woes that the country has been faced with. The oil boom ushered major structural distortions in the area of consumption and investment pattern that added to trigger the Nigerian economic crisis which would have been averted if this fund was in place. Investments on the 1977 festival of Art and Culture (FESTAC) would have been ploughed into these agendas of the NSIA that generations of this century would have still been reaping from till date. SWF is a venture that will benefit Nigeria's economy and citizens. SWF acts as a buffer against short term economic instability and spur infrastructural development. SWF contributes to the stability of the global financial system, reduce protection risks pressures and help maintain a stable investment climate. The knowledge sharing activities of the (IFSWF) also serve as a tool for continuous improvement and innovations for all members.

Recommendations

Based on the benefits opened for Nigeria from the SWF, and in view of the economic crisis now heightened by the dwindling oil prices we make the following recommendations:

1. The Nigerian government should place high priority on SWF
2. The NSIA should be supported to achieve their goals
3. Efforts geared towards diversification of the Nigerian economy must incorporate a savings agenda that will be injected into the NSIA. Our source for the fund must shift as majority of the countries in the SWF have Non-oil as their sources for the fund.
4. State governments should be made to accept the idea of the SWF and establish it for their states as Bayelsa State has done.
5. Despite the dwindling economy facing us, Nigeria must continue to be active in the International forum of Sovereign Wealth Funds (IFSWF) to enhance collaboration and promote a deeper understanding of SWF activities as SWF contributes to the stability of the global financial system and promote stable investment climate. Nigeria must integrate properly to the dynamics of the global system.

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