Afro Asian Journal of Social Sciences
Volume VIII, No I Quarter I 2017
ISSN: 2229 – 5313

SOVEREIGN WEALTH FUND IN NIGERIA: PROBLEMS, PROSPECTS AND CHALLENGES

Isa I. Ojibara
MSc in Political Science, University of Ilorin, Ilorin, Nigeria

ABSTRACT

Nigeria followed the footstep of most states with abundant resource (particularly oil) in establishing its own Sovereign Wealth Funds. Sovereign wealth funds are large pools of a state owned or controlled investment fund composed of financial assets such as stocks, bonds, property, precious metals or other financial instruments and are invested in whole or in part outside their home countries. Since, 2004 "Special funds" in which SWFs is one have become issues of serious contention among the tiers of government in Nigeria. On May 22 2011, the 36 state Governors approached the Supreme Court, asking it to abort plans by the federal government to withdraw $1 billion from the Excess Crude Account. The bone of contention revolves around the question of legality and desirability of such account. This paper examined how the SWF is paradoxical to the provision of Nigeria 1999 constitution (as amended). The best possible way to strike a balance in economically and politically feasible solutions to the controversies that ensued between the federal government and states government on "Special Funds" were also examined. The major controversies surrounding the fund both locally and globally are that of distrust and political suspicion.

Keywords: Sovereign Wealth Fund, Fiscal Federalism, Special Fund

Introduction

Oil dependency poses unique economic challenges for heavy oil exporters (Ross, 1999:297). First, oil is a volatile source of public revenue, second, it can induce inflation, resulting in an unfavorable exchange rate regime and decreasing the competitiveness of the oil producing country's traditional exporting sectors, third, oil is an exhaustible capital asset which must be wisely invested before its depletion (Ross, 1999:297). If resource-rich countries appropriately manage and invest their resource revenues, such revenues can be a catalyst for economic growth and development; but if such countries squander their revenues or neglect to address the distinct economic and fiscal challenges associated with reliance on oil or minerals, their mineral assets will be perceived as a curse (Ross, 1999:297).

To address these unique challenges of oil dependency, a growing number of resource-rich developing nations have established sovereign wealth funds (SWF), to help stabilize their budgets in the face of instability in the world oil market and to foster prudent current and future investments of oil wind falls (Elson, 2008:1). Many oil dependent nations such as Kuwait, Norway, Qatar, Saudi Arabia and Venezuela have created Sovereign wealth fund to shore up excess oil revenues when oil prices skyrocket, and tap into those savings when prices declined (Yakub, 2011:20). Many of these governments have accumulated substantial foreign reserves because of large trade surpluses, some of which they have begun to invest in a range of financial instruments that is more diversified than is typically the case for international reserves in order to improve the yield on their foreign asset position (Elson, 2008:1, Yakub, 2011:20).

The rapid expansion of SWFs is as a result of the 2008 economic and financial crisis, the crisis which triggered distressed assets, high bank insolvency and loss of market trust in developed economies (Eboh, 2010:1, ILO, 2011:4, Dominiquez, Hashimoto, Ito, 2012; 1) resulted in crude prices fell from the height of $147 per barrel in 2007 to $40 in 2010 (Thisdaylive, 2014). In 1953, Kuwait established its Investment Board to invest its surplus oil revenue, which was perhaps the first ever sovereign wealth fund (SWF), although the term would not exist for another 50 years (Kimmitt, 2008:119, Monk, 2009:455). SWFs are symbolic of two major recent trends in global political economy. First, a financial globalization and a redistribution of wealth, economic and financial power from the United States, Europe and other mature industrial economies to countries perceived to be less firmly grounded in similar economic, financial and political mores (Das, 2008:1, Elson, 2008:11, Drezer, 2008: 115, Truman, 2010: 2, Bu, 2011:1) .Second, an increasing role of governments in managing wealth and economic power (Truman, 2010:2) or what (kimmitt 2008: 120) refers to as state capitalism. Hence, Former Nigeria

President Olusegun Obasanjo found it imperative to establish the Excess Crude Account (ECA) in 2004 (Gillies, 2011: 2). By setting a conservative oil benchmark price and saving the revenues received over that price, they sought to discontinue the destructive pattern of volatile spending (Ibid.) However, the ECA was criticized by the state governors, stating its contradiction with the 1999 constitution and within few years' government exhausted these savings, which leaves no safeguard against future price shocks or any resources for strategic long-term investment (Gillies, 2011: 2).

In a bid to remedy the drowning reserved fund, the federal Government sought to reform the ECA or its total change. The reform culminated in the establishment of a Sovereign Wealth Fund in Nigeria. The fund which came in existence with the signing of the Nigeria Sovereign Investment Authority Act in May 2011, has however, generated a kind of constitutional debate and stiff opposition like its predecessor (ECA) from the 36 state governors that are against the fund citing its contradiction against Nigeria fiscal federalism as stipulated by the 1999 constitution (as amended) (Board Street Journal, 2011, 57) demanding that all sums due to the said accounts should be credited to the federation account.

Nigeria practices fiscal federalism as stipulated by Section 162 of the 1999 Nigerian Constitution requires that all revenue collected by the federation (except for personal income taxes for military, diplomatic officials, and residents of Abuja) be deposited into the Federation Account (Constitution of the Federal Republic of Nigeria, 1999). All funds in the Federation Account must be distributed among the different tiers of government (federal, state and local) according to a revenue allocation formula determined by the National Assembly. As Truman, (2010:1) opined that a government's decisions about its SWF under its control, affect the interests of four key groups: the government of the country with the SWF, the citizens of those countries, financial market participants at home and abroad, and governments and citizens in other countries. It is in this regard, this paper tried to examine the legality and desirability of Sovereign wealth fund in Nigeria, the international framework and regulations on SWF, issues and challenges facing its proper implementations in Nigeria.

The Framework of Sovereign Wealth Fund

The main fact that Sovereign Wealth Fund is a new concept in Public Finance and Political Economy discourse give credence to it difficult for a generalized definition like most social science concepts. There is a sharp difference among scholars on the ownership, objectives, size, number and issues of transparency of SWFs. The difference among scholars can be viewed from two standpoints. Scholars from countries that own SWF and some supporters of the fund who may not come from SWF countries on the one hand, and those from countries that received SWF investment that is mostly sceptical about the fund on the other.

To start with, The Sovereign Investment Lab defined the SWF as investment vehicle that is owned directly by a sovereign government, managed independently of other state financial and political institutions, does not have predominant explicit current pension obligations, invests in a diverse set of financial asset classes in pursuit of commercial returns, has made a significant proportion of its publicly reported investments internationally (Sovereign Investment Lab, 2011:8). The first characteristics, however failed reality test. This is because, "some states" in United States of America- Alaska, New Mexico and Texas (SWF Institute online, 2013, Bagnell and Truman, 2013:19) have a sort of SWFs while the central government is yet to establish one.The general believe is that since the word "sovereign" is used, only the central government can establish the fund. However, there has been controversy as to whether to refer the funds been created by some "states" in the United States of America as a "Sovereign" Wealth Fund. SWF managers have also defined themselves: according to the International Working Group for Sovereign Wealth Funds (IWG), a voluntary group of SWFs, SWFs are:

> *"Special purpose investment funds or arrangements, owned by the general Government .Created by the general government for macroeconomic purposes, SWFs hold, manage, or administer assets to achieve financial objectives, and employ a set of investment strategies which include investing in foreign financial assets. The SWFs are commonly established out of balance of payments surpluses, official foreign currency operations, the proceeds of privatizations, fiscal surpluses, and/or receipts resulting from commodity exports" (IWG, 2008).*

This definition is in agreement with the first definition as to which level of government can actually established a sovereign wealth fund. It also illustrates that Sovereign wealth funds are special funds for macroeconomic purposes, specifically, economic stabilization and diversification. The objective(s) which the fund is meant to serve has not less be a controvertible debate. The controversy is between the protagonist and antagonist of the funds both domestically and globally. While, the supporters of the fund argues that the fund is basically for financial and economic rationality that is based on economic diversification through investing outside the shore of their country, those against believe it's more political and ideological (Mohan, 2008. Gasparro and Pagano, 2010:1, Gilson and Milhaupt, 2011:1346).

The IMF has however defined SWF by classifying SWF into five categories based on their policy objectives: stabilization funds, saving fund for future generation, development funds, reserve Investment Corporation and contingent pension reserve fund. Stabilization funds are funds set aside resources to stabilize the budgets; saving funds often called 'rainy day' are established to ensure intergenerational equity of resources revenues; development funds are created to finance large scale development projects or to facilitate industrial growth; reserve investment corporation aim to increase financial return on the country reserves; and pension reserve fund are created to invest a portion of current public revenue to meet government future pension liabilities(IMF, 2008). The investment objective of SWFs differs, while some SWFs have a sole objective, majority of SWFs have hybrid objectives to achieve. For instance, Nigeria Sovereign Investment Authority set out three objectives its desire to achieve Stabilization, intergenerational fund transfer and infrastructural development. Of the initial $1bn, 85 percent of the funds will be distributed among the three windows with an initial 15 percent or $150 million remaining unallocated, to be assigned to any of the three funds as needed in the future. The funds will be invested in various securities. The Stabilization Fund was allocated an initial 20 percent; while 32.5 percent each went to the Future Generation and the Nigeria Infrastructure funds (Vanguard, 2013).

In another dimension, SWF can be categorized into two- *commodities and non-commodities.* The difference between the two categories is how the fund is been financed. As its name implies, commodities SWFs are funded by commodity exports that are either owned or taxed by the government (Truman, 2014:2). Majority of these commodities SWF are derived from natural resources with Oil and Gas dominating. The establishment of the Nigeria SWF is in consonance with the current international best practices specifically among the oil producing countries. Resource rich countries used the SWFs to save revenue accrued from the natural resources and invest the revenue in other sectors of the economy, thereby diversifying the economy and solving the problem of the "resources curse" that is mostly identified with countries with abundance natural resources (WBG, 2014: 6). Examples of commodities SWF (oil and gas) are abound, Norway Government Pension Fund-Global established in 1990 with the highest assets value amongst the SWFs totally $838billion, closely followed is Abu Dhabi Investment Authority that came into inception in 1976 with $773billion., Nigeria Sovereign Investment Authority with $1.5 billion, Kuwait, Saudi-Arabia, Qatar, and a lot of others SWFs having a significant share. (SWF institute online, 2013, WBG, 2014: 6, Truman, 2014:2).

In their submission, (Perry and Hamphill, 2010: 596) observed that, 48% of the sources of funds for SWFs are from Hydrocarbon and other related resources (oil and Natural Gas). While all natural resources accounted for 56% of the funds. Non commodity SWFs are typically established through transfers of assets from official foreign exchange reserves. Large balance-of payments surpluses have enabled non commodity exporters to transfer "excess" foreign exchange reserves to standalone investment funds that can be managed for higher returns with China having the lion share totalling $1319.17 billion (SWF institute online, 2013). Today, they are growing rapidly in both number and size. But, the actual size of the funds is a subject of controversy among scholars due mainly to the opaque nature of some SWFs. The Sovereign Wealth Fund Institute (SWFI, 2013) put the total of the fund as $6.3 trillion (as at march 2014) and a projection of $10- 15 trillion by 2015(Gasparro and Pagano, 2010:1, Truman, 2010:1 and Triki and Faye, 2011:4).

Sovereign Wealth Fund in Nigeria: Issues and Challenges

Benjamin J. Cohen argued over two decades ago that 'high finance can no longer be kept separate from high politics (Monk, 2009; 451). Sovereign Wealth Funds have generated high controversy both domestically and globally. The issues being raised against SWFs domestically mostly political, issue of legality and transparency of such funds. On the home front, the funds has been argued to have failed the constitutional provisions with the state Governors been the major opponents of the funds. Nigeria is confronted with the problems of revenue allocation and fiscal adjustment. The face-off between the federal and states government concerning “special funds” is a clash of interest. States depend heavily on the federal allocation for their source of revenue, with larger percentage coming from oil, which also, is the sole source of finance for the federal government controlled “special funds”. The federal government decision to save from oil revenue is always been received with distrust on the part of the states government and a move that will reduce their share from the federal allocation.

Nigeria returned to democracy in 1999, and the National Assembly continued the preexisting military decree for revenue-sharing based on the distribution of 48.50%, federal government, 24 %, state governments, 20% local government councils (LGC), and 7.5% special funds. However, in April 2002 verdict of *Attorney General, Ogun & Others vs. Attorney General, Federation*, and the Nigerian Supreme Court declared it unconstitutional for the federal government to divert revenues from the Federation Account to special funds or entities other than the three tiers of government (Suberu, 2008, 466). This ruling invalidated the federal government’s statutory practice of allocating 7.5 percent of centrally collected revenues to funds for national ecological emergencies and development. Also, the ruling nullified the federal government’s illegal practice of servicing external debts of the federal government directly from the Federation Account before the revenue allocation formula was applied (Suberu, 2008,467).

Special funds in which SWFs is one have become issues of serious contention among the tiers of government in Nigeria. On May 22 2011, the 36 state Governors approached the Supreme Court, asking it to abort plans by the federal government to withdraw $1 billion from the Excess Crude Account to the Nigeria Sovereign Investment Authority. The bone of contention revolves around the question of legality and desirability of such account. On the global scene, the investment of the fund is being received with political suspicion.

The concerns of the opponents of the funds in Nigeria is that they wonder why a country that has yawning infrastructural gap and decaying public institution should start saving its petrodollars rather than use it to develop the country (Board Street Journal, 7 Nov, 2011). Nigeria with a population of 173.6million (2013 est.) and 46.0 %(2010 est.) living below poverty line, 52years life expectancy at birth, 24.6% unemployment rate and 0.5 C02 emission (metric tons per capital) (World Bank Data, 2013). One expects such questions to come up. The Nigerian democratic state is characterized in part by the persistent struggle to control and exploit the office of the state, once obtained political power in a neo patrimonial state like Nigeria is viewed as personal property rather than as an impersonal feature of the state (Medard, 1982, 181). In this perspective, the aim of securing public office is not national service but in order to acquire access to state resources for private gain that public office is perceived as a profit-making enterprise (Medard, 1982:181). However as the "oil high" wore off in the 1980s, the economic signs of the state's rent-seeking behaviour, extravagant wastefulness, and administrative inefficiency were conspicuous. Corruption in Nigeria had crippling economic consequences because it was unorganized, unchecked and diffused; the state's flagrant, "unsupervised" corruption resulted in gross administrative inefficiency (Mecdard, 2007:182).

According to Humphreys and Sandbu, establishing an SWF based on a political-economic rationale by creating a "special fund" serious governments hope to change the political incentives that entice current and future leaders to spend oil windfalls prematurely and inefficiently and that a current leader in an oil-rich country is motivated to overspend unanticipated revenue surpluses when he faces high uncertainty about whether he will retain power in the future and/or if he is uncertain whether his successor will maintain his policies and spending preferences(Humphreys and Sandbu, 2007, 199-209). Rather than smoothing expenditure over time, the incumbent is likely to pursue spending-intensive policies when such policies will increase his prospects of retaining power (Humphreys and Sandbu, 2007, 199-209).

Nigeria practices fiscal federalism as Section 162 of the 1999 Nigerian Constitution requires that all revenue collected by the federation (except for personal income taxes for military, diplomatic officials, and residents of Abuja) be deposited into the Federation Account (Constitution of the Federal Republic of Nigeria, 1999). All funds in the Federation Account must be distributed among the different tiers of government (federal, state and local) according to a revenue allocation formula determined by the National Assembly. The legislature alters the formula based on proposals submitted by the President on the advice of the Revenue Mobilization Allocation and Fiscal Commission (RMAFC); legislative changes to the formula must remain for at least five years (Suberu: 2008: 466 , Constitution of the Federal Republic of Nigeria,) RMAFC is a 45 committee formed from representatives from each of Nigeria's 36 states and the federal capital territory, with a chairman; it monitors the deposits and disbursements from the Federation Account, and determines the appropriate salaries for the military and political officeholders (Constitution of the Federal Republic of Nigeria, 1999).

In his argument, (Suberu 2008, 465) disclosed that at the time of Nigeria's return to democracy in 1999, the National Assembly continued the preexisting military decree for revenue-sharing based on the distribution of 48.50%, federal government, 24 %, state governments, 20% local government councils (LGC), and 7.5% special funds. However, in April 2002 verdict of *Attorney General, Ogun & Ors vs. Attorney General, Federation*, and the Nigerian Supreme Court declared it unconstitutional for the federal government to divert revenues from the Federation Account to special funds or entities other than the three tiers of government (Suberu, 2008, 466). This ruling invalidated the federal government's statutory practice of allocating 7.5 percent of centrally collected revenues to funds for national ecological emergencies and development. Also, the ruling nullified the federal government's illegal practice of servicing external debts of the federal government directly from the Federation Account before the revenue allocation formula was applied (Suberu, 2008,467).

In subsequent legal cases brought against the federal government by the state governments in 2002, the Supreme Court reinforced the rulings that (1) the Federation Account belonged to all tiers of government,(2) all revenues must be distributed among the three tiers of government, and (3) each government must service its own debt directly from its share of centrally collected revenues (Suberu, 2008, 466-467). In response to the April 2002 ruling, President Obasanjo unconstitutionally altered the revenue allocation formula, however the Supreme Court upheld his action. Through two executive orders in May and July 2002, President Obasanjo assigned the 7.5 percent that was 46 previously allocated to special funds exclusively to the federal government (Suberu, 2008:467). The May 2002 Executive Order designated 56 percent to the federal government, 24 percent state governments, and 20 percent LGCs; the July 2002 Executive Order altered the allocation to 54.68 percent federal government, 24 percent state governments and 20 percent LGCs (Shuaib, 2008:467). The Supreme Court upheld Obasanjo's modification to the revenue allocation based on Section 315(2) of the 1999 Constitution which states that

> *"an appropriate authority may at any time by order make such modifications in the text of any existing law as the appropriate authority considers necessary or expedient to bring that law into conformity with the provisions of this Constitution" (Constitution, 1999).*

In this particular context, the Supreme Court ruled that the federal government and the Obasanjo administration were the appropriate authority to make changes to the revenue allocation principle which is a federal law. The Court's ruling in practice shifted constitutional authority to determine revenue-sharing from the legislature to the executive. In 2004, the finance minister revised the vertical revenue allocation to 52.68 percent federal government, 26.72 states, and 20 percent to the LGCs the revenue allocation has remained in this configuration since then (Suberu, 2008, 467-468). After years of fiscal mismanagement of oil revenues which account for approximately 80 percent of government revenue, Nigeria informally established Excess Crude Account in 2004 despite the supreme court ruling on the status of special funds in 2012, Ngozi Okonjo-Iweala, Nigeria's former minister of finance and coordinator minister of the economy, established both the oil benchmark and the Foreign Excess Crude Account commonly known as the "Excess Crude Account" (ECA) during her first term as finance minister under the second Obasanjo administration (2003-2007). Originally the ECA functioned as a stabilization fund based on an informal political agreement among the three tiers of government rather than with legal backing (Gillies, 2011: 4). In order to give some legal flesh to the ECA the federal government signed into law the fiscal responsibility act of 2007. The 2007 *Fiscal Responsibility Act* sought to create a legal framework for centralized savings that respected the above constitutional requirements. Article 35 states:

> *Where the reference commodity price rises above the predetermined level, the resulting excess proceeds shall be saved. … The savings of each Government in the Federation shall be deposited in a separate account which shall form part of the respective Governments Consolidated Revenue Fund to be maintained at the Central Bank of Nigeria by each Government (FRA, 2011).*

But, the ECA has some inherent deficiencies; it could safely be regarded as an administrative arrangement without any clear legal or statutory framework. The former President, Olusegun Obasanjo unilaterally established it without consultation with, and approval of, the 36 State governors and the National Assembly (Bassey, et al, 2014: 58) Also, the process of accessing the

ECA is not so clear and transparent to the Nigerian people. This has led to some level of abuse and it has hence been labelled as a framework, which fuels corruption and thrives on institutional weakness (Ndanusa, 2012:1).For instance, the ECA has not only been used to pay for non-performing contracts, it is also a ready source for extra budgetary spending which circumvent due process and constitutionalism (Agbaeze and Onwuka**,** 2014:1). The former minister of finance and coordinating minister of the economy, Dr Ngozi Okonjo Iweale frowned at the continue deduction of the ECA and blamed the Governors for the dwindling account. In an attempt to exonerate the federal government mismanaged the ECA, Dr. Ngozi Okonjo-Iweala narrated how money in the account was shared between the federal state, pointed out that the states received a total of 2.92 trillion naira from the ECA between the periods of 2011 and 2014 (Daily Post, 2015).

The above shortcomings notwithstanding, the ECA saved Nigeria from a horrendous economic calamity, from the global financial crises that started due to the crash of subprime mortgage of 2007 to 2010 when crude prices fell from the height of $147 per barrel to $40. It must be noted that, the presence of funds in the ECA that saved the Nigerian government from resorting to borrowings to fund its expenditure during this period (Thisdaylive, 2014). For a Fund to be successful, its balance must be protected from the short-term political pressures to spend (Gillies, 2011:2). The rules establishing the fund must bind the hands of the current leader, and be seen to be binding on the successors as well. In Nigeria, where political power changes frequently, a leader will be more inclined to save if assured that the next leader will also be bound by prudence, the primary shortcoming of the ECA is the failure to provide these kinds of protections and guarantees (Gillies, 2011:2).

In a swift reaction to the depleted ECA, the federal government proposed a reform of the ECA or its total change. In November 2010, Nigeria's National Economic Council an executive body comprised of the vice president, the 36 state governors and the governor of the CBN approved a plan to replace the ECA with Sovereign Wealth Fund Funds with legal backing. The NEC's proposal for an SWF was endorsed by the executive cabinet and introduced into the National Assembly. The change culminated in mid-May 2011 with the signing of the Nigerian Sovereign

Investment Authority (NSIA) Act which was passed by both houses of the legislature and signed into law by President Goodluck Jonathan on May 27, 2011.

However, from May 2011 until about November 2011, the implementation of the NSIA faced serious political and legal opposition from the state governors. In October 2011, over a dozen state governors joined in a law suit to suspend the transfer of US $1 billion, the initial seed money from the ECA to the NSIA, pending the legal ruling against the federal government for withholding from the state's 5.51 trillion naira (US $ 34.7 billion) which accumulated in the ECA between 2004-2007 through crude oil sales, petroleum profits tax and oil royalties (Thisdaylive, 2014).

In order to solve the setback of legality of Nigeria Sovereign Investment, former Acting Governor of Central bank of Nigeria, Dr. Sarah Alade, proposed to the recently concluded national conference of the need to reform the 1999 constitution to accommodate the pressing need of Nigeria Sovereign Funds. However, the supporters of the funds believe that the claim that Nigeria have infrastructural deficit, she shouldn't make such saving is invalid. The argument for saving for the future is further weakened by the fact that the political class and elites in Nigeria have for years, squandered and mismanaged the country's oil wealth, neglecting infrastructural development, even when they are provided for the annual budgets. Obviously, the establishment of SWF in Nigeria is being trailed by political suspicion. More noticeably, while emphasizing his objection, Governor Babatunde Raji Fashola likened the Sovereign Wealth Fund to;

> *…..the sharing of a family estate in which a top member of the family is dictating to, or indeed, forcing others in the family to save for a rainy day* (The Sun News, 15 Feb, 2013).

Finally, the operation of the SWF in global financial scene has been characterized by distrust, fear and lack of transparency. As Keynes taught years ago that international cash flows are always political (Gilson and Milhaup, 2008:1).As a result, some OECD countries have adopted various protectionist policies against the inflow of SWFs investments. These protectionist policies will however, affect the returns on investment of Nigeria Sovereign Wealth Fund. The move became necessary since the funds are states owned (OECD, 2009). Reddy, 2007:1 argued that the worries is on three counts - financial, political and ideological. Moreover, many dislike the very fact that SWFs are government- owned. Jeffrey Garten, professor of finance at Yale School of Management, makes no secret as to why SWFs pose a big headache:

> *While prudent regulation in selected areas can be justified, the new Zeitgeist is likely to produce too much government intervention, too fast. We can expect less productivity, less innovation and less growth, since governments have many goals that the private sector does not. These include employment generation, income redistribution and the aggrandizement of political power* (Mohan, 2008: 10).

Benefit of SWF to Nigeria

Notwithstanding the controversies surrounding SWFs, various international financial institutions have highlighted the numerous benefits and advantages to the emerging economies especially to Africa countries in general and Nigeria in particular. IMF, (WBG, 2013), AfDB, (OECD, 2011) and SWFI all have identified the following as potentials benefits of SWFs for economic development. First, Nigeria‘s mono-product economy no doubt exposes it to the vagaries of crude oil price volatility in the international commodities market. The SWF is expected to act as a fiscal stabilizer and buffer. With a SWF in place, government budget funding is expected to be more guaranteed as fluctuations in earnings can be smoothened from the economic stabilization component of SWF. This will engender stability in the funding of government long term projects that would otherwise have suffered the negative impact of revenue fluctuation.

Second, the Fund is also expected to facilitate a more efficient allocation of earnings from crude oil by diversifying the country‘s economic base. This will enable other sectors of the economy to grow as economic activities will no longer be concentrated in the petroleum sector. The SWF symbolizes prudent fiscal discipline and potentially will enable the diversification of the country‘s assets. Third, by joining the league of countries with SWFs albeit belatedly, Nigeria‘s standing in the comity of nations is expected to receive enormous boost as the country will be better placed to negotiate effectively in the comity of nations. SWFs have become veritable tools for international diplomacy and relevance, as countries with substantial SWF are treated courteously since withdrawal of their investments could have disastrous consequences on the economies of the host nations. Countries that have been able to use their SWFs as instruments of international diplomacy include China and Russia especially since the recent global economic downturn.

Fourthly, SWFs will ensure intergenerational transfers of resources and ensure that the present generation don't in anyway undermine the growth of next generations and can also serve as infrastructural financing for the growth and development of developing countries. Furthermore, SWFs can be used to finance the post 2015 MDGs development plan. The World Bank has identified the SWFs to be at the core of finance for the post 2015 development plan for the emerging and less developed countries. In addition, SWFs deepening and broadening regional integration. SWFs could place some of their resources in banks throughout the continent to shore up their long term deposits. Given the long-time investment horizon of SWFs, this should help address the scarcity of long term resources at the continent level. Finally and most significantly, SWF will encourage and enhance foreign direct investment. The investment drive of SWFs will serve as a kind of financial redistribution from those economies with significant amount of financial resources to those areas with dearth of financial capabilities.

Institutional Framework of SWF in Nigeria

Since, it is alleged that most of the SWFs lack transparency, accountability, with great influence of government and lack good governance structure, the International Working Group of SWFs in collaboration with International Monetary Fund established the Generally Acceptable Principle and Practice also known as *Santiago Principle 2008* .This move became imperative given the high tension and suspicion that characterized earlier SWFs investment between and among the owners of SWF and the hosts' countries of SWF investment. In addition to the GAPP, each states is required to enact enabling laws to legitimize the fund, ensure maximum accountability, good governance structure, transparency and to be highly independent of government. The Nigeria Sovereign investment Authority bases its rules and conducts on the Santiago principle and the Nigeria Sovereign Investment Act of 2011.

Nigeria Sovereign Investment Act (2011)

The Nigeria Sovereign Investment Act of 2011 can be said to be in accordance with the established principles as stipulated by IMF in the generally acceptable principles and practice

(Santiago Principles). The Act outlines the appointments, tenure, composition and power of the board and that of the governing council. The Act also recognizes the Authority as a legal entity having its own seal i.e. the power to sue and be sued. The Act established the NSIA to receive, manage and invest in a diversified portfolio of medium and long time revenue of federal government, state governments, federal capital territory, local governments and area councils to prepare for the eventual depletion of Nigeria hydrocarbon resources for the development of critical infrastructure in Nigeria that will attract and support foreign investment, economic diversification, growth and job creation in Nigeria.

Article 7 of the Act provides for the Authority the Governing Council which is headed by the President of Federal Republic of Nigeria (who may be represented by the vice-president), and which has other members as follows, each of the state governors, Attorney-General of the federation, the minister in charge of National Planning Commission, Governor of Central Bank of Nigeria, the Chief Economic Adviser to the president, chairman of RMAFC, four 4 representative of private sector, 2 representative of civil society, 2 representative of Nigeria youth and four 4 eminent academics. The Act also provides for the constitution of the Board. Article 25(1) provides for the independence of the board. However, the Act failed to provide for how such independence will be guaranteed.

The NSIA is required to make investments which will provide supplemental stabilization funding based upon specified criteria and at such time as other funds available to the Federation for stabilization need to be supplemented. All funds are to be invested in accordance with the set policies and procedures developed by the Authority. Some of the other functions of the Authority include:

- developing and fostering skills in asset management, investment, operations, risk management and other related areas in addition to developing expertise in infrastructure project management and auditing capabilities in qualified Nigerian personnel in a manner consistent with the overall financial objectives of the Authority;
- implementing best practices with respect to management, independence and accountability, corporate governance, transparency and reporting on performance as

provided in the Act, having due regard as appropriate for the "Santiago Principles'08 or other similar principles or conventions as may be adopted by the Governing Council;

- attracting co-investment from other investors, including strategic investors, sovereign and internationally recognized investment funds and private companies, to enhance the Authority's capital and maximize risk returns; and
- obtaining the best achievable financial returns on all capital and assets of the Authority having regard to factors including: internationally recognized asset allocation and risk management principles and practices; opportunities in the international equity, debt, private equity, real estate, infrastructure, fixed-income securities and all other asset classes generally utilized by best-in-class investment fund.

Santiago Principles (2008)

In the current financial environment, where market confidence is dwindling, the International Monetary Fund (IMF) is working to bolster confidence in cross-border investments. The Working Group on Sovereign Wealth Funds issued the Generally Accepted Principles and Practices (GAPP) on October 11, 2008. The overall goal of these principles is to diminish the negative response the funds have received in the past year, specifically from countries receiving the funds' investments. Since early 2007, sovereign wealth funds have grown in notoriety as new funds emerged in critical countries, and the assets within the funds increased (Truman, 2008:7, Patel el al 2009: 589-590). The state-owned nature of the funds raised concerns, including the lack of transparency, the potential disruption these funds can cause to the markets, and the risk of political influence over investment decisions (Truman, 2008:7, Patel el al 2009: 589-590). The IMF working group drafted GAPP to address these growing concerns.

The GAPP is a negotiated document that reflects several compromises among major sovereign wealth funds in its twenty-four (24) voluntary principles. It establishes a framework for acceptable governance, accountability, and investment practices (Patel el al 2009: 589-590)). The principles address broad concepts regarding the type of legal framework the funds should implement; identify practices of governance to which the sovereign wealth funds should adhere; and place a heavy emphasis on disclosure (particularly regarding the fund's purpose; the relationship between the central government and the fund management; and the fund's procedures and policies on funding, withdrawing, and spending within the fund. (GAPP, 2008).

GAPP also addresses another major concern: political motivation and political involvement within the management of sovereign wealth funds. Rule 19.1 states that sovereign wealth funds should publicly disclose any decisions subject to considerations other than economic or financial (SWFI, 2013). The GAPP has been positively received by sovereign wealth funds, countries receiving investments from the funds, in the market. But there are some reservations and concerns with certain aspects of GAPP. For example, GAPP is strictly voluntary. The IMF will need to establish a group to oversee the continuing conduct of the funds and to tackle any issues that may arise as GAPP is implemented over the coming year (SWFI, 2013). Also, though the principles do require disclosure, there are few requirements for disclosure to the public. The transparency and accountability principles are, therefore, still somewhat weak.

Conclusion

Nigeria followed the footstep of most states with abundance resource (particularly oil) in establishing its own Sovereign Wealth Funds. There has been increase in the number and size of the fund since 2000. The financial crisis of 2007 however, fanned the sudden growth in number and size of Sovereign Wealth Funds. Before that scholars only took a perfunctory glance at the Funds, however, they begun to give the funds attention when it served as sort of last resort to most of the companies in western countries during the last financial crisis. What has, however, boosted the recent drive to establish these funds amongst oil exporting countries is rapidly changing dynamics and volatility of oil market have underscored the need for building material fiscal savings. Consequently, the general justification for these funds is that some share of government revenue derive from the exploitation of a non-renewable resources should be set aside for if this revenue decline such a decline might come from about through fluctuation of prices or depletion of resources or both.

As shown in this study, Nigeria Sovereign Wealth fund has a contestable legal standing which has generated controversy and competing claims between the federal government and state governors. The 1999 constitution of Nigeria requires that all revenues collected by the government of the federation enter the federation account, from which they are then allocated to the three levels of government according to the formula established by the National Assembly. As a result, centralized saving i.e. the saving of revenues prior to their deposit in the federation account has become a source of legal debate, and this controversy may undermine the sustainability of the fund.

One other issue facing the Nigeria Sovereign Investment Authority is the low level of transparency and accountability of the fund as attested to by Bagnall and Truman (2013) progress report on Sovereign Wealth Fund Transparency and Accountability. Our analysis also revealed that all sovereign wealth funds in general continued to be received with political suspicion as a result of problems of transparency and accountability of the funds.

Finally, the study revealed that, notwithstanding the problems facing the fund, it will facilitate economic growth through diversification of the economy from the monolithic source of revenue, encourage regional integration in Africa through cross-border investment and intergeneration transfer of resources for sustainable development

REFERENCES

Agbaeze E. K. and Onwuka I. O (2014) Sovereign Wealth Fund – A Paradigm Shift for Nigeria, *Sky Journal of Business Administration and Management*, Vol. 2(1), pp. 001 – 010 March,

Aiyede, E.R (2009) The Political Economy of Fiscal Federalism and the Dilemma of Constructing a Developmental State in Nigeria, *International Political Science Review*, Vol.30, No.3 pp249-269

Akindele, Olaopa and Obiyan (2002) Fiscal Federalism in Nigeria: A Contemporary Review, *Journal of Social Science, Obafemi Awolowo University, Ile-Ife,* Vol.6 No.3 pp215-235

Arowolo, D. (2011)Fiscal Federalism in Nigeria: Theory and Dimensions, *Afro Asian Journal of Social Sciences* Vol. 2, No. 2.2.pp1-21

Azaino, E. U (2012) Sovereign Wealth Fund: Is It a Panacea to Nigeria's Oil Revenue

Management Problems? *Published in CEPMLP Annual Review* **-** *CAR* Vol.16. No. 1 pp. 01-22

Bagnall, A.E and Truman E.M (2013) Progress on Sovereign Wealth Fund Transparency and Accountability: An Updated SWF Scoreboard, *Policy Brief, Peterson Institute for International Economics,* Number PB 13-19. pp. 1-29

Bassey, A.B et.al. (2014) Excess Crude Account and Sovereign Wealth Fund as Strategic Tools for Sustainable Development in Nigeria, *Journal of Economics and Sustainable Development.* Vol.5, No.2 pp. 57-61

Bu, Q. (2012) China's Sovereign Wealth Funds: Problems or Panacea? *European Corporate Governance Institute,* Stanford Law University, pp. 1-45

Das, D.K (2008) Sovereign Wealth Funds: Assuaging the Exaggerated Anguish about the New Global Financial Players, *Global Economy Journal,* pp. 1-17

Dominquez, K.M.E., Hashimoto, Y., and Ito, T. (2012)International Reserves and the Global Financial Crisis, *Journal of International Economics,* Vol.88. No.1 pp. 388-406

Drezner, D.W (2008) Sovereign Wealth Funds and the (In) security of Global Finance, *Journal of International Affairs,* Vol.68.No.1.pp 115-130

Eboh, E (2010) The Global Finance and Economic Crisis: Distinguishing between the Right and Wrong Lessons for Nigeria, in Eboh, E and Ogbu, O (eds.) *The Global Economics Crisis and Nigeria Talking the Right Lessons Avoiding the Wrong Lessons*, Enugu, African Institute For Applied Economics. Pg. 1- 18

Elson A. (2008) Sovereign Wealth Funds and the International Monetary System, *The Whitehead Journal of Diplomacy and International Relations,* pp. 70-82

Federal Republic of Nigeria, (1999) *Constitution as amended*

Federal Republic of Nigeria, (2007) *Fiscal Responsibility Act*

Federal Republic of Nigeria, (2011) *National Minimum Wage Act*

Federal Republic of Nigeria, (2011) *Nigeria Sovereign Investment Act*

Gasparro, V and Pagano (2010) Sovereign Wealth Funds' Impact on Debt and Equity Markets During the 2007–09, *Financial Analysts Journal*, Vol. 66, No. 3. pp. 92-103

Gelb, A, et. al (2014) Sovereign Wealth Funds and Long Term Development Finance: Risks and Opportunities, *Policy Research working Paper 6779,* WBG, Washington D.C pp. 1- 28

Gillies, A. (2011) Sovereign Wealth Fund requires legal standing, binding rules and Transparency, *Revenue Watch Institute* New York

Gilson, R.J and Milhaupt C.J (2008) Sovereign Wealth Funds and Corporate Governance: A Minimalist Response to the New Mercantilism, *Stanford Law Review*, Vol. 60, No. 5. pp. 1345-1369

Humphreys, M. and Sandbu, M.E (2007) The Political Economy of Natural Resources Funds in Humphreys, M. et al (eds.) *Escaping the Resources Curse,* New York, Columbia University Press. Pg.194-233

International Labour Organization (2012), The Global Crisis, Causes, responses and challenges, Geneva, International Labour Office.pp.1-278

International Monetary Fund (2007) Sovereign Wealth Funds and Reserve Assets: A Statistical Perspective, *IMF Committee on Balance of Payments Statistics Washington, D.C.,*BOPCOM- 07/06.pp.1 – 17

International Monetary Fund (2010)Investment Objectives of Sovereign Wealth Funds—A Shifting Paradigm, *IMF Working Paper,* WP/11/19, Washington D.C, pp.1-17

Jinadu, L.A. (1985) Federalism, the Consociational State, and Ethnic Conflict in Nigeria, *Publius*, Vol. 15, No. 2, pp. 71-100

John, J.D (2011) Is there Really a Resource Curse? A Critical Survey of Theory and Evidence, *Global Governance,* 17 pp. 167-184

Jory, S.R., Perry, M.K., and Hemphill, T.A. (2010) The Role of Sovereign Wealth Funds in Global Financial Intermediation, *Thunderbird International Business Review*Vol. 52 No. 6 pp. 589- 604**.**

Kimmitt, R.M. (2008) Public Footprint in Private Market: Sovereign Wealth Funds in World Economy in World Economy, *foreign Affairs,*Vol. 87, No. 1.pp.119-124, 126-130

Krishnasdas, D. (2013) Sovereign Wealth Funds as Tools of National Strategy: Singapore's Approach, *Centre on Irregular Warfare and Armed Group,* United States Naval War College, Newport, Rhodes Island, pp. 1-42

Mechard, J (1982) The Underdeveloped States in Tropical Africa: Political Clientelism or Neo-Patrimonialism? In Clapham, C (eds.) *Private Patronage and Public Power: Political Clientelism in the Modern State.* London: Frances Pinter Publisher, Pg. 162-192

Mohan, T.T.R (2008) Sovereign Wealth Funds: Western Fears, *Economic and Political Weekly,* Vol. 43, No. 15. pp. 8-12

Monk, A.H.B. (2008) IS CalPERS A Sovereign Wealth Fund? *Centre for Retirement Research,* Boston College, Vol.1No. 8. pp. 1-8

Monk, A. H.B. (2009) Recasting the Sovereign Wealth Fund Debate: Trust, Legitimacy, and Governance,*New Political Economy*, Vol. 14, No. 4,

Musgrave, R.A (1971) Economics of Fiscal Federalism, *Nebraska Journal of Economics and Business,* Vol. 10, No. 4. pp. 3-13

Murray, D (2011) SWFS: Myths and Realities, A Keynote Address delivered to*Global Sovereign Funds Roundtable***,** London, 5 May, pp.1-23

Oates, W.E. (1999) An Essay on Fiscal Federalism, *Journal of Economic Literature,* Vol. 37. No. 3 (Sep., 1999), pp. 1120-1149

Organization for Economic Cooperation and Development (2009) OECD Strategic Response to the Financial and Economic Crisis, Contribution To The Global Effort, pp 1-27

Organization for Economic Cooperation and Development (2011) Sovereign Wealth Funds As Investors in Africa: Opportunities and Risks, *OECD Development Centre Working Paper No.303*

Ojameruaye, E. (2012) *Resolving the Nigeria Sovereign Wealth Fund debacle,* http://www.gamji.com/article9000/NEWS726.htm

Okohomina, S (2007) A Review of the Definition of Federalism, *Nigeria Journal of policy and development,* vol. 5&6 pp. 190-213

Patel, M et.al (2009) International Investment and Development Committee, *The International Lawyer*, Vol. 43, No. 2, International Legal Developments in review, pp. 589-604

Reddy, Y.V (2007) *Forex reserves, stabilization funds and sovereign wealth funds O– Indian perspective* Address by Dr Y V Reddy, former Governor, Reserve Bank of India, at the Golden Jubilee Celebrations of the Foreign Exchange Dealers' Association of India, Mumbai, 8 October.

Ross, M.L. (1997) The Political Economy of the Resources Curse, *World Politics 51* pp. 297-322

Rozanov, A (2005) who holds the Wealth of Nation? *States Street Global Advisors.* Pp. 1-5

Sovereign Wealth Lab (2011) Follow the Money: Sovereign Wealth Fund Annual Report 2011, *Paolo Baffi Centre of Central Banking and Financial Regulation* at Università Commerciale Luigi Bocconi, pp.1-58

Suberu, R.T. (2008) The Supreme Court and Federalism in Nigeria. *Journal of Modern African Studies*, 46(3), p.451-485.

Triki, T and Faye, I (2011) Africa's Quest for Development: Can Sovereign Wealth Funds help? *Africa Development Bank Group Working Paper Series*, No 142, December

Truman, E.M. (2007) Sovereign Wealth Funds: The Need for Greater Transparency and Accountability. *Policy Brief: Peterson Institute for International Economics,* PB07-6, Washington D.C.

Truman, E.M (2010) Sovereign Wealth Funds: Threat or Salvation? *Peterson Institute for International Economics, Policy Brief No.* PB08-3, Washington DC.

Yakub, M.U (2011) Nigeria Sovereign Wealth (SWF); Lessons from Existing SWF,*Bullion,* A publication of Central Bank of Nigeria, Vol. 35. No1. pp. 18-22

WBG, (2013) *Finance for Development Post 2015*. Pp.1-54

Newspaper and Magazine

Board Street Journal, *The Politics of SWF,* 7 November, pp1-57

Daily Post, 25 May, 2015

Leadership, 20 September 2013

Leadership, 11 February, 2014

NBF News, 31 October, 2011

Nigeria Tribune, 30 Sept, 2014

PM News, 2 Nov, 2011

Thisdaylive, 25 Nov, 2010

Thisdaylive, 31 Oct, 2012
Thisday, 21 Feb, 2013
Thisdaylive, 07 May, 2014
Thisdaylive, 28 Sept, 2014
Sahara Reporter, 18 April, 2012
Vanguard, 19 January, 2011
Vanguard, 21 May, 2013

Online Sources

http://www.ifswf.org
http://www.iwg-swf.org
http://www.iwg-swf.org/pubs/gapplist.htm
http://swfinstitute.org/sovereign-wealth-fund
http://www.oagf.gov.ng