AFRICAN SOVEREIGN WEALTH FUNDS AND GOVERNMENT INFLUENCE: A CLOG IN THE WHEEL OF ECONOMIC DEVELOPMENT*

Abstract

Sovereign Wealth Funds have in recent times gained unprecedented popularity largely because of the role it has come to play as the engine of economic development. In fact, every resource rich African country now wants to establish a SWF or some sort of fund to manage their surplus revenue. Although this appears to be bold and commendable step, it is imperative that caution should not be thrown to the wind in a bid to establish a wealth fund especially in countries with weak governance and institutions. Given that SWFs are creation of the government and some resource rich African countries have government that are at best opaque in their administration there are concerns how these funds will be accurately and prudently managed to benefit their economy and welfare of the citizen. This paper examines the role of African SWFs as the engine of development, the negative impacts of political interference in the management of some African SWFs, some African SWFs management skills. It finally concludes and provides some recommendations.

Keywords: Sovereign Wealth Funds, Africa, Government Influence, Economic Development, Clog in the Wheel

1. Introduction

The concept of Sovereign Wealth Fund came to the fore at about more than 60 years when the Kuwait Investment Authority and Kiribati Revenue Equalization Reserve Fund were established to invest surplus government funds. After more than fifty years of existence, SWFs attracted attention in 2005 when the term "Sovereign Wealth Fund" was coined.[1] The phenomena of SWFs are very complex. In principle they are special investment vehicles with long term horizons, created or owned by a sovereign State[2] They can be said to be pools of assets owned and managed by the government directly or indirectly to achieve national objective[3] They belong to the family of Foreign Government Controlled Investors (FGCI) which includes similar public entities like State Owned Enterprises (SOE)[4]. SWFs are however a non-homogeneous category with varied and multiple possible purposes. According to Andrew Rozanor[5], he defined Sovereign Wealth Fund as a byproduct of national budget surpluses, accumulated over the years due to favourable macroeconomic, trade, fiscal positions, coupled with long term budget planning and spending restraint.

The recent discovery of oil, gas and other minerals in some African countries has intensified the spectacular growth of SWFs and has affirmed its role as the engine of development. African resource rich countries believe that they can develop their economy from the proceeds of their resource wealth. The management of these proceeds is a determining factor in Africa's journey to economic development. Setting up SWFs appears to be a bold step in the right direction. Majority of African SWFs have commodity exports as the major sources of funding. We have the likes of Nigeria, Libya, Botswana, and Angola in this category. However, SWFs are not limited to countries with resource revenues, other countries with no natural resources such as the likes of China, Hong Kong, Singapore have established same to manage their balance of payment surplus. Properly managed Sovereign Wealth Funds are powerful tool to accelerate development and prosperity. SWFs offer a tremendous opportunity for sustainable development in Africa. The role of Sovereign Wealth Fund in Africa's

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[1] M Audit: Is Erecting of Barriers against Foreign Sovereign Wealth Funds compatible with International Investment Law society of International Law July 2 2008 P.11

[2] Andrew Razanov: *Who holds the Wealth of Nations State,* Street Global Advisors 2005 p.5

[3] A Blundell – Wignall, J Yerme, U. Wei 'Sovereign Wealth and Pension Fund Issues'. OECD Working Paper on Insurance and Private Pension N014, OECO Publishing 2008 p.6

[4] F Bassan: *The Law of Sovereign Wealth Funds* Edward Elgar publishing Inc. Cheltenham,UK .2011 p.9

[5] A. Rozanov : *Who holds the wealth of Nations op cit.*

development in concerned about setting up funds to support strategic economic projects, infrastructure and industrial development which drives productivity, for example, Ghana, Nigeria and Angola have established sub funds within their SWFs to develop infrastructure and drive industrial development and structural transformation. Most African SWFs have an umbrella model of SWFs which covers stabilization funding e.g. Libyan Investment Authority, Ghana SWF, Nigeria Sovereign Investment Authority Senegal FONSIS etc. Infrastructure funding can play a vital role in driving Africa's development. In order to secure intergenerational equity, it is important for SWF to invest in long term assets such as infrastructure whose benefits can be enjoyed across generations.[6] These ensure that underground and finite resources such as oil, gold, copper and other minerals for example are transformed into above ground. Angola's SWF is investing in large infrastructure projects such as deep-water port in Cabinda and power plant[7]. Nigeria's SWF is investing in energy, roads, bridges and water resources while Gabon SWF is investing in ports and railway lines. Economic development can be enhanced by setting down clear and well defined objectives. A lot has been said about its prospect and role in the development. In recent times, there have been major discoveries in many African countries of natural resources such as oil, gas and minerals.

Accordingly, for SWFs to thrive they must invest and the potentials for these investments are enormous. The effectiveness of SWFs in driving economic development can be promoted by setting up clear mandates and rules guiding the Fund. Resource –rich African countries are racing against time to implement a change to the status quo which will elevate their people from poverty and create first class infrastructure that is consistent with the norms of economic development[8]. Across Africa, years of corruption and wastage have widened income disparities and worsened the plight of the poor.

In the past decade, there has been an unprecedented move to develop spending and saving mechanisms which are aimed at increasing the value of money and ensuring inter – generational equity[9]. These mechanisms have strict spending rules and guidelines to allow for optional benefits and are often created alongside "rainy days funds'' as a defense against commodity price decline.[10] These mechanisms mark the genesis of Sovereign Wealth Funds in Africa. African Sovereign Wealth Funds are predominantly driven by stabilization motives and to a lesser extent, by the need to generate higher returns on domestic resources in order to accumulate wealth for future generations.[11]

2. African Sovereign Wealth Funds and political interference

SWFs are created by governments to manage assets on behalf of their citizens. Hence SWFs is thus expected to invest their capital for the benefit of their citizens and citizens have the right to keep their governments accountable on how these funds are managed at least to some extent. Consequently, SWFs have a fiduciary duty to the State, and ultimately to its citizens. Balding[12] opined that only few governments actually ask themselves the question of whether it is legitimate to invest public money for the sake of future generations or to address economic problems. In principle citizens of a country should have a say in what happens to the commodities that belongs to the country and where the revenue obtained by extracting and selling it goes. This appears to be an important factor as citizens have a right to ask and know how investment decisions are made. A good example is the Alaska Permanent Fund that consulted citizens on whether they wish to abolish the fund and receive their per capital share of its assets or whether they prefer to retain the fund. The majority of Alaskans wished to retain the fund as a resource for future generations. The fact that citizens of the home county of a SWF have little say in the management of a SWF is a potential danger.

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[6] S. Hove, 'Sovereign Wealth Funds as driver's of African Development' Quantum Global 6 (2014) http: quantumglobalgroup .com/wp-content/uploads. Accessed on1/10/2017

[7] *Ibid*

[8] M Quartey 'Explaining the Emergence of SWF in Africa. In *Africa's SWF: Demand, Development and Delivery* Chattam house Sept 2014. African Programme Conference. Quantum Global. P.7

[9] *ibid*

[10] *ibid*

[11] *ibid*

[12] C Balding, *Sovereign Wealth Funds The New Intersection of Money and Politics*, Oxford University Press New York 2012 P.18

Modern State owes its citizen certain inalienable rights as well as socio economic rights and obligations for their well being ranging from basic amenities, infrastructure, healthcare services to the citizens right to hold the government accountable over mismanagement of public fund (in this case SWF) after all these funds are set up to contribute to the economic development and standard of living of the citizens. The truth of the matter is that most African democratic constitutions do provide for these rights which are embodied in their various constitutions, unfortunately the dream of making the government accountable for these funds appears to be a mirage under a system which fails to promote and empower its citizens. As SWFs have a fiduciary duty to act in the interest of its citizen, it follows then that respect for human rights as well as an improvement in the standard of living and our environment should be of paramount interest to them. Resource wealth, investments from sovereign funds are unlikely to benefit its citizens unless there is someone, group of persons or a body who are empowered by law to hold the managers of the wealth or funds as the case may be accountable if they misuse or misappropriate it. Otherwise, the same vicious cycle of mismanagement of funds and corruption will continue to be a regular occurrence over and over and the citizens will be the worse for it. African resource rich States have a long way to go in their journey to manage a Sovereign Wealth Fund that has the potential of transporting its economy to the path of growth and development. Citizens should be aware of the existence of the SWFs of their country, have a say in their investment objectives and benefit from its profit in their own life time. This would increase the perceived legitimacy of a SWF in its own country. SWFs should serve its citizens as this would give SWFs more legitimacy. They can do this by investing domestically. Cummine[13]believes that the refusal of most SWFs to issue dividends might be the consequence of a desire by SWF managers to preserve maximum control over the fund as issuing dividend is likely to heighten citizen awareness of the existence and the operations of the fund. SWFs are controlled by government or government related entity. Countries have taken different approaches to the relationship between Sovereign Wealth Fund and government. The reality is that government own SWFs, government are political organization and it is naive to pretend that they are not.[14] The relationship which exists between the government and SWFs are complex.

Whether by legislating control on the investment process, by dictating objectives or by indirect means through appointing board members, governments have retained a corporate governance interest in their Sovereign funds. Russia manages its fund out of the Ministry of Finance, Saudi Arabia from Central Bank, China, Singapore and Abu Dhabi are set up as independent corporations. By separating the government's power of the purse from SWFs the State is indicating its interest in pursuing more commercial and financial objectives. This does not mean that political interference does not take place but that governments have recognized the danger and have worked to reduce its influence. With reference to mismanagement of Funds, a number of countries have established SWFs only to squander and liquidate the resources that have been set aside under short –term political pressures, examples are ; Ecuador 's Stabilization Fund, Nigeria Excess Crude Oil Account, SWF of Chad and Papua Guinea .The circumstances of each country differs, but the common thread is that political pressures led to the dissolution of the Fund. Accordingly, because of political interference in the management of African SWFs, they suffer from a lot of governance values. Notable African SWFs with management problems due to political and government interference can be seen in the case of Libya, Angola and Nigeria. The Libyan Investment Authority has suffered from poor management and political interference. The LIA has also been subject of political problems. For a time, there were two claimants to the chairmanship of the Fund. This saga speaks to the government quagmire in the Sovereign Wealth Fund of countries where the rule of law is weak. There is no doubt that it was lack of transparency that contributed to governmental interference that made Libya SWF so susceptible to manipulation. During Gaddafi's four decade reign, opacity dominated the country's petroleum funds allowing corruption to thrive patronage. Family links and political influence were more apt than institutionalized, competence – based

[13] A Cummine 'Overcoming dividend skepticism; Why the world 's Sovereign Wealth Fund are not paying basic income dividends' University of Oxford in Basic Income Studies, *De Gruyter,* Vol 6 (1) 2011 P.18

[14] *ibid*

investment decision making.[15] Hence the fund was often manipulated into investing billions of U.S dollars in risky assets, managed by political friends or allies of the reign. There is no doubt that LIA‘s relationship with the Gaddafi regime has been detrimental to the governance of LIA which consequently culminated to the freezing of some of the LIA assets by the United Nations.

Angola SWF, the Fundo Soberano de Angola (FSDEA), was not spared in this political interference web. The $5 billion Sovereign Wealth Fund has been embroiled in a dispute with its former boss, ex-president's son Jose Filomeno dos Santos and Swiss based assets manager contracted to invest money for the fund. Jose de Santos has also been accused by Angolan prosecutors of participating in an attempted fraud of $500 million against the Central Bank. There were reports that a Swiss –Angolan national Jean Claude Bastos de Moralis[16] made huge profit from sale of oil revenues in Angola. To do so he established a highly complex network of shell companies. Zenu Santos became the Fund's chairman in 2013. The FSDEA, under Zenu, usually awards the management of approximately 85% of the fund's endowment to investment management group Quantum Global. The contract was issued without a competitive tender to Quantum controlled by Jean-Claude Bastos de moralis,[17] (Bastor) Swiss – Angolan national known as a close associate of Zenu.[18] His long-standing relationship with the son of a former Angola president who was in charge of the fund likewise raises certain questions. Documents from the paradise papers suggest Bastos will profit from multiple investments of the Sovereign Wealth Fund as a private business man. These includes planned deep seaport in Cabinda, the exclave from where Angola derives most of its oil. The Angola Sovereign Fund has allocated $180million to the project alone. Many of the profits are expected to find their way into Bastos bank account after all he owns almost three – quarters of the port.

Corruption in Angola is embedded in every state and economy. This has created a false sense of security in politicians that use it to hold unto power rather than be accountable to democratic procedures. During dos Santos three and half decade reign contracts worth over $14 billion were awarded between 2006 - 2016 by dos Santos to companies owned by family members[19] The story of FSDEA in Angola shows that establishing a fund linked closely to the incumbent political party and president creates an inherent political risk.[20]However, there appears to be a shiny light at the end of the tunnel as the present new administration in Angola, Joao Lourenco has made some clear steps towards accomplishing his stated goals of tackling corruption and money laundering. Lourenco has supervised the development of a legal framework through which authorities in Angola can tackle corruption more effectively and enable them to recover assets stolen from the State Fund. So far $2.3 billion in financial assets and $1 billion in physical assets have been recovered from the Sovereign Wealth Fund. In the case of Nigeria SWF, the extent of political interference can be seen in the management of Excess Crude Account which is a special account in which oil revenue above a base amount derived from a defined benchmark price are deposited. The account was established in 2004 and its objective is primarily to protect planned budget against shortfalls due to volatile crude oil prices. By establishing this account, the government intends to insulate the Nigeria economy from external shocks (negative price shocks).

However, after an encouraging start, the Excess Crude Account fell short of its expectations. Accordingly, the absence of adequate structures and exact objectives besides saving wind fall proceeds caused the ECA to become "a black hole" into which funds disappeared. The Nigeria Constitution never anticipated the need for ECA and if it did, there was no clear demarcation between the Federation

[15] D. Sejko, D. Birkelt :When United Nations Sanctions impact International Financial Governance: lessons from the Libyan Sovereign Wealth Fund. *American University International Law Review* Article 4 Volume 34 issue 2 2018.p.378

[16] Popularly known as Bastos and close associate of Zenu son of former Angola President.

[17]Bastos was already a convicted criminal. A swiss court found him guilty in 2011 of repeated criminal mismanagement of companies by illegally diverting funds that he has been given to manage on behalf of others.

[18] Jose Filomeno de Sousa dos Santos (Zenu) who was the chairman of Angola SWF till 2019 when he was removed by the new administration of Joao Lourenco.

[19]J Pearce,R Soares de Olivera ,Angola's elections and the politics of presidential Succession, *African Affairs*,117 (466) https//academic.oup.com/afraf/article/117/4793719 Jan. 2018

[20] C. Markowitz:Sovereign Wealth Fund in Africa. Taking stock and looking forward. Occasional paper 30, 4 Jan. 2020 p.14

account and Federal Government access to the fund. For a fund to be successful its balance must be protected from short term political pressures to spend. The rules establishing the fund must bind the hands of the current leader and be seen to be binding on the successor as well.[21] In Nigeria where political changes frequently a leader will be more inclined to save if assured that his successor will be bound by prudence.[22]Unfortunately the ECA failed to provide this kind of protections and guarantees. The political pressures which drove this underperformance will always be present given the fluid and competitive nature of Nigerian politics, savings will remain vulnerable. The rapid depletion of ECA prompted the establishment of Nigeria Sovereign Investment Authority Act creating the Nigeria Sovereign Wealth Fund. The Act established the Nigeria Sovereign Investment Authority with the objective of building a saving base for the Nigerian people, enhancing the development of Nigeria infrastructure and providing stabilization support in time of economic stress.

Consequently, from the over view of these three African SWFs a common thread emerges which is the degree and level of political and government interference in the management of the fund which made the Fund susceptible to abuse and also affected how investments were made as well as how funds were allocated to the various sectors. There are basically more than six African members of the IFSWF e g Angola, Libya, Nigeria, Botswana, Morocco, Rwanda. The pertinent question is should there be concern about them having similar governance issues?[23] Concerns remains about the potential interference in the affairs of the other African SWF notably Nigeria. Will Nigerian government be able to interfere with the governance of NSIA like past ones did with the Excess Crude Account and to allocate more funds than are allowed in its investment policy statement? The recent accusation of mismanaging the country's Excess Crude Account especially the $1 billion reportedly spent on military equipment levied against the federal government under President Mohammadu Buhari has raised a lot of eye brows on the propriety or otherwise of the Fund management. The Federal government in 2020 withdrew the sum of $150 million from the stabilization branch of its SWF to assist government in addressing the emerging fiscal risks due to the corona-virus pandemic and the recent decline in government revenue. The point is that if the government plans to use the funds from the SWF to tackle Covid-19 related crises, spending should be done through the government's budget process. It should be subject to the same scrutiny and accountability as any other government spending. Fiscal responsibility is designed to provide the space to draw down on savings or borrow during periods of crisis such as now. Nigeria is among some African countries that had a large SWF that officials emptied during the good years. These countries are now facing tough decisions as the Covid-19 pandemic spread.

3. Best Practices: Promoting the Effectiveness of Sovereign Wealth Fund Practices and Santiago Principles.

The recent spectacular rise and growth of SWF, has given rise to a list of criticisms regarding the activities of SWF. These fears and criticisms appeared to be fuelled by lack of transparency for which SWFs are known for. In order to allay the fears of host countries, the International Working Group of Sovereign Wealth Fund (IWG-SWF) in conjunction with the International Monetary Fund proposed a set of 24 principle (known as Santiago principle) to provide guidance to the management of SWFs. These principles are voluntary set of practices in which SWFs support and have agreed to abide by in order to guide the management of their SWFs in order bring economic and financial benefits to the host countries, recipient country and financial system at large. There is serious problem with the issue of transparency in African funds. Although, some funds have implemented the Santiago principles, supported efforts to promote free capital flows and cross-border investment however these signatory countries rarely disclose information about the activities of their SWFs, little is known about the structure of African SWF. In fact, the largest African SWF (Libya) has a very low transparency.

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[21] A .Gilies, *A Sovereign Wealth Fund requires Legal Standing, Binding Rules and Transparency'* 2010 Revenue Watch Institute, Centre for the study of Economics for Africa (CSEA) p.2

[22] *ibid*

[23] It appears that a lot of similarities can be seen in the case of Libya and Angola SWF. In both cases the funds was more or less being run by one family and that contributed to the plight of the citizens.

Home countries of SWF and SWF themselves can enhance confidence by taking steps to strengthen transparency and governance in their SWFs. SWFs need to demonstrate that they are properly governed, operated with minimal state control and do not invest strategically or with ulterior motive. Another important feature of the Santiago principles is their voluntary nature. SWFs sign up because they believe in using the principles and practices to guide the management of their funds. Despite the fact that several African SWFs have already subscribed to the Santiago principles notably Nigeria, Angola, Libya, Morocco, Botswana, some of their operation remains opaque. A brief insight on their mode of operation will shed more light on the issue.

Libya Investment Authority: One of the largest African SWF forms part of the International Forum of Sovereign Wealth Funds (IWG-SWF) a group of SWFs whose members endorse the Santiago principles. Endorsing Santiago principles is a pre-condition for SWFs seeking to join the IFSWF and LIA's leadership pledged to improve the funds transparency. However, despite endorsing the principles, LIA has never complied with the provisions of the Santiago principles. Assessment made in 2016 by the Natural Resource Governance Institute (NRGI) as well as assessment of the IFSWF already showed that LIA is not in compliance with the Santiago principles.[24]Similarly, United Nations Security Council has often echoed this call for compliance. It is noteworthy that in Resolution 2009, the UNSC requested the IMF and World Bank to assist Libyan government with steps to be taken to ensure a system of transparency and accountability with respect to funds held by LIA.[25] Despite the UNSC interventions, LIA has not collaborated with the IMF since 2013.[26] The last IMF country report on LIA's situation clearly shows that LIA lacks a clear definition of objectives and rules governing the accumulation, management and use of its resources. LIA also needs to improve transparency and accountability in its governance, consistent with international good practices.[27] The IMF's suggestion is a clear reference to the application of the Santiago principles which should develop the transparency and good practice governance standards for SWFs. However, in 2016, LIA started again to collaborate with NRGI to improve transparency and good governance although the outcome of such collaboration is still unknown.

Fundo Soberano De Angola: Angola-SWF is a sovereign Investment Fund managed by an autonomous Executive Committee. The Fund's organizational structure ensures that adequate review mechanisms are in place through the adoption of good practice at the global level such as appointment of independent auditors. The FSDEA is meant to play an important role in promoting Angola's social and economic development and generating wealth for its people. The FDEA is a member of the international forum of SWF and therefore has signed up to the Santiago principles on best practice in managing Sovereign Wealth Fund. In fact, the fund was rated by the SWF institute in February 2015 with a ranking of eight out of ten. However, despite such stellar record on transparency, allegations of serious financial malfeasance emerged in 2017, their previous impressive records have come under serious scrutiny after the funds new leadership alleged serious conflict of interest, money laundering and misappropriation. These revelation calls into question the integrity of audits, records and disclosures which had before now positioned Angola's fund as one of the most transparent funds. Contrary to the earlier assumption that FSDEA is highly compliant with the Santiago principles it appears that they lack appropriate rules governing their investments. Their investment mandate is vague without a clear separation of objectives. In this case the fund was more likely created to validate these investments than to achieve macroeconomic or development objectives. These factors all created a

[24] D. Sejko, D. Birkelt, When United Nations Sanctions impact International Financial Governance: lessons from the Libyan Sovereign Wealth Fund. *American University International Law Review* Article 4 Volume 34 Issue 2 2018. p.298

[25] Ay – Gayed, New Libyan oil wealth fund chief talks Reform Transparency National Resource Governance Institute September 30, 2016 https:// www. resource Governance. Org/blog/new-Libya investment authority. Chief talks-house cleanup organization. Mandate stating the NRGI determined that the LIA met only four of the sixteen regulatory standards, thus concluding 'the LIA is non-compliant with the Santiago principles'

[26] IMF, list of IMF member countries with delay in completion of Article IV consultations or mandatory financial stability over 18 months at 2 June 2018. Htt://www.imf.org/en /publications/policy-papers/issues/2018/06/28 list of IMF members with delayed article IVS.

[27]IMF Libya: Article IV consultation pg 17, 2013 Report No. 13/150 May 2, 2013. https: //www.imf.org/external/pubs/ft/scr/2013 cr B150 pd Accessed on 14/6/20

scenario ripe for loopholes and political manipulation.[28] However this new administration under the leadership of president Lourenco appears to have positioned itself in the right path in restructuring of FSDEA governance and accountability which will help refocus the fund to its objective.

Nigeria: On 27 May 2011, the president signed the Nigeria Sovereign Investment Authority Act into law, creating the NSIA and authorizing the establishment of the three ring fenced funds which are jointly owned by the three tiers of government. As part of its mandate, NSIA Act requires that the authority incorporates international best practices into its policies and operation. Amongst such international practice are the Santiago principles. The NSIA has been hailed for its governance structure and transparency over financial performance despite these best recommendations. The provision of NSIA fell short of the Santiago Principle in certain aspect. The idea that NSIA was fashioned as a national fund and is managed for the benefit of all with the three level of government as representation at their different levels left much to be desired especially in the governing board. Because African countries need sustainable solutions, an approach that promotes a hand up rather than a handout should be adopted. Social impact investments are investments in a diverse range of enterprises and projects largely in poor rural area that make instant tangible social impact. Rural areas outside major cities are rarely recipients of benevolent fund. Social impact investments support economic growth in small communities, they contribute to higher standards of living, widen access to basic services. However, it is noteworthy that NSIA did not include the local government council, the third tier of government in the governing body. Under the Santiago principles, the governing body are required to act in the best interest of the SWF with a clear mandate and authority to carry out its functions.[29] One thus wonders how the local government council which is not part of the governing body and are not represented would be able to have their interest protected in the discharge of the Sovereign Wealth fund mandate. There is no doubt that local government council are closer to the people at the rural area and their inclusion in the governing body is imperative for any social impact investment to be felt. Following the guideline in the Santiago principle, the fate of the Local Government Council rests much on the decision of the governing body (of which they are not part of) especially the SWF investment policy which should be consistent with the investment strategy set by the owner or the governing body.[30]Despite NSIA encouraging start with it appears the NSIA is gradually being drawn to the same vagaries of problem that characterized Excess Crude Assess which it sought to replace. There is no doubt that the participation of the various levels of government from the federal to state and local government will be useful in ensuring that the management of the fund is both transparent and gives the various level of government a feeling of being involved in the fund’s management. This will go a long way to give legitimacy and a sense of belonging and participation that the idea behind the fund is an all inclusive one.

The recent ranking of the SWF by the IMF as the second worst in the world has brought SWF once again to the attention of the public. This came with IMF pointing corruption as the bane of the country’s problem. Consequently, as the Nigeria Sovereign Investment Authorities continues to make progress in the management of the SWF, it is important that the various issues concerning the management and the governance of the fund be put in perspectives.

Botswana: The Pula Fund of Botswana was established in 1994 and was subsequently reestablished by the Bank of Botswana Act of 1996. It serves as a savings and short-term stabilization fund. The fund is managed by the Board of Bank of Botswana and the board determines the general policies, terms and condition for its investment.[31] Botswana’s successful management of its resources was made possible by the institutions it put in place. Although the existence of sustainable fiscal rules were necessary, it was not sufficient for Botswana responsible management of its diamond revenue. Botswana success has been largely attributed to its stable political system and its culture of good governance in the form of its legitimate and accountable government. For Botswana, the self-imposed fiscal rules have permitted the government to limit the use of diamond revenue. For more than 25 years of its establishment the Pula fund has not ran into any major scandals and on aggregate has invested responsibly and conservatively.[32] Botswana is currently rated A2 by Moody’s the highest rating for an African country and Moody cites the Pula fund as one of the key reasons

[28] C. Markowitz: *Sovereign Wealth Fund in Africa. Taking Stock and Looking Forward*. Occasional paper 304 Jan. 2020
[29] GAPP 8
[30] Ibid
[31] IMF Macroeconomic Policy Frameworks for resource Rich countries – background paper 1 supplement 1,August 2021
[32] C Markowitz: Sovereign Wealth Fund in Africa. Taking stock and looking forward. Occasional paper 30, 4 Jan. 2020 p.14

for Botswana fiscal prudence.[33] Pula fund of Botswana is among the founding members of the International Forum of Sovereign Wealth Fund (IFSWF) and was among the first African state to endorse the Santiago principle. However, because Pula fund is not governed by strict deposit or withdrawal rules instead deposits are determined by the size of foreign exchange in floors and size of fiscal surplus, they may need to seek legislation to limit access to its fund. Accordingly, there need to be a limit to the regular dip into the Pula fund especially now when Botswana's diamond revenue are likely to fall due to the impact of corona virus.

Although most resource rich African countries establish SWF to enable them manage their resource wealth. It is not an automatic remedy for problem facing resource rich countries. Poorly made investment decisions, weak governance institution are clear risks. Those designing funds in countries with weak governance and institutions should take these features into account lest the same feature that were the rationale for setting up the fund end up undermining the fund. The growth of these SWFs in Africa is related and dependent on the rapid accumulation of foreign exchange reserve since 2000. Consequently, with the drop in oil prices, high uncertainty surrounds the sustainability of these reserves and the growth of these newly created SWFs.[34]

4. Conclusion and Recommendations

Resource rich- African countries have seen significant growth rates over the past few years driven by substantial commodity incomes. This has indeed prompted African governments to consider setting up SWFs to save for the rainy day. The successes of some SWFs are attributed to their strong governance framework and their independence from political interference. Governance challenges of resource rich countries call for ensuring a high degree of transparency and accountability in the exploration of such resources. It is critical to develop a strong institutional framework to manage these resources including good management of the financial assess kept in sovereign Wealth Funds and to ensure that proceeds are appropriately spent. The GAPP is formulated broadly enough so that the underlying principles and practices can be accommodated in different institutional, constitutional and legal setting in the various African countries. It can be concluded that the objectives of the SWF is consistent with the principle of sustainable development and the sovereignty of people over their natural resources. The establishment of a SWF can promote the respect of such principle of sustainable growth and economic development only if and only if the state-owned investment vehicles are fashioned in such a way as to meet the twin standard of transparency and accountability.

The landscape of African SWF is growing rapidly some of the funds are clearly part of a broader natural resource management strategy. There is clearly serious need for improving institutional and governance arrangement. The success of any SWF depends largely on the governance and management as well as the role played by the governing body. It is thus recommended that African SWF should limit the extent of their political interference as it relates to the management of the funds. The composition of the governing council should be made independent of the government control and potential conflict of interest. Thus without that independence, a SWF runs the risk of being perceived as a vehicle that could be used by a government for non-commercial investments. The success of some SWFs has been attributed to their strong governance structure. As investments form the core of sustainable economic growth and development, attention should be focused on developing more attractive framework for SWFs as well as encouraging them to invest whether (abroad or domestically) directly in sectors that will address Africa's development goals. The focus of SWFs on local development reinforces the operational management challenges of the fund since it involves a coordinated strategy between the fund manager, state and institutional players dedicated to development. Countries should develop frameworks that limit discretion given the high risk of abuse and allow for heavy scrutiny. The sheer size of resource proceeds associated with natural resources demands strong political, legal, and economic institutional framework.

[33]Moody investors service: moody's affirms Botswana A2 rating. Outlook stable: 27 April 2018 https//www.moodys com/research moody affirms. Botswana A2

[34] M. Aoun, Q Boulanger. *The new challenges of oil based sovereign Wealth Funds*. French institute of International Relations 2015 OCP Policy Centre.p.12