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Sovereign wealth fund (SWF): a tool for diversifying Nigeria's emerging economy

Abstract

Sovereign Wealth Fund (SWF) has continued to receive increasing global attention especially since after the last widespread financial crisis of 2008-2009.This study therefore attempted to understudy the phenomenon in the context of its usefulness as a tool for diversifying the economic horizon of some emerging economies like Nigeria. Adopting a qualitative approach to study the concept's operation, drawbacks and benefits, the study found out that a sovereign wealth fund, when instituted and properly managed, can be used to stabilize or bail out an economy in distress, widen a country's revenue generation window, provide social security to citizens of a country through pension payments, reduce poverty in society through the payment of periodic dividends, check profligate spending, create a pool of savings upon which the future generation can stand to face future challenges and create an opportunity for mutually beneficial cross pollination of management skills among states that subscribe to the Santiago Principle.

Keywords: sovereign wealth fund (SWF), diversification, emerging economy

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Introduction

Before the discovery of oil in Nigeria in 1956,[1] the country was said to be hugely doing well in agricultural production. It was reckoned for instance that while the northern part of Nigeria was noted for its groundnut pyramids and the east for its oil palm products, the southwest zone was greatly doing well in cocoa and rubber productions. In addition to these and other agricultural products, the country was also said to be richly endowed with other mineral resources like coal, iron ore, tin, natural gas, gold, limestone, uranium, bitumen, kaolin, marble and columbite. Leveraging on these and the abundant human resources found in the country, Nigeria was then and even now seen as a resource rich country whose economy would not take long to become a leading player in world economic affairs. Regrettably, rather than benefiting from these multifaceted resource endowments, the country's economy has continued to remain in bad shape with manifest incapacity to take a leap away from the doldrums. As Ghosh[2] noted, the G20 in-house think tank of the Global Infrastructure Hub, has already estimated a global infrastructure funding gap of $15trillion by the year 2040 with Nigeria housing a huge chunk of this deficit. To change this sad narrative, successive administrations in the country have, over the years, undertaken a number of steps to redirect the country's economy on a sustainable economic trajectory by initiating policies which are all tailored at strengthening and diversifying the Nigerian economy to make it strong as an African regional power and player in global affairs. Such initiatives have taken the form of development plans which according to Uche[3] dates back to the colonial times – beginning with the ten (10) year plan of 1946 to 1956.

Even as it was agreed that all the efforts were geared at putting Nigeria on a sound economic footing, observers argue that sundry factors like misplacement of priorities, poor plan discipline, lack of self-reliance, ineffective executive capacity and public sector inefficiency, technology transfer syndrome, system corruption and inefficacious public/private partnership have all joined hands to make a genuine development path somewhat illusory.[4] It is against this background that at the turn of this new democratic dispensation in Nigeria which started in 1999, the government of Chief Olusegun Obasanjo took the bold initiative of embarking on a new set of programs encapsulated within the National Economic Empowerment and Development Strategy (NEEDS) as an ambitious blueprint to accelerate economic growth and reduce poverty. As a first step to that new dawn, his government wound down the then Petroleum (Special) Trust Fund (PTF) – aiming to free and channel more financial resources into the federation account as a necessary first step for tackling the daunting development challenges facing the country. However, as domestic development priorities kept expanding, governments started looking for ways to increase their natural resource fund (NRF) allocations to domestic programs by setting up dedicated Sovereign Development Funds (SDFs) to support national economic development agenda with Nigeria not being an exception. And so as a precursor to this sovereign development fund, the government of Nigeria created the excess crude account (ECA) to save revenues in excess of the budgetary benchmark price that were generated from the sale of its crude oil. But as Chen[5] noted, the excess crude account was no stranger to conflicts as its operation was dotted with disagreements. There were no records of money-in/money-out, leading officials to express concerns and suspicion about its seeming lack of legal backing, proper structures, and exigent withdrawals. Sequel to this, the account was harassed by a barrage of lawsuits that repeatedly challenged its existence.

Following these unfortunate developments and in tune with global trends, the government of President Goodluck Jonathan, with the support of the National Economic Council (NEC), in 2011 approved a proposal to replace the Excess Crude Account (though already depleted) with a national Sovereign Wealth Fund (SWF), primarily to whittle down the controversies hunting the ECA's legality and to put in place a more robust plan to strengthen the Nigerian economy. This paper is therefore intended to explore the usefulness of the Sovereign Wealth Fund (SWF) initiative as a tool for strengthening and diversify the Nigerian economy in line with other emerging economies.

Conceptual clarifications

Sovereign Wealth Fund (SWF)

A universal definition of a SWF remains elusive in both academic literature and policy discussions. The broadest definitions describe a SWF as a 'special purpose investment funds or arrangement, owned by the general government' or entities 'owned or controlled by the government that hold, manage, or administer assets primarily for medium- to long-term macroeconomic and financial objectives'.[6] The definitions offered by the U.S. Treasury Department will be helpful for discussion purposes. The Department defines a SWF as "a government investment vehicle which is funded by foreign exchange assets, and which manages those assets separately from official reserves of the monetary authorities.[7,8] referred to it as a pool of domestic and international assets which is owned and managed by governments for a variety of financial or economic reasons which include the accumulation and management of reserve assets, stabilization of macro-economic effects and the transfer of wealth across generations. Citing Rosanov,[9] Omosalewa[10] defined the term as "a by-product of national budget surpluses, accumulated over the years due to favorable macroeconomic, trade and fiscal positions, coupled with long term planning and spending restraints and used to insulate the budget and the economy from excess volatility in revenues, helps monetary authorities sterilize unwanted liquidity, build up savings for future generations or use the money for economic and social development.". The Sovereign Wealth Funds Institute (SWFI) defines the term as "state-owned investment fund or entity that is commonly established from balance of payment surpluses, official foreign currency operations, the proceeds of privatization, governmental transfer payments, fiscal surpluses, and/or receipts resulting from resource exports. Makhlouf[11] provided 6 criteria for a fund to be classified as a sovereign wealth fund. They include:

i. It must be state owned.

ii. It must be managed separately from other government funds/ asset.

iii. It must avoid having "explicit pension obligation".

iv. It must invest in a variety of classes of assets.

v. It must direct its investments from the realization of financial returns.

vi. It must commit a significant part of its capital to global investments.

These criteria define sovereign wealth funds based on ownership and usage but what can be learnt from all the definitions is that SWFs, like other endowments, are designed to preserve wealth for future generations. The fund has emerged in countries of all different types, from rich to developing countries, and from social democracies to single-party states. While some have existed for decades, such as the Kuwait Investment Authority (KIA) or the Alaska Permanent Fund, respectively established in 1953 and 1976, others today are still in their infancy, and more are on the drawing board, particularly in Africa.[12] Many are owned by natural resource exporting countries and have long-term objectives, including inter-generational wealth transfer. Traditionally these funds have invested in external assets, especially securities traded in major markets for a number of reasons including sterilization and lack of domestic investment opportunities.[13]

These funds, which manage the foreign assets of national states, have recently emerged as a significant class of global investors with their significant financial size and sustained accumulation big enough to transform them into important market players (Beck and Fidora). The first known Sovereign wealth fund (SWF) was set up in the United States in 1854 through the Texas Permanent School Board to channel funds from natural resources like oil and public lands. The goal was to provide returns that will be used to finance public primary and secondary school education in the state of Texas.[10] Subsequent SWFs have been set up since then with a majority of them set up through revenues from natural resources, especially oil. However, even with this long and rich history, the term did not appear on the world economic and political lexicon until the first decade of the third millennium. Rozanov9 coined the term in order to explain the increasing phenomenon of state-funded investments, set up in order to insulate the economy from revenue volatility and as a savings avenue for future generations.

From these definitions, we know that a Sovereign wealth fund helps a country diversify its revenue streams and devote a portion of its reserves to investing in other sectors and assets. In addition, these funds help an economy invest in well-established corporations outside their domestic markets and this could bring higher returns with lower risks. The fund is simply a mechanism through which countries make investments. It is a pot of money – often derived from oil or other commodities – that is then invested in shares, bonds, properties or other areas of potential growth. Many countries with SWFs have economies that are heavily reliant on one source of income, for example oil revenues in Norway and the Middle East. Investments made through the SWFs are effectively a way for those countries to diversify and become less reliant on a single stream of income. Norway's fund, set up in 1990 to preserve the nation's oil and gas wealth for future generations, is the biggest sovereign fund in the world. With its total value now equivalent to £160,000 for each of Norway's 5.3million people.[14]

Economic diversification

Another term worthy of clarification here is diversification. According to Nwankwo,[15] economic diversification commonly refers to the process of attaining an economy's dependence on several economic activities and products rather than on a few, on several markets for its exports rather than on a few and, on several income sources rather than on a few. On the other hand, Okoroafor[16] defines economic diversification as the process of shifting an economy away from a single income source toward multiple sources from a growing range of sectors and markets. Citing Forneris,[17] Okorafor also listed the various types of economic diversification to include production diversification, export diversification, FDI diversification, financial diversification, fiscal diversification, regional diversification (within a given country or group of countries), job diversification, etc.

In the context of this paper, a diversified economy is one that has a number of different revenue streams and provides a nation with the capacity for sustainable growth because there is non-reliance on one particular type of revenue. Diversification thus provides nations with the security and reliability that they need so that should one economic revenue stream fails, they have several other options for revenue.[18] Diversification (at state level) is propelled by a desire to manage risks. It is a step geared towards reducing the vulnerability of some developing states whose economies are monolithic or with most of their economic activities centered on one or two sectors and with the goal being to attain stability on different aspects of the economy. Diversification is relevant to developing countries and in particular the least developed countries to create jobs and foster structural transformation and economic development and has been recognized in key internationally agreed development goals such as the 2030 Agenda for Sustainable Development, the program of Action for the Least Developed Countries for the Decade; 2011-2020 (Istanbul Program of Action), the Vienna Program of Action for Landlocked Developing Countries for the Decade; 2014-2024 and the Small Island Developing States Accelerated Modalities of Action (Samoa Pathway).[17]

Emerging economy

An emerging economy, emerging market or emerging market economy (EME) is an economic term that was introduced in 1980 by the World Bank economist Antoine van Agtamael to characterize an economy with a middle status between the developing countries and the developed countries,[19] The IMF defined an emerging market economy as one with low to middle per capita income. It is a nation whose economy mimics that of a developed nation but does not fully meet the requirements to be classified as one or an economy that is transiting from a closed or near closed market system to an open market system while developing economic reform programs. An EME rises in local and foreign investments and also carries a great risk for investors as they are not yet stable or proven. Countries, varying in size, that fall into this category are usually considered emerging because of their development and reforms. The term attempts to capture countries that embarked on economic development and reform programs and have begun to open up their markets and "emerge" onto the global scene. They are considered to be fast-growing economies.[20]

Emerging economies are countries that are not as rich as the United States or Canada, but are going through rapid economic growth because of changes in markets, technology, business culture and social practices. In view of their fast pace of growth, emerging economies command attention within the world economic sphere. Such economies have high levels of development powered by rapid industrialization and exceptional rates of growth in three key economic sectors—energy, information technology, and telecommunications. In most cases, agriculture is not the mainstay of such economies because they are seen as industrializing nations that have moved on, the aforementioned features setting them apart from developing economies.

However, in order to test if a country is an emerging economy, the right questions need to be asked and these questions are, 'is the march of progress in the country significantly improving the quality of life of ordinary people? Is it building confidence in the economy? Is it creating possibilities for doing business well? Is it attracting local and foreign investments? Does it have social change possibilities? The foregoing questions must be answered in the affirmative in the first place for an economy to be tagged "emerging. If it is, sustained GNP growth and appreciable real income per capita, as well as progressive institutional change, would be evident.[21] Although there is still no unanimity of understanding on what precisely defines an emerging economy, the four largest emerging economies in the world today are commonly referred to as "the BRIC countries." They are Brazil, Russia, India and China. But in 2018, the following countries were categorized by the IMF as emerging. They include Brazil, Chile, China, Colombia, Hungary, Indonesia, India, Malaysia, Mexico, Peru, Philippines, Poland, Russia, South Africa, Thailand and Turkey. Nigeria is a state that features prominently in current depictions of an 'emerging' African economy owing to its combination of assets and potential as a West African hub. Since returning to democracy in 1999, the country has witnessed significant economic and some political reforms which, along with rising demand for its natural resources, have helped her ignite unprecedented economic growth, reaching nearly 7% during the period 2001–2011.[22] As global investors and business leaders look up to Africa as the next region of transformative economic growth, they are paying increasing attention to Nigeria.

History/Origin of SWFs

Sovereign wealth funds have existed for more than a century, but since 2000, their number and influence has increased dramatically. The first SWFs were non-federal U.S. state funds established in the mid-19th century to fund specific public services. The U.S. state of Texas was thus the first to establish such a scheme, to fund public education. The Permanent School Fund (PSF) was created in 1854 to benefit primary and secondary schools, with the Permanent University Fund (PUF) following in 1876 to benefit universities in the state of Texas.[23] The first SWF established for a sovereign state is the Kuwait Investment Authority (KIA), a commodity SWF created in 1953 from oil revenues before Kuwait gained independence from the United Kingdom. Another early registered SWF is the Revenue Equalization Reserve Fund of Kiribati (former Gilbert Islands). Created in 1956, when the British administration of the Gilbert Islands in Micronesia put a levy on the export of phosphates used in fertilizer production, the fund has since then grown to $520 million.[24]

After the Kiribati initiative, little new activity occurred until three new funds were created in 1976, 1981 and 1990 by the United Arab Emirates; (Abu Dhabi Investment Authority), the government of Singapore; (Singapore's Government Investment Corporation) and the government of Norway; (Norway's Government Pension Fund) respectively. Other countries with heavy dependence on natural reserves and so highly vulnerable to the fluctuations in oil and gas prices that have established SWFs are Qatar and Saudi Arabia. Over the last few decades however, the size and number of SWFs have increased dramatically to include China, Hong Kong, South Africa, Malaysia, Chile, Algeria, Botswana, Brazil, Peru, South Korea, Kazakhstan, Canada, New Zealand, Venezuela, Iran, Brunei, Australia, Russia, Qatar, East Timor, Uganda, Angola, Azerbaijan, Taiwan, Papua New Guinea, Ireland and a host of others.[25-27] According to the Sovereign Wealth Fund Institute (SWFI), there are more than 89 sovereign wealth funds with acumulated assets amounting to nearly $8.5 trillion dollars as of 2020.

Nigeria joined the club in 2011 after the country's National Economic Council approved a plan to replace the Excess Crude Account with a national (SWF). The fund is comprised of three sub-funds with clearly stated objectives, which are the Stabilization Fund (SF), the Future Generations Fund (FGF) and the Nigeria Infrastructure Fund (NIF). The fund took off with an initial seed capital of $1 billion allocated over the three sub funds: The Stabilization Fund (20 percent), the Future Generations Fund (40 percent), and the Infrastructure Fund (40 percent). In 2015, the Nigerian Sovereign Investment Authority (NSIA), managers of the fund, received an additional $250 million from the government (Dixon, 2016). The percentage allocations among the three sub funds were later altered as follows Stabilization fund 20%, Future generation fund 30% and Infrastructure fund 50%.[28,29] In line with its goal of helping to stabilize revenue and insulate the Nigerian economy from shocks, the fund was reported to have released the sum of $150m to the government of

Nigeria in 2020 to help cushion the disturbing effects of the raging Corona virus scourge to the Nigerian economy.[30]

Objectives/goals of sovereign wealth fund

According to Wills, Senbet and Simbanegavi,[8] there are several reasons why resource revenues should be saved in an offshore SWF. However, only three; namely, intergenerational transfer, parking and stabilization have received much attention in the literature. Other strong motives include political accountability – particularly for countries with weak institutions, portfolio diversification and the fear of Dutch disease. Orinola (n.a.) saw the purpose of creating SWFs to be about deploying dedicated state-owned pools of capital across global markets and assets classes in furtherance of a country's strategic, economic and social priorities. In another opinion, Wong[31] said that apart from potential political and strategic motivations, SWFs are typically created in order to achieve any combination of the following goals: macroeconomic stabilization, intergenerational transfers, higher returns, and domestic industrial developments.

What can be deduced from these varied explanations is that each sovereign fund has its own unique reason for creation. Therefore, all funds have their own country-specific objectives. However, notwithstanding these unique objectives, all SWFs have some common objectives which are to:

- Protect & stabilize the budget and the economy from excess volatility in revenues/exports.
- Diversify from non-renewable commodity exports.
- Earn greater returns than on foreign exchange reserves.
- Assist monetary authorities dissipate unwanted liquidity.
- Increase savings for future generations.
- Fund social and economic development.
- Sustain long term capital growth for target countries.
- Further political strategy.

The above specific objectives fall into one or more of what Balin[25] described as four principal reasons of a SWF which are intergenerational fund transfer, income diversification, return on assets and investment promotion. Balin's four reasons translate to economic/revenue stabilization, infrastructure development and savings for the future generation.

A SWF is typically created when governments have budgetary surpluses and have little or no international debt. It is not always possible or desirable to hold this excess liquidity as money or to channel it into immediate consumption. This is especially the case when a country depends on raw material exports like oil, coal or iron ore. In such countries, the main reason for creating a SWF is because of the fluctuations in resource revenue: high volatility of resource prices, unpredictability of extraction, and exhaustibility of resources.

Nigeria has a SWF which is comprised of three sub-funds with clearly stated objectives: These sub funds and their objectives are:

The Stabilization Fund (SF) — to support the budget in times of economic stress, including to hedge against volatile crude oil prices;

The Future Generations Fund (FGF) — to save for future generation of Nigerians; and

The Nigeria Infrastructure Fund (NIF) — to invest and help grow infrastructure in the domestic economy.

According to[32] The Nigerian SWF is expected to generate revenue to meet budget shortfalls in the future, provide dedicated funding for development of infrastructure and keep some savings for future generations, A Stabilization fund is created to reduce the volatility or curtail fluctuations in government revenues, to counter the boom-bust cycles' adverse effect on government spending and the national economy. With regard to infrastructural development, most SWFs are imbued with a mandate to assist in developing the local economy by investing at least a part of their resources in domestic assets – to such an extent that some have referred to them as sovereign development funds.[33] These investments have often been concentrated on physical infrastructure, based on the following motivations: a shortfall in well-functioning physical infrastructure, evidence of a financing gap in the supply and demand for infrastructure-related capital and a belief that investments in infrastructure can generate high financial returns in the future. The mission of development or infrastructure fund is usually to bolster investment in domestic industries andsectors that policymakers believe will promote economic diversification. That is why Lipsky[34] noted that some SWFs also aim explicitly at developing a broader base for economic growth. Developing an efficient and diversified economy reduces the impact of commodity price volatility and helps to prepare the economy for a post-commodity era.

The Future Generations Fund (FGF) is a savings fund that will seek investment in long-term investments and assets to provide savings for future generations. A good example of this type of fund is the Alaska Permanent Fund (APF) which was established in 1976, managed by the Alaska Permanent Fund Corporation (APFC) and which, since 1982, has been paying out dividends in the form of Permanent Fund Dividends (PFD) to all Alaskans each year.[35] Every Alaskan (for the year 2019) was paid $1,606 as dividend from the Alaska permanent fund, which, as at 2019, stood at $64b.[36] In the case of Nigerian SWF, the Investment Policy Statement (IPS) issued by the Board of directors of the NSIA provides that the purpose of the FGF is to preserve and grow the value of assets transferred to it, thereby enabling future generations to benefit from the country's finite oil reserves.[37] The fund is invested on a longterm basis, i.e. an investment horizon of more than 20 years.

Management of SWFs

There is no straight jacket way of managing SWFs all over the world. In practical terms, countries use different approaches to determine the level and dynamics of distributing their resource revenues, foreign exchange reserves and sovereign debts to their SWFs.[25] While some countries have no rules (at least not binding or publicly disclosed rules), others have adopted simple, mechanistic rules akin to the rule-of-thumb measures. Because of this,[38] notes that it has become difficult to criticize SWF practices that may look deeply flawed, when judged in isolation and from an external viewpoint, but which may, in fact, be functional and pragmatically devised. The Central Bank of Nigeria[32] noted that in some jurisdictions, management and operational decisions of SWFs are often centralized within the SWF or the central bank through a board of directors or steering committee. In some places where the SWF is not a separate legal entity, the Minister of Finance or another official may be responsible for setting the specific investment objectives and benchmarks (often with the help of an advisory committee). In places, where the SWF is a separate legal entity, (like in Nigeria) a high ranking official will be

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responsible for making investment decisions directly as a member of the governing body.

In the same vein, lines of reporting do vary from jurisdiction to jurisdiction. For example, SWFs may report either to a supervisory council, the Minister of Finance, to an elected official (President or Governor), or directly to the parliament. However, whatever may be the institutional structure or investment strategies of a sovereign fund, its mission and mandate must be clearly defined in legislation, with distinct lines of accountability and independent oversight. This sets the parameters for the operation and risk appetite of the investment function, while aligning it with its policy objectives. In turn, the investment function requires independence from direct political control. The board should be composed of independent directors that are chosen based on their experience and domain-specific expertise, rather than their personal connections. As no sound governance framework will be complete without a sound disclosure and audit arrangement, transparency on how investment decisions are made and the outcomes of those decisions helps drive the functional efficiency of the sovereign fund as an investment institution. Disclosure helps the sponsor (the State) to monitor the alignment of the operational activities of the fund with its policy objectives. Moreover, disclosure and regular auditing is crucial for building and maintaining public trust and confidence in the mission and policy objective(s) of the sovereign fund or funds.

Based on the allegation that most SWFs lack transparency, accountability, with great influence of government and lack of good governance structures, the International Working Group of SWFs (IWSWFs) in collaboration with the International Monetary Fund (IMF) established, 'A 24 Generally Acceptable Principles and Practice (GAPP)', also known as the 'Santiago Principle, 2008'. This move became necessary given the high tension and suspicion that characterized early SWFs investments between and among the SWF host and recipient countries.

It is to be noted that in addition to the GAPP, each state is required to enact enabling laws to legitimize their fund, ensure maximum accountability, good governance structure, transparency and to attempt to insulate the fund from political control.In keeping with this understanding and other international standards for establishing and managing a SWF, the government of Nigeria established its SWF through an Act known as the Nigerian Sovereign Investment Authority (NSIA) Act, 2011. The Act established the fund and created the Nigerian Sovereign Investment Authority (NSIA) as an independent body charged with the duty to manage the fund by holding, acquiring and disposing assets and suing in its corporate name. The authority is not to be subjected to the direction and control of any person or authority in Nigeria as the Act provides for the establishment of a Governing Council headed by the Head of State. Other members of the governing council include Governors of the 36 states that make up the country, the Ministers of Finance, Justice, National Planning, the Governor of the Central Bank of Nigeria, the Chief Economic Adviser to the President, Chairman of the Revenue Mobilization Allocation and Fiscal Commission, two representatives of the civil society, four eminent academics, and two representatives of the Nigerian youths.

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.[39]

Drawbacks of SWFs

Wong[31] noted that SWFs are raising several policy issues and concerns for host countries, recipient countries, and the international capital market in general. Other analysts also debate the reasonability or otherwise of instituting such a fund when a country's total financial resources ought to be channeled to improving the lot of its present population rather than saving it for future generations. In line with this argument Ojibara[39] wondered why a country like Nigeria, with a yawning infrastructure gap and decaying public institutions, should start saving its financial resources rather than using same to develop the country. This line of argument may find support in those who believe that building a solid foundation now for increased future returns was far better than fending for a generation that is yet to come.

Other SWF issues of concern include

A. **Transparency issues:** Some hold the view that the operation of SWFs in the global financial scene has been characterized by distrust, fear and lack of transparency. This lack of transparency (though with the exception of the Norwegian Pension Fund) may interfere with market efficiency, harming competition and limiting the positive effects arising from stronger market discipline. Moreover, the lack of reliable information hampers proper assessment of "SWF's phenomenon" developments and identification of potential sources of systemic risks. For instance, shoddy and dubious behaviors by SWFs, negatively affects the reliability of IMF instruments aimed at increasing transparency on the level and composition of foreign exchange reserves.[40]

B. **Drifting back from privatization to nationalization:** Some have also argued that the emergence of SWFs, which are government entities, is another way of reintroducing public ownership of businesses and fettering the movement towards a market economy and a well-functioning market based financial system. This, according to, Mezzacapo[40] may interfere with markets efficiency, harming competition and limiting the positive effects arising from stronger market discipline.

C. **Undue secrecy:** Another drawback alleged to be haunting SWFs is the secretive nature of their investments. Being government owned, they are perceived to be operating with ulterior motives and this may have potential effect on private investors. Some stakeholders are concerned that SWFs will use third party proxies to disguise their holdings in major corporations, thereby allowing SWF holding countries to enact surreptitious policies that ultimately enrich themselves at the expense of recipient countries. It is believed that because SWF investment policies are poorly understood, markets will experience greater volatility when they have, or are suspected to have, SWF participation because, with no information or experience to guide them, market participants have no way to distinguish mere rumors from actual facts, or minor comments from significant ones. This increases the level of uncertainty and risks associated with participating in the market.

D. **Protectionism:** For SWF recipient countries, the tendency to view the investment drives of some SWFs as another way of economic colonialism is another drawback to their existence. The fear exists that if SWF recipient countries sell off more and more of their assets, they will be subjugating their economy to external control. This fear of economic colonization caused a public outcry in the United States that led China and Dubai to withdraw from their attempted acquisition of major US assets and for Germany to propose new legislation to allow the Economy Minister to scrutinize purchases of stakes of twenty five percent or more in German firms by buyers from outside the European Union and its four partners in the European Free Trade Association (EFTA) and, if necessary, to block the transaction.[31] To prevent this from happening, recipient SWF countries have resorted to various protectionist policies.

E. **Market distortions:** SWFs are accountable only to their respective governments because they are their only principals. This very feature creates the risk of poor accountability. They may take investment decisions that are not based on pure economic considerations but driven by political objectives. There is therefore the danger that managers of such funds may take excessive risks and treat losses as irrelevant so long as there is no strong scrutiny. Because of their governmental connections, coupled with their size and significance, SWFs have the potential of creating market distortions. Where they are not prudently managed, they can misguidedly take risk that will have grave consequences for the whole market.

F. **National security:** Because of the growing size of SWFs and their potential impact which make them represent a large and growing portion of the global economy, critics have continued to mount weighty opposition to their existence and rising influence. Many political leaders hold the view that SWFs pose a threat to national security. Their lack of transparency and operational secrecy has helped to fuel this controversy. The decision of some SWFs to acquire controlling stakes in very key or strategic foreign assets may also result in foreign governments' need to enact laws to protect their national interests and/or national security.

Following the mortgage crisis of 2006-2008 in which SWFs helped to rescue struggling western banks like CitiGroup, Merrill Lynch, UBS, and Morgan Stanley[41] critics began to reecho their views that foreign nations were gaining control over domestic financial institutions and that these nations could use that dominance to achieve political and/or espionage objectives.

G. **Theft of Intellectual property:** There is also a strong feeling that some SWFs are simply investing in their recipient countries all with a view to stealing the intellectual properties, skills and other advantages or engaging in what Wong[31] called strategic positioning and transferring what was stolen to their home countries. They may also force a portfolio company to act in their own interest against the interest of other stakeholders.

H. **Lack of information:** Lack of information or unreliable information seems to be another problem that is at the bottom of all the problems earlier discussed about SWFs because it is this last factor that sometimes lead to market distortions, nationalism or protectionist policies and national security concerns.

I. **Lack of effective management/coordination:** The IMF reported that countries possessing SWFs find it difficult to coordinate fund operations with fiscal policy, where investments by companies held by SWFs did not occur in concert with government programs intended to develop new high-tech industries. Very few SWFs have ever been asked to draw down their holdings for the greater, "national" wellbeing, and, in general, the IMF found that SWFs acted as independent bodies, disconnected from their governmental superiors and concerned with only one principal mission: self-preservation.[25]

Benefits of SWFs to emerging economies

Sharma[42] noted that in the early years, a number of misconstrued ideas formed around the role of sovereign wealth funds, with critics heralding them as barbarians at the gate, looking to buy others' strategic assets. However, this type of perception have changed over the years because SWFs have not only come to stay but are also expanding quickly in all corners of the world and are becoming a major force in global capital markets. Their number has grown tremendously too since 2000 to more than 80 with more still being created. He further contended that this may have come as a result of their useful role during the recent global financial crisis, which made them come into great reckoning due to their provision of long-term capital for all sorts of industries and sectors in most countries. There has also been far more knowledge and understanding created between host and recipient countries of SWF capital, in large part due to the creation of the GAPP —Santiago Principles for SWFs behavior.

To host countries (countries that own SWFs), their benefits could be found in the objectives behind their establishment, while to recipient countries, (countries that receive SWF investments), their near indispensability could be found in the role they played in solving the problems arising from the global financial crisis of 2008 and similar events. In concrete terms, some of their benefits include:

A. **Stabilization:** To host countries, their existence helps to cushion the negative effects of any unplanned shortfall in revenue streams. Especially for single resource producing countries that are vulnerable to downward fluctuations in resource revenue, their existence serves as a safety net against attendant revenue shortfalls. Such countries can easily tap into such sovereign savings to stabilize their annual budgets in the short run and their general economic outlook in the long run. To dramatize this point, the Nigeria government recently sourced the sum of $150m from its SWF for sharing to the three tiers of government in the country as a way of closing revenue shortfalls brought about by the ravaging covid-19 pandemic.[43] Wilson[41] and Ndanusa[44] respectively also noted that the primary function of a SWF is to stabilize a country's economy and that the availability of a counter-cyclical economic stabilization fund will assist in smoothening income variations in the budget over a period of time.

B. **Social security:** In some other instances like in Alaska, the Alaska Permanent Fund (APF) has, since 1982, been a tool for social security through the payment of what is called the Permanent Fund Dividends (PFD) from the SWF of the state of Alaska to all citizens and registered residents. In 2015 alone, the fund paid out $2,072 per person or $8,288 for a family of four to all qualified Alaskans.

C. **Tool for economic development and poverty reduction:** As Ifediora[45] noted, Botswana has a SWF, and has used it admirably to develop its economy, reduce poverty and develop its human capital through higher education.Citing Berg et al.[46] He noted that not every country will find it optimal to build up a savings SWF that invests abroad when there is a pressing need at home. Therefore, the maintenance of an infrastructure fund or sovereign development fund as a component of SWFs helps a country to lay a solid foundation for meaningful economic growth and development as no nation can achieve sustained growth and development without a solid infrastructure base. Through this, investments can be made into critical and vital sectors of the economy. In principle, and for countries that are capable of effectively using funds for productive purposes, well chosen, planned and executed domestic investment can help the economy to grow and diversify away from risky dependence on one dominant resource.

D. **Promotes a culture of saving:** Maintaining a sovereign wealth fund also helps a country to reduce the culture of reckless spending of boom-era incomes. This is in sync with the age long mantra of 'saving for the rainy day'. Observers noted that if Kuwait had not made hay while the sun shined, it could not have escaped the massive destruction that visited it during the Gulf war. After that war, Kuwait, having lost seven hundred (700) of its oil wells to fire and two billion barrels of its oil reserves, spent $11.5b from its SWF to repair the damages and another $20b to pay off coalition allies for 'Operation Desert Storm'. The Kuwait Investment Authority (KIA) also paid another $20b worth of bad debt owed to eleven local bank and investment companies. During the 2008 global financial crisis, it also rescued the Kuwait stock market that was badly hit by the crisis to the tune of $4b.[47]

E. **Solid base for the future:** As noted earlier, a future generations' fund (FGF) that is encapsulated in most SWFs will not only curtail profligate spending when blessed with excess income but saving it in a post commodity export period account will provide future generations with a secure foundation to face the uncertainties ahead with greater confidence.This is exactly the case withthe Alaska permanent fund dividend and the Norway's Government Pension Fund Global.

F. **Knowledge and information sharing:** And who says that creating a SWF and joining the prestigious club of international institutional investors will not promote learning-by-association and mutual understanding. Leveraging on the provisions of Santiago principles (GAPP), developing or emerging economies, with huge public sector management deficits, especially in the age of information and communication technology, can tap from the rich reservoir of management knowledge of other member states or can peer review their financial and investment decisions with others.

Conclusion

From the foregoing, we are faced with a number of new lessons to learn. Among these lessons are that SWFs are not only created by federal or central governments but also by sub national governments within a sovereign state. The Alaska experience readily comes to mind here. It is also observed that depending on choice and purpose, an entity can have one, two or even more SWFs. The United Arab Emirates (UAE), as an example, owns and manages the Abu Dhabi Investment Authority (ADIA), Dubai Investment Authority (DIA), the Mubadala Investment Company and the Emirates Investment Authority (EIA). Similarly, the kingdom of Saudi Arabia owns the Public Investment Fund (PIF) and the Saudi Arabian Monetary Authority (SAMA). It is also striking to note that with the exception of a few, SWFs are mostly financed through revenues realized by countries rich in nonrenewable hydrocarbon deposits. These countries, most of which are found in Africa, Asia and the Middle East, are using these funds to transform their states into a more diversified, stable and resilient economic power. As we have also seen, commodity-based SWFs are far from being homogeneous. Their management, investment strategy, transparency and governance mechanisms differ. So does their coordination with macroeconomic policies.[48]

However, all SWFs are basically set up with a view to lessening their state's vulnerability to commodity price fluctuations and to ensure intergenerational equity.Experiences so far show that with better management and sound investment decisions, such funds can be a useful tool to mitigate any adverse effect in the fiscal position of host countries. Despite their initial rejection as disguised espionage entities; they have come to stay by proving their worth as transformers and rescuers and not pillagers. With their long term investment horizon and strategic role as stabilizers, they will, in years to come, become important and influential investors in international financial markets with capacity to provide stability to domestic and global financial markets. With the decrease in the traditional sources of financing infrastructure in the developing countries such as Nigeria, development needs in these countries remain high. So popular sentiment may push the government to spend part of its accumulated financial wealth on development and this is where SWFs can play a key role. As a country in dire need of economic diversification, availing the SWF pathway remains a responsible and strategic alternative for Nigeria.[49-51]

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Conflicts of interest

Authors declare ha here is no conflict of interest.

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