

UNIVERSITY OF NAIROBI

THE INSTITUTE OF DIPLOMACY AND INTERNATIONAL STUDIES

**SOURCES, GOVERNANCE STRUCTURE AND DEVELOPMENT CONTRIBUTION
OF SOVEREIGN WEALTH FUNDS: APPLICATION OF INTERNATIONAL
EXPERIENCES TO KENYA**

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DEGREE OF MASTERS OF ARTS IN INTERNATIONAL STUDIES.**

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DECLARATION

I, Peter Odhiambo Achar hereby declare that this research project is my original work and has not been presented for a degree in any other University.

Signed..... Date.....

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This project has been submitted for examination with my approval as University Supervisor;

Signed..... Date.....

Mr. Gerrishon Ikiara

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I thank the almighty God for giving me strength and ability during the entire period of research and in my journey of education. I would not have made it this far had it not been for his guidance and leadership.

I also appreciate the support of my family for encouraging me and always believing that I had the capacity to undertake this task. Many thanks go to my colleagues, classmates and employees of different organizations who provided different materials that I needed for the research. I especially thank my supervisor, Mr Ikiara for his support, commitment and dedication to this work. I have benefitted greatly from his professional guidance and consistent availability to support me throughout the entire period of this work.

DEDICATION

To all the young African leaders who want to see a transformed Continent characterized by ethical leadership and commitment to human development and transformation.

ABSTRACT

The quest for more optimal approaches for sustained growth and development, and the harnessing of available resources is perpetual. An aspect of this is the continual search for strategies for effective development financing. This is one that achieves set goals without compromising national dignity and integrity. Economic independence is seen to go hand in hand with national self-determination, hence its pursuit by nations. Sovereign Wealth Funds have in the past 14 years increased in prominence. They are seen as an emerging strategy for relevant development financing. The term “sovereign” reflects the political economy element of the funds, as tools for economic latitude and self-determination. The creation of these funds has been globally observed as a means of seeking to effectively manage revenue from mineral resource endowments, and generally National Wealth. The study of Sovereign Wealth Funds is however still relatively new and emerging.

Kenya has proposed the establishment of a mixed commodity and non-commodity Sovereign Wealth Fund. The experience of various countries indicates that such funds, of either type, can be for different purposes, and not necessarily designed in the same way. Factors important for consideration include: the general approaches used by countries to set and build them up as determined by their capital sources and social, economic and political institutional context factors; the nature of policies, laws and guidelines developed and implemented in their structuring and utilization; their general functions and contributions as instruments for national development; among others.

This Research sought to investigate the experience of five countries, in view of their Sovereign Wealth Fund source and political institutional determined designs, expected economic functions and contribution to development. A critical review of Kenya’s proposed framework against those of the five countries with the goal of making recommendations for the creation of the fund was done. Secondary data was sourced from government reports and publications as well as information from other credible public and non-public entities. Primary data on Kenya’s case was collected through the administration of questionnaires to experts from the various sectors relevant to the study. The selection of the countries was informed by their ranking in terms of performance of their Sovereign Wealth Funds as well as the ease of accessibility to information on them.

The study concludes that a well-designed and built Sovereign Wealth Fund can be a suitable source of development financing for the country.

It recommends that the creation of the three types of funds proposed in the draft bill, should be done with an awareness of their diversity in the nature of operations. There is need to accurately project on the expected medium term and long term contribution of the extractives sector to Kenya’s economy and factor these considerations in the design. This is based on the inevitable exhaustion of minerals hence the limited time for setting up funds based on the sector. The Sovereign Wealth Fund legislation should provide for flexibility that will enable fiscal adjustments in tandem with the changing nature of contribution of the extractives sector to the economy. Reforms of state corporations considered as a possible source of revenue for one of the proposed funds will be required. The role of all the macro-economic and other national institutions relevant for various aspects of the fund should be clarified in order to inform coordination. Contribution to the achievement of the social policy objectives contained in the Kenya Vision 2030 should be weaved into the operational designs of the

funds, based on Kenya's defined approach towards social development. A general mapping and projection of Kenya's Economic sectoral performance, trends and goals should be undertaken to guide in the channelling of the funds for development.

ABBREVIATIONS

ADNOC- Abu Dhabi National Oil Company

ERS- Economic Recovery Strategy

EU- European Union

ACP- African Caribbean Pacific

PARCO- PAK ARAB Refinery Limited

GAPP- Generally Accepted Principles and Practices

GDP- Gross Domestic Product

GPFG- Government Pension Fund Global

IEA- Institute of Economic Affairs

IMCSD- Inter-Ministerial Committee on Sustainable Development

IMF- International Monetary Fund

IPC-IG- International Policy Centre for Inclusive Growth

IPIC- International Petroleum Investment Company

MEMF- Mixed Economy Model Framework

MTEF- Medium Term Expenditure Framework

NOK- Norwegian Kroner

NBIM- Norges Bank Investment Management

NGO- Non Governmental Organizations

SWF- Sovereign Wealth Funds

UAE- United Arab Emirates

USA- United States of America

OECD- Organisation for Economic Co-operation and Development

UK- United Kingdom

UN- United Nations

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CHAPTER ONE

1.1. INTRODUCTION

The optimization goal in economics implies seeking the best possible combination of resources to produce the best results. Benefits and costs are always considered in order to adopt the most suitable economic policy options.

Many Countries have over the last decade established Sovereign Wealth Funds. Their increasing prominence is partly attributed to the attempt by especially developing Countries, to save some of the minerals and commodity revenues. This has resulted to them holding an increasing share of total global savings.

Though viewed as a recent phenomenon, and first defined by Andrew Rozanov in the year 2005¹, Sovereign Wealth Funds have been in existence since the early fifties. The Kuwait Investment Authority was one of the earliest ones. It was established in 1953. The funds have however become more significant with their rapid increase over the last sixteen years.

By the time they were defined in the year 2005, assets under their management were valued at about \$1.5 trillion. This had doubled by 2007 and it was projected to increase to \$12 trillion by the year 2015².

The significance of Sovereign Wealth Funds was illustrated in the attempted purchase of port management services in the United States, by the Dubai ports world in the year 2006. This was largely attributed to the latter's capacity out of its richly endowed Sovereign Wealth Fund.

¹ Truman E.M. Sovereign Wealth Funds; Threat or Salvation?(Peterson Institute for International Economics 2010) (pp1)

² S. Jen, How Big Could Sovereign Wealth Funds Be by 2015? Morgan Stanley, pg. 4, May 2007

The study of Sovereign Wealth Funds (SWFs) has primarily focused on their unique ability to merge the most feared elements of the public and private sectors. These are the power of private finance and state coerciveness.³

An understanding of what these funds are, how they are built, structured and used, and the role they play or can play in development, is important for any country planning to establish one. Their identification as a relatively new and unique entity, managed almost outside the confines of the traditional institutions and approaches of macro-economics, furthers the interest on them. The increasing share of international financial capital held in Sovereign Wealth Funds is a further and valid justification for giving them greater attention. This is more so with the quest by especially developing countries, to stabilize their economic bases and access sustainable sources for financing development.

The determination of country experiences in the design of SWFs, their structure and utilization once established and contribution to a country's development is critical. It is connected to the perpetual search for more optimal approaches for sustained growth and development, and the harnessing of scarce national resources.

Kenya has proposed the establishment of a SWF in a period that coincides with significant discovery of oil and mineral resources. The anticipated returns from these resources has seen the inclusion of the extractives sector in the country's medium term development plan of 2013-2017 of the Vision 2030. The proposed creation of the fund has been hinged on the anticipated financial returns from the mineral resources, but also the availability of other potential sources of National revenue⁴. A determination of how best the country can approach

³ Antonia Fikova. "Analysis of Sovereign Wealth Funds: From Asset Allocations." *Global Journal of Management and Business Research: C* 15, no. 9 (2015). 65 Accessed September 16, 2015. https://globaljournals.org/GJMBR_Volume15/6-Analysis-of-Sovereign-Wealth.pdf.

⁴ Article 3 of the National Sovereign Wealth Fund Bill 2014

the establishment of such a fund is thus necessary. This is possible through learning from different country experiences, while factoring context specific issues.

What would be the value in establishing a SWF and how would it be designed to best suit the Kenyan context?

This research critically analyses the experiences of various countries that have established SWFs. It considers the approaches to their formation, structuring and development, their utilization and contribution to overall development, including its financing. The findings are used to glean empirical insights in order to relevantly contribute to the establishment of a SWF for Kenya while putting into perspective the national development agenda.

1.2. STATEMENT OF THE RESEARCH PROBLEM

The creation of SWFs by different countries has become a trend but more prominently over the last 16 years. Many of the recently created ones have been in Africa, mostly a result of the discovery and exploitation of mineral resources.⁵ 60% of all SWFs are commodity based, while 40% are non-commodity based. They control a substantial amount of financial resources globally. The topic of SWFs is however still considered under researched⁶.

Much of the existing literature focuses on the economic and political-economy aspects of the funds, and some of the critical factors considered in their establishment. Chioma et. al have identified areas relating to Sovereign Wealth Funds that generally require more research and investigation. These include: technical aspects of the funds, ownership structure, sources of

https://academicpublishingplatforms.com/downloads/pdfs/pieb/volume10/201607180443_01_PIEB_Vol10_Issue1_2012_Cuzovic_Sovereign_Wealth_Funds_pp.5-13.pdf.

⁶ DJORDJE CUZOVIC. "SOVEREIGN WEALTH FUNDS IN THE GLOBALIZATION OF FINANCIAL MARKETS." *Perspectives of Innovations, Economics & Business* 10, no. 1 (2012): 5-13. 5 Accessed September 16, 2015.

funding, operational independence, policy rules and target, accountability and transparency mechanics.⁷

African countries have over the last decade created quite a number of these funds. The “African Investor” identifies some general purposes for their creation. They include saving today’s incomes particularly that from exhaustible resources for future generations, establishment of sub-funds for infrastructure and economic development and stabilization to manage the effects of the volatility of mineral resource earnings⁸. East African countries including Kenya have specifically began creating the funds in the last four years. Rwanda already has a non-mineral resource based fund while Kenya and Tanzania have begun putting in place policy and legal frameworks for their establishment. Tanzania’s proposed fund is specifically in view of the natural gas finds. Kenya’s current proposal is for three Funds. A mixed commodity and non-commodity based fund model is suggested, hence from multiple sources of revenue.

Current reviews and debate on Sovereign Wealth Funds in Kenya have generally been on the necessity of creating them. The National Sovereign Wealth Fund Bill 2014 has been critiqued, and general opinions for or against the creation of the fund given. There is however a notable gap in empirical literature, on the critical and context specific issues of consideration in the creation of such a fund. This is largely on the dynamics relating to the sources, the governance structure and the specific development functions of such a fund. During the 2015 MEFMI Region Central Banks Governors' Forum, it was noted that “the establishment of a Sovereign Wealth Fund in itself will not help Kenya achieve its stated

⁷ Oleka D. Chioma, Ugwuanyi B. Uche, and Ewah E. Bassey, "Sovereign Wealth Fund and Economic Growth in Nigeria: An Empirical Analysis," *IOSR Journal of Economics and Finance (IOSR-JEF)* 4, no. 5 (July/August 2014): 10, accessed April 16, 2016, <http://www.iosrjournals.org/iosr-jef/papers/vol4-issue5/B0450320.pdf>.

⁸ African Sovereign Wealth and Pension Funds Summit Report, report (Africainvestor, 2014), 6.

Objectives, unless it is the result of sustainable and credible rules based fiscal policy and is complemented by a range of other policies and institutions⁹". This makes it necessary to undertake a comparative study with countries that have created similar funds. It will contribute to the identification of some important policy and operational factors to be considered in setting them up.

1.3. OBJECTIVES

- To review the different types of Sovereign Wealth Funds and the general approaches used by countries to set them up and build them as determined by their capital sources and social, economic and political institutional context factors
- To analyse the specific country policies, laws and guidelines developed and implemented in the structuring and utilization of Sovereign Wealth Funds
- To find out the functions and contributions of Sovereign Wealth Funds as instruments of development for the countries considered in this research.
- To determine the relevance and application of international experiences on Sovereign Wealth Funds, in their setting up, utilization, and in the pursuit of development in Kenya.

1.4. JUSTIFICATION OF THE STUDY

While Sovereign Wealth Funds have emerged as formidable international entities, it is acknowledged that a lot of research still needs to be done on them¹⁰. African countries have particularly taken up the approach of setting them up, and have a variety of models to choose

⁹ Caleb Fundanga, ed., "MEFMI Forum," editorial, MEFMI, 38, accessed October 17, 2016, <http://www.mefmi.org/index.php/29-publications/mefmi-forum/225-mefmi-forum-issue-19>

¹⁰ Oleka D. Chioma, Ugwuanyi B. Uche, and Ewah E. Basse, "Sovereign Wealth Fund and Economic Growth in Nigeria: An Empirical Analysis," IOSR Journal of Economics and Finance (IOSR-JEF) 4, no. 5 (July/August 2014): 10, accessed April 16, 2016, <http://www.iosrjournals.org/iosr-jef/papers/vol4-issue5/B0450320.pdf>.

from. The Norwegian Model is cited on the one hand, while models such as the Singaporean and some Middle Eastern ones have also been proposed. A solid basis for any models or aspects of a model chosen is empirical research that ensures proper customization. This would secure relevance to country contexts, and situation within already existing national development agenda.

Past experience in policy making and adoption by developing countries, reflects the need to focus on context relevance. The generic adoption of policies has resulted to failure and undesirable results.

In pursuing relevant development, countries have adopted the use of development plans. These aim at guiding all the processes of national development so that they are strategic and context suitable.

Guidance through development plans, and policy undertakings based on empirical research, is vital in securing the relevance of development.

Country comparative studies can enable the drawing of lessons, and determination of generally applicable principles.

This research seeks to contribute to the creation of a suitable Sovereign Wealth Fund for Kenya, drawing from positive practices in different parts of the world. This is in view of the setting up, structuring and utilization of the funds in achieving the set development agenda of the countries. Factors that have led to the setting up of what are considered successful Sovereign Wealth Funds will be elucidated. These will be conceptualized into possible elements of application in setting up and utilizing a SWF in Kenya in view of the country's context and set development agenda.

The Key areas of research will include:

General and specific economic, social and political institutional contextual factors considered in the structuring, formation and establishment of SWFs.

Usefulness of SWFs in economic policy and national development.

Suitability of SWFs and relevance of various structural models for the purpose of managing Kenya's national wealth.

1.5. LITERATURE REVIEW

The Literature that has been reviewed includes policy papers, government documents, academic journals and books on the topical areas of the research.

1.5.1. GENERAL BACKGROUND OF SOVEREIGN WEALTH FUNDS

Sovereign Wealth Funds have existed for over fifty years but are still an under-researched topic in the scientific and professional community.¹¹

The term "Sovereign Wealth Fund" was first used by Andrew Rozanov in May 2005¹² and the oldest identified one is the Kuwait Investment Authority fund established in 1953.¹³

According to Truman, there is no single or generally accepted definition of Sovereign Wealth Funds. He describes them as being "separate pools of government controlled or owned assets that include some international assets".¹⁴ He further observes that they are mainly financed through excess foreign exchange earnings and often but not always through direct or indirect revenue from natural resources.

¹¹ Ibid

¹² Truman E.M. Sovereign Wealth Funds; Threat or Salvation?(Peterson Institute for International Economics 2010) (pp1)

¹³ International Working Group on Sovereign Wealth Funds, Sovereign Wealth Funds, Generally Accepted Principles and Practices, "Santiago Principles" (2008) (pp 38)

¹⁴ Ibid (pp 8)

The International Working Group on Sovereign Wealth Funds, which established the Generally Accepted Principles and Practices (GAPP) also referred to as the Santiago Principles defines them as follows:

Special purpose investment funds or arrangements owned and 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. They 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.¹⁵

Balding attempts to magnify their macro-economic function in describing them as “Macroeconomic policy institutions that attempt to remain divorced from microeconomic decisions”¹⁶ Sovereign Wealth Funds are considered as operating within the larger macro-economic framework with aims such as minimizing the effects of commodity flows on factors such as inflation and exchange rates.¹⁷

The specific objectives of the funds are further presented by Truman as: stabilization funds to insulate the budget or economy against price swings; saving funds for future generations always transferring wealth that is underground to financial wealth that is above ground; reserve investment funds that are part of other strategies to manage foreign exchange reserves and may include part of the foreign exchange reserves; development funds to achieve various

¹⁵ International Working Group on Sovereign Wealth Funds, *Sovereign Wealth Funds, Generally Accepted Principles and Practices, “Santiago Principles”* (2008) (pp 27)

¹⁶ Balding C. *Sovereign Wealth Funds: The New Intersection of Money and Politics* (198 Madison Avenue New York Oxford University Press 2012) (pp 39)

¹⁷ Mazarei A. Das et al, *Economics of Sovereign Wealth Funds: Issues for Policymakers* (Washington D.C. International Monetary Fund 2010) (cap 4)

socio-economic goals at home or abroad; contingent Pension Reserve Funds aimed at backstopping the government pension funds.¹⁸

The OECD observes that Sovereign Wealth Funds and trends in their growth signify a shift of the global economy from the advanced economies to the emerging ones¹⁹. Nine out of ten of the largest Sovereign Wealth Funds are of emerging economies²⁰.

Despite the different attempts to provide a coherent explanation of the general bases upon which Sovereign Wealth Funds are established, there is currently not much agreement on literature concerning appropriate global objectives and mandates of Sovereign Wealth Funds.²¹ Areas pointed out as needing elaboration and standardization in establishing the funds include: technical aspects of the funds, ownership structure, sources of funding, operational independence, policy rules and target, accountability and transparency mechanics.²²

1.5.1. SOURCES OF SOVEREIGN WEALTH FUNDS

According to the 2015 City UK report²³, Sovereign Wealth Funds have risen in number and grown substantially over the last decade. Assets managed under them stood at \$7.1 trillion by the end of 2014.

¹⁸ Ibid (10)

¹⁹ Javier Santiso, "Sovereign Development Funds: Key Financial Actors of the Shifting Wealth of Nations," October 2008, 3, accessed October 28, 2016, <http://www.oecd.org/dev/41944381.pdf>

²⁰ Annex: Sovereign Wealth Funds based on year of inception

²¹ Oleka D. Chioma, Ugwuanyi B. Uche, and Ewah E. Bassey, "Sovereign Wealth Fund and Economic Growth in Nigeria: An Empirical Analysis," *IOSR Journal of Economics and Finance (IOSR-JEF)* 4, no. 5 (July/August 2014): 10, accessed April 16, 2016, <http://www.iosrjournals.org/iosr-jef/papers/vol4-issue5/B0450320.pdf>.

²² Ibid (10)

²³ City UK, comp. *UK, THE LEADING WESTERN CENTRE FOR SOVEREIGN WEALTH FUNDS*. Report. June 2015.(2) Accessed April 15, 2016. <https://www.thecityuk.com/assets/2015/Reports-PDF/Sovereign-Wealth-Funds-2015.pdf>.

Commodity exports and oil sector based Sovereign Wealth Funds account for 60% of the overall assets. The balance of 40% are non-commodity based but with a lot of potential for further growth²⁴.

The review of the historical formation and development of SWFs as well as their sources reveals three distinct phases. The first is during the Persian oil strikes in the 50's with the main example being the establishment of the Kuwait Investment Authority. Second is during the oil boom of the 70's where Countries such as Saudi Arabia, United Arab Emirates and Alberta established the funds in order to absorb excess liquidity that threatened to overheat their economies. The third is the recent oil and mineral resource boom but also a massive building up of foreign exchange reserves by non-commodity based Countries.

The increased creation of these funds has transformed governments into important international investors, and particularly enhanced the prominence of emerging markets in the global economy. The City UK report further observes that the importance of Sovereign Wealth Funds in financing is set to increase, due to the global infrastructure financing gap that stands at \$1 trillion per year²⁵.

While a bigger percentage of the funds are commodity based, there has been a rise in non-commodity and non-energy based funds such as those of China and Singapore. Chile has a non-energy based fund with most of the revenues based on copper extraction. A main non-energy source includes budget surpluses with the particular examples being China and Singapore.

The broad categories of the funds in terms of the sources can therefore be considered as commodity and non-commodity based. They can further be classified as energy and non-energy based funds.

²⁴ Extracted by researcher from Annex: Sovereign Wealth Funds based on year of inception

²⁵ Ibid

A survey report by the Price Waterhouse Coopers, points out Lithium as a future source for Sovereign Wealth Funds for Countries with high deposits. These include Brazil, Argentina and Bolivia. This is because of its importance in rechargeable batteries that would be required for electric cars.²⁶ Solar as a potential source for North Africa through its exportation as electricity, is also identified in the report.

Pointed justifications for establishing Sovereign Wealth Funds are provided by Garton as he identifies arguments given by various proponents on the need for Australia to create them.

First is to ensure a larger share of unusually high incomes is saved for longer-term benefit rather than being used for current consumption;

Second is to avoid pro-cyclical fiscal policy by stopping revenues being recycled back into the economy through tax reductions and increased government spending;

Third is to protect the fiscal position against exposure to commodity price risks by accumulating financial assets that can be drawn on if commodity prices plunge; and

Fourth is to dampen appreciation of the exchange rate resulting from the boom by investing in foreign assets, thereby relieving pressure on other trade-exposed sectors.²⁷

The significance of the mineral resource sector, in the development of Sovereign Wealth Funds is depicted by their rapid growth attributed to the boom in the trade in commodities between 2000 and 2010. Africa is a specific example of this.

The various reasons given for the establishment of Sovereign Wealth Funds also describe the conditions that would determine the motivation for different countries. While one country

²⁶ Price Water House coopers, *The Impact of Sovereign Wealth Funds on Economic Success*, (UK: Price Water House Coopers, 2011),(1) accessed April 10, 2016, <https://www.pwc.co.uk/assets/pdf/the-impact-of-sovereign-wealth-funds-on-economic-success.pdf>.

¹⁷ Garton Phil, *Economic Round-up Sovereign Wealth Funds and the Exchange Rate: Comparing Resource Booms in Australia, Chile and Norway (Business Collection) Informit*, (2012),(20) accessed May 7, 2015, <http://search.informit.com.au/documentSummary;dn=679422273192757;res=IELBUS>.

may consider the need for saving mineral resource revenues for the future as being important, another may establish these to stabilize the economy and avoid negative macro-economic consequences.

1.5.2. UTILIZATION AND ECONOMIC DEVELOPMENT CONTRIBUTION OF SOVEREIGN WEALTH FUNDS

A 2011 Price Water House Coopers report based on an analysis of 51 countries on the impact and hence usefulness of Sovereign Wealth Funds for an economy, outlines their contribution. These may include: helping in the reduction of inflation by reducing impact on domestic demand through re-channelling the foreign exchange inflows, lessening of exchange rate appreciation and helping in the improvement of transparency in the economy.²⁸ These impacts may be intended, unintended or implicit.

The report notes the stabilizing role of SWFs as an important factor for sustained economic development. Their availability is important to cushion against exchange rate fluctuations.

It also identifies having the Funds as being advantageous in the case of borrowing from foreign lenders. It raises credit rating and investors may be willing to lend money on better terms to countries having them.

The role of the funds in lessening the exchange rate appreciation following the sudden flow of foreign currency is seen as crucial in preventing the Dutch disease especially in the case of mineral resource export reliant economies.

Balin identifies four principal reasons for which Sovereign Wealth Funds are established²⁹.

²⁸ Ibid

²⁹ Bryan J. Balin, *Sovereign Wealth Funds: A critical analysis*, (Washington DC USA: The John Hopkins School of Advanced International Studies (SAIS), 2008), (4) accessed April 16, 2016, <http://research.policyarchive.org/11501.pdf>.

First is to act as intergenerational transfer mechanisms where future government pensions, asset liquidity and fiscal revenues are guaranteed by today's export earnings.

Second is to diversify a country's income to enable a response to fluctuations on its areas of comparative advantage.

Third is to increase the returns on assets held in Central Bank reserves. This is through investing in securities that can generate returns at rates that are above the normal rates of return.

Fourth is to seek to promote investments from Multi-National Corporations and technology transfer to domestic industries.

The Sovereign Wealth Fund institute identifies five classifications of the funds which are: Stabilization funds; Savings/future Generation Funds; Pension Reserve Funds, Reserve Investment Funds and Strategic Development Funds³⁰.

Stabilization Funds are those established with the main goal being to stabilize the economy during times of price fluctuations affecting revenues as well as stabilizing the exchange rate of the country. They basically aim at responding to the usual macro-economic boom and bust cycles.

This stabilization role of Sovereign Wealth Funds has however been observed at the global level as well in light of the 2007-08 Global Financial Crisis. Jory Et al. note that the funds strengthened the balance sheets of some Global Financial Institutions.³¹

Savings/Future Generation Funds are basically those established for the purpose of ensuring a country's wealth is preserved for future generations. This would especially apply in the case

³⁰ "What Is a SWF?" What Is a Sovereign Wealth Fund? | SWFI - Sovereign Wealth Fund Institute, , accessed August 16, 2016, <http://www.swfinstitute.org/sovereign-wealth-fund/>.

³¹ Surendranath R. Jory, Mark J. Perry, and Thomas A. Hemphill, "The Role of Sovereign Wealth Funds in Global Financial Intermediation," *Thunderbird International Business Review* 52, no. 6 (November/December 2010): (2), accessed August 15, 2014

of wealth generated from finite natural resources. An example of such is the Nigeria Future Generations Fund. Its purpose is stated as being to preserve and grow the value of assets transferred into it, thereby enabling future generations of Nigerians to benefit from the country's finite oil reserves."³² It is a long term investment fund with a time horizon of 20 years.

Pension Reserve Funds are savings aimed at financing rising public pension expenditures. An example is Norway's Government Pension Fund global with one of the objectives being to manage the rising challenge of an ageing population.

Reserve Investment Funds are those established with the goal of investing in the long term to bring maximum financial returns. The initial capital is provided and invested and the returns are as well re-invested.

Strategic Development Funds are Sovereign Wealth Funds that can be used for the purpose of national and economic development.

Some key traits of Sovereign Wealth Funds include: high foreign currency exposure, lack of explicit liabilities, high risk tolerance and long investment horizons.³³

Chioma Et al. aver that the nature of the Sovereign Wealth Fund, in terms of how it is accumulated and structured, determines whether or not it becomes of fiscal importance to the economy. Those that are a built based on accumulation of funds by the Central Bank as it manages the country's banking system are of fiscal importance. Those that are however

³² Nigeria Sovereign Investment Authority, *Future Generations Fund: Investment Policy Statement*, (Nigeria, n.d), accessed August 10, 2014, <http://nsia.com.ng/wp-content/uploads/2013/08/Investment-Policy-Statement-for-FGF.pdf>.

³³ Oleka D. Chioma, Ugwuanyi B. Uche, and Ewah E. Bassey, "Sovereign Wealth Fund and Economic Growth in Nigeria: An Empirical Analysis," *IOSR Journal of Economics and Finance (IOSR-JEF)* 4, no. 5 (July/August 2014): 4, accessed April 16, 2016, <http://www.iosrjournals.org/iosr-jef/papers/vol4-issue5/B0450320.pdf>.

established for the purpose of building state savings that are invested for an expected return are considered as not very important fiscally.³⁴

The same authors observe that “Sovereign Wealth Funds have succeeded in many countries as effective tools to tackle both macro-economic and micro-economic problems”. They point out some of these to include: lessening the burden of taxes on the citizens, and providing funds for research and development. They further observe that the funds are able to strengthen economies of nations on the rise by providing stability through funding infrastructure projects and being used as tools for the global assets market.

John Lipsky identifies some specific economic policy roles³⁵ of Sovereign Wealth Funds.

First is that it is a means to avoid the booms and bust cycles for mineral resource dependent countries such as that experienced in the 70^s. This is through accumulating adequate international assets.

Second is for stabilization and saving purposes by setting aside the surplus for use during times of weak terms of trade.

Third is to develop a broader base for economic growth and to prepare the economy for a post-commodity era.

Fourth is for future social obligations relating to aging populations.

Some necessary conditions for the Funds to be successful are further pointed out by Lipsky³⁶.

First is the existence of appropriate budget and monetary policies into which they would be integrated. This would be helpful to avoid situations like creation of parallel budgets or ill-timed withdrawals that would undermine the Central Bank operations.

³⁴ Ibid 4

³⁵ John Lipsky, "Sovereign Wealth Funds: Their Role and Significance" (speech, Seminar, Sovereign Funds: Responsibility with Our Future, Santiago, September 3, 2008).

³⁶ Ibid

Second is their clear integration into the country's economic policy framework by ensuring adequate data provision of their operations and performance.

Third are well designed funding and withdrawal rules in line with stated goals of the fund.

Fourth is having in place well framed corporate governance arrangements with clear set objectives, governance structures and accountability frameworks. These include clarity of roles and responsibilities and inter-relationship among various bodies involved in the management and administration of the fund.

Fifth are clear accountability procedures among the different levels of governance for the fund and to the public in order to prevent the misuse of the public resources and gain support for the fund. This would include transparency arrangements such as regular public disclosure of the investment objectives of the fund and its general utilization and management.

1.5.3. CRITIQUE ON THE UTILIZATION AND ECONOMIC DEVELOPMENT CONTRIBUTION OF SOVERIGN WEALTH FUNDS

Balin argues that there is little evidence indicating the effectiveness of SWF's on their role in ensuring liquidity, government expenditures and pension obligations are undisrupted during periods of price fluctuation especially for resource dependent economies.³⁷

He additionally contends that they present a problem of coordination between their operations and fiscal policy, given that they act as independent entities and seem focused on self-preservation, rather than national good.

A further observation by him is that non-commodity based Sovereign Wealth Funds have the challenge of dependence on currency intervention for their growth. This means that a country

³⁷ Bryan J. Balin, *Sovereign Wealth Funds: A critical analysis*, (Washington DC USA: The John Hopkins School of Advanced International Studies (SAIS), 2008), (10) accessed April 16, 2016, <http://research.policyarchive.org/11501.pdf>.

is only able to achieve the growth of the funds by intervening in order to achieve favourable balance of payments that enable surpluses for growing them. In other words they can be a reason for the pursuit of unfair international economic practices³⁸.

Still another argument by Balin is that Sovereign Wealth Funds have the potential to destabilize the market due to their opaqueness in financial markets operations. This may lead to speculation hence destabilization of the markets. Their predictability and openness in operations especially for interventions in the financial markets determines the extent to which stability is ensured and volatility avoided. Their opacity is attributed to their independent nature of operations. This can cause a general lack of accountability as compared to the operations of institutions such as the Central Banks.

A final criticism concerns their identified role in stabilizing the economy in case of shocks related to comparative advantage. He argues that it would be better to use the funds to diversify the economy which is safer protection against such shocks rather than wait to protect against price destabilization due to non-diversification of the economy.

1.5.4. REVIEW OF KENYA'S CURRENT DEVELOPMENT FRAMEWORKS

The long term development frameworks for a country provide the most solid basis for evaluating the context within which new economic policies and initiatives are to be crafted and implemented.

The broad framework for Kenya's national and economic development is the Constitution of Kenya 2010. Other important policy framework documents include the vision 2030 and the current medium plan in this case the 2013-2017 vision 2030 medium term plan.

The Constitution of Kenya generally provides the possibilities and potential for institutional reforms that would have a definite impact on governance and therefore development in

³⁸ Ibid

general. A basis for a value driven society and therefore values based policy formulation and creation of institutions, is provided for in article 10 on the national values and principles of governance.

Article 43 of the Constitution on the Economic and Social rights is an important one in relation to social and economic development. It provides specific social and economic development aims for the Country. These include: adequate health care, sanitation, food, and housing, clean safe drinking water, social security and education. All these require resources and their prudent utilization. The article also customizes Kenya's obligations to international treaties and covenants it has acceded to, that commit to enhancing the socio-economic livelihoods of the citizens albeit progressively.

Article 69(1) of the Constitution provides a basis upon which the establishment of a commodity based Sovereign Wealth Fund can be anchored by pointing to how resources accruing from land are to be utilized.

Financial governance is provided for in chapter 12 of the Constitution on public finance. There is an obligation for openness and accountability including public participation in all financial matters. Article 201c in the Constitution is another provision upon which the establishment of a Sovereign Wealth Fund especially in view of mineral resources can be based. It provides for the equitable sharing of the burdens and benefits from the use of resources between the present and future generations.

The Institute of Economic Affairs (IEA) Kenya observes that there is a conflict between the Public Finance management bill and the proposed Sovereign Wealth Fund bill.³⁹ The Institute observes that "while the SWF bill creates a structure to manage the fund, it ignores the role

³⁹Edgar Odari, "The Legal, Policy and Institutional Frameworks Governing The Extractive Sector in Kenya," in *A primer to the Emerging Extractive Sector in Kenya: Resource Bliss, Dilemma or Curse* 45 (Nairobi: Institute of Economic Affairs, 2014),

placed on institutions in the PFM Act.⁴⁰ There seems to be a conflict with the provision of the Infrastructure and Development Fund to provide for ongoing funding for development in the SWF bill with the Public Finance Management Act. This is on the requirement that the national government prepares a medium term fiscal strategy and the expenditure towards infrastructure to be directed to the Medium Term Expenditure Framework (MTEF). IEA Kenya further raises the question of whether Kenya really needs the Sovereign Wealth Fund given that it is usually created when governments have little or no external debt and are experiencing surpluses.

The review of the literature enables the identification of critical elements to inform relevant research on Sovereign Wealth Funds based on the topic of this study. First is the question on the considerations in establishing the fund. This is in view of the country economic, social and political context. Second is on the role and integration of the funds once established, in the domestic economy; and third is on the function of the funds in the international and open economy operations of the Country. These critical questions provide a basis for the development of a conceptual framework to be used in the analysis.

1.6. CONCEPTUAL FRAMEWORK

Three main dimensions concerning the establishment and utilization of Sovereign Wealth Funds have been identified in the literature review. These are: the factor of their design, structure and formation in view of the economic, social and political institutional context of the Country; their role and integration into the domestic economy; and their role and function in the international and open economy operations of the country.

Categories of the funds in terms of their sources and stated purpose have also been identified. The two main categories based on the sources for the funds include: Non-commodity based,

⁴⁰ Ibid

and commodity based. A further categorization of the commodity based is Energy and Non-energy based funds.

Categorization in terms of the purposes for which the funds are established include: establishment in order to avoid the booms and bust cycles for mineral resource dependent countries, stabilization and saving purposes by setting aside the surplus for use during times of weak terms of trade, to develop a broader base for economic growth and to prepare the economy for a post-commodity era and for future social obligations relating to ageing populations.

Another important aspect is the institutional arrangements for the management and governance of the funds. Sovereign Wealth Funds are generally considered as national property therefore bringing the assumption that the best interest of the country is always aimed at in the way they are structured, developed and utilized. This research therefore considers the measure of success or failure of the funds as being the extent to which they achieve the stated national interest in their establishment.

One basic assumption of this study is that irrespective of the structure or type of Sovereign Wealth Fund established by a country, the primary goal is to achieve a better state of economic and overall development.

The value in establishing and utilizing them, is therefore to be determined based on the extent to which it contributes towards attaining the desired state of development.

This study considers the establishment of Sovereign Wealth Funds as reflecting the adoption of a mixed economy model by the countries establishing them. This means that the country has predetermined what it intends to achieve and therefore the development of strategic programs in this case Sovereign Wealth Funds geared towards these ends.

A framework based on the Mixed Economy Model therefore implies the existence of national goals, as the ends aimed at through various national programs. It also reflects an acknowledgement of existing constraints to the achievement of the national goals. These are the scarce resources and administrative and organizational limitations, which makes planning necessary to ensure proper utilization. The process of planning is therefore that of identifying the means which is the activities or instruments to be employed in order to achieve the national goals.

The establishment and utilization of the Sovereign Wealth Funds is considered a part of planning that fits within the larger national development planning process.

The analysis of country experiences and identification of areas of application in relation to the source and utilization of the SWFs to the Kenyan case, has been done based on the Mixed Economy Model Framework (MEMF).

This considered the national goals aspects that were factored in the design, structure and formation of Sovereign Wealth Funds of the countries studied.

It secondly considered the specific roles of the funds in the domestic economy and ways in which they are integrated.

Third and final is their role and function in the international and open economy operations of the Country.

The economic analysis is based on the optimization goal assumption. The utilization of national resources is assumed to be aimed at maximizing returns and minimizing losses and inefficiencies. This is the basis of the theories informing the analysing of the overall approach in the design and utilization of the funds. Modernization theories that define natural resources as providing capital for economic development are adopted for this analysis on the economic development intent of creating the mineral resource based Sovereign Wealth Funds. The

analysis on the assumed economic negativities and inefficiencies minimization intent, especially for the mineral resource based economies considered in this research, is informed by the propagations of the resource curse and mineral dependency theories.

The analytical frame on the specific governance and management of the funds is informed by various theories of corporate governance. The used definition for corporate governance is “a set of processes and structures for controlling and directing an organization”⁴¹. Sovereign Wealth Funds are identified as reflecting the re-emergence of the state of which the government a political entity is an agent, as a dominant corporate global player. This provides the rationale for adopting a corporate governance framework in analysing the governance and institutional aspects of their creation and development. The main elements on this are informed by the propagations of the stewardship, agency and stakeholder theories of corporate governance.

The two underlying assumptions of the study are: The best interest of the country of which the citizens are the shareholders, is always aimed at, in the way the Sovereign Wealth Fund is structured, and utilized.

Second is that, irrespective of the structure or type of Sovereign Wealth Fund established by a country, the primary goal is to achieve a better state of national well-being and development.

A summary of this framework based on the combination of the identified theories is that, the sources of Sovereign Wealth Funds, the medium term and long term national development goals considered in their establishment, and the corporate governance models adopted for their structuring and management, are suitable parameters for evaluating their capacity to add value to the Country.

⁴¹ Haslinda Abdulla and Benedict Valentine, "Fundamental and Ethics Theories of Corporate Governance," *Middle Eastern Finance and Economics*, no. 4 (2009): 88, accessed April 14, 2016, <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.320.6482&rep=rep1&type=pdf>.

1.7. HYPOTHESIS

- 1.7.1. The structure and development of a Sovereign Wealth Fund by a country is primarily determined by the economic, social and political institutional context.
- 1.7.2. The capital sources of Sovereign Wealth Funds and their significance in the economy, determines their main allocated economic functions.
- 1.7.3. Local or domestic country considerations have a strong influence in the establishment and development of Sovereign Wealth Funds.

1.8. METHODOLOGY

This research has adopted a methodology based on the objectivist paradigm. This has the core assumption that context pre-determines the strategies adopted for social and economic constructions. Political and institutional factors constitute part of the contextual framework.

The selection of the variables for the research is informed by the mixed economy model highlighted in the conceptual framework. The assumption is that the formation, structuring, development and utilization of Sovereign Wealth Funds is generally subject to their capital sources and the existing national development and governance frameworks contained in long and medium term development plans, laws, policies and constitutions. Context as a determinant is further projected in the kind of corporate governance arrangements put in place for the management of the funds and therefore different governance models are adopted as determined by national context.

The research has relied on qualitative and quantitative data collected from primary and secondary sources. Desk top data on the relevant existing national development plans, laws and policies for the countries of study has been collected from national development plan documents, statistical publications, economic surveys, laws and policies available on the

internet and as published in credible sources. Qualitative approaches have been applied to establish other critical factors in the creation and development of Sovereign Wealth Funds.

Information on the establishment of Kenya's Sovereign Wealth Funds, was collected through government reports and publications.

Primary data on Kenya's case was collected through the administration of questionnaires to officials from the public, private and CSO's sectors that are relevant to the study.

1.9. SCOPE AND LIMITATIONS OF THE RESEARCH

The research focuses on objective based economic management strategies for the consolidation and the optimal utilization of national wealth with a specific focus on Sovereign Wealth Funds.

The selection of the countries for comparison has been limited to the extent of openness in sharing information on their Sovereign Wealth Funds.

Given that this is a relatively new area of study for Kenya, the adopted approach was to undertake comparisons that can enable the drawing of general conclusions applicable to Kenya as well as identifying critical areas that may require more in-depth and empirical considerations in the process of establishing a Sovereign Wealth Fund for Kenya

1.10. CHAPTER OUTLINE

The rest of the study is organized in the following chapters:

Chapter Two: Trends and Historical Development of Sovereign Wealth Funds

Chapter two covers an overview of the historical development and establishment of Sovereign Wealth Funds. This is both the general developments and that for the specific

countries selected as case studies. The evolution of global norms and practices in establishing the funds has also been covered in this chapter.

Chapter Three: Relationship of Sovereign Wealth Fund sources with the Structural design and expected economic role

Chapter three elaborates the sources of Sovereign Wealth Funds that determine their structure and design as reflected through the laws and policies informing their establishment. In it is considered their consequent allocated economic functions for the selected country case studies.

Chapter Four: Social Policy Considerations and the Governance Structure of Sovereign Wealth Funds

Chapter four analyses the extent to which the design of Sovereign Wealth Funds considered as successful incorporate the country social and political institutional context factors. This details the wider context issues that determine the policies adopted and the type of Sovereign Wealth Funds established for the countries selected for comparison.

Chapter Five: Kenya's proposed Sovereign Wealth Fund and the Social, Economic and Political factors of consideration

Chapter five provides an overview of Kenya's proposed Sovereign Wealth Fund. It highlights some of the source informed elements in its proposed design. It also contains a derivation of some expected economic functions of the fund in view of its design. The economic and social policy priorities of Kenya as well as the political and institutional structures are presented, in order to provide a basis of evaluating how they are weaved into the proposed design of the fund.

Chapter Six: Comparative Analysis of selected Sovereign Wealth Fund with Kenya's proposed Sovereign Wealth Fund

Chapter six contains an analysis comparing and contrasting existing frameworks for Kenya's ' proposed Sovereign Wealth Fund with the analysed frameworks of countries selected as a case study in this research.

Chapter Seven: summary, conclusion and recommendation

Chapter seven gives the summary, conclusions and recommendations of the study

CHAPTER TWO: TRENDS AND HISTORICAL DEVELOPMENT OF SOVEREIGN WEALTH FUNDS

2.1. OVERVIEW

The term Sovereign Wealth Funds was first used on the 20th of May 2005 by Andrew Rozanov⁴² in an article published in the Central Banking Journal. It referred to an observed emerging public sector player, different from the traditional pension funds and reserve assets established for supporting national currencies. The Kuwait Investment Fund established in 1953 has been largely pointed out to be the first of such funds⁴³.

In describing this new unconventional entity in macro-economics, David Gruen referred to them as “A fund that operates at arm’s length from the government”⁴⁴

The cumulative aspects in their conceptualization and development is best captured in definitions coined over the years.

One by Andrew Rozanov is that they are “a by-product of national budget surpluses, accumulated over the years due to favourable macroeconomic, trade and fiscal positions, coupled with long-term budget planning and spending restraint.”⁴⁵

⁴² Truman E.M. Sovereign Wealth Funds; Threat or Salvation?(Peterson Institute for International Economics 2010) (pp1)

⁴³ International Working Group on Sovereign Wealth Funds, Sovereign Wealth Funds, Generally Accepted Principles and Practices, “Santiago Principles” (2008) (pp 38)

⁴⁴ David Gruen and Phil Garton. The role of Sovereign Wealth Funds in managing resource booms: a comparison of Australia and Norway, speech during the Third Annual Asia Central Bank and Sovereign Wealth Fund Conference 23rd April 2012(pp 1)

⁴⁵ <http://www.centralbanking.com/central-banking-journal/feature/2072255/holds-wealth-nations-> accessed on 25th July 2014 1936hrs

A second one by Truman is that they are “separate pools of government controlled or owned assets that include some international assets”.⁴⁶

Another more expanded definition by the International Working Group on SWF’s is that they are “Special purpose investment funds or arrangements, owned by the general government. They hold, manage, or administer assets to achieve financial objectives, and employ a set of investment strategies which include investing in foreign financial assets. They 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.”⁴⁷

Balding generally defines them as “Macroeconomic policy institutions that attempt to remain divorced from Microeconomic decisions”⁴⁸

The tracing of their historical development considers the conditions that have led to their establishment. It is about how they have evolved as observed in the changes in their constitutive elements and economic and other development functions.

This chapter provides a review of the historical development and establishment of Sovereign Wealth Funds. It highlights significant contextual factors that have influenced their adopted forms and structure. It provides a review of the developed global norms and practices in relation to their establishment and utilization. Also considered is the different ways in which the Funds have been utilized, and the reasons for their use in view of the trends prevailing at different points in time. The ultimate aim is to accurately locate the nature and existence of Sovereign Wealth Funds within their specific contextual determinants.

⁴⁶ Truman E.M. Sovereign Wealth Funds; Threat or Salvation?(Peterson Institute for International Economics 2010) (pp 8)

⁴⁷ International Working Group on Sovereign Wealth Funds, Sovereign Wealth Funds, Generally Accepted Principles and Practices, “Santiago Principles” (2008) (pp 27)

⁴⁸ Balding C. Sovereign Wealth Funds: The New Intersection of Money and Politics (198 Madison Avenue New York Oxford University Press 2012) (pp 39)

2.2. BACKGROUND

The remarkable increase of Sovereign Wealth Funds, and the seeming acceleration in their establishment within short spans of time, validates the need to consider their growth and development history⁴⁹.

Distinct phases in which they significantly developed over the more than five decades of their existence are identifiable. They are marked out based on noteworthy occurrences and economic developments that provided the contexts for their creation⁵⁰. Three main phases identified in this research include: the first one that accompanied the Persian oil strikes in the 50^s with the main example being the establishment of the Kuwait Investment Authority. Second was during the oil boom of the 70^s where countries such as Saudi Arabia, United Arab Emirates and Alberta established the funds in order to absorb excess liquidity that threatened to overheat their economies. The third phase is the recent oil and mineral resource boom but also a massive building up of foreign exchange reserves by non-commodity based countries.

The historical review of their establishment and specifically their constitutive components is done against this background.

2.3. THE GENERAL HISTORY OF THE DEVELOPMENT AND ESTABLISHMENT OF SOVEREIGN WEALTH FUNDS

79 Sovereign Wealth Funds of different types were established between 1953 and 2014.⁵¹

The Sovereign Wealth Fund Institute estimated the total value of assets held in Sovereign Wealth Funds by March 2016 to be about 7.3 trillion dollars. The estimated value of the oil

⁴⁹ Appendix 1 on the dates of establishment of Sovereign Wealth Funds

⁵⁰ The three phases are as identified and demarcated by the researcher

⁵¹ Appendix 1 details of funds established

and gas based ones stood at a total of 4.3 trillion dollars, while that of the non-oil based ones was 3 trillion dollars⁵².

The first period of creation of the funds was the 1950^s when the Kuwait Fund was established and was also the time of the Persian Oil crisis. Kiribati's revenue Equalization Reserve Fund was also established as well as the United States New Mexico State Investment Council which formalized the management of the States funds. Two of these funds began as oil and gas based while one was mineral based.

Another period was during the Oil boom of the 1970^s, where six funds were created four of which are oil and gas based and two are mineral based. An equal number were created between 1981 and 1990 with five being oil and gas based and one being non-commodity based.

The period between 1990 and 2000 saw the creation of 14 funds 8 of which were based on oil and gas, 1 on minerals and the remaining 5 non-commodity based.

The remaining 48 funds were created between 2001 and 2014. 26 of them are based on oil and gas, 4 on minerals and 18 are non-commodity based.

The progress in the setting up of the funds reflects a relative increase in the non-commodity based ones over the fifty years of their existence.

A deeper look into the ways in which the funds have evolved over the years can be done by considering a selection of specific funds created in each of the identified periods of development.

⁵² "Sovereign Wealth Fund Rankings | SWFI - Sovereign Wealth Fund Institute," Sovereign Wealth Fund Rankings | SWFI - Sovereign Wealth Fund Institute, , accessed November 13, 2016, <http://www.swfinstitute.org/sovereign-wealth-fund-rankings/>.

2.4. THE HISTORY OF SELECTED COUNTRY SOVEREIGN WEALTH FUNDS

Different countries and sub-national entities set up Sovereign Funds with specific goals and structured in certain ways. The selected funds or institutional mechanisms for managing them for which a historical review will be covered in this section are: The Temasek holdings of Singapore, The UAE- Abu Dhabi International Petroleum Investment Corporation, The Government Pension Fund Global of Norway, The Pula Fund of Botswana and the Social and Economic stabilization Fund of Chile.

2.4.1. COUNTRY HISTORICAL REVIEW: BOTSWANA

Botswana's long term investment Fund is referred to as the Pula Fund and is the oldest of such funds in Sub-Saharan Africa. It was established in 1993 as a long term investment portfolio and aimed at preserving some of the income from the export of diamonds for future generations. The fund was however activated in 2006. The main purpose for setting it up was to manage the excess of the country's foreign exchange reserves⁵³. The management of Botswana's investment portfolio is divided into two parts.

The first is the liquidity portfolio which consists of two tranches; the transactions balance tranche and the liquidity investment tranche. The second is the Pula fund which is used for managing the excess exchange reserves⁵⁴.

The two main objectives of the Pula Fund are identified as being;

To deliver returns on national savings mainly derived from export on diamonds and secondly to act as an economic stabilization tool.⁵⁵

Its other objectives include:

⁵³ "Bank of Botswana," Bank of Botswana, , accessed November 9, 2016, <http://www.bankofbotswana.bw/>

⁵⁴ Ibid

⁵⁵ Accessed from <http://www.sovereignwealthcenter.com/fund/52/Pula-Fund.html#.UNZOGn6jIU> on 19th August 2014 1707 hrs.

National savings deployed to contribute to sustainable economic development; long term offshore investments necessary to deflect demands for immediate use for possible unproductive or unsustainable projects; generate relatively higher returns than possible in short-term investments; additional long term earner of foreign exchange; form of diversifying sources of income away from dominant commodity sale income to include financial investment income and prudent yield maximising venture/alternative.⁵⁶

The fund is managed by the Bank of Botswana and is built through the transfer of excess foreign exchange reserves. Investment is based on established investment guidelines.

By the end of the year 2013 the value of Botswana's foreign exchange reserves was P 67.8 billion which is equivalent of USD 7.7 Billion.⁵⁷

2.4.2. COUNTRY HISTORICAL REVIEW: NORWAY

The need for the establishment of a Sovereign Wealth Fund for Norway was identified with the discovery of oil in the North Sea in the year 1969, for which production began in 1971. The Ministry of finance submitted a report titled "The role of petroleum activity in Norwegian society" in 1974, which sought to define how the new found oil wealth would be used.

In 1983, the Tempo Committee chaired by the former governor of Norway's Central Bank (Norges Bank) Hermod Skånland proposed the creation of a fund. It was proposed as a fund by the government for storing the oil revenue and spending only the real return.

It is described as having been set up "to give the government room for manoeuvring in fiscal policy should oil prices drop or the mainland economy contract."⁵⁸ It is also identified "as a

⁵⁶ Mohohlo, Linah K, "CONFRONTING OLD & NEW CHALLENGES HIGH LEVEL SEMINAR on NATURAL RESOURCES, FINANCE & DEVELOPMENT MANAGEMENT OF COMMODITY REVENUES —BOTSWANA'S CASE": IMF INSTITUTE & CENTRAL BANK OF ALGERIA November 4 --5, 2010

⁵⁷ Bank of Botswana, Annual Report(Gaborone: Bank of Botswana, 2013), 80

⁵⁸ **Accessed from:** <http://www.nbim.no/en/the-fund/> on 18th July 2014 at 1549hrs

tool to manage the financial challenges of an ageing population and an expected drop in petroleum revenue.”⁵⁹ The fund was “designed to be invested for the long term, but in a way that made it possible to draw on when required.”⁶⁰

A law for the creation of the Government Petroleum Fund was passed by the Norwegian Parliament (the Stortinget) in 1990. Its purpose was defined as being to support the government’s long-term management of petroleum revenue.

The first capital transfer to the fund of 46 Billion Norwegian Kroner was made in 1996 from the Ministry of finance. Its investment was to be done in the same way as the Central Bank’s foreign exchange reserves.

By 1997, its value had grown to 113 billion Norwegian Kroner, with it being wholly invested in government bonds. A decision was also made by the Ministry of finance for the investment of 40% of the fund in equities.

The Norges Bank Investment Management (NBIM) was established in 1998 to manage the fund on behalf of the Central Bank. The fund had by now grown to 172 billion Norwegian Kroner and NBIM converted 40% into equities in the first half of this period. This was in implementing the decision made in 1997.

Investments of this fund were by now concentrated mainly in developed countries and in the year 2000, five emerging markets were added to the funds bench mark equity index. It had by now grown to 386 billion Norwegian Kroner.

The growth of the fund between 2000 and 2008 was quite fast, which was attributed to large capital transfers by the ministry of finance, resulting from significant increases in oil prices⁶¹.

⁵⁹ Ibid

⁶⁰ Ibid

⁶¹ "History," History, , accessed May 16, 2016, <https://www.nbim.no/en/the-fund/history/>.

The fund value over this period was as follows: 609 billion NOK in 2002; 1016 billion NOK in 2004; 1,784 billion NOK in 2006; 2,019 billion NOK in 2007; 2,275 billion NOK in 2008; 2,640 billion NOK in 2009; 3,077 billion NOK in 2010; 3,312 billion NOK in 2011 and 3,816 billion NOK in 2012. It had grown almost 83 times over a period of 16 years.

Various adjustments concerning investment of the fund were done.

One was the addition of five emerging markets to the bank's benchmark equity index in the year 2000, addition of corporate and securitised bonds to the funds bench mark fixed income index in 2002 and establishment of ethical guidelines for it in 2004.

In 2006 the name of the fund was changed to the Government Pension Fund Global.

A decision to increase the equity investment share from 40% to 60% was made in 2007. Small market capitalization companies were also added to the funds bench mark portfolio in the same year.

Other major adjustments on investments included: the inclusion of real estate to the fund's investment universe with a maximum share of 5% of total assets and the inclusion of all emerging markets in the reference equity index.

The ethical guidelines were evaluated in 2009 and the share of equity investments of the total fund reached 60% in June of the same year.

In the year 2010, a mandate to invest up to 5% of the fund in real estate through a corresponding reduction in fixed income holdings was granted. The first investment in real estate was made in 2011.

In 2012, the ministry of finance announced plans to gradually reduce the share of European holdings to 40% of the fund and increase investments in emerging markets to 10%.

The decision was attributed to the weak performance of European economies over the 2008-2012 periods and the strong performance by emerging markets. This was noted by Norges Bank's head Øystein Olsen stating that growth in advanced economies had been weak and slowing while that in Latin America and Asia remained robust. African economies were as well noted as catching up.⁶²

Gjedrem identifies four rules as the basis upon which the fund operates:

First: The totality of government petroleum revenues is transferred to it. Second: The Fund is integrated into central government budgets and accounts. The non-oil deficit is covered by an annual transfer from the Fund. The government cannot borrow to finance current expenditure as long as there is capital in the fund. Third: The capital in the fund can only be used for domestic spending via general budget transfers, and not for earmarked transfers. Fourth: The fund's capital must be invested abroad.⁶³

2.4.3. COUNTRY HISTORICAL REVIEW: CHILE

The creation of Sovereign Wealth Funds for Chile was predicated on the identified need for fiscal responsibility⁶⁴. A surplus rule introduced in 2001 paved the way for the formation of two Sovereign Wealth funds in 2006 as part of applying it. The two funds established at this time were the Pension Reserve Fund and the Economic and Social Stabilization Fund. The Economic and Social stabilization fund drew from savings previously accumulated under a decree law of 1981 and those held in the copper income compensation fund.

The target for the surplus earmarked for saving into the fund was set at 1% of GDP in 2001 but this was reduced to 0.5% of GDP in 2008. This policy of setting the surplus target,

⁶² Accessed from <http://www.ipe.com/norges-bank-to-shift-oil-funds-strategy-towards-emerging-markets/44084.fullarticle> on 5th August 2014 0125hrs

⁶³ Svein Gjedrem: Perspectives on managing the Government Pension Fund Global, Speech by Mr Svein Gjedrem, Governor of Norges Bank (Central Bank of Norway), at the Norwegian Polytechnic Society, Oslo, 2 November 2010.-accessed from <http://www.bis.org/review/r101105a.pdf> on 17th July 2014

⁶⁴ Ministry Of Finance, "Sovereign Wealth Funds," Sovereign Wealth Funds - Ministry of Finance, , accessed May 16, 2016, <http://www.hacienda.cl/english/sovereign-wealth-funds.html>.

independent of fluctuations of revenue due to price changes and other economic activities, led to the substantial accumulation of financial assets.

Good copper prices from 2005 meant that the surplus was quite high reaching the value of 8.8% of GDP in 2007.

The Pension Reserve Fund was for the purpose of backing up the government on the payment of pensions and provision of social security. The economic and stabilization fund was on the other had created for the purpose of stabilizing the economy during times of weak growth or low copper prices.

The Fiscal responsibility law and the Supreme Decree No. 1,383 of 2006, established a general framework for management of the funds, and appointed the Central Bank of Chile as the fiscal agent in managing them. The decree provided for the functions of the Central Bank and the norms and procedures in the management of the fund.

The finance committee was created by the supreme decree No 621 in the year 2007 to advice the finance Minister on investment of the assets of the two funds. The Minister was generally given the power by law to delegate the management of the fund to the Central Bank or to external managers. Also provided for was the provision for custodian institutions. In 2007 the Central Bank hired JP Morgan Chase Bank as the custodian for the two funds. The function of the institution was basically holding the securities and cash flow from the investments, clearing transactions on their behalf, preparing reports and supervising the compliance with investment limits.

A new policy for the diversification of assets to include equities and corporate bonds was scheduled for implementation in the year 2008 but was re-scheduled due to the Global Financial Crisis.

In May 2008, the President of Chile announced the creation of a third fund, the bicentennial fund aimed at funding the development of human capital through overseas training.

2.4.4. COUNTRY HISTORICAL REVIEW: THE UAE- ABU DHABI

The International Petroleum Investment Company (IPIC) was formed by the Abu Dhabi government in 1984 for investing returns from energy and related sectors. The initial goal for its formation was to use the natural petroleum wealth to build a modern diversified economy to benefit the future generations.

Four years after its formation the company acquired a 9.6% stake of the Spanish energy company CEPSA.

In 1994 IPIC acquired 24.9% stake in OMV which is Austria's largest listed industrial company focusing on international oil and gas business.

This strategy of international business and acquisition continued with the creation of a joint venture between IPIC and the Government of Pakistan to form PARCO with the Pakistani government holding 60% stake and IPIC the balance of 40%. The company's major activities are oil refining, oil products and pipelines and storage.

IPIC purchased a stake in the Arab petroleum company known as SUMED in 1995.

Another significant acquisition was of a 64% stake in the Austrian company Borealis that specialized in the production of polythene and polypropylene in 1998. It also created a petrochemical subsidiary Borouge as a joint venture with the Abu Dhabi National Oil Company (ADNOC). Borouge enabled expansion leading to a customer base spanning 50 countries across a number of continents.

IPIC took in the Hyundai oil Bank in 1999 which was held until 2010.

The company formed the Gulf Energy Maritime as a joint venture with Emirates National Oil Company, Oman oil and Thales.

It acquired a 20.8% stake in Cosmos oil which is one of Japan's largest oil refining and marketing companies.

The process of acquisition and entry into joint ventures with international companies continued and characterizes the history of the development of Abu Dhabi's International Petroleum Investment Corporation. By the year 2016 the company was managing portfolio of investments in 18 companies globally⁶⁵.

2.4.5. COUNTRY HISTORICAL REVIEW: SINGAPORE

The Temasek Holdings Company was established in June 1974, and is described as an Asia Investment Company headquartered in Singapore⁶⁶. Its charter describes it as an active investor and shareholder and a forward looking institution.

The company's net portfolio was valued at \$266 billion by March 31st 2015 and supported by 10 offices globally.

This portfolio was by this period distributed as follows: 42% in Asia Excluding Singapore, 28% in Singapore, 26% in North America and Europe, Australia and New Zealand and the balance of 4% in Latin America, Africa, Central Asia and the Middle East.

The distribution of the investments according to sectors by this period was as follows: 28% financial services, 24% Telecommunications, media and technology, 17% transportation and industrials, 15% Consumer and Real Estate, 5% Energy and resources, 3% Life Sciences and Agriculture, and 8% others.

⁶⁵ "IPIC - International Petroleum Investment Company." IPIC - International Petroleum Investment Company. Accessed May 16, 2016. <http://www.ipic.ae/>.

⁶⁶ "About Temasek - Temasek." About Temasek - Temasek. Accessed May 6, 2016. <http://www.temasek.com.sg/abouttemasek>.

The company began publicly publishing annual reviews in 2004 which are the sources for reviewing its historical development.

The earlier portfolio of the Company focused on Singapore and basically supported the country's development. It focused on the textile industry, ship building and tourism sectors and was concurrent with the country's development therefore going further to include the power and other emerging sectors. This strategy was operational for the first 28 years of the fund's existence.

The venture into Asia and beyond effectively began in the year 2002 and by 2004 investment was in a total of 35 companies.

During the period ending 2015, the fund activated digital platforms including LinkedIn, Twitter, Instagram, YouTube, and Facebook as part of the strategy to engage more effectively with stakeholders and particularly the young.

2.4.7. HISTORICAL DEVELOPMENT OF GLOBAL NORMS, PRACTICES AND STRUCTURES ON SOVEREIGN WEALTH FUNDS

The 20th of October 2007 was a significant date that marked the initiation of processes towards the putting in place of Global Norms for Sovereign Wealth Funds. This was during the sixteenth meeting of the International Monetary and Financial Committee of the International Monetary Fund (IMF) held in Washington DC. The meeting acknowledged the significance of the funds as well as the need for putting in place global frameworks for their governance.⁶⁷

The International Working Group on Sovereign Wealth Funds was later established at a meeting for countries with Sovereign Wealth Funds held from April 30-1 May 2008 in

⁶⁷ <https://www.imf.org/external/np/cm/2007/102007a.htm>- Communiqué of the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund October 20, 2007

Washington DC. It comprised of 26 IMF member Countries with Sovereign Wealth Funds. The group met a couple of times to identify and draft a set of Generally Accepted Principles and Practices that reflect their investment practices and objectives. This resulted in the Santiago Principles. The work of developing and drafting the principles was informed by the IMF commissioned voluntary survey on current structures and practices⁶⁸. It drew from already accepted international principles and practices.

The survey by the IMF had highlighted the legal frameworks, objectives and macro-economic linkages; institutional frameworks and governance structures; and the investment policies and risk management frameworks.

Some of the key findings of the survey included: a majority of the Sovereign Wealth Funds are capitalized from mineral royalties primarily oil while the rest are from fiscal surpluses and other sources including foreign exchange reserves and returns on investments. The second finding was that the legal basis of the funds vary from country to country. Third was that the policy objectives of the Sovereign Wealth Funds are partly tied to the broad nature of the liabilities of the countries establishing them. These include future pension obligations, savings for future generations, and fiscal stabilization or reserve for investment. Fourth was a general indication that the funds do not engage directly in macro-economic policies except in two occasions. These are: transfer to budgets for exceptional and targeted needs and drawing of the funds for transfer to Central Banks in case of exceptional balance of payment or monetary policy needs.⁶⁹

Institutional frameworks and structures of the funds were found to differ from country to country.

⁶⁸ Sovereign Wealth Funds Current Institutional and Operational Practices, report (International Monetary Fund, 2008).

⁶⁹ *Ibid*

This chapter has elucidated the historical growth and development of Sovereign Wealth Funds in general and specifically for those of five selected countries. Distinct phases with definitive and identifiable contextual characteristics have been highlighted. The period between 2001 and 2014 is however when most of the funds were established.

The effect of occurrences in the global context, on their growth design and investment strategies was manifested during the 2007-09 Global Financial and Economic crisis.

Another notable aspect from this historical review, is that of the development of comparative advantage for greater international investment of the main sectors providing capital for the funds.

The development of the global norms, practices and structures of Sovereign Wealth Funds has also progressed, providing a basis upon which new funds can be modelled.

This now leads to a more detailed and specific consideration of the capital source determined elements of governance structure and expected economic roles of Sovereign Wealth Funds in Chapter three.

CHAPTER THREE: RELATIONSHIP OF SOVEREIGN WEALTH FUNDS SOURCES WITH THE STRUCTURAL DESIGN AND EXPECTED ECONOMIC ROLE

3.1. OVERVIEW

The historical review of Sovereign Wealth Funds in the previous chapter has indicated that they are set up for various purposes and largely dependent on the context of the countries establishing them. The analysis in this section relates the sources of capital for the funds and their design, and how this further defines their envisioned economic functions. This is on the Sovereign Wealth Funds of the five countries selected as case studies for this research. The rules, policies and laws developed and adapted in their establishment and continuous development are used to extract the general factors constituting their design.

3.2. RELATING SOVEREIGN WEALTH FUND SOURCES AND STRUCTURAL DESIGN

3.2.1. NORWAY

The first aspect that Norway considered on the discovery of oil was how the resource could bring about an overall benefit to the Country's economy. This was contained in a report by the ministry of finance, which identified the potential for economic transformation resulting from the discovered resource.⁷⁰ It is in this report that the creation of a fund for equalization was first proposed⁷¹.

The fiscal role of the Sovereign Wealth Fund was identified early. At the very beginning due to an experienced economic down turn, the entire petroleum revenue was transferred to the fund but then later to the central government budget to cover the deficits.

⁷⁰Svein Gjedrem, Governor, "Perspectives on Managing the Government Pension Fund Global" (speech, Norwegian Polytechnic Society, May/June, 2016).

⁷¹ Report of the Committee on the Future of Petroleum Activity

Norway anticipates a future economic structure with a fifth of the population consisting of people above 70 years of age⁷². Having and growing the Sovereign Wealth Fund is seen as a way of securing the social welfare into the future. Norway has acknowledged that the eventual exhaustion of the oil and gas is inevitable. The returns on the fund will however continue to benefit the Norwegian population.

The law establishing the fund and passed by the Norwegian Parliament in 1990 clearly indicated the importance of its oil revenue management role.

The fund's economic diversification role is seen in the continual adjustment in the nature and location of investments. This also shows its function as a tool for international trade and investment.

The extent to which the fund can be used to cover the non-oil deficit is capped by law. It reflects its function in preventing an unhealthy dependence on oil.

The role of the fund in enabling the Norwegian government to have economic independence is factored in the restriction against external borrowing while the fund has capital.

Two clearly identified roles for the fund are; to shield the economy from the possible fluctuations in international oil prices and to stabilize the exchange for the kroner when Norway's revenues rise as a result of the outflow of the capital.

The establishment of Norway's Sovereign Wealth Fund is certainly pegged to the oil and gas wealth. Its design and development has definitely been influenced by the anticipated desired or undesired structural economic changes attributed to the significance of this industry. This is therefore the context for the creation and development of the fund. Economic management appears as a central factor of consideration in the creation and development of Norway's Sovereign Wealth Fund. It was therefore established in the face of possible positive or

⁷² Statistics Norway

negative economic effects of mineral resource discovery and exploitation. The Fund's usefulness in either enhancing the positives, or minimizing the negatives in a mineral resource significant economy, is therefore worthy of consideration.

3.2.2. BOTSWANA

Botswana's intention to preserve some of the mineral resource wealth for future generations, was a main factor in the establishment of the fund⁷³.

It was also considered as a means of availing capital for national investment, according to one of the objectives which is "to deliver returns on national savings"⁷⁴.

The creation of the Pula Fund also considered the potential for destabilization, out of exposure of the mineral based economy to external shocks. Having the fund as an economic stabilization tool is one of the two main objectives.

Its revenue management function can be derived from the objective of making long term offshore investments. This objective also includes the issue of helping avoid the use of the income for possible unproductive or unsustainable projects in the short run. Having the fund therefore ensures the prudent use of the mineral resource revenue.

The fund is also a tool to facilitate economic diversification. This appears in the objective of using it to diversify sources of income from commodity sale to further include financial and other high yielding investments.

3.2.3. CHILE

The Chilean government created two funds primarily for the implementation of the fiscal policy.

⁷³ "History," Bank of Botswana, , accessed November 02, 2016, <http://www.bankofbotswana.bw/content/2009103013033-pula-fund>.

⁷⁴ *ibid*

The way they are structured and their stated goals, indicate the specific economic reasons for their creation.

The Pension Reserve Fund is meant for financing pension and social welfare spending. The Economic and Social Stabilization Fund is to help overcome fiscal deficits in the case of unexpected declines in copper revenues or in times of low growth.

A fiscal balance rule put in place in 2006 prescribed the rate of saving and the approach to spending of revenues from minerals. It is part of Chile's strategy of tempering the effect of dependence on mineral resources.

The investment objective of the funds as a strategy towards maximizing economic benefit is clear. It is seen in the existence of a specific finance committee of the Central Bank to advise the finance Minister on the investment of the fund.

A policy on diversification of the portfolios of investment of the funds was formulated in 2008. It was however rescheduled due to the Global Financial Crisis but it is a further reflection of the fund's importance in the country's diversification and international economic strategy. A further indication of this is the succinct statement in the investment policy that the funds are not to be invested in-state.

3.2.4 SINGAPORE

The Temasek was established with the primary objective of offloading the burden of managing State owned entities from the Ministry of Finance.⁷⁵

It is a Private Company incorporated in Singapore under the Companies Act and is a commercial entity and neither a statutory board or a government agency. It therefore pays tax

⁷⁵Temasek, " Temasek Review 2016 Selected Questions & Answers - FAQs - About Temasek - Temasek, , accessed June/July, 2016, <http://www.temasek.com.sg/abouttemasek/faqs/temasekreview2016>

to the Government like any other entity and dividends to the shareholders. The funds shareholder is the Ministry of Finance.

The governance of the fund is however secured in the constitution under schedule five and has safeguards that protect past reserves. Past reserves are those accumulated during the term of the government preceding any current government. The President has to concur during the termination or renewal of board members.

The intent or general objectives in the establishment of the Temasek are contained in the charters.

It is described as a Holding company that manages Singapore Government's investments in companies for the long term benefit of country.

The 2002 charter identifies the fund as performing the role of broadening and deepening Singapore's economic base, by nurturing successful and vibrant businesses from its stable companies.

Factors it considers core are indicated as being; values focus; Human capital, sustainable growth and strategic development⁷⁶.

The economic function of the fund generally is therefore to maximize the benefits from the country's diverse investments in local companies as well as internationally. This can be seen in the way the company seeks to invest but also divests from those that are considered to be no longer profitable.

The revision of the charter has been concurrent with the changing context characterized by movement away from in-country towards greater international investments of the fund.

⁷⁶ Temasek Holdings, TEMASEK CHARTER, Pdf.

The changing structure of the fund is seen in the changes in the constitution of the portfolio in terms of value of investment and the geographical coverage of investment.

According to Wilson Ng ⁷⁷ three distinct phases that illustrate the Strategic approach in developing the Temasek can be identified.

This include: the first phase that began with the establishment of the fund in 1974 that was pre-dominantly a time of investment in the nation's most important firms. At this point it was basically a holding company for some start up investments. He points out that the creation of the fund enabled the separation of the government's regulatory and policy making functions from its role as shareholder in commercial entities. The fund came out as an engine of the country's economic growth through the 70's and the 80's.

The second phase was the 80's where the firms held under the Temasek were prepared in order to be capable of investing internationally. Key industries under it were converted into independent, highly profitable businesses. The corporate development strategy included the listing of the firms in the stock exchange and the formation of more Government Linked firms also known as GLC's. At this phase, the firm was still more or less local and had the main activity of managing the local assets with which it was endowed.

The third phase was in the early 2000's with the appointment of Prime Minister Ching and the fund developed the reputation as a serious international investor. The international strategy was launched by investing heavily in companies in Indonesia, China, Japan, the UK and the USA. International developments such as the 2008 Global Financial Crisis affected the trend in the investments leading to greater investment in emerging markets, but the approach generally adopted was that of international investment.

⁷⁷ Wilson Ng, "The Evolution of Sovereign Wealth Funds: Singapore's Temasek Holdings," *Journal of Financial Regulation and Compliance* 18, no. 1 (2010): 3, doi:10.1108/13581981011019589.

As at 2014, the global exposure was as follows: 41% Asia outside Singapore, 31% Singapore, 28% the rest of the world.

This is compared to 2004 where the value was 52% Singapore, 18% Asia outside Singapore and 30% the rest of the world respectively.

3.2.5. UAE- ABU DHABI INTERNATIONAL PETROLEUM INVESTMENT CORPORATION (IPIC)

The fund was created with the intention of enabling the use of the country's petroleum wealth to diversify the economy to benefit future generations. The initial strategy after its creation was to invest in energy and related sectors across the globe.⁷⁸

The company took the approach of acquiring stake in companies globally as part of building its portfolio.

Central to the Emirates economic development strategy is the vision 2030. It is described as a “ Blue print for creating a reduced reliance on the oil sector as a source of economic activity, a greater focus on knowledge-based industries and a significant increase in the contribution of other sectors to the Emirate's Gross Domestic Product (GDP) by the year 2030”⁷⁹

The vision identifies 9 pillars one of them being the optimization of the Emirate resource. On this it is stated that “the drive for a more sustainable and diversified economy is intended to reduce the relatively high dependence on oil and the cyclical swings which accompany it”⁸⁰.

A greater reflection of the economic diversification objective in the vision is the aim to have the Non-oil GDP growth rate becoming higher than the oil GDP rate by the year 2028.

⁷⁸ "IPIC - International Petroleum Investment Company," IPIC - International Petroleum Investment Company, 1, accessed July/August, 2016, <http://www.ipic.ae/>.

⁷⁹ "The Abu Dhabi Economic Vision 2030 | About IPIC | IPIC - International Petroleum Investment Company," The Abu Dhabi Economic Vision 2030 | About IPIC | IPIC - International Petroleum Investment Company, , accessed July/August, 2016, <http://www.ipic.ae/english/about-ipic/abu-dhabi-2030-vision>.

⁸⁰ Ibid

Abu- Dhabi's dependence on minerals and oil is quite substantial. An example indicating this was in the increase of the contribution of these sectors to GDP from 44% to 59% in 1995 and 2005 respectively. The contribution of the oil sector to GDP in 2014 was 50.9% while that of the non-oil sector was 49.1%. This is probably a reflection of some structural shift compared to the previous periods. Oil, gas and oil products constituted the highest value of exports in 2015.

Oil revenues have been the Emirate's primary source of fiscal revenue, accounting for 74% of income between 2000 and 2005. The increase or reduction of this revenue has been concurrent with the international oil prices, to the extent of having as much as 84% of total revenue being generated from oil and contributing to a reported surplus of \$5.8bn in 2006.

The inward looking nature of Abu Dhabi's non-oil sector has made it vulnerable to oil price fluctuations therefore making oil dependence a major factor in determining the growth of the economy.⁸¹

3.3. RELATING SOVEREIGN WEALTH FUND SOURCES AND THEIR ROLE IN THE ECONOMY

The design of Sovereign Funds is assumed to be informed by some intended economic functions. Given the optimization goal expected in rational economic decision making, this section analyses some of the main economic functions that the Sovereign Wealth Funds are expected to fulfil, in view of their capital sources. These are those functions that are either succinctly stated or implied in the charters, laws and policies.

Four of the Sovereign Wealth Fund case studies in this research are oil and mineral resource based while one is non- mineral resource based. The analysis of the mineral resource based funds will be on the background of already established specific factors influencing economic decision making in such contexts.

⁸¹ Ibid

Modernization theories conclude that economic decision making in mineral resource sector led economies considers how these can be the source of capital and therefore the foundation for spurring further economic development. The resource curse thesis and Dutch disease syndrome on the other hand suggest that a major part of economic decision making for such economies would be on how to avoid the two phenomena.

The way in which Sovereign Wealth Funds are designed to either catalyse further economic development or prevent the resource curse, illustrates their source informed design and expected economic functions, in economies experiencing mineral windfalls.

3.3.1. EXPECTED ECONOMIC FUNCTIONS OBSERVED IN MINERAL RESOURCE BASED SOVEREIGN WEALTH FUNDS

This analysis utilizes theories that have sought to generalize the experiences of such countries. It is assumed that the unique characteristic of being mineral resource abundant therefore informs the design and implementation of economic policy. The approach adopted is to use the modernization theorists' argument on the importance of mineral resources for an economy, to identify the positive possibilities existing and/or experienced. The Resource Curse thesis and the Dutch disease syndrome on the other hand provide a framework for the identification of the negative possibilities existing and/or experienced.

3.3.1.1. NORWAY

Norway's observed experience of some expected positive effects of oil and gas endowment has been as follows:

Capital accumulation seen in the almost 40 fold increase in the country's Gross Fixed Capital formation over the 50 year period of oil and gas exploitation This coincided with the resource

becoming a significant contributor to the County's GDP, changing from 0 to about a quarter⁸².

Second is Norway's production and supply of oil and gas that is way beyond its local needs making it highly comfortable in terms of energy supply. The stable and abundant supply of energy contributes to the uninterrupted progress of industrial activities. The resource therefore has become a source of stability for sustained industrial and hence economic development.

Third is the role of Norwegian oil and gas in creating comparative advantage that is reflected in Norway's capacity to manoeuvre in making international investments. The position of having available capital for investment resulting from huge earnings from petroleum activity enhanced Norway's ability to invest globally. This is observed in the number of countries in which Norway has been able to invest and the percentage share of total investment in the World's and Europe's listed companies.

Table 1 CONTRIBUTION OF PETROLEUM AND GAS TO TOTAL EXPORTS IN NORWAY			
Year	Exports(millions of Nok)	Export of petroleum, petroleum products and gas combined (millions of Nok)	Percentage
1980	134,795	41,399	30.7%
1990	293,015	88,540	30.2%
2000	689,316	319,806	46.4%
2010	929,116	471,179	50.7%

Source: Compiled from Statistics Norway annual publications

Fourth is the prescribed function of the oil revenue in supporting the non-oil sector of the economy in times of economic fluctuation. This reflects the capacity built to ensure the sustained growth of other sectors. Macro-economic stability is an important pre-requisite in maintaining a country's engagement in international trade and generally sustaining economic growth. Norway's economic policy that seeks to ensure that the non-oil sector is undisrupted

⁸² Øystein Olsen, Governor, "Oil and the Norwegian Economy – the Challenges Ahead" (speech, Lunch Hosted by Danske Bank Markets, New York, August 21, 2016).

during economic fluctuation enables a maintenance of its stability of international trade and generally economic growth. It also reflects the economic planning benefit that results from this stability.

Fifth is the importance of oil and gas in Norway, seen in its centrality in planning and policy development. The putting in place of rules on the spending of the earnings from the oil and gas reflects this. The oil and gas revenues are considered a possible source to plug in budget deficits and support the non-oil resource economy but within clear restrictions.

It is possible to identify and illustrate some negative effects of oil and gas endowment in Norway.

First is the dependence effect. Norway exhibits a significant increase in dependence on the oil and gas sectors, as measured by the increased contribution of the sector to the country's GDP. The dependence of Norway's international trade on the oil and gas sector is as well evidently high as seen with the increased contribution of the sector to the total value of exports. Norway is fairly dependent on its oil and gas though not to the extent of some other countries. The increasing contribution of the oil and gas sectors to the GDP over the years also indicates relative dependency.

Economic fluctuations due to international exposure of the Norwegian economy is another element that has been experienced. Between November and March 1986 there was a massive plunge in the price of crude. Predictably, the share of contribution of the Oil and Gas sector to Norway's GDP fell from 90,683,000,000 to 50,707,000,000. This was a massive 44% decline. The effect on GDP growth was evident where the value registered in 1986 was a

paltry 2.7% greater than the previous year. This was quite a contrast to the 1985 value which was 56.6% more than that of 1984⁸³.

Contrary to the experience of many countries, the de-industrialization effect also referred to as the Dutch Disease has not been experienced in Norway. While the oil and gas sector's contribution to the economy has generally increased, other sectors of the economy including the manufacturing and service industry have as well continued growing and contributing to the economy.

Norway as well does not manifest the negative income distribution effect. Norway ranks highly in terms of income equality. The country's Gini-coefficient in 2013 was 0.25 reflecting a high level of economic equality in the Country⁸⁴. This indicates that the high levels of income resulting from the mineral resource sector have been deployed in a generally fair manner.

3.3.1.2. BOTSWANA

The Capital accumulation effect has been observed in the case of Botswana. The growth in value of the gross fixed capital formation for selected years as illustrated in the table below reflects this.⁸⁵

Table Two: Botswana Gross Fixed Capital formation at constant 2005 prices figures

Year	GFCF in millions of Pula
2005	2516553408.65
2006	2691533257.4
2007	2996927147.14
2008	3096858968.48
2009	3390765110.72
2010	3701921209.01
2011	4151781428.05
2012	4717033641.53

⁸³ Extracted from various statistical reports for the relevant years

⁸⁴OECD, Government at a Glance 2013- Country Fact Sheet Norway, PDF, OECD, 2013.

2013	4394862203.31
2014	5067256149.90

Source: Statistics for Botswana Data Portal.⁸⁶

The specific value of the Gross Capital Formation attributed to mining in Botswana reflects the capital accumulation contribution of the mineral resource sector.

Table 3: Gross Fixed Capital Formation attributed to mineral prospecting in Botswana (in millions of Pula)

Year	GFCF attributed to mineral prospecting in millions of Pula
2005	251900000
2006	300450000
2007	354870000
2008	232170000
2009	277660000
2010	293650000
2011	323600000
2012	310100000
2013	291000000
2014	333100000

Source: Statistics Botswana Data Portal.⁸⁷

From 2005 to 2014, mineral prospecting contributed about 10% of the annual value of Gross Capital Formation in Botswana.

The relative importance of Botswana's mining sector in national wealth creation is observable in the relationship between the sector's Gross Capital Formation, and the overall Gross Capital formation value. The correlation is illustrated in the similar pattern of fluctuations in the period of the 2007-2009 Global Financial Crisis as reflected in the tables above.

⁸⁶ "Free Data & Statistics, Data Collection, Analysis, Visualization and Sharing - Botswana Data Portal." Knoema. Accessed November 03, 2016. <http://botswana.opendataforafrica.org/>.

⁸⁷ Ibid

Botswana has not experienced significant resource based industrialization. There hasn't been a significant increase in the contribution of the manufacturing sector to GDP. The economy is mineral based and for the last 20 years the conversation has been on the need to diversify⁸⁸.

Another positive experience for the country is the creation of comparative advantage leading to growth of other sectors. Factors such as consistent high credit ratings have raised Botswana's profile as a destination for international investment and enabled the development of the financial sector.

Some negative effects of mineral resource dependence in Botswana are identifiable.

First is the Capital to Labour effect. This is seen in the Agriculture sector where the contribution to the Country's GDP has significantly reduced from a high of 42% in 1966 to 1.9% in 2008. Despite this, it remains the sector employing a majority of the population⁸⁹.

Second is the Dependence effect, where the mining sector contributes the largest share of the country's GDP. By the year 2008 it contributed a total of 31.9% of GDP and had gone as high as 48% in 1985/86 period. Statistics Botswana gives the provisional value of the combined total exports for the mining sector for the months of June, July and August 2014 at 24,044 million Pula compared to that of meat and textiles at 468 million Pula⁹⁰. This means that the mining industry accounted for a total of 98% of the country's total exports reflecting a very high level of dependency.

Third is the De-industrialisation effect. By the time of the discovery of diamonds and other minerals, Botswana's economy was quite rural and not industrialized. Botswana was just emerging from colonial rule and therefore not as industrialized to warrant comparison with the Dutch economy with respect to the Dutch Disease. However the decline in agricultural

⁸⁸ Sentiments by Botswana's Ambassador to Kenya during interview on the 27th of July 2014

⁸⁹ Various official sources providing statistical data on Botswana

⁹⁰ Statistics Botswana Data Portal

development as a result of the great focus on the minerals sector could have resulted into less growth in terms of agriculture related industry. The manufacturing sector contribution to GDP also declined with the increasing contribution of the mining sector.

The fourth evident effect is susceptibility to economic fluctuations due to greater international exposure of the economy. Botswana's dependence on diamonds and other minerals has meant that its economy is highly subject to fluctuations in the global market prices for minerals. This was clearly depicted following the 2007/08 global recession, which affected the demand and therefore prices of minerals in the international market. The country's high dependence on minerals meant a smaller amount of revenue earned and in 2009 experienced a negative (-) 4.9 rate of economic growth.

The Enclave effect has also been manifested in Botswana. This is a situation where the immediate mining region does not benefit in terms of employment and can even experience a decline despite an increase in the output from the sector. The unemployment levels are still high despite the good economic performance over the fifty years of mineral resource exploitation. By 2012 the unemployment rate was 17.6% and very high among the youthful population of employable age.⁹¹

The Income Distribution effect is also evident in Botswana. Despite the high levels of economic growth and national earning from minerals, inequality is still high. The Gini coefficient has generally been over 0.6 reflecting a high level of inequality and therefore poor distribution of the minerals income. This has been made worse by the lack of adequate skills among the population for employment in the mining industry. There has been a continued dependence on agriculture for local employment despite its declining significance over the years.

⁹¹ "African Economic Outlook 2012," 118, accessed July/August, 2016, http://www.africaneconomicoutlook.org/sites/default/files/content-pdf/AEO2012_EN.pdf.

The Education effect is also evident in Botswana. Performance in terms of human development is quite low. The high rate of unemployment is attributed⁹² to skills and education mismatch. While the income and surpluses resulting from the mineral resource has enabled a fair provision of welfare services, skills development seems not to have been effectively pursued.

3.3.1.3. CHILE

Chile's experience with capital accumulation is observed in the value of the Gross Capital Formation over the years.

Table 4: GROSS CAPITAL FORMATION AND GDP FIGURES FOR CHILE⁹³

Year	GROSS CAPITAL FORMATION Value (millions of pesos)	GDP at current prices (millions of pesos)	MINING (millions of pesos)
2003	10,307,001	51,156,415	4,321,571
2004	11,245,253	58,303,211	7,516,082
2005	14,007,707	66,192,596	10,386,199
2006	14,805,188	77,830,577	17,328,180
2007	16,983,393	85,849,774	19,567,809
2008	21,946,100	89,205,487	15,660,340
2009	18,963,826	90,219,527	14,046,544
2010	21,741,469	103,806,380	19,955,499
2011	26,157,271	121,319,462	17,277,316
2012	29,196,070	129,027,553	17,728,935
2013	29,841,102	137,229,576	18,617,842
2014	28,581,288	147,568,108	18,885,237
2015	28,142,160	157,130,884	18,865,045

There seems to be a correlation between the performance of Chile's mining sector and the Gross Fixed Capital Formation as seen in the similarity of patterns. The specific illustration of this is the case of 2008-2009 where a reduction in the contribution of the mining sector to

⁹² Ibid

⁹³ 2008-2010 figures derived by the researcher from the statistical database of the Central Bank of Chile while the rest from ministry of finance annual economic statistical data bases

the GDP seemed to concur with the reduction in the Gross Capital Formation over the same period. The sector is also a big contributor to the country's export.

The significance of the mineral sector in Chile's economy is observable in its centrality in overall economic policy, planning and development.

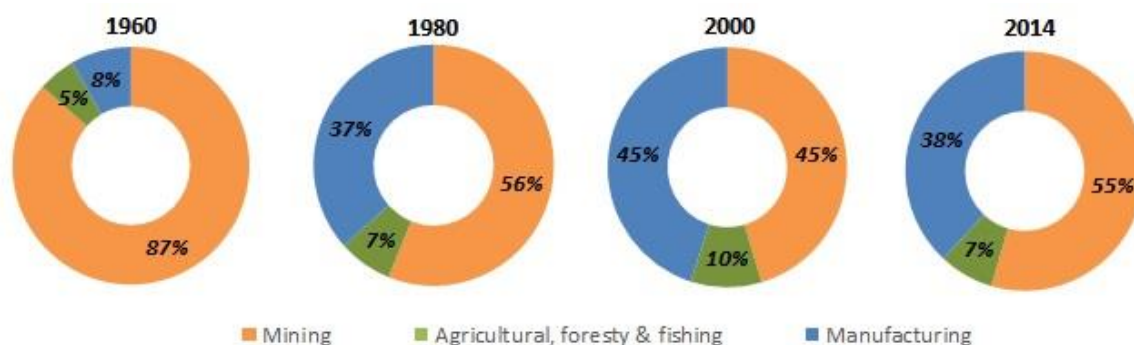
Some negative economic effects of Chile's mineral resource windfall can be illustrated.

The dependence effect where Chile is evidently dependent on the minerals resources sector.

There is a generally big contribution of the sector to the share of exports as well as the GDP.

Secondly the formulation of fiscal policy has been done in consideration of the mineral income factor.

Figure 1: Chile Exports by Economic Sector (Nominal)⁹⁴



Source: Central Bank (the value for 2014 includes exports until November).

The contribution of the mining sector to exports relative to other sectors has seen an increase between 2000 and 2014 after declining between 1960 and 1980 and 1980 and 2000 respectively.

Chile's exposure to international mineral price fluctuations is another visible effect. This is seen in how the changes in international prices impact the export values. The main case in

⁹⁴ Ministry Of Finance, "Macroeconomic Indicators," - Ministry of Finance, , accessed July/August, 2016, http://www.hacienda.cl/english/investor-relations-office/why-chile/economic-information/macroeconomic-indicators.html#gdp_growth.

point is that of the period during the 2007-2008 Global financial crisis. The dip in the international prices of minerals resulted to a reduction in the relative rate of increase in the value of GDP. (See table 4 above).

3.3.2. RELATING THE DESIGN AND ECONOMIC ROLE OF SOVEREIGN WEALTH FUNDS IN MINERAL RESOURCE SECTOR BASED ECONOMIES

The economic context of minerals, oil and gas abundant economies is such that they are exposed to the common effects of mineral windfalls, but also have opportunities of having the resources availed to them. The optimization assumption in economic decision making is the basis for considering how the Sovereign Wealth Funds are used to minimize the negatives and maximize the positives of having these resources.

Norway's main source for its Sovereign Wealth Fund is its oil and gas. It reflects in the way its design was with the goal of optimizing the returns of this National Wealth.

A specific fiscal policy function of the fund is in its enabling the government to counter effects of oil price fluctuations, and contraction of the mainland economy. This is one of the objectives provided in setting it up.

The economic stability function of the fund was factored in its design on the ease of liquidity in enabling easy future access to needed funds for the economy. This fulfils the macro-economic stability goal in mineral resource sector dominated economies and specifically for Norway. The Non-oil sector remains secured through a buffer of the funds, in case of fluctuations that can significantly affect the economy.

There was a visible consideration of the international trade and investment factor. This was through the establishment of a specific institution in charge of the Sovereign Wealth Fund and formulation of criterion on how to proceed⁹⁵.

The economic diversification role of the fund is observed in the continual adjustment in the nature and location of investments⁹⁶.

The capping of the extent to which the fund can be used for the non-oil deficit, indicates the deliberate avoidance of unhealthy dependency on it⁹⁷.

The role of the fund in enabling the Norwegian government have economic independence is factored in the restriction against external borrowing while the fund has capital⁹⁸.

The pegging of the establishment of Norway's Sovereign Wealth Fund to the discovery of oil and gas, implies that its design and development was influenced by the anticipated desired or undesired structural changes to the economy.

In the case of Botswana, one of the reasons provided for the establishment of the Sovereign Wealth Fund was to save part of the income for future generations⁹⁹. This clearly points to an economic function associated with the source of the fund being the country's mineral resources.

⁹⁵ "Governance Model," Governance Model, , accessed July 16, 2016, <https://www.nbim.no/en/the-fund/governance-model/>.

⁹⁶ "Investment Strategy," Investment Strategy, , accessed August 16, 2016, <https://www.nbim.no/en/investments/investment-strategy/>.

⁹⁷ "Government Pension Fund Global The Fund," The Fund, , accessed August 18, 2016, <https://www.nbim.no/en/the-fund/>.

⁹⁸ Ibid

⁹⁹ "History," Bank of Botswana - Pula Fund, , accessed August 18, 2016, <http://www.bankofbotswana.bw/content/2009103013033-pula-fund>.

Arising from this savings was identified the capacity to invest.¹⁰⁰ This presents the perspective that the mineral resources provided the necessary capital for national investment and therefore economic expansion.

The economic stabilization objective reflects the Botswana's Pula Fund as a direct response to the possibility of economic challenges resulting from strong dependence on mineral resources.

The objective of having the Pula Fund for the preservation of the income resulting from the mineral resources, to help avoid unplanned spending¹⁰¹, reflects revenue management as an economic function of the fund. It further reflects it as performing the role of ensuring fiscal discipline and avoiding of the wasteful use of national resources.

Another purpose of the Pula Fund is to help in achieving economic diversification by availing capital towards growing financial and other high yielding investments. This further reflects its role in avoiding unhealthy mineral dependence.

Chile's Pension Reserve Fund was meant for financing pension and social welfare spending¹⁰². This presents the economic function of taking care of future demographic aspects in this case pension and also facilitating the country's achievement of economic welfare objectives.

The country's Economic and Social Stabilization Fund (ESSF) as well seems to directly respond to the threat posed by over dependence on minerals. The clearly stated aim of overcoming fiscal deficits in the case of unexpected declines in copper revenues¹⁰³, or in

¹⁰⁰ *ibid*

¹⁰¹ *ibid*

¹⁰² Ministry Of Finance, "Pension Reserve Fund," Pension Reserve Fund - Ministry of Finance, , accessed August 25, 2016, <http://www.hacienda.cl/english/sovereign-wealth-funds/pension-reserve-fund.html>.

¹⁰³ Ministry Of Finance, "Economic and Social Stabilization Fund," Economic and Social Stabilization Fund - Ministry of Finance, , accessed September 16, 2016, <http://www.hacienda.cl/english/sovereign-wealth-funds/economic-and-social-stabilization-fund.html>.

times of low growth indicates this. The fiscal balance rule of 2006 that put parameters to guide on spending and saving of the income further illustrates it.

The strategic approach to the investment of the fund is in the formation of a specific finance committee of the Central Bank to advise the finance Minister on its investment. It as well presents promotion of investment as an economic role of Sovereign Wealth Funds.

The creation of comparative advantage for international economic engagement is also notable. This is through the deliberate aim at using the funds to diversify international portfolio and therefore increase returns to the country¹⁰⁴.

One of the clearly stated reasons for establishing UAE Abu Dhabi's IPIC is to be an instrument to enable economic diversification using the petroleum wealth and extend the benefits to future generations¹⁰⁵.

Related to this is to reduce dependence on the petroleum wealth by enabling earning of income from other investments globally¹⁰⁶. The wealth therefore enabled the acquiring of stake in companies globally as part of building its portfolio.

3.3.3. RELATING THE DESIGN AND ECONOMIC FUNCTIONS OF SOVEREIGN WEALTH FUNDS IN NON-MINERAL RESOURCE SECTOR BASED ECONOMIES

3.3.3.1. SINGAPORE

Singapore's Temasek fund is non-mineral based and from its design presents a significantly different set of economic considerations.

¹⁰⁴ Ministry Of Finance, "Investment Policy," Investment Policy - Ministry of Finance, , accessed September 25, 2016, <http://www.hacienda.cl/english/sovereign-wealth-funds/pension-reserve-fund/investment-policy.html>.

¹⁰⁵ "IPIC & Our History | About IPIC | IPIC - International Petroleum Investment Company," About IPIC | IPIC - International Petroleum Investment Company, , accessed September 25, 2016, <http://www.ipic.ae/english/about-ipic/ipic-and-our-history>.

¹⁰⁶ Ibid

The first aspect appearing as informing its formation is that of economic liberalization. The fund's initial portfolio of \$354 million comprised of shares in companies, start-ups and joint ventures previously held by the Singapore Government. Contrary to that of Botswana, Norway and Chile, the Temasek was established with the objective of offloading the burden of managing these entities from the ministry of finance.¹⁰⁷

A specific economic role is defined in its charter. That is broadening and deepening Singapore's economic base, by nurturing successful and vibrant businesses from its stable companies. Factors it considers important are, values, focus; human capital, sustainable growth and strategic development¹⁰⁸.

The expected economic function for the fund in view of its sources therefore is generally to maximize the benefits from the country's diverse investments internationally. This is observed in the way the company seeks to invest but also divests from those that are considered to be no longer profitable.

The findings in this chapter indicate that the initial design of Sovereign Wealth Funds in Mineral resource sector led economies, are towards enabling the experiencing of the expected positive effects of mineral resource abundance, and preventing the occurrence of the negative ones. The extent to which the economies are mineral resource dependent however determines the extent to which the funds are tailored to perform these two roles. This is the difference between Norway and the three other mineral resource dependent economies.

The non-mineral resource based Sovereign Wealth Fund of Singapore however demonstrates that the fund is not tightly linked towards a certain economic phenomenon but is generally flexible towards achieving wider economic objectives of the country.

¹⁰⁷ Temasek, " Temasek Review 2016 Selected Questions & Answers - FAQs - About Temasek - Temasek, , accessed June/July, 2016, <http://www.temasek.com.sg/abouttemasek/faqs/temasekreview2016>

¹⁰⁸ Temasek Holdings, TEMASEK CHARTER, Pdf.

CHAPTER 4: SOCIAL POLICY CONSIDERATIONS AND THE GOVERNANCE STRUCTURE OF SOVEREIGN WEALTH FUNDS

4.1. OVERVIEW

This chapter contains an analysis of the social policy considerations in the creation of Sovereign Wealth Funds and their governance structure.

It evaluates how these aspects influence the type and nature of Sovereign Wealth Funds created in the five Countries.

Social policy considerations are the social development concerns as contained in the development blue prints of the countries. It is about how the design and development of the Sovereign Wealth Funds incorporate identified social priorities.

The analysis of the governance structure is about how the country constitutional and legal frameworks influence the management and administration of the funds.

This creates the context relevance basis for comparing the proposed Sovereign Wealth Fund for Kenya with those of the selected countries. It will enable the conceptualization of critical elements for recommendation in the efforts towards setting up a Sovereign Wealth Fund for Kenya.

4.2. SOCIAL POLICY PRIORITIES IN UAE-ABUDHABI

The Economic Vision 2030 for Abu Dhabi identifies Social and Human Resources Development as one of the four priority areas. It identified high quality education and health services as high priority areas. The availability of a stable supply of high quality labour are also a priority. Other main social policy concerns are civil service, culture and heritage and food control.

Social and Human development are identified in the Vision as being the driving motivation behind all policies and initiatives in Abu Dhabi. This means that they should be implied in the design and implementation of development programs.

The Vision highlights the policy drivers for Abu Dhabi's health sector. These are cost of healthcare which has been identified as being unsustainable, facilities and institutions which need upgrading in order to meet demand, inconsistent access and standards, need to focus on primary care and prevention and the domination of health care service delivery by public institutions.

Education sector policy drivers identified in the Vision include: more University degree level trained teachers, longer training period for new teachers, longer school year for the UAE, increased length of time for mandatory education, better pay for the teachers, change of strategy for education management in terms of the role of the ministry and available opportunities to improve technical education.

4.2.1. RELATIONSHIP BETWEEN SOCIAL POLICY PRIORITIES AND THE DESIGN AND DEVELOPMENT OF ABU-DHABI'S SOVEREIGN WEALTH FUND

The International Petroleum Investment Company (IPIC) of Abu Dhabi was specifically established with the goal of enabling economic diversification that would reduce dependence on petroleum¹⁰⁹.

The Company identifies the Country's Vision 2030 as the framework within it is established and functions¹¹⁰.

¹⁰⁹ "IPIC & Our History | About IPIC | IPIC - International Petroleum Investment Company," About IPIC | IPIC - International Petroleum Investment Company, , accessed September 25, 2016, <http://www.ipic.ae/english/about-ipic/ipic-and-our-history>.

¹¹⁰ "The Abu Dhabi Economic Vision 2030 | About IPIC | IPIC - International Petroleum Investment Company," About IPIC | IPIC - International Petroleum Investment Company, , accessed September 25, 2016, <http://www.ipic.ae/english/about-ipic/abu-dhabi-2030-vision>.

The implication here therefore is that the social policy objectives identified in the vision and the various policy documents, will be realized on the foundation of a robust and diversified economy. This indicates that the relationship between the Sovereign Wealth Fund and Abu-Dhabi's social development is strategic but indirect.

4.2.2. GOVERNANCE STRUCTURE OF ABUDHABI'S SOVEREIGN WEALTH FUND

The United Arab Emirates, of which Abu Dhabi is part of, is a Federal Union consisting of the seven autonomous territories referred to as Emirates. Article 120 as read with Article 121 of the UAE Constitution provides the jurisdiction of the Federal authorities. Concurrent with federal institutions are Local Governments of the seven Emirates.

The Constitution of the Federal Union considers the natural resources and wealth in each Emirate as its public property. This therefore provides the basis for the total autonomy in the management of the petroleum and gas resources by Abu-Dhabi and according to the set local government arrangements.

Abu-Dhabi is the largest emirate and has the Executive Council chaired by the Crown Prince as the governing organ. Under the council are departments that are equivalent to ministries and other independent agencies. These generally represent the executive arm of the Abu-Dhabi government.

The legislative arm is the National Consultative Council. It consists of 60 members selected from Abu Dhabi's main tribes and families. Laws are generated by the Executive Council, taken to the National Consultative Council and signed into law by the ruler of Abu-Dhabi.

The IPIC is one of the government departments. It was formed and is fully owned by the government. It is governed by a board of directors chaired by a member of the ruling family of Abu Dhabi. All the members of the board of directors are appointed by the government.

The autonomous nature of Abu- Dhabi as one of the Emirates in the UAE is the basis of the fairly self- determining approaches to social and economic development. The local government system of rule that vests authority in the ruling family, influences the governance of the Sovereign Wealth Fund.

The IPIC seeks to achieve transparency and accountability through the publishing of annual financial statements that are available on its website¹¹¹. Additionally it is one of the entities that is subjected to the Abu-Dhabi Accountability Authority. Institutions subject to this Authority are those in which the government's share is not less than 50% and also on their subsidiaries. The companies in which IPIC has stake of more than 50% are also subject to the Authority. One of the main functions of the Authority is to support accountability through the provision of reports to the Crown Prince concerning the entities under its jurisdiction. One of its three stated objectives is to ensure public funds are managed, collected and expended efficiently, effectively and economically¹¹².

The accountability reports are published annually and are publicly available on the Authority's website.

4.3. SOCIAL POLICY PRIORITY CONCERNS IN NORWAY

Norway is highly developed and ranks very well in social service delivery and human development. "The Norwegian welfare model provides generous income protection and a wide range of services. There is considerable public funding for health and care services, day-

¹¹¹ "Reports & Financial Statements | Investor Relations | IPIC - International Petroleum Investment Company," Investor Relations | IPIC - International Petroleum Investment Company, , accessed September 25, 2016, <http://www.ipic.ae/english/investor-relations/reports-financial-statements>.

¹¹² "ADAA - Objectives and Strategy," ADAA - Objectives and Strategy, , accessed September 27, 2016, <http://www.adaa.abudhabi.ae/En/AboutUs/Pages/Strategies.aspx>.

care facilities, education and research.”¹¹³ The Social Welfare system has worked well and been generally well designed and structured.

The inevitable exhaustion of oil and gas over time will however have an effect on national earnings, and ultimately impact on the maintenance of the system.

The demographic challenge of an ageing population is a significant human development concern in Norway. The OECD points out that “the ratio of the population aged 65 and over to the population aged 20-64 is estimated to nearly double from approx. 30% in 2011 to 60% by 2050”¹¹⁴. The changing population structure means that more resources will go into pension, health and care for the aged, and a reduction in the labour force.

4.3.1. RELATIONSHIP BETWEEN SOCIAL POLICY PRIORITIES AND THE DESIGN AND DEVELOPMENT OF NORWAY’S SOVEREIGN WEALTH FUND

Norway’s Government Pension Fund Global has a fiscal policy rule that ensures that it always makes a contribution to the financing of the welfare services.

In terms of financing the national budget, only the expected real rate of return to the fund, estimated at 4 % per annum can be withdrawn to finance public spending or tax cuts. The fiscal rule introduced in 2002 deters withdrawal from the capital of the fund unless the real rate of return on the fund is less than 4%. This aims at maintaining macro-economic stability in a situation where the non-oil funded domestic economy is affected by fluctuations that reduce government revenue to finance the budget. The rule aims at ensuring predictability which enhances investor confidence. It also secures the continual growth of the Government Pension Fund Global, in order to contribute to the financing of the increasing pension and health care costs. In this way, the benefit of the natural resources to the future generations is as well assured.

¹¹³ Regjeringen.no, "Regjeringen.no," Regjeringen.no, , accessed April/May, 2016, <https://www.regjeringen.no/>.

¹¹⁴ OECD, OECD Skills Strategy Norway 2014, PDF, Paris: OECD Publishing, 2014

These social concerns, together with the eventual reality of the depletion of the oil and gas has resulted in the quest to diversify the investments of the Sovereign Wealth Fund savings. There is indeed a strong relationship between Norway's social developmental concerns and objectives and the way in which the Government Pension Fund Global is designed, developed and managed.

4.3.2. GOVERNANCE STRUCTURE OF NORWAY'S SOVEREIGN WEALTH FUND

Norway's political system is a Constitutional Monarchy with a Parliamentary System of government. The executive can only govern with the support of the Parliament (The Storting).

The Prime Minister heads the executive and nominates Ministers who are appointed by the King.

The process of Law and Policy making is characterized by high checks and balances by the three arms of government.

The overall management of petroleum and gas in Norway is by the executive which answers to the Parliament on policy issues.

Norway's Sovereign Wealth Fund referred to as the Government Pension Fund Global is governed by the Government Pension Fund Act (no. 123 of 21 December 2005).

The management of the fund is by the ministry of finance which is also mandated to make supplementary provisions for managing it. The ministry has delegated operational management of the fund to the executive board of the Central Bank (Norges Bank) which has further delegated it to the Bank's Investment Management (NBIM).

The overall structure is therefore as follows: the Parliament develops the law and provides oversight. The ministry of finance has the mandate of management and establishing ethical

guidelines. The Central Bank through its executive board is mandated to invest the fund and provide principles of managing it. The NBIM invests the fund on behalf of the Bank and the day to day running is by a Chief Executive Officer who heads the investment management.

The responsibilities of the investment management include: overall management of investment portfolios; development of the strategic plan for managing the portfolios, investing the capital; provision of guidelines to integrate various aspects touching on investment activities; contribute to developing international standards on investment of the fund; establish principles for valuation, performance measurement, and risk management, measurement and control; publish quarterly and annual reports on the management of the investment portfolio.¹¹⁵

The Chief Executive Officer works with what is referred to as the Leader Group for which he/she provides the job description and which is responsible for implementation.

The Advisory Committees are another structure. They are fora to advice on various aspects, and consist of members of the Leader Group. They include: the Investment Risk Committee, Investment Universe Committee, Real Estate Committee, Business Risk Committee, Valuation Committee and the Compensation Committee.¹¹⁶

Decisions for the transfer of capital from the fund have to be approved by the Parliament. The power to analyse and make decisions concerning the investment of the fund is given to the Central Bank.

Moreover, a responsibility to report on the operations of the fund is placed comprehensively on the Bank. This includes reporting on the choices, priorities and on the results achieved. It requires specific account to be given on the overriding principles for the choices of the

¹¹⁵ "Governance Model." Governance Model. Accessed June/July, 2014. <http://www.nbim.no/en/the-fund/governance-model>.

¹¹⁶ Ibid

strategies adopted, investment strategies applied, framework used for risk control and management and how investment management is organized. The reporting is done quarterly, annually and triennially with clearly described aspects to be contained in each report.

The bank is expected to submit its strategic plan for the management of the investment to the ministry. It has to inform the ministry about the changes in the investment portfolio of the fund. It also provides any information the ministry requests and the data used as a basis for the public reporting. There is a mandatory quarterly meeting between the ministry and the bank where these issues are considered.

The quarterly and annual reports of the Fund beginning the year 1998 are available on the Funds website¹¹⁷.

4.4. SOCIAL POLICY PRIORITIES IN SINGAPORE

Singapore has over the different periods of development had distinct social development initiatives aimed at achieving better livelihoods for the population. These included the “gracious and compassionate society” initiatives in the 90’s and “levelling up” that provided extra funding for education, healthcare and retirement¹¹⁸. The country’s rapid growth during the early years after independence caused the adoption of target based rather than a long term plan based approach to development. It was therefore not based on periodic development plans as was the approach adopted by many developing countries.

One of Singapore’s core present concern is to ensure sustainable development where economic growth is pursued, while at the same time ensuring that the environmental concerns are adequately taken care of. The long term sustainable development action plan identifies the

¹¹⁷ <https://www.nbim.no/>

¹¹⁸ Ong Keng Yong, Ambassador, "Singapore's Social Policies: Vision, Accomplishment and Challenges" (speech, The Centre for Social Development(Asia) Conference, Shaw Foundation Alumni House, Singapore, September 18, 2016).

building of capabilities as one of the main strategies in order to flexibly adapt to the future changes¹¹⁹. On this is a focus on research and development, investing in new technologies and adapting them to local needs. It also includes international sharing and knowledge. Encouraging community action is another social priority. It includes promoting community efforts through engaging community groups and NGO's and public education on adoption of eco- friendly lifestyles¹²⁰.

The provision of eco-friendly housing with the goal of having green mark certification by the year 2030 is another goal.

Singapore's approach in social support initiatives is however that of "no unconditional welfare". Citizens are expected to actively participate and be involved, even while being provided with any form of social support.

Human resource development has continuously been emphasized in Singapore.¹²¹ A key area of focus is the provision of relevant education, with the development of entrepreneurial capability having been specifically identified.

The need to provide support for the changing structure of the population with the growing proportion of the elderly in the country is also an area of concern.

4.4.1. RELATIONSHIP BETWEEN SOCIAL POLICY PRIORITIES AND THE DESIGN AND DEVELOPMENT OF SINGAPORE'S SOVEREIGN WEALTH FUND

Singapore's Sovereign Wealth Fund, the Temasek is specifically designed to factor in identified social development concerns on the issues affecting communities in the Country

¹¹⁹ The Interministerial Committee on Sustainable Development, "A Lively and Liveable Singapore: Strategies for Sustainable Growth," 2009, 15, accessed June/July, 2016, http://app.mnd.gov.sg/PDF/sustainableblueprint_forweb.pdf.

¹²⁰ Ibid pp 17

¹²¹ Ong Keng Yong, Ambassador, "Singapore's Social Policies: Vision, Accomplishments and Challenges" (speech, The Centre for Social Development (Asia) Conference, Shaw Foundation Alumni House), accessed June/July, 2016, http://lkyspp.nus.edu.sg/ips/wp-content/uploads/sites/2/2013/06/sp_oky_The-Centre-for-Social-Development-Asia-Conference_080610-1.pdf.

and beyond. Since its inception, 16 endowments have been established towards this end.¹²² A policy decision was made in the year 2003 to contribute a portion of the annual returns to communities¹²³. The Temasek trust was established in the year 2007 to oversee the management and disbursement of philanthropic gifts and donations. The gifts and endowments to the trust are re-invested for growth and increased stake of the fund.

Singapore's Social development concerns go beyond Singapore into Asia and this is factored in the way the community engagement is designed. The Temasek Foundation focuses on initiatives in Asia while the Temasek cares focuses on initiatives within the Country. This is in line with the Singapore's overall objective of more active engagement in Asia.



Figure2: Temasek Foundation model of development¹²⁴

The Temasek Foundation Cares specifically has a component on building capabilities which is directly in tandem with the building capabilities strategy contained in the sustainable development action plan blue print.

The design of Singapore's Sovereign Wealth Fund is clearly in seeking to relevantly respond to the country's social development policy concerns.

¹²² "Community Stewardship - Community - Temasek," Community Stewardship - Community - Temasek, , accessed June/July, 2016, <http://www.temasek.com.sg/community/communityengagement>

¹²³ Ibid

¹²⁴ Ibid

4.4.2. GOVERNANCE STRUCTURE OF SINGAPORE'S SOVEREIGN WEALTH FUND

The adopted political system of governance in Singapore after independence was one of a dominant role of the state in planning and economic development. This involved the setting up of enterprises and development related institutions, managed or supervised by the state. Singapore has been described as a developmental state¹²⁵.

Executive power is vested in the President and exercised by him or the Cabinet or Minister to whom it is delegated. The Cabinet is responsible to Parliament. The Parliamentary system and decision making processes as defined in the Constitution reflect Singapore's adopted developmental state system.

Singapore's Temasek Fund is anchored in the country's Constitution under part 2 of the fifth schedule. It is referred to as a government company and the power of appointments to such companies is vested in the President with Parliamentary oversight. It is only Parliament with a two thirds majority that can alter the President's decision. Its specific operations and governance are under the Singapore Company Act. This enables commercial operations with the government as the sole shareholder. Values identified as informing the governance of the fund are meritocracy, excellence, respect, Integrity, teamwork and trust¹²⁶.

Such government companies have specific constitutional provisions on the drawing of funds not accumulated under the current term of office of the government.¹²⁷

Singapore's Sovereign Wealth Fund is evidently developed in line with the country's political philosophy. The developmental state model determines the approach to social and economic development and visibly informs the operations of the fund.

¹²⁵ Huff, W. G. "Turning the Corner in Singapore's Developmental State?" *Asian Survey* 39, no. 2 (1999): 214-42. doi:10.2307/2645453.

¹²⁶ "Corporate Governance - About Temasek - Temasek," Corporate Governance - About Temasek - Temasek, , accessed September 25, 2016, <http://www.temasek.com.sg/abouttemasek/corporategovernance>

¹²⁷ Constitution of the republic of Singapore (section 22D)

In terms of accountability, the cabinet in Singapore is held accountable by the Parliament and has its decision under the scrutiny of the legislature. The Cabinet is specifically required by the Constitution to seek Parliamentary approval for expenditure and to also give accountability. Regular accountability is specifically given on the management of the Temasek and the use of ICT including social media has been heavily adopted.

4.5. SOCIAL POLICY PRIORITIES IN BOTSWANA

Botswana's social policy priorities are contained in the Country's Vision 2016.

The first one is to have an educated and informed nation. Education is to be of quality and accessible to all. Quality concerns the empowerment of citizens to be innovators, producing entrepreneurs and focus on skills needed for life. Access concerns the provision of universal primary and secondary education and the opportunity for uptake of vocational technical training as an alternative to academic training. The vision promotes the pursuit of partnership between the public and private sectors in education.

Aspects identified in the vision for having an informed nation include the provision of the best available Information Technology and developed Communication capacity in the Electronic Media, radio and television. All schools are to have access to computer and computer based communications such as the internet. Information on the operations of the government, private sector and other organizations is to be freely available to all citizens.

Another social priority in the vision is to enable the citizens to access quality basic shelter in both urban and rural areas.

Also prioritized in the Vision is the provision of a social safety net for all who find themselves in poverty. This is to be done alongside the provision of social security in partnership with Non- Governmental Organizations and the private sector.

Health is another priority area. The aim is to have access to good quality health facilities for both primary and curative services.

Other social priorities touch on crime and security, road safety and disaster preparedness.

4.5.1. RELATIONSHIP BETWEEN SOCIAL POLICY PRIORITIES AND THE DESIGN AND DEVELOPMENT OF BOTSWANA'S SOVEREIGN WEALTH FUND

Public spending that goes towards the financing of social priorities in Botswana is based on five year national development plans. The development plans over the last 20 years have been based on the Botswana Vision 2016.

Section 36 of the Public Finance Management Act of Botswana provides for the establishment of development funds specifically for the purpose of financing government projects for economic and social development.

The policy adopted in Botswana for financing public expenditure using mineral resource revenue is observed to follow the Hartwick- Solow rule for sustainability in mineral economies¹²⁸. This provides that constant consumption should be maintained if the value of investment and rents of mineral resources is equal. Mineral revenues in Botswana are deposited in the consolidated fund¹²⁹ and therefore contribute to the overall basket for financing development.

¹²⁸ African Development Bank, Botswana's Mineral Revenues Expenditure and and Savings Policy: A Case Study, PDF, Abidjan: 11 African Development Bank, 2016.

¹²⁹ Ibid

Minerals are considered an asset and the public finance management policy framework requires that revenues from sale of assets be used for the financing of investment in other assets.

The utilization of the funds deposited in Botswana's Sovereign Wealth Fund for the purposes of development financing is not succinctly stated. The savings deposited in this fund can however be reinvested with the purpose of generating revenue and diversifying the sources of income for development. The Pula is a separate entity managed by the Central Bank and not directly linked to the short or medium term development planning or strategy.

4.5.2. GOVERNANCE STRUCTURE OF BOTSWANA'S SOVEREIGN WEALTH FUND

Botswana's Constitution provides for a Republican form of government headed by the President with three main arms; the Executive, Legislature and the Judiciary. It is a Presidential system of government.

The executive consists of the Cabinet headed by the President and Ministers. It is responsible for providing policy, leadership and direction and manages government ministries and departments as well as Parastatal Corporations.

The Parliament has the legislative authority and consists of the President and the National Assembly which consults the house of chiefs for tribal issues. The President has the power to address, summon and dissolve the National Assembly.

There is a Judiciary that administers and interprets the Law.

The management of Botswana's Sovereign Wealth Fund falls within the larger framework for managing the Country's foreign reserves. It is administrated under section 35 of the Bank of Botswana Act of 1996, which provides for a separate fund or funds established by the Bank

of Botswana in consultation with the Minister of finance. They are for investing “assets in excess of those needed for the primary international reserve”¹³⁰.

The Board of the bank is in charge of policy and delegates implementation to its governor. The ministry of finance is consulted for guidance on allocation of assets and determining the sizes of the various components of the investment portfolio. The financial markets department of the bank manages 50 % of the reserves while the other 50 % is managed by 9 fund managers. The rationale provided for having the pool of fund managers includes ensuring performance comparison with the bank staff, training of the staff and protection against the impact of brain drain. Their appointment considers expertise, experience, stability, past performance, willingness to train the bank staff, fees, and their style of investment and decision making processes.

The Custody and Portfolio Advisory Services is the other division involved in the governance of the fund. Its work includes monitoring investments, managing transitions and measuring performance.

The Bank of Botswana has a direct role in the creation and management of the Sovereign Wealth Fund and is directly overseen by Cabinet through the minister of finance. The design, creation, development and governance of Botswana’s Sovereign Wealth Fund is in accordance to the Country’s system of governance.

4.6. SOCIAL POLICY PRIORITIES IN CHILE

Chile’s social policy with a focus on the most vulnerable is one of the pivotal factors for its relatively better development comparing with other Latin America Countries¹³¹. The

¹³⁰ Bank of Botswana Act 1996

¹³¹ Cristián Larroulet, Chile’s Path to Development: Key Reforms to Become the First Developed Country in Latin America, PDF, Washington DC: The Heritage Foundation Leadership for Latin America, October 15, 2013.

approach to social development has changed from a welfare approach, to focusing on social investment policies and programs aimed at human development and equal opportunities access. This shift in social policy focus as contained in the 2008 Poverty Reduction Strategy Paper is towards one that is based on a social protection framework that guarantees access to socio-economic rights.

The progressively developed social protection system reflects the social policy concerns. These include social security, access to health care services and education, employment and housing as well as social welfare for the poor and vulnerable groups.¹³²

On health, the policy has deliberately identified four guarantees for the population which are access, quality, timeliness and financial protection on 56 high cost diseases¹³³.

The Social Security reform aims at guaranteeing access to pensions by all. That is both the economically capable and those challenged in various ways.

The priority in education is to guarantee access for the vulnerable and ensure a minimum of 12 years of access for all. That is universal access to primary and secondary education.

4.6.1. RELATIONSHIP BETWEEN SOCIAL POLICY PRIORITIES AND THE DESIGN AND DEVELOPMENT OF CHILE'S SOVEREIGN WEALTH FUNDS

The Social Policy priorities identified in Chile have influenced the design and development of Sovereign Wealth Funds. The most prominent illustration of this is the specific creation of a fund for human capital development through overseas training in 2008.

The fiscal responsibility law created the Pension Reserve Fund that aims at addressing pension provision as a social protection policy priority. It provides a ceiling of the percentage

¹³² Claudia Robles Farías, Social Protection Systems in Latin America and the Caribbean: Chile, PDF, Brazil: International Policy Centre for Inclusive Growth (IPC - IG), March 2015.

¹³³ Ibid

of GDP to be contributed to the fund in seeking to spread the burden. It also defines approaches towards building the fund in view of the future pension obligations.

The Economic and Social Stabilization Fund, also established under the fiscal responsibility law is aimed at ensuring the insulation of social spending from budgetary fluctuations. This is by availing funds for financing the budgets in times of deficits.

The design and development of the Sovereign Wealth Funds in Chile has clearly and directly factored in identified Social Policy priorities.

4.6.2. GOVERNANCE STRUCTURE OF CHILE'S SOVEREIGN WEALTH FUND

Chile has a presidential system of government with three arms; the Executive, the Judiciary and the Legislature.

The National Congress has fair oversight over the President though the Presidency is quite strong and stability appears as a major emphasis following past years characterized by instability.

The importance of copper as a national resource is observed in the inclusion of provisions of norms in the Constitution on the how the industry shall be governed¹³⁴. Copper has been the main income earner and largely constitutes the revenue used to build the two Sovereign Wealth Funds. The importance of copper is further reflected in the initial establishment of the Copper Income Stabilization Funds that was replaced by the Economic and Social Stabilization Funds.

The pursuit of openness in the management of Chile's Sovereign Wealth Funds is illustrated through the availability of the annual reports on the website¹³⁵.

¹³⁴ Constitution of the republic of Chile Transitory provisions third
¹³⁵

The existence of the fiscal responsibility law as the basis for the creation of the two Sovereign Wealth Funds is testament to Chile's effort to uphold good governance in the management of the Fund. The tying of the funds to the actual fiscal situation indicates stringent measures for objectivity and avoiding of temporary political interferences in their use and management.

The review in this chapter indicates that the Social Policy Priorities of the Countries are considered in the way the Sovereign Wealth Funds are designed. The approaches are however different from country to country based on the general philosophy towards social development. The political institutional aspects influence the governance structures of the Sovereign Wealth Funds for all the Countries studied. The next Chapter zeroes in on the Kenyan context in order to build towards a comparative analysis in Chapter six.

CHAPTER 5: KENYA’S PROPOSED SOVEREIGN WEALTH FUND AND THE SOCIAL, ECONOMIC AND POLITICAL FACTORS OF CONSIDERATION

5.1. OVERVIEW

This chapter provides the details of Kenya’s proposed Sovereign Wealth Fund, identifying some of its source informed aspects. Within this is a derivation of some expected economic functions of the fund in view of its design.

The economic and social policy priorities of Kenya as well as the political and institutional structures are presented.

A highlight of some of the existing critical perspectives concerning the establishment of the fund is given

The findings of questionnaires administered to various development practitioners on the creation of Sovereign Wealth Funds in Kenya are presented.

5.2. SOVEREIGN WEALTH FUND: THE PROPOSED KENYA MODEL

The establishment of a Sovereign Wealth Fund for Kenya was first substantively proposed in the 2013 report of the Presidential Task Force on parastatal reforms¹³⁶. It identified the primary goal for its establishment as being to achieve the policy objective of securing income

¹³⁶ Kenya, Executive Office of ThePresident, Report of The Presidential Task Force on Parastatal Reforms (2013), 113.

from current resources for future generations. The other main objective identified is to support the fiscal budget through transfers to national government budgets.

The task force made various policy proposals for the establishment of the fund.

One is the identification of sources which include: an initial start-up capital of \$10 billion, capital increases from privatization proceeds, leverage and oil, gas and mineral revenues.

The National Sovereign Wealth Fund bill 2014 is so far the most detailed framework document for the establishment of a Sovereign Wealth Fund.

The stated objective in the bill is, the diversification of portfolio of medium and long term local and foreign investment to build a savings base for purposes of national development, stabilization of the economy at all times and enhancing inter-generational equity in Kenya.¹³⁷

The basis of the intergenerational equity objective in the bill is article 201C under the Public Finance chapter of the Constitution, which requires the intergenerational sharing of burdens and benefits of resource use.

The bill proposes a “Special purpose investment fund”. It will be a mixed commodity and non-commodity fund consisting of the Stabilization Fund, the Infrastructure and Development Fund, the Future Generations Fund and any other account of the fund established under the law.

The objectives of the proposed fund are: to build a savings base for the people of Kenya; protect and stabilize the budget and economy from excess volatility in revenues and exports; provide a mechanism for the diversification from non-renewable commodity exports; assist monetary authorities dissipate unwanted liquidity; increase savings for future generations; fund social and economic development; enhance sustainable long-term capital growth; and support and promote any other strategic objectives of the country.

¹³⁷ Pre-amble of the National Sovereign Wealth Fund bill 2014

The identified sources of the funds are; capital from privatization proceeds; dividends from state corporations; all oil, gas and mineral revenues due to the national government and funds from any other source. Indications of the removal of proceeds from oil as a source of the fund have however been pointed out¹³⁸.

The purpose of the three funds in the bill are as follows:

The stabilization Fund will be to facilitate levelling current spending in a sustainable way, insulating the national budget and the economy from the impact of volatility in revenues, including minerals and petroleum revenues. Withdrawal from the fund will be tied to the budget and based on the limit determined by the Cabinet Secretary through the issue of investment guidelines. Guidelines on deposits to the fund may be issued by the Cabinet Secretary in consultation with the Fund Board.

The Infrastructure and Development Fund is for the purpose of funding economic and social development in accordance to national government plans. The Cabinet Secretary in consultation with the board may issue guidelines on deposit to the fund.

The Future Generation Fund is specific on the source being revenue from minerals, petroleum reserves and exploitation of other exhaustible resources. Its other stated purpose is the transformation of future generation into different sectoral economy and environmental protection. Guidelines for deposit to the Fund are to be provided by the Cabinet Secretary in consultation with the board.

The bill proposes a National Sovereign Wealth Fund Council consisting of the President, Cabinet Secretary to the National Treasury, Cabinet Secretary responsible for planning, the Cabinet Secretary responsible for mining, the Cabinet Secretary responsible for petroleum

¹³⁸ The National Sovereign Wealth Fund bill 2014

and energy, the Attorney General, the Chairperson of the board and the Chief Executive Officer who will also be the secretary.

The function of the council covers issues of direction to the board, advice on investment, reviewing the reports of the fund and evaluating its performance and generally that of the board.

The bill proposes the establishment of a board of trustees to be known as the National Sovereign Fund board of trustees which shall manage the fund.

Its composition will include: a chairperson appointed by the President with parliamentary approval, Principal Secretaries in the ministry in-charge of treasury and that of planning, three persons appointed by the President, the Chief Executive Officer and the corporation secretary to be its secretary.

The Board will oversee the investment and management of the fund, appoint the fund managers, provide guidelines for the managers and basically oversight functions on various aspects of the fund.

The powers given to the board are: to enter into contracts; manage, control and administer the assets of the funds; receive applications from various people; receive any grants gifts or donations and open a bank account for the fund in which all monies shall be paid and out of which payments from the fund shall be made; and undertake any other activities necessary for the fulfilment of the functions of the fund as provided for in the law.

The board chairperson will be a public servant and a code of conduct for the members of the board will be developed.

The day to day running of the affairs of the fund is delegated to the CEO of the board.

The board is further empowered to establish committees considered necessary in the performance of its functions in line with the act.

The act provides for the appointment of investment managers according to the boards direction on investment.

The Cabinet Secretary is provided for as the executive agent of the council with the responsibility of annually issuing investment guidelines and reviewing them, consider the board's reports ensuring compliance with the provisions of the act.

The guidelines issued will provide directions for allocations to the three funds and any other established under the act.

They will also guide in the decisions to invest such as investment targets, horizons and asset composition.

It will further guide on the risks framework such as on issues of balance between risk and return.

Still the guidelines will include the ethical investment policies and directions relating to the management of credit, liquidity, operations, currency market, and other financial risk or return choices.

The guidelines are to define the extent to which investment in domestic assets can be made.

The Cabinet Secretary is required to integrate the investment guidelines with the relevant national economic policies and publish and publicize them.

The board has a responsibility of considering the investment policies and strategies taking into account the guidelines issued by the Cabinet Secretary, and is supposed to issue periodic reports on the performance of the fund. Investment will be both in local and foreign markets according to the law and the investment guidelines.

Specific provisions for investing the future generations fund are provided. These will include rolling five year plans for investment aimed at effectively achieving the objectives but considering prevailing macro-economic factors. It provides for confidentiality restrictions for the purpose of effectiveness in investment. Regulations for investing the future generations fund will be provided by the Cabinet Secretary. Capping of withdrawals from the fund for current expenditure will also be provided.

It provides for the certification and communication of the balance of reserves to the incoming Parliament and President in the case of change of administration. The reserves are to be preserved over the life of the new administration except with the approval of parliament or a formal application by the Cabinet Secretary to the treasury.

Annual estimates of the funds are to be provided at least three months before a new financial year and indicating the revenue and expenditure of the fund for the year.

The bill provides for annual reporting and accountability with the requirement that the report is made public and prescribes the contents of the report.

The bill provides for the making of additional regulations for carrying out the object of the law and in adherence to the Generally Accepted Principles and Practices on Sovereign Wealth Funds as contained in the Santiago Principles.

5.3 DERIVATION OF THE SOURCE INFORMED ELEMENTS AND EXPECTED ECONOMIC FUNCTIONS OF THE PROPOSED FUND

The Sovereign Wealth Fund bill identifies the sources and proposes three funds; the Future Generation Funds, the Stabilization Fund and the Infrastructure and Development Fund.

The details of the specific design and structure of each of the three funds has not been provided. Some of the source informed aspects factored in the design of the three funds are

identifiable. The future generations fund is in view of the exhaustible nature of the minerals and other non-renewable resources and therefore the requirement for the sharing of the burden and benefits between the present and future generations.

The stabilization fund reflects a recognition of the possible greater dependence on minerals and oil as exploitation becomes more intense. This would therefore pose the risk of significant international economic exposure. The stated intention of the funds enabling the mopping out of excess liquidity also reflects the need to protect against inflation in the case of huge flow of revenues resulting from the mineral resources. The proposed fund therefore has a clear intent to protect against the negative economic effects and the Dutch disease syndrome, due to greater dependence on mineral resources.

The proposed creation of an infrastructure and development fund, reflects the recognition of the possible opportunities provided for strategic investment resulting from mineral resource income and other revenue sources. It also reflects the identification of a variety of capital sources for investment in national development.

A consideration of the short term and long-term aspects in view of the sources of the funds appears in the way the fund is designed. Short term results of mineral exploitation may mean large windfalls presenting the possibility of international exposure of the economy. This brings the need for the stabilization fund. Revenue from commercial operations of Government Owned Entities means the availability of funds for future economic development. It may also mean the increase in liquidity and the possibility of rise in inflation. This would require the funds as a tool for macro-economic policy.

The diversity of the identified sources, as well as the expected economic function of the Sovereign Wealth Fund, are two aspects that appear to have informed the thinking in the proposed design as contained in the bill.

5.4. KENYA'S ECONOMIC DEVELOPMENT SITUATION AND PRIORITIES

According to Kenya's economic sectoral performance between 2010 and 2014, the five leading contributing sectors to GDP were agriculture, forestry and fishery which contributed an average of 26.2%, followed by Manufacturing at 11%, real estate at 8%, wholesale, retail and repairs at 7.9% and financial services at 6.1%. There is a fairly high dependence on agriculture in a generally undiversified economy.¹³⁹

The economic pillar of the Kenya Vision 2030 identifies the priority areas for economic development. These are: tourism, agriculture, and livestock; wholesale and retail; trade; manufacturing; finance; and Business Process Outsourcing. Enabling sectors to support these include: energy, telecommunications and transport.

The 2nd medium term plan of the Vision 2030 for the period 2013-2017, has identified the oil and other minerals as an additional priority sector. While the sector has accounted for only 1% of GDP and 3% of export, it is expected to increase in importance.

The establishment of a mineral Sovereign Wealth Fund is identified as one of the projects under this sector.

5.5. KENYA'S SOCIAL DEVELOPMENT POLICY PRIORITIES

The Constitution of Kenya under the social and economic rights section of the bill of rights, makes general provisions on aspects of social development that are to be progressively achieved¹⁴⁰.

The Kenya Vision 2030 is the foundational policy document that identifies development priorities for the different dimensions of development.

¹³⁹ Kenya 2015 Economic survey

¹⁴⁰ The Constitution of Kenya (Article 43(1)

The social development priorities are identified under the Social Pillar. The objective of the pillar is investing in the people of Kenya in order to improve the quality of life for all Kenyans by targeting a cross-section of human and social welfare projects and programs¹⁴¹. It identifies the following priority areas: Education and training; health; environment; housing and urbanization; gender, children and social development; and youth and sports.

For each of these priorities is also provided the flagship projects as well as elaborate details of the quantitative and qualitative targets to be achieved.

5.6. KENYA'S POLITICAL INSTITUTIONAL CONTEXT

The general context of governance in Kenya is provided in the Constitution.

Kenya is a Multi-Party Democratic State, founded on the national values and principles of governance contained in article 10 of the Constitution.¹⁴²

The National Values and principles of governance include: patriotism, national unity, sharing and devolution of power, the rule of law, democracy and participation of the people; human dignity, equity, social justice, inclusiveness, equality, human rights, non-discrimination and protection of the marginalised; good governance, integrity, transparency and accountability; and sustainable development.¹⁴³

Kenya has a devolved system of governance consisting of the National government and 47 County governments. The governments at the national and county levels are described as distinct and inter-dependent and conducting their mutual relations on the basis of consultation and cooperation.¹⁴⁴

¹⁴¹ Kenya Vision2030, "Social Pillar," Kenya Vision2030, , accessed August 15, 2016, <http://www.vision2030.go.ke/social-pillar/>.

¹⁴² The Constitution of Kenya (article 4(2))

¹⁴³ Ibid (article 10 (2))

¹⁴⁴ Ibid(article 6(2))

The constitution defines the structure of the three arms of government.

The Executive at the National level consists of the President, the Deputy President and the cabinet.

The National Parliament consists of the National Assembly and the Senate. Parliament is described as manifesting the diversity of the nation, representing the will of the people and exercising their sovereignty.¹⁴⁵

One of the roles of the National Assembly is revenue management which includes the determination of the allocation of national revenue between the levels of government as well as exercising oversight over national revenue and its expenditure.

The senate has one of the roles being to represent the Counties and protects their interests and that of their governments.

5.7. CRITICAL PERSPECTIVES ON THE PROPOSED DESIGN AND ESTABLISHMENT OF A SOVEREIGN WEALTH FUND IN KENYA

Questionnaires were administered to six people involved in the financial and economic sectors, to collect primary data on perspectives on the setting up of the fund. The respondents were experts from think tanks and non-state actors involved in areas relevant to the study.

The aspects covered in the questionnaire included: general knowledge on the proposed establishment of the fund, the advantages and disadvantages of establishing it, sources and how these relates with the economic role of the funds, perspectives on design and development contribution and the governance structure and institutional arrangements.

There was 100% awareness on the proposed establishment of the fund.

Only one of the respondents had participated in deliberations concerning its creation.

¹⁴⁵ Ibid (article 94(2)

The advantages for setting it up were identified as follows: will be a buffer against economic volatility, will enhance diversification of the Kenyan economy from non-renewable commodity exports; could enable Kenya to gain greater returns than on traditional foreign exchange; would enable the building of reserves in case there is a boom and also build resilience; would assist the county monetary authorities in the use of unwanted liquidity; would provide increased savings for future generations, would fund socio-economic development; would enable access to sustainable long-term capital growth for Kenya; would force the ruling class to be prudent in the management of the country's wealth; could be used to off- set Kenya's current debt so that it is not borne by future generation hence afford them better lives; would be a bold step towards promoting a savings culture; It will set aside revenue that would be used to smooth expenditure over time thus countering the effects of price volatility and variations in production levels.

Disadvantages identified include: deprives current generation of Kenyans of the use of the funds; possibility of mismanagement especially by the political class; the purpose of the fund can be thwarted by borrowing against it to expand spending in boom times leading to debt and difficulties during bursts; non-transparent forms of investment could also lead to embezzlement of the funds; and bad investments could rip the country off its surplus.

On the sources and the implications on the economy, 75% of the respondents identified mineral resources, oil and gas as the most suitable source for the funds and a major reason for setting them up. The same percentage felt that having these as the main sources meant that the Sovereign Wealth Fund would have a significant role in the economy.

The respondents gave various reasons for having mineral resources, oil and gas as a basis for setting up a Sovereign Wealth Fund in Kenya.

One is that; given that minerals, oil and gas have not been a key component of the GDP, a significant increase in their contribution to the economy may expose the Country to the threat

of the Resource Curse. One of the ways of avoiding this is to borrow from best practices from other countries.

Two is that the SWF can be a platform to effectively manage the country's resources. It would be one way of consolidating revenues from Extractive Industries into one basket with all other revenue to constitute the national budget.

Three is that it will allow for time to effectively plan for the use of the resources by setting aside a certain percentage of all revenues to be invested. This will be through a diversified portfolio like stocks and shares giving the highest returns and preferably in foreign currencies that are stable and abroad. This will require regular auditing and the transparent sharing of information with the public to ensure accountability.

Four is that it will enable the setting aside of a certain percentage of resources to grow the country's infrastructure. The effect of this will be to spur additional growth and investment in other economic activities in the country like manufacturing and agriculture, hence diversifying the GDP earners and eliminating over dependency on oil and mineral resources.

A contrary perspective was that the discovery of oil, gas and minerals does not constitute a reason for setting up such a fund in view of the quantities declared.

Five of six of the respondents felt that the identification of mineral resources, oil and gas as main revenue sources for the funds, reflects the significance of their role in the economy. Part of this is on the capacity to cover current budget deficits. The returns from the funds can help to settle some of the Country's obligations and movement towards a more balanced budget.

One of the respondents proposed that the proceeds be dedicated to specific capital expenditure /infrastructure that benefit mining areas or the entire country in general. Another perspective provided was that the inevitable exhaustion of extractives sector revenues, may

determine and influence the use towards building sustainable sectors. This would be in order to ensure that the economy continues thriving even after exhaustion.

One respondent felt that the funds would not have a major role in the economy. This is because the extractives sector upon which it may predominantly be based would not be a significant contributor to the economy.

On how to design the fund, one aspect investigated was on the integration into the economy. Various perspectives were given. One is that it would depend on the state of the economy such as coming in handy during a cash crunch. Some respondents felt that it would be important to avoid the direct injection into the National budget as this may lead to wastage and therefore undermine the fundamental need for the fund.

The respondents gave some factors that are important for consideration in designing the fund. First is that the structure of the fund should have stabilization, diversification and future generation elements/factors.

Second is that insulation from mismanagement be ensured through a framework for prudent management of resources.

Third is that a consideration of the country's debt position and payment of the national debt be a priority.

Fourth is that the fund be completely transparent and managed outside the stream and the rules and regulations be benchmarked with international standards. It is important to have a clear framework for transparency and accountability.

Fifth is the consideration of Kenya's financial health while factoring in current needs, in accordance to the national demographic situation.

In terms of governance structure and institution arrangements, the role of various institutions were proposed by the respondents.

The Central Bank was identified as important given its role in monetary policy stability and predictability. The exit of foreign currency due to offshore investments was noted as exposing the country to the risk of currency instability hence an important role of the bank. The Bank's other role identified by the respondents is to have oversight as well as managing investors and holding reserves.

The roles of citizens were also identified. These include: watchdog role over the fund to ensure transparency and accountability; public oversight due to the public nature of the fund. The citizen's mandate was identified as drawn from the Constitution of Kenya 2010 which clearly states that all sovereign power belongs to the people. The principles of public finance management require public participation and the SWF being a public finance means that they have a role. There would be need to inform and educate them on the matter and periodically update them.

The role of the executive was identified as; ensuring that the appropriate funds are transferred on time to the SWF and ensure the judicious investment of the funds; general execution and administration; and the developing of policies and submission to the cabinet for approval and transmission to the National Assembly.

The respondents gave the roles of the legislature to include: oversight role on performance and recommendations on it from time to time and ensuring that the design is according to the rule of law. The Senate was specifically identified as having the role of oversight at devolved level. One respondent however felt that the Senate did not have a role due to the existing architecture of governance.

All the respondents were aware of two documents as providing the thinking and direction towards establishing the fund. These are: the 2013 report on parastatal reforms and the Sovereign Wealth Fund bill 2014.

The structure and process for ensuring accountability for the fund was identified by the respondents. This will begin from the board given that it is an investment fund. Then there would be the parliamentary level. They identified the need for regulation and audit by the Auditor General and consistent reporting to the Parliamentary Investments Committee. Transparency to the citizens was pointed out as mandatory. Further was that the Law and system of the fund should borrow from best practices from Africa and around the world. The larger public and civic groups were proposed in ensuring that the SWF is accountable.

Other important aspects identified include access to information to the public on performance of the fund, appointment of competent and able team to manage the fund and removal of political interference on the fund.

In addition to the perspectives gathered through the administration of the questionnaires, a number of written critical perspectives exist. A specific critique on the proposed creation of a Sovereign Wealth Fund in Kenya has been provided by the Institute of Economic Affairs in Kenya.

First of these is on the proposed establishment of the fund *Vis a Vis* provisions on Public Finance management in the Public Finance Management Act. The argument is that there is a clash between the Sovereign Wealth Fund and Institution of public finance management created in the Act. This is specifically on the creation of the Infrastructure and Development Fund for continuous funding of development while the Act requires this to be informed by Medium Term Expenditure Framework (MTEF). Another argument by the Institute of Economic Affairs in Kenya is that a Sovereign Wealth Fund is unsuitable for a country with large external debt and doesn't experience surpluses.

This chapter has reviewed Kenya's proposed Sovereign Wealth Fund. The proposed design of the fund indicates a consideration of the nature of revenue sources for it in crafting it. Some specific expected economic functions of the fund visibly informed the thinking behind the proposed design. Given that the National Sovereign Wealth Fund Bill 2014 is the only comprehensive framework on the design of the fund, a lot of operational details are yet to be developed. Some contradictions between the fund and the Country's public finance framework as pointed out by the Institute of Economic affairs are highlighted. Kenya's current economic and social policy priorities as well as the political and institutional structures have been presented. This provides a basis for comparisons to be made with the Sovereign Wealth Funds selected as case studies in this research.

CHAPTER 6: COMPARATIVE ANALYSIS OF SELECT SOVEREIGN WEALTH FUNDS WITH KENYA'S PROPOSED SOVEREIGN WEALTH FUND

6.1. OVERVIEW

This chapter covers a critical comparison of Kenya's proposed Sovereign Wealth Fund as designed with those of the five Countries included as case studies in this research.

Chapters 3, 4 and 5 provide the elements of comparison and contrast between the Sovereign Wealth Funds of Norway, Botswana, Abu-Dhabi, Chile and Singapore and that proposed for Kenya.

This looks at the identified componential elements of the sources, governance structure and development of the funds in view of the country, economic contexts, social policy priorities and the political institutional contexts.

A review of Kenya's proposed Sovereign Wealth Fund against the Santiago Principles is also done. This considers the extent to which the principles have been factored in the existing frameworks of design of the Fund.

The critical comparison enables the drawing of possible aspects of consideration in the further development of Kenya's Sovereign Wealth Fund.

Table 5: ANALYTICAL SUMMARY OF DIMENSIONS OF KENYA’S PROPOSED SOVEREIGN WEALTH FUND

Main Source (s) at inception	Design	Derived and stated Expected Economic functions	Social policy priority considerations	Legal and Institutional structures and arrangement
Mixed community and non-commodity	Overall Sovereign Wealth Fund	- build a savings base for purposes of National development		<ul style="list-style-type: none"> - Constitution national values - Sovereign Wealth Fund bill - Investment guidelines - Council (President, Cabinet, attorney General, board CEO, chairperson) - Board of trustees (chairperson, principal secretaries, 3 members, CEO) - Fund managers - Board committees - National Assembly - Annual reporting - Santiago Principles
Specific Funds				
Oil , Mineral Revenues and other exhaustible resources	Future generations Fund	<ul style="list-style-type: none"> - Sustainable economic development - Intergenerational sharing of economic benefits - Economic diversification 		<ul style="list-style-type: none"> - Petroleum bill - Board of trustees - Cabinet Secretary
Mineral Revenues, capital from privatization proceeds, dividends from state corporations	Infrastructure and development Fund	- Financing planned economic development	- Financing planned social development	<ul style="list-style-type: none"> - Board of trustees - Cabinet Secretary - council

Mineral Revenues, Capital from privatization proceeds, Dividends from state corporations	Stabilization Fund	<ul style="list-style-type: none"> - insulating the national budget and the economy from the impact of volatility in revenues, including minerals and petroleum revenues - Protection from effect of mineral dependence - Protection of domestic economy from possible inflation effect of the anticipated windfalls 		<ul style="list-style-type: none"> - Board of trustees - Cabinet Secretary - council
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Source: Extracted and Summarized from the analysis done in Chapter five

Table 6: ANALYTICAL SUMMARY OF DIMENSIONS OF CHILE'S SOVEREIGN WEALTH FUND

Main Source (s) at inception	Design	Derived and stated Expected Economic functions	Social policy priority considerations	Legal and Institutional structures and arrangement (Governance)
Mineral Revenues	Overall Sovereign Wealth Fund			<ul style="list-style-type: none"> - Constitutional norms for governing the copper sector - Sovereign Wealth Fund annual reports on the website
	Specific Funds			
	Pension reserve Fund	<ul style="list-style-type: none"> - Resources for future Pension payment - Economic security in view of future demographic factors 	<ul style="list-style-type: none"> - Social protection and guaranteeing pension for all 	<ul style="list-style-type: none"> - Creation based on fiscal responsibility law hence tied to prevailing fiscal situation
	Economic and Social stabilization Fund	<ul style="list-style-type: none"> - Mitigate effect of mineral resource dependence - International trade policy role - Facilitate creation of international comparative advantage - Protect against the effect of exposure to international economic fluctuations - Balanced budget hence uninterrupted development - Diversification for sustained resources for economic development 	<ul style="list-style-type: none"> - Sustained resources for uninterrupted budgetary spending on social priorities of education, health, housing and welfare for the poor and vulnerable 	<ul style="list-style-type: none"> - Creation based on fiscal responsibility law hence tied to prevailing fiscal situation - Central banks advisory role reflecting specific consideration of macro-economic and international economic context
	Bi-centennial Fund for overseas human capital development	<ul style="list-style-type: none"> - Economic factor efficiency through development of labour 	<ul style="list-style-type: none"> - Education in the Human capital development 	

Source: Extracted and Summarized from the analysis done in Chapters three and four

6.2. COMPARISONS AND CONTRASTS OF CHILE'S FUND AND KENYA'S PROPOSED SOVEREIGN WEALTH FUND

COMPARISONS

The first similarity is that both the proposed Sovereign Wealth Fund for Kenya and Chile's fund consist of a couple of funds created under the same law.

Kenya proposes a Stabilization Fund tied to the mineral resource sector just as it is in the case for Chile.

The expected economic function of the funds defined in each of the two countries, determines their design, and is largely tied to the identified sources.

There is a general relationship between the funds as designed and the medium term and long-term economic development objectives of the two countries.

The frameworks of both Chile and Kenya identify the Santiago Principles as a basis for the creation, management and development of the Sovereign Wealth Funds.

CONTRASTS

The existing institutional arrangement for managing Chile's Sovereign Wealth Fund factors in the role of the Central Bank in Economic Management while that of the proposed Sovereign Wealth Fund for Kenya does not clearly indicate the factoring in of this role.

The existing framework for the management and administration of Chile's Sovereign Wealth Fund directly provides for it to be tied to the prevailing fiscal policy situation. This is because its creation is on the basis of the fiscal policy law. The existing framework for Kenya's proposed Sovereign Wealth Fund on the other hand does not succinctly connect its management and administration to the prevailing fiscal policy situation. The determination of this is left to the guidelines to be developed by the responsible Cabinet Secretary.

Table 7: ANALYTICAL SUMMARY OF DIMENSIONS OF NORWAY'S SOVEREIGN WEALTH FUND

Main Source (s) at inception	Design	Derived and stated Expected Economic functions	Social policy priority considerations	Legal and Institutional structures and arrangement (Governance)
Mineral Revenues	Government Pension Fund Global	<ul style="list-style-type: none"> - Fiscal policy aspect of countering effects of oil price fluctuations, and contraction of the mainland economy - Macro-Economic stability through future access to funds needed by the economy - Enable diversified international Trade and investment - Limit mineral resource dependence through capping of extent to which the fund can be used to fund the non-oil deficit - Economic independence in the restriction against external borrowing while the fund has capital - Exchange rate stabilization in view of anticipated inflows 	<ul style="list-style-type: none"> - Fiscal policy rule that ensures that it always makes a contribution to the financing of the welfare services - Continual growth of the Government Pension Fund Global, in order to contribute to the financing of the increasing pension and health care costs in view of the ageing population. - Diversify the investments of the Sovereign Wealth Fund savings to ensure future social protection as designed is guaranteed 	<ul style="list-style-type: none"> - Prominent role of Parliament in oversight and administration given the parliamentary system of government - Management of the fund is by the ministry of finance - Governed by the Government Pension Global Act - Operational management delegated to the executive board of the Central Bank - Bank investment management invests on behalf of bank - Advisory committees - Quarterly, annual and tri-annual reports - Bank strategic plan for investment management

Source: Extracted and Summarized from the analysis done in Chapters three and four

6.3. COMPARISONS AND CONTRASTS OF NORWAY'S FUND AND KENYA'S PROPOSED SOVEREIGN WEALTH FUND

COMPARISONS

Both Funds are created based on a specific and definite law that provides definition of the structure, components and general governance.

The frameworks for both funds consider the Sovereign Wealth Fund as a basis for savings for the purpose of future economic development.

The Frameworks for both funds identify their existence as part of the strategy for inter-generational benefits.

The limiting of mineral and or oil dependence is an implied aspect in both the Norwegian Fund and the mineral based fund of the proposed Kenyan one.

Both frameworks reflect the funds as important in the international trade policy of the two Countries and creation of comparative advantage for greater benefit from international trade.

CONTRASTS

The existing framework for Norway's Sovereign Wealth Fund is clear on the macro-economic stability aspects relating to it while the existing framework for Kenya's proposed fund does not specify the macro-economic stability factors. The Kenyan fund just identifies economic stabilization generally.

The framework for Norway's Sovereign Wealth Fund provides for the clear integration of the revenue from the fund into the National budget as well as specific elements to ensure fiscal discipline. The proposed Sovereign Wealth Fund for Kenya notes this need but is left more or less with the Cabinet Secretary on guidelines to be developed later on.

The Norwegian Sovereign Wealth Fund factors in a major role for the Central Bank in the management and development of the Fund. The existing Kenyan framework on the other hand does not clearly provide for the role of the Central Bank.

The proposed Sovereign Wealth Fund for Kenya is made up of three distinct Funds with identified distinct and diverse sources of capital at inception while the Norwegian Government Pension Fund Global is clear on oil and gas sector as the main capital source at inception.

The limit of mineral dependence in the Norwegian Sovereign Wealth Fund is indicated by the extent to which it can be drawn from in the financing of the national budget. The existing Kenyan Framework does not however indicate the specific approaches towards the limiting of this dependence.

The role of the Norwegian Sovereign Wealth Fund in the determination of aspects of the country's international economic policy is clear. Example is on the restriction on external borrowing for budget financing while the fund has capital. The existing Kenyan framework has not yet provided for such specific function of the fund in relation to the country's international economic policy relating to development financing.

The existing frameworks for the Norwegian Government Pension Fund Global is clear on social policy priorities to be achieved through the fund while Kenya's existing framework is not directly tied to specifically identified social policy concerns.

The Norwegian fund is linked to the Country's national pension plan while the pension management in Kenya is clearly demarcated from the proposed fund.

The Norwegian fund through the fiscal rule is clear on the use of the fund to support short term and long term social welfare concerns while the existing framework for Kenya's proposed Fund has not detailed the term basis of utilization of the fund.

Table 8: ANALYTICAL SUMMARY OF DIMENSIONS OF ABU-DHABI'S SOVEREIGN WEALTH FUND

Main Source (s) at inception	Design	Derived and stated Economic functions	Expected Social policy priority considerations	Legal and Institutional structures and arrangement (Governance)
Petroleum Wealth	International Petroleum Investment Corporation	<ul style="list-style-type: none"> - Use of the Country's petroleum wealth to diversify the economy to benefit future generations - Invest in energy and related sectors across the globe. Reflecting intention of creating comparative advantage - Directly connected to country's economic development strategy in the vision 2030 - Reduce effect of cyclical swings related to oil dependence - Generally reduce the dependence on oil. 	<ul style="list-style-type: none"> - Country's vision 2030 therefore considers the IPIC as an important instrument in achieving long-term development goals which include social policy objectives - Social and Human development is the driving motivation behind all policies and initiatives in Abu Dhabi. Definite implication on Sovereign Wealth Fund design 	<ul style="list-style-type: none"> - Constitution of the Federal Union considers the Natural resources and Wealth in each Emirate as its public property. - IPIC is one of the government departments under the direct jurisdiction of the executive - governed by a board of directors chaired by a member of the ruling family of Abu Dhabi - all board of directors appointed by the executive - Accountability through annual publishing of financial statements - IPIC subjected to Abu-Dhabi accountability authority - Companies in which IPIC has more than 50% stake also subject to Abu-Dhabi accountability authority

Source: Extracted and Summarized from the analysis done in Chapters three and four

6.4. COMPARISONS AND CONTRASTS OF ABU-DHABI'S FUND AND KENYA'S PROPOSED SOVEREIGN WEALTH FUND

COMPARISONS

Both funds have non-renewable resources as constituting a major part of their capital sources.

The Kenyan future generation fund is pre-dominantly to be created based on the proceeds from mineral resources.

Both have the objective of limiting the dependence on mineral resources through the establishment and diversifying of investments of the funds.

Both identify the specific objective of protecting the domestic economy from the effect of exposure as a result of the nature of oil and minerals industry that largely constitute the capital sources for the funds.

Both frameworks provide for the strong role of the executive in the administration of all major aspects of the fund.

Both frameworks do not clearly indicate the role of the central monetary authorities of the countries in the management, administration and development of the funds.

CONTRASTS

Abu-Dhabi's IPIC is directly linked to the achievement of Social Development objectives that are central in Abu-Dhabi's long-term National Development blue print, the Vision 2030. Kenya's existing framework for the proposed fund does not indicate a direct link to national social development priorities as contained in the National development blue print the Vision 2030.

Abu- Dhabi's IPIC is directly designed as an instrument to achieve comparative advantage. This is through prioritizing the oil related and energy sectors in its international investments

portfolio therefore depicting measures to achieve optimal returns. The investment framework for Kenya's proposed Sovereign Wealth Fund is yet to be developed to determine the economic philosophy informing the design of the investment strategy.

Table 9: ANALYTICAL SUMMARY OF DIMENSIONS OF BOTSWANA’S SOVEREIGN WEALTH FUND

Main Source (s) at inception	Design	Derived and stated Expected Economic functions	Social policy priority considerations	Legal and Institutional structures and arrangement
Diamonds and other minerals	Pula Fund- Fund for managing excess foreign exchange reserves	<ul style="list-style-type: none"> - Saving part of mineral resource income for future generations - capital for national investment and therefore economic expansion - Economic stabilization out of exposure due to mineral resource dependence - Revenue management function in preventing undisciplined use of mineral resource income - Economic diversification in availing capital towards growing financial and other high yielding investments. 	<ul style="list-style-type: none"> - Premised in public finance management Act provision for the establishment of development funds for economic and social development - Indirect financing of social priorities through the long term contribution of the returns of the Sovereign Wealth Fund investments to the national budget 	<ul style="list-style-type: none"> - Administered under section 35 of the Bank of Botswana Act - Cabinet oversight through the ministry of finance which guides on asset allocation and in the determination of the investment portfolio sizes - Distribution of reserve management role between financial markets department and 9 fund managers - Custody and Portfolio Advisory Services division created for the purpose of advisory and monitoring of investment of the fund

Source: Extracted and Summarized from the analysis done in Chapters three and four

6.5. COMPARISONS AND CONTRASTS OF BOTSWANA'S PULA FUND AND KENYA'S PROPOSED SOVEREIGN WEALTH FUND

COMPARISON

Both the Pula Fund and Kenya's proposed Future Generations Fund identify the achievement of economic diversification and reducing dependence on few sectors of the economy as an intention in their creation.

The preservation of the mineral resource wealth is a clearly stated intent in both Botswana's Pula Fund and Kenya's proposed Future Generations Fund.

Both the Pula Fund and Kenya's proposed Economic and Stabilization Fund aim at insulating the economy from the effects characteristic of mineral dependent economies. This is specifically the Dutch disease syndrome as well as the possible fluctuations that result from international exposure of the economy.

The Cabinets of both Botswana and Kenya have a direct and dominant role in the management of the Sovereign Wealth Funds.

CONTRASTS

The Capital investment of Botswana's Pula Fund is the Country's excess foreign exchange reserves while that of the proposed funds for Kenya are diverse and not directly linked to the management of foreign reserves.

The Bank of Botswana has a dominant and direct role in the management of the fund while the role of the Central Bank of Kenya is not strong in the current proposed framework for the management of the funds.

Botswana's Sovereign Wealth Fund is directly linked to the Country's mineral resource wealth while those proposed for Kenya are to be created and built from a diversity of sources.

Botswana's Sovereign Wealth Fund while created for national development does not have a direct tying to the social development priorities as contained in the Country National development blueprints. Financing Social Development is one of the purposes for which Kenya's proposed infrastructural development fund is created. The current framework does not however indicate a direct linkage with the financing of social development priorities as contained in the Country's Vision 2030.

The provision of advisory services in the management of the fund for Botswana seems to be quite divorced from the executive while the Council and board proposed in Kenya's Sovereign Wealth Fund still seem to be strongly influenced by the executive.

Table 10: ANALYTICAL SUMMARY OF DIMENSIONS OF SINGAPORE’S TEMASEK FUND

Main Source (s) at inception	Design	Derived and stated Economic functions	Expected	Social policy priority considerations	Legal and Institutional structures and arrangement
shares in companies, start-ups and joint ventures previously held by the Singapore Government	Holding Company with the primary objective of offloading the burden of managing state owned entities from the ministry of finance	<ul style="list-style-type: none"> - Economic liberalization - Broadening and deepening Singapore’s Economic base - Maximize the benefits from the country’s diverse investments internationally - Enhancing and creation of comparative advantage in various economic sectors 		<ul style="list-style-type: none"> - 16 endowments established since inception, towards addressing social policy concerns - 2003 policy decision to contribute portion of annual returns to communities - Temasek trust established in 2007 to oversee the management and disbursement of philanthropic gifts and donations. - Temasek Foundation focuses on initiatives in Asia - Temasek cares focuses on initiatives within the Country - Focus by Temasek Cares on building capabilities which is in tandem with the building capabilities focus in the sustainable development action plan blueprint 	<ul style="list-style-type: none"> - Anchored in the Country’s Constitution under part 2 of the fifth schedule. Government company with power of appointment vested in the President - Constitution provisions specific in defining the drawing of funds from such companies - commercial entity under the Singapore companies Act and neither a statutory board or a government agency - Ministry of finance as the funds shareholder - Global identity with 10 offices globally (Decentralized structure) - Transparent modern engagement through use of modern digital platforms (LinkedIn, Facebook, Instagram and twitter) - Cabinet held accountable by Parliament with scrutiny of decisions

Source: Extracted and Summarized from the analysis done in Chapters three and four

6.6. COMPARISONS AND CONTRASTS OF SINGAPORE'S TEMASEK FUND AND KENYA'S PROPOSED SOVEREIGN WEALTH FUND

COMPARISONS

Both the Temasek Fund and the proposed Sovereign Wealth Fund for Kenya are designed with the intent of strengthening the Country economic bases.

The Temasek Fund is specific towards maximizing returns from previously state owned enterprises. The proposed Infrastructure and Development fund in Kenya as well identifies the returns from privatization proceeds as a source.

Both the Temasek Fund and Kenya's proposed Sovereign Wealth Fund have Constitutional provisions that provide the basis for their establishment

Both funds have a prominent role of the executive and specifically the Cabinets of the two Countries.

CONTRASTS

Singapore's Temasek Fund is designed to function as a commercial entity, managed competitively under the Companies Act while Kenya's proposed funds are all designed to be managed more or less directly by the state.

The Temasek has the specific function in the achievement of the country's economic liberalization goal and is therefore a central pillar in the country's short and long term economic policy, planning and development. The existing framework of Kenya's Sovereign Wealth Fund does not reflect the fund as a major determinant of the national economic philosophy or intention of it to be a central factor in economic planning and development.

The Temasek has a clear role in the establishment and enhancement of Singapore's comparative advantage in international economic engagement. Kenya's proposed Sovereign

Wealth Fund does not manifest a strong focus in the enhancement of the country's comparative advantage.

There is a clear strategy towards the meeting of Singapore's Social priorities in the establishment of 16 endowments and the setting up of the Temasek trust, Foundation and cares initiatives. The approach in the establishment of these initiatives are in line with the Country's strategy of international engagement in economics and also according to the typical philanthropic engagement by private sector entities. Kenya's proposed Sovereign Wealth Fund framework identifies social development priorities as an aspect of focus through the infrastructure development fund but there is currently no direct linkage provided.

The Temasek has a clear global engagement strategy according to the country's national objectives while the framework for Kenya's Sovereign Wealth Fund indicates a global engagement intent but the strategy is yet to be properly developed.

6.7. CRITICAL EVALUATION OF KENYA'S PROPOSED SOVEREIGN WEALTH FUND AGAINST THE GENERALLY ACCEPTED PRINCIPLES AND PRACTICES (SANTIAGO PRINCIPLES)

The Generally Accepted Principles and Practices (GAPP) for Sovereign Wealth Funds are a voluntary set of principles and practices that the members of the International Working Group support and have implemented or aspire to implement¹⁴⁶.

The areas covered by the principles are; legal frameworks; objectives and coordination with macro-economic policies; institutional framework and governance structure; investment and risk management framework.

Kenya's intention to adhere to these principles and practices is stated in Article 43(1) of the Sovereign Wealth Fund bill 2014 as the basis for the regulations to be developed.

¹⁴⁶ Santiago Principles document

Given that Kenya is currently at the stage of developing the legal framework, the review in this section focusses on the legal framework and institutional and governance aspects of the Principles and practices. The most applicable principles and practices to these are principles 1 to 10 out of the 24 principles.

Principle 1: The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s). A sound legal framework is noted as having a clear delineation of responsibilities between the Sovereign Wealth Fund and other governmental entities¹⁴⁷.

The Fund may be established as a separate legal entity with a specific law, State Corporation governed by general company law or a pool of assets without a separate legal entity.

Kenya's Proposed Sovereign Wealth is based on the 1st category which is establishment as a separate legal entity based on the National Sovereign Wealth Fund Bill of 2014. While institutions and governmental entities to be involved in managing the fund are identified in the bill, the role of the Central Bank as a key institution in macro- economic policy formulation and coordination is not clearly provided for in the bill.

Another aspect of this principle is to ensure soundness of transactions. This includes mandate on investment and clarity on the beneficiaries and legal owners of the fund. It becomes the basis for accountability. Ownership and the representation of owners is basically as provided for in the National Constitutions of the Countries. For Kenya's case the owners are the citizens and the national values provide for the aspects that guide adherence to the interests of the owners. The role of the national institutions of representation and in particular the legislature which includes both the houses of Parliament is not fully articulated in the proposed bill. Another component in Kenya's constitution is that of mandatory public

¹⁴⁷ Santiago Principles document pp 11

participation in the conduct of public affairs. This is not actively provided for in the bill in terms of general guidelines that would inform the establishment of effective public participation frameworks.

The second principle identifies the need to clearly indicate the policy purpose of the Sovereign Wealth Fund. The policy purpose of Kenya's proposed Sovereign Wealth Funds are quite clearly indicated in the specific identification of the three funds to be created and the stating of their objectives.

The third Principle identifies the need for close coordination with monetary and fiscal policy authorities in the case where the Sovereign Wealth Fund activities have direct macro-economic implications. Kenya proposes three funds some of which may touch on the macro-economic functions of the Central Bank as a monetary authority. The role of the bank is however not provided for in the bill as well as the revenue and taxation authorities in the case that some of the activities of the funds may require the input of these institutions.

The fourth principle identifies the need for clear and publicly disclosed policies, rules, procedures or arrangement in relation to the general approach to funding, withdrawal, and spending operations on behalf of the government. These can be secured in the law and policies in order to ensure predictability in the way the funds are utilized. The proposed Sovereign Wealth Fund Bill provides for the securing of these elements in the guidelines to be developed by the Cabinet Secretary. The determination of such arrangements is probably more possible once some general trends have been observed as seen in the progressive way in which they have been determined and developed in the countries studied in this research.

The sixth principle identifies the soundness of the governance framework as well as the clear division of responsibilities and roles in order to ensure accountability and operational independence of the fund. It is in fact identified as an aspect that should be contained in the

legal framework. Various structures are proposed for the Sovereign Wealth Fund such as the council to provide oversight and the board to guide in the day to day operations. The Cabinet secretary is the critical link between the institutions. As already pointed out, the role of the Central Bank as a critical institution in view of the nature of operations of the funds has not been clearly provided for.

The seventh principles identifies the roles of the owner as being to set the objectives of the fund; appoint members of governing bodies according to laid down procedures; and exercise oversight over the operations of the fund. While the bill identifies the citizens of Kenya as having collective ownership, the role of the national institutions of representation in the different stages of the cycle of administrating the fund is not clear. This is in view of Kenya's adopted system of government that has two houses of parliament and the spirit of the Constitution in adopting devolution.

The eighth principle is that the governing authority should act in the best interest of the Sovereign Wealth Fund and have a clear mandate and adequate authority and competency to carry out its functions. Legislation is required to inform the mandate and functions of the governing authorities. The governing authorities identified in the proposed Sovereign Wealth Fund for Kenya are the Council and Board. The roles are adequately provided for in the bill as well as their functions in terms of securing the achievement of the objectives of the fund. The relationship with other key monetary and fiscal institutions is what has not been clearly provided for in delimiting the extent of their mandate especially on matters that require action beyond their jurisdiction.

The ninth principle focuses on the operational management of the Sovereign Wealth Funds indicating that strategies should be implemented independently and according to the defined responsibilities. This covers the authority of the management in decision making concerning

investments and administration. It requires protection from undue political interference and clear provision of the role of the government.

The tenth principle provides for the clear definition of the accountability framework. This should indicate to whom the entities involved are accountable to in view of the indicated ownership. It should as well identify the evaluation methods and procedures on the operations of the fund by the owners. The proposed Sovereign Wealth Fund bill provides for annual reporting as an accountability measure. The role of the Auditor General is provided for in examining and reporting on the financial operations of the funds.

This chapter has compared and contrasted Kenya's proposed Sovereign Wealth Fund and that of five countries, based on existing frameworks. It has also evaluated the proposed fund against the first ten Santiago Principles. The comparison and contrast has enabled the identification of some cross-cutting elements that have been factored in for Kenya and those missing. It has recognized the length of existence of the funds as a possible reason that informs the disparities in the details between Kenya's existing framework and that of the studied countries. This provides a basis for drawing conclusions on context specific aspects that have been considered in designing the fund and those that are missing. This will enable the making of relevant recommendations that will enrich processes towards the design and development of a Sovereign Wealth Fund in Kenya.

CHAPTER 7: SUMMARY, CONCLUSION AND RECOMMENDATION

7.1. OVERVIEW

This chapter provides a summary of the research identifying the contribution, implications and areas for further research while factoring in the identified limitations.

Based on the findings, recommendations to inform the intended establishment of a Sovereign Wealth Fund for Kenya as well as for other countries is made. The research identifies and presents key aspects for consideration in the legal and policy frameworks as well as the guidelines for the setting up, managing and administration of the fund.

7.2. SUMMARY OF FINDINGS

The first objective of the study was to review the different types of Sovereign Wealth Funds and the general approaches used by countries to set and build them up as determined by their capital sources and social, economic and political institutional context factors.

The research has established that Sovereign Wealth Funds are created to achieve certain economic goals and objectives which are largely influenced by their major capital sources. Their relevance in achieving the intended economic objectives for the country is dependent on the design which is informed by the main capital sources.

The progressive creation of a variety of additional Sovereign Wealth Funds in the countries studied, has been informed by the identification of prevailing economic realities as well as long term considerations. A dominant characteristic of all the five funds is their importance in enabling the stable and sustained achieving of national economic goals. All the four mineral resource based Sovereign Wealth Funds were evidently set up while aiming for optimal economic performance. They proved to be a source for capital formation and financing economic growth in agreement with modernization theories and also a means of protecting against negative economic effects as described in the Resource Curse perspectives.

The design and setting up of the funds have factored in country specific social, economic and political considerations.

The study established that there is both the direct and indirect factoring in of social policy considerations in designing them. The link between the design of the funds of Norway, Abu-Dhabi, Singapore and Chile and their country social priorities is clear and direct. That of Botswana is not very direct but implied in how the fund is used in development financing. The other aspect is that the unique country social development philosophies, directly inform the way they are weaved into the specific funds.

Country political institutions and adopted systems of governance influence the management and administration of the funds. The strong role of Parliament in Norway's governance is reflected in its role in the management of the fund. Abu-Dhabi's royal family in consultation with the tribal representatives; Chile's Presidency including the securing of the fund in times of political changeover; the role of the minister of finance but with the advice and input of the Bank of Botswana that is the main institution charged with foreign exchange management. All these reflect the integration of the set political and economic institutions of governance in Sovereign Wealth Fund management, in these countries.

The second objective was to analyse the specific Country policies, laws and guidelines developed and implemented in the structuring and utilization of Sovereign Wealth Funds. The study has established the different policy and legal bases for the various types of funds for the five countries. The approach ranges from the putting in place of specific laws for the establishment of the funds to setting up the funds based on already existing country laws. The harmonization of these laws with other relevant laws is visibly vital and proceeds with time in response to the evolving contexts and as the funds grow. The clarity of the policy and legal frameworks are also linked to the clarity of purpose and objectives for which the countries have set up the funds.

The third objective was to find out the functions and contributions of Sovereign Wealth Funds as instruments of development for the countries considered in this research. The research has established that indeed the funds are important tools for development and especially securing against disruption of set national development goals. They have also been the basis of long term development planning such as in the case of Norway where they are a response to future demographic conditions. Singapore's fund through the various initiatives under the Temasek foundation has been a major component in achieving development along the four identified national priorities. Chile's fund is also a central factor in the design and implementation of the country's social protection framework.

The fourth and final objective was to determine the relevance and application of international experiences on Sovereign Wealth Funds, in their setting up, utilization, and in the pursuit of development in Kenya. The research has identified a lot that Kenya can learn from the way the funds of the five countries have been designed and built. These includes the issues of clear direct or indirect linkage of such a fund with national economic and social objectives. The clear articulation of social and economic development philosophies is important in defining the specific and strategic reasons for the setting up and further growing of the funds.

7.3. CONCLUSION

The findings of this study positively agree with the set hypothesis.

The value and significance of a Sovereign Wealth Fund for an economy, is connected to the economic significance of the sector from which its revenue sources are drawn. The Sovereign Wealth Fund's function as tool for economic optimization, depends on the economic significance of the sectors generating revenue for it.

Country contexts largely shape the social and economic considerations in the design, setting up and continuous development of the five Sovereign Wealth Funds.

The governance structures of the five Sovereign Wealth Funds analysed generally align to their country political institutional contexts.

Social development policy priorities are a main factor considered in the design of the Funds. The Country values, philosophies or perspectives on the social dimension of development, define how they are weaved in the design and development of the Funds. Their emergence and prominences as well as their central role in the national planning and development *ceteris paribus*, reflect the utilization of the mixed economy model framework approach to development.

Political Institutional aspects are a critical determinant in the way the governance, management and administration of Sovereign Wealth Funds are designed. The propagations of the Agency, Stewardship and Stakeholder theories of corporate governance are a plausible explanation of the management of successful Sovereign Wealth Funds.

The country case studies have further indicated that Sovereign Wealth Funds seem to thrive in an integrated development context where there is proper coordination between the social, economic and political institutions. Norway has specifically provided the best example of this.

The Sovereign Wealth Fund bill in Kenya proposes the establishment of three funds all of which based on this study require the consideration of certain critical economic, social and political institutional factors. A critical comparison with the funds of Norway, Botswana, Chile, Singapore and UAE-Abu-Dhabi indicates that many of these elements have so far not been factored in Kenya's proposed framework as it currently exist. Certain elements relating to the Santiago Principle which is succinctly stated in the draft bill are also yet to be aligned to. This may be due to the fact that it is still a new area with a lot of policy aspects yet to be determined and put in place.

7.4. RECOMMENDATIONS

The analysis and review of the frameworks for Sovereign Wealth Funds for five Countries, comparing them with what has been proposed in Kenya, indicates many elements yet to be factored in. In designing and developing a fund for Kenya, specific source related, social, economic and political institutional aspects need to be considered for the various categories of funds.

- Kenya proposes the establishment of three Sovereign Wealth Funds and the possibility of additional ones under the Sovereign Wealth Fund bill of 2014. The review of the five Countries in this research indicates that specific strategies and institutional arrangements defined in some cases by separate legislation, may be applicable for each of the three funds. This study therefore recommends that the establishment of the three separate funds should be done with the background of the diversity in their nature of operations that may require context specific considerations.
- The emerging extractives sector has been identified as one of the sources for the establishment of a Sovereign Wealth Fund in Kenya. This study has established that the sector that is the source of capital for the fund determines its design and expected economic functions. The significance of this sector in the economy further determines the significance of the established Sovereign Wealth Fund on the economy. There is therefore the need to accurately project on the expected medium term and long term contribution of the extractives sector to Kenya's economy and factor these considerations in the design of the proposed funds. The Sovereign Wealth Fund law should contain a clause providing for flexibility that will enable fiscal adjustments in tandem with the changing nature of contribution of the extractives sector to the economy as it expands or contracts. The time horizon factor that has been found to be important in the design of mineral resource based Sovereign Wealth funds should be

incorporated in the elements of the funds developed based on extractive sector industry considerations.

- The state corporations have been identified as a possible source of capital revenue for Kenya's Sovereign Wealth Fund. The case of Singapore indicates that this works only if the state seriously reforms the corporations into globally competitive entities which has made privatization imperative. This requires a sober reflection on the process of privatization or commercialization of state corporations and a consideration of the institutional arrangements and legal basis upon which the fund to be used in pursuing this goal is based. The crafting of the Sovereign Wealth Fund bill should therefore be done in tandem with the review of laws that govern the state corporations to ensure harmony in achieving the intended objectives of the funds.
- The research findings indicate that some critical institutions in line with Kenya's governance framework are missing in the proposed bill. The role of the Central Bank which is a major macro-economic management institution in the Country should be provided for and included in the proposed structures. The role of the senate as a legislative institution that represent the interests of the 47 County governments should be provided for in the oversight and accountability for the fund.
- Kenya has clearly articulated social policy priorities contained in the vision 2030. This research therefore recommends that the design of the proposed Sovereign Wealth Funds strategically weaves in these priorities according to Kenya's determined approach to social development that includes social protections and livelihoods empowerment for sustained social welfare. The examples of the countries studied in this research can be drawn upon in identifying possible approaches or what can be customized for the Kenyan context.

- The paper recommends the general mapping and projection of Kenya's economic sectoral performance, trends and goals. This will be for the purpose of developing strategies for the future investment of the established Sovereign Wealth Funds for social and economic development. This will be one of the measures towards early planning and preventing the initial wasteful use of surpluses resulting from mineral resource revenues and profits from successfully commercialized State Corporations.

Areas recommended for further study

Sovereign Wealth Funds and their use and potential in facilitating the creation of multiple comparative advantage for countries

The role of National economic development philosophy or objectives Vis a Vis the influence of global norms on the creation and establishment of emerging Sovereign Wealth Funds.

Specific social, political and economic considerations for specific types and categories of Sovereign Wealth Funds

APPENDIX

QUESTIONNAIRE

**RESEARCH TOPIC: SOURCES, GOVERNANCE STRUCTURE AND DEVELOPMENT
CONTRIBUTION OF SOVEREIGN WEALTH FUNDS: APPLICATION OF INTERNATIONAL
EXPERIENCES TO KENYA**

INTRODUCTION

My name is Peter Achar. I am a post graduate Student at the Institute of Diplomacy and International studies studying for a Master's degree in International studies.

I am conducting a research for my project and will greatly appreciate your assistance through your response to the following questions.

The views you provide here are purely for academic research.

Personal details of respondent

Name:

Sector e.g. (Public, private, CSO):

Position:

SECTION ONE: PRELIMINARY QUESTIONS

1. Are you aware of the proposed creation of a Sovereign Wealth Fund for Kenya?

Yes No

2. Have you participated in any way in the processes or deliberations towards the creation of the Sovereign Wealth Fund?

Yes No

3. What in your opinion are some of the advantages and disadvantages in the creation of a Sovereign Wealth Fund in Kenya? Please list them down

SECTION TWO: SOURCES OF THE FUNDS

1. What do you think are some of the possible revenue sources for the building of the Sovereign Wealth Fund for Kenya?

Income from state corporations

Revenue from oil and Mineral resources

Other (explain)

2. Does the discovery of oil, gas and minerals in Kenya constitute a major reason for the establishment of a Sovereign Wealth Fund for Kenya?

Yes No

If yes how?

3. Do you think the revenues sources of the Sovereign Wealth Fund will in any way determine the role it plays in the Kenyan Economy?

Yes No

If yes, please explain?

SECTION THREE: DESIGN AND DEVELOPMENT CONTRIBUTION

1. How in your view should the Sovereign Wealth Fund be integrated into the economy?

Direct injection to the national budget

Separate financing of Social Development needs

Both approaches

Other (Explain)

2. Does the proposed Sovereign Wealth Fund fit in the existing National Development plans of the country considering social and economic goals and objectives?

Yes No

3. What are the main three factors that ought to be considered in the design of a Sovereign Wealth Fund for Kenya? Please list them down

SECTION FOUR: GOVERNANCE STRUCTURE AND INSTITUTIONAL ARRANGEMENTS

1. How should Kenya's Sovereign Wealth Fund be managed?

Separate registered commercial entity

Fully government owned entity

Commercial entity with Government as majority stakeholder

Other (elaborate)

2. Does the Central Bank of Kenya have a role in the governance of the Sovereign Wealth Fund?

Yes No

If yes, what is the role?

3. Does the ordinary citizen have a role in the governance of the Sovereign Wealth Fund in Kenya?

Yes No

If yes, what is the role?

4. Does the executive have a role in the governance of the Sovereign Wealth Fund?

Yes No

If yes, what is the role?

5. Does the legislature have a role in the governance of Kenya's Sovereign Wealth Fund?

Yes No

If yes, what is the role?

6. Does the Senate have a role in the governance of Kenya's Sovereign Wealth Fund?

Yes No

If yes, what is the role?

7. Do you know of any existing policies relating to the creation of a Sovereign Wealth Fund for Kenya?

Yes No

If yes kindly mention them

8. Are you aware of any steps towards the rolling out of Sovereign Wealth Funds in Kenya?

Yes No

If yes kindly list them

9. How can accountability be ensured in the governance of Kenya's Sovereign Wealth Fund?

THANK YOU

APPENDIX: SOVEREIGN WEALTH FUNDS BASED ON YEAR OF INCEPTION

	Country	Name of Fund	Assets Value	Inception	Origin	transparency ranking
1	United States-Texas	Texas Permanent School Fund	37.7	1854	Oil and other	9
2	United States Texas	Permanent University Fund	17.2	1876	Oil and Gas	
3	Kuwait	Kuwait Investment Authority	592	1953	Oil	6
4	Kiribati	Revenue Equilization Reserve Fund	0.6	1956	phosphates	1
5	United States New Mexico	New Mexico State Investment Council	19.8	1958	Oil and Gas	9
6	United States-Wyoming	Permanent Wyoming mineral trust fund	5.6	1974	minerals	9
7	Singapore	Temasek Holdings	193.6	1974	Non-Commodity	10
8	UAE-Abudhabi	Abudhabi Investment Authority	792	1976	Oil	6
9	Canada	Alberta's Heritage Fund	17.5	1976	Oil	9
10	United States-Alaska	Alaska Permanent Fund	53.9	1976	Oil	10
11	Oman	State General Reserve Fund	34	1980	Oil and Gas	4
12	Singapore	Government of Singapore Investment Corporation	344	1981	Non-Commodity	6
13	Brunei	Brunei Investment Agency	40	1983	Oil	1
14	UAE-Abudhabi	International petroleum Investment Corporation	66.3	1984	oil	9
15	United State Alabama	Alabama Trust Fund	2.5	1985	oil and gas	9
16	United States Lousiana	Lousiana Education Quality Trust Fund	1.3	1986	Oil and Gas	
17	Norway	Government Pension Fund Global	847.6	1990	Oil	10
18	Malaysia	Khazanah National	34.9	1993	Non-Commodity	9
19	China-HongKong	HongKong Monetary Authority Investment Portfolio	442.2	1993	Non-Commodity	8
20	Botswana	Pula Fund	5.7	1994	Daimonds and Minerals	6

21	China	Safe Investment Company	474	1997	Non-Commodity	4
22	Venezuela	FEM	0.8	1998	oil	1
23	Gabon	Gabon Sovereign Wealth Fund	0.4	1998	oil	N/A
24	Azerbaijan	State Oil Fund	37.3	1999	Oil	10
25	Peru	Fiscal Stabilization Fund	9.2	1999	Non-Commodity	
26	Trinidad and Tobago	Heritage Stabilization Fund	5.5	2000	Oil	8
27	Mexico	Oil revenue stabilization Fund mexico	6	2000	oil	4
28	Kazakhstan	Kazakhstan National Fund	77	2000	oil	2
29	Algeria	Revenue Regulation Fund	50	2000	oil and Gas	1
30	China	National Social Security Fund	236	2000	Non-Commodity	5
31	Ireland	Ireland Strategic Investment Fund	23.5	2001	Non-Commodity	10
32	UAE-Abudhabi	Mubadala Development Company	66.3	2002	Oil	10
33	Equatorial Guinea	Funds for future Generations	0.08	2002	Oil	N/A
34	New Zealand	New Zealand Superannuation Fund	20.2	2003	Non-Commodity	10
35	Iraq	Development Fund for Iraq	0.9	2003	oil	N/A
36	Palestine	Palestine Investment Fund	0.8	2003	Non-Commodity	N/A
37	Qatar	Qatar Investment Authority	256	2005	Oil and Gas	5
38	South Korea	Korea Investment Corporation	91.8	2005	Non-Commodity	9
41	East Timor	Timor-Leste petroleum Fund	16.9	2005	Oil and Gas	8
42	UAE-Ras Al Khaimah	RAK Investment Authority	1.2	2005	oil	3
43	UAE-Dubai	Investment Corporation of Dubai	183	2006	Non-Commodity	5
44	Australia	Australia Futures Fund	95	2006	Non-Commodity	10
45	Libya	Libya Investment Authority	66	2006	Oil	1
46	Bahrain	Mumtalakat Holding Company	11.1	2006	Non-Commodity	10

47	Chile	Pension Reserve Fund	7.6	2006	COPPER	10
48	Oman	Oman Investment Fund	6	2006	Oil	4
49	Vietnam	State Capital Investment Corporation	0.5	2006	Non-Commodity	N/A
50	Indonesia	Government Investment Unit	0.3	2006	Oil and Gas	N/A
51	Mauritania	National Fund for Hydrocarbon reserves	0.3	2006	Oil and Gas	1
52	China	China Investment Corporation	746.7	2007	Non-Commodity	8
53	UAE-Abudhabi	Abu Dhabi Investment Council	110	2007	Oil	
54	Chile	Social and Economic Stabilization Fund	15.2	2007	copper	10
55	UAE-Federal	Emirates Investment Authority	15	2007	Oil	3
56	China	China-Africa Development Fund	5	2007	Non-Commodity	5
57	Saudi Arabia	Saudi Arabia Foreign Holdings	598.4	N/A	Oil	4
58	Saudi Arabia	Public Investment Fund	160	2008	Oil	4
59	Kazakhstan	Samruk Kazyna	81.5	2008	Non-Commodity	
60	Russia	National Welfare Fund	73.5	2008	oil	5
61	Russia	Reserve Fund	65.7	2008	Oil	5
62	France	Strategic Investment Fund	25.5	2008	Non-Commodity	9
63	Brazil	Sovereign Fund of Brazil	5.3	2008	Non-Commodity	9
64	Turkmenistan	Turkmenistan Stabilization Fund	N/A	2008	Oil and Gas	N/A
65	Iran	National Development Fund of Iran	62	2011	Oil and Gas	5
66	United State North Dakota	North Dakota Legacy Fund	3.2	2011	Oil and Gas	N/A
67	Russia	Russia Direct Investment Fund	13	2011	Non-Commodity	
68	Italy	Italian Strategic Fund	6	2011	Non-Commodity	N/A
69	Ghana	Ghana Petroleum Funds	0.45	2011	oil	N/A
70	Papua New Guinea	Papua New Guinea SWF	N/A	2011	Oil	N/A

71	Mongolia	Fiscal Stability Fund	0.3	2011	minerals	N/A
72	Angola	Fundo Soberano de Angola	5	2012	oil	8
73	Kazakhstan	National Investment Corporation	2	2012	Oil	
74	Nigeria Bayelsa	Bayelsa Development and Investment Corporation	1.5	2012	Non-Commodity	
75	Nigeria	Nigeria Sovereign Investment Authority	1.4	2012	oil	9
76	Panama	Fondo de Ahorro de panama	1.2	2012	Non-Commodity	N/A
77	Bolivia	FINPRO	1.2	2012	Non-Commodity	N/A
78	Senegal	Senegal fonsis	1	2012	Non-Commodity	N/A
79	Australia	Western Australia Future Fund	0.3	2012	Minerals	N/A
80	United States West Virginia	West Virginia Future Fund	N/A	2014	Oil and Gas	
81	Mexico	Fondo Mexican del petroleo	N/A	2014	Oil and Gas	

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