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# Perspectives on the Santiago Principles and the Nigeria Sovereign Wealth Fund

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**Abstract**

*The process of nation building is framed around the effective management of resources by government and its equitable distribution to the citizens. The failure of many leaders to effectively manage the nation's resources has left their countries at the nadir of development with high incidences of poverty, unemployment, inequality, illiteracy, women/child/drug trafficking, maternal/infant mortality rates and social vices. In resources rich countries like Nigeria, there is no correlation between the revenue generated by government and the standard of life led by majority of the citizens. Scholars have attributed this development to corruption and fiscal indiscipline. The poor culture of resources governance has undermined the efforts of government to create inter-generational wealth and a cushion for resources glut or resource inertia. The paper therefore examines the propriety of the sovereign wealth fund in addressing inter-generational inequity in Nigeria. The paper asserted that the effective management of the NSWF in line with the Santiago Principles will go a long way to bridging the inequality gap in Nigeria. The paper argued that the prudent management of the sovereign wealth fund would bring about job and wealth creation* *and sustainable development. The paper is however apprehensive of the danger posed to it by a corrupt oligarchy but asserted that the success of the policy lies on the political will to create the environment for the efficient management of the funds.*

**Key Words**: Sovereign Wealth, Santiago Principles, Disclosure, Inter-generational Equity

## Introduction

The argument that Nigeria is a resources rich nation is not in doubt. It is also not in doubt that in the midst of affluence, Nigeria has a disproportionately large reserve of the poor in Sub-Saharan Africa. The origin of this problem is traced to low production quota, poor investment and saving culture, the lack of synergy between economic subsectors, huge debt burden, unfavourable terms of trade, unholy alliances with western countries, corruption, bad leadership, poor implementation of development plan, unsustainable fiscal tradition and poor resource governance. Against this background, world leaders have unequivocally called for improvement in the culture of resource governance with emphasis on savings and investment. Until recently, investment by government in corporate utility outfits (public corporations) was seen as the most sustainable strategy for employment generation, capital formation and wealth creation. With the increasing advocacy against state (government) interventionism and the implicit transfer of economic obligations to the private sector, government was advised to channel excess resources (gains) towards promoting inter-generational equity through the Sovereign Wealth Funds. The establishment of the Nigeria Sovereign Wealth Fund as part of the global strategy for creating wealth for future generations has a variegated fund structure or macro-economic heads: the future generation funds, stabilisation funds and the infrastructure development fund. The fund categories are designed to serve the variegated economic needs of citizens.

## Theoretical Basis for Creating the Wealth of Nations

The creation of national wealth is the primary concerns of governments the world over. To achieve this goal, government periodically initiate and outline policy intentions that facilitates the attainment of macroeconomic goals. The optimal outcome generated from the development plans results to national wealth. National wealth is product of development planning, proper development programme implementation and efficiency in state administration. The macro and micro-economic benefits to the nation is high in the medium-to- long term basis. The wealth of a nation is stimulated by many economic variables. This is examined in two perspectives the macro-economic and micro-economic perspectives each of which adds fundamentally variegated values to the national economy. Arguments about creating wealth for nations attracted the attention of many scholars like Adam Smith, David Richardo, Walt, W. Rostow, Arthur, W. Lewis, Hollis B. Chenery, Michael, P. Todaro and Stephen, C. Smith among others. These scholars framed their thoughts around what Todaro and Smith (2009, p. 109-110) implicit termed: "the linear-stages-of growth model; theories and patterns of structural change; the international-dependence revolution; and the neoclassical, free-market counterrevolution and the eclectic approaches."

The linear stages of growth model justify Walt W. Rostow's assumptions on economic growth (cited in Todaro and Smith (2009:111) wherein countries pass through five successive stages of primitivism, precondition for take-off, take-off, maturity, high mass consumption to the stag of self-sufficiency with increased capacities to produce goods and services and create wealth given the right technology and population. Smith's inquiry into the causes of the wealth of nations revealed the propriety of division of labour in national development through human dexterity growth and technological innovation and rational time management. Smith (1776:13-14) argued that:

> The greatest improvement in the productive powers of labour, and the greater part of the skill, dexterity and judgement with which it is any where directed or applied, effect of division of labour in the general business of society, will be more easily understood by considering in what manner it operates in some particular manufactures.

Smith advocated for labour freedom and industrial democracy as catalyst for wealth creation. In a similar vein, Fischer, Halibozek and Green, (2008:34) examined the impact of industrial revolution on crime and security management as David Richardo (1817), O'Sullivan and Sheffrin (2003:444) and Murray (1995) seeks to promote production efficiency, optimal economic gains and capital accumulation through the production of goods and services at a comparative advantage cost. This is contrary to the doctrine of accumulation by fiscal deposit in foreign reserve advocated by the International Financial Institutions today. Hence, the wealth of a nation is less determined by the amount of resources accumulated in foreign reserve but by investment in capital assets. The propensity to create wealth through assets investment for future generation is higher than capital accumulation in foreign reserves. The Harrod-Domar growth model encouraged compulsory saving but created a mutually dependent economic relationship between net investment, net saving and net output. Indeed, net national savings ratio and net capital-output ratio is dependent on the rate of growth of the Gross Domestic Product (GDP). This process of wealth creation is facilitated by the structural, institutional and psychological variables, a well developed and regulated financial and capital market, good transport system, high level of literacy, a highly motivated workforce and an efficient bureaucracy to convert social capital into optimal economic output. This assumption is rationalised by the Two-

Sector model of Arthur W. Lewis propounded in the 1950s on the assumption that national output increase with the integration of traditional economy into modern economic thereby resulting to investment growth, capital accumulation, high wages and economic development. This view is a simplistic economic rationalisation that supports the basis for wealth creation and the economic empowerment of the citizens.

From microeconomic analysis, the wealth of nation is a function of demand and supply (inputs and outputs) of goods at a given prices at given time. Morgan, Katz and Rosen (2009, p.9) used the Circular Flow Model to explain how the expenditure by households and business implicitly influenced production and wealth creation. Against the logic of micro and macro-economic analysis, national wealth is a function of production, saving, investment, capital accumulation and re-investment. The saving culture tele-guided by the World Bank against the high demand for money for development in the domestic economy creates a dynamic political and economic environment that is counter-productive to the economy of developing countries. This new orientation introduced new development challenges that changed the global perspective about development administration, development economics, national productivity engineering and wealth creation. Scholars like Milton Friedman (cited in Bernanke, 2000, p.7) argued that market phenomenon should be given the prime of place to drive the engine of wealth creation and development. On the other hand, scholars like John Maynard Keynes (cited in Klein, 1947, pp.56-179) argued that the management of national economy by government is more effective in creating wealth and in promoting sustainable development. Yet, Burda and Wyplosz (2001, p.366) argued that production efficiency is achieved when each factor of production (sic *land*, *labour*, *capital and entrepreneur*) is paid its marginal productivity benefits. They, however, concluded that this may lead to unequal distribution of income and wealth. Income is a variant of national wealth distributed to the working class citizens. The higher the national wealth, the efficiency of production to sustain it and the political will to promote and redistribute wealth, the higher the income of employees.

There is a close relationship between national wealth and sovereign wealth. Government derives its sovereign powers and legitimacy from the people. The legal powers conferred on public institutions are defined within the socially acceptable limits of a society. The right by government to own, manage, invest, generate profit and distribute income is done within the specificities of national laws. Therefore, any discussion about sovereign wealth create understanding about the powers bestowed on government to generate funds through taxation, mineral resources exploitation and interdependence relationship (trade) for the benefit of its citizens. The community is political because the basis for their mutual co-existence, the ownership and distribution of the sovereign wealth is defined by political wisdom. Politics defines the framework of social relationship and where, when and how to equitably distribution sovereign wealth. This implicit but theoretical macro-economic issues raise by

Salvatore (2004, p.3-6) provides the framework for analysing the impact of consumer behaviour, consumption, resource ownership, business management, aggregate or total output level, employment, consumption, investment and prices for the economy as a whole and used decision science model to construct a matrix that determine the means through which macro-economic goals achieved. Extreme poverty, unemployment, inequality, illiteracy, disease, infant/maternal mortality and crime rates are macro-underdevelopment challenges as the presence of these variables in lesser degree presents micro-underdevelopment challenges to nations.

## The Santiago Principles and the Sovereign Wealth Fund

The term sovereign wealth fund was used in 2005 by Andrew Rojanove in his article titled *Who Holds the Wealth of Nations.* Therein, he advocated a shift from the traditional model of managing sovereign wealth due to increase in public expenditure. The word sovereign creates an ownership structure for public funds in favour of community of inhabitants and bestowed sovereign and quasi-sovereign powers on the funds. In the first instance, it implies that public fund belongs to the people. In the second instance, it implies that only government can authorize the use of such fund. Sovereign wealth fund creates an implicit liability for government to manage public fund in the public interest. Sovereign wealth fund is a powerful global investor class in many parts of the world today. Many critics have associated sovereign wealth funds with state capitalism. SWF is an economic blueprint designed to give state capitalism firm grip of the world economy. Opponents of SWFs argued that it posed threat to national security and economic sovereignty of nations due to the competitive advantage it enjoyed in host countries. SWF is seen as the subversive agent of state capitalism. Government used their SWF status to invest heavily in the economies of other countries thereby carving a niche for itself in the global scheme of political and economic policy agenda. In many countries where sovereign wealth funds (SWFs) are established, there is high correlation between budget surpluses and limited debt obligations. The excess liquidity is saved for use in periods of financial crisis. The financial crisis may be induced by a fall in the prices of primary commodities and depletion of exhaustible resources. The sovereign wealth fund is a buffer fund used to cushion the effect of the boom- boost circle on public expenditure and economic development. The sovereign wealth fund could be used to address the challenges of development during periods of war (war chest).

Corporate governance principle has been embedded into the management of the Sovereign Wealth Funds. This is known as the Santiago Principle which set minimum standard for the management of the sovereign wealth fund: transparency, independence, governance structure, investment strategy and the disclosure of sovereign wealth fund by stakeholders (Santiago Principles, 2008). Essentially, the principles underlying the Santiago Principles:

i. The principle of accumulation which defines the percentage of revenue to be spent or saved;

ii. The principle of withdrawal which defines the mode of withdrawals from the fund; and

iii. The principle of investment which spells out the assets class for the investment of sovereign wealth fund.

This principle streamlines the ratio of government funds to be saved, when to spend it and where to invest the funds. It created a best practice mechanism for managing sovereign wealth fund, reinforced the veins of economic cooperation and created a common platform for the articulation of ideas on how the sovereign wealth fund could be effectively managed. The Sovereign Wealth Fund Institute (SWFI) and the International Working Group of Sovereign Wealth Funds (IWGSWFs) provided the baseline criteria for assessing the viability and the liquidity ratio of national sovereign wealth funds. It assesses the asset base of national sovereign wealth funds and assigned viability scores to them accordingly. It ranked SWFs based on its asset class, profitability and risk potentialities. This baseline criterion is used to accredit the sovereign wealth fund of countries with observer or full membership status of the International Forum of Sovereign Wealth Fund. In September 2008, at a summit in Chile, the International Working Group of Sovereign Wealth Funds adopted the code of conduct for member countries. The code of conduct was drafted by the IMF and adopted by the International Working Group of Sovereign Wealth Funds (IWGSFs) as the Santiago principles. The Santiago Principles created a legal framework that define and disclose the Fund policy blueprint (GAAP 1-4), the institutional framework and governance structures for the Fund (GAAP 5-9) and the investment and risk management framework for the Fund (GAAP 18-22). These frameworks translate into 24 Generally Accepted Principles and Practices:

**Principle 1:** The legal framework for the SWF should be sound and support its effective operations and the achievement of its stated objective(s).

**Principle 2:** The policy purpose of the SWF should be clearly defined and publicly disclosed.

**Principle 3:** Where the SWF's activities have significant direct domestic macro-economic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macro-economic policies.

**Principle 4:** There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to funding, withdrawal and expenditure.

**Principle 5:** The relevant statistical data relating to the SWF should be reported on a timely basis to the owner and integrated into macro-economic data.

**Principle 6:** The governance framework for the SWF should be sound and establish on a clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF in line with its policy objectives.

**Principle 7:** The owner should set the objectives of the SWF, appoint the members of its governing body (ies) in accordance with clearly defined procedures, and exercise oversight over the SWF's operations.

**Principle 8:** The governing body (ies) should act in the best interests of the SWF, and should be given a well defined mandate and adequate authority and competency to perform its functions.

**Principle 9:** The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.

**Principle 10:** The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement. This should be done in line with the international financial accounting standards.

**Principle 11:** An annual report and accompanying financial statements on the SWF's operations and performance should be prepared in a timely fashion and in accordance with recognized international or national accounting standards in a consistent manner.

**Principle 12:** The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.

**Principle 13:** Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body (ies), management, and staff..

**Principle 14:** Dealing with third parties for the purpose of the SWF's operational management should be based on economic and financial grounds, and follow clear rules and procedures.

**Principle 15:** SWFs' operations and activities in host countries should be conducted in compliance with all applicable regulatory and disclosure requirement of the countries in which they operate.

**Principle 16:** The governance framework and objectives, as well as the manner in which the SWF's management is operationally independent from the owner, should be publicly disclosed.

**Principle 17:** Relevant financial information regarding the SWF should be publicly disclosed to demonstrate its economic and financial orientation, so as to contribute to stability in international financial markets and enhance trust in recipient countries.

**Principle 18:** The SWF's investment policy should be clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the owner or the governing body (ies), and be based on sound portfolio management principles.

**Principle 19:** The SWF's investment decisions should aim at maximizing risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds.

**Principle 20:** The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities. Due diligence must be exercise in transactional relations.

**Principle 21:** SWFs view shareholder ownership rights as a fundamental element of their equity investments' value.

**Principle 22:** The SWF should have a framework that identifies, assesses, and manages the risks of its operations. The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.

**Principle 23:** The assets and investment performance (absolute and relative to benchmarks, if any) of the SWF should be measured and reported to the owner according to clearly define principles or standards.

**Principle 24:** A process of regular review of the implementation of the GAAP should be engaged in by or on behalf of the SWF (media@iwg-swf.org; International Working Group of Sovereign Wealth Funds: IWGSWFs, 2008, p.1-2; and Sven, Behrendt, 2010, p.1-20). These corporate governance values promote transparency, accountability, stakeholders' rights, decent disclosure, assets and liabilities management and established a legal basis for the operation of SWFs. It provides the guidelines for the effective management of sovereign wealth funds and fosters the trust relations in the international economic system. It enables SWFs authorities to provide sufficient and detailed information about the funds policy objectives, governance structures, funding and withdrawal structures, financial positions and overall investment policy. Conditioned on this policy framework, the Qatar Investment Authority invested $10 billion in Volkswagen in 2009.

The worth of sovereign wealth funds can be ascertained by the worth of their asset base as shown below.

Table 1: List of SWF Asset Base, Origin and Sources of Fund

| S/No | Name of SWF | Asset USD billion | Origin | Source |
|---|---|---|---|---|
| 1 | Norway Government Pension Fund- Global | 838 | 1990 | Oil |
| 2 | UAE – Abu Dhabi Investment Authority | 773 | 1976 | Oil |
| 3 | Saudi Arabia – SAMA Foreign Holdings | 675.9 | N/A | Oil |
| 4 | China Investment Corporation | 575.2 | 2007 | Non commodity |
| 5 | Kuwait-Kuwait Investment Company | 410 | 1953 | Oil |
| 6 | Hong Kong Monetary Authority Investment Portfolio | 326.7 | 1993 | N/C |
| 7 | Singapore- Government Of Singapore Investment Corporation | 320 | 1981 | N/C |
| 8 | Singapore Temasek Holdings | 173.3 | 1974 | N/C |
| 9 | Oatar Investment Authority Fund – NSSF | 170 | 2003 | Oil |
| 10 | China National Social Security Fund – NSSF | 160.6 | 2000 | N/C |
| 11 | Australian Future Fund | 90.2 | 2004 | N/C |
| 12 | Russia National Welfare Fund | 88 | 2008 | Oil |
| 13 | Kazakhstan Samrukkazyna | 77.5 | 2008 | N/C |
| 14 | Algeria Revenue Regulation Fund | 77.2 | 2000 | Oil |
| 15 | South Korea Investment Corporation | 72 | 2005 | N/C |
| 16 | United Arab Emirate Investment Corporation | 70 | 2006 | Oil |
| 17 | Libyan Investment Authority | 65.3 | 1984 | Oil |
| 18 | Iran National Development Fund | 58.6 | 1999 | Oil |
| 19 | Malaysia Khazanah Nasional | 40.5 | 1993 | N/C |
| 20 | Brunei Investment Agency | 40 | 1983 | Oil |
| 21 | Azerbaijan State Oil Fund of the Republic of Azerbaijan | 30.3 | 1854 | Public |
| 22 | France Strategic Investment Fund | 25.5 | 2008 | Land |
| 23 | New Zealand Superannuation Fund | 20.3 | 2003 | N/C |
| 24 | Ireland National Pension Research Fund | 19.4 | 2001 | N/C |
| 25 | Iraq Development Fund for Iraq | 18 | 2003 | Oil |
| 26 | Canada Alberta's Heritage Savings Trust | 16.4 | 1976 | Oil |

| | | | | |
|---|---|---|---|---|
| | Fund. | | | |
| 27 | Chile Social and Economic Stabilization Fund | 15.2 | 2007 | Copper |
| 28 | Timore Leste Petroleum Fund | 14.6 | 2005 | Oil/Gas |
| 29 | Russia Direct Investment Fund | 13 | 2011 | N/C |
| 30 | Oman State General Reserve Fund | 8.2 | 1980 | Oil/Gas |
| 31 | Botswana Pula Fund | 6.9 | 1996 | Diamond & minerals |
| 32 | China-Africa Development Fund | 05 | 2007 | N/C |
| 33 | Angola Fundo Soberano de Angola | 05 | 2012 | Oil |
| 34 | Trinidad Tobago Heritage and Stabilization Fund | 05 | 2000 | Oil |
| 35 | Nigeria Sovereign Wealth Fund | 1.5 | 2011 | Oil |
| 36 | Gabon Sovereign Fund of the Gabonese Republic | 0.4 | 1998 | Oi |
| 37 | Mauritania National Fund for Hydrocarbon Reserves | 0.3 | 2006 | Oil/Gas |
| 38 | Ghana Petroleum Fund | 0.07 | 2011 | Oil |
| 39 | Equatorial Guinea Fund for Future Generations | 0.08 | 2002 | Oil |
| 40 | Mongolia Fiscal Stability Fund | 0.3 | 2011 | Mining |
| 41 | Venezuela FEM Macro-Economic Stabilization Fund | 0.8 | 1998 | Oil |

Source: Google Search, July 5, 2014.

The number of SWFs existing across the world today reflects the growing importance of the fund in the global economy. The prospect of SWFs to stimulate macro-economic development is dependent on sound economic and political governance framework. The economic fundamentals emphasized transparency and accountability and market viability and political governance laid emphasis on political commitment and liberal and stable political environment.

**Reflections on the Nigerian Sovereign Wealth Funds (NSWFs)**

The Nigerian Sovereign Investment Authority Act was signed into law in May 2011 by President Goodluck Ebele Jonathan. Many types of sovereign wealth funds like the Petroleum Equalisation Trust Fund (PETF), the Petroleum Technology Development Fund (PTDF), the Education Trust Fund, the Universal Basic Education Fund (UBEF), the Tertiary Education Trust Fund (TETFund), External Reserve, the Excess Crude Account and the National Pension Funds were created to serve different development needs in Nigeria. The establishment of the Excess crude Account (ECA) in 2004 as a stabilization fund enabled the Nigerian government to address perennial fiscal or budget deficits and infrastructural development (NSIA, 2011:2; Orji 2011:2). In August 2011, the amount of money in the ECA was $4.22

billion, $9 billion in 2012 and $5 billion in 2013. The constitutionality of the ECA has been challenged for introducing arbitrary rules in fiscal management in Nigeria using the framework of political exuberance and the politics of patrimony. The proceeds of the ECA are periodically shared between the federal, state and local government authorities.

The establishment of the Nigerian Sovereign Investment Authority and by extension the Nigeria Sovereign Wealth Fund creates the legal basis for the management of the excess proceeds from petroleum. It was hoped that the prudent management of the excess crude fund will bring about economic stability, stimulate infrastructural development and promote inter-generational equity. The achievement of these noble objectives is still a test bud for the Nigerian government given the level of corruption in the country. The NSIA has three major components or account heads:

(i) The Stabilization Fund (SF). This fund is meant to provide safeguards against budgetary deficits resulting from shortfalls in oil prices and or other budgetary constraints;

(ii) The Future Generation Fund (FGF) is a reserve fund for long- term investment in equities, real estate and other asset class for future generation. It is a fiscal saving for future generation; and

(iii) The Nigerian Infrastructure Fund (NIF) is used for infrastructural development in the agricultural, transportation, energy and power and water resources subsectors among others.

This is to stimulate macro-economic growth and diversify the Nigerian economy, attract foreign investment and create jobs for Nigerians. To guarantee fiscal astuteness and transparency in the management of the fund, the fund is managed based on the F-I-T operational model otherwise known as financial sustainability, independence in decision making and transparency in process (Okonjo Iweala, 2013). These values provide a sound corporate governance and risk management pillars for the sovereign wealth funds and has earned the NSWF high ranking (9 points out of 10 points) by the Sovereign Wealth Institute. The SWI used the Linaburg-Maduel Transparency Index as a ranking model (Ekundayo, 2014:25). The Organisation for Economic Cooperation and Development and the European develop guidelines for SWF recipient countries in the same vein as Sven (2010, p.9-10) used the Economic Intelligence Unit's "Index of Democracy 2008" to assess the varied performance of SWFs in member countries. Sven's assessment created four inter-related investment horizons for SWFs:

i. Well-governed, accountable, and transparent SWFs from full democracies;

ii. Well-governed, moderately accountable, and transparent SWFs from flawed democracies and hybrid regimes;

iii. Underperforming SWFs from countries with non-democratic government arrangements; and

iv. Funds for which data is insufficient.

The NSIA commenced operation with an initial seeded capital of one billion dollars ($1 billion). This initial investment ration makes the NSWF the third largest in Sub-Saharan Africa after Botswana. On a comparative basis, the monetary value of the Botswanan and the Angolan Sovereign Wealth Fund are $6.9 billion and $ 5 billion respectively. In Nigeria, 20% of the fund was allocated to the stabilization fund and 32.5% to the future generation fund and the infrastructure funds respectively. 85% of the $1 billion was distributed among the three accounts heads and the remaining 15% (150 million dollar) was reserved as a reserve-reserve- fund to be allocated to any of the three funds in the future as the need arises (Inokotong, 2013). JP Morgan was appointed to manage the fund.

On February 26, 2013, the NSIA's Sovereign Wealth Enterprise, the NSIA Motorway Investment Company signed a deal with Julius Berger investment limited. The agreement made the NMIC an investment partner in the second Niger Bridge project. In a similar manner, the NSIA has gone into partnership with the Federal Ministry of Agriculture and Rural Development and a German based development bank Kreditansalt fur WiederauFbau (KFW) to develop the agricultural sector in Nigeria. The NSIA has committed the sum of USD 1O million to agriculture-focused financing vehicle known as FAFIN – Fund for Agricultural Financing in Nigeria. The NSIA is in partnership with the International Finance Corporation (IFC) to develop, finance and implement infrastructural projects with a view to stimulating job creation, economic growth and social development in Nigeria. The signing of the Memorandum of Understanding (MoU) between IFC and the NSIA is geared towards the promotion of investment in the housing, health, transport, power and gas sub-sectors of the Nigerian economy. This public-private partnership investment relation encourages private investments in critical infrastructure in Nigeria. It attracts foreign investment into Nigeria. The NSIA also has economic understanding with General Electric. The NSIA has invested USD 200 million in the US bond market. The invested fund is managed by Credit Suisse and Goldman Sachs. The sum of USD 50 million is used by Credit Suisse and Goldman Sachs to develop the US bond portfolio. The injection of USD 200 million of the NSIA fund into the US financial market has enables the US economy recover from the financial crises of 2008. This type of investment represents an implicit but covert means of getting bail-out funds from the developing countries by the developed countries without explicit conditionality. This can be explained from two hypothetical positions or assumptions:

i. Funds needed for development by developing countries are drawn from the developed countries through conditioned loans, aids and grants. It is not within the scope of this paper to address this hypothetical assumption; and

ii. Funds needed for development by developed countries are indirectly drawn from the developing countries through mandatory savings in external reserve and the Sovereign Wealth Fund Investment.

The investment of USD 200 million of NSIA fund in the US financial market finds rationalization in the second hypothetical assumption.

The asset base of the world SWF as at 2013 stood at USD 578 trillion. It is noted that USD 7.2 trillion is held in other sovereign investment vehicles like pension reserve funds, development funds and state-owned corporations whereas USD 8.1 trillion is held in other official foreign exchange reserves. Cumulatively, a total of USD 20 trillion of SWF is available for investment in the world economy. Specifically, SWFs from oil and gas in 2013 was USD 3.5 trillion and non-commodity SWFs was USD 2.1 trillion. The later is funded by transfer of asset from foreign exchange reserve, budget surpluses and proceeds of privatization. It is difficult to establish the relationship between the foreign reserve and economic development in Nigeria. The rate of Nigeria's foreign reserve vary from USD 34.57 billion in July 13 2011, USD 33.54 billion in July 22, 2011, USD 37.86 billion in 2013 to USD 41.6 billion in 2014 (Shafii, 2011: 1-13). This idle capital created by Nigeria in external reserve finds its way through the back door of the International Monetary Fund (IMF) and the World Bank to developing countries as conditional loans, aids and grants. It is ironical for Nigeria to build up funds in external reserve at a time she is in critical need of funds to revitalize the energy, power, transport, health, housing and educational sub-sectors. This is one of the economic miscalculations of government. The investment of USD 200 million of Nigeria Sovereign Wealth Fund in the US financial market and the building of large pool of external reserve by any nation is the dictates of imperialism that serve non-progressive ends in the economy of fund owner nations. The fund is managed by a foreign consultant at a cost to government. The USD200 million invested in the US financial is enough to complete the Ajaokuta Steel Company that had been long abandoned by government. By all economic calculation, the return on investment from the Ajaokuta Steel Company by measurable parameters is higher than the return on investment in the US financial market. The investment has sustainable economic lifespan than the foreign investment and seeks to address the employment and wealth creation, poverty and inequality problem more than any alternative investment structure. Putting the USD200 million and the USD 41.6 billion in the nation's foreign reserve into investment use in Ajaokuta steel company, Nigeria, its multiplier effect on the

Nigerian economy is transcendental. This is one best way to create wealth for future generation.

Part of the strategies adopted by the federal government to create wealth is the SURE-P programme. 1n 2012, government budgeted the sum of N180 billion for the programme out of which the sum of N72.44 billion was expended on the programme between February and December 2012. In 2013, the sum of N273.5 billion was budgeted and approved for the Subsidy Reinvestment and Empowerment Programme (SURE-P) programme but only N104.1 billion was spent as at July 2013 whereas the budget for the SURE-P for 2014 was N273.14. A total 178,000 jobs has been created through the SURE-P scheme in addition to the 1,900 unemployed graduate that were attached with some private sector organizations for internship under the Graduate Internship Scheme (GIS). This underscored the fact that the emphasis on sovereign wealth is about job and wealth creation. Given its prudent management, the NSWF will alleviate the poverty of Nigerians. The integration of the Sure-P programme into the sovereign vehicle has address part of the challenges associated with job and wealth creation and poverty alleviation in Nigeria.

The Nigerian Sovereign Wealth Fund is at its infant stage of development. The basic principles of the Santiago Principles are gradually being applied. The legal framework for its operation has been created. It is gradually bringing stability into the Nigerian financial system thereby encouraging free flow of capital and investment. The management of the NSWIA is in compliance with the regulatory and disclosure requirements stipulated for member countries. The investment decision backing the application of the fund is based on rational economic calculations and risk related considerations. And a transparent and sound governance structure that provides for adequate operational control, risk management and accountability has been provided by government. However, no significant disclosure in terms of publication of annual reports has been made due the infant nature of the fund.

## Conclusion

It is not a bad idea that any country whose economy witnessed sustainable economic boom should make provision for the future generation. Many platforms were created in the past to stimulate inter-generational investment and equity. It was operated under many policy heads. The change in the nomenclature of the sovereign wealth fund should not be a mere political tool by government seeking legitimacy. The successful implementation of the sovereign wealth fund is challenged by the high level of corruption in Nigeria. There is high level suspicion that the Sovereign wealth fund will be mismanaged if exposed to political interest and other partisan considerations. Government should be more prudent in managing the fund. More productive investment should be made with the fund to provide economic haven for the youth and future generations. The SWF should be prudently managed by a team of professional managers and businessmen. The relevant agency should oversee the effective management of the fund to avoid its abuse. Corporate governance principles should be adhered to in asset management to mitigate the consequences of risk. A robust risk assessment should be carried out by fund managers before any investment in done as guarantee against preventable loss. The degree of political interference in the management of the funds should be minimized. There should be sufficient disclosure of the proceeds of SWF and its asset management base in line with the Santiago principles. Independence and professionalism should be exhibited by managers of the SWF.

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