

**A CRITICAL ASSESSMENT OF THE INSTITUTIONAL,  
LEGISLATIVE AND GOVERNANCE STRUCTURE OF  
ZIMBABWE'S SOVEREIGN WEALTH FUND**

**BY**

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## **ABSTRACT**

This research assesses the institutional, legislative and governance structure of Zimbabwe's Sovereign Wealth Fund. Though Zimbabwe's Sovereign Wealth Fund Act takes into cognisance the Santiago Principles which are regarded as the international best practices of managing Sovereign Wealth Funds the Sovereign Wealth Fund has got an inadequate institutional, legislative and governance structure. The study sought to assess the extent to which Zimbabwe's Sovereign Wealth Fund conforms to the Santiago Principles. The study also sought to examine the rationale behind establishing a Sovereign Wealth in Zimbabwe. Furthermore, the study also examined the challenges faced by the government of Zimbabwe in implementing the objectives of the Sovereign Wealth Fund. The study made use of purposive and snowball sampling techniques in selecting respondents to the study. The research gathered data through interviews and documentary search. Literature reviewed revealed that the International Working Group Santiago Principles are generally regarded as the international best practices for managing Sovereign Wealth Funds. Usually Sovereign Wealth Funds are created to achieve multiple goals and objectives. Some of the reasons that account for the establishment of Sovereign Wealth Funds include stabilization and diversification of the economy, creating a development, savings and pension fund, combating inflationary and deflationary conditions, and enhancing political influence. The research findings revealed that Zimbabwe generally adheres to the Santiago Principles. However, there are major inconsistencies in the legislative framework of the Fund that may impede the efficient administration of the Fund. Furthermore, the research findings revealed that the Zimbabwe has multiple reasons for establishing a Sovereign Wealth Fund. The reasons include creating a development fund, a savings fund, a stabilization fund and to supplement Zimbabwe's national budget. In addition, the research findings revealed that the main challenges confronting Zimbabwe's Sovereign Wealth Fund are inadequate seed capital, human resource capacity constraints, and an economic environment that is not conducive. The study concludes that the Sovereign Wealth Fund empowers the President and the Minister of Finance to interfere in the affairs of the Sovereign Wealth Fund yet ideally it is meant to be an autonomous entity. The study recommends that Parliament rather than the President must be the trustee of the Fund. Furthermore, the study recommends that Parliament in consultation with treasury must give policy direction to the Fund. In addition, the study concludes that the multiple actors and objectives of the Fund make the implementation of the objectives of the Fund difficult. The study recommends that the distinction between National Indigenization and Economic Empowerment Board and the Sovereign Wealth Fund must be explicitly disclosed. The study also concludes that Zimbabwe rushed to create a Sovereign Wealth Fund because it does not meet the prerequisite conditions to do so. The prerequisite conditions include incurring a budget surplus and being highly industrialized. To the contrary Zimbabwe is navigating through dire fiscal straits with a high debt overhang, weak fiscal legroom and is incurring budget deficits. The study recommends that Zimbabwe needs to strengthen its macroeconomic fundamentals so as to support the implementation of the objectives of the Sovereign Wealth Fund.

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Public Administration in Zimbabwe today has failed to stand out both as a professional practice and academic discipline because of the poverty of scholarship in the discipline. The leading lights in the discipline have become mimetic in their scholarship. Unlike mortal beings that die a permanent death, Public Administration is immortal and can resurrect. I would like to become part of its 'Lazarus Moment.' I have dedicated my life to the study and practice of government. Good governance in the 21<sup>st</sup> century is not a luxury but a necessity.

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**Dedication**

To my late father Richard 'Musindo' Matambo.

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## **ABBREVIATIONS**

AG	Accountant General
ATI	African Tax Institute
BOP	Balance of Payment
CEO	Chief Executive Officer
CRF	Consolidated Revenue Fund
ECA	Excess Crude Account
CESSF	Chile Economic and Social Stabilization Fund
FDI	Foreign Direct Investment
FSDEA	Fundo Soberano de Angola
GAPP	Generally Accepted Principles and Practices
GPGF	Government Pension Global Fund
ICT	Information Communication Technology
IFRS	International Financial Reporting Standards
IFSWF	International Forum of Sovereign Wealth Funds
IMF	International Monetary Fund
IWG	International Working Group
KIA	Kuwait Investment Authority
KKM	Kaufmann, Kray and Mastruzzi
LIC	Low Income Countries
MTP	Medium Term Plan
NBIM	Norges Bank Investment Management
NEC	National Economic Commission
NGPF	Norway Government Pension Fund
NSIA	Nigeria Sovereign Investment Authority
OECD	Organization for Economic Cooperation and Development
OPC	Office of the President and Cabinet
PPP	Public Private Partnership
RBZ	Reserve Bank of Zimbabwe
RNWF	Russia National Wealth Fund
RRF	Russia Reserve Fund

SOEs	State Owned Enterprise
STEM	Science, Technology, Engineering, Mathematics
SWF	Sovereign Wealth Fund
SWFI	Sovereign Wealth Fund Institute
UAE	United Arab Emirates
UNDP	United Nations Development Programme
UNESCO	United Nations Educational Scientific and Cultural Organization
ZAADS	Zimbabwe Accelerated Arrears Debt Development Strategy
ZEPARU	Zimbabwe Economic Policy Analysis and Research Unit
Zim-ASSET	Zimbabwe Agenda for Sustainable Socio-Economic Transformation

## **CHAPTER ONE: INTRODUCTION**

### **1.0 Introduction**

This chapter presents a brief synopsis of the origins of Sovereign Wealth Funds their rise in Africa and the establishment of a Sovereign Wealth Fund in Zimbabwe. The chapter outlines the background of the problem, the statement of the problem, hypothesis/proposition. Research questions, objectives of the study, justification of the study delimitations and limitations are also presented in this chapter. This chapter constitutes the basis of the whole thesis.

### **1.1 Background of the study**

Public administration without adequate funding is a nullity. According to Keen (2012:03) due to donor fatigue Low Income Countries (LICs) are devising strategies to promote domestic mobilization of fiscal resources. Sovereign Wealth Funds are critical players in international financial markets in the 21<sup>st</sup> century (Avendano and Santiso, 2009:01; Barbary and Bortoloitti, 2012: 317; Beck and Fidora, 2008:06). Sovereign Wealth Funds are derived from Balance of Payments (BOP) surplus, foreign exchange reserves, fiscal surpluses, foreign exchange reserves and proceeds from privatization (Beck and Fidora, 2008:04; Borst, 2015:01; Hove, 2016:09, Mutonhori, 2014:01; Parliament of Zimbabwe, 2014:04; Das, Lu, Mulder and Sy, 2009:03; Klitzing, Lin, Lund and Nordin, 2010:03). Commodity exporting economies account for at least two thirds of Sovereign Wealth Funds (Drenzer, 2008:02).

Nation states that heavily depend on taxation of natural resources are vulnerable to cyclic swings in commodity prices which thus changes the level of tax revenue (Bird and Zolt, 2003:11). Countries that rely on a balanced set of tax instruments rather than a single source of revenue are likely to have lower tax revenue volatility (ibid). Thus this is the rationale upon which Sovereign Wealth Funds are founded. Over the past four decades resource rich sub-Saharan states have increased their tax Gross Domestic Product ratios by over 7%. Tax design in resource rich states is one aspect of the wider issue of resource management involving issues of transparency, macroeconomic management, and savings decisions that have wider implications for the political and economic future of the country (Keen, 2012:05).

Though there has been a recent interest in the legal, political and financial issues surrounding Sovereign Wealth Funds they have been around for a long time (Mezzacapo, 2009:03; Das, Mazarei and Vander Hoorn, 2010:01). The first Sovereign Wealth Fund to be established is

the Texas Permanent School Fund established in 1854 by the Texas legislature to fund higher education within the state (Turco, 2013:29; Habib, Sairally and Mirakhor, 2014: 128) . However, literature generally regards the Kuwait Investment Authority (KIA) which was established from oil proceeds in 1953 as the first Sovereign Wealth Fund (Beck and Fidora, 2008:06; Deloitte, 2008:03; Townsend, 2008:03; Turco, 2013:29; Drenzer, 2008:02; Parliament of Zimbabwe, 2014:05; Siquin, 2012:03). Sovereign Wealth Funds gained prominence at the turn of the millennium with the term being coined by Andrew Razanov in 2005 in his article entitled ‘Who holds the Wealth of Nation?’ (OCO, 2010:03). According to Carpentier, Luxemburg and Vermulen (2015:02) the surge in Sovereign Wealth Funds is accountable for the rise in commodity prices at the turn of the millennium. This left many third world governments with large chunks of hard currency. Global Sovereign Wealth Fund assets were estimated to be valued at around USD\$7,2 trillion in 2015 which is more than twice the 2008 estimate (Hove, 2016:02).

It is instructive to note that most Western countries even those that are endowed with natural resources have not established Sovereign Wealth Funds. In the European Union only Italy, France and Ireland have Sovereign Wealth Funds (Chatham House, 2014:06). With Norway as an exception nation-states with large Sovereign Wealth Funds are led by regimes which lack political legitimacy. Socio-economic indicators in these nation-states point towards the likelihood of conflict which could ignite turmoil and rebellion against the incumbent regime (Barbary and Bortoloitti, 2012:318). According to Balding (2012:02) prior to the global recession of 2008 most western countries were sceptical and downright hostile towards Sovereign Wealth Funds. The West since 2006 has labelled Gulf Sovereign Wealth Funds as ‘barbarians at the gate of their economies’ as Dubai Ports World a subsidiary of Abu Dhabi Investment Authority acquired several American ports (Turco, 2013:06). In response the United States government passed the Foreign Investment and National Security Act which sought to prevent acquisitions that can jeopardize national security (ibid).

Sovereign Wealth Funds have raised concerns globally as political tools that can be used to undermine the economies of the West (Barbary and Bortoloitti, 2012:329). Sovereign Wealth Funds especially from undemocratic countries are reluctant to reveal their holdings and policies. Sovereign Wealth Funds are more prevalent in nations that are generally considered to be less democratic (Carpentier *et al*, 2015:02). According to Barbary and Bortoloitti (2012:309) Sovereign Wealth Funds have created a new global paradigm in which large pools

of money are held by authoritarian and undemocratic regimes which have a record of human rights abuses.

However, during the global world recession of 2008 Sovereign Wealth Funds turned into the 'White Knights of Wall Street'. Sovereign Wealth Funds invested an estimated USD\$63 billion in Western financial institutions. Sovereign Wealth Funds became lenders of last resort and bailed out distressed industries. This changed the forces of global economic power from West to East (Balding, 2012:02). After the fall of Colonel Muammar Gaddafi during the Arab Spring in 2011 there have been renewed growing concerns over Sovereign Wealth Funds. It is believed that Colonel Muammar Gaddafi used resources from the Libyan Investment Authority (LIA) to quell the rebel uprising during the Arab Spring (Barbary and Bortoloitti, 2012:318). Economic sanctions were imposed against Libya in 2011 when the United Nations imposed an asset freeze on the Libyan Investment Authority. Several international firms in which Libya Investment Authority has a stake which include Pearsons, the Financial Times and Unicredit an Italian bank were affected. Libyan Investment Authority could no longer control its investments abroad (ibid, 325).

Due to the political controversies of Sovereign Wealth Funds in October 2007 the international community called on the International Monetary Fund (IMF) to come up with general principles and best practices of managing Sovereign Wealth Funds (Mutonhori, 2014:03; Das *et al* 2010:01). This was in response to fear that Sovereign Wealth Funds could be used to advance political agendas of the ruling elite. Furthermore, there was concern that Sovereign Wealth Funds have the potential to distort the global market and impede market forces. The Generally Accepted Principles and Practices (GAPPs) adopted by the International Working Group of Sovereign Wealth Funds (IWGSWF) became known as the Santiago Principles (ibid). The International Working Group of Sovereign Wealth Funds comprises 26 Sovereign Wealth Funds committed to good governance, transparency and accountability standards. However, implementation of the Santiago Principles is highly uneven with only a few democratic countries showing high commitment to the Principles (Behrendt, 2010:01). The Generally Accepted Principles and Practices seek to inform the institutional and legal reform of Sovereign Wealth Funds. However, it is instructive to note that Generally Accepted Principles and Practices are voluntary and are subject to intergovernmental agreements of home and recipient countries (IWG, 2008:04).

According to Kanyenze, Chitambara, Kondo and Martens (2011:530) the notion of a Sovereign Wealth Fund in Zimbabwe was first proffered by the United Nations Development

Programme(UNDP) in 2008. The UNDP recommended that Zimbabwe must leverage its vast natural resources for future development. Establishing a Sovereign Wealth Fund in Zimbabwe reached the institutional agenda of government during the inclusive government. The notion of a Sovereign Wealth Fund was first enunciated through the Medium Term Plan (MTP). The Medium Term Plan proposed that the Sovereign Wealth Fund be established by transferring 75% of mining royalties to the Fund (GoZ, 2010:65). The Medium Term Plan also proposed that the Sovereign Wealth Fund must be used for developmental projects in provinces and local authorities where mining entities operate. Furthermore, the Medium Term Plan proposed that the Sovereign Wealth Fund should fund regional mapping so as to establish the geological nature of Zimbabwe, funding mining ventures, establish new industries and support the Science Technology Engineering and Mathematics(STEM) initiative. Furthermore, the Medium Term Plan proposed that the Sovereign Wealth Fund must promote general investment and infrastructure development (ibid).

Zimbabwe Economic Policy Analysis and Research Unit (ZEPARU) in its 2012 Mining Sector Policy Study also recommended the establishment of a Sovereign Wealth Fund in Zimbabwe (Chigumira, Makani, Chipumho, Matsika and Mananike, 2016:viii). Section 298(1)(c) of the Constitution of Zimbabwe stipulates that the benefits and burdens of mineral resources must be equitably shared between present and future generations. Zim-ASSET also identifies the Sovereign Wealth Fund as one of its key financing mechanisms (GoZ, 2013:49). The President of the Republic of Zimbabwe assented the Sovereign Wealth Fund Act into law and it was gazetted on the 10th of November 2014. In the 2015 National Budget Statement the Minister of Finance and Economic Development appropriated seed capital valued at USD\$500 000 to establish the Sovereign Wealth Fund. A board of directors was also appointed to spearhead the implementation of the objectives of Zimbabwe's Sovereign Wealth Fund (GoZ, 2014:89).

## **1.2 Statement of the Problem**

Though Zimbabwe's Sovereign Wealth Fund Act takes into cognisance the Santiago Principles which are regarded as the international best practices in the management of Sovereign Wealth Funds the Sovereign Wealth Fund has got an inadequate institutional, legislative and governance structure. A poorly designed SWF can be a source of instability in the home country (Das et al, 2010:01). According to Mutonhori (2014:07) a critical analysis of the Sovereign Wealth Fund Act reveals that there are many vague terms which may negatively impact on the institutional arrangement of the Fund. For example, the Section 11

of the Sovereign Wealth Fund Act provides that the Minister may give direction to the board in ‘national interest’. The term ‘national interest’ is not defined in the Act. This implies that the Minister can interfere in the affairs of the Sovereign Wealth Fund which therefore compromises its independence. This is inconsistent with the ninth Principle of the Santiago Principles which stipulates that the Sovereign Wealth Fund must be operationally independent.

In addition, the Presidential appointment of board members of the Sovereign Wealth Fund is likely to promote patronage in the Sovereign Wealth Fund which compromises the independence of the Sovereign Wealth Fund which may in turn negatively impact on organizational efficiency. The Act also has weak oversight mechanisms and internal external audits are not subject to public disclosure (Mutonhori, 2014:20). This is contrary to Generally Accepted Principles and Practices principle 5 and 11 of the Santiago Principles which require public disclosure so as to avoid the abuse of public funds. This study sought to proffer recommendations to strengthen the frameworks of Zimbabwe’s Sovereign Wealth Fund.

### **1.3 Objectives of the Study**

The research seeks to:

1. Assess the extent to which Zimbabwe’s Sovereign Wealth Fund conforms to the International Working Group of Sovereign Wealth Funds Santiago Principles.
2. Examine the rationale behind establishing a Sovereign Wealth Fund in Zimbabwe.
3. Examine the challenges faced by the Government of Zimbabwe in implementing the objectives of the Sovereign Wealth Fund.
4. Proffer recommendations towards strengthening the institutional, legislative and governance structure of Zimbabwe’s Sovereign Wealth Fund.

### **1.4 Research Questions**

The research seeks to answer the following questions:

1. To what extent does Zimbabwe’s Sovereign Wealth Fund conform to the International Working Group of Sovereign Wealth Funds Santiago Principles?
2. What is the rationale behind establishing a Sovereign Wealth Fund in Zimbabwe?
3. What challenges are being faced by the government of Zimbabwe in implementing the objectives of the Sovereign Wealth Fund?
4. What recommendations can be proffered towards strengthening the institutional, legislative and governance structure of Zimbabwe’s Sovereign Wealth Fund?

### **1.5 Hypothesis/ Proposition**

Zimbabwe's Sovereign Wealth Fund depends on robust institutional, legislative and governance structures.

### **1.6 Justification of the study**

Literature on Sovereign Wealth Funds in Africa is scant (Ekokoi, 2015:102; Hove, 2016:01). With the fall of Colonel Muammar Gaddafi in 2011 during the Arab Spring there have been growing concerns around the national security risks that Sovereign Wealth Funds may pose on their intended beneficiaries. Sovereign Wealth Funds have been around for over 200 years but only gained international acclaim as public financial management instruments during the global world recession of 2007 and 2008 (Hove, 2016:01). Zimbabwe recently established a Sovereign Wealth Fund through the enactment of the Sovereign Wealth Fund Act in 2014. The study may be of significance to academia, policy makers, civil society and the general citizenry. The primary concern of the study was to assess the institutional legislative and governance structure of Zimbabwe Sovereign Wealth Fund. The study benchmarked the frameworks of Zimbabwe's Sovereign Wealth Fund against stipulated international best practices such as the Santiago Principles. The study can be used as a tool to influence public debate and policy making on the subject matter.

### **1.7 Limitations**

Literature on Sovereign Wealth Funds especially in Africa is scant (Hove, 2016:01). Sovereign Wealth Funds the world over are generally shrouded in secrecy for political reasons (Barbary and Bortoloitti, 2012:319). Bureaucratic pathology and the Official Secrets Act posed as challenges to the study as bureaucrats from the Office of the President and Cabinet (OPC), central bank, treasury and the Zimbabwe's Sovereign Wealth Fund secretariat were in some instances not able to divulge some information because of restrictions placed by the Official Secrets Act.

### **1.8 Delimitations**

The domain of the study is Zimbabwe's Sovereign Wealth Fund. Focus is placed on assessing the institutional, legislative and governance structure of Zimbabwe's Sovereign Wealth Fund. The principle institutions within which the study will be carried out are the Reserve Bank of



Zimbabwe, Office of the President and Cabinet, treasury and the Sovereign Wealth Fund secretariat. Section 3, 11 and 16 of the Sovereign Wealth Fund Act stipulates that these are the key institutions in the operationalization of the Sovereign Wealth Fund.

### **1.9 Organization of the Study**

The Study has got five chapter which will be presented as follows:

#### **I. Chapter One- Introduction**

Chapter One introduces the study. It outlines the background of the problem, statement of the problem, justification of the study and states a research proposition. Research questions, objectives of the study, limitations and delimitations of the study are also highlighted.

#### **II. Chapter Two - Literature Review and Analytical Framework**

Chapter Two outlines and critically analyses various authoritative perspectives as put forward by scholars on Sovereign Wealth Funds. It reviews current literature and tries to identify the knowledge gap. It also discusses the analytical framework of the study.

#### **III. Chapter Three - Methodology**

Chapter Three describes the research methodology that is employed by the study. The research design, sampling procedure and the data analysis techniques employed in the study are outlined.

#### **IV. Chapter Four – Presentation and Analysis of Findings**

Chapter Four presents and analyses the major findings of the study.

#### **V. Chapter Five- Conclusions and Recommendations**

Chapter Five contains concluding remarks and focuses on recommendations to strengthen the frameworks of Zimbabwe's Sovereign Wealth Fund.

### **1.10 Conclusion**

This chapter provided the basis of the study which seeks to assess the institutional, legislative and governance structure of Zimbabwe's Sovereign Wealth Fund. This was done by providing the background to the study, the statement of the problem, hypothesis, research objectives, justification, limitations and delimitations. The next chapter focuses on literature review and theoretical framework.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.0 Introduction**

This chapter presents a review of literature on the best practices of managing Sovereign Wealth Funds. It discusses the conceptual and theoretical framework informing the management of Sovereign Wealth Funds. The chapter also reviews cases studies from countries which include Angola, Nigeria and Norway. Furthermore, lessons will be drawn from these case studies for Zimbabwe.

### **2.1 Conceptual Framework**

#### **2.1.1 Sovereign Wealth Funds**

Trying to comprehensively definition of the term Sovereign Wealth Fund is elusive (Monk, 2009:454; Lenihan, 2013:229; Turco, 2013:05).Sovereign Wealth Funds are state owned investment funds investing in real and financial assets such as stocks, bonds, real estate, precious metals or in alternative investments such as private equity funds or hedge funds (Parliament of Zimbabwe, 2014:05). This implies that Sovereign Wealth Funds are state owned investment vehicles operating in private financial markets (Monk, 2009:451). According to Chioma, Uche and Basse (2014:03) Sovereign Wealth Funds are financial reforms of the state which seeks to accumulate national Foreign Direct Investment (FDI) for development purposes. Sovereign Wealth Funds are special purpose investment funds owned by the state at central government or local government level. Sovereign Wealth Funds are created to achieve macro-economic objectives which include investing in foreign financial markets (IWG, 2008:02). According to Balding (2012:04) Sovereign Wealth Funds invest domestically, regionally and internationally. However, Beck and Fidora (2008:04) are of the view that Sovereign Wealth Funds are public investment agencies which manage part of the foreign assets of the state. Chatham House (2014:13) is of the view that Sovereign Wealth Funds must not invest domestically. Domestic investment must be funded by the national government unless otherwise stated. Sovereign Wealth Funds that invest domestically are likely to suffer from corruption and the ‘Dutch disease’ (Das *et al*, 2010:xvi). According to Dixon (2016:03) Sovereign Wealth Funds contribute to long term sustainable development. However, Sovereign Wealth Funds alone are not the panacea to the multiple challenges facing policy and governance in developing countries. The form and function of a Sovereign Wealth Fund must be in tandem with overall macroeconomic objectives of government (Chatham House, 2014:04).

### **2.1.2 Institutional Framework**

According to Donnellan, Hanrahan and Hennessy (2012:01) an institutional framework is the systems, of law, informal conventions, procedures, regulations, customs and norms that mould and restrain socio-economic behaviour. Sound institutional governance is the bedrock of sound public administration and management. The values underpinning sound institutional governance are efficiency, credibility, inclusiveness, responsiveness, accountability and transparency (Zhou, 2013:95).

### **2.1.3 Legislative Framework**

According to Madhuku (2010:13) legislation refers to statutory law which covers those rules of law made by the legislature. Legislation is embodied in legal documents called Acts of Parliament. The law refers to the regulations and rules that govern societal relations or human conduct and are enforced by the state. The law has four main functions that is to do justice, preserve peace, to enforce morality, and to protect the interests of the ruling class. According to the Marxist Theory of Law cited in Adams and Dyson (2007:89) the ruling elite owns the means of production and control the base which uses the law to protect the elites' interests. Therefore, the law may be used to advance the interests of the ruling elite.

### **2.1.4 Governance Structure**

According to Fukuyama (2013:03) governance is the ability of government to deliver services and enforce the law regardless of whether the government is democratic or not. Governance is the process of decision-making and the process by which decisions are implemented or not (UNESCO, 2015:02). The United Nations (2012:04) also defines governance as the exercise of administrative and political authority in the management of a country's public affairs. The focus of governance is on the processes, mechanisms and institutions through which citizens present their interests. The Economic and Social Council (2006:03) further elaborates that governance is the manner in which power is exercised in the administration of a nation-state's social, economic and political resources for development. According to Zhou (2013:95) governance is an institutional capacity issue which is mainly focused on promoting efficiency and the promotion of technical skills in the management of public sector organisations.

## **2.2 Theoretical framework**

### **2.2.1 Public Choice Theory**

The public choice theory posits that public officials are self-seeking individuals or utility maximizers (Hughes, 2003:12; Ayee, 2005:06). According to Drenzer (2008:01) Sovereign Wealth Funds sit at the intersection of high finance and high politics. Sovereign Wealth Funds are large pools of financial resources at the disposal of government. If there are inadequate institutional, legislative and governance structures in place the Sovereign Wealth Fund may pose as a threat on its intended beneficiaries (IWG, 2008:01). This is because politicians are utility maximizers and may use the Sovereign Wealth Fund to advance their own political interests rather than implement the set economic objectives for which the Sovereign Wealth Fund was established (ibid).

## **2.3 International Best Practices for SWF Management and governance**

### **2.3.1 Santiago Principles**

According to Das, Mazarei and Stuart (2010:59) in 2007 the G7 called on the International Monetary Fund to come up with general principles and best practices of managing Sovereign Wealth Funds. This was in response to fear that Sovereign Wealth Funds could be used to advance the political agendas of the ruling elite. Furthermore, there was concern that Sovereign Wealth Funds have the potential to distort the global market and impede market forces. The Generally Accepted Principles and Practices (GAPPs) became known as the Santiago Principles after being deliberated upon by the International Working Group of Sovereign Wealth Funds (IWGSWF) (Mutonhori, 2014:03). Generally Accepted Principles and Practices provide the generally accepted principles and practices of how sound Sovereign Wealth Funds must be managed. Generally Accepted Principles and Practices seek to inform the legal and institutional reform of Sovereign Wealth Funds. Generally Accepted Principles and Practices cover issues pertaining to the institutional, legislative and governance structure of Sovereign Wealth Funds. The Generally Accepted Principles and Practices have got 24 principles (IWG, 2008:04). According to Barbary and Bortoloitti (2012:333) the Santiago Principles seek to allay the fears of political interference in Sovereign Wealth Fund investments and improve the understanding of Sovereign Wealth Funds. However, the Generally Accepted Principles and Practices are voluntary and are subject to intergovernmental agreements of home and recipient countries (IWG, 2008:04).

#### 2.3.1.1 Legal Framework, Objectives and Co-ordination with Macroeconomic Policies

The first Principle of the Generally Accepted Principles and Practices stipulates that the legal framework must be sound and must be efficiently support the management of the Sovereign Wealth Fund. The legal framework ensures that the Sovereign Wealth Fund and its transactions are backed by law. The first principle also stresses the need for the relationship between the Sovereign Wealth Fund and other public bodies to be explicitly stated and publicly disclosed (IWG, 2008:07). The second Principle of the Santiago Principles stipulates that the policy intent must be clearly stated. Furthermore, the third Principle of the Santiago Principles states that the activities of the Sovereign Wealth Fund must be closely co-ordinated with fiscal and monetary policy so as to ensure congruency with overall macroeconomic objectives. In addition, the fourth Principle of the Santiago Principles stresses the need for funding, withdrawal and spending procedures of the Sovereign Wealth Fund to be publicly disclosed. Moreover, the fifth Principle of the Santiago Principles states that the performance of the Sovereign Wealth Fund must be timeously and regularly disclosed to the owner of the Sovereign Wealth Fund (ibid).

#### 2.3.1.2 Institutional Framework and Governance Structure

The sixth Principle of the Santiago Principles stresses the need of the existence of a governance structure with clear division of responsibilities. This ensures accountability and organizational independence in the management of Sovereign Wealth Funds. Moreover, the seventh Principle of the Santiago Principles states that the owner of the Sovereign Wealth Fund must establish the objectives of the Sovereign Wealth Fund in appointing officials that will manage the Sovereign Wealth Fund through clearly established procedures. In addition, the eighth Principle of the Santiago Principles stipulates that the governing body or bodies of the Sovereign Wealth Fund must have a clear mandate, authority and competency in carrying out the objectives of the Sovereign Wealth Fund. Furthermore, the ninth Principle of the Santiago Principles stresses on the operational independence of Sovereign Wealth Funds in the implementation of set objectives (ibid, 07).

The tenth Principle of the Santiago Principles stipulates that the accountability framework of Sovereign Wealth Funds should be clearly articulated in legislation. Furthermore, the eleventh Principle of the Santiago Principles states that annual reports and financial statements should be presented timeously in accordance with International Financial Reporting Standards (IFRS). In addition, the twelfth Principle of the Santiago Principles stipulates that Sovereign

Wealth Fund operations should be audited annually in line with international and national auditing standards (ibid, 08).

The thirteenth Principle of the Santiago Principles provides that professional ethics standards must be known by employees of the Sovereign Wealth Fund. Furthermore, the fourteenth Principle of the Santiago Principles stipulates that dealings with third parties must be based on economic and financial grounds through clear rules and procedures. In addition, the fifteenth Principle of the Santiago Principles states that Sovereign Wealth Funds in host countries must abide by that countries laws. Moreover, the sixteenth Principle of the Santiago Principles provides that the framework that stipulates how the Sovereign Wealth Funds management is operationally independent of the owner must be clearly spelt out. Furthermore, the seventeenth Principle of the Santiago Principles stipulates that the financial performance of Sovereign Wealth Funds must be disclosed so as to ensure trust in the recipient countries. This ensures stability in international financial markets (ibid).

#### 2.3.1.3 Investment and Risk Management Framework

The eighteenth Principle of the Santiago Principles provides that the investment policy of the Sovereign Wealth Fund must be consistent with set objectives as set by the owner or governing body. In addition, the nineteenth Principle of the Santiago Principles stipulates that investment decisions should seek to maximize economic returns. Furthermore, the twentieth Principle of the Santiago Principles stipulates that Sovereign Wealth Funds should not abuse privileged information and influence government as Sovereign Wealth Funds compete with private entities. Moreover, the 21<sup>st</sup> Principle of the Santiago Principles provides that shareholders of Sovereign Wealth Funds have got ownership rights. The ownership rights are a fundamental principle of their equity investment value. Furthermore, the 22<sup>nd</sup> Principle of the Santiago Principles stipulates that there must exist a framework that manages the risk of Sovereign Wealth Fund operations. In addition, the 23<sup>rd</sup> Principle of the Santiago Principles states that the assets and performance of Sovereign Wealth Funds are to be reported to the owners. The 24<sup>th</sup> Principle of the Santiago Principles stresses on implementation. A regular review of the implementation of the Generally Accepted Principles and Practices should be done by the Sovereign Wealth Fund or on its behalf (ibid, 09).

#### 2.3.2 Truman Scoreboard for SWF Best Practices

Truman is one of the first advocates for greater accountability and transparency of Sovereign Wealth Funds. Norway Government Pension Fund (NGPF) is the world's largest Sovereign Wealth Fund and highest ranked scoring 98% on the Truman scoreboard. The least ranked

Sovereign Wealth Fund scoring less than 7% on the Truman Scoreboard are found in Equatorial Guinea, Libya and Qatar (Bagnall and Truman, 2013:02). According to Turco (2013:19) the Truman Scoreboard has 33 evaluation indicators that are used to assess Sovereign Wealth Funds. They are divided into four categories which include management, governance, responsibility and transparency as well as structure.

### **2.3.3 Linaburg-Maduell Transparency Index**

The Linaburg-Maduell index created by Carl Linaburg and Michael Maduell. The two men are the founders of the Sovereign Wealth Fund Institute (SWFI) (Turco, 2014:38). According to Turco (2013:13) the Linaburg-Maduell Transparency Index rates transparency of Sovereign Wealth Funds based on ten fundamental principles. The ranking of the index ranges from 0-10 with 8 generally being regarded as the minimum acceptable rate of transparency. The ten principles are as follows:

1. The Sovereign Wealth Fund must provide the reasons for establishing the Sovereign Wealth Fund, its origin as well as the source of its wealth and government ownership structure.
2. The Sovereign Wealth Fund must have independently audited financial reports that are up to date and publicly made available.
3. The Sovereign Wealth Fund must publicly avail management compensation, total market value and annual returns.
4. The Sovereign Wealth Fund must provide the geographical locations of its holdings and the percentage stake the Sovereign Wealth Fund has in the holding.
5. The Sovereign Wealth Fund must provide clear cut ethical standards and investment policies.
6. The Sovereign Wealth Fund must clearly stipulate its strategies and objectives.
7. If the Sovereign Wealth Fund has subsidiaries it must provide the contact details of the subsidiary.
8. If the Sovereign Wealth Fund has external managers it must avail the contact details of the external managers.
9. The Sovereign Wealth Fund must have its own website.
10. The Sovereign Wealth Fund must provide the main address and contact details of its head office.

### **2.3.4 Kaufmann, Kray and Mastruzzi (KKM) Index**

According to Turco (2013:18) the Kaufmann Kray and Mastruzzi index was designed to assess the key dimensions of governance systems of nation states. However, since 2007 it has been used to assess the governance of Sovereign Wealth Funds (ibid, 19). The Kaufmann, Kray and Mastruzzi index rates key governance issues which include control of corruption, governance effectiveness, political stability and absence of violence, rule of law and regulatory quality (ibid).

## **2.4 Rationale behind Establishing SWFs**

There are multiple reasons that explain the creation of Sovereign Wealth Funds. Usually Sovereign Wealth Funds are created to achieve multiple goals and objective. Some of the reasons that account for the establishment of Sovereign Wealth Funds include stabilization and diversification of the economy, creating a development, savings and pension fund, combating inflationary and deflationary conditions, and enhancing political influence.

### **2.4.1 Stabilization Fund**

In most instances Sovereign Wealth Funds are established so as to stabilize government fiscal and foreign exchange reserves by smoothing out fluctuations in export prices and demand (Triki and Faye (2011:06). Stabilization funds seek to insulate national budgets and protect economies from volatility of inflation, commodity price swings, spending price savings and government dependence on royalties (Hove, 2016:12; Al-Hassan, Papaioannou, Skancke and Chi-Sung, 2013:06). Stabilization funds are macro-economic instruments used to stabilize a currency during times of economic distress. These funds intend to give governments' instant access during times of distress rather than maximum returns. Examples of stabilization funds are the Kuwait Investment Authority (KIA), Chile's Economic and Social Stabilization Fund (CESSF) and the Russia Reserve Fund (RRF) (Hove, 2016:12; Barbary and Bortoloitti, 2012:323).

### **2.4.2 Savings Fund**

According to Hove (2016:12) savings funds seek to transfer non-renewable resources for wealth of future generations into diversified financial assets. Saving funds have high risk return profiles. Furthermore, they allocate high profile shares to equities of over 70%. Examples of saving funds include Libya Investment Authority (LIA), Abu Dhabi Investment Authority and the Russia National Wealth Fund (RNWF) (Al-Hassan *et al*, 2013:06).



### **2.4.3 Contingent Pension and Social Security Fund**

Pension and social security funds are used to pay pension liabilities to pensioners (Barbary and Bortoloitti, 2012:312). Contingent pension funds are set up to meet future deficits of social security (Hove, 2016:13; Al-Hassan et al, 2013:06). Investment risks should be properly managed in order to make sure that the fund meets its future obligations. Examples of contingent pension and social security funds are the Canada Pension Plan Investment Board, the Norwegian Pension Fund, the Australian Future Fund and the Irish National Pension Reserve Fund (Hove, 2016:13; Barbary and Bortoloitti, 2012:323).

### **2.4.4 Domestic Development Fund**

According to Hove (2016:13) development funds support domestic investment and priorities infrastructural development. They are used to accelerate development in emerging economies by allocating resources to priority projects (Al-Hassan et al, 2013:05). Domestic development funds create State Owned Enterprises and Public Private Partnerships at home so as to accelerate economic growth. Examples of domestic development funds are Tamsek Holdings, Cassa Deposite e Prestiti in Italy, Samrak Kazyna in Kazakhstan, Caisse des Depots et Consignations One Malaysia Development Fund, Angola's Fundo Soberano de Angola, United Arab Emirates (UAE) Mubala and Iran National Development Fund (Hove, 2016:13 Barbary and Bortoloitti; 2012:323, Al-Hassan et al, 2013:05).

### **2.4.5 Diversification**

Nation states that heavily depend on taxation of natural resources are vulnerable to cyclic swings in commodity prices which thus changes the level of tax revenue (Bird and Zolt, 2003:11). According to Hove (2016:13) diversification funds seek to diversify and internalize the domestic economy in order to mitigate the effects of Dutch disease. Usually the economies which are primary commodity exporters are dependent on one or two commodities. Sovereign Wealth Funds enable an economy to diversify its risks and investment portfolio (Sen, 2010:49).

### **2.4.6 Central bank and foreign exchange funds**

One of the primary reasons for the establishment of Sovereign Wealth Funds is the sustained increase in a nations foreign exchange reserves (Sen, 2010:46). According to Barbary and Bortoloitti (2012:311) central bank and foreign exchange funds are instruments used to control inflation and high liquidity. Availability of surpluses create incentives to establish Sovereign Wealth Funds (Sen, 2010:46). Budget surpluses may generate deflationary

conditions which may lead to fall in prices and unemployment (Zhou and Zvoushe, 2013:31). For example, Brazil, Hong Kong, Singapore and Malaysia have reserves in excess of USD\$100 billion (Sen, 2010:46).

#### **2.4.7 State-Owned Enterprises/ State Capitalism**

According to Barbary and Bortoloitti (2012:313) the state wholly owns or holds a majority stake in Sovereign Wealth Funds. Sovereign Wealth Funds which act as State Owned Enterprises operate in specific economic sectors. These State Owned Enterprises are usually state owned oil companies from emerging markets. These include Petronius of Malaysia, Saudi Amarco, Brazil's Petrobus and Russia's Gazprom.

#### **2.4.8 Political influence**

According to Sen (2010:49) some nation-states are using Sovereign Wealth Funds to enhance their political influence on the international arena. Aggressive Gulf states have in the past tried using Sovereign Wealth Funds to acquire infrastructure in Western economies so as to use the ownership of the infrastructure as a foreign policy tool to advance their own interests. Sovereign Wealth Funds have become a threat on Western hegemony of international economic relations (Turco, 2013:06; Barbary and Bortoloitti, 2012:309). The West has since 2006 labelled Gulf States Sovereign Wealth Funds as 'barbarians at the gate' as Dubai Ports World a subsidiary of an Arab Sovereign Wealth Fund acquired several American Ports (Barbary and Bortoloitti, 2012:309).

#### **2.4.9 Debt Management and Credit Rating**

Sovereign Wealth Funds alter debt structure. Excess funds accrued from trade or surplus budgets can be used to clear debts and upgrading country's debt profile (Sen, 2010:49). For example, according to Hove (2016:13) the international credit rating of Angola has significantly improved since the establishment of Fundo Soberano de Angola.

#### **2.4.10 A SWF may reduce exchange rate appreciation**

In economies that have floating foreign currency exchange rates there is a nexus between a weaker exchange rate and the existence of a Sovereign Wealth Fund. According to PricewaterhouseCoopers, (2011:01) this occurs because money is usually held in United States Dollars which has the effect of not bidding up the value of the local currency.

## **2.5 Challenges faced in implementing the objectives of SWFs**

Sovereign Wealth Funds are not a panacea to the multiple challenges facing policy and governance in developing countries. Sovereign Wealth Funds alone do not facilitate economic growth but rather are instruments used to foster and compliment efforts to grow an economy (Dixon, 2016:03, Chatham House, 2014:09). Furthermore, opponents of Sovereign Wealth Funds are of the view that Sovereign Wealth Funds may impede market forces and competition by moving the global economy away from liberalization (Triki and Faye, 2011:06). In addition, Sovereign Wealth Funds may be used to drive a political agenda by hostile nation states thus threatening national security of the recipient nations (Barbary and Bortoloitti, 2012:323). Moreover, countries with high current account deficits, high unemployment levels and poverty must not rush to create Sovereign Wealth Funds until the urgent needs of the economy are met (Sen, 2010:52). Foreign currency surplus does not warrant establishing a Sovereign Wealth Fund because in some instances the reserves are borrowed rather than earned resources. For example, India is an example of a country with foreign reserve surpluses but a significant proportion of its population live below the poverty datum line. Furthermore, its foreign reserves largely constitute of borrowed money. Though the idea of establishing a Sovereign Wealth Fund in India reached the institutional agenda of government the central bank shelved the idea because it was of the view that India does not have the prerequisite conditions to establish a Sovereign Wealth Fund (ibid, 56). In addition if Sovereign Wealth Funds are not in tandem with the overall macro-economic objectives of government they may undermine the latter. The policies of a nations Sovereign Wealth Fund may interfere with monetary and fiscal policy (Dixon, 2016:01).

## **2.6 Case Studies**

### **2.6.1 Sovereign Wealth Funds in Africa**

#### **2.6.1.1 Fundo Soberano de Angola (FDSEA)**

##### **2.6.1.1.1 Origins and objectives of FDSEA**

The President of Angola made a policy pronouncement to establish a Sovereign Wealth Fund in Angola on the 20<sup>th</sup> of November 2008 ([www.fundosoberano.ao](http://www.fundosoberano.ao)). According to Bybee, 2013:01) Fundo Soberano de Angola was a response to the International Monetary Fund's call for Angola to create a more 'medium-term approach' to Angola's spending. In 2011 the Fund was enacted into law through a Presidential Decree. Fundo Soberano de Angola was officially launched on the 17<sup>th</sup> of October 2012 with an initial endowment of USD\$5 billion (Turco, 2014:87; Chatham House, 2014:08; Hove, 2016:13). The endowment was derived

from petroleum proceeds (Chatham House, 2014:08). It seeks to promote socio-economic development in Angola ([www.fundosoberano.ao](http://www.fundosoberano.ao)). It was crafted taking into account the Santiago Principle (Chatham House, 2014:08). It has a diverse investment portfolio which ranges from real estate and infrastructure, global private and public stock, treasury bills, foreign currencies, commodities, bonds and financial derivatives ([www.fundosoberano.ao](http://www.fundosoberano.ao)). The main focus of the Fund is the sub-Saharan hospitality sector through a hotel fund (Chatham, 2014:08). Fundo Soberano de Angola has been ranked as a transparent Sovereign Wealth Fund by the Sovereign Wealth Fund Institute (SWFI) ([www.fundosoberano.ao](http://www.fundosoberano.ao)).

#### 2.6.1.1.2 Fundo Soberano de Angola Investment Strategies

The investment strategy of Fundo Soberano de Angola was approved by the President through Presidential Decree No. 107/13 of 2013. The strategy seeks to invest in surplus generated from Angola's petroleum resources. Investments are to be made in agriculture, mining and infrastructural development in Angola and Africa so as to foster domestic and regional development (Fundo Soberano de Angola, 2014:11). Fundo Soberano de Angola has seven funds which include the infrastructure fund, the agriculture fund, the timber fund, mezzanine fund, the hotel fund for Africa, mining investment fund and the healthcare investment fund (ibid, 14). Fundo Soberano de Angola also has social charter initiatives which include the Angola social impact program, the Bungo initiative, and the future leaders programs which seeks to develop human capital for Fundo Soberano de Angola (Chatham House, 2014:06). Furthermore, other initiatives include the hotel academy and research unit (Fundo Soberano de Angola, 2014:18). Fundo Soberano de Angola is of the view that Africa faces different problems from the West. It is the view of that African Sovereign Wealth Funds must focus more on the social needs of the African continent (Chatham House, 2014:06).

#### 2.6.1.1.3 Organizational Structure

Fundo Soberano de Angola is administered by a board of directors, a fiscal council, an advisory council and external auditors and advisors ([www.fundosoberano.ao](http://www.fundosoberano.ao)). The board of directors are the strategic apex of the organization and develop the strategic plan of Fundo Soberano de Angola. The board must ensure that Fundo Soberano de Angola complies with the Santiago Principles (ibid). Fundo Soberano de Angola has been subjected to a lot of international criticism because its board chairman is the son of the President of Angola (Bybee, 2013:01). This questions the independence of Fundo Soberano de Angola from political interference. However, Fundo Soberano de Angola justifies the appointment by arguing that it is based on merit. It argues that Jose dos Santos has a strong academic background and vast international

experience working in the financial sector ([www.fundosoberano.ao](http://www.fundosoberano.ao)). The advisory council consists of the central bank Governor, the Minister of Finance, Minister of Planning and the Minister of the Economy ([www.fundosoberano.ao](http://www.fundosoberano.ao)).

The advisory council reviews investment proposals and strategy put before them by the board of directors. The advisory council also makes recommendations to the President who approves policies to be adopted by Fundo Soberano de Angola. The advisory council ensures that the objectives of Fundo Soberano de Angola are aligned to the overall macroeconomic policy of government. The fiscal council is appointed by the Minister of Finance. It ensures that Fundo Soberano de Angola complies with set Fundo Soberano de Angola laws and regulations. The fiscal council is also responsible of ratifying quarterly reports of Fundo Soberano de Angola to the National Director for Public Sector Accountability. The reports include the Sovereign Wealth Funds budgetary and financial report, bank statements and reconciliations and budgetary executions. External auditors and advisors evaluate investment decisions, operations and risk management. Deloitte is the independent auditing authority of Fundo Soberano de Angola. Deloitte was chosen because it has extensive experience of working in Sovereign Wealth Funds across the global. The audited financial accounts of Fundo Soberano de Angola are published in the local press as required by law ([www.fundosoberano.ao](http://www.fundosoberano.ao)).

#### 2.6.1.1.4 External managers

Fundo Soberano de Angola has external managers who are selected through a rigorous process. External managers are assessed on their investment qualifications and experience. The fund takes into consideration the external manager's experience and expertise in work in sub-Saharan and Angolan state institutions. Quantum Global is Fundo Soberano de Angola's current external manager ([www.fundosoberano.ao](http://www.fundosoberano.ao)). Quantum Global is an asset management firm. It was founded by Jean-Claude Bastos de Morais a Swiss-Angolan citizen in 2007. The founder had a dream from the formative phase of his life to help unleash the economic power of Africa. Quantum Global has strong African roots and a global outlook. Quantum Global works mainly with Sovereign Wealth Funds and central banks ([www.quantumglobal.ch](http://www.quantumglobal.ch)).

#### 2.6.1.2 Nigerian Sovereign Investment Authority (NSIA)

##### 2.6.1.2.1 Overview and objectives

According to Dixon (2016:09) Nigeria is dependent on hydrocarbon products. As a result the country has a long history of fiscal and economic volatility due to this dependence (Dixon, 2016). In 2004 the Nigerian federal government under the administration of former President

Olusegun Obasango created the Excess Crude Account (ECA) to manage oil resources (Nnamocha and Okonkwo, 2015:01; Central Bank of Nigeria, 2012:02; Ekokoi, 2015:105, Dixon, 2016:09). The Excess Crude Account was not backed by law. As a result there were contestations between the federal government and 36 states over the legality and constitutionality of the Excess Crude Account (Ekokoi, 2015:105). According to the Central Bank of Nigeria (2012:04) this accounts for the failure of the Excess Crude Account. All oil revenue exceeding a set benchmark was transferred to the Economic Crude Account. By 2008 the Excess Crude Account had accumulated USD\$20 billion. However, by 2010 the Excess Crude Account had less than USD\$400 million. This was due to limited withdrawal constraints and an unsustainable revenue management framework (Dixon, 2016:09). According to Ekokoi (2015:112) the Excess Crude Account was prone to abuse and was shrouded in secrecy. Illegal withdrawals from the Excess Crude Account include part of the USD\$12, 4 billion paid to the Paris Club creditors for Nigeria's debt between 2005 and 2006. Lack of a legislative framework resulted in confusion over prescribed uses and recipients of the funds of the Excess Crude Account. In 2008 between and 2011 36 state governors instituted legal proceedings against the Excess Crude Account challenging its constitutionality (Ekokoi, 2015:111; Dixon, 2016:09).

This prompted the federal government to create a new Sovereign Wealth Fund (Dixon, 2016:09). In 2010 the Supreme Court of Nigeria approved the replacement of the Excess Crude Account with a national Sovereign Wealth Fund. In 2011 the federal government withdrew USD\$1 billion from the Excess Crude Account as seed capital for the NigeriaSovereign Investment Authority despite controversy surrounding the Excess Crude Account (Ekokoi, 2015:113, Central Bank of Nigeria, 2012:04). On 19 May 2011 former Nigerian President Goodluck Jonathan assented to the NigeriaSovereign Investment Authority which resulted in the state governments returning to court to contest the withdrawal of USD\$1 billion from the Excess Crude Account as seed capital for the Nigeria Sovereign Investment Authority (Ekokoi, 2015:114). In 2015 federal government injected a further USD\$ 250 billion into the Nigerian Sovereign Investment Authority (Dixon, 2016:10). The Excess Crude Account has continued to exist side by side the Nigeria Sovereign Investment Authority (Ekokoi, 2015:114). Nigeria Sovereign Investment Authority commenced operations in 2012 with JP Morgan as custodian of the fund (Nnamocha and Okonkwo, 2015:01) The Nigeria Sovereign Investment Authority is split into three funds that is 40% infrastructure fund, 40% future fund and 20% stabilization fund (Dixon, 2016:10, Ezeani, 2012:01). Nigeria Sovereign

Investment Authority is financed via grants from central government. Nigeria still faces fiscal and economic instability over the management and expenditure of oil resources. Nigeria Sovereign Investment Authority is less than 1% of the Gross Domestic Product and it is uncertain whether Nigeria Sovereign Investment Authority will minimize Dutch disease because it is not integrated with the national budget as is the case with most stabilization funds (ibid). According to Ezeani (2012:01) the rationale behind establishing the Nigeria Sovereign Investment Authority is to prepare for the eventuality that Nigeria's bi-carbon resources will be depleted.

#### 2.6.1.2.2 Organizational structure

According to Ekokoi (2015:115) the Nigeria Sovereign Investment Authority Act stipulates that the Nigeria Sovereign Investment Authority is a separate legal entity which can sue and be sued in its own name. The Act further stipulates that it is independent of any person. The Nigerian Sovereign Investment Authority is jointly governed by the Governing Council, Board of Directors and the Executive Management. The Governing Council gives the Nigeria Sovereign Investment Authority a public character. However, the Executive Management and Board of Directors portray it as a private corporation.

#### 2.6.1.2.3 Governing Council

According to Ezeani (2012:03) the Governing Council has 55 members. The Nigeria Sovereign Investment Authority Act stipulates that the General Council shall give general advice to the board (Ekokoi, 2015:115; Ezeani, 2012:03; Central Bank of Nigeria, 2012:06). The General Council consists of the President of the Federal Republic of Nigeria as the chairperson. The Vice President is allowed to stand in for the President. Other members of the General Council include the Governors of States, Governor of the Central Bank of Nigeria, the Minister of Justice and the Minister of National Economic Planning. Furthermore, other members include the Chief Economic Advisor to the President, the Chairperson of the Revenue Mobilization, Allocation and Fiscal Commission and the Attorney General of the Federal State of Nigeria. In addition, four eminent academics, two representatives of each for civil society, professional bodies, youth organizations and the private sector make up the Governing Council (Ezeani, 2012:03; Ekokoi, 2015:116; Central Bank of Nigeria, 2012:05). Decisions of the board are made by a simple majority (Ezeani, 2012:04). Appointment to the Governing Council is made by the President of the Federal Republic of Nigeria with recommendations from the National Economic Commission (NEC). The Governance Council

is seen as an instrument of politically influencing the Nigeria Sovereign Investment Authority as it is composed of politicians and political appointees (Ekokoi, 2015:116).

#### 2.6.1.2.4 Board of Directors

The board is responsible for the attainment of the objectives of the Nigeria Sovereign Investment Authority. It is also mandated with supervising the management of the Nigeria Sovereign Investment Authority. The board consists of nine members who include a non-executive chairperson, a managing director, two executive directors and five non-executive directors. One of the non-executive directors must be a lawyer with more than 10 years post qualification experience. Appointment to the board is made by the President of the Federal Republic of Nigeria with recommendations from the National Economic Commission (NEC). The board appoints the secretary of the Nigeria Sovereign Investment Authority (Ekokoi, 2015:116; Ezeani, 2012:03).

#### 2.6.1.2.5 Executive Management

According to Ezeani (2012:04) the Executive Management of the Nigeria Sovereign Investment Authority is led by a Chief Executive Officer. The Chief Executive Officer and secretary of the Nigeria Sovereign Investment Authority is appointed by the Board through an open and transparent process. The Chief Executive Officer is mandated with the implementation of policies of the board and the day to day management of the Nigeria Sovereign Investment Authority.

## **2.6.2 Sovereign Wealth Funds in the Developed World**

### 2.6.2.1 Norway Pension Fund

#### 2.6.2.1.1 Origins and objectives

The Norwegian Fund is a world reference for good governance, transparency and non-political interference in the operations of the fund (Santiso, 2014:50). According to Ekeli and Amadou (2011:109) the first oil field was discovered in Norway in 1969 and production started in 1971. Between 1973 and 1975 the government of Norway analysed the effects of Dutch disease, the size of reserves, environmental concerns and the likely life cycle of the oil fields. Norway Government Pension Fund (NGPF) was established in 1990 after extensive deliberations in Parliament since 1974 (SWFI, 2012:01). However, Norway Government Pension Fund changed its name in 2006 to the Government Pension Global Fund (GPGF). This was necessitated by the broader pension reform objective of the Fund (Ekeli and Amadou, 2011:112). Government Pension Global Fund is wholly owned by the Norwegian treasury on behalf of the people of Norway. Norway Government Pension Fund received its



seed capital in 1996. Until 1997 it had the same investment strategy as the Norges Bank. However, in 1997 after extensive deliberations in Parliament the fund decided to invest 40% of its assets in equities. The Norges Bank Investment Management (NBIM) was created on 1 January 1998 to manage the Norway Government Pension Fund under the supervision of treasury (Santiso, 2014:50).

Norway is one of the wealthiest countries in the world. Norway has the second largest GDP per capita among OECD countries (Ekeli and Amadou, 2011:108). Since 2011 Norway Government Pension Fund has been ranked the largest Sovereign Wealth Funds in the world. The Norway Government Pension Fund has enhanced Norway's reputation as an investor (Chambers, Dimson and Ilmanen, 2012:67). According to Ang, Goetzmann and Schaefer (2009:107) Norway Government Pension Fund is a model for Sovereign Wealth Funds the world over. It is arguably the most responsible steward amongst all Sovereign Wealth Funds (SWFI, 2012:03). It has the highest ranking on the Truman scoreboard of 98% (Chambers et al, 2012:68). According to Turco (2013:19) the Truman Scoreboard has 33 evaluation indicators that are used to assess Sovereign Wealth Funds. They are divided into four categories which include management, governance, responsibility and transparency as well as structure. A fund such as Government Pension Fund Global if it were in another political context it would be a great temptation for corruption and would benefit only a few people (Ang *et al*,2009:108). According to the Ministry of Finance of Norway (2015:01) Government Pension Fund Global has implemented all the twenty four Generally Accepted Principles and Practices which are the international best practices of managing Sovereign Wealth Funds. The funds returns are published monthly on the treasury and Norges Bank Investment Management websites. External consultants and the strategy council's reports and recommendations are published (Chambers, 2012:70). This illustrates that the Government Pension Fund Global is very transparent.

Government Pension Fund Global seeks to shift Norway from a natural resource rich nation to a financial resource rich economy (MEFMI, 2015:2015:21).According to the SWFI (2012:02) Government Pension Fund Global is a fiscal tool used to manage Norway's petroleum resources. The Ministry of Finance of Norway (2015:02) highlights that the policy intent of the Norway Government Pension Fund is to support government savings and finance pensions for the National Insurance Scheme as stipulated in the Government Pension Fund Act. However, the government is yet to decide the date from when the fund will cover the costs of

future pensions. When the Norwegian government named the fund it was hinting at the role of the fund in a future characterised by an ageing population (Santiso, 2014:50).

The activities of the Government Pension Fund Global are guided by fiscal and monetary policy (Ministry of Finance of Norway, 2015:04). Government Pension Fund Global is wholly integrated into the national budget and seeks to strengthen the budget process. Tax surplus from the petroleum sector is paid into Government Pension Fund Global after all government expenditure has been met (Ekeli and Amadou, 2011:112). At the present moment Government Pension Fund Global assets are not earmarked for a specific purpose but transfers from the fund can be only made to the national budget and then flow into the Norwegian economy (Chambers et al, 2012:67). Twenty six year after its inception Government Pension Fund Global is the world's most valuable Sovereign Wealth Fund with an estimated net worth of USD\$1 trillion as of December 2015. This accounts for 175% of the GDP of Norway (MEFMI, 2015:2015:21). Resources accrued from Government Pension Fund Global are primarily invested abroad (SWFI, 2012:01, Ministry of Finance of Norway, 2015:03). This is because Government Pension Fund Global prefers to invest in the domestic economy through the national budget. However, due to the fact that the fund invests in various overseas markets with complex back office operations this reduces economies of scale as there is an increase in operational expenses (Anget *et al*, 2009:110).

#### 2.6.2.1.2 NGPF Organizational structure

According to the Ministry of Finance of Norway (2015:01) the Storting (Norwegian Parliament) accorded treasury with the responsibility of managing the Fund. Policy direction of the fund is directed by treasury in consultation with Parliament (SWFI, 2012:01). Treasury presents significant changes in investment strategy to Parliament before implementation (Chambers *et al*, 2012:69). Furthermore, Parliament set a spending ceiling of not more than 4% of the value of the Sovereign Wealth Fund in one budgetary year so as to preserve the fund for future generations (SWFI, 2012:01). The Ministry of Finance of Norway is the fund manager and acts as an asset owner (Ministry of Finance of Norway, 2015:06). Treasury is advised by a six member advisory council and a four member strategy council (Chambers et al, 2012:69).

The strategy council seeks to enhance the legitimacy and long-term investment strategy of the Fund (*ibid*). The operational management of the Norway Government Pension Fund is carried out by the Norges Bank (central bank of Norway) (SWFI, 2012:02; Ministry of Finance of Norway, 2015:01). The executive board of Norges Bank which is charged with

implementing the objectives of Norway's Government Pension Fund delegated the operational management function to an asset management unit in the bank Norges Bank Investment Management (Ministry of Finance of Norway, 2015:06). The current governance structure of Norway Government Pension Fund is a model for Sovereign Wealth Funds the world over. Investment decisions are driven by an optimization process and the processes are not subject to political influence (ibid).

## **2.7 Lessons Drawn**

Norway Government Pension Fund is a world class reference for good governance, transparency and non-political interference in the fund. It is a model for Sovereign Wealth Funds the world over. Furthermore, Norway is one of the richest countries in the world (Santiso, 2014:50). Unlike African Sovereign Wealth Funds such as Fundo Soberano de Angola and Nigeria Sovereign Investment Authority the Norway's Government Pension Fund is prone to minimal political interference in its affairs because of a strong institutional, legislative and governance framework. This accounts for why it is internationally regarded as the world's greatest Sovereign Wealth Fund success story. The strategic apex of Norway Government Pension Fund is the Storting (Norwegian Parliament) who are the representatives of the diverse interests of the Norwegian people. Treasury is accountable to the Storting which means that it are indirectly accountable to the people as they Parliament consists of representatives of the people. Treasury gives policy direction in consultation with the Storting to the Norges Bank which implements the objectives of the Sovereign Wealth Fund through its unit the Norges Bank Investment Management (NBIM). Therefore, there is minimal political interference in Norway's Government Pension Fund because of its organizational structure.

Fundo Soberano de Angola and Nigeria Sovereign Investment Authority are compromised because members of their strategic apex are either politicians or political appointees. The advisory body of Fundo Soberano de Angola is composed of politicians that is the Minister of Finance, Minister of Economy and Minister of National Planning. Furthermore, the board chairman of Fundo Soberano de Angola is son of the President of Angola and this is perceived by the international community as an entrenchment of the Dos Santos 'dynasty'. In Nigeria the Governing Council of Nigeria Sovereign Investment Authority is chaired by the President and 54 political appointees. In addition, a Sovereign Wealth Fund must have legal backing. The case of the Excess Crude Account in Nigeria clearly illustrates the need to enact

a clear legislative framework that is in tandem with the constitution so as to avoid constitutional challenges on the legality of the Sovereign Wealth Fund.

## **2.4 Conclusions**

This chapter provided the conceptual framework and the theoretical framework of the study. Furthermore, the international best practices for Sovereign Wealth Fund management and governance, rationale for establishing a Sovereign Wealth Fund and challenges faced in implementing the objectives of Sovereign Wealth Funds were discussed. The case experiences of Fundo Soberano de Angola, Nigeria Sovereign Investment Authority and Norway's Government Pension Fund are explored and lessons are also drawn from these case studies.

## CHAPTER THREE: METHODOLOGY

### 3.0 Introduction

This chapter presents the research methodology of the study. The research design, target population, sampling techniques and data gathering methods are discussed in this chapter. Ethical considerations and measures to ensure validity and reliability are also highlighted in this chapter. Furthermore, methods of presenting and analysing data collected are also discussed.

### 3.1 Research Methods

Qualitative research methods were employed in this study. Qualitative research techniques allow examination and understanding of little known phenomenon (Strauss and Corbin, 1998:11). In this case, this research investigates the Zimbabwe Sovereign Wealth Fund which is scantily known. This research is knowledge based with very few respondents with knowledge on Sovereign Wealth Funds. Therefore, key informant interviews were employed as a primary data gathering technique

### 3.2 Research Design

According to Kumar (2011:302) a research design is a strategy of investigation used to obtain and answer research questions. It is a blueprint, plan or roadmap of how a research is to be completed (Blanche, *et al* 2006:34). The study aims to describe and explain the nature of the institutional, legislative and governance structure of Zimbabwe's Sovereign Wealth Fund. Qualitative data was gathered through documentary search and key informant interviews. The study adopted the case study approach where the cases of Angola, Nigeria, and Norway's Sovereign Wealth Fund will be compared to Zimbabwe's Sovereign Wealth Fund. The case study approach unravelled the lessons learnt from other country experiences.

### 3.3 Sampling

Sampling involves the selection of research participants from the entire population (Creswell, 2009:89). The population identified consists of experts on the notion of Sovereign Wealth Funds. Purposive sampling or judgemental sampling was used to draw key respondents from the identified population. This is because Sovereign Wealth Fund experts are rarely represented in the entire population. Purposive sampling is used to identify a specialized population and it is used in exploratory research (Neuman, 2014:273). Purposive sampling ensures that all key organizations relevant to the management of Zimbabwe's Sovereign Wealth Fund are covered as they are the experts on how Sovereign Wealth Funds are

managed. This is because those implementing the objectives of Zimbabwe’s Sovereign Wealth Fund have sound knowledge of whether it conforms to the Santiago Principles and can give reasons for the creation of Zimbabwe’s Sovereign Wealth Fund. Furthermore, the experts in the area are the ones who can provide the researcher with the challenges being faced by the government of Zimbabwe in implementing the objectives of the Sovereign Wealth Fund.

The research also utilized the snowball sampling technique also known as network chain referral, respondent driven sampling or reputational sampling. The sample is selected through a network (Neuman, 2014:273). Snowball sampling enables the researcher to reach respondents that are difficult to reach (Castillo, 2009). According to Drenzer (2008:01) Sovereign Wealth Funds sit at the intersection of high politics and high finance therefore they are shrouded in secrecy. Therefore, some key respondents are difficult to reach.

### 3.4 Target Population

The target population comprises of the organizations in which the researcher seeks to choose research respondents from. The study population of this study is heterogeneous in nature. The researcher conducted in-depth interviews. The table below shows the organizations from which key respondents were derived from and the rationale for choosing the organization and key respondents.

### 3.5 Rationale for choosing key respondents

**Table 1 Rationale for choosing key respondents**

<b>Organization</b>	<b>Key Respondent</b>	<b>Rationale</b>
Sovereign Wealth Fund Secretariat	Board members, investment managers and secretariat	They are mandated to implement the objectives of the SWF as stipulated in the SWF Act.
Treasury	Permanent Secretary and Economists	Mandated to play an oversight role of the SWF.
Reserve Bank of Zimbabwe	Economists	Primary custodian of the SWF.
Macro-Economic Finance Management Institute	Researchers	Has conducted research on SWFs

Zimbabwe Environmental Law Association	Researcher (Nyaradzo Mutonhori)	Conducted research on the legality of Zimbabwe's SWF.
Quantum Global	Researchers and investment managers	It is an investment advisory company that has vastly advised African SWFs
Biti Law	Managing Partner (Tendai Biti)	The law firm specialises in international finance and the managing partner is a former Minister of Finance who was instrumental in bringing the notion of SWFs to the institutional agenda of government.

The study sampled thirteen respondents from the eight organizations identified above. This gives the study a heterogeneous sample with different views. The sample consists of government departments mandated with the implementation of the Sovereign Wealth Fund, think tanks, investment management consultants', and legal experts.

### **3.6 Data collection**

Both primary and secondary sources of data was utilized. Data collection methods are the means of extracting data. The research utilized documentary search. In-depth interviews were also be utilized.

#### **3.6.1 Documentary Search**

According to Oppenheim (1992:02) documentary search enables the researcher to systematically analyse written records. This enables the researcher to familiarize with existing work and current discourse of the institutional, legislative and governance structure of Zimbabwe's Sovereign Wealth Fund. The researcher drew information from documents such as the Sovereign Wealth Fund Act, the Handsard which captures the Sovereign Wealth Fund Bill debate, commentaries from organizations such as Zimbabwe Economic Policy Analysis and Review Unit, Zimbabwe Environmental Law Association, Macroeconomic Financial

Management Institute of Eastern and Southern Africa, Quantum Global and the Sovereign Investment Lab.

Furthermore, the researcher made use of National Budget Statements and Mid-Term Fiscal Policy Review Statements which frequently give updates and policy pronouncement pertaining to Zimbabwe's Sovereign Wealth Fund. The findings from the documentary study pointed out the challenges faced in implementing the objectives of the Sovereign Wealth Fund and provide strategies and principles that can be benchmarked for possible recommendations on the future of Zimbabwe's Sovereign Wealth Fund. Secondary data was used to supplement and verify primary data. Secondary data provides limited knowledge to experiences and processes but adds value to primary data (Flick, 2009:241).

### **3.6.2 In-depth Interviews**

According to Yin (2009:107) in-depth interviews enable the researcher to ask the key respondents about facts of a matter as well as their opinion on the subject matter. Interview guides were given the respondents so as to familiarize themselves with questions to be asked. The main advantage of in-depth interviews is that responses are immediate and the researcher may probe unclear responses there and then.

### **3.7 Data Presentation**

Data from documentary search and interviews was presented using the thematic approach. According to Earby-Smith (2012:165) thematic analysis is template analysis of themes which are laid down and reveal existing patterns. The research used the objectives of the study to categorise the data into themes that bring out the nature of the institutional, legislative and governance structure of Zimbabwe's Sovereign Wealth Fund.

### **3.8 Data Analysis**

According to Babbie (2010:112) data analysis is the interpretation of data for the purposes of drawing conclusions to answer research questions in the inquiry. According to Chambliss and Schutt (2010:250) data analysis unravels the relationships from aural and pictorial data as well as texts to make conclusions. It is the tabulation of data so as to determine facts and meaning (Singh, 2006:223). Blanche *et al* (2006) argue that analysing data involves transforming data into meaningful form. Therefore, research findings were analysed and presented so that they may have meaning. Content analysis and cross case analysis will be used to analyse data.



### **3.8.1 Content Analysis**

According to Singh (2006:150) content analysis involves the systematic scrutiny of current documents as sources of data. However, the researcher must take into cognisance that the information found in the documents may be biased. Therefore, the documents must be subject to scrutiny. Content analysis adds information to a discipline and is helpful in improving social or educational practices.

### **3.8.2 Cross Case Analysis**

According to Kumar (2011:09) cross case analysis involves comparison of different case studies. The study sought to compare the similarities and differences between Zimbabwe and other countries that have established Sovereign Wealth Funds.

### **3.9 Ethical Considerations**

The research took into consideration ethics by enlightening the respondents about the research objectives and sought the consent of the respondents to participate voluntarily in the research. The study sought to report the findings accurately and honestly and be transparent and not deceive the respondents in anyway. Anonymity, security of data and confidentiality were also be taken into consideration. The research will be used for academic purposes only.

### **3.10 Reliability and Validity**

According to Neuman (2014:116) reliability and validity seek to measure believability, truthfulness and credibility of the research findings. Bias cannot be eliminated completely but it is minimized (Maxwell, 1998:243). Validity can be enhanced by using quasi-statics, validation of respondents, collecting data from various sources and search for negative cases. The research is influenced by the interpretive paradigm which is of the view that reality is construed by what the respondents perceive it. During in-depth interviews the researcher asked participants if the information they avail captures their views. This enhances the credibility of qualitative research. The researcher also verified primary data with official reports and Acts. Respondent validation was done through interviewing a heterogeneous pool of respondents. Documentary search of numerous sources was also done so as to unravel discrepancies in the data collected.

### **3.11 Conclusion**

The study employed qualitative research methods. Purposive sampling and snowball sampling techniques were employed. Data was gathered using documentary search and in-depth interviews. In addition, data was presented using thematic sub-headings. Furthermore, data was analysed using content and cross case analysis. Ethical considerations as well as issues pertaining to reliability and validity of data well also discussed in this chapter. The next chapter will present the findings of the study obtained using the above discussed methods.

## **CHAPTER FOUR: DATA PRESENTATION AND ANALYSIS**

### **4.0 Introduction**

This chapter is a presentation and analysis of the research findings. The research findings are derived from documentary research and in-depth interviews. Data from documentary search and in-depth interviews is presented using the thematic approach. Cross case and content analysis is used to analyse data presented. The research findings will serve as the basis for recommendations and conclusions in the next chapter.

### **4.1 Objectives Revisited**

The principal objectives of this study were to:

1. Assess the extent to which Zimbabwe's Sovereign Wealth Fund conforms to the International Working Group of Sovereign Wealth Funds Santiago Principles.
2. Examine the rationale behind establishing a Sovereign Wealth Fund in Zimbabwe.
3. Examine the challenges faced by the Government of Zimbabwe in implementing the objectives of the Sovereign Wealth Fund.
4. Proffer recommendations towards strengthening the institutional, legislative and governance structure of Zimbabwe's Sovereign Wealth Fund.

### **4.2 Respondents Profile**

A total of thirteen respondents were interviewed as part of the study. The respondents were economists, lawyers and investment managers who are conversant with the management of Sovereign Wealth Funds. Three of the respondents were selected from government departments at the forefront of managing Zimbabwe's Sovereign Wealth Fund. Officials from the Ministry of Finance and Economic Development, Ministry of Mines and Mining Development and the Reserve Bank of Zimbabwe were interviewed. Three Economists from the African Tax Institute who have a research interest in Natural Resource Taxation were also interviewed. The Managing Partner of Biti Law specialists in International Financial Law and one of the main proponents of Zimbabwe's Sovereign Wealth Fund was also interviewed. The study also interviewed the Executive Director of Zimbabwe Economic Policy Analysis and Review Unit and the Director of Macroeconomic Financial Management Institute of Eastern and Southern Africa organizations which have carried out research on Natural Resource Management. Furthermore, an investment management expert from Quantum Global and a researcher from the Zimbabwe Environmental Law Association were also interviewed. An Economics lecturer as well as a Public Policy expert from the University of Zimbabwe also complemented the respondents' profile.

## **4.3 Research Findings**

### **4.3.1 Rationale behind establishing a SWF in Zimbabwe**

According to Kanyenze *et al* (2011:530) the notion of Zimbabwe's Sovereign Wealth Fund was first proffered by United Nations Development Programme (UNDP) in 2011. UNDP recommended that the Fund be set up so as to promote investment rather than consumption in Zimbabwe. The Executive Director of Zimbabwe Economic Policy Analysis and Review Unit in an interview highlighted that government adopted the idea to establish the Sovereign Wealth Fund in 2012 after the Zimbabwe Economic Policy Analysis and Review Unit conducted a Mining Sector Policy Study. The Mining Sector Policy Study recommended the establishment of the Sovereign Wealth Fund. The study proposed the adoption of a long-term human and physical infrastructure fund, a mining development fund and a fiscal stabilization fund.

The former Deputy Minister of Finance Dr. Udenge cited in the Hansard during the second reading of the Sovereign Wealth Fund Bill highlights that Zimbabwe has got vast mineral resources (GoZ, 2013:05). The former Deputy Minister argued that the major reason behind establishing a Sovereign Wealth Fund in Zimbabwe is to diversify and develop the economy so that future generations will also benefit from the exploration of depletable natural resources. This is in tandem with Section 298(1) of the Constitution of Zimbabwe which stipulates that the benefits and burdens of mineral resources must be equitably shared between present and future generations of Zimbabwe. Furthermore, Section 4(a) of the Sovereign Wealth Fund Act stipulates that one of the objectives of the Fund is to make secure investments for the benefit and enjoyment of future generations of Zimbabweans. According to Hove (2016:08) Zimbabwe's Sovereign Wealth Fund is a Savings and Diversification Fund. However, in an interview with the former Minister of Finance in the inclusive government he highlighted that Zimbabwe over the years has been incurring budget deficits and has been failing to meet its budget obligations on time. He further argued that Sovereign Wealth Funds are peculiar to countries that incur budget surpluses and questioned how the government can save for future development yet it cannot adequately meet its current budget obligations. Therefore, this reveals that Zimbabwe has rushed to create a Sovereign Wealth Fund as it does not meet the prerequisite condition to establish a Sovereign Wealth Fund which is incurring budget surplus.

According to the Director of Macroeconomic Financial Management Institute of Eastern and Southern Africa in an interview since the turn of the millennium Zimbabwe has been

navigating through dire fiscal straits with weak fiscal legroom. The President of Zimbabwe cited in the Hansard in his opening address of the eighth Parliament of Zimbabwe argued that Zimbabwe is wallowing in debt yet the balance sheets of foreign entities that hoard Zimbabwe's minerals are enticing (GoZ, 2013:01). According to Sen (2010:49) Sovereign Wealth Funds can be used to alter the debt structure. Funds accrued from the Sovereign Wealth Fund can be used to clear and upgrade a country's debt profile. Furthermore, the President highlighted that a Sovereign Wealth Fund can be used to leverage natural resources so as to raise the much needed capital for infrastructural development in Zimbabwe. According to the former Minister of Finance in the inclusive government in his 2013 National Budget Statement Zimbabwe is lagging behind by over 20 years in terms of infrastructural development. He further notes that Zimbabwe needs around USD\$30 billion to resuscitate its dilapidated infrastructure (GoZ, 2012:45). Therefore, Zimbabwe's Sovereign Wealth Fund can be categorized as a Domestic Development Fund which seeks to prioritise infrastructural development and accelerate development in emerging economies. However, Chatham House (2014:13) highlights that Sovereign Wealth Funds that invest domestically may suffer from corruption and 'Dutch Disease'.

The former Minister of Finance Dr. Udenge in his second reading of the Sovereign Wealth Fund Bill before Parliament also highlights that another rationale for establishing a Sovereign Wealth Fund in Zimbabwe is to store wealth which can be drawn upon during times of crisis (Parliament of Zimbabwe, 2014:02). Section 4(c) of the Sovereign Wealth Fund Act provides that one of the main objectives of the Fund is to support fiscal and macroeconomic stabilisation in Zimbabwe. Therefore, Zimbabwe's Sovereign Wealth Fund is also a stabilization fund as one of its objectives is to support fiscal stabilisation.

#### **4.3.2 Extent to which Zimbabwe's SWF conforms to the Santiago Principles**

According to the former Deputy Minister of Finance Dr. Udenge cited in the Hansard Zimbabwe's Sovereign Wealth Fund is guided by the Santiago Principles (GoZ, 2013:5). The Sovereign Wealth Fund Act lays out the legal, governance and institutional structure of Zimbabwe's Sovereign Wealth Fund which are generally consistent with the International Working Group Generally Accepted Principles and Practices. Section 13 of the Sovereign Wealth Fund Act stipulates that Zimbabwe's Sovereign Wealth Fund abides by the Santiago Principles. Furthermore, the 24 principles are incorporated in Schedule 3 of the Sovereign Wealth Fund Act.

#### 4.3.2.1 Legal Framework, Objectives, Coordination and Macroeconomic Principles

The first Principle of the Generally Accepted Principles and Practices provides that the legal frameworks of a Sovereign Wealth Fund must be sound and must efficiently support the management of the Sovereign Wealth Fund (IWG, 2008:07). The preamble of Zimbabwe's Sovereign Wealth Fund Act stipulates that the Act provides for the establishment of Zimbabwe's Sovereign Wealth Fund its objectives, management and control. The Act clearly provides and spells out the functions of the board, the appointment of the chairperson, the Chief Executive Officer, staff and investment managers. Therefore, in this regard Zimbabwe's Sovereign Wealth Fund is in tandem with the first principle of the Santiago Principles because it has a legislative framework in place that efficiently supports the management of the Sovereign Wealth Fund.

However, the Director of the African Tax Institute in an interview argued that the legislative framework of Zimbabwe's Sovereign Wealth Fund curtails the efficient management of the Fund as it is subject to excessive political interference. The Director of African Tax Institute further highlighted that the Sovereign Wealth Fund Act provides that the President is trustee of the Fund as provided by Section (3)(2) of the Act. A researcher at Zimbabwe Environmental Law Association is also of the view that the term 'trustee' is vague and is not elaborated anywhere in the Act. Therefore, the role of the President in the management of Zimbabwe's Sovereign Wealth Fund is not explicit. Norway the world reference for the best practice of managing Sovereign Wealth Funds has the central bank with the supervision of treasury and not the President as the trustee of Norway's Pension Fund on behalf of the people of Norway. Norges bank is relatively autonomous and Norway's Pension Fund is unlikely to be used to advance the political interests of Norway's political elite (Chigumira et al, 2016:38).

In addition, the Director of ATI pointed out that Section 10 of the Sovereign Wealth Fund Act stipulates that the Minister in consultation with the President may give policy direction to Zimbabwe's Sovereign Wealth Fund in national interest. However, the term 'national interest' is vague. This provision in the Act also establishes the Minister and the President as supreme authorities in the management of Zimbabwe's Sovereign Wealth Fund. The Minister of Finance and the President are both political players. As highlighted by the public choice theory politicians are utility maximizers who seek to advance their own interests (Hughes,

2003:12; Ayee, 2005:06). Therefore, this is a loophole in legislation as politicians can use Zimbabwe's Sovereign Wealth Fund to advance their personal political interests rather than economic objectives as envisaged by the Santiago Principles.

The Honourable former Minister of Finance in the inclusive government interviewed is of the view that if such large pools of financial resources are left at the disposal of an autocratic government without adequate institutional, legislative and governance structures the funds may pose as a threat to the intended beneficiaries. The former Minister cited the case of how Colonel Muammar Gaddafi used resources from the USD\$63 billion Libyan Investment Authority (LIA) Libya's Sovereign Wealth Fund to quell the rebel uprising during the Arab Spring. According to Bybee (2013:01) Fundo Soberano de Angola is subject to a lot of political scrutiny because its board chairman is son of the President of Angola which questions the autonomy of the Fund in its operations.

Santiago Principle 1(1) provides that the legal framework must provide for the legal soundness of Sovereign Wealth Fund transactions (IWG, 2008:07). Part IV of the Sovereign Wealth Fund provides for the financial provisions of Zimbabwe's Sovereign Wealth Fund. Section 14(1) and 16(2) of the Sovereign Wealth Fund Act provides that deposits into the account of Zimbabwe's Sovereign Wealth Fund will be made with the Reserve Bank of Zimbabwe as custodian. This is in line with international best practice as Norway's Global Pension Fund is managed by Norges Bank Investment Management a subsidiary of Norges Bank Norway's central bank (Santiso, 2014:50). This illustrates that in terms of the legal soundness of financial transactions Zimbabwe abides by international best practices.

Section 14(1)(a) of the Sovereign Wealth Fund Act provides that revenue not exceeding 25% of the royalties' payable in terms of gold, diamond, coal, bed methane, gas, nickel, chrome, platinum and any other minerals stipulated in Chapter VII of the Finance Act are payable into the Fund. Furthermore, Section 14 (c) of the Sovereign Wealth Fund Act provides that Parliament may appropriate funds to the Fund to help promote the objectives of the Fund and supplement the salaries and allowances of members or employees of the Fund. In addition, Section 14(c) of the Sovereign Wealth Fund Act provides that Parliament may also appropriate funds to Zimbabwe's Sovereign Wealth Fund to help it promote the objectives of the Sovereign Wealth Fund and supplement its expenditure. Furthermore, Section 14(3) of the Sovereign Wealth Fund Act provides that excess resources at the disposal of Zimbabwe's Sovereign Wealth Fund may be invested in investments at the discretion of the board with approval of the responsible Minister. In terms of legality of financial transactions Sovereign

Wealth Fund Act provides a clear and explicit framework in managing transactions of Zimbabwe's Sovereign Wealth Fund.

The second Principle of the Santiago Principles envisages that the policy purpose of the Sovereign Wealth Fund should be clearly defined and disclosed (IWG, 2008:07). The objectives of Zimbabwe's Sovereign Wealth Fund are clearly spelt out in Section 4 of the Sovereign Wealth Fund Act. Section 4(a) provides that Zimbabwe's Sovereign Wealth Fund seeks to make secure investments for the benefit and future enjoyment of future generations of Zimbabweans. Therefore, Zimbabwe's Sovereign Wealth Fund is a savings fund in this regard. This is in tandem with Section 298(c) of the Constitution of Zimbabwe Amendment Number 20 which requires present generations to equitably share resources. In addition, Section 4(b) of the Sovereign Wealth Fund Act provides that Zimbabwe's Sovereign Wealth Fund seeks to support the development objectives of the government. In this regard Zimbabwe's Sovereign Wealth Fund is a Domestic Development Fund. Zim-ASSET Zimbabwe's current macro-economic blueprint highlights Zimbabwe's Sovereign Wealth Fund as one of its financing mechanisms.

Section 4(c) of the Sovereign Wealth Fund Act stipulates that Zimbabwe's Sovereign Wealth Fund seeks to support fiscal or macroeconomic stabilization. Therefore, in this regard Zimbabwe's Sovereign Wealth Fund is a Fiscal Stabilization Fund. Zimbabwe's Sovereign Wealth Fund is also a Diversification Fund because it seeks to supplement revenues of Zimbabwe when these are prejudiced by fluctuations of metals and minerals on the international commodity market. Section 4 (d) of the Sovereign Wealth Fund Act stipulates that Zimbabwe's Sovereign Wealth Fund seeks to contribute to the revenues of Zimbabwe from the net returns on its investments. This is also enunciated in Section 21 of the Sovereign Wealth Fund Act which provides that Zimbabwe's Sovereign Wealth Fund must pay dividends to the state if revenues accruing to the fund are more than sufficient.

Therefore, Zimbabwe's Sovereign Wealth Fund's policy purpose is clearly defined and disclosed. However, a Public Policy expert at the University of Zimbabwe in an interview highlighted that Zimbabwe's Sovereign Wealth Fund has multiple policy objectives which make it difficult to implement because of the multiplicity of actors in the implementation process. According to an economist in the Ministry of Finance and Economic Development treasury's interest in the Sovereign Wealth Fund is that the Fund can be used as a fiscal stabilization instrument. According to Al-Hassan, Papaioannou, Skancke, and Chih-Sung(2013:6) "Sovereign Wealth Funds can be used as stabilization funds set up to insulate



the budget and economy from commodity price volatility and external shocks.” According to an Economics lecturer at the University of Zimbabwe the central bank is interested in the Sovereign Wealth Fund because it is an economic instrument that can be used to avert deflation in times of economic boom as well as combat inflation. According to Sen (2010:48) trade surpluses tend to increase domestic prices. Sovereign Wealth Funds remove funds from the current budget and can soak up excess liquidity and reduce inflation. Facing inflationary pressure, governments may desire to remove foreign exchange from the hands of the public (ibid).

The differing monetary and fiscal interests in Zimbabwe’s Sovereign Wealth Fund are likely to result in contestations between these two lead agencies in the management and implementation of the Sovereign Wealth Fund. Removal of foreign exchange in public hands when faced by inflationary pressures may impede fiscal stabilization which is the objective that treasury intends to use the Sovereign Wealth Fund for. This illustrates that different government agencies have differing interests in the Sovereign Wealth Fund. The fiscal arm of government sees the Sovereign Wealth Fund as a fiscal consolidation tool whereas the monetary arm of government sees it as a monetary instrument to curb inflation and deflation. These diverging view points and interests in the Sovereign Wealth Fund may make its implementation difficult. Furthermore, Senator Matika sighted in the Hansard during the debate on Zimbabwe’s Sovereign Wealth Fund argued that the functions of the Sovereign Wealth Fund Board and the National Indigenization and Economic Empowerment Board tend to overlap each other (Parliament, 2014:05). This worsens the implementation challenges of the Fund.

The third Principle of the Santiago Principles stipulates that where the Sovereign Wealth Fund’s activities have significant direct domestic macroeconomic implications, those activities should be closely co-ordinated with the domestic fiscal and monetary authorities so as to ensure consistency with the overall macro-economic objects (IWG, 2008:09). However, as highlighted above and as pointed out by a Public Policy expert from the University of Zimbabwe interviewed the multiplicity of actors in the implementation of the objectives of Zimbabwe’s Sovereign Wealth Fund make the implementation difficult. This is because the actors have diverging interests as discussed above.

The fourth Principle of the Santiago Principles stipulates that there should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the Sovereign Wealth Funds approach to funding, withdrawal and spending (IWG, 200:09).

Santiago Principle 4(1) states that the source of the Sovereign Wealth Fund's funding must be disclosed (ibid). Section 14(a) of the Sovereign Wealth Fund Act provides that Zimbabwe's Sovereign Wealth Fund will be funded by royalties not exceeding 25% of royalties derived from the sale of Zimbabwe's minerals. Furthermore, Sections 14(d) and 14(e) of the Sovereign Wealth Fund Act provide that another source of Zimbabwe's Sovereign Wealth Funds funding is profits and proceeds of the investments of the Fund and moneys received by the Fund under any contract of insurance effected by the board. Moreover, Section 14(f) states that Zimbabwe's Sovereign Wealth Fund may be financed through such other moneys that may accrue to the Fund whether in the course of its operations or otherwise. Therefore, in this regard the funding mechanisms of Zimbabwe's Sovereign Wealth Fund are clear and Zimbabwe's Sovereign Wealth Fund conforms to the Santiago Principles.

Santiago Principle 4(2) provides that the general approach to withdrawals from the Sovereign Wealth Fund and spending on behalf of government must be publicly disclosed. Sections 19, 21 and 23 of the Sovereign Wealth Fund Act provide for the withdrawal mechanisms from Zimbabwe's Sovereign Wealth Fund. Section 19 of the Sovereign Wealth Fund Act provides that the administrative expenses that include salaries and allowances of the board and Zimbabwe's Sovereign Wealth Fund staff are charged on the Fund with the approval of the Minister. However, Section 19(2) of the Sovereign Wealth Fund Act provides that expenses incurred through remuneration and allowances must not exceed 5% of the total projected deposits into the Fund in a financial year. In addition, Section 19(e)(f)(g) and (h) provide that the expenses of the audit of the board's books and accounts as well as remuneration payable to any investment manager, agent or consultant employed or retained by the board shall be charged on the Fund. Furthermore, the liability of the board for taxes, duties and rates as well as expenses arising from the contracted obligations and liabilities of the board.

Moreover, Section 21 of the Sovereign Wealth Fund Act provides that in a financial year in which revenues accruing to Zimbabwe's Sovereign Wealth Fund are more than sufficient to meet the expenditure and investments of the board Zimbabwe's Sovereign Wealth Fund may pay dividends to the state. Section 23 of the Sovereign Wealth Fund Act also provides that withdrawals may be made from Zimbabwe's Sovereign Wealth Fund for the state's benefit. Section 23(1) of the Sovereign Wealth Fund Act states that in order to support the long-term objectives of government the board may invest in infrastructural development as the private partner with the state under a joint venture agreement. Section 23(2) of the Sovereign Wealth Fund provides that if resources availed by the Consolidated Revenue Fund (CRF) are

insufficient for any purposes of the National Budget the state may withdraw money from Zimbabwe's Sovereign Wealth Fund. However, those withdrawals must be approved by Parliament. The Executive Director of the Zimbabwe Economic Policy Analysis and Review Unit is of the view that though the withdrawal rules of Zimbabwe's Sovereign Wealth Fund are closely linked to the government's budget surplus/deficit, the amount is not determined as part of the annual budget process or pre-agreed rules as per good practice. Therefore, the Sovereign Wealth Fund Act conforms to Principle 4(2) of the Santiago Principles that stipulates that the general approach to withdrawals from the Sovereign Wealth Fund and spending on behalf of government must be publicly disclosed though there are weaknesses in the withdrawal mechanism.

The fifth Santiago Principle states that the relevant statistical data pertaining to the Sovereign Wealth Fund should be reported on a timely basis to the owner (IWG, 2008:09). Section 12 of the Sovereign Wealth Fund Act provides for the reporting framework of Zimbabwe's Sovereign Wealth Fund. Section 12(1) of the Sovereign Wealth Fund Act stipulates that the board shall submit quarterly reports on its operations and activities no later than 30 days after the end of each quarter. The quarterly report includes a report on the inflows and outflows of the Fund, the performance of the Fund during the quarter and the value of assets and where the assets at the end of each quarter. Section 12(3) of the Sovereign Wealth Fund Act states that the board shall no later than sixty days after the end of each financial year submit to the Minister an annual report on its operations and activities during the preceding year.

Section 12(6) of the Sovereign Wealth Fund Act provides that the Minister responsible must table before Parliament all reports submitted to him no later than fifteen days after they have been received or within fifteen days of the first sitting of Parliament after the Minister receives them. Therefore, the Sovereign Wealth Fund Act conforms to the fifth Santiago Principle as it provides for the reporting of statistical data to the owner on a timely basis. Zimbabwe is a representative democracy. Parliamentarians are representatives of the people of Zimbabwe who are owners of the Sovereign Wealth Fund. Therefore, reporting to Parliament is indirectly reporting to the people who are the owners. Therefore, in this regard Zimbabwe's Sovereign Wealth Fund Act is in tandem with the Santiago Principles.

#### 4.3.2.2 Institutional Framework and Governance Structure

The sixth Santiago Principle stipulates that the governance framework for Sovereign Wealth Funds should be sound and establish a clear and effective division of roles and responsibilities

in order to facilitate accountability and operational independence in the management of the Sovereign Wealth Fund to pursue its objectives (IWG, 2008:10). Section 3(2) of the Sovereign Wealth Fund Act provides that the ownership of the Fund is vested in the Republic of Zimbabwe with the President as trustee. However, the Act does not go onto specify the role of the trustee in the Sovereign Wealth Fund. Section 5 of the Sovereign Wealth Fund Act establishes the Sovereign Wealth Fund board. Section 5(1) of the Sovereign Wealth Fund Act stipulates that the board administers the Fund. The board is composed of the Chief Executive Officer, and nine members appointed by the Minister with the approval of the President. According to a researcher at Quantum Global the fact that the board members are political appointees compromises their operational independence.

Section 7 of the Sovereign Wealth Fund Act specifies the functions of the board which include overseeing the investment and management of the Fund, giving policy and strategic direction to the Fund. Furthermore, appointment of investment fund managers, reinvest proceeds of investment and attract investment are other functions of the board. Section 8(3) of the Sovereign Wealth Fund Act provides that the Chief Executive Officer is appointed by the board and is responsible for the implementation of the objectives of the Sovereign Wealth Fund and is assisted by his staff. The Chief Executive Officer is the custodian of the board's records. Section 8(2) of the Sovereign Wealth Fund Act provides that the Chief Executive Officer and other members of staff shall be public officials but not form part of the public service. Section 11 of the Sovereign Wealth Fund Act states that the Minister in consultation with the President may give policy direction in 'national interest'. The former Minister of Finance highlights that this is a weakness in the legislative provisions of Zimbabwe's Sovereign Wealth Fund as politicians can use Zimbabwe's Sovereign Wealth Fund to advance their own political agenda's rather than economic objectives of Zimbabwe's Sovereign Wealth Fund. Section 16 of the Sovereign Wealth Fund Act stipulates that the Reserve Bank of Zimbabwe is the custodian of Zimbabwe's Sovereign Wealth Fund. However, the Act does not explicitly state the role of the central bank as the custodian of Zimbabwe's Sovereign Wealth Fund. Therefore, in this regard Zimbabwe's Sovereign Wealth Fund partially conforms to the sixth Santiago Principle.

The seventh Principle of the Santiago Principles provides that the owner should set the objectives of the Sovereign Wealth Fund, appoint the members of the governing bodies in accordance with clearly defined procedures and exercise oversight over the Sovereign Wealth Fund's operations (IWG, 2008:11). Section 3(2) of the Sovereign Wealth Fund Act provides

that Zimbabwe's Sovereign Wealth Fund is owned by the Republic of Zimbabwe with the President acting as the trustee. However, the President is a political player who may abuse the Sovereign Wealth Fund so as to pursue his own political agenda against the will of the intended beneficiaries and the real owners of the Sovereign Wealth Fund. It is also instructive to note that Section 6(1)(b) of the Sovereign Wealth Fund Act provides that the Minister in consultation with the President shall appoint the board members. Zimbabwe's Sovereign Wealth Fund may be used to achieve political rather than economic objectives it is meant to achieve. The appointment of the son of the President of Angola as chairman of the Fundo Soberano de Angola board has resulted in a lot of international criticism of the Fund (Bybee, 2013:01). The appointment of President dos Santos son is seen as an entrenchment of a 'dos Santos dynasty' in Angola (ibid).

Furthermore, Section 11 of the Sovereign Wealth Fund Act provides that the Minister may give policy directions to the Fund in national interests. However, the term 'national interests' is vague and in reality the personal interests of the politicians override the objectives of Zimbabwe's Sovereign Wealth Fund. This is a major weakness in the legislative framework of Zimbabwe's Sovereign Wealth Fund. The former Minister of Finance in the inclusive government in an interview cited the case of how Colonel Muammar Gaddafi used resources from the USD\$63 billion Libyan Investment Authority (LIA) Libya's Sovereign Wealth Fund to quell the rebel uprising during the Arab Spring. The Sovereign Wealth Fund Act does not conform to the seventh Principle of the Santiago Principles that provides that the owner should set the objectives of the Sovereign Wealth Fund, appoint the members of its governing bodies in accordance with clearly defined procedures and exercise oversight over the Sovereign Wealth Fund's operations. This is because the President rather than Parliament as is the case in Norway the global reference in successfully managing Sovereign Wealth Funds is the trustee on behalf of the owners. The President may advance his own personal political interests rather than advance the economic objectives for which Zimbabwe's Sovereign Wealth Fund was established. Furthermore, the President is likely to interfere and impede the operations of Zimbabwe's Sovereign Wealth Fund rather than play an oversight role.

The eighth Principle of the Santiago Principles provides that the governing bodies must 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 (IWG, 2008:11). According to a researcher from the Zimbabwe Environmental Law Association the board members are politically appointed by the President in consultation with the Minister responsible which

compromises their authority. According to the Director of the African Tax Institute, as a result of the nature of the boards appointment it is likely that the board will advance the interests of the politicians who appointed them rather than advancing the objectives of Zimbabwe's Sovereign Wealth Fund.

The ninth Principle of the Santiago Principles stipulates that the operational management of the Sovereign Wealth Fund must implement the Funds strategies in an independent manner and in accordance with clearly defined responsibilities (IWG, 2008:11). A researcher from Zimbabwe Environmental Law Association during an interview argued that Zimbabwe's Sovereign Wealth Fund is not independent in its operations. This is because Zimbabwe's Sovereign Wealth Fund's board is politically appointed and policy direction of the board is derived from the executive arm of government through the President and the Minister responsible for Finance. Therefore, in this regard Zimbabwe's Sovereign Wealth Fund does not conform to the Santiago Principles.

The tenth Principle of the Santiago Principles provides that the accountability framework of the Sovereign Wealth Funds operations should be clearly defined in the relevant legislation, charter, other consultative documents, or management agreements (IWG, 2008:12). An analysis of the Sovereign Wealth Fund Act reveals that Zimbabwe's Sovereign Wealth Fund's management is responsible to the board. The board in turn is accountable to the Minister responsible for Finance. The Minister is then accountable to Parliament and the President as trustee as provided in Section 12(6), Section 23 and Section 3(2) respectively. However, according to the Director of Zimbabwe Economic Policy Analysis and Review Unit the Act does not explicitly state how the Act is ultimately accountable to the people.

The eleventh Principle of the Santiago Principles provides that an annual report and accompanying financial statements on the Sovereign Wealth Funds operations and performance should be prepared in a timely fashion and in accordance with international or national accounting standards in a consistent manner (IWG, 2008:13). Section 12 of the Sovereign Wealth Fund Act provides that the board must submit quarterly reports to the Minister no later than thirty days after the end of each quarter on the board's operations activities in the preceding quarter. Furthermore, the board must submit annual financial statements to the Minister. Section 24(2) stipulates the board shall ensure that proper accounts and other records relating to such accounts are kept in respect of all the boards activities, moneys and property, including particular accounts and records the Minister may apply. Section 24(1) of the Sovereign Wealth Fund Act provides that Zimbabwe's Sovereign Wealth

Fund is a statutory fund as provided by the Public Finance Management Act. Section 37 of the Public Finance Management Act stipulates that financial statements required to be prepared in terms of the Act must be prepared with generally accepted accounting practices. Therefore, in this regard the Sovereign Wealth Fund conforms to the eleventh Principle of the Santiago Principles.

The twelfth Principle of the Santiago Principles stipulates that the Sovereign Wealth Funds operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner (IWG, 2008:13). Section 25 of the Sovereign Wealth Fund Act provides that the Fund shall be audited by the Auditor General whose powers and functions are spelt out in Section 7 and 8 of the Audit Office Act. Therefore, in this regard the Sovereign Wealth Fund Act conforms to the twelfth Principle of the Santiago Principles.

The thirteenth Principle of the Santiago Principles stipulates that professional and ethical standards should be clearly defined and made known to members of the Sovereign Wealth Funds governing bodies' management and staff (IWG, 2008:13). Section 30(2)(a) of the Sovereign Wealth Fund Act provides that the Minister in consultation with the Board must provide a code of conduct and ethics for employees of the board. Therefore, the Sovereign Wealth Fund Act conforms to the thirteenth Principle of the Santiago Principles.

The fourteenth Principle of the Santiago Principles provides that when dealing with third parties for the purpose of the Sovereign Wealth Fund's operational management should be based on economic and financial grounds and follow clear rules and procedures (IWG, 2008:13). Section 9 of the Sovereign Wealth Fund Act provides for the appointment of investment managers through a transparent, open and competitive process. Therefore, the Sovereign Wealth Fund Act conforms to the fourteenth Principle of the Santiago Principles as the Act clearly states that the main objective of Zimbabwe's Sovereign Wealth Fund is to advance the economic fortunes of the country.

The fifteenth Principle of the Santiago Principles states that Sovereign Wealth Fund operations and activities in host countries should be conducted in compliance with all applicable regulatory and disclosure requirements of the countries in which they operate (IWG, 2008:14). Section 27 of the Sovereign Wealth Fund Act provides that Zimbabwe's Sovereign Wealth Fund's board shall operate in accordance with the laws of the country in which the Fund has made an investment. Therefore, with regards to provisions stipulated in

the fifteenth Principle of the Santiago Principles the Sovereign Wealth Fund Act conforms to these provisions.

The sixteenth Principle of the Santiago Principles stipulates that the governance framework and objectives as well as the manner in which the Sovereign Wealth Funds management is operationally independent from the owner, should be publicly disclosed. Section 3(2) provides that Zimbabwe's Sovereign Wealth Fund is owned by the Republic of Zimbabwe with the President acting as the trustee. Section 5(1) of the Sovereign Wealth Fund Act provides that the board shall administer the objectives of Zimbabwe's Sovereign Wealth Fund. Section 6(1)(b) provides that the board is appointed by the Minister with approval of the President. Furthermore, Section 11 of the Sovereign Wealth Fund Act provides that the Minister in consultation with the President may give policy direction to Zimbabwe's Sovereign Wealth Fund. According to the Executive Director of Zimbabwe Economic Policy Analysis and Review Unit in an interview Zimbabwe's Sovereign Wealth Fund is not independent because the executive branch of government is instrumental in determining strategic decisions of the organization. Therefore, Zimbabwe's Sovereign Wealth Fund does not conform to the sixteenth Principle of the Santiago Principles.

The seventeenth Principle of the Santiago Principles provides that the relevant financial information regarding the Sovereign Wealth Fund 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 (IWG, 2008:14). Section 12(6) of the Sovereign Wealth Fund Act provides that the board shall submit quarterly and annual financial reports to the Minister who shall present them to Parliament. Therefore, with regards to the seventeenth Principle of the Santiago Principles the Sovereign Wealth Fund Act conforms to the Santiago Principles. However, this information is not available on the website as is the case in other jurisdictions.

#### 4.3.2.3 Investment and Risk Management Framework

The eighteenth Principle of the Santiago Principles states that the Sovereign Wealth Fund's investment policy should be clear and consistent with its defined objectives, risk tolerance and investment strategy as set by the owner or governing bodies, and be based on sound portfolio management principles (IWG, 2008:14). Santiago Principle 18(1) provides that the investment policy should guide the Sovereign Wealth Funds financial risk exposures and the possible use of leverage. Section 18(b)(ii) stipulates that a written investment mandate in



respect of its investment functions shall include information on acceptable balance between risk and return in the overall Fund portfolio. Therefore, the Sovereign Wealth Fund Act conforms to Santiago Principle 18(1).

Santiago Principle 18(2) states that the investment policy should address the extent to which internal and/or external investment managers are used, the range of the activities and authority, and the process by which they are selected and performance monitored. Section 9 of the Sovereign Wealth Fund Act stipulates that investment managers will be appointed by the board in a competitive and transparent process. The investment managers may be appointed as employees of the board or as independent contractors. According to a researcher from Zimbabwe Environmental Law Association during an interview the Sovereign Wealth Fund Act does not go on to specify their activities and authority and how their performance is monitored. Therefore, to some extent the Sovereign Wealth Fund Act conforms to Santiago Principle 18(2). However, it ignores the performance monitoring aspect.

Santiago Principle 18(3) provides that a description of the investment policy of the Sovereign Wealth Fund should be publicly disclosed. Section 18(1)(b) of the Sovereign Wealth Fund Act requires the board prior to the beginning of a financial year to prepare and submit a written investment mandate which is guided by the Santiago Principles. However, the Sovereign Wealth Fund Act does not go onto spell out that the investment mandate must be publicly disclosed as envisaged by the Santiago Principles. Therefore, with regards to Principle 18(3) of the Santiago Principles the Sovereign Wealth Fund Act does not abide by the Santiago Principles.

The nineteenth Principle of the Santiago Principles provides that Sovereign Wealth Funds decisions should aim to maximize risk-adjusted financial returns in a manner consistent with its investment policy and based on economic and financial grounds (IWG, 2008:15). Santiago Principle 19(1) stipulates that if investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and publicly disclosed (ibid). Section 4 of the Sovereign Wealth Fund Act stipulates that Zimbabwe's Sovereign Wealth Fund shall be used to achieve economic objectives only. Santiago Principle 19(2) provides that the management of a Sovereign Wealth Funds assets should be consistent with what is generally accepted as sound management principles. This is in tandem with Section 22(1) of the Sovereign Wealth Fund Act which provides that the assets of Fund shall not be used to provide credit to government, public enterprise, private sector entities or any other persons or entities. Furthermore, Fund's assets must not be used as collateral for debts,

guarantees, commitments or other liabilities of any other person or entity, whether public or private. Therefore, the Sovereign Wealth Fund Act in this regard is in tandem with the nineteenth Principle of the Santiago Principles.

Santiago Principle 20 provides that the Sovereign Wealth Fund should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities (IWG, 2008:15). Zimbabwe's Sovereign Wealth Fund Act is silent on this provision in the Santiago Principles. However, Section 29 of the Sovereign Wealth Fund Act emphasizes on the preservation of secrecy of affairs of the Fund. Section 29 goes on to prohibit the use of confidential information for personal gain. Therefore, with regards to the twentieth Principle of the Santiago Principles Zimbabwe's Sovereign Wealth Fund is not in tandem with the Santiago Principles.

The twenty-first Principle of the Santiago Principles stipulates that shareholder ownership rights are a fundamental element of their equity investment value. (IWG, 2008:15) The Sovereign Wealth Fund should publicly disclose its general approach to voting securities of listed entities. Zimbabwe's Sovereign Wealth Fund Act is silent on this matter. According to the Executive Director of Zimbabwe's Economic Policy Analysis and Review Unit the general approach to voting securities of listed entities is still in its infancy. Therefore, with regards to the twenty-first Principle of the Santiago Principles Zimbabwe's Sovereign Wealth Funds Act is not in tandem with the Santiago Principles.

Santiago Principle 22 states that the Sovereign Wealth Funds should have a framework that identifies, assesses and manages the risks of its operations (IWG, 2008:16). Section 18(b) of the Sovereign Wealth Fund Act provides that Funds investment mandate must include information on acceptable balance between risk and return in the overall fund portfolio. Furthermore, the investment mandate must include indications relating to the management of credit liquidity and operational, currency, market and other financial risks. Therefore, in this regard Zimbabwe's Sovereign Wealth Fund Act is in tandem with the twenty-second Principle of the Santiago Principles.

Santiago Principle 23 stipulates that the assets and investment performance of the Sovereign Wealth Fund should be measured and reported to the owner according to clearly defined principles and standards. Section 12 of the Sovereign Wealth Fund Act provides that Fund shall submit quarterly and annual reports to the Minister who will in turn table the reports before Parliament. Therefore, with regards to Santiago Principle 23 Zimbabwe's Sovereign

Wealth Fund Act is in tandem with this provision of the Santiago Principles. Santiago Principle 24 states that a process of regular review of the implementation of the Generally Accepted Principles and Practices should be engaged in by or on behalf of the Sovereign Wealth Fund. However, Zimbabwe's Sovereign Wealth Fund Act is silent on this matter. Therefore, with regards to Santiago Principle 24 Zimbabwe's Sovereign Wealth Fund Act does not abide with this provision of the Santiago Principles.

#### **4.3.3 Challenges faced in implementing the objectives of Zimbabwe's SWF**

According to an official from the Ministry of Finance and Economic Development the main challenge in the operationalization of Zimbabwe's Sovereign Wealth Fund is that inadequate seed capital of USD\$ 500 000 was appropriated to it in the 2015 National Budget Statement. Furthermore, it does not have a standalone secretariat. Currently the secretariat of the office of the Accountant General (AG) acts as the secretariat of Fund. The Executive Director of the Zimbabwe Economic Policy Analysis and Review Unit in an interview also highlighted that the Fund is a new institution in Zimbabwe and has inadequate human capital to manage it. In addition, according to an investment expert from Quantum Global interviewed Zimbabwe has rushed to create a Sovereign Wealth Fund. It does not meet the prerequisite conditions of establishing a Sovereign Wealth Fund. Sovereign Wealth Funds are peculiar to developed and highly industrialized countries incurring budget surpluses. However, Zimbabwe is incurring budget deficits and is deindustrializing. An official from the Ministry of Finance who requested anonymity alluded to the fact Fund is a mere political slogan as Zimbabwe is failing to finance its current account and is no position to establish a Sovereign Wealth Fund. According to the Executive Director of the Zimbabwe Economic Policy Analysis and Review Unit with the current fiscal space challenges it may not be feasible to meet the 25% of royalties payable into the Fund as provided by Section 14(1)(a) of the Sovereign Wealth Fund Act.

The Director of the African Tax Institute in an interview highlighted that the government of Zimbabwe has got a misconception that the Sovereign Wealth Fund can be used as macroeconomic tool to propel economic development in Zimbabwe. However, the truth of the matter is that Sovereign Wealth Funds do not propel economic development. Rather they are instruments that are used to buttress an already developed economy. They are used to cool down over performing economies so as to prevent deflationary conditions. Therefore, in the short to medium term the Fund may not achieve its intended objectives. However, if

Zimbabwe's economy is to recover the Sovereign Wealth Fund can be a prudent tool that can be used to support macroeconomic fiscal stabilization.

Through interviews conducted the study unravelled that though the Sovereign Wealth Fund Act spells out the functions of Minister of Finance, Office of the President and Cabinet and the central bank officials from these three actors in the management of the Fund are not aware of the exact function their department plays. The Director of the African Tax Institute is of the view that that the term trustee and custodian attached to the President and the Reserve Bank respectively are vague. There is need for the Act to further elucidate the functions of the custodian and trustee so as to ensure sound co-ordination of the Fund as envisaged by the third Principle of the Santiago Principles. Furthermore, a Public Policy expert from the University of Zimbabwe interviewed highlighted that the multiplicity of actors in the implementation of the objectives of the Fund make the implementation difficult. This is because the fiscal arm of government sees the Fund as a fiscal consolidation tool whereas the monetary arm of government sees it as a monetary instrument to curb inflation and deflation. These diverging view points and interest in the Sovereign Wealth Fund may make its implementation difficult.

#### **4.4 Conclusion**

The chapter presented and analysed findings pertaining to whether Zimbabwe's Sovereign Wealth Fund conforms to international best practices. The study revealed that Zimbabwe's Sovereign Wealth Fund's legislative framework to a significant extent conforms to the International Working Group Santiago Principles. However, there are major loopholes in the Act which include having the President as trustee of the Fund and allowing the President and the Minister of Finance to give policy direction to the Fund in the name of national interest. The President and the Minister are politicians and can use the Fund to advance their own political interests rather than to advance the economic objectives of the Fund. Furthermore, the study revealed that the rationale behind establishing Zimbabwe's Sovereign Wealth Fund is to create a Savings and Diversification Fund that will benefit future generations of Zimbabweans. Furthermore, another reason for creating the Fund is to create a Domestic Development Fund and a Stabilization Fund. Though noble the research revealed that Zimbabwe has rushed to create Zimbabwe's Sovereign Wealth Fund as it does not meet the prerequisite conditions to establish a Sovereign Wealth Fund. The study also revealed that the Fund is underfunded and the multiplicity of actors involved in its management makes the implementation of its objectives difficult due to the diverging interests of the actors.

## CHAPTER FIVE

### CONCLUSIONS AND RECOMMENDATIONS

#### 5.0 Introduction

This chapter presents the conclusions of the major research findings. Furthermore, the chapter proffers recommendations on how to improve the institutional, legislative and governance structure of Zimbabwe's Sovereign Wealth Fund. The recommendations seek to strengthen the institutional, legislative and governance structure of Zimbabwe's Sovereign Wealth Fund.

#### 5.1 Conclusions

From the research findings and literature reviewed it can be concluded that Zimbabwe's Sovereign Wealth Fund generally adheres to the International Working Group Santiago Principles. The primary aim of this study was to ascertain the extent to which Zimbabwe's Sovereign Wealth Fund conforms to the Santiago Principles which are generally regarded as the international best practices of how to manage Sovereign Wealth Funds. The research findings revealed that although Zimbabwe's Sovereign Wealth Fund generally abides by international best practices there are major inconsistencies and shortcomings in the Sovereign Wealth Fund Act. This may impede the efficient administration of Zimbabwe's Sovereign Wealth Fund.

The research findings revealed that the legislative framework of Zimbabwe's Sovereign Wealth Fund curtails the efficient management of Zimbabwe's Sovereign Wealth as Zimbabwe's Sovereign Wealth Fund is subject to too much political interference. The research findings revealed that the President is trustee of Zimbabwe's Sovereign Wealth Fund. However, the term 'trustee' is not defined anywhere in the Act. Therefore, the role of the President in the operations of Zimbabwe's Sovereign Wealth Fund is not clear. As a result of this lack of clarity on the role of the President in Zimbabwe's Sovereign Wealth Fund the Fund is subject to possible political manipulation. Furthermore, the President in consultation with the Minister of Finance may give policy direction to Zimbabwe's Sovereign Wealth Fund in national interest. The research findings reveal that the term 'national interest' is vague and is not elaborated anywhere in the Act. Therefore, politicians are likely to abuse this provision to advance their own personal political ambitions. This contravenes the sixth and ninth Principle of the Santiago Principles which provides that the governance framework for a

Sovereign Wealth Fund must enhance operational independence of the Sovereign Wealth Fund (IWG, 2008:08).

Furthermore, the research findings revealed that the multiple policy objectives and the multiple policy implementation actors make it difficult to implement the objectives of Zimbabwe's Sovereign Wealth Fund. Data gathered revealed that treasury views Zimbabwe's Sovereign Wealth Fund as a stabilization instrument used to insulate the budget and the economy whereas the central bank perceives Zimbabwe's Sovereign Wealth Fund as an instrument to avert deflation. The differing monetary fiscal and monetary interests of Zimbabwe's Sovereign Wealth Fund make it difficult to implement the objectives of Zimbabwe's Sovereign Wealth Fund. Removal of foreign exchange in public hands when faced by inflationary pressures may impede fiscal stabilization which is the objective that treasury intends to use the Sovereign Wealth Fund for. This is contrary to the third principle of the Santiago Principles which stipulates that the activities of Zimbabwe's Sovereign Wealth Fund Act must be closely co-ordinated with the fiscal and monetary arm government so as to ensure congruency with overall macroeconomic objectives (IWG, 2008:09).

Data gathered revealed that Zimbabwe's Sovereign Wealth Fund does not have a website on which information about the Fund is readily available as is the case in other jurisdictions. The seventeenth Principle of the Santiago Principles provides that the relevant financial information regarding the Sovereign Wealth Fund should be publicly disclosed so as to enhance trust in recipient countries (IWG, 2008:15). Furthermore, the research findings revealed that the Sovereign Wealth Fund Act ignores the performance management of investment managers aspect alluded to by Santiago Principle 18(2). In addition, the Sovereign Wealth Fund Act does spell out that the investment mandate must be publicly disclosed as envisaged by Santiago Principle 18(3). The research findings also revealed that the general approach to voting securities of listed entities is still in its infancy.

Basing on the research findings it can be concluded that the rationale behind establishing a Sovereign Wealth Fund in Zimbabwe is to diversify and develop the economy so that future generations will also benefit from the exploration of depletable resources. However, data gathered revealed that Zimbabwe does not meet the prerequisite conditions to establish a Sovereign Wealth Fund in the short to medium term. Sovereign Wealth Funds are peculiar to highly industrialized countries which incur budget surplus (Hove, 2016:03; Chigumira et al, 2016:04). To the contrary Zimbabwe has a large external debt overhang, is incurring budget deficits and has got dilapidated and inadequate infrastructure. In addition, the major

challenges being faced in the implementation of the objectives of Zimbabwe's Sovereign Wealth Fund are that the Fund was appropriated inadequate seed capital of USD\$500 000 and it does not have a standalone secretariat and adequate human resource capital to manage it.

## **5.2 Recommendations**

### **5.2.1 Need to make the Sovereign Wealth Fund autonomous**

As revealed by the research findings the major flaw in Zimbabwe's Sovereign Wealth Fund is that it empowers the executive branch of government to interfere in the affairs of the Sovereign Wealth Fund. Section 3(2) of the Sovereign Wealth Fund Act stipulates that the President is the trustee of the Fund. The study recommends that Parliament rather than the President be the trustee of the Fund as is the case with Norway which is regarded as an international reference point on how to successfully manage Sovereign Wealth Funds. Parliament is more representative of the diverse interests of different sections of Zimbabwean society and therefore is more likely to more effectively act as a trustee to the Fund than the President who as an individual may use it to advance his own selfish political agenda.

Furthermore, Section 5 of the Sovereign Wealth Fund Act provides that the Minister of Finance in consultation with the President shall appoint the board. Therefore, the board members are political appointees. This compromises the autonomy of the Sovereign Wealth Fund as the board is likely to further the interests of politicians as they serve at the pleasure of politicians. The study recommends that Parliament should be responsible with appointing the board members of the Sovereign Wealth Fund. The study also recommends that the board members should come from diverse sections of the country such as academics, the private sector and the youth.

In addition, Section 11 of the Sovereign Wealth Fund empowers the Minister and the President to give the board policy direction in national interest. The study recommends that the policy direction of the Fund must be directed by treasury in consultation with Parliament as is the case with Norway so as to avoid the possible abuse of the Fund. Furthermore, the term 'national interest' must be elaborated by the Act.

### **5.2.2 Need to establish a website**

In line with the seventeenth Principle of the Santiago Principles that provides that the relevant financial information regarding the Sovereign Wealth Fund should be publicly disclosed so as to enhance trust in recipient countries there is need to establish a website for the Fund. The world now exists in the Information Communication Technology age and for information to

be easily and readily available there is need to embrace technology as a tool to raise awareness on the operations of the Fund. The study recommends that the investment mandate of the Fund should be provided on the website.

### **5.2.3 Close co-ordination of the fiscal and monetary arm of government**

The study recommends that there is need to closely co-ordinate the fiscal and monetary arm of government which seem to have diverging interests on how to use the Sovereign Wealth Fund. The fiscal and monetary interest of treasury and the central bank must be in tandem with the broader macro-economic objectives of government so as to ensure congruency and consistency in implementing government policy.

### **5.2.4 Establish the nexus between the NIEEB and the SWF**

Furthermore, there is need to clearly delineate between the Indigenization and Economic Empowerment Policy and the objectives of the Sovereign Wealth Fund. Senator Chitaka sighted in the Hansard during a Parliamentary debate on the Sovereign Wealth Fund Bill highlighted that the objectives of the indigenization policy and the Sovereign Wealth Fund overlap each other (Parliament, 2014:02). Therefore, there is need to clearly delineate the roles of the two.

### **5.2.5 Strengthen Macroeconomic Fundamentals to support the establishment of the SWF**

The context in which Zimbabwe established its Sovereign Wealth Fund is not conducive for the existence of the Fund. Therefore, there is need to put in place measures to address macroeconomic fundamentals that underpin the successful implementation of Sovereign Wealth Funds. Zimbabwe set up the Sovereign Wealth Fund during a time when it has a high debt overhang, limited fiscal space constraints and balance of payments deficits. The Zimbabwe Accelerated Arrears Debt Development Strategy (ZAADDs) and doing business reforms have a positive bearing on implementing the objectives of the Sovereign Wealth Fund. Furthermore, there is need to boost government's revenue base so as to reduce the budget deficit. Setting up a Sovereign Wealth Fund in Zimbabwe can be viewed as a strategy to induce a culture of public spending and fiscal discipline in the economy. There is also need to put in place policies to improve transparency and accountability in natural resource revenues as well as programmes to boost value added mineral exports. The study recommends that fiscal rules be put in place to ensure that some resource revenues are saved in the Sovereign Wealth Fund rather than used to meet current consumption.



### **5.2.6 Capacity building assistance from development partners**

Since the Sovereign Wealth Fund is new to Zimbabwe the government with the support of development partners such as the African Development Bank should undertake a capacity building programme for staff of the Sovereign Wealth Fund. This can be achieved through collaboration with the Macroeconomic Financial Management Institute of Eastern and Southern Africa (MEFMI) which is developing a Natural Resource Management Capacity Building Programme for the MEFMI region (MEFMI NRB-CBP). The government of Zimbabwe should also consider joining the International Forum of Sovereign Wealth Funds (IFSWF) so as to benefit from other countries experiences.

### **5.3 Direction for Future Research**

This chapter focused on conclusions and recommendations. However, the area of Sovereign Wealth Fund management in Africa in general and Zimbabwe in particular needs further interrogation through focused research.

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## **APPENDIX A Interview Guide**

**Position of Respondents:**.....

**Department** :.....

**Date** :.....

My name is Munashe Matambo a Master of Public Administration student at the University of Zimbabwe. I am assessing the institutional, legislative and governance structure of Zimbabwe's Sovereign Wealth Fund. The information provided will also be a basis for recommendations and suggestions for improvement. All information is for academic purposes and will be treated with utmost confidentiality.

1. What is the rationale behind establishing Zimbabwe's Sovereign Wealth Fund?
2. To what extent does Zimbabwe's Sovereign Wealth Fund conform to the legal framework, objectives and coordination with macroeconomic principles of the International Working Group Santiago Principles?
3. To what extent does Zimbabwe's Sovereign Wealth Fund conform to the institutional framework and governance structure of the International Working Group Santiago Principles?
4. To what extent does Zimbabwe's Sovereign Wealth Fund conform to the investment and risk management framework of the International Working Group Santiago Principles?
5. What challenges are being faced in the implementing the objectives of ZSWF?
6. What recommendations can be proffered towards strengthening the institutional, legislative and governance structure of Zimbabwe's Sovereign Wealth Fund?