

THE RATIONALE FOR SOVEREIGN WEALTH FUNDS IN NIGERIA: ISSUES AND CONSIDERATIONS

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Abstract

A significant concern to monetary policy formation and implementation is the volatility in government revenue arising from sharing of the monetized oil proceeds which normally led to spikes in both exchange and short-term interest rates with disruption effects on the monetary transmission mechanism. To complicate the process, the excess liquidity sharing arising would lead to significant cost on the part of the central bank for liquidity mop up operation. This study reviews the aftermath of the current sovereign wealth funds in Nigeria and its potential of enhancing stability and policy coordination.

Keywords: *Sovereign wealth funds, policy, Nigeria*

JEL Classification: E00, E02, E03, E61

Problem Formulation

The growth in recent years of Sovereign Wealth Funds (SWFs) has generated an extensive body of literature. Much of these literatures is largely descriptive. A huge portion is normative relating to foreign direct investment. Only a few fractions considered economic-theoretical issues and their implication on monetary policy coordination and savings for future generation. While, the sovereign wealth funds are invested globally, possibly because it consists a pool of money derived from a country reserves which are set aside for purpose of the benefit of economic stability and developmental financing.

In terms of concept, sovereign wealth funds are state owned investment which comprises of financial assets such as stocks, bonds, property and natural resources. SWFs may be held by the Apex bank, which accumulate funds through prompt supervision of bank and management of deposit money banks. Other sovereign wealth funds are pool of savings that are invested in various forms such as Foreign Currency Deposit, Special Drawing Right (SDRs) and required deposit by International Monetary Fund (IMF). Success recorded from the sovereign wealth funds as evidence by Norway, China, Saudi Arabia, Singapore, Kuwait and United Arab Emirates have shown that sovereign wealth funds have several potentials of reducing inflationary pressures, transparency in economic management, increase saving for future generation and enhance economic stability.

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Despite the glory attached to this relative initiative the need to review the existing framework of the sovereign wealth funds in Nigeria become crucial, since emphasis to provide solution to the controversies surrounding the Excess Crude Account (ECA) persist. Also, the need to put an end to budget shortfalls and ensure sound economic stability is the major concern of this study. The remaining part of this paper is broken into four segments. Next it starts with segment evolution of sovereign wealth funds. Followed by the Dividend of Sovereign Wealth Funds in segment three and concluding remarks in segment four.

I. Evolution of Sovereign Wealth Funds in Nigeria

The establishment of the stabilisation funds precursor formed the foundation of the sovereign wealth funds. The stabilisation funds was meant to offset the revenue declines perceived from consistent decline in commodity prices or production growth which has led to volatility in the price of natural resource such as metals, diamond, crude oil among others. This stabilisation funds was designed to promote local development by smoothening spending during boom and burst period (Wolf, 2009). Because of the domestic financial sector recapitalization, the need for institutionalization and reallocation of resources the sovereign wealth funds was established. The Kuwait sovereign wealth funds were widely acknowledged as the oldest in the world. It was established in 1953 to assume the responsibility of managing the Kuwait's State Assets. Likewise, the Singapore investment corporation established in 1981 as private company to facilitate government savings to meet budget deficits and currency volatility, along side with the sovereign wealth funds established by United Arab Emirate, Saudi Arabia, China as well as the Norwegian Sovereign Wealth Fund established in 2008 (Blackson, 2011).

In Nigeria, the controversies surrounding the Excess Crude Account (ECA) have led to the establishment of the Nigerian Sovereign Wealth Funds as an urgent solution to meet the budgets shortfalls as well as enhance stability through policy coordination between the monetary and fiscal policies. By 2011, the Nigerian Sovereign Investment Authority (NSIA) was established and mandated to received, manage, and invest in a diversified medium and long-term revenue of the government. To make effective policy, the Governing Council was established and head by the president. This move gave room for independent body capable of holding, acquiring and disposing assets in its corporate name (Martin, 2008).

To carry out its mandate effectively, the NSIA has been broken down to three operational responsibilities which include Future Generation Funds (FGF), Nigerian Infrastructure fund (NIF) and Stabilisation Funds. While, the FGF is targeted at providing the future generation with savings, the NIF was targeted at making investment related to critical infrastructure such as power sector restructuring, agricultural growth, dams construction and sewage treatment. The stabilisation fund was considered for effective conduct of sound fiscal policy for reducing fluctuation in price level.

II. Dividends of Sovereign Wealth Funds

One of the major challenges to monetary policy formulation from government is the volatility in oil revenue. It is a very good development that establishes a mechanism

for setting up the SWFs which will smoothen out the effects of volatility of oil prices and permit the intertemporal transfer of benefit from oil wealth (Tule, 2014). From the monetary policy perspective, sovereign wealth fund is expected to smoothen volatility in the financial market (money and capital market) and exchange rate which is often associated with sharing of government revenue.

Given the dynamic structure of Nigeria economy, the recourse to the excess crude account in the course of budget implementation is to benchmark price of crude oil the budget. Suggesting that the government has to operate a fiscal deficit marked by improvement in term of trade that will impact on inflationary pressure and output growth.

III. Concluding Remarks

The current state of the Nigeria economy shows that oil revenue account for a larger share of government budget, as such the monetary policy environment is dominated by fiscal measures. Therefore, the rationale for monetary and fiscal policies coordination becomes obvious. Although, the Nigeria government have attempted to establish the monetary and fiscal polies coordinating committee (MFPCC) for creating a platform for harmonization of monetary, fiscal and debt policies with a view of promoting stability in the financial system.

This study queries the existing policy coordination arrangement and suggests urgent need to address the problem of excessive liquidity in the Nigerian financial system, especially when monetization of dollar revenue has curtailed the development of the foreign exchange market and weaken the pragmatic monetary policy efforts.

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