UNDERSTANDING
MONETARY POLICY SERIES
NO 18

THE SOVEREIGN WEALTH FUND

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Correspondence
Enquiries concerning this publication should be forwarded to: Director, Monetary Policy Department, Central Bank of Nigeria, P.M.B. 0187, Garki, Abuja, Nigeria, Email:info.dmp@cbn.gov.ng
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- Issue Legal Tender Currency in Nigeria
- Maintain External Reserves to safeguard the international value of the Legal Tender Currency
- Promote a Sound Financial System in Nigeria
- Act as Banker and Provide Economic and Financial advice to the Federal Government

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“To be proactive in providing a stable framework for the economic development of Nigeria through the effective, efficient and transparent implementation of monetary and exchange rate policy and management of the financial sector”

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Mission
To Provide a Dynamic Evidence-based Analytical Framework for the Formulation and Implementation of Monetary Policy for Optimal Economic Growth
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SECTION ONE

Introduction
A Sovereign Wealth Fund (SWF) is a state-owned investment fund which comprises financial assets such as stocks, bonds, property, precious metals, or other financial instruments. Sovereign wealth funds invest globally. It is a pool of money derived from a country’s reserves, which are set aside for investment purposes to benefit the country’s economy and citizens.

The International Working Group of Sovereign Wealth Funds (IWG) defined SWFs as special purpose investment funds or arrangements that are owned by general governments. The SWFs are generally derived from balance of payment surpluses, official currency operations, the proceeds of privatizations, fiscal surpluses, and/or receipts resulting from commodity exports. Some of the countries that currently operate SWFs include China (China Investment Corporation), Singapore (the Government of Singapore Investment Corporation), Kuwait (the Kuwait Investment Authority) and Norway (the Government Pension Fund). Through their SWFs, these countries invest in a variety of assets ranging from equity and fixed income to alternative assets.

Following the subprime crisis, a lot of international financial and investment institutions resorted to funds from SWFs to shore up their balance sheets. For instance, Morgan Stanley received $5.0 billion from China Investment Corporation, the United Arab Emirates’ SWF, Abu Dhabi Investment Authority, purchased a 4.9% equity share in Citibank, and Merrill Lynch received $5 billion from Singapore’s Temasek Holdings. Given their antecedents in stabilization and development of the world economies, the importance of SWFs cannot be overemphasized.

Some sovereign wealth funds may be held by a central bank, which accumulates the funds in the course of its management of the nation’s banking system. Other sovereign wealth funds are simply the state savings that are invested by various entities for the purposes of investment return, and that may not have a significant role in fiscal management.

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1 Monetary Policy Department wishes to acknowledge the efforts of Mr. P.N. Okafor in producing the initial draft of this paper.
The accumulated funds may have their origin in, or may represent, foreign currency deposits, gold, special drawing rights (SDRs) and International Monetary Fund (IMF) reserve positions held by central banks and monetary authorities, along with other national assets such as pension investments, oil funds, or other industrial and financial holdings. These are assets of the sovereign nations that are typically held in domestic and different reserve currencies (such as the dollar, euro, pound, and yen). Such investment management entities could be established as official investment companies, state pension funds, or sovereign oil funds, among others.

This paper, examines the general developments, objectives and functions of the Sovereign Wealth Fund in Nigeria. It also evaluates the international principles and practices relating to Sovereign Wealth Fund.

Following the introduction, section II discusses the sovereign wealth fund in Nigeria, while section III presents the vehicle for SWF investment operations in Nigeria. Section IV establishes the relationship between sovereign wealth fund and monetary policy strategies in Nigeria. Section V reviews the benefits of excess crude account while Section VI discusses countries’ experiences in sovereign wealth fund, followed by conclusions in section VII.
SECTION TWO

Evolution of SWF in Nigeria: The Excess Crude Account

In Nigeria, the SWF was established to address the controversies surrounding the Excess Crude Account (ECA). The fund is expected to generate revenue to meet budget shortfalls in the future, provide dedicated funding for development of infrastructure and keep some savings for future generations, according to the law establishing it. Prior to this period, savings made from the difference between budgeted oil prices and actual market prices were held in the ECA, which was subject to the whims and caprices of the political leaders, thus raising serious issues of transparency and accountability. The major contention was that the ECA was essentially an administrative tool developed in 2004 without any legal backing.

ECA is a Nigerian government account used to save oil revenues in excess of the benchmark price. The Excess Crude Account was established in 2004, and its objective is primarily to protect planned budgets against shortfalls due to volatile crude oil prices. By delinking government expenditures from oil revenues, the Excess Crude Account aims to insulate the Nigerian economy from external shocks.

Surging crude oil prices led to the Excess Crude Account increasing almost fourfold, from $5.1 billion in 2005 to over $20 billion by November 2008, accounting for more than one-third of Nigeria’s external reserves at that time. By June 2010, the account had fallen to less than $4 billion due to budget deficits at all levels of government in Nigeria and the steep drop in oil prices. In 2010, Nigeria’s National Economic Council approved a plan to replace the Excess Crude Account with a national sovereign wealth fund.

Nigeria’s Excess Crude Account mobilises savings with a view to providing an economic buffer in the case of and financial crisis affecting the country, and stores funds for the benefit of future generations. The Excess Crude Account is useful in Nigeria as it smoothen government expenditure. It was the fund available under the ECA that was used to pay off the component of Paris Club that made Nigeria to benefit from debt cancellation.

It helped to enhance the accretion to external reserves, thus boosting the confidence of international investors. It was available for government to use during the 2008/2009 financial crisis, when oil revenue reduced drastically due to huge decline in oil prices. As a result, there was no need for Nigeria to seek for loans to meet up its obligations during the period of the crisis.
The ECA was a good instrument of fiscal policy, but it faced a lot of challenges from subnational Governments and the National Assembly on the basis that it was not contained in the constitution. It was seen as a creation of the executive at the Federal level, as a result it suffered great setback.
SECTION THREE

Overview of the Sovereign Wealth Fund (SWF) in Nigeria

Nigeria has a Sovereign Wealth Fund established by the Nigeria Sovereign Investment Authority (NSIA) Act 2011. The NSIA Act 2011 mandated the Fund to receive, manage and invest in a diversified portfolio of medium and long-term, revenue of federal Government, State Government, FCT and Local Government councils to prepare for the eventual depletion of Nigeria’s oil resources. The Act is aimed at building a savings base for Nigerian citizens, enhancing the development of Nigerian’s infrastructure, providing stabilization support in times of economic stress; and carrying out such other matters as may be related to the stated objectives.

3.1 Institutional Framework and Objectives of the Sovereign Wealth Fund

Investment policies, management and operational decisions are often centralized within the SWF or the central bank through a Board of Directors or Steering Committee. However, this is not always the case as responsibilities can be decentralized. For instance, in some cases where the SWF is not a separate legal entity the Minister of Finance or another official may be responsible for setting the specific investment objectives and benchmarks (often with the help of an advisory committee). In other cases, where the SWF is a separate legal entity, the high ranking official will be responsible for making investment decisions directly as a member of the governing body. In another case, lines of reporting do vary. For example, SWFs may report either to a supervisory council, the Minister of Finance, to an elected official (President or Governor), or directly to the parliament.

In Nigeria, the Act establishing the NSIA made it an independent body capable of holding, acquiring and disposing assets and suing in its corporate name. NSIA will not be subjected to the direction and control of any person or authority in Nigeria. The Act specifies that the NSIA will work to provide savings for future generations and also participate in stabilization measures to safeguard the Nigerian economy.

The Act provides for the establishment of a Governing Council headed by the President. Other members of the Governing Council include Governors of the 36 states, the Ministers of Finance, Justice, National Planning, the Governor of the Central Bank, the Chief Economic Adviser to the President, Chairman of the Revenue Mobilization Allocation and Fiscal Commission, two representatives of the civil society, four eminent academics, two representatives of the Nigerian
youths and two representatives of the private sector. The Council shall in the discharge of its duties observe the independence of the Board and officers of the Authority. The Board of Directors of NSIA is headed by the Managing Director who is independent in the exercise of its responsibilities under the Act.

3.2 Funding of the Nigeria Sovereign Investment Authority (NSIA)

The initial funding of $US1 billion to be managed by the NSIA comprised of percentage contributions from the Federal, State, Local Governments and Area Councils in accordance with the formula for the allocation of federally-collected revenue (Federation Account). Subsequent funding is derived from Residual Funds from the Federation Account transferred to the Authority in a manner specified in the Act, provided that the derivation portion of the revenue allocation formula would not be included as part of the funding. When the revenue is received into the Federation Account each month, the Authority is funded from all amounts of residual funds above the budgetary smoothing amount.

This implies that every other revenue that accrues to the federation governments aside the excess crude oil exports would also be applicable to the above statement. The implication of this provision is that only the revenue earned from crude oil sales at the benchmarked price of the Federal budget for the particular year is distributed from the Federation Account to the federating units. All other revenues, less specified deductions, shall be transferred to the Authority for investment in the Funds. Finally, NSIA is also funded by the profit on investment made by the Authority.

One of the functions of the Authority is to reinvest the profits and proceeds of its investments to generate further risk-adjusted returns. The profits, when so reinvested, will beef up the capital base of the Funds. All profits and proceeds from the investments of the Funds for the first five years are required to be so reinvested. It is only after five years that the Board may, by a unanimous vote, agree to declare a distribution of the profits from the investments, provided, inter alia, that: each of the Funds has made a net profit for each of the five years preceding the year of the proposed distribution of profits, including the particular year in question; the profits to be so distributed shall not be more than 60 per cent of the profits of the Authority at the time of the distribution; and the Council approves the payment of distributions declared by the Board.

3.3 Functions of the Nigeria Sovereign Investment Authority (NSIA)

The NSIA is required to make investments, which will provide supplemental stabilization funding based upon specified criteria, and at such time, as other
THE SOVEREIGN WEALTH FUND

funds available to the Federation for stabilization need to be supplemented. All funds are to be invested in accordance with the set policies and procedures developed by the Authority. Some of the other functions of the Authority include:

I. Developing and fostering skills in asset management, investment, operations, risk management and other related areas in addition to developing expertise in infrastructure project management and auditing capabilities of qualified Nigerian personnel in a manner consistent with the overall financial objectives of the Authority;

II. Implementing best practices with respect to management, independence and accountability, corporate governance, transparency and reporting on performance as provided in the Act, having due regards as appropriate for the Santiago Principles or other similar principles or conventions as may be adopted by the Governing council;

III. Attracting co-investment from other investors, including strategic investors, sovereign and internationally recognized investment funds and private companies, to enhance the Authority’s capital and maximize risk returns; and

IV. Obtaining the best achievable financial returns on all capital and assets of the Authority having regard to factors including: internationally recognized asset allocation and risk management principles and practices; opportunities in the international equity, debt, private equity, real estate, infrastructure, fixed-income securities and all other asset classes generally utilized by best-in-class investment fund managers; and also having regard to opportunities and challenges of investing in the international investment.

In order to carry out its mandate effectively, the NSIA has three major vehicles to carry out its operations, namely Future Generation Fund, Nigeria Infrastructure Fund and Stabilization Fund.

3.4 Future Generation Fund (FGF)
The NSIA is required to develop a rolling five-year investment plan for the FGF annually, targeted at providing future generations with a solid savings base for such time as the oil reserves of Nigeria are exhausted, with due regard to macroeconomic stability. To preserve the effectiveness of the Authority’s ability to make investments, the investment plan may be subject to strict short-term, tailored confidentiality restrictions and its distribution temporarily limited until such investments are made as may be considered appropriate by the Authority, and the Authority shall however publish its investment plans, policies and procedures, in the manner prescribed by the Board of the Authority. In terms of reinvestment of future generations funds proceeds, interest and dividends, the Authority shall,
subject to the provisions of this Act with respect to distributions and with respect to the reasonable costs and expenses of the Authority, reinvest all realized proceeds and dividends from and interest on portfolio investments of the Future Generations Fund into new or existing assets of the Future Generations funds.

3.5 Nigeria Infrastructure Fund (NIF)
The NIF is targeted at making investments specifically related to and with the aim of assisting the development of critical infrastructure such as power generation, distribution and transmission, agriculture, dams, water and sewage treatment and delivery, roads, port, rail, airport facilities and similar assets in order to stimulate the growth and diversification of the Nigerian economy and attract foreign investment and create jobs for Nigerians. The NSIA is empowered to make financial investments with funds of the NIF’s pending investments in infrastructure.

3.5.1 Investment Plan for the Nigeria Infrastructure Fund
To preserve the effectiveness of the Authority’s ability to make strategic co-investments with companies in the infrastructure sector, or to acquire strategic stakes in international companies active in the sector, implement various commodity hedging and other strategies and avoid potential inappropriate trading and commercial activities in connection with such investments, the business plan may be subject to strict confidentiality restrictions by the Board and its distributions limited until such investments are made as may be considered appropriate by the Authority prior to making such investments.

The Authority utilizes any sector and engineering advisors or professionals as it may deem advisable to ensure the economic and service delivery viability of each potential infrastructure investment.

3.5.2 Integration of Investment Policy with National Priorities
The Authority also ensures that the Nigeria Infrastructure fund is invested in a manner which is coordinated to the extent feasible with, and is technically consistent with the infrastructure priorities and plans developed by the appropriate ministries and agencies vested with responsibility over the particular infrastructure asset sector. Potential investments are evaluated at least as strictly as international investments, and the broad risk-weighted potential benefits to the Federation as a whole shall prevail over more focused local or regional priorities.

3.5.3 Co-investment Priority
The Authority may co-invest with companies in the development of infrastructure projects in Nigeria. In doing this, the Authority would exercise any voting right in which its equity share may entitle it to in a financially prudent and economically focused manner.
3.6 Stabilization Fund
The Stabilization Fund is to be established to effectively conduct a sound and responsible fiscal policy, while reducing the effects of the “boom and bust” commodity cycle of oil on Nigeria. The Stabilization Fund is to be invested prudently and in a way that supports the objective of the Fund to be made available to stabilize federation revenues. The NSIA may invest in or sell all such assets, and use such derivative instruments for the purposes of hedging or efficient asset management, as may serve such objective.

3.7 The Schematic Representation of ECA and SWF

![Diagram of ECA and SWF]

\[
\text{Excess Crude Account (ECA)} = (\text{Actual Oil Price (AOP)} - \text{Oil Price Benchmark (OPB)})
\]

\[
\text{SOVEREIGN WEALTH FUND (SWF)} = \text{ECA}
\]

- Future Generation Fund (FGF)
- Nigeria Infrastructure Fund (NIF)
- Stabilization Fund (SF)
SECTION FOUR

Sovereign Wealth Fund (SWF) and Monetary Policy Strategies

The Sovereign Wealth Fund in Nigeria has varied investment portfolios, strategies and stated objectives. But the overriding objective of the SWF is to ensure that excess proceeds from oil resources are shared with future generations. Shorter term objectives like economic stability are also important. The SWF has potential impact on the monetary policy formulation in Nigeria. From the theoretical perspective, the potential impact could be through inflation, exchange rates, government borrowing and growth channels. There may also be wider impacts on governance and corruption.

4.1 Insulation of the Economy from Inflationary Pressure

When there is a growth in the inflow of money from abroad, it tends to increase the inflationary pressure in an economy. Such inflationary pressure could be attributed to the payments for exports of commodities or other goods and services in the country. If the majority of the inflow of money from abroad is spent on goods and services locally, this will boost domestic demand and could cause inflationary pressure if the economy does not have enough capacity to absorb the extra demand pressure.

Also, inflow of money from abroad could put an upward pressure on inflation by causing a rise in the Deposit Money Bank balances which would trigger an increase in credit supply. An additional mechanism that could put upwards pressure on inflation is the inflow of money that causes a rise in money deposits in the local banking system, triggering an increase in credit supply. One mechanism by which a Fund could influence inflation is, if it is used to reduce foreign currency inflows. Instead of these inflows being converted into the local currency and spent, some of them may be kept in a foreign currency and invested abroad using the Sovereign Fund. In this way, the Fund may reduce the impact on domestic demand from inflows of money, and so limit the pass through to inflation in the short term.

4.2 Improved Government Borrowing

Funds may reduce government borrowing costs; investors in sovereign debt will take a number of factors into account when choosing where to put their money. They will consider, amongst other things, the yield on the bonds, the likelihood of the principal being repaid in full and the currency in which the debt is denominated. Investors may be willing to lend money on better terms to countries which have a Sovereign Fund, whose assets will often be held in ‘safe’ currencies like US dollars or euros. It may be perceived to reduce the risk of default as the
Sovereign Fund could be raided in the event of a crisis. For countries which borrow in international reserve currencies like the US dollar (common in developing countries whose own currency can be considered too volatile), having a ready supply of foreign currency may also be looked upon favourably by foreign investors; in the event of a currency crisis, resulting in a sharp depreciation of the domestic currency, the foreign currency reserves could be raided to pay the foreign denominated debt.

4.3 Exchange Rate Management
Sudden inflows of foreign currency into an economy can lead to “Dutch Disease”, where appreciation of the domestic currency can adversely impact the competitiveness of export-reliant sectors like manufacturing. The mechanisms for this are that the influx of foreign currency is used to buy domestic currency, thus bidding up its value (an exchange rate appreciation). Also any inflation resulting from these inflows will increase the cost of producing in the domestic economy. As with the potential inflation mechanism, by holding wealth in a foreign currency like US dollars rather than converting it to local currency, a Fund may reduce pressure on the local currency to appreciate (there is less demand for it than if the dollars were sold and used to buy local currency).

4.4 Transparency in Economic Management
Having money channeled into a Fund may help to increase the transparency of a country’s financial policy and minimise the potential for corruption. This is because a clear rule based system where, for example, all of the proceeds of an oil export tax are channeled directly into a Sovereign Fund, may reduce the discretionary power of politicians and government officials over these monies. Furthermore, running a Fund is not easy; it requires a professional and financially literate organization. The experience provided by running a Fund may create a conveyer belt of competent bureaucrats, able to assist in running the country.
SECTION FIVE

Country Experiences

6.1 Norway
The Norwegian Sovereign Wealth Fund is managed by Government Pension Fund Authority, where the surplus wealth produced by Norwegian petroleum income is held. As of the valuation in October 2008, it was the largest pension fund in Europe and the second largest in the world. Although it is not actually a pension fund, as it derives financial backing from oil profits and not pensioners. It is among the most transparent of the SWFs in its holdings and investment. When oil was discovered in the North Sea in 1969, the parliament passed a law to establish the Government Petroleum Fund Act. In 1996, the first net transfer to the fund was made, with the total amount in the fund as date to the tune of $664.3 billion. The objective of the fund is to facilitate government savings necessary to meet the rapid rise in public pension expenditures in the coming years, and to support a long term management of petroleum revenues. The fund invests a large portion of assets in fixed income and equities. Up to 5 per cent has been allocated to international real estate. The fund currently does not invest in private equities.

In Norway, large state revenues from the petroleum activities have resulted in substantial financial assets in the Government Pension Fund. The purpose of the Fund is to facilitate government savings to finance rising public pension expenditures, and support long-term considerations in the spending of government petroleum revenues. The strategy for the management of the Sovereign Wealth Fund is based on the expected long-term effects of different investment choices. The return on the Fund will over time depend on sustainable development in economic, environmental and social terms, and on well-functioning, legitimate and efficient financial markets.

The capital base of the Government Pension Fund Norway (GPFN), originates primarily from surpluses in the national insurance scheme between the introduction of the national insurance scheme in 1967 and the late 1970s. The organization of the GPFN was changed in 2007, by highlighting the distinction between the assets making up the GPFN, and Folketrygdfondet as the manager of these assets. The assets were deposited with Folketrygdfondet, which manages the assets in its own name and in accordance with a mandate issued by the Ministry. The return on the assets in the GPFN is not transferred to the Treasury, but is added to the fund capital on an ongoing basis.
The market value of the GPFN was NOK 129.5 billion as at 2011. The main part of the assets of the GPFN is invested in the Norwegian equity and fixed income markets. The characteristics of the Fund, such as size and a long time horizon, distinguish the GPFN from many other investors in the Norwegian market. Size entails certain benefits, including the ability to exploit economies of scale in the asset management activities. At the same time, the dominant size of the Fund in the Norwegian capital market results in certain limitations on opportunities for major changes to the composition of the portfolio over a short period of time. The market is, moreover, characterized by low liquidity in several companies. This adds to the challenges associated with major portfolio adjustments.

The objective for the management of the GPFN is to maximize financial returns, given a moderate level of risk. The benchmark adopted by the Ministry forms the basis for the management of the GPFN. The benchmark provides a detailed description as to how the assets of the Fund shall, as a main rule, be invested. The benchmark is divided into equities (60 percent) and fixed income instruments (40 percent), and into two geographical regions: Norway (85 percent) and the Nordic region excluding Iceland (15 percent).

6.2 Kuwait
Founded in 1953, the Kuwait Sovereign Wealth Fund is the oldest in the world. In 1982, the Kuwait Investment Authority (KIA) was established to assume the responsibility of managing Kuwait’s State assets. The KIA manages two funds: the General Reserve Fund (GRF) and the Future Generations Fund (FGF). The GRF is the main treasurer for the government. It receives all state revenues (including oil and gas) and all national expenditures are paid out of this fund. The GRF also holds all government assets, including the Kuwait Petroleum Corporation and Kuwait’s involvement in multilateral organizations such as the IMF, the World Bank, and Arab Fund. The FGF was created in 1976 through a transfer of 50% of the GRF’s assets. Its initial mandate was to invest in assets outside Kuwait. By law, 10% of state revenues are transferred to the FGF annually. The KIA may also manage other funds entrusted to it by the Minister of Finance. The KIA is an asset manager and does not own any of its assets. The total sovereign wealth of Kuwait stood at $296.00 billion.

6.3 United Arab Emirates
The sovereign wealth fund of the United Arab Emirate is managed by different fund managers including the following: Abu Dhabi Investment Authority, Investment Corporation of Dubai, International Petroleum Investment Company and Mubadala Development Company, among others. These authorities were established to manage financial surpluses from oil exports. The objective is to
invest funds on behalf of the government of different Emirates as well as secure and maintain the future welfare of the Emirates. The cumulative sovereign wealth fund for the United Arab Emirate stood at $816.30 billion in the past years.

6.4 China
The Chinese Sovereign Wealth Fund is managed by three fund managers, namely the China Investment Corporation, Hong Kong Monetary Authority Investment Portfolio and National Social Security Fund. In the past years, total value of the portfolio of these funds managers stood at $621.50 billion. The purpose of the Fund is to maximize returns at acceptable risk tolerance and improve the corporate strategy governance of key state-owned financial institutions. The funds tend to use external money managers and participate in indirect equity holdings through various investment funds. Some part of the funds is used for helping out certain state-owned enterprises. The Fund is also invested in global resources in places like Africa, Asia, North America, and Australia. Some of their asset allocation consists of equities in developed and emerging markets, hedge funds, sovereign debt, corporate debt, real estate (funds or direct investment) private equity, commodities and infrastructure.

6.5 Saudi Arabia
The Saudi Arabian Sovereign Wealth Fund is managed by the Saudi Arabian Monetary Agency (SAMA) and the central bank of the Kingdom of Saudi Arabia. The fund uses many of the surplus oil revenues invested in low-risk assets, such as sovereign debt instruments.

6.6 Singapore
In the 1970s, Singapore had a high national savings rate, thus reserves grew rapidly. The Government of Singapore decided that its reserves would be better invested in longer term and high-yielding assets. The assets are managed by the Government of Singapore Investment Corporation. Established in May 22, 1981 as a private company, it is now a large Sovereign Wealth Fund. The Fund used to facilitate government savings necessary to meet power strikes, budget deficits, tax hikes, rising oil prices, currency volatility, global disinflation and to support the nation’s wealth over the long term.
Conclusion
In Nigeria, the SWF was established to address the controversies surrounding the Excess Crude Account (ECA). The wealth fund will help meet budget shortfalls in the future, provide dedicated funding for development of infrastructure and keep some savings for future generations.

ECA and SWFs are veritable instruments of fiscal policy for all levels of Government in Nigeria. SWFs investment components of infrastructure should be targeted at providing critical infrastructure, which would be visible to the national and state levels. More savings should be made by allowing the difference between benchmark and actual oil price to be higher so that more funds could be made available to the infrastructure fund and future generation fund, given the changing fortunes of oil due to new discoveries in other countries.

The SWF has positive potential impact on monetary policy formulation in Nigeria, especially as it relates to inflation, exchange rates, government borrowing and growth. Therefore, all stakeholders including the National Assembly and the sub national governments support the fund.
Glossary of Terms

Asset Management: Asset Management is the management of (primarily) physical assets (their selection, maintenance, inspection and renewal) plays a key role in determining the operational performance and profitability of industries that operate assets as part of their core business.

Benchmark: A standard against which the performance of a security, mutual fund or investment manager can be measured.

Boom: A sudden increase in trade and economic activity; a period of wealth and success.

Bust: A period of time during which economic growth decreases rapidly. In the stock market, busts are usually associated with bear markets.

Commodity Hedging

Corporate Debt

Emerging Markets: An economy that is progressing toward becoming advanced, as shown by some liquidity in local debt and equity markets and the existence of some form of market exchange and regulatory bodies.

External Shocks: A shock is an unexpected or unpredictable international event that affects an economy, either positively or negatively.

Fund Managers: The person(s) responsible for implementing a fund's investment strategy and managing its portfolio trading activities.

Global Disinflation: A Global slowing in the rate of price inflation. Disinflation is used to describe instances when the inflation rate has reduced marginally over the short term.

Hedge Funds: An aggressively managed portfolio of investments that uses advanced investment strategies such as leveraged, long, short and derivative positions in both domestic and international markets with the goal of generating high returns (either in an absolute sense or over a specified market benchmark).

Monetary Management: Monetary management is a component of macroeconomic management of country’s economy which is undertaken on behalf of government by the central bank of the country. It basically takes care of the control of price such as inflation, exchange and interest rates.

Multilateral Organizations: A corporation that has its facilities and other assets in at least one country other than its home country.

Portfolio: A grouping of financial assets such as stocks, bonds and cash equivalents, as well as their mutual, exchange-traded and closed-fund counterparts. Portfolios are held directly by investors and/or managed by financial professionals.

Private Equity: Equity capital that is not quoted on a public exchange. Private equity consists of investors and funds that make investments directly into private companies or conduct buyouts of public companies that result in a delisting of public equity.
**Risk-Adjusted Returns**: A concept that refines an investment's return by measuring how much risk is involved in producing that return, which is generally expressed as a number or rating. Risk-adjusted returns are applied to individual securities and investment funds and portfolios.

**Risk Management**: The process of identification, analysis and either acceptance or mitigation of uncertainty in investment decision-making.

**Risk-Weighted Potential Assets**: In terms of the minimum amount of capital that is required within banks and other institutions, based on a percentage of the assets, weighted by risk. The idea of risk-weighted assets is a move away from having a static requirement for capital. Instead, it is based on the riskiness of a bank's assets. For example, loans that are secured by a letter of credit would be weighted riskier than a mortgage loan that is secured with collateral.

**Sovereign Debt Instruments**: Bonds issued by a national government in a foreign currency, in order to finance the issuing country's growth.

**Special Drawing Rights (SDRs)**: An international type of monetary reserve currency, created by the International Monetary Fund (IMF) in 1969, which operates as a supplement to the existing reserves of member countries. Created in response to concerns about the limitations of gold and dollars as the sole means of settling international accounts, SDRs are designed to augment international liquidity by supplementing the standard reserve currencies.

**Subprime Crisis**: A type of financial crisis that developed as a result of a loan that was offered at a rate above prime to individuals who do not qualify for prime rate loans. Quite often, subprime borrowers are often turned away from traditional lenders because of their low credit ratings or other factors that suggest that they have a reasonable chance of defaulting on the debt repayment.
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