NORMS DIFFUSION AND INSTITUTIONAL DESIGN OF SOVEREIGN WEALTH FUNDS IN AFRICA AND THE MIDDLE EAST

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By

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ABSTRACT

State-controlled financial institutions in the form of Sovereign Wealth Funds now control globally over $7 trillion in assets – more than the assets under management by private equity and hedge funds combined. Most Sovereign Wealth Funds in sub-Saharan Africa and in the Middle East and North Africa region derive their wealth from natural resource exports. The Truman Index ranks Sovereign Wealth Funds in terms of how their structure conforms to best governance practices across 33 indicators. The Sovereign Wealth Funds in sub-Saharan Africa show more variation in the adoption of governance norms compared to the Middle East and North Africa and all other regions of the world. What explains the variation observed in the norms adoption among Sovereign Wealth Funds in the Sub-Saharan Africa region from those in other geographies?

The dissertation investigates the explanation for the regional variability in norms for governance by examining the top three Sovereign Wealth Funds in sub-Saharan Africa (Botswana, Angola and Nigeria) and three from the Middle East and North Africa (Algeria, Qatar and the UAE) and assessing the role of ties to the West (EU and US). These ties include capital flows (economic linkage), political ties (diplomatic linkage) and SWF executive socialization (technocratic linkage) factors. The dissertation also evaluates alternative explanations, including: i) factors related to location of investment assets; ii) independence from Central Bank supervision; and iii) state capacity. The dissertation finds that the governance rankings for Sovereign Wealth Funds in developing countries are likely to be higher when the host countries demonstrate
stronger state capacity, invest exclusively in foreign securities and have stronger political ties with the West.

The dissertation uses a mixed-methods approach, consisting of qualitative case studies and a time series panel regression on nearly 200 observations of Sovereign Wealth Funds from the Truman Index of 2007-2012. The dissertation is important for several reasons: i) it illuminates the mechanisms by which international norms diffuse in sub-Saharan Africa and the role of foreign influences therein; ii) it suggests how structural and agency factors influence the adoption of governance norms among these Sovereign Wealth Funds; and iii) finally, it conceptualizes how domestic and international factors can shape the link between governance and economic development through Sovereign Wealth Funds in sub-Saharan Africa.
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Finally, I would like to thank my mother and family for their enduring support during my PhD studies and dissertation writing.
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<th>Description</th>
</tr>
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<tbody>
<tr>
<td>BOB</td>
<td>Bank of Botswana</td>
</tr>
<tr>
<td>CC</td>
<td>Credible Commitment</td>
</tr>
<tr>
<td>DAC</td>
<td>Development Assistance Committee</td>
</tr>
<tr>
<td>ECA</td>
<td>Excess Crude Account</td>
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<tr>
<td>EITI</td>
<td>Extractive Industries Transparency Initiative</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>FSDEA</td>
<td>Fundo Soberano de Angola</td>
</tr>
<tr>
<td>GIA</td>
<td>Government Investment Account</td>
</tr>
<tr>
<td>MENA</td>
<td>Middle East and North Africa</td>
</tr>
<tr>
<td>MFDP</td>
<td>Minister of Finance and Development Planning</td>
</tr>
<tr>
<td>MOF</td>
<td>Minister of Finance</td>
</tr>
<tr>
<td>NRGI</td>
<td>National Resource Governance Institute</td>
</tr>
<tr>
<td>NSIA</td>
<td>Nigeria Sovereign Investment Authority</td>
</tr>
<tr>
<td>ODA</td>
<td>Official Development Assistance</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<tr>
<td>OPEC</td>
<td>Organization of Petroleum Exporting Countries</td>
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<tr>
<td>PRS</td>
<td>Political Risk Services</td>
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<tr>
<td>SOEs</td>
<td>State-Owned Enterprises</td>
</tr>
<tr>
<td>SWF</td>
<td>Sovereign Wealth Fund</td>
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<tr>
<td>MOFDP</td>
<td>Minister of Finance and Development Planning</td>
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<tr>
<td>UAE</td>
<td>United Arab Emirates</td>
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Chapter 1: Sovereign Wealth Funds and the Evolution of State Capitalism

Why Study Norms and Institutional Design of Sovereign Wealth Funds

During the global financial crisis of 2007-08, Sovereign Wealth Funds (Sovereign Wealth Funds) from the UAE, China, Kuwait, Qatar and Singapore served as “bailout institutions” in rescuing stalwart Wall Street firms such as Citigroup, Merrill Lynch, Morgan Stanley, Credit Suisse and UBS from financial collapse with almost $45 billion.¹ An Economist article entitled “Invasion of the Sovereign Wealth Funds” frames the role of Sovereign Wealth Funds in the rescue of Western financial institutions in relationship to a comment on economic strategy made by former Federal Reserve Chairman Bernanke:

Ben Bernanke once spoke of dropping money from helicopters, if necessary, to save an economy in distress. The Chairman of the Federal Reserve probably did not envisage that choppers bearing the insignia of oil-rich Gulf States and cash-rich Asian countries would hover over Wall Street. Yet just such a squadron has flown to the rescue of capitalism’s finest.²

Sovereign Wealth Funds are investment vehicles established generally from government reserves or budget surpluses that invest in foreign and domestic markets. The emergence of new Sovereign Wealth Funds highlights a growing nexus between states and markets. Although these wealth funds have been operating for decades,³ they became part of public debate in media and academia during the global recession regarding the potential geopolitical implications of their investment: political control of strategic Western assets by foreign companies.

The global financial crisis revealed the vulnerability of Western markets to losses in subprime mortgage lending and the interconnectedness of markets. The ambivalent reception to

¹ Source: The Subprime Report by Sovereign Wealth Fund Institute.
³ The Kuwait Investment Authority, one of the oldest Sovereign Wealth Funds, was established in 1953.
the Sovereign Wealth bailout by U.S. and European financial institutions was framed as “asset-backed insecurity,” highlighting the insecurity of many Western observers about the political interest of these funds and their ability to impact global markets.⁴ These funds invest in only about 2% of globally traded securities, amounting to $165 trillion, but, since 2004, Sovereign Wealth Funds have increased in assets under management (AUM) from $2 trillion to $7.4 trillion in 2016.⁵ According to the Sovereign Wealth Fund Institute (SWFI), there are currently over 70 Sovereign Wealth Funds.⁶ The global footprint of Sovereign Wealth Funds now includes over 15 in sub-Saharan Africa, including the Nigerian Sovereign Investment Authority, the Fundo Soberano de Angola, and the Pula Fund of Botswana. The emergence of Sovereign Wealth Funds with significant capital under management presents a dynamic new narrative about the rise of state capitalism. According to this narrative, the economic clout of Sovereign Wealth Funds from emerging markets positions a new cast of sovereign asset owners to: address better their economy’s stabilization needs; participate as drivers of cross-border capital mobility which can earn them economic and political leverage relative to recipient countries; and, address their nation’s economic development needs through transaction-based development as an alternative to aid assistance.

These three dimensions of the emerging SWF narrative provide the rational for the increase in the importance of Sovereign Wealth Funds today and point to the basis for their analytical value in the dissertation. First, Sovereign Wealth Funds represent a practical investment option for states to achieve stabilization and savings. Non-commodity-based and

⁶ The SWFI defines a SWF as a “state owned investment fund or entity that is commonly established from balance of payment surpluses, official foreign currency operations, the proceeds of privatizations, governmental transfer payments, fiscal surpluses, and/or receipts resulting from resource exports.”
commodity-based Sovereign Wealth Funds both seek to increase returns on foreign assets they accumulate. Non-commodity-based funds establish Sovereign Wealth Funds primarily as institutional vehicles for national savings. Based upon the different natural resource endowment and structure of their economies, commodity-based funds are more popular in the Middle East and Africa (Latin America has a mix of both categories of funds), while the Sovereign Wealth Funds in Asia are mostly non-commodity-based. The savings strategy of Sovereign Wealth Funds such as those controlled by China and Singapore was informed by the lessons learned from the Asian financial crisis of 1997-98: Asian countries needed to develop better approaches to savings to buoy their economies during economic shocks so as to not have to endure the rigorous requirements to receive aid from the IMF (Fry 2011).

Commodity-based funds initially took the form of stabilization funds when international commodity prices fell prior to 1998 as a buffer against commodity price volatility during boom-and-bust cycles (Fry 2011). An example of this volatility risk was the precipitous fall in oil prices in 2014 which setback economies over-reliant on oil, such as Nigeria. The oil crisis bottlenecked Nigeria economically: FDI decreased by 37%, capital inflows fell by 76% and inflation increased dramatically by 17% (a decade high) in 2016. Commodity-based Sovereign Wealth Funds also seek to hedge against resource depletion and avoid Dutch disease. Commodity-based Sovereign Wealth Funds expanded the mandate of their funds to include savings strategies in mid-2008 when commodity prices were soaring to more effectively steward natural resource wealth for future generations. The effective management of these funds is important because of the cyclicality of the global economy and the potential benefits of building long-term savings. For this reason, the strategies and structure of Sovereign Wealth Funds are important considerations for assessing best practices in fund management.
Second, Sovereign Wealth Funds now have greater influence on the management of state affairs based upon their role in facilitating the mobility of capital across borders (economic statecraft). Dixon and Monk (2012) assert that Sovereign Wealth Funds serve as an opportunity for nation-states to maintain control over their autonomy in global capitalism, for example governments utilize accumulated reserves via Sovereign Wealth Funds as a policy tool for accessing global financial markets which rely on their portfolio allocations. Much of the recent research on Sovereign Wealth Funds interrogates the primary investment objective of these funds, that is, whether they use financial capital to advance the political influence and geopolitical interest of host states. The confluence of political and investment interests is observed in the influence of Sovereign Wealth Funds on the direction of international capital flows and the price of assets.

In 2008, motivated by a concern over a lack of information about the motives and strategies of some Sovereign Wealth Funds, a global network of Sovereign Wealth Funds was established as the Generally Accepted Principles and Practices or “Santiago Principles” to promote transparency, accountability and good governance. As of 2016, the Santiago Principles’ signatories consists of 31 funds that manage close to $5.5 trillion in assets and about 80% of assets managed by SWF across the world. According to GeoEconomica, these principles were established to build trust between investor and recipient countries by signaling that the governance standards of Sovereign Wealth Funds are insulated from political interests. Given the integration of SWF into the global financial system and their potential impact on

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8 The institution which sponsored the development of the Santiago Principles was the International Working Group of Sovereign Wealth Funds (IWG). The IWG became the International Forum of Sovereign Wealth Funds in 2009.
10 Ibid.
macroeconomic outcomes of nations, an examination of the factors motivating how they are set up is beneficial for understanding the need, feasibility and approach for formally regulating these wealth funds. The Santiago Principles are a set of standards which members volunteer to implement. These principles present a solid case for uniformity in guiding norms for best practices among SWF. However, the Santiago Principles have not yet proven to be very effective in motivating broad implementation among its signatories.

Third, Sovereign Wealth Funds have increased in importance because, given that most of the new funds have emerged from the developing world, these funds hold promise for enabling developing countries to address their own development challenges. Of the 40 funds established since 2000, 78% or 31 are in emerging market economies (Kalter and Schena 2013). Sovereign Wealth Funds in sub-Saharan Africa are excluded from most of the recent studies due to their relative nascence and relatively small AUM. The largest funds in sub-Saharan Africa are the Pula Fund (Botswana; established 1994; $7 billion AUM), Fundo Soberano de Angola (FSDEA, Angola; established 2004; $5 billion AUM), and the Nigeria Sovereign Investment Authority (NSIA, Nigeria; established in 2010; $1 billion AUM). While the total capital controlled by Sovereign Wealth Funds in sub-Saharan Africa is a “drop in the bucket” compared to overall global AUM, the significance of the Sovereign Wealth Funds in sub-Saharan Africa concerns: the attempt by African institutions of greater self-reliance in addressing the development challenges of the region; and, the mobilization of greater international investment into this development agenda so as to facilitate more financial flows into the region as investment or transaction-based instead of foreign aid-based engagement. Kalter and Schena assert that these “development funds” contribute to the home economy in three ways: a fund can “complement direct investments through state budget allocation process”; a fund can “support co-investment
by foreign investors who might otherwise be concerned about issues of governance and political risk”; a fund can operate as “a quasi-private equity investor and promote the development of domestic capital markets by enhancing the governance of pre-IPO companies, thereby improving the overall investment climate”.\(^{11}\) The importance of mobilizing private capital into sub-Saharan Africa is corroborated by former World Bank President James Wolfensohn’s observation that by 2050 the continent will represent 20 percent of the global population but produce less than 2 percent of the global GDP; the implication is that countries in sub-Saharan Africa will have insufficient financial capital for development (Bolton, Samama and Stiglitz 2012).

The economic impact Sovereign Wealth Funds have on the global economy and on the development trajectory of emerging markets is happening through a diversity of approaches. As noted prior, Asian Sovereign Wealth Funds controlled by China and Singapore were instrumental in providing a parachute for major Wall Street firms in 2008. Sovereign Wealth Funds in Europe and US were not party to bailout, perhaps due to differences in investment strategy and strength of direct linkages with the global financial markets. The Pula Fund in Botswana represents Sub-Saharan Africa’s largest SWF by AUM; however, it does not invest in Botswana, ostensibly missing the opportunity to catalyze the diversification of the economy away from diamond exports and leather goods. However, funds such as the NSIA of Nigeria and UAE’s Mudabala funds have dedicated allocations for these purposes.

Sovereign Wealth Funds now control more assets than private equity funds and hedge funds combined.\(^{12}\) The increasing significance of Sovereign Wealth Funds concerning the

\(^{11}\) Kalter and Schena (2012), p.20.
\(^{12}\) In 2016-17, Sovereign Wealth Funds controlled about $7.4trillion in assets compared to about $5.7trillion under management by private equity and hedge funds combined. Private Equity: https://www.valuewalk.com/2017/01/private-equity-assets-management-approach-2-5-trillion/. Hedge Funds: https://www.valuewalk.com/2017/01/private-equity-assets-management-approach-2-5-trillion/.
stabilization of domestic economies against market shocks and distortions, the influence cross-border capital flows on the macro-economy of other nations, and the vast potential for developing countries to pool investment capital to address their economic development challenges make good governance standards beneficial for Sovereign Wealth Funds and the global economy. The institutional analysis of Sovereign Wealth Funds and the mechanisms through which governance norms are operationalized in the strategy and practices of these funds have received scant attention in the political science and political economy literature.  

This dissertation addresses this gap by investigating the norms and mechanisms through which they are established by Sovereign Wealth Funds in Africa.

**Puzzle: Accounting for Regional Variation in SWF Governance Standards**

The popularity of Sovereign Wealth Funds has increased markedly: forty new funds have been launched globally since 2000, representing nearly 60% of total Sovereign Wealth Funds (Kalter and Schena 2013). More sovereign wealth funds have emerged in Sub-Saharan Africa than in any other region since 1990, and by 2013 there were 14 Sovereign Wealth Funds in the region.  

Kalter and Schena (2013) assert that the financial drivers behind this growth include large current account imbalances and the sizeable accumulation of foreign reserves. Most Sovereign Wealth Funds in sub-Saharan Africa and in the Middle East and North Africa region

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14 Investment Frontier, December 2013.
derive their wealth from natural resource (commodity) exports. An increasing number of these funds are structured according to international governance standards for financial institutions.

The governance standards for Sovereign Wealth Funds were first formally encoded in the Santiago Principles (2008), with the support of 26 signatories. In 2008, Botswana was the only country in sub-Saharan Africa with a SWF that was a signatory. The Santiago Principles were established to encourage best practices among Sovereign Wealth Funds and to mitigate concerns about SWF investments in strategic assets of other countries for political reasons by supporting their adoption of more transparent and market-based practices. In assessing the governance indices for Sovereign Wealth Funds, I observed that the most complete model was the Truman Index published by the Peterson Institute since 2007. The Truman Index (2013) is widely referenced for analysis of SWF governance, given that it is one of the oldest (2007) and offers a multi-year analysis of Sovereign Wealth Funds using a clear and consistent methodology for assessing the governance standards of these funds in line with the Santiago Principles. Truman (2013) ranks 49 Sovereign Wealth Funds across 33 indicators organized according to the fund’s structure, governance, transparency and accountability, and behavior.

Countries that are predominantly dependent on revenues from natural resource exports might be expected to manage and govern their Sovereign Wealth Funds according to similar standards since the constraints on their Sovereign Wealth Funds would be similar. For example, the vulnerability of oil-based Sovereign Wealth Funds to market shocks caused by volatility in oil

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16 In chapter 6 I offer an appraisal of other notable SWF indices.
17 The Truman Index and Santiago Principles are very highly correlated based on their assessments of Sovereign Wealth Funds. The dissertation presents details on this correlation and a full description of the methodology and indicators of the Truman Index in chapter 6.
prices motivated them to allocate a pool of the capital under management for (currency) stabilization purposes. **TABLE 1** indicates the variance (difference from the mean) figures for the selected regions. The Africa Sovereign Wealth Funds have the youngest average age (seven years), the fewest funds, the lowest average Truman Score and all are based on natural resource wealth accumulation.

**Table 1: 2012 Truman Study Variance**

<table>
<thead>
<tr>
<th></th>
<th>Sub-Saharan Africa</th>
<th>Asia</th>
<th>Latin America</th>
<th>Middle East and North Africa</th>
<th>West</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Sovereign Wealth Funds</td>
<td>7</td>
<td>11</td>
<td>6</td>
<td>14</td>
<td>11</td>
</tr>
<tr>
<td>Average Truman Score (0-100)</td>
<td>29</td>
<td>65</td>
<td>51</td>
<td>35</td>
<td>84</td>
</tr>
<tr>
<td>Average Age of Fund (Years)</td>
<td>7</td>
<td>15</td>
<td>9</td>
<td>19</td>
<td>28</td>
</tr>
<tr>
<td>Variance from Mean</td>
<td>430</td>
<td>314</td>
<td>861</td>
<td>417</td>
<td>114</td>
</tr>
</tbody>
</table>

Outside of Latin America, there is more variation in the average regional score among Sovereign Wealth Funds in Africa, in comparison to other regions, based on the 2012 Truman study. I treat Latin America as an outlier because the variation is skewed by two of seven funds which are managed by Chile. These two funds have some of highest ratings across all regions, including the West. The variation among Sovereign Wealth Funds in SSA is driven by the relatively high score received by Botswana (56) and low score assigned to Equatorial Guinea (2) in Truman 2012. The variation between sub-Saharan Africa and the Middle East and North Africa in this Truman sample is small. However, the SSA sample is analytically interesting because this variation has been observed over one-half as many funds which are about half as young compared to the Middle East and North Africa funds.

What intra-regional factors explain this inter-regional variation in norms adoption among Sovereign Wealth Funds in sub-Saharan Africa? What are the mechanisms by which

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18 Figures based on author’s calculation from data presented in the Truman study.
19 I treat Latin America as an outlier because the variation is skewed by two of seven funds which are managed by Chile. These two funds have some of highest ratings across all regions, including the West. The variation among Sovereign Wealth Funds in SSA is driven by the relatively high score received by Botswana (56) and low score assigned to Equatorial Guinea (2) in Truman 2012. The variation between sub-Saharan Africa and the Middle East and North Africa in this Truman sample is small. However, the SSA sample is analytically interesting because this variation has been observed over one-half as many funds which are about half as young compared to the Middle East and North Africa funds.
20 I refer to the adoption of norms as the codification of the principles and practices in the charter and official operational guidelines of the SWF. The Truman study defines these principles and practices and assigns a ranking of
governance norms are diffused and institutionalized in Sovereign Wealth Funds? What competing interests among international and domestic stakeholders impact the setup of Sovereign Wealth Funds and how are these dynamics managed? The dissertation will address these questions through examining the structures and strategies of African Sovereign Wealth Funds.

Overview of Argument

This study considers the top 3 Sovereign Wealth Funds in sub-Saharan Africa by AUM (Botswana, Angola and Nigeria) as of 2013 and examines the role of ties to the West (EU and US) in explaining the variability in governance norms that can be observed in these funds.\(^{21}\) These ties include capital flows (economic linkage), diplomatic ties (diplomatic linkage) and SWF executive socialization (social or technocratic linkage) factors. The dissertation addresses two relatively new areas of inquiry: institutional analysis of Sovereign Wealth Funds in sub-Saharan Africa; and, the diffusion of international norms\(^{22}\) for best practices in the management of Sovereign Wealth Funds. The dependent variable (DV), use of international norms in the design of Sovereign Wealth Funds, is measured using an Index designed by Truman (2013).

Truman uses 33 different measures of "business practices" that are widely accepted in the West. The Truman scorecard is divided into four categories to create an index and the

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\(^{21}\) These governance norms are norms pertaining to “best business practices” as I explain and not necessarily Western norms. Since they mostly originated in the West or in places where business standards have been greatly influenced by Western standards (e.g. Japan), I apply the term “Western” norms. These norms are widely shared by other non-Western states that have developed and mature business settings. As indicated, norms adoption in this study relates to the codification of operational principles established by the Sovereign Wealth Funds. I use best practices and business practices interchangeably in this study.

\(^{22}\) Checkel (1999) defines norms as being "shared expectations about appropriate behavior held by a collectivity of actors." I refer to international norms as principles encoded as standards that are agreed upon by signatories to the Santiago Principles, the guiding principles for SWF management established in 2012.
accompanying scores for each SWF. These four categories include structure, governance, accountability-transparency, and behavior (portfolio adjustment). The hypotheses explored in the dissertation maintain that the stronger the ties that Sovereign Wealth Funds in sub-Saharan Africa have with the West, the more likely they are to embrace the standards acknowledged as good practices for management. These connections include economic ties, political ties and professional socialization of SWF elites in Western countries. In this model, the variation in the strength of these ties explains the variation in norms adoption. The dissertation assesses norms adoption as the governing principles reflected in the structure and charter of the Sovereign Wealth Funds. These standards include operational metrics such as the use of benchmarks in strategy and transparency on the fund’s size in reporting.

To evaluate my hypotheses, the dissertation uses a mixed-methods approach, consisting of qualitative case studies of three natural resource-based funds in sub-Saharan Africa (Botswana, Angola and Nigeria) and employs a time series panel regression on Sovereign Wealth Funds examined as part of the Truman Index from 2007-2012. For the purpose of comparison with the three primary Sovereign Wealth Funds, this dissertation presents an overview of three funds established since 1990 in the Middle East and North Africa region, based on similar criteria defined for those in sub-Saharan Africa. The dissertation employs process tracing in the examination of cases to illuminate how the explanatory variables work as mechanisms for norms adoption in an institutional setting. The regional comparisons elucidate how variations among independent variables relate to norms adoption. This study also assesses several alternative explanations for variability in norms adoption, including: investment in only international financial assets; independence from Central

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23 The Truman scorecard is based on more extensive categories than the Santiago Principles. The Truman Index is detailed in the data and variable description section.
24 The hypotheses appear to be validated by the trends observed in a preliminary assessment of the Sovereign Wealth Funds in sub-Saharan Africa, the Middle East and North Africa and Asia that are included in the Truman (2013) study and their linkage characteristics.
Based upon the case studies, this study offers a framework for process tracing the mechanisms of norms adoption. This framework focuses on the arrangement and interest alignment of domestic and international elites who determine or comprise the governance structure of the Sovereign Wealth Funds in sub-Saharan Africa. Specifically, I define the norms these elites establish for creating the NSIA charter and its governance as a political bargain among elites with various competing interests. I assert three modes of coalition politics drive the mechanisms for achieving this political bargain: reform coalition (Nigeria), proxy coalition (Botswana) and captive coalition (Angola). The reform coalition aims to balance competing political and economic interest among elites, often through the agency of a policy entrepreneur (e.g. Minister of Finance). The proxy coalition coordinates the priorities of allied elites through the work of an institution (e.g. Central Bank). The captive coalition more narrowly operates to directly implement Presidential decrees in the context of minimal or no political contestation. This theoretical framework is explained in more detail in the research design section of this chapter.

The dissertation aims to not only explain the variation in governance norms but also illuminate the mechanisms by which they are established. The dissertation finds that the governance rankings for Sovereign Wealth Funds in developing countries are likely higher when the host countries demonstrate stronger state capacity, invest abroad exclusively, and have stronger political ties to the West. The Truman Scoring system is based mostly on technical attributes of Sovereign Wealth Funds such as structure, governance, transparency and accountability and risk management. The regression analysis indicates the influence of all three of these variables on the governance scores. In the case of state capacity, the coded variable includes measurements for enforcement of the
rule of law, control of corruption and government effectiveness. The logic of the invest abroad exclusively strategy for fund governance is that funds will ostensibly adhere to higher levels of transparency and governance to mitigate suspicion about the political interests of their investment in the assets owned by foreign countries. Strong political ties in the regression analysis signal good diplomatic relations with the West. Countries with similar political systems are likely to have similar approaches to the rule of law and value effective institutions.

The case studies illuminate how these norms are integrated into the structure and strategy of the Sovereign Wealth Funds. In this regard, state capacity and political ties explain the political mechanisms involved in balancing competing interests of political-economic elites to establish the SWF and the norms which guide them. The ability of SWF officials to manage and align elite interests (sometimes competing) and structure them in the SWF institution is a key element of effective policy entrepreneurship. Also, the case studies reveal how executive socialization can strengthen state capacity. Initially, the main hypothesis was that executive socialization would be strongly correlated with norms adoption. While not supported well in the regression analysis, the case studies (particularly the NSIA fund) show that key fund stakeholders with professional socialization in the West (education and work) can engage expansive networks of international advisors with expertise in international best practices for governance of Sovereign Wealth Funds. These fund stakeholders serve as a symbolic credible commitment of Sovereign Wealth Funds to institute best governance practices, particularly for international stakeholders. While coded as diplomatic and treaty relationships in the regression model, the case studies show that the salient dimension of political ties is similarity in political system characterized by checks and balances on the indiscriminate assertion of power by heads of states (political attributes historically associated with Western democracies).
This dissertation is important for three reasons. First, it illuminates the mechanisms by which some types of international norms diffuse in sub-Saharan Africa and the role of foreign influences therein. Second, it suggests how structural and agency factors influence the adoption of norms relating to business practices among these Sovereign Wealth Funds. Finally, it conceptualizes how domestic and international factors can shape the link between governance and economic development among Sovereign Wealth Funds in sub-Saharan Africa.

Brief Overview of Key Characteristics of Sovereign Wealth Funds

Sovereign Wealth Funds are one of several state-owned or state-influenced financing vehicles. In addition to Sovereign Wealth Funds, there are international reserves managed by Central Banks, Public Pension Funds, State-Owned Enterprises (SOEs). Sovereign Wealth Funds are capitalized from foreign exchange assets and managed as separate pools of assets from pension funds (Kimmit 2008). TABLE 2 presents the objective, investment profile and examples of each category:

Table 2: Categories of State-Owned or Influenced Financing Mechanisms

<table>
<thead>
<tr>
<th>Institution Type</th>
<th>Official Reserves &amp; Central Bank</th>
<th>Pension Funds</th>
<th>Domestic Sovereign Funds</th>
<th>Sovereign Wealth Funds</th>
<th>State-Owned Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective</td>
<td>External assets for directly financing international payment imbalances</td>
<td>Investment vehicles to meet government’s future pension obligations</td>
<td>Investment vehicles to encourage domestic economic development</td>
<td>Investment vehicles funded by foreign exchange assets</td>
<td>Companies where the state has significant control</td>
</tr>
<tr>
<td>Investment Profile</td>
<td>Highly liquid, often OECD government bonds</td>
<td>Funded and denominated in local currency</td>
<td>Funded and denominated in local currency</td>
<td>Managed separately from official reserves</td>
<td>May make investments in foreign assets</td>
</tr>
<tr>
<td>Examples</td>
<td>Federal Reserve (US), SAMA (Saudi Arabia)</td>
<td>Government Pension Fund (Norway), GIC (Singapore)</td>
<td>Khazanah Nasional (Malaysia)</td>
<td>Abu Dhabi Investment Authority, Temasek (Singapore), FSDEA (Angola); NSIA (Nigeria); Pula Fund (Botswana)</td>
<td>CNOOC (China), Gazprom (Russia)</td>
</tr>
</tbody>
</table>

Sovereign Wealth Funds have generally five investment objectives that characterize their fund types (see TABLE 3 below):

**Table 3: Investment Objectives of Sovereign Wealth Funds by Fund Type**

<table>
<thead>
<tr>
<th>SWF Fund Type</th>
<th>Investment Objective</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stabilization Fund</td>
<td>Established with a view to stabilizing fiscal revenue over commodity price fluctuations</td>
<td>Russia Reserve Fund, Chile Economic and Social Stabilization Fund; Botswana Pula Fund; Angola FSDEA; Nigeria NSIA Stabilization Fund</td>
</tr>
<tr>
<td>Reserve Investment Corps</td>
<td>Aim to narrow the disparity between the return on reserves and the return on Central Bank liabilities</td>
<td>China Investment Corporation, Korea Investment Corporation</td>
</tr>
<tr>
<td>Savings Funds</td>
<td>Set up as long-term investment vehicles for sovereign holdings of foreign assets</td>
<td>Abu Dhabi Investment Authority, China Investment Corporation; Botswana Pula Fund; Angola FSDEA; Nigeria NSIA Future Generations Fund</td>
</tr>
<tr>
<td>Pension Reserve Funds</td>
<td>Provide for contingent unspecified pension liabilities on the government’s balance sheet</td>
<td>Australia Future Fund, New Zealand Superannuation Fund</td>
</tr>
<tr>
<td>Domestic Development Fund</td>
<td>Established to address development needs of the state, e.g. infrastructure</td>
<td>Angola FSDEA; Nigeria NSIA Infrastructure Fund</td>
</tr>
</tbody>
</table>

Source: Fry, McKibbin and O’Brien (2011) and author.

Stabilization Funds are typically employed by natural resource rich countries and focus on mitigating the effects of financial shocks and market volatility. Reserve Investment Corporations invest foreign exchange reserves of Central Banks over less than three years in more liquid but safe assets, such as government bonds, corporate bonds and some corporate equities (Castelli 2012). Given their similar investment strategy and focus on liquidity and stability, Stabilization and Reserve Investment Corporations are often categorized as one and the same investment vehicle (Castelli 2012). The category of funds with the largest AUM is Savings Funds utilized by both commodity and non-commodity-exporting nations. Savings Funds invest with a long-term view with no short-term liquidity mandate and into more risky assets, such as emerging market equities, hedge funds, private equity, and speculative corporate bonds (Castelli 2012). Pension Reserve Funds address pension obligations of the government and employ an investment strategy similar conventional pension funds. Domestic Development Funds address economic
development (e.g. industry diversification) and poverty alleviation goals (Castelli 2012). These funds, such as Temesek or Mubadala, typically invest as strategic buyers in corporations. The sub-Saharan African funds are comprised of Stabilization, Savings and Domestic Development Funds. The list of African Sovereign Wealth Funds (sub-Saharan Africa Sovereign Wealth Funds are in bold) is presented in **TABLE 4** below.
Table 4: African Sovereign Wealth Funds

<table>
<thead>
<tr>
<th>Country</th>
<th>Fund Name</th>
<th>Assets ($B)</th>
<th>Assets as % of GDP</th>
<th>Date of Origin</th>
<th>Source of Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>Fund for the Regulation of Receipts (FRR)</td>
<td>$77 billion</td>
<td>37.7%</td>
<td>2000</td>
<td>Oil and gas profits</td>
</tr>
<tr>
<td>Angola</td>
<td>Fundo Soberano de Angola (FSDEA)</td>
<td>$5 billion</td>
<td>4.3%</td>
<td>2012</td>
<td>Oil profits; 7.5% dedicated to social projects</td>
</tr>
<tr>
<td>Botswana</td>
<td>Pula Fund</td>
<td>$7 billion</td>
<td>48.2%</td>
<td>1994</td>
<td>Diamond profits</td>
</tr>
<tr>
<td>Chad</td>
<td>Oil Revenue Management Plan</td>
<td>N/A</td>
<td>N/A</td>
<td>2003</td>
<td>Created with World Bank, scrapped in 2008</td>
</tr>
<tr>
<td>Equatorial Guinea</td>
<td>Fund for Future Generations (FFG)</td>
<td>$800 million</td>
<td>4.8%</td>
<td>2002</td>
<td>Oil profits</td>
</tr>
<tr>
<td>Gabon</td>
<td>Fonds Souverain de la Republique Gabonaise (FRSG)</td>
<td>$380 million</td>
<td>2.2%</td>
<td>2012</td>
<td>Oil profits</td>
</tr>
<tr>
<td>Ghana</td>
<td>Petroleum Holding Fund</td>
<td>$72 million</td>
<td>0.2%</td>
<td>2012</td>
<td>Oil profits; flows to 2 funds: Ghana Heritage Fund and Stabilization Fund</td>
</tr>
<tr>
<td>Kenya</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>2014</td>
<td>Mineral profits; proposed</td>
</tr>
<tr>
<td>Libya</td>
<td>Libyan Investment Authority</td>
<td>$65 billion</td>
<td>79.4%</td>
<td>2006</td>
<td>Oil and gas profits</td>
</tr>
<tr>
<td>Mauritania</td>
<td>Fonds National des Revenus des Hydrocarbures (FNRH)</td>
<td>$300 million</td>
<td>2.6%</td>
<td>2006</td>
<td>Oil and gas profits</td>
</tr>
<tr>
<td>Nigeria</td>
<td>Nigeria Sovereign Investment Authority (NSIA)</td>
<td>$1 billion</td>
<td>0.2%</td>
<td>2011</td>
<td>Oil profits; flows to 3 funds: Stabilization, Future Generations and Infrastructure</td>
</tr>
<tr>
<td>Rwanda</td>
<td>Agaciro Development Fund</td>
<td>$400,000</td>
<td>6.8%</td>
<td>2012</td>
<td>Savings vehicle to improve future autonomy of Rwanda and address market shocks</td>
</tr>
<tr>
<td>Sao Tome and Principe</td>
<td>National Oil Account</td>
<td>$100 million</td>
<td>38.0%</td>
<td>2004</td>
<td>Oil profits</td>
</tr>
<tr>
<td>Senegal</td>
<td>Fonds Soverain D’investissements Strategiques (FONIS)</td>
<td>$1 billion</td>
<td>7.0%</td>
<td>2012</td>
<td>Transfer of funds from State (non-commodity)</td>
</tr>
<tr>
<td>South Sudan</td>
<td>Oil Revenue Stabilization Account, Future Generations Fund</td>
<td>N/A</td>
<td>N/A</td>
<td>2013</td>
<td>Oil profits; flows to 2 funds: Stabilization and Future Generations Fund</td>
</tr>
<tr>
<td>Tanzania</td>
<td>Natural Gas Reserve Fund</td>
<td>N/A</td>
<td>N/A</td>
<td>2013</td>
<td>Gas profits</td>
</tr>
</tbody>
</table>

Source: Investment Frontier, December 2013: https://www.investmentfrontier.com/2013/12/20/list-african-sovereign-wealth-fund-2013/ and author’s correction of Rwanda. Investment Frontier overlooked Agaciro Development Fund as a more suitable fit as a SWF in place of Crystal Ventures.

Of the 16 Sovereign Wealth Funds on the African continent, 14 are in sub-Saharan Africa (Algeria and Libya are in the Middle East and North Africa region). Among these 14 funds in sub-Saharan Africa, 13 are operational (Senegal and Kenya are under development).
Case Selection

The funds in the dissertation were selected based upon four criteria: variation along the dimensions of the independent variables (see TABLE 7); status as operational which suggests that the fund structure and governance are established; size in terms of assets under management given the observation that the larger funds tended to have more public information available related to organization; and, founding date since 1990. The funds in Angola, Botswana and Nigeria are commodity-based but demonstrate some variation in both the dependent and independent variables. The political system, macro-economic context and institutional settings are very different for each country. These factors represent potential alternative explanations. The case studies will illuminate any relationship between the investment objectives of the three Sovereign Wealth Funds and differences in governance standards. All of the funds have investment strategies focusing on savings and stabilization. Unlike the Pula Fund, the FSDEA and NSIA both have sub-funds which target investments in domestic assets for diversification and economic development.

Similar to most Sovereign Wealth Funds in sub-Saharan Africa, the funds in the Middle East and North Africa region derive their wealth from resource endowment. An extended sample of relevant cases is presented below in TABLE 5. This table shows how selected Sovereign Wealth Funds in the Middle East and Asia compare along the dimensions of the independent variables in my research model. The same criteria for case selection were applied for the extended cases. The ratings in TABLE 5 are based upon a non-statistical, empirical assessment.

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25 The founding date since 1990 addresses potential concerns over variation attributed to different historical contexts.
based upon trade and investment trends (econ link), positive diplomatic relations (pol link), and degree of Western socialization of the fund’s key leadership (soc link).

Table 5: Comparative Overview of Primary Sovereign Wealth Fund Cases from sub-Saharan Africa, Middle East and North Africa and Asia

<table>
<thead>
<tr>
<th>Fund (Yr. Est)</th>
<th>Country</th>
<th>AUM (US$)</th>
<th>AUM as % of GDP</th>
<th>Overall Truman Score (2012)</th>
<th>Economic Link Rating</th>
<th>Political Link Rating</th>
<th>Executive Socialization Link Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-Saharan Africa</td>
<td>FSDEA (2012)</td>
<td>Angola</td>
<td>$5B</td>
<td>4.3%</td>
<td>15</td>
<td>Moderate</td>
<td>Weak</td>
</tr>
<tr>
<td>Sovereign Wealth Funds</td>
<td>Pula (1994)</td>
<td>Botswana</td>
<td>$5B</td>
<td>34.4%</td>
<td>56</td>
<td>Moderate</td>
<td>Strong</td>
</tr>
<tr>
<td></td>
<td>NSIA (2011)</td>
<td>Nigeria</td>
<td>$1B</td>
<td>0.2%</td>
<td>18</td>
<td>Moderate</td>
<td>Moderate</td>
</tr>
<tr>
<td>Asia Sovereign Wealth</td>
<td>China Investment</td>
<td>China</td>
<td>$482B</td>
<td>5.9%</td>
<td>64</td>
<td>Strong</td>
<td>Weak</td>
</tr>
<tr>
<td>Funds</td>
<td>Corp. (2007)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Hong Kong Exchange Fund (1993)</td>
<td>Hong Kong</td>
<td>$354B</td>
<td>134.8%</td>
<td>70</td>
<td>Strong</td>
<td>Strong</td>
</tr>
<tr>
<td></td>
<td>Korea Investment</td>
<td>South Korea</td>
<td>$57B</td>
<td>4.7%</td>
<td>69</td>
<td>Strong</td>
<td>Strong</td>
</tr>
<tr>
<td>Corp. (2005)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Middle East and North</td>
<td>Dubai Investment</td>
<td>UAE –</td>
<td>$70B</td>
<td>18.8%</td>
<td>21</td>
<td>Moderate</td>
<td>Moderate</td>
</tr>
<tr>
<td>Funds</td>
<td>Qatar Investment Authority (2005)</td>
<td>Qatar</td>
<td>$115B</td>
<td>60.4%</td>
<td>17</td>
<td>Moderate</td>
<td>Strong</td>
</tr>
<tr>
<td></td>
<td>Revenue Regulation Fund (2000)</td>
<td>Algeria</td>
<td>$55B</td>
<td>26.9%</td>
<td>29</td>
<td>Moderate</td>
<td>Weak</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: Sovereign Wealth Fund Institute; Truman (2013); Author’s research based upon publicly available data. AUM figures based on Truman (2013). Although, otherwise a fit based upon selection criteria, Libya was excluded due to Truman (2013) uncertainty about AUM.

Several factors which ostensibly appear as priority criteria for case selection were not influential in the process. First, the investment strategy of each fund did not initially factor

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26 In Truman 2012, the average score was 54, with a high of 98 (Norway) and low of 2 (Equatorial Guinea). I consider above average scores (55 or more) as good. 26 out of 49 funds (53%) had an above average (good) score.
significantly because most of the funds in sub-Saharan Africa have similar strategies. Both NSIA and FSDEA define their strategy by both investment into foreign and domestic assets, even with a developmental objective. The Pula Fund strictly invests in overseas assets for savings and stabilization purposes. Second, the political system of the countries did not initially factor into how the cases were selected because, while there is some variation, with the exception of Botswana, most of the Sovereign Wealth Funds in Africa are hosted by countries which are emerging democracies at best. However, as discussed, it is informative to evaluate this dimension in detail given the diversity of political systems: Botswana (stable democracy), Nigeria (emerging democracy) and Angola (authoritarian). This political system analysis does factor into my process tracing later in this study, as it relates to the political constraints or enablers of policy entrepreneurship among government elites, e.g. Ministers of Finance. Finally, variation by macroeconomic setting of each country did not factor into the selection process, because all three countries have resource-based economies which highly influences the economic structures of these countries – oil for Nigeria and Angola and diamonds for Botswana.

Research Design and Methodology

The dissertation explores a set of hypotheses which maintains that the stronger the ties (economic, political and executive socialization) that Sovereign Wealth Funds in sub-Saharan Africa have with the West, the more likely they are to embrace the norms acknowledged as international best practices for management of Sovereign Wealth Funds:

H1: Sovereign Wealth Funds whose host states are more integrated with the West in terms of Economic Flows are more likely to adopt norms pertaining to "best business practices" of Sovereign Wealth Funds.
H2 Sovereign Wealth Funds whose host states are more integrated with the West in terms of Political Ties are more likely to adopt norms pertaining to "best business practices" of Sovereign Wealth Funds.

H3: Sovereign Wealth Funds with Executives that are more integrated with the West in terms of Professional Socialization are more likely to adopt norms pertaining to "best business practices" of Sovereign Wealth Funds.

The dissertation uses a mixed-methods approach to draw conclusions about the accuracy of my hypotheses. I employ qualitative case studies of three natural resource-based Sovereign Wealth Funds (Botswana, Angola and Nigeria) that will highlight the macro-economic setting, political context and structure of the funds. This study extends this analysis (in less detailed case studies) to three funds established since 1990 in the Middle East and North Africa region: Algeria’s Revenue Regulation Fund, Qatar’s Investment Authority Fund, and the UAE’s Dubai Investment Corporation. The panel regression analysis uses time series data from the Truman Index and empirical measures for each main and alternative hypothesis.

Case Study Analysis and Process Tracing

The dissertation performs process tracing through case studies to illuminate how the explanatory variables work as mechanisms for norms adoption in an institutional setting. The regional comparisons elucidate how variations among independent variables relate to norms adoption. I also assess several alternative explanations, including: investment in only international financial assets; independence from Central Bank control of the SWF; and, state capacity.

The main and alternative hypotheses will be evaluated in the narrative of each SWF case study. Each of the funds operates in the context of different political systems (NSIA in an emerging democracy of Nigeria with a long history of authoritarianism, the Pula Fund in an established democracy of Botswana and the FSDEA in an authoritarian context of Angola). Based upon political economy issues related to these systems, the level of development of their institutions, and the nature of political contestation, each SWF represents a paradigm for
institutional development. The NSIA functions as an institutional vehicle for managing
distributional politics as a reform agenda in Nigeria. The Central Bank of Botswana established
the Pula Fund as an institutional agent to promote its fiscal policy for generational savings and
investment diversification. In the case of the FSDEA, Angola created an apparatus for managing
resource wealth which operates in close alignment with the priorities of state, given the
centralized authority of the incumbent ruling party.

The dissertation presents Sovereign Wealth Funds, given their role as custodians of
national wealth, as institutions representing credible commitments by the state towards enacting
policies and mechanisms for achieving economic growth and capital preservation. The standards
and rules by which these Sovereign Wealth Funds were established and operate provide
incentives for how their executives manage their assets. In their analysis of natural resource
funds, Humphreys and Sandbu (2007) detail the link between political economy and fiscal
policy. They view mechanisms such as rules on access and use of funds, separation of powers
and increasing transparency as incentives which inform how leaders manage fiscal policy.
Variation in the timing of nominal compliance with international governance (e.g. the Santiago
Principles) is influenced by international factors, state capacity, and political negotiation of elite
structure and interests.

The concept map for process tracing of my theoretical model is presented in FIGURE 1.

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27 Humphreys, Macartan and Martin E. Sandbu. “The Political Economy of Natural Resource Funds.” in Escaping
The process tracing framework lays out the key dimensions of the political negotiation for establishing a SWF and governance standards. In each individual case study, I will adapt this general model to the political and economic context of each SWF case.

Figure 1: Concept Map for Process Tracing of Norms Adoption by Sovereign Wealth Funds

The dynamics of addressing SWF governance structures are related to varying degrees of fragmentation and polarization among political and economic elites. Where this negotiation is effective and stable, a grand bargain can be agreed, which in every case was supported or influenced by international elites. The most significant outcome of the political bargain is formal legislative approval for an SWF and institutional design informed by international best practices, including ring fence provisions against discretionary access by heads of states. The primary political mechanism (particularly for the NSIA and Pula Funds) by which this targeted political bargain is pursued is coalition politics.

Through tracing the mechanisms by which political coalitions establish Sovereign Wealth Funds as a political bargain, I develop a three-fold typology for coalition politics for the three Sovereign Wealth Funds of sub-Saharan Africa which will be discussed in detail in Chapter 3: reform coalition, proxy coalition and captive coalition. These coalitions vary based upon several
factors, including: how they shape or impact policies that signal the interest and capacity of government to deliver certain political or economic outcomes (influence on credible commitment); the profile of the elite or institutional actor (agent of change) who principally drives or manages the political negotiation; the ideological alignment and number of actors (veto player concentration) who can influence the political negotiation and outcome; the policy outcome (key political goal) targeted by the primary agent of change; and, the decision-making approach and final political outcome (results of the political bargain). **TABLE 6** summarizes the typology of coalition politics for Sovereign Wealth Funds in sub-Saharan Africa.

**Table 6: Typology of Coalition Politics**

<table>
<thead>
<tr>
<th>Coalition Type</th>
<th>Nigeria</th>
<th>Botswana</th>
<th>Angola</th>
</tr>
</thead>
<tbody>
<tr>
<td>Influence on Credible Commitment (CC)&lt;sup&gt;28&lt;/sup&gt;</td>
<td>Redefine or Reinstate CC</td>
<td>Maintain or Elaborate CC</td>
<td>Establish or Initiate CC</td>
</tr>
<tr>
<td>Agent of Change</td>
<td>Minister of Finance (MOF) as Policy Entrepreneur</td>
<td>Central Bank as Institutional Actor</td>
<td>President as Executive Authority</td>
</tr>
<tr>
<td>Veto Player Concentration</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
</tr>
<tr>
<td>Key Political Goal</td>
<td>Balanced Representation of Competing Interest</td>
<td>Coordination among Allied Elites</td>
<td>Delegation for Implementation</td>
</tr>
<tr>
<td>Results of the Political Bargain: Decision-making and Governance Norms</td>
<td>Key decisions are made independently of state control</td>
<td>Key decisions are made less independently of state control</td>
<td>Key decisions are made directly subject to executive signoff</td>
</tr>
<tr>
<td></td>
<td>Key questions for examination:</td>
<td>Key questions for examination:</td>
<td>Key questions for examination:</td>
</tr>
<tr>
<td></td>
<td>- Investment strategy decision-making</td>
<td>- Investment strategy decision-making</td>
<td>- Investment strategy decision-making</td>
</tr>
<tr>
<td></td>
<td>- Central Bank management?</td>
<td>- Central Bank management?</td>
<td>- Central Bank management?</td>
</tr>
</tbody>
</table>

<sup>28</sup> I define credible commitments as government actions that signal effective governance, particularly in distinct ways to a particular constituency or group of elites.
<table>
<thead>
<tr>
<th>Nigeria</th>
<th>Botswana</th>
<th>Angola</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Standards for changing governance?</td>
<td>- Standards for changing governance?</td>
<td></td>
</tr>
</tbody>
</table>

### Panel Regression Analysis

The dissertation performs a time series panel regression on the Sovereign Wealth Funds evaluated by the Truman Index from 2007-2012. In addition to the variables of my core model, I will include variables coded for independence from Central Bank management, governance rating for the state, external investment strategy and state capacity. This analysis will suggest correlations that will inform the factors examined in my case study through process tracing. The regression equation that I employ is:

\[
\text{Norm Adopt}_i = \beta_0 + \beta_1*\text{(EconLink)}_{ct} + \beta_2*\text{(PolLink)}_{ct} + \beta_3*\text{(SocLink)}_{ct} + \beta_5*\text{(StateCap)}_{ct} + \beta_6*\text{(ExInvest)}_{ct} + \beta_7*\text{(CentralBank)}_{ct} + \varepsilon_{cti}.
\]

Where \(i\) = fund, \(c\) = country that is home to the SWF, \(t\) = time period

For all three hypotheses the dependent variable is international norm adoption measured by the adoption of institutional standards along the values of the Truman Index (2013). The Index examines institutional standards along four distinct dimensions: structure, governance, accountability/transparency, and behavior (portfolio adjustment). The Index and the accompanying scorecard values for each SWF examined in the Truman study were the result of careful examination of best business practices in Sovereign Wealth Funds in consultation with these funds. The sub-category scores are combined to create an Index score for each SWF. These sub-category scores are combined to create an Index score for each SWF through an equal-weighting procedure that translates these values to a 100-point scale. This dissertation project
presents the regression model and variables in Chapter 3. **TABLE 7** below summarizes the variables evaluated in the dissertation.

**Table 7: Variable Description**

<table>
<thead>
<tr>
<th>Variable Type and Name</th>
<th>Variable Description</th>
<th>Assessment Criteria</th>
<th>Level of Analysis</th>
<th>Value Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent Variable:</strong> Adoption of Norms of for Business Practices (NormAdopt)</td>
<td>4 dimensions from Truman Index: i) Structure; ii) Governance; iii) Accountability &amp; Transparency; iv) Behavior (Portfolio Adjustment to Manage Risk)</td>
<td>Structure: clear statement of objective, investment strategy, sources of funding; separation of SWF from reserves (8 factors) Governance: role of government, managers and governing bodies and conflicts of interest (7 factors) Accountability and Transparency: reporting of investment activities and audits (14 factors); Behavior: operational risk management policies (4 factors)</td>
<td>Fund –SWF</td>
<td>Truman Index Composite Scoring (0-100)</td>
</tr>
</tbody>
</table>
| **Independent Variable:** Economic Flows with West (EconLink) | Trade of Goods (not services) between the SWF host country and the US and EU. ODA, ODA = Overseas Development Assistance FDI = Foreign Direct Investment

All figures for 2007/2009, 2012 and as % of GDP | Bilateral government and OECD data ODA = concessional loans FDI as net inflows into host country | Country: US/EU or OECD Development Assistance Committee (DAC) member country in relation to SWF country | All currency amounts in US dollars |
| **Independent Variable:** Political Ties with US and EU (PollLink) | Bilateral relationships between US and EU and SWF country: i) security alliances; ii) bilateral diplomatic alliances; iii) existence of any sanctions currently | 3 equally weighted dimensions of political linkages: i) security alliances; ii) bilateral diplomatic alliances; iii) existence of any sanctions currently | Country: US and EU in relation to SWF country | “Strong” rating: evidence of security and diplomatic alliances and no sanctions; “Moderate” rating: evidence of security or diplomatic alliances and no sanctions; “Low” rating: evidence of one type of |

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29 See Chapter 6 for the panel regression analysis discussion. The main model includes Trade and Official Development Assistance only. FDI was included in this model for a robustness check on FDI. The regression analysis indicated minimal change in the model by including FDI.
<table>
<thead>
<tr>
<th>Variable Type and Name</th>
<th>Variable Description</th>
<th>Assessment Criteria</th>
<th>Level of Analysis</th>
<th>Value Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent Variable: Executive Socialization Ties with US and EU (SocLink)</td>
<td>Education (degrees) and/or work experience in US or EU of SWF Executives. Executives include management team and board members</td>
<td>Educational degrees and work experience in US or EU suggest professional socialization in line with Western value and business practices</td>
<td>Fund – SWF</td>
<td>“Strong” rating: if executive has both educational degrees from US or EU and work experience in Western institution in US or EU</td>
</tr>
<tr>
<td>Independent Variable: State Capacity (StateCap)</td>
<td>Institutional capability of the state to execute on policies that deliver assets (benefits and services) to households and firms (Besley and Persson 2011)</td>
<td>PRS-International Country Risk Guide (ICRG): a political risk index presenting various dimensions of the political and business context. Initially, I employed World Governance Indicators (WGI) ratings from the World Bank: a measure that captures perceptions of the quality of public services, the quality of the civil service and the degree of independence from political pressures (WGI) – see Appendix for WGI analysis.</td>
<td>Country</td>
<td>Indexed scored based upon different dimensions rated by PRS-ICRG (and WBI)</td>
</tr>
<tr>
<td>Independent Variable: External Investment (ExInvest)</td>
<td>Investment exclusively by Sovereign Wealth Funds in financial assets located outside of the SWF’s home country</td>
<td>Investment in financial assets such as equity or debt securities (source: public information, eg. Sovereign Wealth Fund Institute)</td>
<td>Fund – SWF</td>
<td>Binary variable, with 1 indicating investment outside of domestic market exclusively and 0 otherwise</td>
</tr>
<tr>
<td>Independent Variable: Management by Central Bank (CentralBank)</td>
<td>SWF is managed by the Central Bank (not independently managed)</td>
<td>Central Bank direct and controlling management of SWF, evidenced by representation in significant board role</td>
<td>Fund – SWF</td>
<td>Binary variable, with 1 indicating management by a Central Bank and 0 otherwise</td>
</tr>
</tbody>
</table>

Plan of the Dissertation

In Chapter 2, the dissertation summarizes the theoretical context of the study and its contribution to the political science and political economy literature. I show how my research
contributes to an understanding of the mechanisms employed in norms diffusion among
Sovereign Wealth Funds in the sub-Saharan Africa and Middle East and North Africa regions.
The theoretical context for this study is comprised primarily of the literature related to paradigms
for institutional analysis of Sovereign Wealth Funds, international influences on institutions,
norms diffusion and institutional design.

In Chapters 3-5, the dissertation presents case studies of three African Sovereign Wealth
Funds: Pula Fund (Botswana), FSDEA (Angola) and NSIA (Nigeria). This section presents the
historical background and contemporary context in which the Sovereign Wealth Funds operate,
traces the salient mechanisms for norms adoption, and examines the role of coalition politics in
structuring Sovereign Wealth Funds. The African case studies inform the central conclusions of
my study, but a general assessment of the Middle East and North Africa Sovereign Wealth Funds
is undertaken to draw out comparative insights (in Chapter 7).

In Chapter 6, the dissertation provides an overview of the quantitative research design, an
assessment of the Truman data, and the results of a time series regression analysis of Sovereign
Wealth Funds included in the Truman Index from 2007-12. The chapter concludes with an
assessment of the regression results based on an evaluation of the dissertation’s hypotheses and
limitations of the research design.

In Chapter 7, in conclusion, the dissertation discusses the main and supporting findings of
the overall study (including alternative explanations). I offer a general summary of three Middle
East and North Africa Sovereign Wealth Funds: Revenue Regulation Fund (Algeria), Dubai
Investment Corporation (UAE) and Qatar Investment Authority. I address implications for the
broader landscape of Sovereign Wealth Funds in sub-Saharan Africa and Middle East and North
Africa regions. The dissertation ends with an assessment of the limitations of the study and opportunities for further research.
Chapter 2: Conceptualization of Norms Diffusion and Institutional Design

The dissertation interrogates the explanation for variation in governance standards for Sovereign Wealth Funds, focusing on sub-Saharan Africa and the Middle East and North Africa region. In examining the broader categories of factors related to establishing governance standards, the study draws from the literature on state capitalism, state institutions, norms diffusion and institutional design. Concerning variable selection and the key mechanisms by which these standards are operationalized, the dissertation is informed by and contributes to the literature related to international and domestic influences on state institutions, including linkage-leverage theory and institutional leadership. This chapter addresses how my study integrates, challenges and builds upon these concepts.

State-Driven Capitalism and Policy Imitation for International Cooperation

Sovereign Wealth Funds present a new dynamic in international political economy because of the structural shift in power wielded by Sovereign Wealth Funds controlled by nations representing emerging market economies. The conceptualization of the role of the state in international markets has been examined more recently through the lens of state capitalism. The examination of the variables and mechanisms for SWF norms diffusion in the dissertation is contextualized within the literature on state capitalism and focuses on the examination of how states balance transparency and legitimate state autonomy in the pursuit of national objectives. Addressing the geopolitical implications of investments by Sovereign Wealth Funds in strategic assets of other states has motivated most analyses of Sovereign Wealth Funds over the last decade (Cohen 2009; Loh 2010; Balding 2012; Schwartz 2012).
The dissertation extends more recent theories of the state capitalism by moving beyond a uni-dimensional political logic (Bremmer 2010) to positing the emergence of Sovereign Wealth Funds (particularly since 1990) as indicative of the evolution of state actors into market actors. It asserts that Sovereign Wealth Funds, particularly in the case of those operating in sub-Saharan Africa, present legitimate institutional mechanisms for these countries to potentially exert influence in the global economy that is directly connected to their long-term economic sustainability (Mussachio and Lazzarini 2012; Chwieroth 2010).

Bremmer defines state capitalism as “a system in which the state dominates markets, primarily for political gain” (Bremmer 2010). Applied to Sovereign Wealth Funds, his theory posits them as political contestants in the global economy whose state-driven approach challenges the stability of market capitalism due to its non-economic priorities and inefficiencies as fund managers. In contrast to Bremmer, the arguments of the dissertation comport better with the reality of the globalization of capital and interaction of market-based economies across economic geographies, which allow for a more sophisticated understanding of the motives of Sovereign Wealth Funds and their relationship to market capitalism. Long-term economic sustainability and accountability to domestic stakeholders (i.e. political motivations driven by sub-national, not international geopolitics as suggested by Bremmer) are key influences on how African Sovereign Wealth Funds are structured and their investment strategies.

The dissertation’s challenge to dichotomous perspectives on the Sovereign Wealth Funds as state actors versus market actors is also informed by the political economy literature over the last few decades. Taylor (2007) examines state-business coalitions as means to capitalist

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30 Bremmer traces the original use of the phraseology to Wilhelm Liibknect, founder of German social democracy in 1896. The concept represented the concerns of the power of the state to control means of production over the working class (Bremmer 2010).
development in Africa. My study’s typology of coalitions which influence the creation of Sovereign Wealth Funds in Africa builds upon the primary institutional mechanism advanced by Taylor (2007) for effecting capitalist development in South Africa, the reform coalition (characterized by state-business elite collaboration), by positing the state (SWF) as a market actor itself that achieves capitalist development through coalition-building. My three typologies of SWF coalitions (reform, proxy and captive) chiefly involve political-economic elites and largely exclude domestic business actors. Taylor (2007) identifies individual decision-making among state or business actors as an important mechanism for the emergence and durability of coalitions. For capitalist development driven by Sovereign Wealth Funds, the decision-making of the state actor (e.g. Minister of Finance, Central Bank or President) influences the degree of good governance norms adoption, based upon the ability of state actor to align and manage the political interest of elites.

Mussachio and Lazzarini (2012) assert that state capitalism has been facilitated by privatizations and state economic reforms. They present a more nuanced understanding of state capitalism by distinguishing between the state as a majority investor, such as a state-owned enterprise (SOE) or state-owned holding company (SOHC), or a minority investor, such as a partially privatized firm (PPF), through loans and equity by state-owned and development banks, Sovereign Wealth Funds, pension funds or life insurance companies.

Mussachio and Lazzarini (2012) present several economic drivers for the emergence of state capitalism: solutions for market failure through government investment into companies in the absence of sufficient private capital, or through its coordination of policy to attract private investment into key segments of the market; interest in effecting social objectives that are primarily profit-motivated; efforts to address market distortions and inefficiencies created by
inappropriate government intervention through SOEs, e.g. investments into failing ventures for political reasons; and, institutional path dependence in the way in which states often remain connected to privatized enterprises through investment or policies, thus maintaining links to state control. The savings, stability or developmental strategies of African Sovereign Wealth Funds that I trace are consistent with these dimensions. The savings priority of Sovereign Wealth Funds, e.g. NSIA, may serve to address past effects of ineffective spending of governments or cronyism. The stability strategy of Sovereign Wealth Funds often focuses on applying capital to remedy economic shocks such as rapid declines in natural resource prices. These shocks can constrain private capital from investing in the economy, leading to market failures.

The dissertation posits that Sovereign Wealth Funds facing similar structural challenges likely employ similar approaches to governance standards and investment strategy. This assertion is supported by the Chwieroth (2010) argument that the rationale for the spread of Sovereign Wealth Funds among fuel-exporting nations is imitation in policy-making. Through imitation, these Sovereign Wealth Funds addressed similar structural challenges after a critical mass were established which faced similar political and economic attributes. In this view, Sovereign Wealth Funds were created according to political decisions of elites to facilitate state capitalism rather than to subvert markets. However, while the imitation effect applies to the establishment of Sovereign Wealth Funds in sub-Saharan Africa, it does not preclude variation in norms adoption among the funds.

The investments by Sovereign Wealth Funds in portfolio assets suggests that, in addition to direct equity investments into financial assets, these investment vehicles are expanding the footprint of capitalism characterized by state actors operating as market actors. The participation of these state actors in the global economy can result in reputational benefits of credibility and
legitimacy, i.e. creating state-controlled investment vehicles which operate with accountability and transparency would likely motivate Western institutions to support these institutions. The technical assistance from the IMF offered to the FSDEA illustrates this point. At the same time, the emergence of these Sovereign Wealth Funds as global players suggests the need for international cooperation on governance standards and investment strategy. The enterprise of balancing transparency and state autonomy is a test of international economic cooperation (Cooper 1969). While the state capitalism literature helps frame my general research agenda focusing on SWF as market actors, as discussed in the next section, the literature on norms diffusion informs the selection of primary variables examined for their influence on norms adoption in my model.

Linkage and Leverage, Norms Diffusion and Institutional Design

Linkage-Leverage Theory: International Influences

The primary hypothesis of the dissertation is that strong professional socialization, economic and political links with the West are associated with higher institutional governance standards. The definitive conceptualization of linkage and leverage factors is Levitsky and Way’s (2010) presentation on the subject as mechanisms by which states influence regime change.14

Levitsky and Way attribute variation in authoritarian transitions to democracy in the post-cold war period to ties with the West in terms of linkage and leverage. Linkage involves six dimensions of interdependence, including: economic (trade, investment and credit), diplomatic, 

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14 Levitsky and Way (2010) define linkage as a “multidimensional concept that encompasses the myriad networks of interdependence that connect individual polities, economies, and societies to Western democratic communities”. Linkage factors include the size of a country’s economy, foreign policy goals and counter-hegemonic influences. Leverage is defined as “governments’ vulnerability to external democratizing pressure.”
technocratic education in West and social linkage. They characterize leverage as constraints or pressure applied from external, international actors. They argue that domestic factors such as strength of the ruling party and institutional arrangements of the state are other important aspects of the explanation. Their work highlights cross-national instances of international influences and illustrates how linkage factors account for variation in institutional outcomes. Informed by the Levitsky and Way paradigm of linkage, I selected professional socialization, economic and political ties with the West as variables explaining variation in the Truman score. Levitsky and Way (2010) acknowledge that beyond the scope of their work is a detailed analysis of mechanisms by which linkage relates to the diffusion of norms, a central focus of my study.

**Norms Diffusion and Institutional Design**

In political science, norms diffusion is largely studied in constructivist literature (McAdam et al 2001) and in comparative analyses of social mobilization related to democratization (Deutsch 1966). I view the political negotiation about SWF institutional design which is managed by SWF stakeholders as a dynamic influenced by the professional socialization of these agents. My theory of professional socialization is informed by Checkel (1999). As defined by Checkel, I refer to norms diffusion as the transmission of “shared expectations about appropriate behavior held by a collectivity of actors” (Checkel 1999). Checkel presents dual mechanisms for norms diffusion: bottoms up approach that entails a nexus of non-state actors and policy networks working for changes in state policy; and, top down approach involving social learning of elites that leads to the adoption of international norms.

My study bridges a gap in Checkel’s framing of elite learning by asserting how diffusion works in the institutional design. I contend that the educational and professional training of SWF elites influences their view and application of governance standards. The evidence I evaluate,
primarily through process tracing in the case studies, is the degree to which “Western” educated and professionally trained SWF officials hold key positions at Sovereign Wealth Funds. I base this on the view that the clustering of this profile of elites provides a culture of collegiality and a credible commitment regarding professional approaches to business.

Another key assertion of this dissertation is that Ministers of Finance (MOFs) serve as policy entrepreneurs in managing different interests of domestic and international actors during the process of establishing the Sovereign Wealth Funds. These policy entrepreneurs draw from their professional experiences (educational training and work experience) to establish directly or influence the set-up of Sovereign Wealth Funds. In this way they mediate or stipulate norms diffusion into these institutions. This theory pulls from Finnemore and Sikkink (1998) who present a sophisticated model for understanding norms within the context of a lifecycle that characterizes the conditions and motivations for norm diffusion. Their conceptualization of the life cycle traces norms in three stages: their inception based upon the evangelism of norm entrepreneurs (policy sponsors); their cascade through institutionalization by states and international organizations; and, their internationalization as institutionalized rules accepted by a critical mass of states. Their three-stage model and analyses of actors, motives and key mechanisms provide the framework for process tracing in my cases studies. This analysis focuses on the role of policy sponsors in institutionalizing rules or norms, by structuring and aligning the interest of political and economic elites.

As a study on the political and economic influences of SWF policies, my work also draws on the research of Clark, Dixon and Monk (“CDM” 2013), who address the concern of underlying motivations for norms adoption by focusing on how political and economic factors contribute to this process. They argue that Sovereign Wealth Funds are motivated to embrace
Western models of corporate governance based on the necessity of linking with global financial markets and the effectiveness of these models in generating profits. CDM assert that non-Western Sovereign Wealth Funds adopt Western governance models also to gain trust and legitimacy as financial institutions. While they point out that these concerns motivate the embrace of Western norms and argue that good governance is operationalized in the norms advanced by the Santiago principles, CDM do not account for how political and economic factors explain variation in the adoption of these norms, a primary contribution of the dissertation. My study assesses variables such economic links based upon a conceptualization of financial influence similar to the theory of CDM; however, the dissertation also examines political and socialization links in addition to role of Central Bank management of Sovereign Wealth Funds and overall state capacity.

**Domestic Influences on Norms Diffusion**

The domestic influences on norms diffusion in this dissertation chiefly relate to the political negotiation on the structure of the Sovereign Wealth Funds among domestic political elites. Another dimension of domestic influence is the interaction between international norms (e.g. Santiago Principles) and domestic institutional practices rooted in traditional culture. As an informal institution that facilitated engagement and accountability of the national government to citizens, the kgotla traditional assembly in Botswana represents a distinct mechanism for localized political deliberation.

Acharya (2004) offers a compelling account of variation in norms adoption premised on the notion that local belief systems comprising a normative order can influence the engagement with foreign norms. According to this model, transnational and local agents in the context of domestic political structures shape the adoption of international norms by states. The shape of
these international norms is conditioned by a process of “congruence” whereby transnational norms are evaluated in relationship to local norms and localized (Acharya 2004). While a direct relationship between Botswana’s indigenous kgotla system and SWF norms adoption seems difficult to posit based upon Acharya’s congruence calculus, the kgotla practices facilitate a degree of mediation which could potentially mitigate public resistance to establishing the Pula Fund.

Frameworks of SWF Institutional Analysis

In sub-Saharan Africa, institutions are important for addressing two important challenges which confront every developing region: political and economic modernization (Evans 1995; North 1990). Institutions are essential for addressing the political interest of competing political actors, including new groups and supporting the development needs presented by urban population shifts. Institutions such as political parties are important for political modernization (Gandhi 2008; Lijphart 1977; Brownlee 2007). Sovereign Wealth Funds are new institutions to support the financial sustainability and economic development of an increasing number of states from the developing world. Institutional analysis helps clarify the mechanisms by which norms are diffused and institutionalized. The dissertation asserts that varying degrees of political contestation drive the formation of the Sovereign Wealth Funds and the norms which guide them.

Sovereign Wealth Funds represent the outcome of a successful political negotiation (or management in the absence of political contention) or political bargain. The key actions for managing this process involve structuring elite stakeholders and aligning their interest as part of coalitions. I conceptualize the coalitions in three categories: reform, proxy and captive. A reform coalition has as its political goal the balanced representation of competing interest and is
assessed based on decision-making on key issues of Sovereign Wealth Funds being made independently of state control by appointed leaders. The proxy coalition focuses on coordination of allied interest in the context of SWF decisions being less independently made by SWF leaders, rather they are more influenced by state control (e.g. President or Central Bank). Finally, the captive coalition has as its political objective implementation of the President’s executive decrees through delegated authority with decision-making for the SWF on key issues effectively made by the President. In the proxy model, defection is possible but not likely due to negotiated buy-in among elites; however, under the captive coalition, defection is highly improbable due to the more controlling influence of the executive authority.

My theory of institutional change is informed by the comparative politics literature on interest management mediated by veto players (Lewis 2007; Evans 1995). This literature provides a relevant approach for examining credibility and legitimization attained by institutions, based upon the number of checks and balances and successful management of veto players – important factors for establishing a political bargain. In my case studies, drawing from the conclusion of Taylor (2007) that institutional strength is salient for establishing reform coalitions, I trace how policy entrepreneurs within state institutions construct reform coalitions and become primary architects of the governance structure of Sovereign Wealth Funds. A reform coalition led by the Minister of Finance was important for designing the NSIA in Nigeria with better governance principles than the predecessor NSA fund.

The role of veto players is also relevant to the overall institutional autonomy of the SWF which can constrain or enable the agency of its executives in forming a reform coalition. For this

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31 Taylor 2007, 30.
reason, their actions can be viewed as credible commitments by both international and domestic stakeholders. As part of my inquiry about the extent to which independence from a Central Bank results in better governance design for Sovereign Wealth Funds and serves a credible commitment towards this end, the research of Keefer and Stasavage (2003) concludes that credible commitments have more salience when the competing interests of veto players are less similar (Keefer and Stasavage 2003). Their notion of veto players and credible commitments applies well to Nigeria that has government, business and civil society contestants with diversified competing interests. For this reason, the NSIA can be viewed as a substantive credible commitment to align and manage these competing interests which often have obstructed good governance among other institutions (e.g. ECA) due to rent-seeking and graft. Based on the argument of Keefer and Stasavage, given its history of relative effective institutional management and fewer veto players, it is reasonable to view Botswana’s Pula Fund as a less prominent credible commitment.

My formulation of a proxy coalition accounts for how the Pula Fund was created under the control of the Bank of Botswana (the Central Bank) as a supplemental institution, not an independent entity. In the case of a proxy coalition, political negotiation is insubstantial and a delegated authority implements the strategy of the Central Bank. Kalter and Schena (2013) aided my conceptualization of the Pula Fund as a proxy institution based on their framework on how Sovereign Wealth Funds fill various institutional voids related to governance and accountability. This dissertation addresses a gap in their analysis by defining the process of norms diffusion which is significant for understanding domestic and international influences on institutional design.
Under the conditions of a captive coalition, the head of state dominates state planning, including the creation of a SWF. The FSDEA of Angola represents this category of political arrangement, in which there is virtually no substantive political contestation. Evans’ (1995) notion of embedded autonomy points to the importance for institutional effectiveness of technocratic elites exercising authority without state interference. The dissertation draws from and builds upon this notion of embedded autonomy in the assessment of the role of MOFs in leading policy reform and coordination for the NSIA and Pula Fund. MOFs in Nigeria were very instrumental as policy entrepreneurs in establishing the NSIA and demonstrated a high degree of autonomy.

The dissertation contributes to the understanding of the evolution of state capitalism in the developing world, institutional design and norm diffusion by evaluating Sovereign Wealth Funds in sub-Saharan Africa and the Middle East and North Africa as legitimate global market players and the politics involved in establishing these institutions. An important implication of the dissertation is that the diffusion of norms (imitation effect) can happen across various regions and political systems when supported by effective political coalitions or head of state. The mechanisms and the degree to which this adoption occurs is impacted by the political, economic, professional socialization and other factors. In the following sections the case study analyses will examine the validity of these hypotheses.
NSIA Case Introduction: Preserving the Future Now

Overlooking downtown Abuja, the back office window frames the portrait of the seat of government of Africa’s largest economy with both government agencies and businesses in the background. In an office that has the ambience of a Wall Street investment firm, NSIA CEO, Mr. Uche Orji explains the history of the launch of NSIA from 2010 to the present. As he pivots in his chair, the view of a large, framed portrait of his three children and wife in the middle of the veranda behind his desk emerges. At the close of the interview, when asked why he is motivated more personally to work at the fund, Mr. Orji shares that it is for the future of the three, young people in the photos behind his desk – his children.

Mr. Orji engages as a seasoned but humble financial executive who understands the importance of his role at the NSIA and the NSIA’s importance for Nigeria. He is the founding CEO for NSIA, recruited by an international search fund at the behest of the Minister of Finance. Given his exceptional educational and professional background, it is reasonable to assume that Mr. Orji brings credibility to the role, the NSIA and, also, Nigeria in the eyes of the international investment community. Consistent with Mr. Orji’s view, the charter agreement of the NSIA and the 2015 NSIA annual report prioritize the consideration of both present and future generations for its institutional mandate.

The development of the NSIA is the outcome of a political negotiation chiefly between federal and state elites and a reform effort to redress the transparency and management shortcomings of a predecessor fund. This chapter presents: the historical macro-economic and
political context relevant to the Fund’s origination; the background and narrative history of the launch of the Fund; the analysis of the constituent elements of the reform coalition and the mechanisms by which a political bargain was successfully negotiated; the comparative assessment of the primary and alternative hypotheses on the formation of the NSIA act and design of the governance structure of the fund; the contemporary macroeconomic, political and institutional context; the current state of the NSIA; and, summary of the main findings, assessment of hypotheses, and implications of the case study for a larger contribution to the literature on political economy.

**Historical Macroeconomic, Political and Institutional Context**

An understanding of the institutional mandate of the NSIA necessitates viewing these institutional priorities in the context of the political and economic dynamics of the Republic of Nigeria. I present a summary of historical factors related to the launch of NSIA.

Politically, Nigeria is made up of nearly 250 ethnic groups with two major religions in Islam and Christianity. Nigeria has a very fragmented ethnic and cultural identity since the three largest ethnic groups are geographically clustered, with Hausa-Fulani in the North, Igbo in the Southeast and Yoruba in the Southwest. To offset this variation there is a strong federal administrative structure that provides representation for all groups. Nigeria is comprised of 36 states and the Federal Capital Territory. It also has 774 local government areas. Since independence from Great Britain in 1960, military rule was in place till 1999, excluding 1979-1983. Nigeria had its fifth national election in 2015, with the sixth to be held in 2019.

Related to its economic profile, Nigeria is Africa’s largest consumer market with nearly 186 million people and home to nearly 47% of the population in West Africa. The country is
endowed with the largest natural gas reserves on the continent and is Africa's largest oil exporter (nearly 90% of exports). In 2013, Nigeria had a re-based GDP of $510 billion, driven by new valuations for non-oil sectors. Unlike other oil exporting countries, Nigeria performed well during the economic downturn in 2007-2008 and managed to maintain an average growth rate of 7.6%. Other reform initiatives were also undertaken to improve transparency in the oil sector as well as strengthening the entire economy, in terms of governance, private investment, and improved services delivery.

NSIA Background: Welcome to the New Era of Financial Responsibility

The Nigeria Sovereign Investment Authority (NSIA) was created in 2011. In its inaugural 2012 Annual Report, President Jonathan introduces the NSIA with an aspirational declaration, “Welcome to the new era of financial responsibility”. Before the NSIA was founded, surplus reserves from crude oil exports were held in the Excess Crude Account (ECA). Established in 2004 by President Olesegun Obasanjo, the ECA accrued revenue from the premium in oil price relative to a pre-set reference price. Yet after the NSIA’s implementation, the ECA was placed under the NSIA in three "pools:" the Future Generations Fund, the Nigerian Infrastructure Fund, and the Stabilization Fund.

The NSIA was established in the context of the controversial background of the ECA and the larger history of capital flight and financial leakages through government institutions. This history is important for understanding the legitimacy burden of the NSIA based upon its governance standards and execution of its mandate. A brief discussion of this background is

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32 The economy was rebased from $270 billion. This figure was based on new valuations in 2013 for telecommunications, movies and retail: https://www.pwc.com/ng/en/publications/gross-domestic-product-does-size-really-matter.html.
important for illustrating how good governance can be obstructed so that the mechanisms which inform the development of the NSIA can be assessed for their potential effectiveness in stymying non-transparent oil revenue management. Oil was discovered in Nigeria in 1956. Nigeria became a member of the Organization of Petroleum Exporting Countries (OPEC) in 1971.\(^{33}\)

According to a World Bank report, oil and gas are primarily produced from 9 of 36 states in Nigeria, with 5 states contributing two-thirds of the total production.\(^{34}\) Both the Biafran Civil War (1967-1970) and Niger Delta conflict point to role of oil revenue governance in armed conflict in Nigeria.\(^{35}\) A more conspicuous indication of the challenge of oil revenue governance was the decrease in the fund balance of the ECA by $16 billion (85%) in 18 months. Inefficiencies in institutional management along the oil production value chain in Nigeria exacerbate the challenges of decentralized governance.\(^{36}\) Measures have been taken to address mismanagement through approaches such as the country’s participation in the Extractive Industries Transparency Initiative (EITI) and in the Stolen Assets Recovery (STAR) Initiative.\(^{37}\)

In his analysis of the results of the reforms advanced by General Ibrahim Babanginda (1985-1994), Lewis (1996) observes a pattern in administration, which provides a good context for understanding some of the structural context in which the NSIA was established:

A legacy of weak central government, fractious ethnic competition, and centralized revenues have sharply politicised economic management. The interests of the country’s political elites have long been entwined with pervasive distributive pressures on the state. Military and civilian regimes have used extensive controls over the economy to bolster their legitimacy and to funnel resources

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\(^{35}\) Ibid, 7.

\(^{36}\) Ibid.

\(^{37}\) The EITI was established in 2003 and provides governance and validation standards for the extractive industry. EITI audits practices from its 51 member countries which include the entire value chain from extraction to societal benefit. STAR is an initiative of the World Bank and the United Nations Office on Drugs and Crime (UNODC) seeking to eliminate “safe havens” for the distribution of corrupt funds.
towards favoured clients and ethnic constituencies. Nigeria’s emergent domestic business class, though diverse and wealthy, has grown to maturity in the shadow of governmental protection and rent-seeking opportunities.\textsuperscript{38}

According to the National Resource for Governance Institute, the rapid depletion of the ECA due to weak accountability factored into considerations for establishing the NSIA.\textsuperscript{39}

The NSIA is an institutional, credible commitment to signal an improvement in institutional governance. The vision, mission and fund structure (see FIGURE 2) communicate the intention of the government to prioritize good financial stewardship, pursue wealth creation for future generations and address the development deficits of the country.


\textsuperscript{39} Natural Resource Governance Institute. “Nigerian Oil Savings Fund Requires Strong Protections, Revenue Watch Advises Leaders.” 1 July 2010.
**NSIA Vision and Mission Statement**

**Vision:** To establish NSIA as a leading sovereign wealth fund globally; playing a role in promoting investments for economic development

**Mission:** Our mission is to play a leading role in driving sustained economic development for the benefit of all Nigerians through: 1) Building a savings base for the Nigerian people 2) Enhancing the development of Nigeria’s infrastructure 3) Providing stabilization support in times of economic stress

NSIA started with seed funding of $1 billion across three funds: the Future Generations Fund, the Nigeria Infrastructure Fund and the Stabilization Fund.

**NSIA Fund Structure and Strategy**

**Future Generations Fund:**

The objective of the Future Generations Fund (FGF) is to preserve and grow the value of assets transferred into it, by investing in a diversified portfolio of appropriate growth investments, in order to provide future generations of Nigerians with a solid savings base for a time when the country’s hydrocarbon reserves would have been depleted.

**Nigeria Infrastructure Fund:**

The Nigeria Infrastructure Fund (NIF) aims to enhance the development of infrastructure, primarily through investment in domestic infrastructure projects that meet targeted financial returns. Such infrastructure projects could potentially remove limits on the growth of the Nigerian economy, while providing opportunities to NSIA for both income yield and capital growth. We believe NSIA is uniquely placed to attract the investment required by key infrastructure projects and to manage certain project risks. Potential areas for investments include healthcare, transportation, energy and power, water resources and agriculture, amongst others. The Authority may invest up to a maximum of 10% of the funds in NIF in social infrastructure projects, which promote economic development in underserved sectors or regions in the country.

**Stabilization Fund**

The Stabilization Fund (SF) is intended to act as a buffer against short-term macro-economic instability. The SF’s assets are therefore to be invested conservatively, striking a balance between generating a modest positive return and preserving capital in nominal terms. Given the unpredictable and short-term nature of the Fund’s potential liabilities, immediate liquidity is also required. Withdrawals from the SF are to be made at the direction of the Minister of Finance, upon satisfaction of the criteria set out in the NSIA Act.

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40 NSIA 2013 Annual Report.
41 Ibid.
42 Ibid, 9.
As indicated by the list of key events below (see FIGURE 3), in its brief tenure so far, the NSIA has been very active in investing across different sectors, engaging international partners for fund management and co-investment, and received international commendation (Africa Investor Magazine) for its early achievements.

**Chronological Timeline of Key Events**

**May 2011** NSIA established by signing into law by President Jonathan

**October 2012** NSIA Board inaugurated

**December 2012** Development of NSIA operating strategy

**February 2013** Cambridge Associates appointed Investment Advisor. JPMorgan appointed Global Custodian.

**May 2013** NSIA moves into current offices


**August 2013** Stanbic IBTC appointed Local Custodian. CIO assumes duty.

**September 2013** Goldman Sachs, Credit Suisse & UBS appointed Stabilization Fund Asset Managers.


**December 2013** NIF invests in FAFIN & NMRC. Board approves investments in 4 hedge funds, 3 Long Only equity managers and 1 Private Equity manager. Board approves incorporation of 4 sectors specific subsidiaries covering Healthcare, Real-Estate, Power and Motorways.

**February 2014** FGN injects additional US$550 million into NSIA to be managed on behalf of the Nigerian Bulk Energy Trading Company, Plc (NBET) and the Debt Management Office (DMO).

**April 2014** NSIA publishes inaugural Annual Report 2013 with a profit on N525 million. NSIA Healthcare Investment and Development Company Limited (NHIDC), signs Memorandum of Cooperation with six Federal healthcare institutions across the six Federal healthcare institutions across the six geopolitical regions of the country.

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43 NSIA website and 2013-16 Annual Reports.
July 2014  NSIA receives an improved transparency rating in the Linaburg-Maduell transparency index, leaping from joint 33rd to joint second place.

October 2014  NSIA enters into a Collaboration Agreement with the World Bank and other Sovereign Wealth Funds on a Global Infrastructure Facility.

April 2015  NSIA received a new mandate from the Federal Republic of Nigeria to manage 25% of funds accruing to the Federal Government’s Naira denominated Stabilisation Accounts.

May 2015  The Board approved for NSIA to collaborate with GuarantCo to develop an Infrastructure Credit Enhancement Programme in a 50:50 co-operative agreement.

August 2015  The Authority advanced its healthcare investment programme by signing a service provision agreement with an experienced private sector operator to develop and manage medical diagnostic centres in selected cities across the country.

November 2015  NSIA held its first Governing Council (GC) meeting with the National Economic Committee (NEC) under the Chairmanship of the Vice President, Prof Yemi Osinbajo (SAN). At the meeting, US$250 million of additional capital was approved for allocation to the Authority by the members.

July 2016  NSIA approved an investment of US$5 million in Bridge International Academies (Nigeria), an education company that focuses on providing top quality education for children of low-income families. The company aims to roll-out over 80 schools in Nigeria by year-end 2017.


October 2016  Incorporated the Infrastructure Credit Guarantee Company Limited (InfraCredit). Once operational, the company will provide guarantees for credit enhancement of infrastructure bonds.

November 2016  Secured approval to invest in the pre-privatisation phase of the Nigeria Commodities Exchange, Abuja. Signed MOU with Ithmar Capital Morocco for strategic investments in key sectors of the Nigerian economy.

December 2016  Created Special Purpose Vehicle, NAIC NPK Limited, to implement the Presidential Fertilizer Initiative.

Figure 3: NSIA Chronological Timeline of Key Events
Policy Commitment to Best Practices

The Nigeria Sovereign Investment Act (NSIA) of 2011 announced a formal commitment to best practices, in stating the NSIA’s priority to:

Implement best practices with respect to management independence and accountability, corporate governance, transparency and reporting on performance as provided in this Act, including with due regard as appropriate for the Santiago Principles or other similar principles or conventions as may be adopted by the Governing Council as representing international best practices.\(^{44}\)

After the federal government enacted the NSIA Act in 2011, the NSIA became an observer in 2013 to the International Forum of Sovereign Wealth Funds (IFSWF), the sponsor of the Santiago Principles. The IFSWF was established in 2009 and operates as a “voluntary organization” for 32 members who manage over 70% of all SWF assets globally.\(^{45}\) The member organizations voluntarily embrace the Santiago Principles (also referred to as Generally Accepted Principles and Practices or GAPP). According to the IFSWF, these principles “provide 24 practical items of guidance on appropriate governance and accountability arrangements, and the conduct of investment practices necessary for sound long-term investment procedures.\(^{46}\) The Principles also aim to promote cross-border investments and the openness and stability of financial systems.”\(^{47}\)

Process Tracing Analysis: NSIA and the Reform Coalition

The political bargain (see FIGURE 4 below) through which Sovereign Wealth Funds are established was encoded as a legal decree and a structure for the governance, operations and strategy of the wealth fund. This political bargain institutionalized as the NSIA is a key political

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\(^{44}\) NSIA Act 2011, section 4d.

\(^{45}\) http://www.ifswf.org/. Please send the Appendix for the list of Santiago Principles of the IFSWF.

\(^{46}\) Ibid.

\(^{47}\) Ibid.
outcome which is consistent with the principles and 32 empirical dimensions of the Truman Index (dependent variable).

**HYPOTHESES: PRIMARY AND ALTERNATIVE**

- H1: Economic Linkage
- H2: Political Ties
- H3: Executive Socialization

**KEY MECHANISMS OF POLITICAL CONTESTATION**

I) ELITE ARRANGEMENT
II) ELITE INTEREST ALIGNMENT

**KEY POLITICAL BARGAIN: I) LEGAL DECREE**

**II) INSTITUTIONAL DESIGN**

- Primary policy sponsor
- Role of external elites in establishing governance standards and recruiting
- Independent decision-making on investment strategy
- Ring fence provisions for funds from President

**Figure 4: Concept Map for Process Tracing of Norms Adoption by Sovereign Wealth Funds**

The important elements of the political bargain, in terms of the primary catalyst and key attributes of good institutional design, include: a primary policy entrepreneur (catalyst); independent decision-making on investment strategy (attribute); external elites who establish governance standards and recruit talent (catalyst); ring fence provisions against indiscriminate access and deployment of funds (attribute). The participation of external elites suggests that advisors and independent fund managers support the efforts of the wealth funds to operate with transparency and accountability.

**SWF as Reform Coalition**

Several institutional governance indices for transparency and accountability rate Nigeria low (particularly circa 2012), even in relation to other African countries. On this basis, the NSIA bears the burden of demonstrating legitimacy in terms of the governance standards and accountability it employs. Former Minister of Finance (MOF) Dr. Segun Aganga echoed this

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perspective in suggesting that the SWF could serve as a beacon of hope and point the way to new credibility for Nigeria’s institutions. The political bargain represented by the NSIA developed from the efforts of a reform coalition which was formed to redress the management deficits and track record of a predecessor SWF, the ECA. It also entailed delivery on the economic mandate of the state government to stabilize, save and invest in domestic economic development. TABLE 8 below lays out the typology for political contestation which this study applies to the understanding of the political negotiation involved in creating Sovereign Wealth Funds.

Table 8: Coalition Politics Framework - NSIA

<table>
<thead>
<tr>
<th>Coalition Type</th>
<th>Influence on Credible Commitment (CC)</th>
<th>Agent of Change</th>
<th>Veto Player Concentration</th>
<th>Key Political Goal</th>
<th>Effects of the Coalition Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reform Coalition</td>
<td>Redefine or Reinstate CC</td>
<td>Minister of Finance (MOF) as Policy Entrepreneur</td>
<td>High</td>
<td>Balanced Representation of Competing Interest</td>
<td>Key decisions are made independently of state control</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Key questions for examination:</td>
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<td></td>
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<td></td>
<td>- Investment strategy decision-making</td>
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<td></td>
<td></td>
<td>- Provisions for ring fencing?</td>
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<td></td>
<td></td>
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<td></td>
<td>- Central Bank management?</td>
</tr>
</tbody>
</table>

The next section explains the rationale for and execution of the reform coalition related to the formation of the NSIA.

49 Telephone interview with Dr. Aganga on September 26, 2015.
Rationale for a Reform Coalition: Background of the ECA

Former President Olusegun Obasanjo established the ECA in 2004 outside of any constitutional mandate to stabilize the fiscal budget in the event of a budget shortfall derived from volatility in oil prices on the global market. The revenue realized above a benchmarked price was to be automatically allocated to the fund. The ECA and NSIA were part of the policy reform efforts of the government to promote greater economic sustainability. The founding of the ECA was framed as a fiscal stability initiative driven by concern over the volatility of oil prices, but with weak accountability and transparency standards. According to the World Bank, the ECA became strained when “the country was unable to rein in the stimulus spending of 2009 and a further fiscal extension in 2010 quickly depleted the remaining ECA reserves.”

From 2005 to 2008, the funds under management by the ECA increased from $5.1 billion to $20 billion, as oil prices surged during this period. In 2010, the balance of the fund dropped to $4 billion based upon allotments for budget shortfalls and a slump in oil prices. Over the last few years, support for the ECA became very contentious, due to concerns regarding mismanagement. In 2013, observers claimed that a $5 billion deficit in the ECA was unaccounted for and that $3 billion had been misappropriated. These allegations have included accusations from government, civil society and international observers. According to the National Resource Governance Institute (NRGI), the ECA experienced several problems including the lack of protections against variable spending which yielded few results in term of

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50 Bassey (2014), 57.
51 Ibid.
52 Ibid, 32.
54 Ibid.
56 https://www.informationng.com/tag/excess-crude-account
development outcomes. The Revenue Watch Institute cites the following as examples of questionable spending practices:

President Obasanjo’s withdrawals from the ECA appear ad hoc and discretionary, rather than components of a long-term development plan. His withdrawals included at least $8 billion for independent power plants, and $10 billion to compensate for overly optimistic budget revenue projections. These withdrawals, and the flimsiness of their justification, accelerated as the 2007 elections approached and the former President faced political battles and shorter horizons.

The late President Umaru Yar’Adua withdrew funds to appease state governors demanding access to the ECA balance. Federal and state authorities reached a so-called gentlemen’s agreement that permitted 80% of the inflows to be distributed across the three levels of government. Since then, the balance has quickly been depleted, and the governors enjoy regular transfers from the country’s “savings.” President Goodluck Jonathan has continued this practice—authorizing a $2 billion outlay was one of his first actions as Acting President. These withdrawals contribute to damaging instability in state-level incomes. For instance, Bayelsa State’s average monthly allocation fell from N9.8 billion in 2008 to N5.1 billion in 2009, a fluctuation that illustrates how budget levels still follow price volatility.

The Revenue Watch report states that the depletion of the fund and the 2008 fiscal crisis was the impetus for the creation of the NSIA. It was expressly designed to include a constitutional mandate, more general transparency on strategy and operations, and clear guidelines on additions and subtractions from the Fund. The political challenge of the ECA involved balancing the interests and demands of states with those of the national government (elite interest alignment), and, at the same time, ensuring fair representation among competing elites in the procedural approach (elite arrangement) for deciding how to achieve this compromise.

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57 The NRGI is a non-profit institution which offers policy advice and advocacy on natural resource governance. The article reference is presented by NRGI: Gillies, Alexandra. “Sovereign Wealth Fund requires legal standing, binding rules and transparency”, 2. Published in association with the Revenue Watch Institute and the Centre for the Study of the Economies of Africa.
58 Ibid.
59 Ibid.
Engaging the Reform Coalition: Policy Entrepreneurship to Launch the NSIA

The institutional context of low rated state capacity and mismanagement of the ECA are reasons this study frames the NSIA as an institutional mechanism for activating a reform coalition consisting of domestic and international stakeholders. In the following sections, an overview of the negotiation between the MOF and this reform coalition is presented in the discussion of the history of the ECA and the political process driving the ratification of the NSIA Act. The NSIA provides an important opportunity for Nigeria, through institutional learning, to reboot management of a state-controlled fund committed to capital preservation and savings for the Nigerian people.

Established by an Act of Parliament, the NSIA delivered the added dimension of a sophisticated fiscal model and savings mechanism taking into consideration the welfare of future generations of Nigerians. According to Bassey (2014), the NSIA “was necessitated by the depletion and the non-renewable nature of the hydrocarbon resources in the country and the need to develop critical infrastructure that would attract investment and diversify the economy.” Bassey (2014) views the NSIA as notably distinguished from the ECA in that it was created to operate free from “political pressures for withdrawals and transparency regarding the use of funds”. However, the NSIA began with political controversy: in 2011, contending that the funds should be allocated to a pool of capital accessible to themselves and their local and federal government counterparts, about 36 state governors petitioned the Supreme Court to reject the proposal by the federal government to allocate $1 billion from the ECA to seed the NSIA.

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61 Ibid, 60.
Nigeria has clear rules related to “fiscal federalism” regulating the allocation of revenue into the national account:

Nigeria practices fiscal federalism as Section 162 of the 1999 Nigerian Constitution requires that all revenue collected by the federation (except for personal income taxes for military, diplomatic officials, and residents of Abuja) be deposited into the Federation Account (Constitution of the Federal Republic of Nigeria, 1999). All funds in the Federation Account must be distributed among the different tiers of government (federal, state and local) according to a revenue allocation formula determined by the National Assembly. The legislature alters the formula based on proposals submitted by the President on the advice of the Revenue Mobilization Allocation and Fiscal Commission (RMAFC); legislative changes to the formula must remain for at least five years (Suberu: 2008: 466, Constitution of the Federal Republic of Nigeria,). RMAFC is a 45-member committee formed from representatives from each of Nigeria’s 36 states and the federal capital territory, with a chairman; it monitors the deposits and disbursements from the Federation Account, and determines the appropriate salaries for the military and political officeholders (Constitution of the Federal Republic of Nigeria, 1999).63

State governors protested the federal allocation of funds made to states and challenged the creation of the NSIA. Ojibara (2017) provides the legislative and political context of this contention:

Nigeria returned to democracy in 1999, and the National Assembly continued the preexisting military decree for revenue-sharing based on the distribution of 48.50%, federal government, 24%, state governments, 20% local government councils (LGC), and 7.5% special funds. However, in the April 2002 verdict of Attorney General, Ogun & Others vs. Attorney General, Federation and the Nigerian Supreme Court declared it unconstitutional for the federal government to divert revenues from the Federation Account to special funds or entities other than the three tiers of government (Suberu, 2008, 466). This ruling invalidated the federal government’s statutory practice of allocating 7.5 percent of centrally collected revenues to funds for national ecological emergencies and development. Also, the ruling nullified the federal government’s illegal practice of servicing external debts of the federal government directly from the Federation Account before the revenue allocation formula was applied (Suberu, 2008,467).64

The earlier legal history regarding fiscal federalism traces how, based upon the constitution, the discretionary power over the allocation of revenue shifted from the legislature to the president:

In subsequent legal cases brought against the federal government by the state governments in 2002, the Supreme Court reinforced the rulings that (1) the Federation Account belonged to all tiers of government, (2) all revenues must be distributed among the three tiers of government, and (3) each government must service its own debt directly from its share of

63 Ibid, 8.
64 Ibid, 7.
centrally collected revenues (Suberu, 2008, 466-467). In response to the April 2002 ruling, President Obasanjo unconstitutionally altered the revenue allocation formula, however the Supreme Court upheld his action.

Through two executive orders in May and July 2002, President Obasanjo assigned the 7.5 percent that was 46 previously allocated to special funds exclusively to the federal government (Suberu, 2008:467). The May 2002 Executive Order designated 56 percent to the federal government, 24 percent state governments, and 20 percent LGCs; the July 2002 Executive Order altered the allocation to 54.68 percent federal government, 24 percent state governments and 20 percent LGCs (Shuaib, 2008:467). The Supreme Court upheld Obasanjo’s modification to the revenue allocation based on Section 315(2) of the 1999 Constitution which states that “an appropriate authority may at any time by order make such modifications in the text of any existing law as the appropriate authority considers necessary or expedient to bring that law into conformity with the provisions of this Constitution” (Constitution, 1999).65

In 2004, the MOF changed the revenue allocation to its current structure of 52.68 percent for the federal government, 26.72 percent for states and 20 percent assigned to the LGCs.66

The demand of the state governors was for a credible commitment by the President that allocations be distributed fairly in order to benefit all Nigerians. In this negotiation, state governors effectively have veto power through the litigation and electoral process. Their short-term option was to sue the federal government, but the governors could also work to oust the opposition in the National Assembly via the ballot. The NSIA Act would be the credible commitment made by the federal government to establish a special vehicle to invest for the benefit for the current populace and future generations of Nigerians. The principal reform activities in creating the NSIA was establishing a constitutional basis for the operation, management and ring-fencing of the fund from political manipulation.

**Evolution of the Compromise**

In the case of the NSIA, the politics of development involved the negotiation of a structural and procedural arrangement for establishing a new financial institution which would

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65 Ibid, 9.
66 Ibid, 10.
better manage the resources of the nation and install better governance practices. The MOF had previously established the baseline for the ECA but also was responsible for implementing its reform:

Ngozi Okonjo-Iweala, Nigeria’s former minister of finance and coordinator minister of the economy, established both the oil benchmark and the Foreign Excess Crude Account, commonly known as the “Excess Crude Account” (ECA), during her first term as finance minister under the second Obasanjo administration (2003-2007). Originally the ECA functioned as a stabilization fund based on an informal political agreement among the three tiers of government rather than with legal backing (Gillies, 2011: 4). In order to give some legal flesh to the ECA the federal government signed into law the fiscal responsibility act of 2007. The 2007 Fiscal Responsibility Act sought to create a legal framework for centralized savings that respected the above constitutional requirements.67

The political management of competing interest groups was key to the establishment of the NSIA in 2012, both in terms of the deliberations regarding legal structure and investment strategy. A view into this dynamic is indicated by the remarks of Dr, Ngozi Onkojo-Iweala, Minister of Finance, at a civil society gathering to familiarize these groups with the Administration’s economic agenda. Dr. Onkojo-Iweala addressed the challenge of the constitutionality of the NSIA by state governors focusing on the critical need of the fund to support the economic sustainability of Nigeria.68 Two statements by the Minister point to the initial political contestation in the background of launching the NSIA: opposition from the state governors limited the initial funding available to the fund at $1 billion; and, the demand for accountability by the state governors and her emphasis that the NSIA Act called for effective management as a decree of the Legislature. How well the MOFs (Mr. Aganga and Dr. Onkojo-Iweala) were able to negotiate the fiscal federalism of Nigeria would determine the extent NSIA would be able to successfully launch, receive additional funding and maintain popular support.

67 Ibid, 11.
Some observers, such as the NSIA CEO, viewed creating the NSIA as a necessity to address a collective action issue related to the fact that, under the federalist system, individual states were responsible for saving funds which could be deployed towards public projects, such as infrastructure. If these funds were not well managed and shortfalls ensued, then the people in that state would be under-served. Funds accrued to states from surpluses to the national budget. This backdrop of the underpinning of fiscal federalism is important to framing the chronological history of the NSIA. I organize the presentation of this history in three segments: ratification of the NSIA act; the assembly of the governance body and key staff for NSIA; and, year one investment milestones of the fund.

**Ratification of the NSIA Act**

In 2011, the NSIA Act established the NSIA as a decree by the legislature. The major sections of the NSIA Act consisted of: role and authority of the NSIA; governance and management responsibilities; financial provisions for the fund; overview of the three fund vehicles; communications plan; and, indemnifications.\(^{69}\) The politics of this achievement was well managed by two Ministers of Finance, Dr. Segun Aganga and Dr. Onkojo-Iweala. According to the NSIA CEO, in 2010, Dr. Aganga was instrumental in securing the National Assembly’s support for the NSIA Act because of his ability to assemble an international cadre of advisors who provided credibility that the fund would be established with high standards for transparency and accountability and also investment competence for wealth preservation to benefit the people of Nigeria.\(^{70}\) Included in this group were: Dr. Eric Parrado, Former Senior Official for the Chilean SWF, and Staci Warden, an investment advisor from JPMorgan. Dr.  

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\(^{70}\) Interview with NSIA CEO, Mr. Uche Orji, September 4, 2015 (Lagos).
Parrado’s support was particularly important for the education of NSIA stakeholders about best governance structures for Sovereign Wealth Funds, given that he had been an architect of the Santiago Principles. The NSIA was not able to sign up for the Santiago Principles initially due to the delay in establishing the fund. Before becoming a signatory to the Santiago Principles, the NSIA was an observer through the International Forum of Sovereign Wealth Funds (IFSWF). The onboarding process required by the IFSWF required a significant amount of policy disclosure and background information on the stakeholders. According to the CEO, it was better to err on the side of sharing too much rather than too little, based upon the tenuous public trust between the government and populace.

The process for ratification began with the National Economic Council. The National Economic Council (NEC) consisted of the following stakeholders: Chair who was the Vice President of the Federal Republic of Nigeria; other members include State Governors, the Central Bank Governor and an Economic Minister. The NEC announced to the public the plan to set up the fund with $1 billion in 2011. The Federal Executive Council is chaired by the President of the Republic of Nigeria. The NEC received approval from the Federation to propose a bill for presentation to the National House of Representatives and Senate. After public hearings, both houses passed the bill and it was sent by the President for signing into law on the last day of government on May 28.

In 2012, Dr. Okonjo-Iweala implemented the Fund after Dr. Aganga guided its creation by law. Dr. Eric Parrado was brought in by Dr. Aganga to help ensure the agreement was

71 Ibid.
72 Ibid.
73 Interview with Former Nigeria Minister of Finance, Dr. Segun Aganga, September 26, 2015 (teleconference).
74 Ibid.
indicative of best practices, based upon his work as architect of Sovereign Wealth Funds in Chile. He asserted that there were several key factors to establishing the NSIA. First, determining the minimum allocation for each fund. Second, utilizing best practices in structuring the fund. Third, avoiding a breach of the constitution by giving state and local government an ownership interest in the fund. The policies by which the Fund was established were a referendum on the traditional institutionalization process in Nigeria. In the approval process with the Federal Executive Council, all ministers present had to explain their goals.

**Assembly of Governance and Key Staff**

The NSIA Board was established in 2012 and reached out to the IFSWF which was run out of the IMF office at the time. The IFSWF invited the NSIA to participate in its meetings as an observer in 2013 and granted full membership in 2014. The Board and staff held that investment from federal reserves should not happen until agreed upon processes and procedures were in place. Cambridge Associates was formally engaged to advise on establishing an office. The office produced 25 policy statements and selected JP Morgan (London) as global custodian. In line with the prioritization of transparency and high standards for excellence, the fund initially managed the hiring process internally, but found it more efficient and productive to use a professional recruiting firm from Europe.

The NSIA Act specifies how executives should be hired. Dr. Okonjo-Iweala came on aboard after the Act was signed into law and implemented that mandate. She served also as Chair of the executive nomination committee and used a private firm to identify candidates. In addition

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75 Ibid.
76 Interview with NSIA CEO, Mr. Uche Orji, September 4, 2015 (Lagos).
77 Ibid.
to the CEO, a significant hire for the NSIA was the Chief Risk Officer (CRO). In 2011, the CRO established the framework for the investment approach of the fund. Also, the original board of the NSIA was responsible for establishing general governance procedures. However, it was put in motion by the senior executives of the firm.

**Key Hypotheses Discussion**

**Discussion - Executive Socialization Variable (SocLink)**

Given the experience of the ECA and the historical perception of Nigeria’s government institutions, good governance of the NSIA could serve as a means for gaining legitimacy and credibility among international and domestic constituents. This could be achieved through hiring individuals responsible for governance and management of the Fund with strong credentials and expertise. In the case of NSIA, among the Governing Council, Board and Executive Management, having individuals with educational training and professional work experience with western institutions (i.e. US and Europe) signals to the international community that the NSIA will operate with international standards. **TABLE 9** indicates the governance structure and management of the Fund.

**Table 9: NSIA Governance Structure and Management (as of 2015)**

<table>
<thead>
<tr>
<th>Role</th>
<th>Composed By</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governing Council (8 members)</td>
<td>Provides advice and counsel generally to the Board, having regard to the independence of the Authority.</td>
</tr>
</tbody>
</table>
|                               | Chairman: President Jonathan  
Key Members: Dr. Ngozi Okonjo-Iweala, Coordinating Minister for the Economy and Minister of Finance; Central Bank Governor Sanusi  
Other Members: State Governors, Attorney General of the Federation, Minister of National Planning, Chief Economic Advisor, Chair of Revenue, Mobilization, Allocation and Fiscal Commission |
| Board of Directors (8 members)| Established to attain the objectives of the NSIA, as set out in the Act.                                                                                                                                                                                                                                                                    |
|                               | Chair: Alhaji Rasheed, Board Director, First Bank Nigeria  
Key Member: Uche Mr. Orji, Managing Director and CEO, NSIA  
Other Members: Former Goldman Sachs Partner, Former Ecobank CEO, Chair of International Consulting Practice, CEO Aso Savings and Loan  
Committees: Investment, Audit, Compensation, Risk, Finance and General Purpose |
**Key Persons Profile**

Mr. Uche Orji’s background presents first class credentials many of which were obtained through western institutions (see FIGURE 5).\(^78\)

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Mr. Uche Orji is the Managing Director and CEO of the Nigeria Sovereign Investment Authority. He brings a wealth of global experience in the financial services sector in his role as MD/CEO. He joined the NSIA as CEO on October 2\(^{\text{nd}}\), 2012, from Switzerland’s largest bank, UBS Securities, where he was Managing Director in the New York branch of its Equities division. Prior to his experience at UBS Securities, Mr. Orji had also spent 6 years at JP Morgan Securities in London, from 2001-2006, rising from the post of Vice President to Managing Director within the Equities division. Prior to JP Morgan, Mr. Orji was at Goldman Sachs Asset Management, London from 1998-2001, as analyst/portfolio manager. Mr. Orji studied Chemical Engineering at the University of Port Harcourt, Nigeria, graduating in 1990, and also obtained an MBA from Harvard Business School in 1998. Prior to his Harvard MBA program, Mr. Orji worked at Diamond Bank Plc., Lagos Nigeria and Arthur Andersen and Co. He also embarked on his National Youth Service Corp program in Bauchi, in 1991.

**Figure 5: Professional Biography for NSIA CEO Uche Orji**

Dr. Segun Aganga and Chief Risk Officer Stella Okjekwe-Onyejeli indicated that the enlisting of the CEO conformed to this agenda of signaling to the domestic and international community competence, legitimacy and expertise of the CEO.\(^79\) The recruitment process was intentionally transparent and was important to all stakeholders that the NSIA find the CEO through a third-party executive recruiter.

Dr. Ngozi Okonjo-Iweala is another important stakeholder who served as Minister of Finance and member of the NSIA Governing Council. Dr. Ngozi’s experience at the World Bank and member of the Nigeria Economic Team under President Jonathan played a significant role in her ability to adeptly manage the political process for instituting the NSIA (see FIGURE 6).

---


\(^79\) Interview with Dr. Aganga on September 26, 2015 (telephone) and with the CRO, Mrs. Stella Okjekew-Onyejeli (Lagos), on September 4, 2015.
Based upon her international experience and expertise as an economist, she enhanced the credibility of the NSIA.\textsuperscript{80}

Dr. Ngozi Okonjo-Iweala was appointed in July 2011 as the new Minister of Finance for the Federal Republic of Nigeria. Prior to this appointment, she was the Managing Director of World Bank (October 2007 - July 2011) and has also held the position of a Finance Minister and Foreign Minister of Nigeria, between 2003 and 2006. She is notable for being the first woman to hold either of those positions. She served as finance minister from July 2003 until her appointment as foreign minister in June 2006, and as foreign minister until her resignation in August 2006. Dr. Okonjo-Iweala has a PhD in Economics from MIT and a BA in Economics from Harvard University.

**Figure 6: Professional Biography for Former Nigeria Minister of Finance Dr. Ngozi Okojo-Iweala**

Dr. Segun Aganga, as the preceding MOF, also offered a strong track record of professional socialization with Western companies and educational institutions (see **FIGURE 7**).\textsuperscript{81}

Dr. Olesegun Olutoyin Aganga was named Minister of Finance and National Planning designate of Nigeria on 6 April 2010 by President Goodluck Jonathan. After this he won a place at the Ibadan University, where he won a first class honours degree in accountancy in 1980, he then went on to do a post graduate degree at Oxford University. Mr Aganga graduated from Oxford and was specialised in hedge funds and equities, becoming managing director of Goldman Sachs London. Dr. Aganga was the Chairman of the Alternative Investment Management Association's Hedge Fund research committee.

**Figure 7: Professional Biography for Former Nigeria Minister of Finance Dr. Segun Aganga**

I employ the Social Link variable to indicate the influence of professional and educational socialization on the business philosophy and management values of SWF leaders. The argument in this regard is that SWF elites with advanced professional experience and educational training with western institutions will likely utilize these business standards in the

\textsuperscript{80} Dr. Okonjo-Iweala’s bio source: http://www.fmf.gov.ng/the-ministry/management-team/honourable-minister.html
\textsuperscript{81} Dr. Aganga’s bio source: http://nsia.com.ng/board-of-directors/.
structure and philosophy of their management of Sovereign Wealth Funds. In realization of the political bargain which became the ratification of the NSIA Act and the establishing of the governance standards, the credentials of both MOFs and the CEO played a significant role.

**TABLE 10** below summarizes the political bargain and the traceable actions related to the role of the MOFs and the CEO.

**Table 10: Influence of Executive Socialization for NSIA**

<table>
<thead>
<tr>
<th>Political Bargain Outcome – Facilitation Approach and Key Policies</th>
<th>Traceable Effect</th>
<th>Empirical Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Policy Sponsor</td>
<td>MOF and CEO with strong Western professional socialization play major role in facilitating the NSIA Act</td>
<td>High potential influence</td>
</tr>
<tr>
<td>Independent decision-making on investment strategy</td>
<td>Decision-making on investment strategy managed by Western-trained team, with less influence by Executive Office</td>
<td>High potential influence</td>
</tr>
<tr>
<td>Role of external elites in establishing governance standards and recruiting</td>
<td>Governance statutes and decrees are influenced by Western-trained international elites</td>
<td>High potential influence</td>
</tr>
<tr>
<td>Ring fence provisions of funds from Chief Executive</td>
<td>Central responsibility of investment will reside with credible Western-trained executives</td>
<td>High potential influence</td>
</tr>
</tbody>
</table>

As MOFs, Drs. Aganga and Okonjo-Iweala in their individual efforts combined to structure the fund, align competing interesting in establishing the NSIA Act (sponsor role), and recruit senior executives and consultants to the wealth fund. For this reason, their Western pedigree and local ties to Nigeria were viewed as advantages when it came to their hiring of the

82 Table 18 presents the author’s view of the empirical assessment based on the reports and public information related to executive socialization for NSIA.
CEO. The executive track record of the MOFs was critical to being able to leverage social networks (although an executive recruitment firm was employed) and signal that the NSIA would be managed with global standards. Dr. Aganga indicated that it was the intention of the architects of the NSIA to provide also a demonstration effect in good governance for other Nigeria institutions.

Enlisting internationally respected MOFs and a CEO to advance the NSIA meant that the governance standards could be of high standards. The NSIA was initially connected to the IFSWF, the institution which created the Santiago Principles, as an observer in 2011 and then admitted as a member in 2012. Aganga pushed the agenda for the NSIA connecting with the IFSWF and the principles, such that independent decision-making and ring fencing of the fund from executive prerogative are basic tenets of good governance among Sovereign Wealth Funds in democracies.

Discussion – Economic (EconLink) and Political (PolLink) Linkages Variables

In this section, I analyze economic and political linkages between Nigeria and Western countries. TABLE 11 below summarizes the findings, including: general strength of economic and political link variables assessment; key economic and political trends; observations regarding the influence of economic and political ties on key drivers of SWF formation.
Table 11: Influence of Economic and Political Ties for NSIA

<table>
<thead>
<tr>
<th>Economic Link</th>
<th>Overall Rating</th>
<th>Key Trends w West(^3)</th>
<th>Policy Sponsor</th>
<th>Independent Investing</th>
<th>External Elite Support</th>
<th>Ring fence from President</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Link</td>
<td>STRONG</td>
<td>-Nigeria is largest trade partner for US in SUB-SAHARAN AFRICA</td>
<td>No meaningful difference</td>
<td>High potential influence – given concerns about investing for political interests</td>
<td>High potential influence – when internal institutional expertise is weak</td>
<td>High potential influence – given concerns about investing for political interests</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Trade (% GDP) 2012: 13% 2009: 22% 2007: 30%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>ODA (% GDP) 2012: 1% 2009: 2% 2007: 0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>FDI (% GDP) 2012: 0.4% 2009: 4% 2007: 1%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Political Link | MODERATE      | -Cotonou Agreement with EU since 2000 -Bilateral meetings with US since 2010 | No meaningful difference | High potential influence – given concerns about investing for political interests | High potential influence – given concerns about investing for political interests | High potential influence – given concerns about investing for political interests |

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**Economic Ties**

Nigeria is the United States’ second largest trading partner in sub-Saharan Africa, with total trade volume of about $9 billion in 2016,\(^4\) based mainly on oil imports. The US is the

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\(^3\) Source of trade and ODA information is OECD. Trade includes products only (not services). Year in bold indicates year(s) during which the SWF was operational. The year selections align with the Truman scorecard schedule. FDI figures reflect net flow (into Nigeria) from OECD DAC member countries. The primary regression model utilizes ODA and trade information, not FDI, due to the fact that FDI did not contribute any significance to the original model (ODA and trade coded for economic ties). For consistency, I indicate FDI but do not hypothesize how FDI influenced the DV.

largest foreign investor in the nation focusing on the petroleum sector. Nigeria and the US
corporate relationship in AOGA, which provides eligibility for preferential trade agreements.\textsuperscript{85} The EU’s total
trade volume with Nigeria in 2017 amounted to over €24 billion.\textsuperscript{86} In addition to its direct trade
relationship in commodities, Nigeria has a longstanding trade partnership with the EU through
Economic Partnership Agreements.\textsuperscript{87} The Joint Way Forward agreement of 2004 between
Nigeria and the EU established principles for political and economic cooperation that are a work
in progress for tangible implementation.

Strong economic ties with Nigeria likely influence independent investment decisions and
ring fence provisions from head of State, given the concern on the part of Western countries
(particularly the US and EU) about political influences on SWF investment decisions. The
participation in several advisors from the US, EU (and Chile) in the design of the SWF through
development finance institution connections support this conclusion.

\textit{Political Ties}

Since 2010, bilateral meetings between the US and Nigeria have taken place regularly.\textsuperscript{88} Since 2000, under the Cotonou Agreement, the EU and Nigeria have had structured political,
development and trade engagement.\textsuperscript{89} Diplomatic relations between the US-EU and Nigeria have
become stronger as the nation has instituted greater democratic practices. Based upon these
factors, I rate the political ties with the West as moderate.

\textsuperscript{87} http://ec.europa.eu/trade/policy/countries-and-regions/development/economic-partnerships/.
\textsuperscript{88} https://www.state.gov/r/pa/ei/bg/2836.htm.
\textsuperscript{89} https://eeas.europa.eu/delegations/nigeria_en/1621/Nigeria%20and%20the%20EU.
Alternative Hypotheses Discussion

For the state capacity (StateCap), external investment only (ExInvest) and Central Bank management (CentralBank) independent variables, I assess the observed outcome of these factors based on the four dimensions outlined above (key attributes and catalysts). Given the potential imprecision of inferences about the impact of these variables, I describe their influence in terms of varying degrees of potential outcomes or no meaningful difference. TABLE 12 below summarizes my conclusions for the potential outcomes of these variables.

**Table 12: Influence of Independent Variables for NSIA**

<table>
<thead>
<tr>
<th></th>
<th>Policy Sponsor</th>
<th>Independent Investing</th>
<th>External Elite Support</th>
<th>Ring fence from President</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>State Capacity</strong></td>
<td>High potential influence – given policy sponsor reflects state capacity</td>
<td>High potential influence – given this capability reflects state capacity</td>
<td>Low potential influence – most countries use external advisors given Sovereign Wealth Funds are relatively new institutions</td>
<td>High potential influence – justification for President’s control is difficult when state capacity is strong</td>
</tr>
<tr>
<td><strong>External Investment</strong></td>
<td>No meaningful difference</td>
<td>High potential influence – given concerns about investing for political interests</td>
<td>High potential influence – given concerns about investing for political interests</td>
<td>High potential influence – given concerns about investing for political interests</td>
</tr>
<tr>
<td><strong>Central Bank Control</strong></td>
<td>Low potential influence – given no influence of CB</td>
<td>Low potential influence – given no influence of CB</td>
<td>Low potential influence – given no influence of CB</td>
<td>Low potential influence – given no influence of CB</td>
</tr>
</tbody>
</table>

**State Capacity**

As indicated earlier, Nigeria has historically ranked low in terms of state capacity on global scale.\(^90\) The state capacity variable signifies the effectiveness in execution of mandate by government institutions. I observe state capacity to have a strong influence on all four categories,

except external elite support, given that most Sovereign Wealth Funds engage external consultants for assistance in establishing the funds. In terms of independent investing, state capacity has high potential influence on institutional design given the independence of investment decisions from direct oversight from the Chief Executive (President). Strong institutional governance and operations support this independence in decision-making regarding strategy.

**External Investment Only**

When an African SWF invests outside of its domestic or African region, the governance standards are likely more strenuous in order to comply with most foreign host country criteria. The regularity of the reporting for the Future Generations and Stabilization Funds of the NSIA suggests this is the case for NSIA, given that these funds mostly invest in international financial assets. For this reason, an independent investing strategy, external elite support and ring fence provisions are all high potential outcomes. The rationale advanced is that African Sovereign Wealth Funds would have an interest in their investment into foreign countries (particularly US and EU) not being perceived as politically motivated. This perception risk is mitigated when these governance characteristics are strongly designed and enforced. When good governance standards are in place (particularly transparency), suspicion about motivations is less.91

**Central Bank Control**

Central Bank control of Sovereign Wealth Funds presents questions regarding the autonomy of wealth funds in decision-making and strategy. The NSIA operates independently of a Central Bank, so I assert that there is low potential influence across all dimensions.

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91 See Chapter 2 for a detailed discussion of state capitalism and Sovereign Wealth Funds.
Contemporary Macroeconomic, Political and Institutional Context

In 2017, Nigeria was the largest economy in Sub-Saharan Africa. Nigeria surpassed longtime economic stalwart South Africa in 2016, after the latter experienced a significant devaluation of the Rand, recession, downgrades of the credit rating of its sovereign debt and of many of its leading financial institutions. With its national currency devalued by 45% since the Q1 2015, Nigeria is attempting to recover. According to a 2018 forecast, the exchange rate for Naira is expected to depreciate by 7%. Politically, Nigeria is a fragile democracy, but it is progressing procedurally - in 2015, the country delivered a second consecutive democratic election. The oil recession has likely decreased rents and, potentially, influenced a decreased amount of factionalism and contestation between ethnic groups. This decrease in oil-derived reserves has also seemingly mollified the opposition of the state governors to the NSIA. One major trouble spot for Nigeria has been the rise of Boko Haram. The government continues to resist this terrorist group but has not been successful in eliminating it. The sustained activity of this group could negatively impact the international opinion of the investment climate of Nigeria.

Regarding institutional context, Nigeria continues to rank in the lower half or lower quartile of the major state capacity measures used in the PRS study and placed 148 out of 180 in the 2017 Corruption Perception Index published by Transparency International. The recent slump in oil prices has again placed a focus on the institutional capacity of the government.

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92 Nigeria’s GDP was revalued in 2013 from $270 billion to $510 billion. This revaluation accounted for its ascendancy to the top economy in SSA.
According to the African Development Bank, in response to the oil price decline, the government recently implemented a new payroll system across several ministries to promote greater transparency and accountability.

Current State of the NSIA

In 2013, Africa Investor magazine recognized the NSIA as the SWF Initiative of the Year, as a commendation regarding the fund’s potential.\(^96\) While the track record of the NSIA has been short, the early indications are that the new enterprise is successful. It is not clear if the institutional practices of the NSIA have had any positive influence on other institutions of the state. However, in August 2017, three agencies announced a mutual partnership to work collaboratively on increasing savings from oil revenue – the Nigeria Extractive Industries Transparency Initiative (NEITI), NSIA and the National Orientation Agency (NOA).\(^97\)

Governance

In terms of governance, the overall organizational structure of the wealth fund has remained the same, with only new elites placed in existing roles over the years. In 2017, the acting President, Yemi Osinbajo, inaugurated the second installment of NSIA board members. This group was chosen by the National Economic Council and included representatives from all 6 geopolitical zones.\(^98\) According to the acting President, the Board members were selected for a number of reasons, including perception of high personal character: “for those who may demand an explanation of the basis of our choice beyond your academic and track record perhaps it is


\(^{97}\) [https://www.today.ng/business/energy/2838/agencies-agree-oil-revenue-management-governance.](https://www.today.ng/business/energy/2838/agencies-agree-oil-revenue-management-governance.).

important to mention that you have been nominated to serve on account of your well-
demonstrated integrity, patriotism and unique sense of duty”\textsuperscript{99}

Related to the wealth fund’s investment strategy, the priority of the recently installed
Board will be increasing investment in domestic infrastructure, as stated by the CEO Mr. Orji:

We are focused now on domestic infrastructure investment, you are going to see us more in
agriculture. You have seen us run the fertilizer blending Programme and we announced that as at
last week we had released more than three million bags through our Programme. It is the first
time the country will run fertilizer without subsidy and it is being sold at 30 percent below market
price to the farmers in a free market environment.

You are going to see us in agriculture commodities exchange, agriculture infrastructure, power,
toll roads, we are doing a second Niger bridge and you will see us in other areas such as
healthcare. Healthcare is one of the big focus areas for NSIA and then you will see what we
described as midstream to downstream oil and gas. Gas for industry, gas for power. That is what
the NSIA is going to be focusing on\textsuperscript{100}

This focus on infrastructure and agriculture are in line with the priorities set out by the federal
government. This domestic market investment strategy indicates the accountability focus of the
NSIA to citizens, in terms of improving the lives of Nigerians in practical ways beyond savings
via investment in foreign securities. The ability of an institution to adapt to the needs and
requirements of its stakeholders demonstrates maturing capacity. The NSIA also received a
financial pledge of support from the government, in the form of an additional $500 million
allocation to the NSIA.

\textbf{Current Performance}

Regarding performance, as of September 2017, the NSIA now has $2 billion in AUM, with $1.5 billion from the government’s oil reserves and the balance owned by the NSIA or

\textsuperscript{99} Ibid.
\textsuperscript{100} Ibid.
managed on behalf of other government agencies. According to the NSIA 2016 Annual Report, the following milestones have been achieved over the prior twelve months:

- Efficient utilization of equity to drive increased profits as Return on Equity increased by 25% over the period growing from 13% in 2015 to 38% in 2016
- Enhanced performance in terms of use of assets with 36% return on assets in 2016 representing a 24% growth over the preceding period in 2015
- Total Comprehensive Income grew by 469% to close N149.83 billion relative to the 2015 performance on account of strong underlying performance and significant revaluation gains
- Total Assets grew by N420.93 billion, a growth of 97% when compared with the position as of 31 December 2015
- Investment and Interest Income grew by 92% from N5.8 billion in 2015 to N11.2 billion in the period under review

Another significant achievement has been the execution of partnerships with international commercial institutions. According to the 2016 NSIA Annual Report, NSIA has established three co-investment vehicles. First, the Agriculture Fund with South African Agri Private Equity Fund, UFF Agri Fund, to address large scale solutions for food security via a robust out-grower strategy. The target size of the fund is $200 million. The NSIA and the UFF executed their investment agreement in August 2016. The wealth fund has also partnered with Old Mutual to create the $500 million Real Estate fund which will invest in commercial, industrial, and retail assets in Nigeria. One of the potential challenges with the Fund will be foreign currency risk management. The NSIA has also secured a reforestation investment partner and has plans to launch a healthcare fund.

Mr. Orji recently indicated that the NSIA intends to allocate more time and resources to asset management. While no final decision has been reached on the approval and structure to

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103 Ibid, 8.
104 Ibid.
105 Ibid.
engage in asset management, the implication is significant: the government and other domestic stakeholders have been pleased enough with the progress of the NSIA to allow it to move into a related area of wealth management and potentially secure more funds from other agencies of the government to do so.

**Conclusion**

Whatever the current regime, the Nigerian state has repeatedly lacked the commitment and the capacity to facilitate economic transformation, as state elites focused their energies on maintaining personal power and on privatizing public resources. The result – to restate a theme emphasized by the late Nigerian intellectual Claude Ake – was not so much that development efforts failed but that they were never really made – (Kohli 2004)\textsuperscript{106}

In the above reference, Kohli (2004) asserts that Nigeria’s economic transformation has been constrained internally from achieving its economic potential.\textsuperscript{107} He views changes in international oil demand as a phenomenon to which Nigeria’s economy has reacted in the “absence of both an effective state and indigenous capitalism, which could have laid the groundwork for national industrialization.”\textsuperscript{108} The indiscriminate drawdowns from the ECA and the record of missing funds from government institutions observed over the last two decades corroborate Kohli’s claim. These challenges frame the credibility gap confronting the NSIA and all Nigerian state institutions. The NSIA is a state-driven approach to utilizing the global capital markets and transaction-based development to advance economic development. The SWF was introduced in the NSIA inaugural annual report as ushering in a “new era of financial responsibility”. The NSIA is performing well financially (increased AUM from $1billion to $2 billion and increase return on equity from 25% from 2015-16) and is expanding its investment

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\textsuperscript{107} Kohli 2004 claims that the more fundamental internal constraint is neo-patrimonialism.

\textsuperscript{108} Kohli, 2004, 305.
footprint to other sectors, such as agriculture and real estate with international partners. Nevertheless, the track record is still thin, so it is difficult to project the long-term success of the Fund. The analytical contribution of this case study includes: the illumination of the mechanisms for establishing governance norms; insights into effective political management of political-economic elites’ interest; and, implications for approaches to establishing governance structures which support economic development.

**The NSIA and Norms Adoption: Socialization Ties and Policy Entrepreneurship as Key Influencers on Norms Adoption**

The logic of the socialization link explanation is that educational and work training in Western institutions and the relationship network accessed thereby provide a professional socialization and value system. The dissertation argues that this socialization and value system influences the motivations and decision senior leaders have for structuring and managing institutions. As highlighted in this chapter, the primary architects of the NSIA – Dr. Aganga and Dr. Ikonjo-Oweala (both MOFs) - leveraged the influence of their professional socialization and network in deciding how to structure the NSIA. Their past work experience in major multilateral institutions allowed them to engage institutions such as the World Bank and IMF as advisors in creating and structuring the NSIA. Their work as policy entrepreneurs involved negotiating the coordination of interest in Nigeria’s fiscal federalism system and influencing the provisions structuring the NSIA in the NSIA Act.

**Effective Policy Entrepreneurs Can Utilize Systemic Constraints – Fiscal Federalism - for Managing Competing Interest**

As leaders of the reform coalition, the MOFs demonstrated how they can work within constraints of a system and leverage international resources to achieve the targeted political
bargain. The policy entrepreneurs exercised agency to achieve a political bargain, within a political structure characterized by fiscal federalism. The fiscal federalism system of government in Nigeria was a key factor for the political contestation which facilitated the opposition between governors and ECA regarding financial allocations. Given the legal requirement that states receive allocations from oil revenues proceeds, the governors of the nation demanded that the federal government be accountable to this policy.

Fiscal federalism was the structural context for opposition to the NSIA and the veto authority which drove the reform coalition to action and influenced how the NSIA was structured. The governors represented veto players and mobilized to submit a formal request to the Supreme Court to disallow the $1 billion initial capitalization of the NSIA. Although this petition was rejected, the governors were successful in limiting the allocation to $1 billion and influencing the establishment Presidential ring-fence provisions in the NSIA Act. The MOFs were key figures in this contestation and helped create the credible commitment of the NSIA structure to somewhat mollify the political opposition of the governors. One feature of the NSIA strategy which points to the effectiveness of the intervention of these policy entrepreneurs is the creation of an infrastructure fund for national projects. Infrastructure deficits are a common concern of governors and a use of funds for the capital allocation they receive from the federal government. These developments illustrate how structural constraints undergirding political contestation can be overcome and leveraged for establishing effective policies for institutional design.
Effective and Responsible Governance May Require More Expansive Investment Strategies to Achieve Economic Development in the Context of Extreme Market Failure

More than a decade after the publication of Kohli (2004), the NSIA was established to ensure better stewardship of the oil revenue through savings, market stabilization and economic development approaches. The NSIA represents one answer to the critique and challenge proposed by Kohli 2004 that Nigeria create better institutions which will deliberately pursue market-based approaches to economic transformation. The NSIA is still in its infancy but to date its structure and performance are promising for facilitating economic growth, development and an infrastructure for industrialization. As an institution of state capitalism in an emerging democracy, the NSIA pursues state capitalism in a way that requires a broad-based approach, international partners and a talented, credible management team.

Based upon its success to date, the NSIA presents a vindication for a non-traditional approach to economic development by Sovereign Wealth Funds, in that, due to severe market failures, African Sovereign Wealth Funds may have to expand the portfolio of investments beyond financial instruments to include infrastructure, private equity, real estate, and even social development opportunities in health and education. Sovereign Wealth Funds such as Angola’s FSDEA have been criticized for adopting a broader approach (domestic and international assets which are not financial securities) to investing, albeit in part due to the concern that these investments will primarily benefit the family of former President Jose Eduardo dos Santos and not the larger Angolan population. In the case of the NSIA, which has strong ring-fence provisions from Presidential capture and clear withdrawal and drawdown policies, the broader approach to investing could help accelerate economic development and have spill-over effects for improving governance in other state institutions.
While the influence of the NSIA on improved governance across other government institutions in Nigeria merits future research and tracking, the dissertation assesses an SWF operating in a broader institutional context generally characterized by good governance in the next case study – Botswana’s Pula Fund.
Chapter 4: Botswana’s Pula Fund - A Proxy Coalition Managed by Delegated Authority

Pula Fund Case Introduction: Central Bank as Sovereign Wealth Fund Manager

In a lobby café at the Mayflower Hotel in Washington D.C., having just completed an international call and next on his way to the IMF spring meetings in 2014, Festus Mogae shared with me his busy agenda for the week as the board member, advisor and official goodwill ambassador for Botswana to the world.109 As the former President of Botswana, Mr. Mogae is a popular ambassador for Botswana and Africa. When asked about the background to the creation of the Pula Fund, Botswana’s third President (1998 to 2008) spoke excitedly about the institution as if it were his child. He highlighted the record of Botswana in governance and of its involvement in the design of the Santiago Principles – the cornerstone of best design standards for Sovereign Wealth Funds globally. Mr. Mogae was one of the primary architects of the Pula Fund during his role of Minister of Finance and Development Planning. He also had been an Executive Director for Anglophone Africa with the IMF and Governor of the Botswana’s Central Bank (Bank of Botswana). Mr. Mogae credits the success of the Pula Fund to date to the support he had received from President Ketumile Masire and the effective fund governance under Central Bank Governor Linah Mohohlo. Mr. Ketumile Masire served as Botswana’s second President (1980-1998) and Mr. Mogae’s predecessor. Ms. Mohohlo was Governor of the Central Bank from 1999-2016.

Given the management of the Pula Fund by the Central Bank, it can be seen as a proxy institution, working in close alignment with the ruling party (Botswana Democratic Party) in the context of a multiparty democratic republic. This chapter presents: the historical macro-

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109 Interview with Former President Festus Mogae, May 15, 2015 (Washington DC).
economic and political context relevant to the Fund’s origination; the background and narrative history of the launch of the Fund; analysis of the constituent elements of the proxy coalition and the mechanisms by which a political bargain was successfully negotiated; the comparative assessment of the primary and alternative hypotheses on the design of the governance norms of the Fund; contemporary macroeconomic, political and institutional context; the current state of the Pula Fund; and, a summary conclusion of the main findings, assessment of hypotheses, and implications of the case study for a larger contribution to the literature on political economy.

**Historical Macro-economic, Political and Institutional Context**

Botswana transitioned into independence in 1966 through a peaceful negotiation with the British. Mr. Seretse Khama was elected as the first president. He died in office in 1980 and was succeeded by his deputy, Mr. Ketumile Masire, who remained in power until 1998. President Masisi took office in early 2018, succeeding President Khama, as Botswana’s fifth President.

After independence, the GDP grew at 10% annually increasing to 22% between 1969-1974,\(^{110}\) mainly fueled by growth conducive conditions that existed before independence, aid from donors and discovery and exploration of diamonds. The first diamond mine began production in Orapa in 1972 and in 1975, Botswana and De Beers established a joint venture in a 50-50 profit share. Within 15 years, diamonds overtook agriculture as the leading sector contributing 53% of the total GDP. Botswana, with a population of just over two million, has emerged as one of the fastest growing economies in the world (annual average real GDP of nearly 5% for the last few years) mostly due to resource exports. Botswana’s strong economic growth is buttressed by prudent macroeconomic and fiscal management, according to the World

\(^{110}\)http://www.econ.ku.dk/okojwe/filer/UGT%20Seminar%202010/Maria_Fibaek%20The%20modern%20economic%20history%20of%20Botswana%5D.pdf.
Bank. From 2006 to 2009, the nation’s GDP grew by over 8% in 2006 and 2007 and only slightly decreased to 7.8% in 2009, reflecting trends in the global diamond market. Progress in human and economic development has lagged economic performance, given challenges with high incidence of HIV, wealth inequality and health and education development.\textsuperscript{111}

Botswana is a democratic republic with a judiciary which operates independently of the President and legislature. Although a multi-party system, the Botswana Democratic Party has held power since the country achieved independence in 1966. Botswana is ranked 27\textsuperscript{th} in the 2016 EIU democracy index which is an assessment of five dimensions of government: electoral process and pluralism, civil liberties, the functioning of government, political participation and political culture.\textsuperscript{112} Economists and social scientists generally link Botswana’s economic success to the stability and effectiveness of its state institutions.\textsuperscript{113} Acemoglu, Johnson and Robinson (2001) assert that one important reason the country’s state institutions were effective was due to the lack of significant political contestation for rents among elites.\textsuperscript{114} Mining of diamonds produced enough rents in less populous Botswana that there was less incentive to have destabilizing conflict over this wealth.

\textbf{Pula Fund Background: Central Bank’s Proxy Institution}

The Pula Fund was created in 1993 as a vehicle through which the Central Bank of Botswana manages surplus diamond export revenue over reserve requirements. The legal structure of the fund is set forth in an amendment to the Bank of Botswana Act in 1996 under

\textsuperscript{111} Kojo, Naoko, “Small Countries with Volatile Revenue: Botswana and Bhutan”. World Bank, Washington, DC. 2015. The Gini coefficient was .55 for Botswana in 1994 (1 is the measurement for absolute wealth inequality).
\textsuperscript{112} Economist Intelligence Unit (EIU) Democracy Index, \textit{Revenge of the Deplorables} (2016).
\textsuperscript{113} Acemoglu, Johnson and Robinson (2001), \textit{An African Success Story: Botswana}, 4.
\textsuperscript{114} Ibid, 3.
The Central Bank, the Bank of Botswana (BOB), consults with the Ministry of Finance and Development Planning (MFDP) to determine the capital allocation to the Pula Fund based upon adequacy of reserve funds having been met. In addition to the Pula Fund, the BOB keeps on its balance sheet the Government Investment Account (GIA) comprised of current account funds. The Pula Fund provides foreign currency which can be accessed as a contingency against balance of payment shortfalls. The GIA serves as a savings account as a hedge against fiscal shortfalls. Unlike most Sovereign Wealth Funds in sub-Saharan Africa, the Pula Fund only invests in international securities and currencies (ExInvest variable). The Fund uses external managers for some of its international equities and bonds. The BOB develops strategies for the fund implementation over three years. This plan must align with the BOB strategic plan. As an indication of their governance orientation, the BOB generally works by consensus whereby no veto power needs to be exercised.

The funds are generally protected from appropriation by the BOB. However, in special situations such as the developmental needs of the country, the bank can utilize the funds from the SWF. The Fund can adjust its investment strategy or risk management policy through ad hoc formal internal reviews and a formal review utilizing external consultants once every five years. Any recommendations for changes must be taken to the BOB board for decision. During the set-up of the fund, Festus Mogae served as the administrative head because of his role as Minister of Finance and Development. According to section 34 of BOB Act, the BOB will consult the

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116 Ibid.  
117 Ibid, 8.  
118 Interview with Former President Festus Mogae, May 7, 2015 (Washington DC).
Minister about factors related to investment strategy. For management of primary reserves, three months equivalent of imports are held as a cushion in the fund which allows survival of shocks.

The vision and mission of the Pula Fund are focused on capital preservation and diversification based on investments in international assets. Unlike the NSIA, there is no social development dimension of the investment strategy that is structured as a sub-fund. The vision and mission of the Pula Fund (see FIGURE 8) combine the interest of the government in both preservation of foreign exchange reserves and savings for the benefit of the citizens of Botswana.

<table>
<thead>
<tr>
<th>Pula Fund Vision and Mission Statement&lt;sup&gt;119&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Vision:</strong> The fund was established in 1994 with the aim of preserving part of the income from diamond exports for future generations.</td>
</tr>
<tr>
<td><strong>Mission:</strong> The major purpose of the Fund is to invest proceeds from non-renewable resources (minerals) for the benefit of future-generations. The Government of Botswana also invests some of its assets in the Government Investment Account to meet its policy objectives&lt;sup&gt;120&lt;/sup&gt;.</td>
</tr>
</tbody>
</table>

**Pula Fund Structure and Strategy**

The Pula Fund is made up of two accounts that inform how funds are deposited and withdrawn from the respective accounts. Both accounts are managed by the BOB and include:

*The Government Investment Account*

The Government Investment Account belongs to the Government of Botswana and is where the government saves extra mineral revenues. In determining how much mineral revenue to save and spend, Botswana sets a Sustainable Budget Index, the ratio of non-investment spending to non-mineral revenues. For example, in 2012 the government set the Sustainable Budget Index at 0.8, which means that no more than 80 percent of non-mineral revenues can be spent on recurrent government expenditures outside the health and education sectors<sup>121</sup>.

*The Pula Fund Foreign reserves*

This account belongs to the Bank of Botswana and has foreign exchange reserves that are in excess of the amount required for daily foreign transactions (kept in the Liquidity Portfolio and currently set at six months of cover).

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The Bank of Botswana does not regularly publish key events for the Pula. The following abbreviated list indicates early milestones, as presented in FIGURE 9.

### Chronological Timeline of Key Events

**1993:** The Pula Fund in its first incarnation was established under the Bank of Botswana Act of 1975.


**2006:** Expenditure rule is introduced that sets maximum government expenditure at 40% of GDP.

**Figure 9:** Pula Fund Chronological Timeline of Key Events

### Policy Commitment to Best Practices

Botswana is among the founding members of the International Forum of Sovereign Wealth Funds (IFSWF) as well as the Santiago Principles in 2008. The Fund has published a detailed summary of how the structure, governance and investment strategy of the Pula Fund align directly with the Santiago Principles. A few of the highlights include:

1. A monthly bulletin on key statistics and an Annual Report publication;
2. A Board including the BOB Governor, a member from the MFDP but also independent members; the fiduciary role of the BOB must comply with policy outlined in the BOB Act;
3. The BOB as manager of the Pula Fund manages its accounts and records in alignment with international financial reporting standards;
4. Related to its foreign investing priorities, the BOB engages a global custodian to monitor legal compliance and an international portfolio professional is retained;
5. Finally, in terms of ring-fence policies, the government’s drawdowns from the Pula Fund are limited to its share in the fund equivalent to the Government Investment Account (GIA). The ring-fence component is significant for mitigating

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122 Natural resource funds (Pula Fund), Columbia Center on Sustainable Development.
123 Botswana Pula Fund, GAAP Principles.
discretionary spending by the government, such that “the Pula Fund cannot be used in any quasi-
fiscal or off-budget operation to finance investment, or the purchase of goods and services
outside the government budget framework.”

Process Tracing Analysis: Pula Fund and the Proxy Coalition

The political bargain through which Sovereign Wealth Funds are established was
encoded as a legal decree and a structure for the governance, operations and strategy of the
wealth fund. This political bargain institutionalized as the Pula Fund is a key political outcome
which reflects the Santiago Principles and empirical dimensions of the Truman Index.

As with the NSIA, the important elements of the political bargain I examine, in terms of
the primary catalyst and key attributes of good institutional design, include: a primary policy
entrepreneur (catalyst); independent decision-making on investment strategy (attribute); external
elites who establish governance standards and recruit talent (catalyst); ring fence provisions
against indiscriminate access and deployment of funds (attribute).

SWF as Proxy Coalition

The Bank of Botswana is both the primary financial sponsor and administrative head of
the Pula Fund. The Bank defines the budget, governance and reporting of the Fund. For this
reason, I assess the political negotiation to establish the Fund as being driven by a proxy
coalition, that is, an alliance of domestic political elites and international economic elites to
refine and implement the governing agenda of the Bank of Botswana (see TABLE 13). The
proxy coalition consists of senior BOB officials, the MOF and international economic elites,
such as the World Bank and IMF, who serve as advisors and supporters in designing the Fund.

124 Botswana Pula Fund – Legal Framework, Objectives, and Coordination with Macroeconomic Policies.
Based on Botswana’s status as one of the most democratic African nations with strong institutions and governance capacity, the credible commitment represented by the Pula Fund serves to maintain or elaborate the good governance perception of the country and not to redefine or establish it. Establishing the Pula Fund under the auspices of the BOB revealed no intention on part of the Government to signal a reform role (as in the case of the NSIA relative to the ECA). Rather, the Fund was created to provide a complementary function to the BOB in stabilization and savings. Although the BDP has been dominant for decades in domestic politics, there are multi-party elections and independent branches of the government. As discussed later in this chapter, key political-economic elites had different views on the strategy and the management of the Pula Fund. However, the procedural efficiency of the Botswana government in conducting internal consultations among political elites served to deter any divisive, internal opposition to the establishment of the Pula Fund.

Table 13: Coalition Politics Framework – Pula Fund

<table>
<thead>
<tr>
<th>Coalition Type</th>
<th>Influence on Credible Commitment (CC)</th>
<th>Agent of Change</th>
<th>Veto Player Concentration</th>
<th>Key Political Goal</th>
<th>Effects of the Coalition Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proxy Coalition</td>
<td>Maintain or Elaborate CC</td>
<td>Central Bank as Institutional Actor</td>
<td>Medium</td>
<td>Coordination among Allied Elites</td>
<td>Key decisions are made less independently of state control Key questions for examination: - Investment strategy decision-making - Provisions for ring fencing? - Central Bank management?</td>
</tr>
</tbody>
</table>

125 See PSI governance rankings.
The BOB operates within a larger political system dominated by the BDP, such that the state and the BDP have been synonymous in governance since independence in 1966. The government of Botswana acts as an interventionist state based upon its approach to national development by centralized authority and planning through strong institutions. The BDP also engages traditional institutions at the tribal level, the kgotla tribal assemblies, to facilitate deliberation on policies in order garner support of the mass population. The interventionist state approach was initiated at the time of independence in order to address the dire economic position of the country: Botswana was among the poorest countries, underdeveloped in physical and social infrastructure, and its development budget relied solely on foreign assistance. The government was extremely successful in lifting Botswana from poverty at independence to upper middle-income status over a few of decades. From 1966 to 1996, Botswana had the world’s leading growth rate at 8.2%. After agriculture initially boosted the economy at independence, the high growth was driven by mineral sales and sustained progress across real sectors. Leith 2000 places this achievement in context through a comparative assessment:

While some countries have had higher growth rates than Botswana over the most recent decade, not even the Asian tigers of Korea, Thailand, and Singapore exceed Botswana’s rate for three decades. Another way of looking at Botswana’s accomplishment is that, over those three decades, per capita GDP moved from today’s Mali to today’s South Africa.
Political stability and relatively good governance were factors contributing to the economic growth of Botswana. At the same time, the government still faces the recalcitrant wealth inequality (ranked among the top 5 in wealth inequality), particularly the gap between the small group of economic elites and the rural mass population. The government has also been criticized for graft, limiting freedom of the press and persecuting opposition leaders within the BDP. Nevertheless, prudent and effective policy-making are largely viewed as the bedrock of the economic rise of Botswana which also has provided the Central Bank with financial capital to allocate to the Pula Fund:

Botswana did not have a single silver (or diamond) bullet that explains its economic record. Rather, it was the whole range of policies which, working together, proved growth promoting. Minerals policy generated the rents which initiated the growth, but government’s long-term development planning was crucial in channeling funds into investments that promoted both growth and human development, and in maintaining a modicum of fiscal discipline. Given the fiscal discipline, it was possible for the independent central bank to accumulate substantial foreign exchange reserves and pursue a disciplined monetary policy.

The government established the Pula Fund as part of an interventionist strategy through which it could support savings and stabilization under the sponsorship of the Central Bank. The proxy coalition is based on the alignment between the Central Bank and the President in establishing managing the Pula Fund. This alignment required delegated authority to design and implement the plans for the Pula Fund. The administration of these efforts was led by the Minister of Finance and Planning who in the early 1990s was Mr. Festus Mogae.

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133 Good 1992, 95. Botswana has the third highest wealth disparity in the world (Gini coefficient of 60.5) according to the World Bank as cited by http://www.sundaystandard.info/botswana-third-most-unequal-country-world.
Developing the Proxy Coalition: Generational Savings Fund and Coordinating Elite Interests

The Pula Fund was established in 1993, nearly 25 years after the discovery of diamonds, the commodity largely generating its wealth. Botswana had a formal savings plan investing in a reserve fund prior to 1993 but the Fund was created to provide a legal structure for the long-term fund. Several political-economic dynamics informed the decision to develop the Pula Fund. First, given that diamonds were early on recognized to be a depleting asset, there was the debate about focusing on stewardship or direct assistance to the citizens of Botswana. Second, this debate required political management of the interests of the parliament and Ministry of Finance as an instance of coalition politics. Finally, coalition politics focused on the institutional commitment for governance of the resource wealth and involved a decision whether to place this custodian role under the management of the Central Bank, Bank of Botswana, or under a new agency which would be created. The sequencing of the setup of the Pula Fund was based upon the timeline for the resolution of these issues.

During the planning of the Pula Fund, Mr. Mogae was the Minister of Finance and Development Planning (MOFDP). He managed the politics of the assignment process by explaining the rationale for the Pula Fund to Parliament and the need to develop the capacity for stewardship of the diamond resource wealth, given that it was an expiring asset. Mr Mogae had the support of the President and Central Bank but had to win the endorsement of Parliament. The MOFDP had the support of the President based upon the strong rapport he established with President Masire when the President was MOFDP and Mogae served under him. The MOFDP needed to establish the technical capacity to manage the proposed projects and assure Parliament

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136 Observations in this section were based on interview with Festus Mogae on May 7, 2015 (Washington DC).
and other appointed government officials that the development needs of the citizenry would be addressed. Also, there was uncertainty regarding the immediate expenditures involved in establishing and managing a fund.

**Ratification of the Pula Fund**

Mr. Mogae made a strong case to the President and Parliament that the Bank of Botswana had the institutional capacity, strong management track record, and a good international reputation to institutionally steward the Pula Fund successfully. The Parliament, MOFDP and Bank of Botswana (with the support of the President) formed a coalition to shepherd the Fund through domestic and international negotiations. This triumvirate became the proxy coalition contending for the Central Bank to manage the Fund. In terms of outside support, the fund consulted the World Bank, treasury ministers from other countries and the IMF. Mr. Mogae had worked at the IMF and helped bring credibility to this process for the external advisors. The decision was made ultimately to establish the Fund under the management by the Central Bank due to its proven institutional capacity, expertise in finance and concern for political resistance to establishing a new agency to provide oversight. The Fund provided a mechanism to steward the proceeds from diamond sales, but the government had the discretion to use the money for designated purposes by going through Parliament and the Central Bank. While there was confidence in the institutional capacity of the Central Bank, the government did feel that engaging external advisors (e.g. World Bank and treasury ministers from other countries) was prudent.

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137 Observations in this section were based on interview with Festus Mogae on May 7, 2015 (Washington DC).
Key Hypotheses Discussion

Discussion - Executive Socialization Variable (SocLink)

Among multilateral institutions, there was little perception of a governance risk by the Central Bank of Botswana, given that the country historically had been rated as one of the least corrupt countries in Africa by Transparency International. This positive public perception was enhanced by the fact that key members of the proxy coalition, the MOFDP and the Governor of the Central Bank had professional experience and education in Western institutions. The governance structure and management overview are listed below in Table 14.

Table 14: Pula Fund Governance Structure and Management (as of 2015)

<table>
<thead>
<tr>
<th>Role</th>
<th>Composed By</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of Governors</td>
<td>Overall responsibility for the management of the fund such as approving investment policies and guidelines as well as and defines discretionary ranges for tactical asset allocation. Chairman: Key Members: A member from the Minister of Finance and Development Planning; Governor of the Bank of Botswana and 7 independent non-executive directors.</td>
</tr>
<tr>
<td>Investment committee</td>
<td>Makes decisions regarding portfolio rebalancing that are then approved by the Board of Governors and also monitors the performance of external fund managers. Chair: Linah Mohohlo, Bank of Botswana Governor Members: Governor as Chairman, Deputy Governor responsible for the Financial Markets Department, Director of that department, analysts for respective markets (including the Chief Dealer), and the Director of the Research Department.</td>
</tr>
<tr>
<td>Financial Market Department</td>
<td>Executes the investment strategy and ensures that the desired asset allocation is attained in financial markets, using both internal management and external managers. Departments: Dealing and strategy unit, risk management unit, open market operations unit, settlement unit and verification unit</td>
</tr>
</tbody>
</table>
**Key Persons Profile**

As with most of the SWF elites, Ms. Moholo’s background presents impressive credentials many of which were obtained through Western institutions (FIGURE 10):

**Linah Mohohlo** has played a key role in one of Africa’s most successful economies as governor of Botswana’s central bank since 1999. She became governor in 1999 after 23 years with the bank and service with the International Monetary Fund in Washington. She served as governor of the Bank of Botswana until October 2016. She sits on the boards of several major companies in Botswana and elsewhere.

Ms. Mohohlo has read accounting and business, economics, finance and investments at the University of Botswana, George Washington University and the University of Exeter, and has undertaken an executive management programme at Yale University. She has written and published on economics, finance, reserves management and governance.138

**Figure 10: Professional Biography for Former Botswana Central Bank Governor, Mrs. Linah Mohohlo**

The other key actor in the development of the Pula Fund was Mr. Festus Mogae. His educational training and professional socialization was undertaken mostly by Western institutions (FIGURE 11).

**Festus Mogae** served as President of the Republic of Botswana from 1998 to March 2008. He had been appointed Minister of Finance and Development Planning in 1989 and served as Vice President from 1992 until 1998 following a long career in government. He was also Director, then later Chairman of the Botswana Development Corporation and Director of the De Beers Botswana Mining Company (Pty) Limited (Diamond Mining Company), among other posts.

Mr. Mogae served in Washington, DC as Alternate and Executive Director of the International Monetary Fund for Anglophone Africa from 1976 to 1980. He then came home to take up the position of Governor of the Bank of Botswana from 1980 to 1981. He has received innumerable awards and distinctions. He matriculated at Moeng College and trained as an Economist at the Universities of Oxford and Sussex in the United Kingdom.139

**Figure 11: Professional Biography for Former Botswana President Festus Mogae**

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139 Source: the WTO.org: https://www.wto.org/english/forums_e/debates_e/festus_mogae_popup_e.htm
I employ the Social Link variable to indicate the influence of professional and educational socialization on the business philosophy and management values of SWF leaders.

**TABLE 15** below summarizes the political bargain and the traceable actions related to the role of the MOFs and the Governor.

**Table 15: Influence of Executive Socialization for the Pula Fund**

<table>
<thead>
<tr>
<th>Political Bargain Outcome – Facilitation Approach and Key Policies</th>
<th>Traceable Effect</th>
<th>Empirical Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Policy Sponsor</td>
<td>MOF and CB Governor were influential in establishing the Fund in line with national priorities as coordinators</td>
<td>High potential influence</td>
</tr>
<tr>
<td>Independent decision-making on investment strategy</td>
<td>Political-economic elites supporting the national agenda were key decision-makers</td>
<td>High potential influence</td>
</tr>
<tr>
<td>Role of external elites in establishing governance standards and recruiting</td>
<td>Governance statutes and decrees are influenced by Western-trained and local elites</td>
<td>High potential influence</td>
</tr>
<tr>
<td>Ring fence provisions of funds from Chief Executive</td>
<td>The Chief Executive can access the Fund for strategic budgetary reasons such as stabilization</td>
<td>Medium potential influence</td>
</tr>
</tbody>
</table>

Both the MOF and BOB Governor were educationally and professionally trained in the West and were part of the political-elite in Botswana who were aligned with BDP and national priorities. As such, they served to coordinate and align elites (as policy sponsors) and Pula Fund policy with the agenda of the national government. They utilized their expertise, network and influence in connecting multilateral advisors and selecting Western fund financial institutions to manage an allocation of funds from the fund. As part of the political-elite aligned with the BDP and the national agenda, the BOB managers exercise autonomy based upon their role responsibility. I judge the ring-fence provision as a medium potential influence, given the
accessibility of the funds by the President for budgetary reasons but limited to the government’s share of the Fund.

**Discussion – Economic (EconLink) and Political (PolLink) Linkages Variables**

In this section, I analyze economic and political linkages between Botswana and Western countries (US and EU). **TABLE 16** below summarizes the findings for economic and political links.

**Table 16: Influence of Economic and Political Ties for the Pula Fund**

<table>
<thead>
<tr>
<th></th>
<th>Overall Rating</th>
<th>Key Trends w West</th>
<th>Policy Sponsor</th>
<th>Independent Investing</th>
<th>External Elite Support</th>
<th>Ring fence from President</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economic Link</strong></td>
<td>STRONG</td>
<td>-EU/US are leading trade partners</td>
<td>High potential influence</td>
<td>High potential influence</td>
<td>High potential influence</td>
<td>High potential influence</td>
</tr>
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<td></td>
<td></td>
<td>Trade (% GDP)</td>
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<td></td>
<td></td>
<td>2012: 25%</td>
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<tr>
<td></td>
<td></td>
<td>2009: 6%</td>
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<tr>
<td></td>
<td></td>
<td>2007: 15%</td>
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<td>ODA (% GDP)</td>
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<td></td>
<td></td>
<td>2012: 1%</td>
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<tr>
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<td></td>
<td>2009: 3%</td>
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<tr>
<td></td>
<td></td>
<td>2007: 1%</td>
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<td>FDI (% GDP)</td>
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<tr>
<td></td>
<td></td>
<td>2012: 0.8%</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>2009: 1%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2007: 0.8%</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>Political Link</strong></td>
<td>STRONG</td>
<td>-Cotonou Agreement with EU fosters ongoing dialog</td>
<td>High potential influence</td>
<td>High potential influence</td>
<td>High potential influence</td>
<td>High potential influence</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-Historically strong relationship based on democracy and good governance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

140 Source of trade and ODA information is OECD. Trade includes products only (not services). Year in bold indicates year(s) during which the SWF was operational. The year selections align with the Truman scorecard schedule.
Economic Ties

Around the time the Pula Fund was created, diamonds, vehicles and meat were the primary export products of Botswana. The leading import products beginning in 1994, shifted from machinery to beverages and food. In 1994, the net balance of trade in goods between the US and Botswana on a nominal basis was only $9.1 million (exports of $22.7 million and imports of $13.6 million). By 2016, the US two-way trade with Botswana was $865 million. In 2008, the US established the Trade, Investment, and Development Cooperative Agreement, a forum for trade discussions with Botswana through the Southern African Customs Union (SACU). As a signatory to the Cotonou Principles, Botswana has a trade arrangement with the EU which offers the country trade preferences on certain imported goods. In 1994, the EU was the top export destination for Botswana goods at about 86%. From 1994 to 2013, about 50.7% of Botswana’s exports went to Britain. In 2017, Botswana total trade volume with the EU was about €1.6 billion. Overall, the economic link with the West seems strong.

Political Ties

Diplomatic relations between the US and Botswana have been historically strong given the comparable political systems the countries share. UK and EU have good political relations with Botswana post-independence. The Cotonou Agreement supports ongoing diplomatic collaboration between the EU and Botswana.

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Alternative Hypotheses Discussion

For the state capacity, external investment only and Central Bank control independent variables, I assess the observed outcome of these variables related to the four dimensions outlined in the legal statute and governance framework of the wealth funds. Given the imprecision of inferences about the influence of these variables, I describe their influence in terms of varying degrees of potential outcomes or no meaningful difference. **TABLE 17** below summarizes my conclusions for the potential outcomes of these variables.

**Table 17: Influence of Independent Variables for the Pula Fund**

<table>
<thead>
<tr>
<th></th>
<th>Policy Sponsor</th>
<th>Independent Investing</th>
<th>External Elite Support</th>
<th>Ring fence from President</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>State Capacity</strong></td>
<td>High potential influence – given the nation’s high governance rankings historically</td>
<td>High potential influence – given the nation’s high governance rankings historically</td>
<td>High potential influence – given the nation’s high governance rankings historically</td>
<td>Medium Potential influence – given CB management but President has some influence</td>
</tr>
<tr>
<td><strong>External Investment</strong></td>
<td>High potential influence – given domestic investment is not allowed</td>
<td>High potential influence – given domestic investment is not allowed</td>
<td>High potential influence – given domestic investment is not allowed</td>
<td>Medium Potential influence – given CB management but President has some influence</td>
</tr>
<tr>
<td><strong>Central Bank Control</strong></td>
<td>High potential influence – given CB role as coalition partner</td>
<td>High potential influence – given management by CB</td>
<td>High potential influence – given management by CB</td>
<td>High Potential influence – given CB management but President has some influence</td>
</tr>
</tbody>
</table>

**State Capacity**

Related to state capacity, among sub-Saharan Africa countries, Botswana is a perennial leader in governance rankings for the Africa region according the World Bank indicators. Several reasons are posited for this status. First, the country has a relatively talented pool of technocrats. Botswana encouraged expatriates to train local workers after independence and
invested in the education abroad and training.\textsuperscript{146} A large percentage of these trained civil servants have been retained to bolster public institutions in Botswana.\textsuperscript{147} Second, the traditional political culture surrounding kgotla tribal customs as supporting informal traditions of accountability still influences the political culture of the country. Third, although not a leading trade partner (in terms of monetary value) with Western states and multilateral institutions, based upon it history of democracy, the country has engaged several countries and institutions in the design of the Sovereign Wealth Fund and was engaged as one of contributors to drafting the Santiago Principles.

**External Investment Only**

As mandated by the BOB Act, the Pula Fund only invests in international financial assets. The Central Bank uses both internal and external fund managers and investments are made into both fixed income and equity assets. The equity investments are all done by external managers. Part of the influence of this variable can be measured by the frequency and transparency of public reporting done by the BOB regarding the Pula Fund. Compared to other Sovereign Wealth Funds in sub-Saharan Africa, this reporting frequency is above average. Given this foreign investment only mandate, international financial standards of foreign clients, advisor and investment partners place a high governance expectation on the Pula Fund. For this reason, the work of the policy entrepreneurs (BOB Governor and MOF), independent investing and advice from external managers have high potential influence on the governance standards of the Fund. I assess a medium potential influence for ring-fencing from the government because the

\textsuperscript{146} Sebudubudu and Bothomilwe (2011), 35; Leith 2001, 2.

\textsuperscript{147} Ibid.
institutional landscape of Botswana circumscribes this direct control overall as do the policies of
the Fund.

Central Bank Control

This variable is defined by how independent of the Central Bank direct management the
SWF operates. The Central Bank has direct oversight of the Pula Fund and capitalizes it.
According to the Bank of Botswana Act, the President can issue policy related to the Central
Bank when the BOB is not fulfilling its objectives and is petitioned to do so by the MOF.\(^{148}\)
Based upon its legal mandate to be under the supervision of the BOB, the Pula Fund does not
operate independently of the Central Bank. However, a more important question is to what extent
does this relationship with the Central Bank influence the ability of the fund to not be co-opted
primarily for political interests of the state. The BOB is represented on the Fund's board and
manages the Fund per the BOB act. The board members are chosen for the board to help the
BOB governor run the central bank primarily and the Pula Fund as a secondary priority. Risk
management is an important direct responsibility of the BOB, while it engages external and
internal fund managers as custodians of the bank. Investments in the bank reserve and the Pula
Fund portfolio are managed by the BOB. Given the direct oversight of the Fund by the Central
Bank, the influence of this institution is salient for establishing the governance standards of the
Fund.

Contemporary Macroeconomic, Political and Institutional Context

According to the African Development Bank, in 2015, Botswana’s economy tightened by
1.7% in response to less export demand for diamonds and internal market challenges such as

drought, electricity and water shortages.\textsuperscript{149} In 2016, GDP expanded by 4.3\% and is projected to rise slightly to 4.5\% in 2017.\textsuperscript{150} The 2016 performance represented a rebound from two cycles of economic downturns associated with volatility in diamond prices after 2008 and again in 2013. The World Bank reports that the national budget approved for the 2018-2019 year will allocate 33.4\% of GDP to spending and lending. However, a budget deficit of 1.8\% of GDP is expected.\textsuperscript{151} Botswana’s main import partner remains South Africa (60\% of goods) and its primary export partner (diamonds) is Europe.

Botswana continues to pursue its regional diversification interest as a member of the Southern Africa Development Community (SADC) and Southern Africa Customs Union (SACU). Botswana is focused on regional transport as a growth sector: the country is developing the Kazungula Bridge Project and is leasing Walvis Bay Port in Namibia to facilitate export-import.\textsuperscript{152} Domestic market diversification is also important to Botswana. In his inauguration speech in April 2018, Botswana’s new President, Mokgweeti Masisi, announced support for an economic diversification program, The Economic Diversification Drive (EDD), which will support the development of sector clusters, with high priority given to diamond processing, mining, financial services, tourism and cattle.\textsuperscript{153}

\begin{thebibliography}{99}
\bibitem{Ibid} Ibid.
\end{thebibliography}
Current State of the Pula Fund

Governance

In October 2016, Mr. Moses Pelaelo succeeded Ms. Linah Mohohlo as Central Bank Governor, by Presidential appointment. He joined the BOB in 2006 and previously served as Deputy Governor.154

Current Performance

There are different accounts of the performance of the Fund. According to the official website of the BOB, the Fund has increased significantly in value since 1994 due to an effective investment strategy and balance of payment surpluses.155 The Fund acknowledges “outflows” for funding the Public Officers Pension Fund and to stabilize currency reserves after the 2008 global financial crisis.156 In the last couple of years, an alternative report on the Fund’s performance claims that repeated (sometimes indiscriminate) withdrawals have curtailed its growth and threaten its future financial sustainability:

With diamonds accounting for 80% of the country’s forex earnings and 39% of public revenue, the fund is not large enough to keep the economy ticking over beyond the end of the decade. One reason for its less than stellar performance is that the bank and the finance ministry have drawn on the fund repeatedly. The bank’s financial statements show there were drawdowns in 2002, 2003, 2005, 2008, 2012 and last year. Many appear to have been opportunistic and short term. In some cases, no reason is given for them.157

These observations regarding Fund drawdowns suggest a paradox: the Pula Fund appears to have less rigorous standards for withdrawals than the NSIA but still overall has above average governance norms, based on its position in the Truman Index (particularly relative to sub-

154 Mr. Pelaelo’s bio: http://www.bankofbotswana.bw/content/2009102212149-governor.
155 http://www.bankofbotswana.bw/content/2009103013033-pula-fund.
156 Ibid.
Saharan Africa funds). Perhaps, the use of the drawdowns makes a difference in the assessment, in that funds withdrawn which are used for strategic purposes (e.g. stabilization) should be evaluated differently than the case of capture for the President’s aggrandizement (directly or indirectly). One important criteria of Sovereign Wealth Funds should be their ability to improve transparency and accountability for withdrawals or “outflows”, which could help the image of the Pula Fund and support capital preservation. It is important to note that the government invests directly into social development which could explain why the Pula Fund has no special allocation for these investments, unlike the NSIA and FSDEA.

Conclusion

[Botswana’s experience] shows democratic forces in Africa in the 1990s that multi-party politics, while necessary and highly desirable, are in and of themselves insufficient, and that an efficient, carefully interventionist state is also essential for sustained development. (Good 1992)

The story of Botswana’s dynamic record of economic growth over 30 years is well-known among economists and political scientists. The view on the governance track record must be balanced, given some of the wealth inequality, corruption and narrow electoral competition evident in the country’s post-independence history. While Botswana is nominally a multi-party state, the BDP has been dominant since independence. The kgotla traditional assembly system in the country has facilitated direct interaction of the BDP with the mass population and is seen as an informal mechanism of accountability between the BDP and the populace.158 Concerning government control, the Pula Fund operates as a division of the Central Bank. This relationship of direct control impacts the way in which norms of government are derived and structured in the

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Pula Fund. In this conclusion section, I discuss these factors according to the following outline: main findings that social and political ties are influential but other alternative explanations are also relevant, such as Central Bank control and exclusively investing in international financial assets; the influence of path dependence and elite coalitions on Pula Fund governance; and, importance of structural adjustment within the Pula Fund to better support long-term economic development.

The Pula Fund and Norms Adoption: Political Linkages and Socialization Ties Factor Highly, But Alternative Hypotheses Are Also Important

The Pula Fund is the only Sovereign Wealth Fund from sub-Saharan Africa analyzed in this study which exclusively invest in international financial assets. It is also managed by the Central Bank (Central Bank control alternative hypothesis). Investing in assets domiciled in other countries (Exinvest alternative hypothesis) with high governance standards can provide motivation to structure similarly with good standards, given that foreign investors undergo scrutiny as to their intentions and may want to emulate the standards of these western countries. The reputation of Botswana as an established democracy with strong institutions influenced its approach to employing good governance practices.

Both the former Governor of the Pula, Ms. Mohohlo, and a chief architect of the SWF, Former President Festus Mogae, have strong professional socialization links with the West, in terms of post-secondary education and work experience. Their relationships with multi-lateral institutions helped enlist advisory support in the setup of the Fund. Their dual positioning among Western elites and as political-economic elites in Botswana allowed them to coordinate and align efficiently the Pula Fund policies with the national agenda.
The BDP has held executive office and controlled Parliament in Botswana since independence in 1966. The party was established and advanced by a contingent of political elites with significant ownership in cattle. These political-economic elites form the nucleus of the actors represented by the proxy coalition. The proxy coalition coordinates and extends their interests through capitalist means mediated through Botswana’s institutions. The Pula Fund and its manager, the BOB, are examples of these institutions. This framing is important because it explains in part the two-fold structure of the Pula Fund: a Government Investment Account owned by the government of Botswana and the foreign reserves of the Pula Fund belonging to the BOB.

The proxy coalition which established and manages the Pula Fund deserves credit for relatively sound management of the Fund. Although the value of the Pula Fund has been observed to have decreased (impacted by volatility in diamond prices) since its founding and unexplained capital drawdowns have been reported by the media, the international reputation of the Pula Fund is still relatively strong (but not perfect). Evidence of this is seen by the enlistment of the Fund as advisor to the IFSWF on the Santiago Principles.


Structural Adjustments in the Pula Fund to Pursue More Diversification Can Support Economic Development

Botswana’s democracy is still a work in progress, given the domination of the BDP, under-developed civil society, and tenuous media independence. In terms of economic development, Botswana’s record of three decades of world-leading economic growth from an extremely low base, attainment of upper middle-income status, and a highly literate citizenry (88% compared to the world average of 86%) is very commendable.\(^{161}\)

Botswana is also among the world leaders in wealth disparity. The Pula Fund is not the vehicle through which the country will directly address this issue. However, the Fund can pursue greater diversification by employing an investment strategy targeting high returns.\(^{162}\) Greater profits for the Fund can be utilized as a hedge against volatility in the commodities market and increase savings for the benefit of future generations, particularly given the projection that the country’s diamond supply could be exhausted in three decades.\(^{163}\) Given that the Pula Fund’s assets are nearly 50% of Botswana’s GDP (Nigeria 0.2%; Angola 4.3%), the Fund does not have the flexibility to risk this capital by pursuing diversification in the way that the NSIA or the FSDEA does. Also, given its small consumer market (population of 2 million), there are macro-economic constraints which will make Botswana a less attractive FDI destination outside of mining, despite its record or good governance and state capacity.\(^{164}\) However, a modified approach to greater diversification could allow the Fund to increase its assets over the next decade. Some percentage of this capital could eventually be shared with institutions directly

\(^{161}\) https://knoema.com/atlas/Botswana/Adult-literacy-rate.
\(^{163}\) https://uk.reuters.com/article/uk-botswana-diamonds-idUKKCN11W16O.
\(^{164}\) There is no evidence that SWF ratings influence FDI decisions from foreign countries.
responsible for social welfare and job creation. An example of an SWF committed to advancing both economic and social development as part of its formal investment strategy is the FSDEA, the next case study analyzed.
Chapter 5. Angola’s FSDEA Fund - Captive Coalition and Executive Initiative

FSDEA Case Introduction: Investing for National Development

“The [Civil] war [from 1975-2002] left millions of displaced people. It destroyed the arable lands and the transport infrastructure so the country was really concentrated in the capital cities which were by the sea border, and the hinterlands basically became isolated islands from the rest of the development. Today, 10 years ahead more or less, there has been a lot of investments in infrastructure, airports, ports and roads, all with the aim of bringing investment from the capital cities from near the sea, into the hinterlands where there used to be the farming and the industry.

That’s a process that started right after the war. The government contracted several loans which was somewhat interrupted because of the financial crisis and the liquidity shortage that brought about, and that was actually one of the reasons why the sovereign wealth fund was created. Because at that stage the parliament decided to set up a reserve account and, going forward, the account was regulated by the government and they created a special entity that would manage these reserves.”

- Jose Dos Santos, 2013, Former FSDEA Chairman

The statement above references interview remarks given by the former FSDEA Chairman in 2013 shortly after the establishment of the Fund. The Chairman indicates important reasons for this interest: management of foreign reserves and economic development through the buildout of infrastructure and other key sectors. The development orientation of the FSDEA is a prominent feature of its investment strategy. The FSDEA addresses the extraordinary need and opportunity to steward oil profits for the benefit of Angolans.

The FSDEA was established by Presidential decree No 48/11 of Mr. Jose Filomeno dos Santos, originally in the name of Oil Fund (Fundo Petrolífero). For this reason and the lack of

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165 How We Made it in Africa Series. Angolan President’s Son talks about the new Sovereign Wealth Fund. Kate Douglas. March 11, 2013.

166 Some analysts have questioned the credibility of the investment strategy, citing suspicion around the Fund’s investments in hotels as part of an infrastructure strategy. In this study, the ethical dimensions of the investment strategy are not examined. Rather, the political and economic influences on the design of the FSDEA are the focus of the assessment of this wealth fund.
political contention among potential veto players, the FSDEA was not established in a context in which coalition politics managed by a Minister was the defining process. Rather, the analysis of the development and institutional design of the FSDEA is an examination of how an authoritarian government executed on the institutional credible commitment represented by the Fund to both key domestic and international constituencies. The FSDEA case illustrates political and economic influences on the activity of a captive coalition of players who, as delegated authority, implement policies which carry the weight of executive orders.

The chapter is organized according to the following plan: the historical macro-economic and political context relevant to the Fund’s origination; the background and narrative history of the launch of the Fund; the captive coalition as a mechanism for norms diffusion for the FSDEA; the comparative assessment of the primary and alternative hypotheses on the design of the governance norms of the Fund; the contemporary macroeconomic, political and institutional context relevant to the FSDEA; and, a summary conclusion of the main findings, assessment of hypotheses, and implications of the case study for a larger contribution to the literature on political economy.  

Historical Macroeconomic, Political and Institutional Context

When the FSDEA was established in 2012, Angola had a population of about 25 million, comprised of three main ethnic groups: Ovimbundu (37%), Ambundu (25%) and Bakong (13%). Angola is a Republic with a multi-party system, dominated by the MPLA. Angola became independent from Portuguese colonization in 1975 through the Angolan War for Independence from 1961 to 1974. Angola adopted its first constitution in 2010. The government has Executive, 

167 Unlike the NSIA, the presentation of FSDEA is predominantly based on desk research and a brief interview with the Chairman only.
Legal and Judicial branches and legal system based on Portuguese law. The presidency of Angola was controlled by Mr. Jose Eduardo dos Santos from 1979-2017. The President’s son, Mr. Jose Filemeno dos Santos, was the Chairman of the FSDEA when the field research was completed. In 2018, the new President of Angola, Mr. Joao Lourenco, appointed Mr. Carlos Alberto Lopes as Chairman of the Fund.

In 2012, Angola experienced the 10th anniversary of the end of its civil war. The civil war (1975-2002) shapes the economic context of Angola in which the FSDEA was established. During the civil war, Angola experienced destruction of its physical and social infrastructure. Many of its professional cadre of workers from the settler community had left prior to the war in 1974. In late colonial Angola, between 1961 and 1974, the economy overall was strong with annual growth rates of 4.7%. This was influenced by infrastructure investments, infusion of skilled European immigrants, a growing oil-based economy and a robust manufacturing industry driven by consumer products.

Near the time of FSDEA was established, in 2011, Angola’s GDP per capita was $5,146. In 2012, oil proceeds accounted for 80% of fiscal revenues and 98% of all exports. Angola was still the second largest producer of oil behind Nigeria and had a plentiful endowment of natural gas, diamonds, iron, copper and cobalt. The annual GDP growth was 11.6% over the

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171 Ibid, 7.
172 Ibid, 8.
prior decade.\textsuperscript{174} China remains its long-time top trade partner, principally through Sonangol, Angola’s state oil company.

**FSDEA Background**

Angola launched the FSDEA one month after its national Presidential election in 2012. However, the work to develop this state-controlled wealth fund had begun years earlier. In 2008, there was a national decree from the President and legislature to set up a commission for establishing an SWF. The impetus for this was the fact that Angola had significant reserves and oil prices were strong and expected to increase. The Fund was initially capitalized at $3.6 billion but received another allocation of $1.4 billion in 2013 to reach $5 billion in one year. At the inception of the fund, the Strategic Financial Oil Reserve Account for Infrastructure, a fiscal stabilization account, was to make annual allocations to the FSDEA from its budget surplus.\textsuperscript{175} In a Reuters interview, the Fund Chairman, Jose dos Santos indicated that one third of the funds would be designated for “opportunistic investments” which include those into overseas companies which can help bring technology and talent into Africa.\textsuperscript{176}

In the same article, Reuters asserts that, according to a source connected to the Fund, the Fund custodian is believed to be Northern Trust Bank.\textsuperscript{177} The FSDEA balances both investing for financial return and social impact. This developmental focus was criticized by the IMF as misguided due to the potential to disrupt the domestic economy by creating enterprises with a development mission which duplicates and competes with existing government institutions.\textsuperscript{178}

\begin{footnotesize}
\textsuperscript{174} Ibid.
\textsuperscript{175} http://www.fundosoberano.ao/faqscategories/assets-under-management/.
\textsuperscript{176} Reuters Interview Angola’s $5 billion sovereign fund. September 3, 2014.
\textsuperscript{177} Ibid.
\textsuperscript{178} https://mg.co.za/article/2014-09-11-blurred-lines-on-angolan-wealth-fund/.
\end{footnotesize}
However, the dissertation challenges this perspective by asserting that social development can align with capital preservation goals and address market failures in economic development. Perhaps, African Sovereign Wealth Funds will contribute to expanding working models of social development that is based on market approaches managed by states. Success in this regard could also support the ability of African states to rely less upon foreign aid for addressing their development.

The vision and mission of the FSDEA communicate the strategic importance of capital creation and preservation through both international and domestic investments (see FIGURE 12). Unlike, most Sovereign Wealth Funds, the FSDEA has a domestic investment strategy that prioritizes development through funds earmarked for this purpose.

**Vision:** Promoting the socioeconomic development of the Angolan people through the generation of new sources of income for the State.

**Mission:** Generating sustainable and long-term financial returns which benefit the economy and national industry, through the efficient management of diversified investment portfolios in financial assets.

**FSDEA Structure and Strategy**

**Savings:** up to 50% of resources are invested in fixed income and treasury instruments, securities of sovereign agencies, supranational institutions, large companies with investment-grade, financial institutions of other countries with the G7 and also in equities by companies within the G7 countries;

**Stabilization:** up to 32.5% of resources are invested in alternative investment strategies, including, but not restricted to, emerging markets, high yield commodities, agriculture and mining, infrastructure, real estate, BRICS and frontier market equities, as well as opportunities in distressed assets;

**Social Development:** a minimum of 7.5% is invested in social development projects and social responsibility investment.

**Figure 12: FSDEA Vision and Mission Statements**

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179 2013 and 2015 FSDEC Annual Reports.
The key events announced after the set-up of the Fund have focused on changes in leadership and the creation of new investment vehicles (See FIGURE 13).

**2008 November:** The President of the Republic of Angola, José Eduardo dos Santos, announced the establishment of a special commission to set up the foundations for a new sovereign wealth fund to promote growth, prosperity and socio-economic development across Angola.

**2011 March:** Fundo Petrolífero (i.e. Oil Fund) was established by Presidential Decree 48/11 of 9th of March, to manage the Financial Strategic Oil Reserve for Infrastructure.

**2012 March:** Oil Fund Board of Directors was appointed and started its activities by formulating the institution’s operational strategy.

**2012 October:** The Fund established its headquarters and was publicly denominated “Fundo Soberano de Angola” (i.e. Angolan sovereign wealth fund) or “FSDEA” with an initial endowment of US$ 5 billion

**2013 July:** The Board of Directors was altered and a new Chairman of the Board, who had been an Executive Director until such time, was appointed to chair the Fund.

**2013 July:** A new Executive Director was also appointed and the existing Executive Director maintained his Board position, totaling three (3) Members of the Board of Directors of the FSDEA. Concurrently, 17 Angolan staff members were gradually recruited and have been contributing towards the implementation of the strategy enacted by the President of the Republic.

**2014:** FSDEA became a full member of the International Forum of Sovereign Wealth Funds (IFSWF).

**2015 Q2:** Seven (7) investment vehicles established: Infrastructure, real estate, health, agriculture, mining, forestry and structured capital.

**Figure 13: FSDEA Chronological Timeline of Key Events**

**Policy Commitment to Best Practices**

The official policies of the Fund when it first commenced operations in 2012 are indicated in the 2013 Annual Report. The Fund highlights its intention to implement the Santiago Principles as a full member of the IFSWF. In the 2013 Annual Report, the FSDEA clearly indicates that the Fund operates with only indirect administration of the State and is independent.

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of Central Bank management. However, the FSDEA is “subject to the direct supervision of the President of the Republic.”¹⁸² Unlike the Credit Guarantee Fund, the Motor Guarantee Fund and the Road Fund, three funds under state administration, the FSDEA is not exempt from financial audit and publishing requirements.¹⁸³

Process Tracing Analysis: Sovereign Wealth Fund and the Captive Coalition

The political bargain related to Sovereign Wealth Funds is an agreement encoded to establish a legal institution for the governance, operations and strategy of the wealth fund. This political bargain institutionalized as the FSDEA is a key political outcome for an authoritarian regime.

In the case of the FSDEA, the designation of a political bargain is somewhat imprecise because there was less domestic political contention around the creation of the Fund. The political bargain for FSDEA involved establishing the Fund as a credible commitment that the international community could support. This view does not underestimate the importance of domestic support for the Fund. However, given the relatively low governance rankings of Angola under the dominance of the MLPA party and the broad executive authority assumed by the President, I argue that multilateral institutions, DFIs, international network of investment advisors and consultants, and other Sovereign Wealth Funds were specifically engaged to support the credibility and legitimacy of the fund.¹⁸⁴ This section outlines the process for achieving this credible commitment through the work of a “captive coalition” of Angolan officials and international partners, who aimed to undertake steps signaling legitimacy and

¹⁸³ Ibid.
accountability. **TABLE 18** below summarized the framework employed for the analysis of coalition politics.

**Table 18: Framework for Coalition Politics**

<table>
<thead>
<tr>
<th>Coalition Type</th>
<th>Influence on Credible Commitment (CC)</th>
<th>Agent of Change</th>
<th>Veto Player Concentration</th>
<th>Key Political Goal</th>
<th>Effects of the Coalition Activity</th>
</tr>
</thead>
</table>
| Captive Coalition    | Establish or Initiate CC               | President as Executive Authority | Low                       | Delegation for implementation | Key decisions are made directly subject to executive signoff  
|                      |                                       |                                  |                           |                    | Key questions for examination:  
|                      |                                       |                                  |                           |                    | - Investment strategy decision-making  
|                      |                                       |                                  |                           |                    | - Provisions for ring fencing?  
|                      |                                       |                                  |                           |                    | - Central Bank management?  |

**Prelude to the FSDEA Captive Coalition: Sonangol and Early State Capitalism**

Shortly after independence, at the time of rising internecine contention for national leadership between the MLPA, UNITA and FNLA factions, Angola’s economy began a precipitous decline. Talent flight, expropriation of Portuguese assets, inefficient centralized planning, and graft among a growing number of nationalized companies all contributed to this retraction. The government determined that oil would be its priority sector given the global demand for this resource and aimed to position Angola in the global economy to achieve this end.\(^{185}\) Foreign oil companies such as Gulf Oil, Texaco and Petrofina were allowed to operate again in Angola to support its oil industry.\(^{186}\)

\(^{185}\) Ibid, 599. The Soares de Oliveira study was based upon interviews with senior Sonangol officials.

\(^{186}\) Ibid.
Sonangol was established in 1976 to regulate the oil industry, manage licenses for exploration and production, and collect taxes.\textsuperscript{187} Sonangol owns 51\% of all oil production from Cabinda, the region from which most of Angola’s oil production is derived.\textsuperscript{188} The company coordinated the oil sector of Angola among international players. Sonangol functioned as an international company less subject to socialist management practices. However, although many senior officers of Sonangol were close friends or family members of President Neto, Soares de Oliveira (2007) asserts that the institution was under the direct control of the President but was never used as vehicle for patronage.\textsuperscript{189} Sonangol had an international cohort of professional service providers, including Arthur D. Little (US - auditing), ENI (Italy - technical capacity-building) and SONATRACH oil company (Algeria - logistics).\textsuperscript{190} This human capital supported the technocrats of Sonangol who were well regarded for their expertise and talent.\textsuperscript{191}

By 1983, the company guided Angola to exceed pre-independence levels of oil production.\textsuperscript{192} It is noteworthy that the oil sector (managed by Sonangol) was the only sector of the overall economy which attained to pre-independence productivity. In the early 1990s, Sonangol employed over 5,000 staff and diversified into real estate investing and philanthropic support of education and sports.\textsuperscript{193} The institution advised governments in Equatorial Guinea, Nigeria, Cote Ivoire, Gabon in establishing oil concessionaries.\textsuperscript{194} Soares de Oliveira (2007) presents Sonangol as the tool of the President and his coterie and not the broader development

\begin{itemize}
\item \textsuperscript{187} Soares de Oliveira, Ricardo (2007), 600.
\item \textsuperscript{188} “Angola’s Political and Economic Development.” Council on Foreign Relations. Backgrounder by Stephanie Hanson. July 17, 2008. 4.
\item \textsuperscript{189} Ibid, 601-2. This patronage reference is to graft involving elites outside of the dos Santos family.
\item \textsuperscript{190} Ibid, 600.
\item \textsuperscript{191} Ibid, 602.
\item \textsuperscript{192} Ibid, 601.
\item \textsuperscript{193} Ibid, 604-5.
\item \textsuperscript{194} Ibid, 605.
\end{itemize}
interests of citizens.\textsuperscript{195} He accuses this coterie of misappropriating $4.22 billion between 1997 and 2002.\textsuperscript{196} In 2002, Transparency International released a call for international oil companies to disclose how much they pay Angola for oil in response to an IMF disclosure of $1B was missing from Angola in 2002.\textsuperscript{197} At the same time, despite its instrumentation for brokering lucrative oil agreements, the institution has not helped the government with solutions for bridging the wealth inequality gap in Angola. In a 2006 report, the World Bank asserts that the diversified role Sonangol plays in relationship to the oil industry include functions better suited for management by other state institutions, so as to support greater transparency on state fiscal processes.\textsuperscript{198}

Soares de Oliveira (2014) describes Sonangol as Angola’s first SWF given its role as a state-controlled vehicle for stewarding Angola’s oil wealth through its concessionary work and investments. He also presents Sonangol as the leading institution for Angola’s “going out strategy,” the expansion of its role as economic player on the global stage on the basis of its oil economy. However, according to Soares de Oliveira (2014), Sonangol also served to coordinate and advance Angola’s shadow economy:

Sonangol created a subsidiaries and joint ventures in related businesses where Sonangol could profit from rising opportunities – Sonangol expanded from 100 employees in 1976 to 9000 three decades later – shipping, air transport to insurance, banking, real estate, catering.

The key to understanding Sonangol’s unusual role is that the company did more than run the oil sector; it shadowed and often replaced the state administration, first in the fiscal sphere and then in every other systemically important sphere of Angola’s political economy.\textsuperscript{199}

\textsuperscript{195} Ibid, 606.
\textsuperscript{196} Ibid, 607.
\textsuperscript{197} https://www.transparency.org/news/pressrelease/transparency_international_calls_on_oil_companies_to_disclose_payments_to_a.
\textsuperscript{198} Council on Foreign Relations (2008), 5.
\textsuperscript{199} Soares de Oliveira (2014), chapter 5 (Kindle version).
In 2016, Isabel Dos Santos, the daughter of the current President at the time, became Chairwoman of Sonangol. In the 2016 Management Report of Sonangol, the Chairwoman, Isabel Dos Santos announced that the corporation and its now 18 subsidiaries were undertaking restructuring of their operations to increase efficiency, production and capacity-building.\(^{200}\) In 2016, Sonangol’s income decreased by 60% despite its maintaining oil production above 1.7 million barrels per day (first in Africa), due to falling global prices.\(^{201}\) This restructuring effort involved third-party advisory support in finance, human resources, regulatory and strategy.\(^{202}\) Public support of Dos Santos has been mixed. Mr. Rafael Marques, a journalist, is an ardent critic of the Chairwoman and accuses her of plundering Sonangol for her own benefit.\(^{203}\) Her ability to lead aspects of the reform agenda at Sonangol has been complimented by Alex Vines of Chatham House, who remarked “she’s an effective business lady, whatever you think about her having got the job because possibly she is the president’s daughter, there is an effectiveness in the reform process that you have to give her credit for.”\(^{204}\)

The dissertation discusses Sonangol as part of the introduction of the FSDEA for several reasons. First, it explains the evolution of a major component of Angola’s “going out” strategy for which FSDEA was also created. Second, it illustrates a pattern of kinship influence which the dos Santos family exerted over the Angolan economy, given that President dos Santos’ son was Chairman of the FSDEA. Third, the allegations of nepotism and exploitation of Sonangol for the benefit of the Dos Santos family frames a credibility gap (even after its founding) which confronted the FSDEA. Finally, Sonangol illustrates how carve-outs of well-performing

\(^{200}\) Sonangol 2016 Management Report and Consolidated Accounts, 8.  
\(^{202}\) Ibid.  
\(^{204}\) Ibid.
institutions are possible in authoritarian systems (where weak-performing institutions are more common), which the FSDEA so far has imitated. 205

Rationale for a Captive Coalition: Background of FSDEA

From 2010-2012, the President of Angola engaged several advisors including Armando Manuel the MOF and investment banker Jean Claude de Morais on how to develop a SWF for Angola. Minister Manuel later became Chairman of the Board of the FSDEA. Jean Claude de Morais as CEO of Quantum submitted an offer to serve as agent of the fund. He also became board member of the FSDEA and was Chairman of Banco Kwanzaa. The committee deliberated over how to preserve reserves for future generations. The financial crisis of 2008 impacted the reserves of Angola. The nation lost 25% in one quarter. Big questions had to be answered. Was the economy resilient enough? What would be the legal framework to legitimately establish the fund? The work to complete the fund was completed by 2009. Due to the 2008 financial crisis, the founding of the fund was delayed.

Norfund was analyzed as a model for the FSDEA and some of those consulted at Norfund advocated for the FSDEA to have a strong social mission. 206 Singapore and China were also consulted regarding the SWF. 207 There was some resistance from certain international stakeholders to the social development orientation of the Fund which was introduced by its founding Chairman Jose dos Santos. Legally, the FSDEA was created by an act of Parliament. The proposal for the Fund was shepherded by Minister Armando Manuel and Mr. Jose dos Santos. 208 The IMF was asked by Angola to do advisory work and provide technical assistance

205 Strong performance does not necessarily require governance by good norms, at least in the short-term.
206 Interview with Former FSDEA Chairman Jose dos Santos. March, 17 2015 (Luanda).
207 Ibid.
208 Ibid.
with no financial consideration given for this support.\textsuperscript{209} There were meetings with the IMF which produced Angolan standby agreements and reports which encouraged the existence of the SWF.\textsuperscript{210} The MOF was Severin de Morais who played an advisory role in creating the Fund.

**Engaging the Captive Coalition: Initiative to Launch the FSDEA**

The structure and process for the FSDEA approval were aligned under legislative decree. President Dos Santos initiated the process under advisement of a commission he established. The appointment of Mr. Jose dos Santos and enlistment of his personal friend, Mr. Jean-Claude Bastos de Morais, as investment advisor has drawn criticism regarding the independence of the Fund and allegations against Mr. Bastos de Morais for financial improprieties related to the FSDEA have been made by some observers.\textsuperscript{211} The officials of the Fund have made an effort to signal that the Fund will operate in membership, and affiliation with the Sovereign Wealth Fund Institute. The Fund has an annual audit by an independent firm, participates in an annual review by Parliament and publishes an annual report which details the Fund’s financial performance.

**Key Hypotheses Discussion**

**Discussion - Executive Socialization Variable (SocLink)**

This section presents the key governance actors of FSDEA, the brief bios of elites who influence the set-up of the Fund and discussion of the mechanisms by which this was done, as an interrogation as to the influence of these factors on the dependent variable.

\footnotesize{\textsuperscript{209} Ibid.}
\footnotesize{\textsuperscript{210} Ibid.}
\footnotesize{\textsuperscript{211} https://www.theguardian.com/world/2017/nov/07/angola-sovereign-wealth-fund-jean-claude-bastos-de-morais-paradise-papers.}
FSDEA Structure and Management

The primary governance bodies of the FSDEA include the Board of Governors, Fiscal Committee and the Advisory Council. External advisors also provide guidance to the leadership of the FSDEA. The roles and composition of these bodies are listed below in Table 19.

Table 19: FSDEA Governance Structure and Management (as of 2015)

<table>
<thead>
<tr>
<th>Role</th>
<th>Composed By</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of Governors</td>
<td>Defines the Fund’s investment strategy and oversees the Fund’s activities and assets. Minimum of 3 and maximum of 5; appointed by the President. Chairman: José Filomeno de Sousa dos Santos (Son to the current Angolan President) Key Members: Hugo Miguel Évora Gonçalves, Artur Carlos Andrade Fortunato</td>
</tr>
<tr>
<td>Fiscal Committee</td>
<td>Body that accounts for the internal supervision of the activities and operation of the Fund. Ensures compliance with the laws and regulations applicable to the Fund. Members appointed by the Ministry of Finance Chair: João Boa Francisco Quipipa Members: Emanuel Maria Maravilhos Buchartts, Dilma Rosa Neto Semedo</td>
</tr>
<tr>
<td>The Advisory Council</td>
<td>Reviews investment proposals and strategy recommendations by the Board of Directors. The Council offers recommendations to the President of the Republic of Angola who ultimately approves the Fund’s investment policies. Chair: Minister of Finance (Armando Manuel) Members: Minister of Economy (Abraão Pio dos Santos Gourgel), Minister of Planning (Job Graça) and the Governor of the Central Bank (José Pedro de Morais Júnior)</td>
</tr>
<tr>
<td>External Auditors and Advisors</td>
<td>Offer their expertise on investment decisions, operations and risk management. Executive roles include: Fiscal Council, Risk Management Committee, Chief Risk Officer Chief Compliance Officer, External Asset Managers</td>
</tr>
</tbody>
</table>

Key Person Profile

The professional biographies of key leaders indicate that the pattern of Western strong professional socialization continues with the FSDEA Board Chair, MOF and Investment Manager, both in terms of work experience and educational training (see Figure 14).

---

212 Mr. Armando Manuel, former Minister of Finance, was the first Chairman of the Board. He was succeeded by José Filomeno de Sousa dos Santos.
Additionally, other points of contact include the IMF and officials at the International Forum of Sovereign Wealth Funds. However, the contribution of these officials appears to be defined by the political initiative of the President. Parliament passed the law instituting the FSDEA in response to the guidance of the President and the wealth fund operates under the administration of the President.
Jose Filomeno de Sousa dos Santos, Former Chair, FSDEA

Jose Filomeno de Sousa dos Santos was appointed to the Board of the Fund in 2012. His prior work experience was in investment banking, where he was co-owner of an Angolan bank, Kwanza Invest. As the son of the President, he has had an international background from the time he lived in London with his mother during the civil war. According to Mail & Guardian magazine, he resigned from the bank and sold his shares in late 2012.\textsuperscript{213}

According to Mail & Guardian, the FSDEA is Mr. dos Santos’ highest public assignment. He worked prior as a London-based commodities trader, Glencore, an insurance company, Angola’s state oil company and with a local transportation company. Mr. dos Santos earned a master’s degree in information management and finance at Westminster University.

Mr. Armando Manuel, 1\textsuperscript{st} Chair of FSDEA and Former Minister of Finance

Mr. Manuel was the first Chairman of the FSDEA (2012). He continued in this role until his appointment to Minister of Finance (2013-2016). He is an MPLA politician and his other notable career positions include: Secretary for Economic Affairs of the President of the Republic (2010); Director of Treasury, Ministry of Finance (2006); Vice President of the Association of Banks of SADC (2005); Head of Operations Department of the Treasury (2002).\textsuperscript{214} He earned an M.A. in quantitative economics from the London Guildhall University in 2001.\textsuperscript{215}

Mr. Jean-Claude Bastos de Morais, Founder and CEO, Quantum Global

Jean-Claude Bastos de Morais is an investment manager, entrepreneur and philanthropist. In 2007, Mr. Bastos de Morais founded Quantum Global Group, an international group of companies focused on African development, particularly in the fields of corporate finance advisory, asset and private wealth management, real estate and investment consulting. Quantum Global is an investment advisor to FSDEA. In 2014, he established Quantum Global Research Lab, which aims to provide bottom-up econometric models for inclusive development in Africa.

In 2008, Mr. Bastos de Morais founded Banco Kwanza Invest, Angola’s first investment bank. As a Member of the Board, he advises on the bank’s strategic direction. At the core of his innovation-related work is the African Innovation Foundation (AIF), an organization he founded in 2009 to drive African-led development through fostering innovation. The AIF implements the annual Innovation Prize for Africa (IPA), which was launched in 2011 in partnership with the United Nations Economic Commission for Africa (UNECA). He began his career as a management consultant and holds a Master of Arts in Management from the University of Fribourg in Switzerland.

Figure 14: Professional Biographies of Key FSDEA Leaders

\textsuperscript{214} https://live.worldbank.org/experts/armando-manuel.
\textsuperscript{215} Ibid.
I employ the Social Link variable to indicate the influence of professional and educational socialization on the business philosophy and management values of SWF leaders. Regarding the FSDEA, the social ties were not as important as the role of the President was more salient in establishing the Fund. TABLE 20 below summarizes the traceable actions related to executive socialization links.

**Table 20: Influence of Executive Socialization for FSDEA**

<table>
<thead>
<tr>
<th>Political Bargain Outcome – Facilitation Approach and Key Policies</th>
<th>Traceable Effect</th>
<th>Empirical Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Policy Sponsor</td>
<td>Elites with Western professional socialization played major role in facilitating the FSDEA</td>
<td>Low potential influence; President is key actor; FSDEA Chair is key advocate for social investment strategy</td>
</tr>
<tr>
<td>Independent decision-making on investment strategy</td>
<td>Decision-making on investment strategy managed by Western-trained team, with less influence by Executive Office</td>
<td>Low potential influence: One main investment advisor</td>
</tr>
<tr>
<td>Role of external elites in establishing governance standards and recruiting</td>
<td>Governance statutes and decrees are influenced by Western-trained international elites</td>
<td>High potential influence: Multilateral and Western Sovereign Wealth Funds very influential</td>
</tr>
<tr>
<td>Ring fence provisions of funds from Chief Executive</td>
<td>Central responsibility of investment will reside with credible Western-trained executives</td>
<td>Low potential influence: Significant Executive initiative and influence</td>
</tr>
</tbody>
</table>

The influence of the President of Angola is salient for the creation and management of the FSDEA. Based upon the initiative of the President, Parliament passed the legislation for the creation of the FSDEA. Unlike the NSIA, the role of the MOF was less important in establishing the wealth fund. For this reason, neither Mr. Carlos Alberto Lopes nor Mr. Armando Manuel
were primary policy entrepreneurs for the formation of the FSDEA. Rather, according to one stakeholder to the Fund, the FSDEA would have been created without their intermediation.\textsuperscript{216}

The Angolan government engaged the advice of Jean-Claude Bastos de Morais (Quantum Capital), Armando Manuel (Advisor and first Board Chairman) on fund structures, mission and comparable funds. The due diligence work on other funds focused on Norway’s Norfund as a model.\textsuperscript{217} Mr. Jose Filemeno dos Santos had primary responsibility for producing the social charter of the Fund. He worked closely with first Chairman in defining the legal structure of the fund. Given that one investment firm manages the majority of the FSDEA’s capital and his long-standing, personal affiliation with Mr. Jose Filomeno dos Santos, the degree of independent advisory is not clear.\textsuperscript{218}

The degree of influence by external elites on the governance standards (outside of investment strategy) and recruiting is not clear based upon my research and field interviews. However, officials of the commission toured the world meeting with the IMF and established Sovereign Wealth Funds, including those managed by Norway, Singapore and China to learn about governance and performance.\textsuperscript{219}

In 2008, the President issued a national decree to establish a commission for Sovereign Wealth Fund exploration.\textsuperscript{220} There are no real ring fence provisions from Presidential influence

\textsuperscript{216} Interview with anonymous SWF stakeholder, June 16, 2015 (telephone).
\textsuperscript{217} Interview with anonymous SWF stakeholder, September 29, 2015 (telephone).
\textsuperscript{218} According to the Guardian, Quantum controlled about 85% of FSDEA funds, https://www.theguardian.com/world/2017/nov/07/angola-sovereign-wealth-fund-jean-claude-bastos-de-morais-paradise-papers.
\textsuperscript{219} Interview with anonymous SWF stakeholder, June 16, 2015 (telephone).
\textsuperscript{220} Based on interview with anonymous SWF stakeholder, June 16, 2015.
in the FSDEA charter. This is the expected state of affairs given the authoritarian political system of Angola.

**Discussion – Economic (EconLink) and Political (PolLink) Linkage Variables**

In this section, I analyze economic and political linkages between Angola and Western countries. **TABLE 21** below summarizes the findings, including: general strength of economic and political link variable assessment; key economic and political trends; observations regarding the influence of economic and political ties on key drivers of SWF formation.

**Table 21: Influence of Economic and Political Ties for FSDEA**

<table>
<thead>
<tr>
<th>Economic Link</th>
<th>Overall Rating</th>
<th>Key Trends with West</th>
<th>Policy Sponsor</th>
<th>Independent Investing</th>
<th>External Elite Support</th>
<th>Ring fence from President</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>STRO</strong>N<strong>G</strong></td>
<td>-Angola is 3rd largest trade partner to US/EU in sub-Saharan Africa</td>
<td>No meaningful difference</td>
<td>High potential influence – given concerns about investing for political interests</td>
<td>High potential influence – when internal institutional expertise is weak</td>
<td>High potential influence – given concerns about investing for political interests</td>
<td></td>
</tr>
<tr>
<td><strong>Trade (% GDP)</strong></td>
<td><strong>2012:</strong> 19%</td>
<td><strong>2009:</strong> 24%</td>
<td><strong>2007:</strong> 33%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>ODA (% GDP)</strong></td>
<td><strong>2012:</strong> 0%</td>
<td><strong>2009:</strong> 5%</td>
<td><strong>2007:</strong> -1%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>FDI (% GDP)</strong></td>
<td><strong>2012:</strong> -0.9%</td>
<td><strong>2009:</strong> 2%</td>
<td><strong>2007:</strong> -2%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Political Link</strong></td>
<td><strong>WEAK</strong></td>
<td>-Cotonou Agreement with EU</td>
<td>No meaningful difference</td>
<td>Low potential influence</td>
<td>Low potential influence</td>
<td>Low potential influence</td>
</tr>
<tr>
<td><strong>Bilateral meetings with US since 1993</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

221 Source of trade and ODA information is OECD. Trade includes products only (not services). Year in bold indicates year(s) during which the SWF was operational. The year selections align with the Truman scorecard schedule.
Economic Ties

The economic links between Angola and the world are primarily based upon the trade of oil. The US and Angola signed a Trade and Investment Framework Agreement in 2009 which facilitates a forum for trade deliberations.\footnote{222} The US had $4 billion in imports (95% attributed to oil and gas) and $400 million in exports in 2008.\footnote{223} Currently, Angola is the US’ third largest trading partner in Sub-Saharan Africa.

As its former colony, Angola has had the longest trade history with Portugal in the EU. In 2008, Angola exported €7.7 billion and imported €5.2 billion. Angola is the third largest trade partner to the EU, principally through Portugal. In 2016, exports to the EU totaled about €4 billion and imports were €3.7 billion. Angola represents the EU’s third largest trade partner. China represents Angola’s top trade partner, driven by oil and gas commodity exports to China.

Based upon the importance of oil imports to the West, I categorize the economic link as strong for all dimensions except for policy sponsor. Policy sponsors in authoritarian political systems rarely emerge due to institutional constraints and the centralized political influence of the head of state. Western countries have economic ties to Angola as trade partners in oil commodities. The public statements about the background of the Fund’s creation, the investment of time in consultations with multilateral institutions and other Sovereign Wealth Funds (Western and Asian), particularly in light of Angola’s traditionally low ratings in institutional governance, suggest that a credible commitment to international actors was an important motivation for the FSDEA officials. International observers more so than domestic elites have

\footnote{223} Ibid.
raised concerns about nepotism, as it relates to the role of Mr. Jose Filomeno dos Santos as FSDEA Chairman and the allocation of significant investment advisory responsibilities to a firm, Quantum Global, with close personal ties to the Chair. The instrumentation of the IMF in lending advisory support to the Fund delivers credibility for the Fund as it has done for other Sovereign Wealth Funds in developing markets.

Political Ties

The US and Angola began diplomatic relations in 1993.\textsuperscript{224} Under the ACP-EU Cotonou Partnership and Joint Way Forward, Angola and the EU defined their economic partnership to reduce poverty and promote political cooperation. The US and EU (outside of Portugal) do not have strong political ties with Angola, given its authoritarian system. Therefore, influence of political ties on these factors and, consequently, on norms adoption is likely weak.

Alternative Hypotheses Discussion

For the state capacity, external investment only and Central Bank control independent variables, I assess the observed outcome of these variables related to the four dimensions outlined in the legal statute and governance framework of the wealth funds (the grand bargain). Given the imprecision of inferences about the influence of these variables, I describe their influence in terms of varying degrees of potential outcomes or no meaningful difference. In summary, I do not find evidence that any of the variables are salient due to the over-arching authority of the President and the alignment of interest among the FSDEA stakeholders with the national agenda he established.

\textsuperscript{224}https://www.state.gov/r/pa/ei/bgn/6619.htm.
Contemporary Macroeconomic, Political and Institutional Context

In 2017, Angola was the second largest oil producer in Africa. For this reason, oil and gas remain the country’s chief exports. Over the last few years, Angola’s currency has been devalued and its oil revenue has significantly decreased due to the drop in global oil prices.\(^\text{225}\) From 2001-14, GDP growth averaged 10.3% but from 2015 to present it has been about 1.5%.\(^\text{226}\) Angola has strong ties with China with 46% of all exports from Angola (mainly crude oil) exported to China\(^\text{227}\) and Angola’s debt to China increased above $25 billion in 2016.\(^\text{228}\) The country continues to prioritize economic diversification in light of its slow recovery from the economic shock of falling oil prices.

The political landscape of Angola shifted in 2017 with the election of a new President, Mr. Joao Lourenco. He is the third President in Angola’s history. Time will tell how his administration will impact the economic path of the country. In November 2017, he replaced the former President’s daughter as Chair of Sonangol, the leading state-owned economic institution in the country. It is too early to determine the implications of this action for my argument. Based upon his MLPA affiliation the importance of FSDEA to the economy and Angola’s international image, the new President will likely appoint his own loyalist to lead the oil concessionary, albeit with likely more transparency to quell criticism.

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\(^{228}\) http://www.reuters.com/article/angola-oil-finance-idUSL5N16H3EV.
Current State of FSDEA

**Governance**

Elected in August 2017, President Joao Lourenco has authority to make appointments for the Board of Governors of the FSDEA. In early 2018, President Lourenco removed Mr. Jose Filomeno dos Santos as Chairman of the FSDEA and appointed former Ministry of Finance, Mr. Carlos Alberto Lopes, as the new Fund Chair. The former Chairman has also been charged with fraud related to a transfer of $500 million out of a Central Bank account. The FSDEA also is attempting to remove Quantum Global as asset manager to the Fund, due to concerns over misalignment with the FSDEA’s governing principles. In 2016, Mr. Augusto Mangueira replaced Mr. Armando Manuel as Minister of Finance and now has responsibility for selecting the Advisory Committee of the Fund. In 2015, the Fund adopted the International Financial Reporting Standards (IFRS), which, according to the 2015 Annual Report of the Fund, “placed the fund on a much more favorable basis for the future, in terms of transparency”.

The recent actions to separate the fund from the former Chair and Quantum Global reflect the political agenda of the new President to perform housecleaning so as to more easily employ his own strategy without interference from (family) loyalists to the prior President. At the same time, given the international scrutiny and criticism the FSDEA has received regarding crony capitalism, perhaps the influence of foreign actors is now manifesting. This suggests that the impact of foreign actors on SWF governance becomes more conspicuous over time.

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231 2015 FSDEA Annual Report, 3.
Performance

The FSDEA has been very active and is profitable. The Fund now has seven open-ended funds: infrastructure ($1.1 billion), hotel ($500 million), healthcare ($400 million), mining ($250 million), timber ($250 million), agriculture ($250 million), and mezzanine ($250 million). The African Review reports that the Fund has achieved profitability since launching in 2012.\textsuperscript{232} The African Review also indicated that the Fund has total assets of $4.99 billion in 2016 and allocates globally with 58\% deployed into Sub-Saharan Africa (mostly Angola), 10\% to North America, 12\% to Europe and 20\% to the rest of the globe.\textsuperscript{233} The Social Charter Fund which focuses on development impact now has partnered with 11 NGOs to support youth vocational training and employment.\textsuperscript{234} FSDEA allocates 7.5\% of its capital to the Social Charter Fund.

Conclusion

State capitalism is not about efficient allocation of economic resources, but about maximizing political control over society and the economy. (Acemoglu and Robinson 2012)

Acemoglu and Robinson’s characterization of state capitalism aligns with the framing of Angola’s economic ascent as a global economic partner based upon the agency of its President to create vehicles for engaging trade and investment partners, under an authoritarian political system. The FSDEA is an illustrative of such a state-controlled investment vehicle that gives Angola influence on the global economic stage. I structure the conclusion section as follows: main findings that economic links related to oil influence norms adoption; the agency of the

\textsuperscript{234} Ibid.
President enabled the captive coalition through kinship ties; centralized authority can align governance and economic development outcomes a political strategy.

**The FSDEA and Norms Adoption: Economic Linkages Tied to Oil as Key Influencer**

As one of Sub-Saharan Africa’s leading oil producers, Angola’s traditional trade partnerships have been principally linked to oil commodities. The interest in oil resources has also driven diplomatic relations. Since the post-independence cold war, Cuba, US, Russia have all aligned their political interest around Angola’s strategic positioning in Africa as a leading oil producer. There are interesting factors related to linkages with the West. First, economic ties in terms of oil trade with Angola seems salient based upon the insight into the operability of resource dynamics illustrated in the case of Sonangol. Like most resource-based economies in sub-Saharan Africa, Angola out of necessity is pursuing economic diversification strategies. However, the path dependency of last several decades is not easy to overcome. Rentier economies such as Angola disincentivize efficiency, transparency, and accountability across institutions in the economy.

Second, in the case of the FSDEA, executive socialization links appear to be diluted by the impact of economic ties. Although Mr. Jose Filemeno dos Santos (former Chair), Mr. Jean-Claude Bastois de Morais (Independent Investment Advisor), Mr. Armando Manuel (former Chair) all had educational and professional ties to the West, it appears that this socialization did not have the practical outcome of establishing the FSDEA as independent of Presidential control. While the FSDEA has standard reporting and auditing guidelines in place, it is not adequately ring-fenced from Presidential capture. The essence of the authoritarian control of the state is related to economic ties – oil trade.
The Agency of President dos Santos Enabled the Captive Coalition Through Kinship Ties

The agency of President dos Santos was an important intervening variable which influenced the impact of the economic links for the FSDEA. Clues to the mechanisms by which the FSDEA captive coalition is enabled are observed in Sonangol. Sonangol illustrates some of the key requirements for a captive coalition. First, autonomy in the context of centralized authority. Under an authoritarian system, President dos Santos had both centralized authority and the personal autonomy to manage the oil company as a system for both supporting economic growth and operating a parallel vehicle through which to create personal wealth. The appointment of his daughter as Chairwoman established a delegate for the administration of his political strategy.

Second, the international status achieved by Sonangol facilitated new elite economic relationships throughout the world as trade partners. Based on its success in the global economy, Sonangol was also a vehicle for investments in other commercial ventures. Finally, the durability of the oil regime established through Sonangol was achieved by the relatively effective management of the institution by capable technocrats. Compared to the other institutions, Sonangol had a better reputation for efficient management which helped shepherd Angola’s economy into a leader in Africa and supported its recovery during oil shocks. In assessing the FSDEA, many of the same enablers of the captive coalition characterizing Sonangol are observable: nominal autonomy but control by centralized authority, international positioning and commitment to a national development strategy, and strong performance but questionable kinship associations.

Sonangol was founded in 1976 while the FSDEA is only about six years old. The longer track record of Sonangol and its wider coverage in the media provides more information for analysis compared to the FSDEA.
Centralized Authority Can Align Governance and Economic Development Outcomes as Political Strategy

The FSDEA operates in an authoritarian political system and had been directly governed by the former President’s son during much of its existence to date. With Angola having one of the poorest records in income inequality and the need to develop both the physical and social infrastructure of the country, it is logical that the FSDEA would have a formal investment strategy and capital allocation for economic and social development. According to the 2013 Annual Report, the focus areas for this social development strategy include: training and education; access to healthcare services; access to electricity; access to water; autonomous income generation.\(^{236}\) The 2015 Annual Report (the latest published report) indicates some early progress on this strategy but the larger impact will be observed over the next decade.

Mr. dos Santos, former FSDEA Chair, has recently been charged with fraud for transfer of $500 million from the FSDEA to a British financial institution. A social development strategy for the FSDEA can support regime durability (in the future) for other leaders given the potential for social unrest on the part of a marginalized masses who observe how the coterie of a President becomes enriched through government appointments.

The FSDEA case presents an SWF which is under the direct control of the President, does not exclusively invest abroad, and exists in a larger institutional context of relatively low state capacity – a mix of factors which provides a rationale for a low governance rating. The next chapter explains the technical dimensions of the Truman Index and evaluates the panel regression results for explaining norms adoption.

\(^{236}\) FSDEA 2013, Annual Report, 10.
Chapter 6: Panel Regression Analysis and the Research Model

Hypotheses

As economic institutions, Sovereign Wealth Funds represent rules for economic elite alignment and vehicles for diversifying the investment of state-controlled assets. The set of hypotheses that I explore in this dissertation maintain that the stronger the ties (economic, political and executive socialization) that Sovereign Wealth Funds in sub-Saharan Africa have with the West, the more likely they are to embrace the norms acknowledged as international best practices for management of Sovereign Wealth Funds. I also investigate the underlying process of norms adoption. The norms I examine fall into four broad categories based on the Truman Index (detailed in the next section). These arguments lead me to three hypotheses, with explanations and operationalization given in the next section (see FIGURE 15):

H1: Countries in sub-Saharan Africa that are more integrated with the West in terms of Economic Flows are more likely to adopt norms pertaining to "better business practices" of Sovereign Wealth Funds.

H2: Countries in sub-Saharan Africa that are more integrated with the West in terms of Political Ties are more likely to adopt norms pertaining to "better business practices" of Sovereign Wealth Funds.

H3: Countries in sub-Saharan Africa that are more integrated with the West in terms of Executive Socialization are more likely to adopt norms pertaining to "better business practices" of Sovereign Wealth Funds.

<table>
<thead>
<tr>
<th>Links with WEST as Explanation for Variation in Adoption of Norms for &quot;Best Business Practices&quot; for Sovereign Wealth Funds in SSA</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1: Greater the Economic Flows with the West</td>
</tr>
<tr>
<td>H2: Greater Political Ties with the West</td>
</tr>
<tr>
<td>H3: Greater Executive Socialization in the West</td>
</tr>
<tr>
<td>Adoption of Norms Related to Best Business Practices of Sovereign Wealth Funds in SSA</td>
</tr>
</tbody>
</table>

Figure 15: Research Model Hypotheses
Regression Model

As part of a mixed methods analysis, the dissertation presents a time series panel regression performed on the Sovereign Wealth Funds (nearly 200 observations reduced to 69 because of deletion of observations with some missing variables) evaluated by the Truman Index from 2007-2012. In addition to the variables of my core model, I include variables coded for state capacity, external investment strategy, and independence from Central Bank management. This analysis will suggest correlations that will inform the factors examined in my case study through process tracing. The regression model that I employ is:

\[ \text{Norm Adopt}_i = \beta_0 + \beta_1*(\text{EconLink})_{ct} + \beta_2*(\text{PolLink})_{ct} + \beta_3*(\text{SocLink})_{it} + \beta_5*(\text{StateCap})_{ct} + \beta_6*(\text{ExInvest})_{it} + \beta_7*(\text{CentralBank})_{it} + \varepsilon_{cti}. \]

Where \( i = \text{fund}, \epsilon = \text{country that is home to the SWF}, t = \text{time period} \)

For all three hypotheses the dependent variable is international norms adoption measured by the adoption of business practices along the values of the Truman Index (2013).\(^{237}\) The Index examines business practices along four distinct dimensions, namely structure, governance, accountability/transparency, and behavior (portfolio adjustment). The Index and the accompanying Scorecard values for each SWF examined in the Truman study were the result of careful examination of best business practices in Sovereign Wealth Funds in consultation with these funds. These subcategory scores are combined to create an Index score for each SWF through an equal-weighting procedure that translates these values to a 100-point scale.

\(^{237}\) See Appendix I for a summary of how the Truman Index compares to a select group of other indices.
Assessment of the Truman Index Relative to Other Indices of Sovereign Wealth Funds

As discussed in Chapter 2, much of research on Sovereign Wealth Funds focuses on the primary investment objective of these funds, that is, whether they use financial capital as a means to advance the political influence and geopolitical interest of investor states over investee states. The actual governance and management influences of Sovereign Wealth Funds are not examined adequately, particularly among the African Sovereign Wealth Funds. For this reason, opportunities for research contributions exist related to the norms that govern the management of Sovereign Wealth Funds. These norms are presented in the 2008 Generally Accepted Principles and Practices (also known as the Santiago Principles), agreed upon originally by 26 Sovereign Wealth Funds from over 23 different countries.\(^{238}\) According to GeoEconomica, these principles were established to signal that the governance standards of Sovereign Wealth Funds are insulated from political interests.\(^{239}\)

The IMF and an international consortium of state-owned international investors developed the Santiago Principles in 2008. This consortium was the predecessor of the International Forum of Sovereign Wealth Funds (IFSWF). The Santiago Principles consist of 24 goals which were to serve as guidelines related to governance, independence and transparency of Sovereign Wealth Funds. The Santiago Principles has the endorsement of its SWF signatories but was not dictated by this constituency. The signatories include 42 countries and 25 funds. The SWF signatories have policies and structures that conform in terms of structure and policy. The process for membership includes an application to the Secretariat’s office of the IFSWF, due diligence, presentation of public info on the fund and IFSWF board approval. Key considerations

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\(^{239}\) GeoEconomica 2013.
for acceptance include clarity of objectives, appropriate governance structure for all aspects of operation, clear investment mandate, and transparency and reasonable disclosure system. Members voluntarily aim to implement the Santiago Principles and to perform self-assessments bi-annually.

The dissertation employs the Truman Index (2007, 2010 and 2012) as a rubric for evaluation of the Sovereign Wealth Funds based upon several different characteristics related to governance, institutional capacity and investment strategy. The Truman Index includes broader measures than the Santiago Principles, but very closely follows the Santiago Principles, which serve as the industry benchmark for fund governance. The Santiago Principles include 30 principles and sub principles (24 major goals), which overlap with 25 of the 33 measures designed by Truman, and 16 of the 24 major Santiago Principles overlap with at least one dimension of the Truman scorecard.240 The correlation between the Truman Scorecard and Santiago Principles when it comes to actual SWF rankings is 0.9912 on all 33 measures and 0.9609 for 24 the major Santiago Principles.241 These correlations are statistically significant, while the differences are not significant. In addition to its relatively strong correlation with the Santiago Principles, I use the Truman Index as the empirical basis for my dependent variable for the panel regression because of the following additional reasons: number funds in a time series of at least 3 years; number of empirical based reports of the Sovereign Wealth Funds; and, degree of citations or references by Sovereign Wealth Funds.

240 Truman 2013, 11.
241 Based on a scores for Sovereign Wealth Funds and government pension funds from the Truman Scorecard and two lists of the Santiago Principles (Truman 2013).
The Truman scorecard is comprised of 33 questions related to structure, governance, transparency and accountability, and behavior. I have provided the outline of these questions from the Truman analysis in TABLE A1 of the APPENDIX.

**Truman Scores Variation over Time**

Another helpful attribute of the Truman study (Truman 2013) is the inclusion of an analysis of how the scores have changed in percentage terms over time (2009-12; 2007-09; 2007-12) and the variation by sub-indicator element over the same timelines.\(^{242}\) TABLES A2 and A3 of the APPENDIX reflect the information on change over time in the scores created by Truman (2013). Average change in percentages was 4 (2009-12), 14 (2007-09) and 17 (2007-12) for fund first scored in 2007.\(^{243}\) Truman suggests that 14% change from 2007-2009, which represented an 8-percentage point difference compared to the change measured for 2009-12 reflects a response to increased scrutiny of Sovereign Wealth Funds during and immediately after the 2007-08 global financial crisis.\(^{244}\)

The countries with the greatest improvement from 2007-12 were Singapore (57%) and UAE (56%).\(^{245}\) In this group, among the Sovereign Wealth Funds profiled in the dissertation from Africa, only Botswana’s Pula Fund was among the funds first scored in 2007. The Pula Fund score decreased by 2% from 2007-12.\(^{246}\) Across all funds, in the case of percentage changes in scorecard elements, from 2007-12, accountability represented the category with the greatest largest change (21%) while structure reflected the least degree of improvement on

\(^{243}\) Ibid, 8.
\(^{244}\) Ibid, 9.
\(^{245}\) Measurement for funds first ranked by Truman in 2007.
\(^{246}\) The NSIA (established in 2011) and FSDEA (established in 2012) were only evaluated in the 2012 Truman Index.
average (12%). Size of the fund (accountability and transparency) and separation from international reserves (structure) were the sub-categories with the least improvement between 2007-12.\textsuperscript{247} Based on the areas which showed the greatest percentage improvement in element comparison, the Truman study suggests that funds are improving in establishing clear procedures for changing the structure of funds and showing greater transparency in identifying their mandates.

\textbf{Relationship between Sovereign Bond Ratings and Truman Score}

Sovereign credit ratings of fixed-income instruments (e.g. bonds) offer investors a relative metric for investment risk associated with a country. A sovereign credit rating determines the extent to which a country can tap the international bond markets for funding. The dissertation compares the Truman scores to the Moody’s ratings for sovereign debts to assess to what degree the Truman figures comport with a leading international metric for sovereign risk, the Moody’s long-range debt rating.

I analyzed Moody’s long-term obligation ratings which indicate the likelihood and amount of default (see TABLE 22).\textsuperscript{248} The Moody’s rubric rates long-term (greater than one year) obligations as investment grade (Aaa to Baa3) and below investment grade (Ba1 to C). The Moody’s rating for Sovereign Wealth Funds in each year of analysis per the Truman score system (2007, 2009, 2012) were averaged according to investment grade or below investment grade categories. The results show that, for every year, the sovereign debt ratings for investment grade-rated host countries had a higher Truman Score on average. In 2007, the Truman scores

\textsuperscript{247} Ibid, 10.
\textsuperscript{248} Moody’s Ratings Scale and Definitions: https://www.moodys.com/sites/products/ProductAttachments/AP075378_1_1408_KI.pdf.
for investment and non-investment grade sovereign debt were about the same.\textsuperscript{249} This analysis suggests that the Truman Scores for the Sovereign Wealth Funds are in line with international credit score ratings for sovereign debt.

### Table 22: Truman Score Comparison to Moody’s Rating

<table>
<thead>
<tr>
<th>Moody's Grade</th>
<th>Investment Grade</th>
<th>Non-Investment Grade</th>
<th>Total Grade</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Aaa-Baa3</td>
<td>Ba1-C</td>
<td>Aaa-C</td>
</tr>
<tr>
<td>2007 Mean Truman Score</td>
<td>50.43</td>
<td>50.00</td>
<td>50.36</td>
</tr>
<tr>
<td>#</td>
<td>28</td>
<td>12</td>
<td>40</td>
</tr>
<tr>
<td>2009 Mean Truman Score</td>
<td>57.52</td>
<td>44.17</td>
<td>55.35</td>
</tr>
<tr>
<td>#</td>
<td>29</td>
<td>11</td>
<td>40</td>
</tr>
<tr>
<td>2012 Mean Truman Score</td>
<td>68.12</td>
<td>43.14</td>
<td>62.82</td>
</tr>
<tr>
<td>#</td>
<td>27</td>
<td>13</td>
<td>40</td>
</tr>
</tbody>
</table>

*For each year, the total sample of SWFs was 53; 13 funds did not have a Moody's rating.

**Hypothesis Review**

The dissertation assesses the hypothesis that ties with the West—professional socialization of Sovereign Wealth Funds key persons, economic and political—explain the variation in Truman Scores or SWF governance across regions.\textsuperscript{250} It tests the relationship between the three dimensions of ties with the West and the setup of SWF using governance standards outlined in the Truman Index. The links with the West include elite socialization

\textsuperscript{249} The decrease in advanced economy country risk ratings compared to those of emerging markets which remained more constant during the global financial crisis could explain the 2007 results. See Amstad and Packer, “Sovereign Ratings of Advanced and Emerging Economies after the Crisis.” BIS Quarterly Review (December 2015), 77.

\textsuperscript{250} The variation examined is regional (e.g. sub-Saharan Africa, Middle East and North Africa) but the primary analysis is sub-regional, focusing on SSA.
based upon professional and educational background in the EU or US, political ties with these regions and, finally, economic linkages with these regions.

Given the Truman score is made up of 4 sub-scores, I also perform regressions of all the independent variables on the Truman sub-scores divided into four categories: structure (sub-index A), governance (sub-index B), accountability and transparency (sub-index C), and behavior (sub-index D). The purpose of this is to alleviate concerns that the sources of variation for certain parts of the Truman index are common with the sources of variation in some right-hand side variables: that is, they are driven by a third, omitted variable. The most likely candidate for such common variation occurs between the Truman index and measures of state capacity, both of which might be driven by the strength of institutional governance standards.251

Social and political ties are expressed as an index, with weak = 0, moderate = 1, strong = 2. Economic ties are proxied by trade with the West (as a percentage of GDP), which is a continuous variable, as well as official development assistance from the OECD.252 Multiple regression analysis is used to relate these measures to a single measure of fund governance, the Truman score. After this initial coding for economic ties, I added FDI as a percentage of GDP. The results are presented in TABLE A4 of the APPENDIX for the overall Truman index only (excludes sub-indicators). They do not reflect any meaningful change in significance or in the coefficients but do decrease the number of observations by two. For these reasons, I only present

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251 This is, however, less of a concern than if there were common variation between the Truman score and other right-hand-side variables, as the state capacity measures are included only as covariates, to improve efficiency and reduce the chance of omitted variables bias in the estimation of the effects of the variables of interest such as political, social and economic ties.

252 OECD members include Asian countries such as Japan and South Korea. The terminology for trade with the West denotes the regional location of majority of the countries referenced as OECD countries.
the economic ties coded for ODA and trade with the West in this chapter and the primary regression model.

Two sources are considered for measures of state capacity. The main model presented in this chapter uses state capacity from the International Country Risk Guide (ICRG), a data source provided by the Political Risk Services (PRS). The data include six dimensions of political risk (and additional sub-indicators), including: i) voice and accountability; ii) political stability and absence of violence; iii) government effectiveness; iv) regulatory quality; v) rule of law; and, vi) control of corruption.253 Given the concern about degrees of freedom, I have included five alternative models, focusing on three PRS sub-scores (control of corruption, government effectiveness, and rule of law): the three sub-scores used in separate regressions; an equal-weighted index averaging the three sub-scores; and, a model that includes all three sub-scores together.

Initially, I analyzed two main sub-measures for state capacity from the World Governance Indicators (WGI) of the World Bank: rule of law and voice and accountability. However, the WGI state capacity measures are rankings. As such, using these in a time series may be problematic since the score for a country could change from year to year solely because other countries’ governance is improving or worsening. This problem affects the ability to identify the effect of state capacity on the Truman score, potentially leading to omitted variables bias (as “left over” state capacity may be present in the error term). To alleviate concerns that results may be driven by measurement error in state capacity, I utilized alternative state capacity measures from PRS, as discussed.

Descriptive Statistics and Modeling Choices

In the model, because not all funds existed in all years and because other covariates are not available for all funds for all years, 69 observations are available for analysis. One important consideration is whether the strengths of political and socialization ties are not perfectly correlated. **TABLE 23** shows the distribution of strength of ties among 69 observations used in the analysis:

**Table 23: Distribution of Strength of Socialization and Political Ties**

<table>
<thead>
<tr>
<th>Social ties</th>
<th>Number</th>
<th>Percent</th>
<th>Political ties</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weak</td>
<td>20</td>
<td>28.99</td>
<td>Weak</td>
<td>4</td>
<td>5.8</td>
</tr>
<tr>
<td>Moderate</td>
<td>11</td>
<td>15.94</td>
<td>Moderate</td>
<td>8</td>
<td>11.59</td>
</tr>
<tr>
<td>Strong</td>
<td>38</td>
<td>55.07</td>
<td>Strong</td>
<td>57</td>
<td>82.61</td>
</tr>
<tr>
<td>Total</td>
<td>69</td>
<td>100</td>
<td>Total</td>
<td>69</td>
<td>100</td>
</tr>
</tbody>
</table>

This table shows that the ties are not perfectly correlated. It also gives us some idea about how the available data are distributed. While political ties tend to be stronger, social ties are more balanced between strong, moderate and weak.

Economic ties are proxied by trade with developed countries and with official OECD development assistance.\(^{254}\) The graphs (FIGURES 16 and 17) below show the frequency at which trade with developed countries and Official Development Assistance fall within certain ranges. These graphs indicate that, while most countries have trade with west below 20% of GDP, the distribution contains a broad range of values and no obvious outliers. The range of

\(^{254}\) Trade with the west is defined as exports + imports to/from the West divided by the local country’s GDP. Official Development Assistance is also divided by GDP.
Official Development Assistance is smaller, but again, there is a broad range and no obvious outliers.\textsuperscript{255}

\textbf{Figure 16: Frequency of Trade with the West}

\textsuperscript{255} For Official Development Assistance, there are a large number of zero values (due to the number of Western countries, N/As, or 0 Official Development Assistance balances) and a few negative Official Development Assistance amounts. Hence the relatively high frequency of values equal to zero or less than zero. Negative Official Development Assistance amounts reflect net Official Development Assistance values. These negative values can occur when lessee countries pay back more than they receive in loans for a given year.
Figure 17: Frequency of Official Development Assistance from the West

TABLE 24 shows the correlations between all six measures from the ICRG (PRS indicators) and the dependent variable (norms adoption), an indexed average of these six measures from ICRG (PRS indicators), and an indexed average of three ICRG indicators. The analysis indicates that three selected state capacity measures (Government Effectiveness, Control of Corruption and Rule of Law) are relatively highly correlated with the dependent variable and highly correlated with overall state capacity. Based upon this assessment, I use these three variables in the models.

Table 24: Correlation Results of State Capacity Measures

<table>
<thead>
<tr>
<th>PRS indicator</th>
<th>VA</th>
<th>PV</th>
<th>GE</th>
<th>RQ</th>
<th>RL</th>
<th>CC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Truman score</td>
<td>0.66</td>
<td>0.00</td>
<td>0.57</td>
<td>0.42</td>
<td>0.42</td>
<td>0.61</td>
</tr>
<tr>
<td>Average PRS indicator</td>
<td>0.80</td>
<td>0.50</td>
<td>0.93</td>
<td>0.87</td>
<td>0.84</td>
<td>0.90</td>
</tr>
<tr>
<td>Average of GE, RL, CC</td>
<td>0.75</td>
<td>0.44</td>
<td>0.93</td>
<td>0.79</td>
<td>0.87</td>
<td>0.93</td>
</tr>
</tbody>
</table>
The graph (FIGURE 18) below shows the frequency at which the state capacity index (average of GE, RL and CC) falls into certain ranges.

![Figure 18: Distribution of the State Capacity of Index](image)

In addition, I tested models which include Central bank (i.e. the fund operates independently from direct oversight by the central bank), and ExInvest (i.e. the fund is focused on external rather than domestic investments). **TABLE 25** shows summary statistics for all variables that are considered in any of the models:

**Table 25: Summary of Covariates**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social ties index</td>
<td>1.26</td>
<td>0.89</td>
<td>0.00</td>
<td>2.00</td>
</tr>
<tr>
<td>Political ties index</td>
<td>1.77</td>
<td>0.55</td>
<td>0.00</td>
<td>2.00</td>
</tr>
<tr>
<td>Trade with West</td>
<td>0.17</td>
<td>0.12</td>
<td>0.02</td>
<td>0.48</td>
</tr>
<tr>
<td>ODA</td>
<td>0.02</td>
<td>0.02</td>
<td>-0.01</td>
<td>0.11</td>
</tr>
<tr>
<td>External investment</td>
<td>0.46</td>
<td>0.50</td>
<td>0.00</td>
<td>1.00</td>
</tr>
<tr>
<td>Central bank</td>
<td>0.35</td>
<td>0.48</td>
<td>0.00</td>
<td>1.00</td>
</tr>
<tr>
<td>Rule of Law</td>
<td>0.66</td>
<td>0.24</td>
<td>0.17</td>
<td>1.00</td>
</tr>
<tr>
<td>Control of Corruption</td>
<td>0.50</td>
<td>0.23</td>
<td>0.17</td>
<td>0.92</td>
</tr>
<tr>
<td>Government Effectiveness</td>
<td>0.68</td>
<td>0.28</td>
<td>0.25</td>
<td>1.00</td>
</tr>
</tbody>
</table>
These summary statistics help to indicate how to interpret coefficients. Related to social ties, the coefficients represent the effect on the Truman score of going from “weak” to “moderate” or from “moderate” to “strong” ties. Regarding Trade with West and ODA, the coefficients represent the effect on the Truman score of going from 0% of GDP to 100% of GDP. If the coefficient on such variables were divided by 100, this value would represent the effect of a percentage point increase in this variable. External investment and Central bank control are dummy variables. This would indicate that coefficients would be the overall effect on the Truman score of going from a 0 to a 1, i.e., the effect of each of these things being true. Finally, the PRS sub-scores are measures between 0 and 1. Again, the coefficients on these variables can be interpreted as the effect on the Truman score of going from the smallest values (0) to the largest values (1), and thus it is useful to divide the coefficient by 100, thus interpreting it as the effect on the Truman score of an increase in PRS sub-score of 0.01, or one percent of the possible score range.

Finally, to remove events that affect all funds in all years, year fixed effects are included in the model in order to correct for trends in the right-hand-side variables and trends in the Truman index that are not causally related.

**Regression Results**

Results are shown in **TABLES 26-30**. In each table, there are five models corresponding with the three measures of state capacity that are considered: Rule of Law, Control of Corruption, and Government Effectiveness; an index that is the average of the three state capacity measures; and a model in which all three state capacity measures are included as separate variables.
Primary Model Results

The primary model (TABLE 26) shows how the overall Truman score is impacted by each of the variables for these five variations on the model. The results show little pattern in the social ties variable. The coefficients’ signs depend on which state capacity measure is used, and they are never significant. The political ties variable has a coefficient of approximately 8-14, depending on which measure of state capacity is considered. Political ties are always significant at the 10% level and are significant at the 5% level in Models 1 and 2. These coefficients indicate that for an increase of 1 in the political ties index (i.e., from Weak to Moderate or from Moderate to Strong), an increase in the Truman score of 8-14 points would be anticipated.

Interestingly, trade with the west is significantly associated with a decreasing Truman score in all models. While this does not necessarily fit with the hypotheses above, it may be due to increased dependence on oil or commodities, an omitted variable in this analysis. Note that the West trade variable is in decimals (proportion of GDP), so that a 1% increase in West trade is associated with a reduction in the Truman index of about 0.5. While Official Development Assistance is associated, on average, with increasing Truman score, this variable is not significant in general.

The results indicate that external investment (Exinvest) is associated positively with Truman score, while central bank control of Sovereign Wealth Funds (Central Bank) is negatively associated with Truman score. Finally, in all models, state capacity (Rule of Law, Control of Corruption, and Government Effectiveness) has a strong, positive relationship with Truman score.
The takeaway from these models is that there are robust relationships between the Truman score and external investment (which has a positive coefficient as expected) and trade with the west (West Trade), which has a negative coefficient, potentially from an omitted variable. The relationship between political ties and the Truman score, while less strong, is also consistently positive and at least marginally significant across model specifications. The relationship between the Truman score and other covariates are also evident, including a strong, positive relationship between state capacity and Truman score. The models’ values for r-squared ranges from 0.690 to 0.817, suggesting that over all, these variables do an excellent job of explaining the variation in Truman score.

Sub-Indicator Model Results

**TABLES 27-30** show the results when examining relationships with the Truman scorecard by sub-indicator – structure, governance, transparency and accountability, and behavior. In terms of r-squared values, transparency and accountability (0.787 to 0.834) and governance (0.797 to 0.815) appear to explain variation in norms adoption better than behavior (0.554 to 0.685) and structure (0.491 to 0.617). For the transparency and accountability sub-index, state capacity, external investment, management by central bank are significant at .1% across all models and west trade is significant across most between 10% and 5%. These variables move in the same direction as in the primary model. Related to the governance sub-indicator, only state capacity remains robust and to a lesser extent external investment and west trade. Overall, the sub-models show coefficients that are of the same sign as the coefficients of the main model when the main model’s coefficients are significant. Thus, the main model’s coefficients are robust to whichever measure of governance is being considered. However,
because the sub-indices are coarser measures of overall governance, the relationships are not as strong statistically, which is to be expected.

**Table 26: Regression Results – Norms Adoption (Using Overall Truman Score)**

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>(1) Norms Adoption</th>
<th>(2) Norms Adoption</th>
<th>(3) Norms Adoption</th>
<th>(4) Norms Adoption</th>
<th>(5) Norms Adoption</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social ties</td>
<td>3.732</td>
<td>-2.308</td>
<td>0.114</td>
<td>-5.416</td>
<td>-5.052</td>
</tr>
<tr>
<td></td>
<td>(4.901)</td>
<td>(5.308)</td>
<td>(3.414)</td>
<td>(3.737)</td>
<td>(3.985)</td>
</tr>
<tr>
<td>Political ties</td>
<td>11.62***</td>
<td>14.37**</td>
<td>10.22*</td>
<td>8.333*</td>
<td>7.967*</td>
</tr>
<tr>
<td></td>
<td>(5.041)</td>
<td>(5.343)</td>
<td>(5.503)</td>
<td>(4.643)</td>
<td>(4.496)</td>
</tr>
<tr>
<td>West Trade</td>
<td>-50.17*</td>
<td>-44.06**</td>
<td>-55.40***</td>
<td>-47.69***</td>
<td>-49.63***</td>
</tr>
<tr>
<td></td>
<td>(28.55)</td>
<td>(16.42)</td>
<td>(17.07)</td>
<td>(16.69)</td>
<td>(15.00)</td>
</tr>
<tr>
<td>ODA</td>
<td>215.1</td>
<td>153.3</td>
<td>82.62</td>
<td>181.1*</td>
<td>159.2</td>
</tr>
<tr>
<td></td>
<td>(139.3)</td>
<td>(103.5)</td>
<td>(116.3)</td>
<td>(102.3)</td>
<td>(111.7)</td>
</tr>
<tr>
<td>ExInvest</td>
<td>23.67***</td>
<td>27.64***</td>
<td>30.97***</td>
<td>28.43***</td>
<td>29.39***</td>
</tr>
<tr>
<td></td>
<td>(8.066)</td>
<td>(7.375)</td>
<td>(8.527)</td>
<td>(7.088)</td>
<td>(7.175)</td>
</tr>
<tr>
<td>Central Bank</td>
<td>-14.16**</td>
<td>-23.98***</td>
<td>-16.28*</td>
<td>-19.90***</td>
<td>-19.06**</td>
</tr>
<tr>
<td></td>
<td>(5.962)</td>
<td>(7.386)</td>
<td>(8.276)</td>
<td>(6.076)</td>
<td>(7.431)</td>
</tr>
<tr>
<td>Rule of Law</td>
<td>65.63***</td>
<td>29.43**</td>
<td>(11.05)</td>
<td>29.43**</td>
<td>(11.05)</td>
</tr>
<tr>
<td>Control of Corruption</td>
<td></td>
<td>86.89***</td>
<td></td>
<td>25.33</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(15.46)</td>
<td></td>
<td>(20.40)</td>
<td></td>
</tr>
<tr>
<td>Government Effectiveness</td>
<td>74.22***</td>
<td></td>
<td>50.57***</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(10.86)</td>
<td></td>
<td>(15.88)</td>
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</tr>
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<td>PRS index</td>
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<td>108.2***</td>
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<td>69</td>
<td>69</td>
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<tr>
<td>R-squared</td>
<td>0.690</td>
<td>0.733</td>
<td>0.770</td>
<td>0.811</td>
<td>0.817</td>
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</table>

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1
Table 27: Regression Results – Structure Sub-Indicator

<table>
<thead>
<tr>
<th>VARIABLES¹</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
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<tr>
<td>Norms adoption</td>
<td>Norms adoption</td>
<td>Norms adoption</td>
<td>Norms adoption</td>
<td>Norms adoption</td>
<td>Norms adoption</td>
</tr>
<tr>
<td>Social ties</td>
<td>0.267</td>
<td>0.0116</td>
<td>-0.160</td>
<td>-0.313</td>
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</tr>
<tr>
<td>(0.506)</td>
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<td>(0.387)</td>
<td>(0.499)</td>
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</tr>
<tr>
<td>Political ties</td>
<td>1.121*</td>
<td>1.272**</td>
<td>0.885</td>
<td>0.885</td>
<td>0.767</td>
</tr>
<tr>
<td>(0.577)</td>
<td>(0.569)</td>
<td>(0.531)</td>
<td>(0.539)</td>
<td>(0.508)</td>
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</tr>
<tr>
<td>West Trade</td>
<td>-1.339</td>
<td>-1.067</td>
<td>-1.595</td>
<td>-1.166</td>
<td>-1.590</td>
</tr>
<tr>
<td>(2.781)</td>
<td>(2.181)</td>
<td>(1.720)</td>
<td>(2.203)</td>
<td>(1.822)</td>
<td></td>
</tr>
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<td>ODA</td>
<td>0.992</td>
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<td>-5.740</td>
<td>-0.135</td>
<td>-3.529</td>
</tr>
<tr>
<td>(16.30)</td>
<td>(13.92)</td>
<td>(11.46)</td>
<td>(13.07)</td>
<td>(13.06)</td>
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<td>ExInvest</td>
<td>2.566**</td>
<td>2.756**</td>
<td>3.037***</td>
<td>2.827***</td>
<td>2.974***</td>
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<td>(0.985)</td>
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</tr>
<tr>
<td>Central Bank</td>
<td>-1.282</td>
<td>-1.740*</td>
<td>-1.447*</td>
<td>-1.612*</td>
<td>-1.358*</td>
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<td>(0.969)</td>
<td>(0.844)</td>
<td>(0.798)</td>
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<tr>
<td>Rule of Law</td>
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<td>4.093**</td>
<td>1.503</td>
<td>1.961</td>
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<td>(1.870)</td>
<td>(1.599)</td>
<td>(2.410)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Control of Corruption</td>
<td></td>
<td></td>
<td>4.964***</td>
<td>4.847**</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(1.130)</td>
<td>(1.785)</td>
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<tr>
<td>Government Effectiveness</td>
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<td></td>
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</tr>
<tr>
<td>PRS index</td>
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<td></td>
<td>6.063***</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(1.631)</td>
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<td>(1.480)</td>
<td>(1.436)</td>
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<td>Observations</td>
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</tr>
<tr>
<td>R-squared</td>
<td>0.491</td>
<td>0.502</td>
<td>0.608</td>
<td>0.578</td>
<td>0.617</td>
</tr>
</tbody>
</table>

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

¹ Norm Adoption variable is based on the Governance sub-index of the Truman scoreboard.
### Table 28: Regression Results – Governance Sub-Indicator

<table>
<thead>
<tr>
<th>VARIABLES(^1)</th>
<th>(1) Norms adoption</th>
<th>(2) Norms adoption</th>
<th>(3) Norms adoption</th>
<th>(4) Norms adoption</th>
<th>(5) Norms adoption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social ties</td>
<td>-0.157</td>
<td>-0.109</td>
<td>0.133</td>
<td>-0.507</td>
<td>-0.385</td>
</tr>
<tr>
<td>(0.277)</td>
<td>(0.418)</td>
<td>(0.275)</td>
<td>(0.326)</td>
<td>(0.391)</td>
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<tr>
<td>Political ties</td>
<td>0.169</td>
<td>0.688*</td>
<td>0.474</td>
<td>0.181</td>
<td>-0.00112</td>
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<td>(0.433)</td>
<td>(0.358)</td>
<td>(0.355)</td>
<td>(0.358)</td>
<td>(0.413)</td>
<td></td>
</tr>
<tr>
<td>West Trade</td>
<td>-2.532</td>
<td>-2.359</td>
<td>-3.101</td>
<td>-2.518*</td>
<td>-2.655**</td>
</tr>
<tr>
<td>(1.585)</td>
<td>(1.638)</td>
<td>(1.984)</td>
<td>(1.302)</td>
<td>(1.267)</td>
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</tr>
<tr>
<td>ODA</td>
<td>18.81*</td>
<td>9.696</td>
<td>5.128</td>
<td>12.39</td>
<td>16.63*</td>
</tr>
<tr>
<td>(9.769)</td>
<td>(8.926)</td>
<td>(7.398)</td>
<td>(8.558)</td>
<td>(9.181)</td>
<td></td>
</tr>
<tr>
<td>ExInvest</td>
<td>0.886*</td>
<td>1.185</td>
<td>1.365</td>
<td>1.274**</td>
<td>1.082**</td>
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<td>(0.729)</td>
<td>(0.843)</td>
<td>(0.569)</td>
<td>(0.471)</td>
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<tr>
<td>Central Bank</td>
<td>-0.461</td>
<td>-1.045</td>
<td>-0.522</td>
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<td>(0.286)</td>
<td>(0.680)</td>
<td>(0.757)</td>
<td>(0.493)</td>
<td>(0.375)</td>
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<tr>
<td>Rule of Law</td>
<td>6.969***</td>
<td>5.673***</td>
<td>4.411***</td>
<td>6.130***</td>
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<td>(1.016)</td>
<td>(1.372)</td>
<td>(1.253)</td>
<td>(1.279)</td>
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<tr>
<td>Control of Corruption</td>
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</tr>
<tr>
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<td></td>
<td>(1.372)</td>
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<td>(1.365)</td>
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<td>PRS index</td>
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<td>8.122***</td>
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<td></td>
<td>(1.189)</td>
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<td>-1.981***</td>
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<td>(0.733)</td>
<td>(0.705)</td>
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<td>69</td>
<td>69</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.797</td>
<td>0.704</td>
<td>0.703</td>
<td>0.783</td>
<td>0.815</td>
</tr>
</tbody>
</table>

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

\(^1\) Norm Adoption variable is based on the Governance sub-index of the Truman scoreboard.
Table 29: Regression Results – Transparency and Accountability Sub-indicator

<table>
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<tr>
<th>VARIABLES\textsuperscript{1}</th>
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<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
</tr>
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<tbody>
<tr>
<td>Social ties</td>
<td>0.762</td>
<td>0.125</td>
<td>0.419</td>
<td>-0.433</td>
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<td></td>
<td>(0.827)</td>
<td>(0.989)</td>
<td>(0.569)</td>
<td>(0.722)</td>
<td>(0.757)</td>
</tr>
<tr>
<td>Political ties</td>
<td>0.658</td>
<td>1.186</td>
<td>0.587</td>
<td>0.280</td>
<td>0.135</td>
</tr>
<tr>
<td></td>
<td>(0.894)</td>
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<td>(0.789)</td>
<td>(0.742)</td>
<td>(0.729)</td>
</tr>
<tr>
<td>West Trade</td>
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<td>-4.287*</td>
<td>-5.849**</td>
<td>-4.735*</td>
<td>-5.095**</td>
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<tr>
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<td>(2.208)</td>
<td>(2.117)</td>
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<td>(2.248)</td>
</tr>
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<td>43.99*</td>
<td>33.24*</td>
<td>23.48</td>
<td>37.65**</td>
<td>36.41*</td>
</tr>
<tr>
<td></td>
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<td>(18.88)</td>
<td>(17.89)</td>
<td>(18.28)</td>
<td>(19.31)</td>
</tr>
<tr>
<td>ExInvest</td>
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<td>5.212***</td>
<td>4.870***</td>
<td>4.922***</td>
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<tr>
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<td>(1.303)</td>
<td>(1.226)</td>
<td>(1.382)</td>
<td>(1.225)</td>
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</tr>
<tr>
<td></td>
<td>(0.773)</td>
<td>(0.930)</td>
<td>(1.068)</td>
<td>(0.763)</td>
<td>(0.959)</td>
</tr>
<tr>
<td>Rule of Law</td>
<td>10.23***</td>
<td>11.97***</td>
<td>10.43***</td>
<td>7.213**</td>
<td>5.869***</td>
</tr>
<tr>
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<td>(2.927)</td>
<td>(2.167)</td>
<td>(2.659)</td>
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<td>Control of Corruption</td>
<td>11.97***</td>
<td>15.62***</td>
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<td>7.213**</td>
<td>2.042</td>
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<td>(2.224)</td>
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<td>(2.659)</td>
<td>(3.286)</td>
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<td>7.213**</td>
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<td>7.213**</td>
<td>10.43***</td>
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<td>(2.167)</td>
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<td>(1.903)</td>
<td>(1.569)</td>
<td>(1.787)</td>
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<td>0.789</td>
<td>0.808</td>
<td>0.831</td>
<td>0.834</td>
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<td>69</td>
<td>69</td>
<td>69</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.787</td>
<td>0.789</td>
<td>0.808</td>
<td>0.831</td>
<td>0.834</td>
</tr>
</tbody>
</table>

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

\textsuperscript{1} Norm Adoption variable is based on the Transparence and Accountability sub-index of the Truman scoreboard.
Table 30: Regression Results – Behavior Sub-Indicator

<table>
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<tr>
<th>VARIABLES(^1)</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
</tr>
</thead>
<tbody>
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<td>Norms adoption</td>
<td>Norms adoption</td>
<td>Norms adoption</td>
<td>Norms adoption</td>
</tr>
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<td>Social ties</td>
<td>0.289</td>
<td>-0.0608</td>
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<td>-0.203</td>
<td>-0.178</td>
</tr>
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<td>(0.295)</td>
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<td>(0.289)</td>
</tr>
<tr>
<td>Political ties</td>
<td>0.785***</td>
<td>0.789**</td>
<td>0.520*</td>
<td>0.550*</td>
<td>0.537*</td>
</tr>
<tr>
<td></td>
<td>(0.281)</td>
<td>(0.311)</td>
<td>(0.287)</td>
<td>(0.294)</td>
<td>(0.287)</td>
</tr>
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<td>-3.042*</td>
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<td>(1.344)</td>
<td>(1.117)</td>
</tr>
<tr>
<td>ODA</td>
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<td>-6.605</td>
<td>-9.316</td>
<td>-5.455</td>
<td>-9.273</td>
</tr>
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<td>(6.304)</td>
<td>(7.096)</td>
<td>(6.298)</td>
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</tr>
<tr>
<td>ExInvest</td>
<td>0.733</td>
<td>0.868*</td>
<td>1.066**</td>
<td>0.903*</td>
<td>1.071**</td>
</tr>
<tr>
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<td>(0.524)</td>
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<td>(0.461)</td>
<td>(0.469)</td>
<td>(0.457)</td>
</tr>
<tr>
<td>Central Bank</td>
<td>-0.908**</td>
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<td>-1.044**</td>
<td>-1.146***</td>
<td>-1.102***</td>
</tr>
<tr>
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<td>(0.384)</td>
<td>(0.396)</td>
<td>(0.388)</td>
<td>(0.353)</td>
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<tr>
<td>Rule of Law</td>
<td>1.654</td>
<td>3.211***</td>
<td>3.622***</td>
<td>3.421***</td>
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</tr>
<tr>
<td></td>
<td>(0.994)</td>
<td>(1.038)</td>
<td>(0.702)</td>
<td>(0.967)</td>
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</tr>
<tr>
<td>Control of Corruption</td>
<td>3.211***</td>
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<td>0.556</td>
<td>(1.451)</td>
<td>0.556</td>
</tr>
<tr>
<td>Government Effectiveness</td>
<td>3.622***</td>
<td>(0.702)</td>
<td>3.421***</td>
<td>(0.967)</td>
<td>3.421***</td>
</tr>
<tr>
<td>PRS index</td>
<td>4.150***</td>
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<td>4.150***</td>
<td>(0.920)</td>
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</tr>
<tr>
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<td>(0.724)</td>
<td>(0.582)</td>
<td>(0.655)</td>
<td>(0.645)</td>
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<td>Observations</td>
<td>69</td>
<td>69</td>
<td>69</td>
<td>69</td>
<td>69</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.554</td>
<td>0.602</td>
<td>0.684</td>
<td>0.642</td>
<td>0.685</td>
</tr>
</tbody>
</table>

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

\(^1\) Norm Adoption variable is based on the Behavior sub-index of the Truman scoreboard.
Conclusion

The main hypothesis that social ties provide a salient explanation for variation in norms adoption is not supported well by the results. It is difficult to distinguish a relationship between social ties and norms adoption, as the social ties coefficient is almost never statistically significant. Concerning political ties, a positive coefficient on this variable is consistent across models, even if not always significant. Coefficient values in the primary model suggest that increases in the strength of political ties are associated with increases in norms adoption of about 10 points, and that these increases are associated with increases in norms adoption from several sources.

The regression results indicate that economic ties impact norms adoption to a greater degree. Economic ties appear to be most strongly associated with trade with West, which has the largest number of economically important and statistically significant coefficients across the different models in primary analysis and in most of the sub-indicator regressions. Increases in the value of this variable are associated with reductions in norms adoption, which I believe may be associated with the "resource curse" explanations related to the inefficiency, weaker governance and state corruption which develop based upon the rentier dynamics of over-reliance on commodity revenue by government.

The results indicate a relatively robust, positive relationship with norm adoption for both external investment and state capacity. Coefficient values suggest when external investment is allowed, norms adoption increased by about 27 points. In every model across the primary and sub-indicator analyses, state capacity shows a robust relationship with norms adoption. This is not unexpected given the importance of institutional effectiveness in policy design and implementation.
I acknowledge limitations of this analysis. While as much as possible I have attempted to minimize omitted variables bias by including relevant indicators and fixed effects, in any cross-country panel analysis there is always the possibility that the dependent variable will be influenced to an extent by factors that are unobserved by the researcher and are also correlated with dependent variables of interest. In addition, the analysis is hampered to an extent by the difficulty in obtaining enough observations to perform a robust statistical analysis. In cases such as with social ties where no relationship is found, I can only conclude that this analysis cannot detect a relationship with these data, not that there is no relationship. Also, while I have taken several steps to write down a parsimonious model, there are cases in which more statistical power would be preferred. Nonetheless, the coefficients in the models that are presented, while not always significant, tell a consistent story that generally makes sense when compared with the case studies that follow this chapter: state capacity and external investment are highly correlated with high governance scores and political ties are relatively correlated.
Chapter 7: Conclusion – Explaining Norms Adoption and Institutional Design of Sovereign Wealth Funds

Sovereign Wealth Funds control more than $7.4 trillion in assets and have propelled the rise of state capitalism across borders over the last few decades. In sub-Saharan Africa, these funds serve as institutional vehicles to not only steward savings from resource wealth but also in many cases allocate this capital for economic and social development outcomes. The NSIA (Nigeria), FSDEA (Angola) and Pula Funds (Botswana) represent the region with the fastest growing number of these wealth funds – sub-Saharan Africa.

In sub-Saharan Africa, most countries rank low in global indices for state capacity and institutional governance (with the notable exception of Botswana). Beyond their institutional investment roles, these funds have been established with the direct advisory input and other support from the international community. Multilateral institutions, development finance institutions, investment banks, asset managers, foreign ministers and academics have all contributed to the set-up of the funds under investigation in this study. Before presenting the final conclusions of the dissertation, I briefly discuss the general characteristics of three funds from the Middle East and North Africa region to evaluate the generalizability of my hypothesis on norms adoption to these Sovereign Wealth Funds.

Introduction of Middle East and North Africa Funds

The Middle East and North Africa Funds funds are relevant case studies given that they are capitalized by commodity revenue and invest both externally and internally. The Middle East and North Africa region of Sovereign Wealth Funds shows slightly less variation in their Truman scores than sub-Saharan Africa. They also have more diversity in terms of investment strategy and have significantly more assets under management ($240 billion to $11 billion). According to
Investment Frontier (2013) and other sources, there are about twenty (20) Sovereign Wealth Funds from the Middle East and North Africa region.\textsuperscript{256} In this brief overview of Sovereign Wealth Funds from the Middle East and North Africa region, I present relevant summaries of three funds: the Revenue Regulation Fund of Algeria, the Qatar Investment Authority, and the Investment Corporation of Dubai. The Revenue Regulation Fund of Algeria represents North Africa while those in Dubai and Qatar are Gulf Cooperation Council (GCC) members.

The Middle East and North African Sovereign Wealth Funds were established in different political systems: Algeria is a former socialist state and now semi-authoritarian and both UAE and Qatar are monarchies. The Gulf Region funds were predominantly created as royal family funds. Clark and Monk (2012) view the creation of Sovereign Wealth Funds by GCC countries as an institutional commitment for these states to embrace modernity and economic development.\textsuperscript{257} Kuwait Investment Authority, established in 1953, is one of the oldest Sovereign Wealth Funds and is based in the Middle East and North Africa.\textsuperscript{258} Six funds from the Middle East and North Africa (nearly one-third of the total) are members of the IFSWF and signatories to the Santiago Principles, including those controlled by UAE, Algeria, Kuwait, Qatar, Libya, Iran, Saudi Arabia and Bahrain. Most of the GCC funds were created between 2002 and 2008, excluding KIA (1953) and the Abu Dhabi Investment Authority (1976).\textsuperscript{259}

\textsuperscript{258} Clark and Monk (2012) argue that Sovereign Wealth Funds are Western in origin and cite the Kuwait Investment Authority and others in the GCC as early adopters. Bazoobandi and Nugent (2017) view Arab Sovereign Wealth Funds as pioneering institutions in terms of their domestic economic development focus. See Bazoobani, Sarah and Nugent, Jeffery (October 2017). \textit{Political Economy of Sovereign Wealth Funds in the Oil Exporting Countries of the Arab Region and Especially the Gulf}. Working paper No. 1143.
\textsuperscript{259} Clark and Monk (2012), 5.
The Middle East and North Africa Sovereign Wealth Funds have several notable characteristics. First, many have direct ties with EU institutions, e.g. UK pension fund influenced the initial design of Abu Dhabi Investment Authority (ADIA).\textsuperscript{260} Second, while royal family control is common, particularly among GCC Sovereign Wealth Funds, some such as ADIA hire a significant number of foreigners. Third, as in the case of those in sub-Saharan Africa, the imitation effect (replicating Sovereign Wealth Funds) among Middle East and North Africa funds has been strong, often linked with the new discovery of oil.\textsuperscript{261} Finally, a greater number of these funds have diversification strategies prioritizing investment in domestic strategic sectors, including Mubadala Fund and the Investment Corporation of Dubai in the UAE. In the case of the Mumtalakat Holdings Company, the diversification strategy supports the social development commitment of the monarchy.

**Political and Economic Background of the Middle East and North Africa Sovereign Wealth Funds**

Countries that are predominantly dependent on revenues from natural resource exports might be expected to manage and govern their Sovereign Wealth Funds according to similar standards since the constraints on their Sovereign Wealth Funds would be similar. Similar patterns of management and governance are motivated and influenced by the incentives created by oil-driven economics (Karl 2004). For this reason, most commodity-based Sovereign Wealth Funds created stabilization and savings funds because of the volatility of oil prices in the international market and the fact that oil will not be infinitely accessible. This section presents a

\textsuperscript{260} Bazoobani and Nugent (2017), 7.  
\textsuperscript{261} Ibid. For detailed discussion on SWF imitation, see Chwieroth, Jeff (2010). *Fashion and Fads in Finance: Contingent Emulation and the Political Economy of Sovereign Wealth Fund Creation*. APSA Conference Paper. All Middle East and North Africa funds are funded by oil commodity revenue, except Bahrain’s Mumtalakat Holding Company. This fund is capitalized from its balance sheet of corporate assets. Bazoobani and Nugent (2017). Also see http://www.mumtalakat.bh/our-story/.
selection of three Middle East and North Africa Sovereign Wealth Funds for a comparative assessment of how regional differences factor into norms diffusion. A summary of the political and economic context of the host countries precedes a discussion of norms adoption for each fund.

**Algeria Revenue Regulation Fund - Political and Economic Background**

Algeria is the largest country by land mass in Africa and the Arab world. The population of Algeria in 2016 was about 40 million. Following its independence from France in 1962, Algeria engaged in two decades of socialist development, with the state controlling industry. This national strategy had some success over the first few years in social development outcomes but then the economy stagnated, suffering from low productivity, a large and less efficient bureaucracy and increasing wealth disparity.\(^{262}\) The economic downturn influenced the country to accept structural adjustment polices from the IMF in order to reduce national debt.\(^{263}\) With the support of the military, Abdelaziz Bouteflika, became President in 2000 and has served in that capacity until now. Today, the government is an emerging democracy with a multiparty system, although the military still exerts influence.

During the time of the creation of the SWF, the economy was transitioning from socialist development to a market-based economy. Algeria’s economy is heavily influenced by its endowment of oil and gas. As of 2016, the country is the world’s 9th largest producer of gas (first in Africa) and 19\(^{th}\) in oil. With 97\% of its export revenue derived from hydrocarbons, the country’s economy is excessively dependent on these resources. The GDP growth rate as of 2016

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\(^{263}\) Ibid.
was about 3.9%. Social spending accounts for over 10% of the country’s budget.\textsuperscript{264} With oil prices dipping over the last five years, the national budget has been stressed. Algeria’s Sovereign Wealth Fund, Revenue Regulation Fund, covers state budget deficits. The banking sector plays an increasingly greater role in financing diversification. Since 2014, the value of the SWF has declined by 87\% and foreign exchange reserves by 35\% in response to budget shortfalls.\textsuperscript{265}

\textbf{Qatar Investment Authority - Political and Economic Background}

The population of Qatar is about 2.3 million. The country was a British protectorate until 1973. The Al-Thani family leads the monarchical government. Since 1995, the country has been committed to opening up culturally and economically, with the creation of Al Jazeera media company, and extension of voting to women.\textsuperscript{266} During the Iraq War, Qatar permitted the US to establish its key base in the country.

Until the discovery of hydrocarbons in 1940, Qatar’s economy was driven by fishing and pearl diving. Now it is led by its production of hydrocarbons, which account for about 80\% of its total trade volume.\textsuperscript{267} The country is the world’s largest producer of liquefied natural gas. Oil was discovered in 1940 and has propelled the Qatari economy to have the leading GDP per capita in the world at nearly $125,000.\textsuperscript{268} Over 90\% of its workers are foreigners working in the oil and gas sectors.

\textsuperscript{264} Washington Post, March 31, 2017. “Algeria’s finance sector breathes life into the economy”.
\textsuperscript{266} https://www.thoughtco.com/qatar-fact.s-and-history-195080.
\textsuperscript{267} International Monetary Fund. April 2017. Qatar Country Report.
Investment Corporation of Dubai (ICD) - Political and Economic Background

The United Arab Emirates (UAE) is a federation of seven states established in 1971. Independence from the U.K. came in 1968. The UAE has a population of 8 million. Dubai is the commercial center while Abu Dhabi is the seat of government. Dubai is the capital of the emirate of Dubai. The government of the UAE is a monarchy. Seven emirs govern the region through the Supreme Council of Rulers.\textsuperscript{269}

Oil was discovered in the UAE in the 1950s and export production started in 1962. Before oil trade became the backbone of the economy, pearling and fishing were dominant sectors. Oil exports now comprise more than 30% of GDP. During the time of the founding of ICD, 2000-2006, the GDP growth of the UAE was fastest in the GCC at 8.4% (compared to 6.5% for the region).\textsuperscript{270} In addition to the commitments of Sovereign Wealth Funds such as ICD and Mubadala, the UAE has major strategic plans for economic diversification: Abu Dhabi’s Economic Vision 2030 and Dubai’s Strategic Plan 2015.

Norms Adoption among the Middle East and North Africa Sovereign Wealth Funds

Overall, the sample of Middle East and North Africa funds offer limited analytical value for assessing the application of my hypotheses to their models. The host countries (Algeria, Qatar and the UAE) do not include any democracies, the political and economic ties are predominantly based on oil trade, and they all have relatively weak state capacity. With more transparency on the background of the funds, their structure, and the linkages of their strategy to international influences, these cases could offer good comparative insights on norms adoption. The direct engagement of the managers of these funds for field interviews was not possible for

\textsuperscript{270} https://www.uae-embassy.org/about-uae/uae-economy.
the dissertation. **TABLE 31** and the following narrative provide a general assessment of these three funds.

**Table 31: Typology Assessment of Selected Middle East and North Africa Sovereign Wealth Funds**

<table>
<thead>
<tr>
<th></th>
<th>Algeria</th>
<th>Dubai (UAE)</th>
<th>Qatar</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year Established</td>
<td>2000</td>
<td>2006</td>
<td>2005</td>
</tr>
<tr>
<td>AUM</td>
<td>$55 billion</td>
<td>$70 billion</td>
<td>$115 billion</td>
</tr>
<tr>
<td>Strategy</td>
<td>Stabilization; Savings</td>
<td>Savings</td>
<td></td>
</tr>
<tr>
<td>Truman Score (2013)</td>
<td>29</td>
<td>21</td>
<td>17</td>
</tr>
<tr>
<td>Political Ties</td>
<td>Weak</td>
<td>Strong</td>
<td>Moderate</td>
</tr>
<tr>
<td>Economic Ties</td>
<td>Strong</td>
<td>Strong</td>
<td>Moderate</td>
</tr>
<tr>
<td>Social Ties</td>
<td>NA</td>
<td>Weak</td>
<td>Weak</td>
</tr>
<tr>
<td>Ex-Invest</td>
<td>NA</td>
<td>Weak</td>
<td>Strong</td>
</tr>
<tr>
<td>Central Bank</td>
<td>NA</td>
<td>Weak</td>
<td>Weak</td>
</tr>
<tr>
<td>State Capacity</td>
<td>Weak</td>
<td>Weak</td>
<td>Weak</td>
</tr>
</tbody>
</table>

**Algeria Revenue Regulation Fund and Norms Adoption**

**Economic Ties**

As expected, based on the structure of Algeria’s economy, the US and EU both have strong economic ties with the country based crude oil imports. The EU is historically Algeria’s top trade partner, accounting for almost 70% of its exports today. Since 1993, the EU has provided development assistance of 220 euros.

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271 Truman 2013.
272 Publicly available information on Algeria’s Revenue Regulation Fund is not well documented if available at all. For this reason, it is difficult to evaluate the hypothesis regarding social ties, external investment, and central bank independence.
**Political Ties**

The US has had diplomatic ties with Algeria since its independence in 1962 from France. Diplomatic relations broke off during the Arab-Israeli war in 1967 but were restored in 1974. I assess the relationship as being weak compared to other states in the region with the US.

**State Capacity**

Algeria historically ranks low on PRS Index in terms of the three key dimensions of government effectiveness, control of corruption and rule of law. Therefore, I observe state capacity ties to be weak.

**Qatar Investment Authority and Norms Adoption**

The Qatar Investment Authority (QIA) was established in 2005 by the Emiri decree to function as an independent state institution. QIA operates as an institution to manage oil and gas and to facilitate economic diversification. According to the Fund, QIA co-founded the Santiago Principles and played a major in establishing the IFSWF. According to the IFSWF, the Board of Directors controls decision-making of the Fund. The following information comes from selected websites and articles on the Fund. I evaluate the hypotheses again with limited information about the background of the Fund.

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276 QIA is featured in a case study published by IFSWF which highlights governance and strategy. See: http://www.ifswf.org/sites/default/files/SantiagoP15CaseStudies1_0.pdf.
Executive Socialization Ties

The most influential leader serving in governance over the QIA is the Board Chairman, H.H. Sheikh Abdullah bin Hamad bin Khalifa Al-Thani. He is the Deputy Emir of Qatar and in line to succeed as Emir. The Chairman received his professional and educational training mainly in the Middle East. He is an alumnus of the Georgetown University School of Foreign Service in Qatar. H.E. Sheikh Abdulla Bin Mohammed Bin Saud Al Thani is the CEO. Prior to QIA, most of his career was spent in the Middle East telecommunications industry (Ooredoo with HQ in Qatar). The CEO has also served on advisory boards with the World Bank and World Economic Forum. He received a degree from the US Army War College. Based on the lack of significant work experience in the West, the executive socialization ties to the West appear to be moderate at best.

Economic Ties

The US has significant economic partnership agreements with Qatar. The US is Qatar’s largest investor and importer of goods. Qatar purchased a significant amount of equipment and machinery from the US. The US does not give foreign aid to Qatar but did receive $100 million from the country towards rebuilding efforts after Hurricane Katrina in Louisiana. The EU represents Qatar’s overall leading trading partner, accounting for 13% of GCC trade. Negotiations are ongoing for a free trade agreement between the EU and Qatar. Through the Industrialized and High-Income Countries Instrument, the countries have established clean

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279 http://eu-qatar.eu/eu-qatar-relations/diplomatic-relations/.
energy initiatives. Based on the hydrocarbon interest and Middle East security, economic ties between Qatar and the West are relatively strong.

Political Ties

Diplomatic relations with the US began in 1972 after Qatar’s independence from the UK. The US opened its embassy in Qatar in 1973. Diplomatic relations between the countries have been mixed. The US engaged Qatar for its largest military base in the region and partner on security matters in the Persian Gulf. At the same time, accusations by a coalition of Arab states in 2017 that Qatar finances extremist groups has strained the relationship. The EU established a bilateral agreement on diplomatic relations with Qatar in 1988 and has annual meetings on economic and strategic collaboration. I assess the overall diplomatic ties between Qatar and the West as moderately strong, driven by the economic and geopolitical interest of the West.

Ex-Invest Link

The QIA invests aggressively outside of its own country and Middle East, as evidenced by its stakes in Volkswagen, Siemens and Heathrow Airport. I assess this investment tie as strong.

State Capacity

The QIA historically ranks low on the PRS Index in terms of the three key dimensions of government effectiveness, control of corruption and rule of law.

Central Bank

Central Bank control of QIA does not apply, so the link is weak.
Investment Corporation of Dubai and Norms Adoption

The ICD was created in 2006 to manage the commercial and financial assets of the Government of Dubai. The ICD portfolio consists of 33 investments across six sectors: finance and investments; transportation; energy and industrial; real estate and construction; hospitality and leisure; retail and other. Dubai is the capital of the Emirate of Dubai, one of seven emirates.

Executive Socialization Ties

The two key persons for ICD are the Chairman Sheikh Mohammed bin Rashid Al Maktoum and CEO H.E. Mohammed Ibrahim Al Shaibani. Sheikh Mohammed rules the Emirate of Dubai and serves as Prime Minister of the UAE. His professional socialization has almost wholly been in the Middle East. He attended a British military training school. The CEO is also Vice Chairman of the Supreme Fiscal Committee of Dubai and a member of the Executive Council of Dubai. He earned a college degree (institution not specified). With no substantial educational or work experiences in the West, the executive socialization ties to the West appear to be weak.

Economic Ties

The US and UAE have a very strong economic relationship. The UAE is the US’ top export market in the Middle East ($22 billion in 2016), while UAE has a trade relationship with every state in the US. Over 1500 firms have a presence in the UAE. Through the US-UAE Business Council conceived in 2007, the two countries maintain open trade collaboration. The

\[\text{https://www.uae-embassy.org/uae-us-relations/key-areas-bilateral-cooperation/uae-us-economic-relationship.}\]

\[\text{Ibid.}\]
UAE leads all other countries in the Middle East and North Africa in foreign direct investment into the US.\textsuperscript{282} The economic ties between the US and UAE are strong.

\textit{Political Ties}

The US began diplomatic relations with the UAE in 1972 after the UAE’s independence from the UK. The US and UAE cooperate on economic and security matters. The US provided border security to the UAE and has more of its Navy based in the UAE than any other place in the world.\textsuperscript{283} I assess the political ties between the countries as strong, based upon the importance of the UAE to the US’ security interest in the region.

\textit{Ex-Invest Link}

ICD has a dual investment strategy of internal and external capital deployment, I assess this investment tie as weak.

\textit{State Capacity}

UAE historically ranks low on the PRS Index in terms of the three key dimensions of government effectiveness, control of corruption and rule of law.

\textit{Central Bank}

Central Bank control of UAE does not apply, so the link is weak.

\textsuperscript{282} http://gulfnews.com/gn-focus/country-guides/reports/usa/bilateral-ties-uae-us-relationship-means-business-1.2052514.

\textsuperscript{283} https://www.state.gov/r/pa/ei/bgn/544.htm.
The dissertation presents a theoretical paradigm for institutional analysis of norms diffusion, which primarily interrogates the explanation for the variation observed in the norms adoption among those in the Sub-Saharan Africa region. In this final section, the validity of the underlying hypotheses is examined. Additional questions concern the sub-logic of mechanisms. What political negotiation among elites facilitate the establishment of these Sovereign Wealth Funds? What are the pathways by which governance standards are institutionalized in Sovereign Wealth Funds of the NSIA, Pula Fund and FSDEA? The final section presents: the main findings of the study; supporting insights regarding mechanisms; implications for other Sovereign Wealth Funds in sub-Saharan Africa and the Middle East and North Africa; and, limits of the dissertation and opportunities for future research.

**Main Findings: State Capacity, External Investment and Political System as Drivers of Norms Diffusion and Institutional Design**

The dissertation examined social, political and economic ties with the West and alternative explanations (external investment, state capacity and SWF management by a Central Bank) for the variation in norms adoption for the sub-Saharan Africa region. The results of the panel regression indicate a robust and positive correlation with norms adoption (Truman score) for both state capacity and external investment. In every model, state capacity demonstrated a robust relationship with norms adoption and coefficient values suggest a significant increase in points when the fund invested externally exclusively. For political ties, although not always significant across all models, the coefficient values indicate that the strength of political ties are
associated with increases in norm adoption. The case study analysis corroborates and refines these findings.

Based upon case studies informed by field and secondary research including key stakeholder interviews, the results indicate that state capacity and external investment exclusively by funds are correlated with the adoption of best practice governance norms by Sovereign Wealth Funds in sub-Saharan Africa. The regression results related to state capacity are not surprising and align with the findings from the case study analysis. The dissertation findings suggest that state capacity enables the implementation of the mechanisms which drive norms adoption. The association between exclusive investment in foreign assets of Western countries and higher governance standards by Sovereign Wealth Funds is supported by the regression analysis but additional empirical research could help build a stronger case for the salience of this theory.

Although not supported by the regression results, the case interviews reveal that policy sponsors with professional socialization and network links with Western institutions can play a role in managing the competing interest of elites or championing the priorities of the government. While the panel regression results do not support a strong case for the influence of socialization ties, the results do not entirely rule out a relationship. The role of the MOFs in the NSIA case (reform coalition) and in the Pula Fund (proxy coalition) make an argument for the socialization ties with the West as a key influence on the transmission of values and engaging a network to assist with the establishment of the fund. The work of policy entrepreneurs with strong socialization ties to the West represents a dimension of state capacity.

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284 The regression results indicate that economic ties (trade with the West) are robust and negatively correlated associated with trade. I discount the impact of this variable due to the likely influence of resource course issues.
The dissertation argues that political ties are relatively influential based upon what they suggest about the category of political system. Political ties were defined chiefly by diplomatic and treaty ties (see Chapter 1). State capacity comprises three key indicators from the ICRG data, including rule of law, government effectiveness and control of corruption. The relative strength of political and diplomatic ties is correlated to the Truman Score. In my case samples, democratic governments have higher Truman scores than others (e.g. Botswana). This result supports the inference that political system is related to Truman scores in sub-Saharan Africa. Democratic political systems, characterized by transparency, accountability and independence of institutions from executive control, would be expected in principle to have higher Truman scores.

**TABLE 32** summarizes the empirical dimensions of the main finding of the dissertation. Based on the primary research and case analysis of Sovereign Wealth Funds in sub-Saharan Africa, I observed the mechanisms by which Sovereign Wealth Funds adopt governance norms and their political and economic influences. The observations for the Middle East and North Africa funds, based on secondary research only, do not reflect a clear pattern for strong theory building. More research and analyses are necessary on sub-Saharan Africa to better understand how these funds aligns with my explanatory model. In the next section, I discuss the key arguments supporting the main findings of this dissertation, namely the mechanisms discovered through process tracing of norms adoption among the FSDEA, NSIA and Pula Fund.
Table 32: Summary of Political and State Capacity Factors Influencing Norms Diffusion

<table>
<thead>
<tr>
<th>Country – Fund</th>
<th>Political Coalition</th>
<th>Political System</th>
<th>State Capacity</th>
<th>External Investment Only</th>
<th>Strength of Political Ties with West</th>
<th>Truman Score (2013)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola – FSDEA</td>
<td>Captive Coalition</td>
<td>Semi-Authoritarian</td>
<td>Low</td>
<td>No</td>
<td>Low</td>
<td>15</td>
</tr>
<tr>
<td>Botswana – Pula Fund</td>
<td>Proxy Coalition</td>
<td>Established Democracy</td>
<td>High</td>
<td>Yes</td>
<td>High</td>
<td>56</td>
</tr>
<tr>
<td>Nigeria – NSIA</td>
<td>Reform Coalition</td>
<td>Emerging Democracy</td>
<td>Low</td>
<td>No</td>
<td>Moderate</td>
<td>18</td>
</tr>
<tr>
<td>Algeria – Revenue Regulation Fund</td>
<td>NA</td>
<td>Semi-Authoritarian</td>
<td>Low</td>
<td>NA</td>
<td>Weak</td>
<td>29</td>
</tr>
<tr>
<td>UAE – Investment Corporation of Dubai</td>
<td>NA</td>
<td>Monarchy</td>
<td>Low</td>
<td>No</td>
<td>High</td>
<td>21</td>
</tr>
<tr>
<td>Qatar – Qatar Investment Authority Fund</td>
<td>NA</td>
<td>Monarchy</td>
<td>Low</td>
<td>No</td>
<td>Moderate</td>
<td>17</td>
</tr>
</tbody>
</table>

The Argument: Negotiation Mediated through Elite Coalitions or Executive Decree Determines Institutional Design

The dissertation finds that state capacity and an external investment strategy are highly correlated with the adoption of best practice norms for Sovereign Wealth Funds and political ties are relatively associated with adoption of these governance standards. The influence of state capacity and exclusive external investment is not unexpected given that Sovereign Wealth Funds are state-controlled institutions which must demonstrate the ability to exercise their mandates and countries with higher standards for financial institutions likely require the same of funds investing in their countries.

The dissertation highlights mechanisms that have not been well-theorized in relation to norms adoption, including the role of coalition politics and the professional socialization of...

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285 NA indicate information not available.
Sovereign Wealth Fund elites in the West. This study’s causal framework for norms adoption of good governance standards posits that coalitions are important mechanisms for identifying and negotiating governance norms. **FIGURE 19** illustrates this conceptual map:

**Figure 19: Concept Map for Process Tracing of Norms Adoption by Sovereign Wealth Funds**

Political coalitions are necessary to push forward the development of Sovereign Wealth Funds through mobilizing elites and the agenda they support, particularly in the context in which the governance standards serve as a reform agenda. In the context of established democracies or authoritarian regimes, this coalition is more informal or non-existent, given that Presidential decree and executive initiative is the key driver for the Sovereign Wealth Fund development and design. An important dimension related to the success of the negotiation is role of veto players. Veto players provide checks and balances and a degree of accountability in decision-making. Related to SWF design, their participation in the process can signal a credible commitment to good governance standards to domestic and international Sovereign Wealth Fund stakeholders.

**Coalition Politics for SWF Development**

Effective management of coalition politics is based upon the positioning of the Sovereign Wealth Fund vis a vis the ruling government and the larger institutional context. These coalitions
serve to mobilize political and economic elites and align their interest in support of establishing a political bargain or negotiated agreement which the Sovereign Wealth Fund represents. In addition to the specific policies of the Sovereign Wealth Fund outlined in a legal statute (e.g. the NSIA Act), the political bargain (both the negotiations and final outcome) also involves a primary policy sponsor, independent decision-making on investment strategy, participation of external elites in governance design and executive recruiting, and ring fence provisions from the President of the country.

In Nigeria, both MOFs (as indicated in the NSIA Act) assisted with mobilizing the groups which established the NSIA as a reform coalition. This reform coalition consisted of a loose assembly of political (both federal and state) elites, domestic business elites and international institutions. The reform component was on two levels: first, a reform to the controversial ECA in terms of an effort to define strong governance, accountability and transparency principles; second, reform in the sense of institutionalizing these norms.

Regarding the Pula Fund, the dissertation defines the political management to establish this institution as a proxy coalition. Proxy denotes an extension of the central government in the context of low political competition between parties. The coalition of the MOF, BOB and parliament were aligned in their interest, but the contestation was largely around the decision-making about the appropriate manager for the fund. In this sense, the MOF was a policy coordinator for the government and BOB with autonomy to influence the shape of the Pula Fund through reviews and recommendations.

Finally, in the case of Angola’s FSDEA, the coalition structure was one of a captive arrangement of both domestic and international elites, who, by virtue of the authoritarian nature of the political system, supported the FSDEA as delegated authority expected to align with the
interest and policies of the President. Captive and proxy coalitions are differentiated by the nature of defection control, influenced by political system. Under captive conditions, domination by the executive leader of the state minimizes the potential of defection based upon his personal influence. An authoritarian system of government fosters this type of coalition building, given the central authority of the head of state. Kinship ties among government officials contribute to discouraging defection, as the FSDEA and Sonangol illustrate. In a proxy context, institutions and not personal authority of the head of state are the mechanisms by which defection is managed, based upon the allegiance elites have to the system of government. Democratic systems of government are conducive for proxy coalition-building, with the Pula Fund and the BDP serving as an example. The dynamics of coalition-building are shaped by the degree of activity and effectiveness of veto players.

**Veto Player Participation and Policy Outcomes**

Based upon the structure and process of political contestation in each political system, the political elites who crafted the Sovereign Wealth Funds in each country did so in the context of varying veto opportunity. The role of veto players in the construction of Sovereign Wealth Funds is to influence the distributional contention and outcome among political and economic elites. Veto players are more common and play a greater role in policy outcomes when distributional contestants (oppositional group pursuing economic goods) are greater.

In Nigeria, the reform coalition of governors and civil society members served as veto players to negotiate the alignment of interest in determining the allocation of funding and governance representation for the NSIA. The role of veto players is to help facilitate the development of policy that balances competing interests. The findings of the study suggest that
the presence and efficacy of more veto players will result in greater transparency, accountability, stability in the structure and operations of the Sovereign Wealth Funds.

In Botswana, fewer formal veto players exist within its democratic political system, based upon the heterogeneity of the populace and the effectiveness of their democratic governance in managing opposition and defection. However, the presence of international stakeholders who advised in the formation of the fund with economic leverage, such as the IMF, and the MOF provide some relative veto power. Given, that this independent leverage was relatively weak, the policy outcome expected from veto player engagement is more coordination than a counterbalance.

Finally, in the case of Angola, the FSDEA virtually has no domestic veto players effectively given the dominance of the ruling party in the political and business affairs of the country. In this case the role of the MOF and other elites responsible for the formation of the FSDEA is essentially delegation of policy in line with the agenda of the President.

Implications for Broader Landscape of Sovereign Wealth Funds in sub-Saharan Africa and Middle East and North Africa

The dissertation uses a mixed-methods approach, consisting of qualitative case studies and a time series panel regression on nearly 200 (reduced to 69) observations of Sovereign Wealth Funds examined as part of the Truman Index from 2007-2012. Given the relatively limited number of observations in the time series regression as well as a primary focus on only three cases, the generalizability of the findings and conclusions of the dissertation may be constrained. Also, the quantitative assessment of the study focuses on structure and governance system (e.g. reporting and transparency) and not operating performance (e.g. implementation of governance norms and effectiveness in achieving financial objectives). This is an important consideration given that, with
financial institutions, the legitimacy and effectiveness of their structure and norms are validated by their operational performance. However, the findings of this dissertation, particularly around the development and substance of norms have positive implications for other Sovereign Wealth Funds in sub-Saharan Africa and the Middle East and West Africa regarding credible commitments: the standards advanced by the Truman study (and Santiago principles) provide a good, general foundation for governing Sovereign Wealth Funds with more transparency and accountability.  

Credible Commitments as Mechanisms for Political Bargaining

Credible commitments are government actions that signal effective governance, particularly in distinct ways to a particular constituency or group of elites. In the context of facilitating economic growth, Peter Lewis (2007) asserts credible commitments as “policy stability, secure property rights, and a conducive setting for contracting, which together enable capital accumulation”. These policies serve as mechanisms to signal the interest and capacity to deliver certain outcomes. The development and structure of the SWF for each country represent a credible commitment on the part of the government.

For Nigeria, the NSIA is an institution which represents new rules for re-defining how a state-controlled investment platform will operate with accountability, transparency, and in line with international standards. As the successor to the ECA, the politics of defining the NSIA largely focused on effectively managing distributional dilemmas faced by the government. Here, the reform element of the credible commitment is operative because the NSIA was established in many ways as a correction to the ECA in terms of governance standards. Good governance of the

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286 Strong ring fence provisions against indiscriminate drawdowns and Presidential capture of SWF are necessary.
NSIA was needed to address a legitimacy gap based upon both domestic and international suspicion of how effectively the ECA was managed.

In the case of Botswana, the control and sponsorship of the Pula Fund by the Central Bank combined with the dominance of a single party in the national politics suggest that the Fund served as a credible commitment that the institution would continue operate in line with the high governance standards of the national government. The role of the MOF is to provide advisory guidance on governance and strategy related to the Pula Fund. Given the relatively limited political contestation over rents and dominance of the Botswana Democratic Party (BDP), the Pula Fund operates as an institutional mechanism for maintaining and elaborating on the policy agenda of the ruling party.

For Angola, the FSDEA exists in an authoritarian political system. This has been the political context since independence for Angola. Credible commitments are difficult to observe where there is less transparency, check and balances and autonomous institutions. For this reason, the FSDEA, a signatory to the Santiago Principles, is an important credible commitment (as an institution) to redress these negative perceptions.

Based upon the three SWF case studies, I argue that credible commitments in several areas are important for the Sovereign Wealth Funds throughout sub-Saharan Africa and Middle East and North Africa to have an opportunity for international support long-term: participation of respected international institutions or individual experts in an official or advisory capacity; membership in the IFSWF and voluntary submission of self-assessments and case studies; adoption of international standards for financial reporting and consistent reporting of audited results; enlistment of seasoned investment professionals with demonstrated successful track record in asset management; engagement of domestic elites in ways which represent the interest
of the citizenry (e.g. advisory board participation); and, clear and measurable policies for ring-fencing funds against indiscriminate withdrawals and Presidential capture. The impact and success of these factors will not be known for several years for these relatively young Sovereign Wealth Funds in sub-Saharan Africa.

**Limits of the Dissertation and Opportunities for Future Research**

The dissertation has contributed a theoretical framework for the engagement, negotiation and implementation of good governance norms for Sovereign Wealth Funds, including the mechanisms related to elite arrangement and structure, resulting in a legislative outcome. I have acknowledged data constraints related to sample size, missing variables and scarcity of information on the Middle East and North Africa funds generally, as well as limited exploration of the interaction between economic trade links and the Truman score (although resource curse dynamics appear to be relevant).

The dissertation suggests areas for further research which will expand the conceptualization of the effectiveness of the mechanisms by which the Sovereign Wealth Funds are structured. First, as mentioned, the relationship between good governance and performance is still under observation among Sovereign Wealth Funds in sub-Saharan Africa, given their relative nascence and short operating history. Second, as sub-Saharan Africa is the poorest regions of the world, how the Sovereign Wealth Funds contribute to the economic development of their states and regions is a useful inquiry. Third, the potential for the diffusion of good governance standards from individuals Sovereign Wealth Funds across other state institution in-country would provide insights into salience of path dependency in the context of generally low state capacity and governance standards – which characterizes most states in sub-Saharan Africa.
Finally, more research and analysis on the Sovereign Wealth Funds in the Middle East and North Africa region are necessary to better assess how well they fit with my model.

**Relationship between Governance and Performance**

The relationship between governance standards and investment performance has not been researched significantly for Sovereign Wealth Funds in sub-Saharan Africa, given most have been established only within the last six years. Studies on Sovereign Wealth Fund performances point to value created by Sovereign Wealth Funds globally in various ways. Fernandes (2009) analyzed a dataset of 8,000 firms across 58 countries invested in by Sovereign Wealth Funds from 2002-07 and found the public equity investments into these firms by Sovereign Wealth Funds resulted in an increase of 15% in valuation and improved operating performance. Fernandez (2009) asserts that Sovereign Wealth Funds typically invested as long-term buyers and in equities established in countries with “strong governance standards and efficient institutions.” His research present a counter-argument to the notion that Sovereign Wealth Funds invest primarily for political reasons, typically over short-term horizons.

**Relationship between Governance and Economic Development**

Both the NSIA and FSDEA have mandates for domestic investment to improve the national economy and drive development outcomes in key sectors. Given that Sovereign Wealth Funds have long-term investment priorities and control significant revenue derived from depleting assets, their role in the economic development of their nations is important. Ang (2010)

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288 Ibid, 3.
asserts that legitimacy (e.g. accountability), effective policies, governance standards and performance indicators, and a long-term view on successful performance are all necessary benchmarks for successful Sovereign Wealth Funds.\textsuperscript{289} These Sovereign Wealth Fund policies and benchmarks can foster economic development.\textsuperscript{290}

However, assuming legitimate governance is in place for Sovereign Wealth Funds, it is important to define, test and evaluate more working models for SWF investment for financial and development impact returns. The NSIA offers a useful framework for creating sub-vehicles which support economic diversification and development. The FSDEA’s commitment to and success with this enterprise merits in-depth research and analysis. Perhaps, more initiative for integrating domestic investment into SWF governance and investment strategies would be encouraged if international institutions like the International Forum of Sovereign Wealth Funds (IFSWF), the creator of the Santiago Principles, integrates domestic development governance norms into the Santiago Principles. Finally, more research on the specific strategies for Sovereign Wealth Funds to work in collaboration with government agencies and the private sector (domestic and international) could point the way to more effective ways for Sovereign Wealth Funds to address economic development. Success with the approaches suggested here could potentially help states not only address economic growth better but also significant outcomes such as wealthy inequality over the medium to long-term.

**Norms Diffusion across Different State Institutions In-country**

The aspirational introduction to the NSIA in its 2012 Annual Reports states “welcome to the new era of fiscal responsibility”. Former MOF of Nigeria Dr. Aganga indicated that a larger


\textsuperscript{290} Ibid.
institutional goal for the NSIA was that it would serve as an example of good governance for other state institutions in Nigeria and across Africa. The study of intra-state norms diffusion in the African context is underserved, particularly in the African context. Given that most Sovereign Wealth Funds in sub-Saharan Africa are less than 10 years old, substantive theory-building related to Sovereign Wealth Funds is problematized by the lack of empirical data. A relevant approach to evaluating intra-state norms diffusion has been advanced by Alderson (2001) as state socialization. Alderson (2001) postulates state socialization as “the process by which states internalize norms arising elsewhere in the international system.” Alderson’s conceptualization of state socialization rejects the relevance of domestic factors for norms adoption; rather, he privileges the influence of the international system on shaping state norms. While his notion of the international influence of norms adoption is relevant, the broader applicability of his work to Sovereign Wealth Funds in sub-Saharan Africa is obstructed by its reductionist view of domestic factors. The NSIA and Pula Funds illustrate the significance of domestic politics and elite interest management on norms adoption by Sovereign Wealth Funds. An intended contribution of the dissertation is the examination of the interplay between international influences (economic, political and socialization ties with West) and domestic factors, such as coalition politics and state capacity, and their impact on norms diffusion. The study of how these influences change over time and impact norms diffusion across institutions points to an important future direction of study based upon the theoretical foundation of the dissertation.

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# Appendix

## Table A 1: Truman Scorecard Questions

<table>
<thead>
<tr>
<th>Truman Scorecard Questions by Sub-Category&lt;sup&gt;292&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>For each of the 33 elements, posed as questions, if the answer is an unqualified yes, we score it as 1. If the answer is no, we score it as 0. However, partial scores of 0.25, 0.50, and 0.75 are recorded for many elements, indicated by (p) in the descriptions below. The four categories in the scoreboard are listed below with subcategories where relevant.</td>
</tr>
</tbody>
</table>

**STRUCTURE**

1. Is the SWF’s objective clearly stated?
2. Is there a clear legal framework for the SWF? This element was incorporated into the 2008 scoreboard from the Santiago Principles.
3. Is the procedure for changing the structure of the SWF clear? (p)
4. Is the overall investment strategy clearly stated? (p)

**Fiscal Treatment**

5. Is the source of the SWF’s funding clearly specified? (p)
6. Is the nature of the subsequent use of the principal and earnings of the fund clearly specified? (p)
7. Are the SWF’s operations appropriately integrated with fiscal and monetary policies? (p)
8. Is the SWF separate from the country’s international reserves?

**GOVERNANCE**

9. Is the role of the government in setting the investment strategy of the SWF clearly established? (p)
10. Is the role of the governing body of the SWF clearly established? (p) This element was incorporated into the 2008 scoreboard from the Santiago Principles.
11. Is the role of the managers in executing the investment strategy clearly established? (p)
12. Are decisions on specific investments made by the managers? (p)
13. Does the SWF have internal ethical standards for its management and staff? (p) This element was incorporated into the 2008 scoreboard from the Santiago Principles.
14. Does the SWF have in place, and make publicly available, guidelines for corporate responsibility that it follows? (p)

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<sup>292</sup> This section is excerpted from Truman 2013.
<table>
<thead>
<tr>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>15. Does the SWF have ethical investment guidelines that it follows? (p)</td>
</tr>
</tbody>
</table>

**TRANSPARENCY AND ACCOUNTABILITY**

**Investment Strategy Implementation**

16. Do regular reports on investments by the SWF include information on the categories of investments? (p)

17. Does the strategy use benchmarks? (p)

18. Does the strategy use credit ratings? (p)

19. Are the holders of investment mandates identified? (p)

**Investment Activities**

20. Do regular reports on the investments by the SWF include the size of the fund? (p)

21. Do regular reports on the investments by the SWF include information on its returns? (p)

22. Do regular reports on the investments by the SWF include information on the geographic location of investments? (p)

23. Do regular reports on the investments by the SWF include information on the specific investments? (p)

24. Do regular reports on the investments by the SWF include information on the currency composition of investments? (p)

**Reports**

25. Does the SWF provide at least an annual report on its activities and results? (p)

26. Does the SWF provide quarterly reports? (p)

**Audits**

27. Is the SWF subject to a regular annual audit? (p)

28. Does the SWF publish promptly the audits of its operations and accounts? (p)

29. Are the audits independent? (p)

**BEHAVIOR**

30. Does the SWF have an operational risk management policy? This element was incorporated into the 2008 scoreboard from the Santiago Principles.

31. Does the SWF have a policy on the use of leverage? (p)

32. Does the SWF have a policy on the use of derivatives? (p)

33. Does the SWF have a guideline on the nature and speed of adjustment in its portfolio? (p)
Table A 2: Truman Score Progress

Progress on SWF transparency and accountability - Truman 2013

## Funds first scored in 2007

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
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<td>19</td>
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<td>–2</td>
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<td>45</td>
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<td>China Investment Corporation</td>
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<td>Khazanah Nacional</td>
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<td>15</td>
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<td>National Development Fund</td>
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<td>3</td>
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<td>Istithmar World</td>
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<tr>
<td><strong>Average</strong></td>
<td></td>
<td><strong>59</strong></td>
<td><strong>4</strong></td>
<td><strong>14</strong></td>
<td><strong>17</strong></td>
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</table>

Memo: United States California Public Employees’ Retirement System | 95 | 0 | 8 | 8

## Funds first scored in 2009

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<thead>
<tr>
<th>Country</th>
<th>Fund</th>
<th>2012 score</th>
<th>Change in percentage points 2009–12</th>
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<td>Canada</td>
<td>Canada Pension Plan</td>
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<tr>
<td>France</td>
<td>Fonds de réserve pour les retraites</td>
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<tr>
<td>Canada</td>
<td>Caisse de dépôt et placement du Québec</td>
<td>91</td>
<td>2</td>
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<tr>
<td>Ireland</td>
<td>National Pensions Reserve Fund (PR)</td>
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<tr>
<td>United States</td>
<td>Wyoming Permanent Mineral Trust Fund</td>
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<td>Japan</td>
<td>Government Pension Investment Fund</td>
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<td>Chile</td>
<td>Pension Reserve Fund (PR)</td>
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<td>Ontario Teachers’ Pension Plan</td>
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<tr>
<td><strong>Average</strong></td>
<td></td>
<td><strong>72</strong></td>
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### Table A 3: Truman Score Element Assessment

**Comparison of 24 SWF scoreboard elements - Truman 2014**

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<tr>
<td><strong>Structure</strong></td>
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<td>Objective stated</td>
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<td>9</td>
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<tr>
<td>Changes in structure</td>
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<td>Investment strategy</td>
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<tr>
<td>Source of funding</td>
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<td>Integrated with policies</td>
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Table A 4: Regression Results – Norms Adoption with FDI

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Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1
Sample Interview Questions

Targeted Interviewees at each SWF: CEO; Board Chair; Central Bank Board Representative (if applicable); Asset Manager/Chief Investment Manager; Risk Manager; Finance Minister, External Fund Manager/Consultant

1. Background on the Development of the SWF
   a. What institutions or individuals outside of the fund played a key role in establishing the fund?
   b. What was their role?
   c. What were the key political processes for establishing the fund?
      o What were the challenges and how were they overcome or why have they not been?
      o Who were the key political actors involved – national, regional and local levels?
      o How were different interests of political stakeholders articulated and addressed?
      o What models or principles were adopted from other Sovereign Wealth Funds or institutions?
      o Timeline from concept to launch and key learnings that you would pass onto to other funds?
   d. What is the process for amendments and veto rights to the charter?
   e. What institutions from the US and EU played a role in establishing the fund?
   f. What was the role of these institutions and are they still connected to fund?
   g. Were other institutions from your state involved in the setup of the fund?
   h. What lessons, if any, were drawn based upon the experience of these other state institutions?

2. Governance Structure of the SWF
   a. How was the governance structure determined and by whom?
   b. How were the Board Members and the institutions they represent selected?
   c. How important were professional work and educational training in the US or EU for selecting Board Members, officers, financial managers?
   d. How is the Central Bank involved in governance and decision-making, if at all?
   e. How much autonomy does the fund have in decision-making from the Central Bank?
   f. Why did the fund decide to become a signatory to the Santiago Principles?
   g. How was this decision made and by whom?

3. Management
   a. How much autonomy does the management have from the Board of Directors in making investment, risk management and other strategy and human resource decisions?
   b. How are investment decisions made about asset type, geography, sector, holding period?
   c. How are external and domestic investment strategies managed?
   d. How are risk and adjustments made in managing investments?
   e. How much oversight and guidance is to given to independent investment managers and by whom?
   f. What is the auditing process for your financial reports?
   g. What is the structure of your contract with your auditors and how was auditor selected?
   h. Are the funds and investments ring-fenced from control by other government officials and international interference?
Bibliography


