

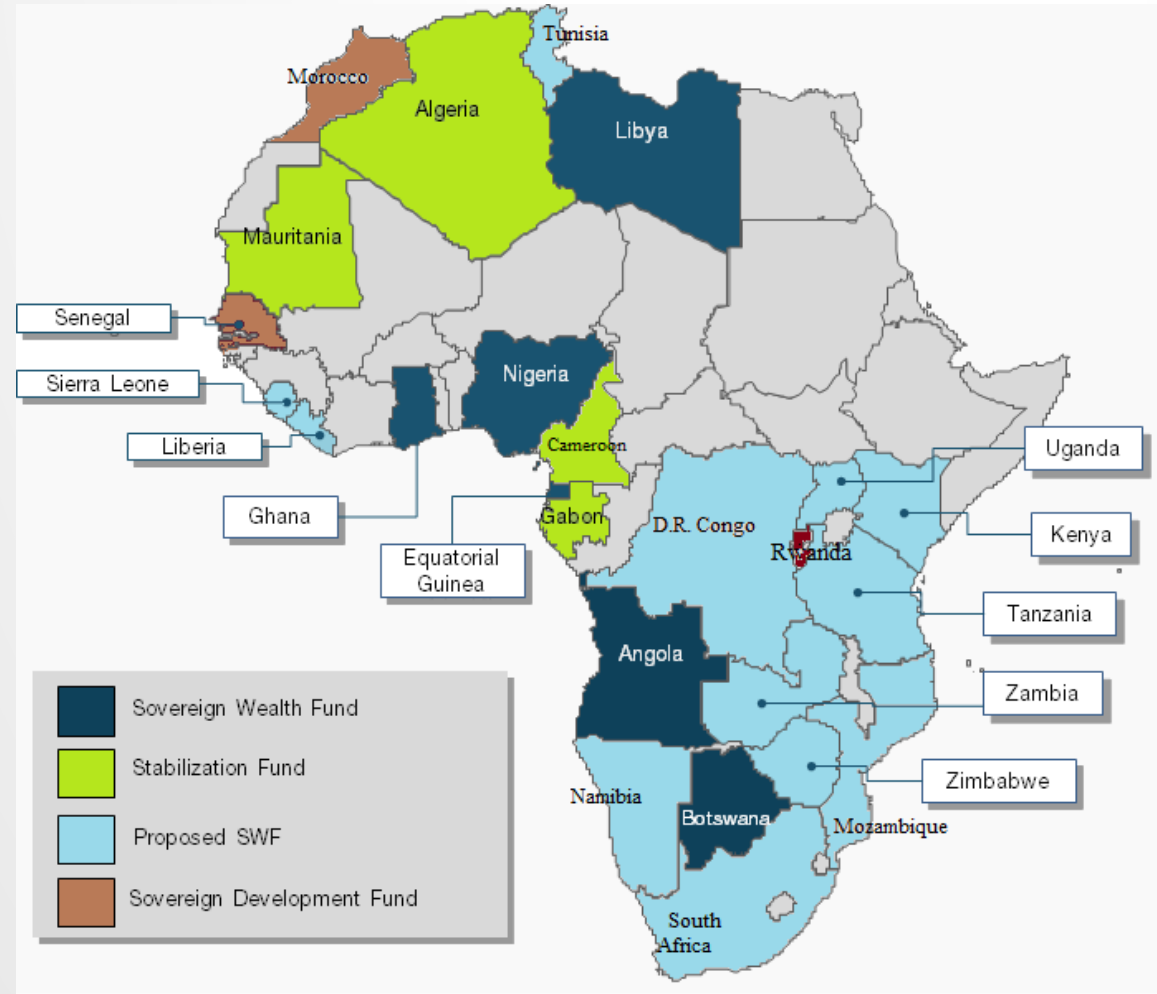


Why are African ruling elites so enamoured with sovereign wealth funds ?

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**UNU – WIDER- Seminar presentation
Helsinki, Finland
14th March 2018**

Official african SWFs proliferation



Despite the fact African SWFs represent only 3% of active SWFs , Africa is however the most dynamic region in the World in term of SWF creation.

Overview

What is a Sovereign wealth fund (SWF) ?

- A SWF is a state-owned investment fund composed of financial assets and physical assets.
- It's simply a mechanism through which governments make investments.
- A pot / pool of money often derived from oil or other commodities, that is then invested in shares, bonds, property, real estate or other areas of potential growth, that will benefit country's economy and citizens.
- SWFs are typically created by governments which have budgetary surpluses and have little or no international debt.
- SWFs invest globally but some also invest indirectly in domestic industries, particularly after 2008 and 2014.
- Norway has the biggest SWF in the world, however, 70% of SWFs in terms of both number and size are headquartered in Asia-Pacific regions and Middle-East petro-monarchies.
- This is unlikely to change in the near future, as most governments having conversations to set up new SWFs are from Africa.
- Characteristics of SWFs : i) Managed separately from official foreign exchange reserves; ii) High foreign currency exposure; iii) Unlike pension funds, SWFs have no explicit liabilities; iv) High-risk tolerance; v) long-term investment horizons.

Macro-economic foundations of swfs

Potentially, SWFs seem like optimal institutions for hydrocarbon exporters to avoid the “*resource Curse*” because they can be used as a tool economic policy to :

- i. Efficiently manage the excess of foreign exchange reserves due to natural resources rents or persistent current account surpluses (like in China) (Dixon and Monk (2011); Tsalik and Ebel (2003)).
- ii. Reduce commodities prices volatility and budget procyclicality, one source of “*resource curse*”, in form of slower growth (Raymond et al. (2017); Sugawara (2014)).
- iii. Mitigate the “*Dutch Disease*” effect and to address the urgent need of industrial diversification away from dependence on oil (Tsalik and Ebel ,2003).
- iv. Serve as parking or saving funds and intergenerational fairness goals, instead of excess constitution in Central banks accounts (Bacon and Tordo ,2006).
- v. In a context of limited access to international markets with borrowings high interests rate, SWFs can serve as alternative tools for a country self-insurance (Arrau and Claessens,1992) .
- vi. Link domestic economies to international financial markets .

Motivation of the paper

- Despite the recent financial crisis of 2007-2008, 43 SWFs have been created between 2005 and 2014.
- Over last decade, ideology of these game changers have diffused in African frontier markets, far from the centers of global finance.
- Dramatic increase in the number and size of SWFs in Africa the past 10 years and in the coming decade.
- More importantly, we know little about, why poor African countries with international capital constraints, huge debts payments, and urgent development needs at home create them in the first place.
- Much of the attention focused on the rise of SWFs as global investors, then on related governance issues essentially in emerging and developed countries.
- Despite their high policy significance, there is still a significant lack of knowledge on the political determinants of SWF proliferation and emergence.

Contribution of the Paper

- We empirically test autonomy maximization theory (Hatton and Pistor, 2011) in Africa countries.
- Understand political motivations behind SWF emergence and proliferation

Outline

- **Theoretical explanations**
- **Data**
- **Empirical approach**
- **Empirical results**
- **Conclusion**

Theoretical explanation 1

- Conventional wisdom focuses on macro-economic challenges associated with booms and busts resources and desire of some governments to avoid or escape “*resource curse*” to explain the macroeconomic foundations of SWFs (Reisen, 2008; Ploeg, 2008, Arezki et al., 2015; Raymond et al., 2017).
- Others scholars study the politics surrounding management of SWFs , impact of their investments on firms and international financial system (Bazoobandi and Nugent, 2017; Rietveld, 2016; Clark et al., 2013; Behrendt, 2011).
- But few inspect SWFs creation and proliferation as a political process (Grigoryan, 2016; Chwiero, 2014; Hatton and Pistor, 2011; Abdelal, 2009; Shih, 2009).
- **Our intuition depart from the Autonomy maximization theory by Hatton and Pistor (2011) : which defend that,**

In a world of growing uncertainty both economic and political , like recent global financial crisis 2008 and political turmoils , as Arab Spring in Tunisia , Libya and Egypt between 2010 and 2012 , rulers elite use an increasingly diverse tools to protect their autonomy within the global system and protect themselves against unexpected turbulences.

Theoretical explanation 2

- In this context, in weak democracies, SWFs either official or hidden ones serve ruling elites for their political survival and personal wealth by concentrating substantial resources, which they can use:
 - i) To buy domestic adversaries,
 - ii) To ensure economy against major downturns, thereby alleviating public discontent,
 - iii) To signal cooperation to major foreign powers, and increasing legitimacy on the world stage by presenting governance structures familiar to Western jurisdictions or advanced economies.

We empirically test here Hatton and Pistor (2011) theory.

Others recent papers near this one are :

- **Schwartz (2012)** : SWFs is a nominal label covering 3 distinct types of organisation that distribute property right in different ways : i) Act to buffer states from economic challenges associated with large-scale resource exports. ii) Help States simultaneously develop industry and an industrial bourgeoisie. iii) **Vehicles for patrimonial rent extraction via political capitalism.**
- **Grigoryan (2016)** shows in his game theory approach, that in Elites dominant societies , rulers are able to gain the elites support using SWFs and to **overcome the danger of coups d' état**. SWFs can serve as **appropriate instruments for this purpose because they are long-term oriented and strongly institutionalized** .

Data

- Because of data availability on SWF official existence in African countries (North Africa and Sub-Saharan Africa) our data range from 2000- 2015.
- Dependent variable (the duration of the executive chief in office) . This variable is drawn from World Bank's Database of Political Institutions (Beck et al.,2010).
- Variables of interest : Existing or official African SWFs and hidden SWFs.
- Other variables (independents) are drawn from World Bank (WDI, 2016), and ICRG : Ethnical Tensions (ET) , Government Stability (GS) , Domestic Accountability (DA), population, gdpgrowth , gdp, ctot etc.

How have we set up the Hidden SWF variable?

- We set up a dummy variable coded : "hiddenswf" , as a proxy of any type of existing *off budgetary resource funds* or any *rainy days resource funds* during a presidency of giving ruling elites.
- We code 1 if during to a president occupancy existence of *off budgetary resource funds* have been reported
- Sources of Hidden SWFs: various sources range from governmental rapports, Western intelligence, journals, to books on rulings elites etc.

Some examples of evident existing hidden SWFs :

1) In Egypt : Egypt has been a net oil exporter throughout most of its history. After the uprising that swept Hosni Mubarak away four years ago, there were calls to end corruption, regulate opaque funds and incorporate them into the national budget to help close the country's ever-widening budget deficit, which by the beginning of this fiscal year stood at US \$34.2 billion (Manek and Hodge, 2015).

Gamal Mubarak's son set up an investment firm in 1996. Mubarak family's net worth ranges from \$40 billion to \$70 billion, by some estimates (Kim, 2011).

It is alleged that Mubarak property was linked to foreign banks, investments, bullion and properties in London, New York, Paris and Beverly Hills (Sherwell and al. ,2011).

Western intelligence sources said: Hosni Mubarak used the 18 days it took for protesters to topple him to shift his vast wealth into untraceable accounts overseas.

According to the World Bank, Gross national income is \$2,070 per family in Egypt. About 20% of the population lives below the poverty line, according to a 2010 report by the CIA.

2) In Angola: Many observers believe that Sonagol , the Angola national Oil Industry (created in 1976) was already acting as a SWF by investing its resource rents in many areas outside of the oil industry including buying : up key stakes in Portugal's biggest bank by assets, Millennium BCP.

The formation of an official SWF was first announced by the former Angola's President J. E. dos Santos (who arrived in 1979 and spend more than 36 years in the office) only in 2012 of \$5 billion SWF.

Some examples of evident existing hidden SWFs :

3) In Morocco: Despite the financial crisis of 2008-2009, American magazine Forbes in their grouping specially devoted to reigning monarchs, the king of Morocco, Mohammed VI, made an astonishing appearance in 8th place, with a net personal worth of \$2.5 billion in July 2009.

His wealth derives from phosphate mining, and stake in Morocco largest public company ONA. ONA operates in mining, and financial activities sectors...etc.

To calm the game and survival to Arab Spring, Mohammed VI increase wages. It definitely nibbles the beak to the Revolution by announcing a constitutional monarchy, followed by a referendum on July 1, 2011 to submit it to the people (Lewis, 2011).

In this new constitution, the three powers are distinctly separated, the king is no longer all-powerful and will have a role now honorary.

However, the king retains ultimate control and though parliament has more power, parties are weak. Ithmar Capital the official Morocco's SWF was created in 2011.

Typical SWFs of non-Western nations, do not involve much direct citizen participation. In fact, major part of citizens are not aware of their existence.

Data

- "Some of this might sound far-fetched at the beginning of the investigation," Ted Greenberg and expert, who worked on the case against the Marcos family in the Philippines, "but often it turns out to be true.
- Others countries with hidden swfs in our sample include : Algeria ; Angola before 2012 ; Cameroon ; Equatorial Guinea Nigeria before 2006 ; Congo, DR ; Libya under Kadafi regime , Zimbabwe, etc.
- To capture an official SWF , we base SWF institute data on active SWF and code 1 for those country who have set up at least one SWF bewteen 2000 and 2015 and 0 otherwise for no SWF.
- The first observation period begins in **1967** and corresponds to the **Gabonese** presidency of *Omar Bongo Ondimba* who died in office in 2009 after 42 years the office and it is the max in this sample.
- His excellency *Bibi Ameenah Firdaus Gurib-Fakim* , President of **Mauritius** since **2015** marks the end of all observation periods. She has only one year in the office in our sample.
- Because of data availability, our study is limited to 73 ruling elites occupancies of power in 32 African countries.

Summar statistics

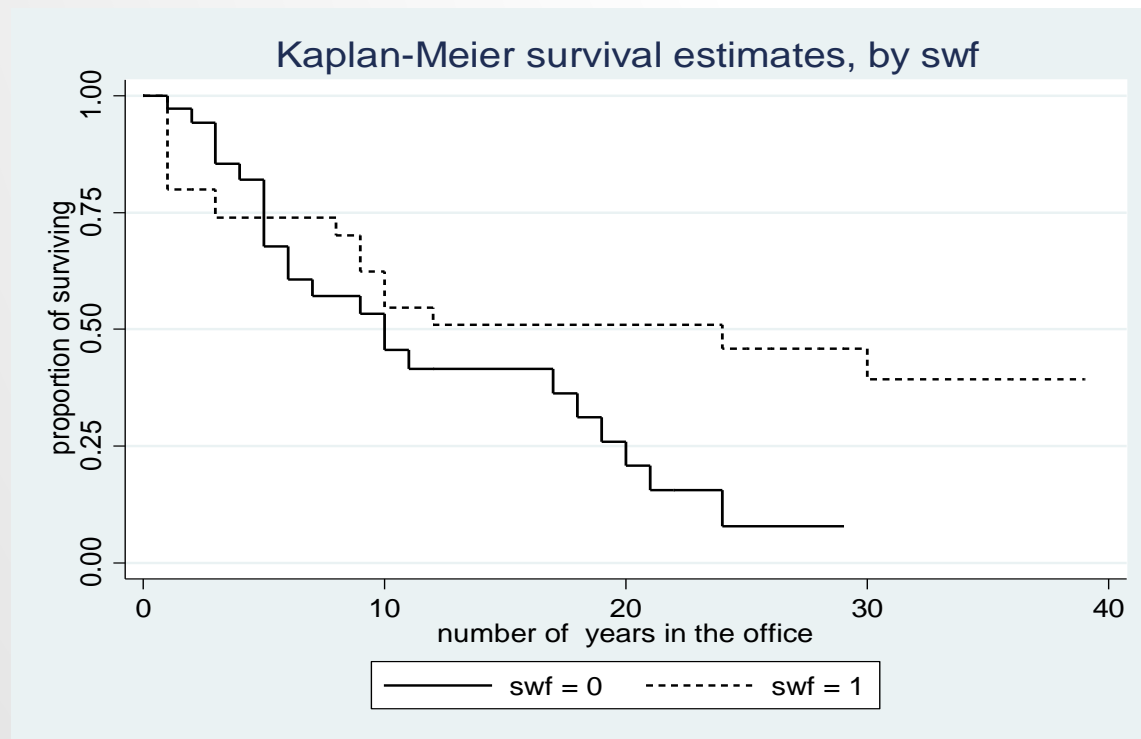
Continuous variables	code	observations	Mean	Min	Max
Years of the Executive chief in the Office	stimes	511	12.16438	1	42
Government Stability	GS	375	8.747556	3.166667	11.58333
Ethnical Conflit	ET	375	3.408667	0	6
Internal Conflit	IC	375	8.223222	2.958333	12
External Conflit	EC	375	9.581778	2.125	12
Democracy Accountability	DA	375	3.037778	0	5.5
Log of total population	lnpop	512	16.17486	0	19.01501
Log of GDP per capital	lngdp	512	6.706264	0	10.27292
Log of commodity term of trade	lnCToT	512	4.75834	0	5.676423
Log of annual GDP growth	lnGDPgrowth	512	4.177415	3.00E-06	4.788395
Regim type	polity2	492	0.571138	-7	10

Econometric analysis

- Specification: we employ duration models (the most appropriated specification in our case: the dependent variable is a duration of the head of State in office).
- other properties: duration or survival models account for censored data (e.g: heads of state died “naturally” in office).
- For the duration models estimation, two approaches are retained in this paper:
 - (i) The non parametric approach (Kaplan-Meier estimator)
 - (ii) The parametric approach for controlling for other determinants of the duration of the head of State in office (log-logistic survival model).

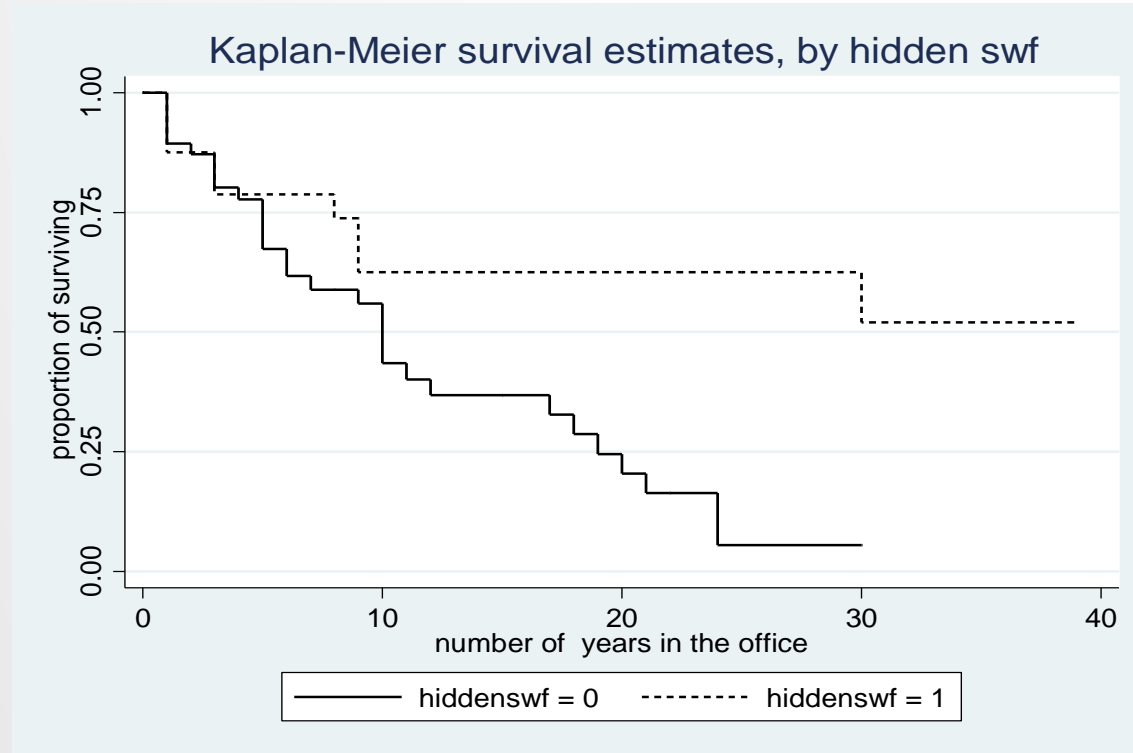
Empirical results: Non parametric approach 1

- Non parametric approach or “*let speak the data*” approach (allows us to approach the empirical form taken by the survival and hazard functions without assuming any specification).
- (i) Swf countries leaders (swf =1) versus other countries leaders (noswf=0).



Empirical results: Non parametric approach 2

- (i) hidden swf countries leaders (hiddenswf=1) versus other countries leaders (hiddenswf=0).



Results(cont'd) : parametric approach

- Parametric approach or “ take into account the effects of various explanatory variables on the duration of the head of State in office”. The model estimated is on the form:

$$\mathit{Log} (T)=\alpha + X\beta + \sigma\epsilon$$

Where: $\mathit{Log} (T)$ indicates the logarithm of the number of years in office.

X indicates the matrix of covariates including the variables of interest: SWFs , hiddenSWFs... and other various explanatory variables namely:

GDP growth per capita, the regime type , population, ethnical tension , the number of spells in office, term of trade etc.

σ is a scale parameter.

Results(cont'd)

Results	Dependant variable Log (time)						
Covariates	Model (1)	Model (2)	All sample			Robustness check	
			Model (3)	Model (4)	Model (5)	Model (6)	Model (7)
swf	0.0931 (0.259)		0.177 (0.251)				
hiddenswf		0.479* (0.289)		0.635** (0.277)	0.589* (0.352)	0.532** (0.240)	1.317*** (0.506)
noswf		0.249 (0.288)		0.107 (0.260)		0.433 (0.287)	0.581 (0.547)
numSof	0.734*** (0.285)	0.784*** (0.284)	0.784*** (0.279)	0.875*** (0.258)		0.702*** (0.266)	0.353 (0.389)
GS	0.377*** (0.0804)	0.365*** (0.0955)	0.317*** (0.0904)	0.274*** (0.0863)	0.432*** (0.0978)	0.177** (0.0861)	0.214 (0.132)
ET	-0.230** (0.114)	-0.244** (0.113)	-0.227** (0.109)	-0.268*** (0.103)	-0.253* (0.140)	-0.553** (0.216)	-0.487** (0.207)
lnGDPgrowth			1.415** (0.669)	1.686** (0.688)	1.908** (0.924)	2.586 (4.781)	11.42** (4.604)
control variables			yes	yes	yes	yes	yes
Autoc						1.288*** (0.444)	0.994** (0.430)
Observations	360	360	360	360	360	357	266
Log-likelihood	-46.4571	-45.1602	-43.8375	-41.5451	-45.0262	-34.4590	-21.5678
Wald test	403.78	45.01	455.85	518.67	295.85	186.08	277.30

Robust standard errors in parentheses * significant at 10%; ** significant at 5%; *** significant at 1%

Robustness checks

- Specification of regimes types: Using Polity 2 Revised Combined of the Polity Score IV which = -10 (strong autocratic) to + 10 (strong democracy) , to construct 3 dummies variables
 - 1) Democ Institutionalized coded : +6 to +10
 - 2) Anocracy regime coded : 0 to + 5 (a "**regime** that mixes democratic with autocratic features“).
 - 3) Autoc Institutionalized coded : -10 to -1

Our results are given in model 6

- Then we excluded in the sample all countries which were not hydrocarbon or mineral producing countries at the date of their entrance : (Kenya , Ghana, Mozambique , Senegal ,Sierra-Leone, Tanzania ,Uganda , and Rwanda).

Our results are given in model 7

Our previous results remain significant while control these robust check.

Interpreting results

- The first empirical result of this study is that hidden SWF has a stabilizing effect on African leaders.... Thus, in hydrocarbon African countries, hidden SWF undermine electoral competition by allowing corruption... In this way, the democratization process fails to bring “real” changes in the top of executive.
- Our empirical investigation leads to another important result: African democratic regime do not present the same stabilizing effect as in least democratic.... Our interpretation of this result is grounded in an analysis of the practicalities of executive control and constraints .
- Apart from Libya, no Arab state with substantial hydrocarbon wealth and SWFs sponsors has fallen during the last two years. In the case of Libya, it was the intervention by North Atlantic Treaty Organization (NATO) that tipped the balance against Gaddafi. In the absence of that, Gaddafi may well have survived.

Conclusion

Policy implication :

Many efforts aiming at a process of democratization in Africa are likely to be unsuccessful if an important preliminary condition is neglected: it is essential to increase the transparency of SWF either hidden or official, and to install a suitable framework that would prevent the public decision makers from controlling SWFs.

Agenda for future research:

- Clarify the behaviour of repressive, clientelist and rentier States by empirical tests for African countries.
- Create a proxy in order to demonstrate the strategic aspect of SWF from oil and gas.
- Need for a disaggregated analysis of natural resources.

Thank you for your attention

By

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UNU-WIDER Visiting PhD Fellowship, from February-April 2018.

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